I-MBA 161MN 404: Entrepreneurship & SMALL BUSINESS MANAGEMENT

MODULE-1

What is entrepreneurship?

Entrepreneurship refers to the concept of developing and managing a business venture in order to gain profit by taking several risks in the corporate world. Simply put, entrepreneurship is the willingness to start a new business. Entrepreneurship has played a vital role in the economic development of the expanding global marketplace.
An entrepreneur is someone who is willing to work for himself and by himself. There are several different meanings of the term entrepreneurship.

Skills Required by Entrepreneurs

An entrepreneur is commonly seen and perceived as an innovator. The skills required for successful entrepreneurship are innovation and ability to be creative to generate new ideas for a business venture. An entrepreneur must have the quality of leadership and a strong sense of unified teamwork to gain maximum benefit.

Kinds of entrepreneurship

The majority of the people may think that the term entrepreneurship has one single meaning. However, like mentioned earlier, the term is quite elastic and has a wide range of different meanings.

The two most popular kinds of entrepreneurship are

- **ENTREPRENEURSHIP OF START-UPS**
- **ENTREPRENEURSHIP OF SMALL BUSINESSES.**

Flexibility

The advantage of having maximum control on the work you do can often help you gain maximum benefit. Being the authoritative figure at your workplace often leads to a lot of personal and professional benefits. Flexibility is one of the perks that people often look for in their professional careers and in entrepreneurship this advantage comes easily.

Diversity

One excellent aspect of entrepreneurship is that all entrepreneurs enjoy the advantage of coming up with diverse ideas that may also be unique in the global marketplace. Having a diverse range of ideas to choose from, according to your entrepreneurial vision, you can gain maximum benefit from the ideas you come up with.

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Entrepreneurship as a career option

For any enthusiast in the corporate world, starting your own business may prove to be a remarkable idea. Having control over the work you do is something that many people long for in their career paths. Therefore, entrepreneurship is a great career option for those willing to make their name in the corporate world.

Evolution/ History of Entrepreneurs

The search for quality leadership is an on-going process that is in practice since past few centuries. The need of a good leader is one of the factors that led to the evolution of entrepreneurship. Aside from this, there are several other factors that led to the beginning and increasing importance of entrepreneurship.

Trading

With the advancement in communication amongst the countries and improvement in transportation, began the process of trading. This was when people became more and more independent which led to success in trade. It is also believed that the merchants and the traders were the first entrepreneurs.

Advent of stable communities and specialisation

When more and more people began to settle in stable communities and live as a group, a drastic change was observed in their lifestyles.

The fact that each tribe had an individual leader who specialised in one task cannot be overlooked. Each leader specialising in a particular task helped in speeding innovation and development of leadership quality in the individuals. The leadership quality is what makes the entrepreneurs so successful in entrepreneurship today.

Formation of markets

With the increasing trade and the formation and creation of markets all over the globe, the need for better ideas and leadership qualities became more and more important. The early entrepreneurs (traders and merchants) began to take more and more risks in trading to gain profit.
However, with the increase in markets and the requirements of the people, innovation and trade were considered as an important aspect, and more and more people began to take risks by getting involved. This was when the first entrepreneurs started to think out of the box to cope up with the increasing competition and gain more profits.

Need of independent career path

With the increasing population, came the need for choosing a career path and obtaining a job to become well settled. Due to lack of good jobs and the increase in the numbers of unworthy jobs more and more people wanted to opt for a career path that was independent.
In the quest for having a stable job and a career, the majority of the people started to take maximum risks by starting their own small businesses in order to gain maximum benefits.

Purpose/ Uses of Entrepreneurship

Choosing a career path in order to gain profit for the long haul is the most important reason why people opt for entrepreneurship. Maintaining a reliable source of income is the best and the most important way to create a stable job.
Keeping this in mind, being your own boss and having things in your control are what majority of the people desire. To fulfil this need, entrepreneurs start their own business to control their career.

Several perks

Most people working in the corporate world are unable to fulfil their desires. Having the command and the authority over the kind of work you want to do is a perk most entrepreneurs enjoy in their experience of successful entrepreneurship.

The best aspect of being in the global marketplace as an entrepreneur is that you will harvest what you sow. This means that all the entrepreneurs will able to benefit from their hard work.

Control and independence

The sole purpose of choosing entrepreneurship as a career path is to control your company, be an independent leader of your team and choose exactly what goes around in your workplace. Entrepreneurship provides entrepreneurs with the advantage of making the right decisions that will benefit them in the best possible way.

This is an excellent opportunity to be independent and mould your career the way that any entrepreneur may prefer.

Demand for innovative ideas

With such advanced technology and the increasing demands of the market for more innovative ideas in the corporate world shaped many individuals into aspiring entrepreneurs.

The sole purpose of providing the corporate world with more innovative ideas in hopes to gain profit led to the increase in new businesses. With maximum people involved in obtaining a respectable place in the corporate world, entrepreneurs became more and more creative by coming up with innovative ideas for the market.

Even though most entrepreneurs had the main purpose to benefit themselves and their business, however, it made a huge impact on the expansion of the corporate world.

Modern Perspective of Entrepreneurship

Along with some other disciplines, the study of entrepreneurship is also paving its way as an important sub-discipline in many universities and colleges. This means that modern youth is extensively interested in pursuing entrepreneurship as a career path.

Due to this reason, several courses have been introduced related to entrepreneurship. Like any other important and popular discipline, entrepreneurship is also growing rapidly. Today, more and more people are in favour of becoming independent in their professional careers and therefore, there are fewer criticisms to be faced by any aspiring entrepreneur.

Social media age

Living in the social media age sure has some advantages if you have chosen entrepreneurship as your career. Modern day entrepreneurs have the perk of expanding their businesses and reaching out to the target audience with the help of social media.

This eventually provides the opportunity for any entrepreneur to pave his way into the global marketplace. Entrepreneurship in the modern world is something any independent individual with leadership quality would opt for.

Modern day entrepreneur

With the advent of social media age and advanced technologies, entrepreneurship became more complex. Even though there are several ideas and techniques that may be used during entrepreneurial ventures, this somehow does not make the life of an entrepreneur easy. With multiple marketing techniques, reaching out to the target audience became easy.

However, it also increased the workload of an entrepreneur. With the demanding marketplace, the need of innovative ideas also increased along with the desire to be unique in your business venture. Therefore, in entrepreneurship, the many advantages that may be gained by an entrepreneur are also accompanied by a few disadvantages.

Outlook of modern-day entrepreneurship

Some of the aspiring entrepreneurs may have the advantage of being supported by their families when laying down the foundation for their entrepreneurial venture. However, today an independent entrepreneur is highly appreciated as entrepreneurs are considered as risk takers who are willing to reach the heights in the corporate world with their own hard work. The risk of starting everything from scratch is not the kind of risk everyone has the will and courage to take.

Challenges / criticism

Due to popular belief, entrepreneurship is considered to be an easy way out for people not in favour of working under or for someone else. In several ways, many aspects of this statement might be completely true. However, just like any other profession, being an entrepreneur and choosing entrepreneurship as a career may come with several challenges. There are multiple criticisms and challenges that every entrepreneur may face throughout their career.

Monotonous ideas

The stress of coming up with an innovative idea that has not been used in the market before always lingers on every entrepreneur. When choosing entrepreneurship as a career path, it is

crystal clear that the only way to stay on top of the corporate world is by coming up with brand new ideas. Creativity is the key to success in entrepreneurship.
However, with such a vast global marketplace, the ideas proposed are often monotonous which leads to the trouble of disapproval from the critics. This is the most common yet crucial challenge that is faced by every entrepreneur.

Disadvantage of being a start-up business

One of the most crucial and problematic disadvantages is the challenge of being a start-up business in the market. This challenge often leads to the trouble of working late hours during the initial phase of your business.

It is often a very crucial challenge to be the start-up business in the corporate world and then pave your way to the top. When facing dynamic and extensive competition, paving your way to the top may not be a very easy task!

Major responsibilities

One of the perks of choosing entrepreneurship as your career is the independence that you get by being an entrepreneur. However, being in charge of a unified team and having complete control over the decisions you make comes with a lot of responsibility.

This might prove to be very challenging for your business. Being the in charge means being responsible for anything that may go wrong in the business. This may prove to be very challenging for any entrepreneur.

Risks of success or failure

There are several risks that may come along with entrepreneurship. Like mentioned earlier, an entrepreneur is responsible for several things. The risks associated with adopting and implementing new and innovative ideas may sometimes result in failure.
Keeping this in mind, the success or the downfall of a company depends on the entrepreneur and therefore, it is a highly challenging task to always make the right decision.

Who is an entrepreneur?

- An individual who takes **risk** in making a product or a service in an Innovative way
- Uses his funds or secures funds from banks and financial institutions
- Creates a product and sells it in the market for a profit
- Who works under conditions of uncertainty
- Takes risk
- Anti-thesis or opposite of a job seeker
- A job creator

What is Entrepreneurship?

- Entrepreneurship, "is the practice of starting new organizations or revitalizing mature organizations, particularly new businesses generally in response to identified opportunities."
- Schumpeter (1965) defined "entrepreneurs as individuals who exploit market opportunity through technical and/or organizational innovation".
- Peter Drucker (1970) "entrepreneurship is about taking risk".
- Bolton and Thompson (2000) have defined an entrepreneur as "a person who habitually creates and innovates to build something of recognized value around perceived opportunities".
- Hisrich (1990) defined that an entrepreneur is characterized as "someone who demonstrates initiative and creative thinking, is able to organize social and economic mechanisms to turn resources and situations to practical account, and accepts risk and failure".

History of Entrepreneurship in India

- **Post independence** only big business houses fostered by Tatas, Birlas, Singhanias, Chettiyars of South
- Specific communities like Paris's, Sindhi's, Jains, Marwaris, Gujarati's, Punjabis were involved in Entrepreneurship during the 60s and 70s
- **Post 1970s & 80s people** like Ambani, Narayan Murthy, Shiv Nader, Prathap Reddy, Asim Premji jumped into the fray
- **During 1990s** worldwide there was a recognition that entrepreneurs are wealth creators, employment generators and provided competition to monopolies like PSUs, Big Companies
- Govt of India started training institutes under different organizations for training youngsters on entrepreneurship
- **Today** there are thousands of 1st generation entrepreneurs who do not belong to business families

Who is an entrepreneur?

- One who senses a market opportunity and then
    - **acquires funds**
    - **land**
    - **machinery**
    - **labour**

- to produce a product and sell it in the market at an uncertain price
- He assumes risk
- Works in an ambiguity (uncertainty)
- Works independently
- Choses this career option **either** out of necessity or to utilize a market opportunity
- He bears responsibility for profit or loss

What is Intrapreneurship?

- Intrapreneurs are those working in large companies who are given an entire division
- They are given independent control to manage a business division
- If they succeed they will be promoted, if they fail they may get terminated
- Famous Intrapreneurs
- Sundar Pichai→ Made Gmail and Android OS Successful→ CEO of Google
- Satya Nadella→ CEO Microsoft→ Created cloud business
- IBMs Krishna was made CEO for his seminal contribution

NIIT Story

- Funded by Shiv Nadar Chairman of **HCL Technologies** for 10 Lakhs in 1981
- 2 IIT graduates Rajendra Pawar and Thadani were chosen to run the business independently
- **HCL** was only into selling PCs in 1980s not into computer training
- **NIIT** evolved as a computer training institute
- **NIIT** became so successful that Shiv Nadar made the two IIT graduates partners in this venture
- Revenues are $120 Mill or Rs.890 crores, employs 2600 people
- Started the Franchisee model in India

Types of Entrepreneurs

- Small business **entrepreneurs**.
- Large company **entrepreneurs**.
- Scalable startup **entrepreneurs**.
- **Trading Entrepreneur**

    - Procures products from manufacturers and sells them in the market under his brand name. D Ambani, GD Birla started as traders
    - Reliance retail private labels Goodlife
- **Manufacturing Entrepreneur**
    - Convert raw material into finished products
    - Make products as per needs of the customers
    - Karsanbhai Patel→ Nirma
    - Ramesh Chauhan→ Thums Up, Limca, Goldspot
- **Agricultural Entrepreneur**
    - Cultivation
    - **Marketing of agri products**
    - Mechanization
    - Technology
    - Irrigation
- **Technical entrepreneur**
- Innovative use of technology
    - IT Companies → Infosys, Mindtree, Wipro
    - Portable fire extinguisher → Ceasefire
    - Swiggy-Zomato, Uber-Ola, Oyo rooms, Amazon-Flipkart,
    - Milk Mantra's dual strategy→ Kirana shop and home delivery
- **Non-Technical entrepreneur**

- CCD, Britannia, Parle, Patanjali products, Makers of IMFL
- Social Entrepreneur
- Person who is committed to bringing in vital transformation of society
- He/She also needs
- Ideas
- Funds
- Labour
    - Management practices like marketing, operations, financial management and HR practices
    - Revenues

- **Notable Social Entrepreneurs**
  - Raja Rammohan Roy→ Bringing western education to India, banning Sati (Roop Kanwar 1987)
  - Kailash Satyarthi→ Child labour
  - Md. Younus→ Providing micro loans to women and people from weaker sections
  - Achyut Samanta→ Providing free education to tribal children

Businessman vs Entrepreneur

- A businessman makes his place in the market with his efforts and dedication, whereas an entrepreneur creates the market for his own business.
- The businessman is a market player while Entrepreneur is a market leader because he is the first to start such an enterprise.

Based on Ownership

- Private entrepreneurs
- State entrepreneur
  - OCAC, PSUs, **Home Fresh**
- Joint entrepreneurship
  - Private-Public partnership

Based on Gender and Size

- Men Entrepreneur
- Women Entrepreneur
  - Kiran Mazumdar Shaw→ Biocon
  - Vandana Luthra – The founder of VLCC.
  - Priya Paul– The chairperson of Park Hotel.
  - Suchi Mukherjee – Founder & CEO of Limeroad.
  - Indra Nooyi – The board member of Amazon.
  - Falguni Nayar – The Founder of Nykaa.
  - SIZE
  - Small Scale → Upto 1 crore investment
  - Medium scale→ Upto 5 crores
  - Large scale→ More than 5 crores

Types based on Clarence Danhof Classification

- Innovative entrep→ Google, Uber, Amazon, Skype
- Imitative entrep→ Bing, Flipkart, Ola, Zoom
- Fabian entrep→ Extremely conservative→ Hero Motocorp→ Munjals
- Drone entrep→ Extremely traditional→ Hindustan Motors

IMPORTANCE OF ENTREPRENEURS

Radical Idea and innovation

- NZ entrepreneur has demonstrated and has developed technology for wireless transmission of electricity from the Power station to Central distribution Grid
    - Huge Cost reduction
- No disruptions in power supply due to storms, cyclones, etc
- Huge reduction in labour and infrastructure costs
- Dream of Nikola Tesla the father of Alternating Current
- Surplus electricity producing countries can sell to power scarce countries
- Cable or wireless access to electricity by offices and homes in the future

Important Roles of Entrepreneurs

- New Ideas
- Risk Innovation
- Embracing new digital technologies
- Breaking monopolies
- Generating employment
- Faster distribution

NEW IDEAS

- Example-Explosion of restaurants in BBSR
- <u>Analysis of Restaurant Business</u>
- Restaurants are visible in every city in India
- Some of these restaurants have takeaway counters
- Employment to <u>waiters, order takers, chefs, floor managers, event managers, security guards, table cleaners= </u>18 people employed
- Variety of cuisine
- Specializing in only breakfast and tea time snacks

- Full variety restaurant

RISK TAKING-FOOD DELIVERY

- Swiggy-Zomato
- Deliver varieties of food home
- Discounts
- Choice of large number of restaurants
- Rating and feedback of restaurants
- App based operation
- Use of GPS for tracking deliveries
- Online menu
- Quick customer service to resolve complaints
- **Strict Protocols**→ ON TIME DELIVERY→ Every minute counts

FURTHER EXAMPLES

- Big basket, Amazon Pantry, Grofers, JioMart
- Delivering home groceries, vegetables & fruits, bakery products, cosmetics, etc
- Timely delivery
- Order cancellation option
- Refunds
- **Strict Protocols**→ Timely delivery→ All ordered items must be delivered

RISKING INNOVATION

- PERSONAL TRANSPORT
- Uber-Ola→ Pickup from anywhere, drop anywhere, use GPS, no bargaining, Bill payable through app or wallet, amenities like ACs, touch screen songs, movie clips, news
- DIGITAL PAYMENTS Platform
- Paytm, Phone Pe, Google Pay
- Competition to banks
- NO FRILLS AIRLINES
- Indigo
- Air Asia

DIGITAL PROCESSES-LESS FACE-TO-FACE

- **Selling Insurance**
- Sell insurance through many channels→ digital, Internet, by Phone
- Fast claims
- ONLINE COURSES
    - Coursera
    - Upgrad
    - Udemy
- Certificates recognized by corporates→ Credibility

BREAKING MONOPOLIES

- Visa Steel, Besco, Somani are among the 650 mini steel companies in India which compete with SAIL, Tata Steel, Jindal, JSW, Essar Steel, Hindalco, etc.
- Smaller financial firms like Bajaj Finserv, Payback, etc are competing with banks like SBI, ICICI, AXIS, HDFC, PNB in providing loans
- Paytm and Airtel banks are competing with banks in providing fund transfer services, bill payment services, FDs, RDs, etc
- Anmol, Unibic, Nimkin, Krackjack, 20-20 Cookies, Monaco-Salted Cracker, Bisk Farm are competing with majors like Britannia, ITC, Parle G, etc.

GENERATE EMPLOYMENT

- PSUs and PSBs and large companies like Tatas, L&T, Nalco, etc have become labour surplus and getting a job is very difficult
- Best Sectors for Jobs are
- IT SECTOR
- PRIVATE BANKS
- INSURANCE COMPANIES
- RETAIL
- ECOMMERCE
- FOOD DELIVERY
- PERSONAL TRANSPORT LIKE UBER-OLA
- Payment aggregators like Paytm, Phone Pe, Google Pe
- provide huge employment opportunities to the youth.

- 80% of the employment opportunities exist in the MSME and SME sectors

FASTER DISTRIBUTION

- Logistics companies are playing a big role in movement of goods
- TCI, Mahindra Logistics Ltd, Adani Logistics Company
- Future Supply Chain Solutions Ltd, Gateway Distriparks Limited, VRL Logistics Ltd
- Traditional transportation services like Railways, Ships, Air Freight

FAMILY BUSINESS

Questions for discussions

- Do entrepreneurs spring from business families only?
- What are the advantages to Kids growing up in business families?
- What are the Dis-advantages to Kids growing up in business families?
- What skills do family members need to start new ventures?

Learning Objectives

- To define a family business
- To explain the role of non-family managers
- To describe the issues in succession in a family business
- To list the best practices of managing a family business, from across the world

What is a family business?

- High percentage of share capital owned by a family either jointly or individually
- Family members employed in the highest decision making posts
- Expression of intention to maintain family involvement in the future
- A number of generations of the same family involved in management or ownership
- Direct descendants of the founders have management or ownership control

Family Business

Advantages

- There is a long-term orientation as the continuity of the firm is of great concern to the older generations.
- The family culture is a source of great pride for family and non-family employees alike.
- The family firm functions in a less bureaucratic manner and it is not impersonal in dealing with employees and customers.

- Family firms have shown greater willingness to weather the bad times by ploughing back profits.
- It is structured to impart training to younger members of the family.

Disadvantages

- They may have a confusing structure where the role of many family members is not clearly defined.
- The style of functioning may be autocratic or patriarchal.
- Many of the younger generation may not be worthy of their position and role in the organization.
- There can be very strenuous succession battles.
- Sometimes family members can selfishly drain the finances from the company.

The founder

- Starting the business
- Building the organization
- Providing guidance and direction to employees and family members
- Constructively involving family members in business
- Planning for succession

The Next Generation

- They know the business well. Ideally, they like the nature of the business as well.
- They know themselves and have a correct assessment of their strengths and weaknesses.
- They have had the necessary education and outside experience.
- They wish to lead and serve.
- They are guided responsibly by their previous generation, the board and other advisors.
- They have good relationships with other family members in business.
- They rely on competent non-family managers to complement their own skills.
- They have controlling ownership in their firms either directly or through allies.
- They have earned the respect of employees, suppliers, customers, and other family members.
- Their skills and abilities are aligned to the strategic needs of the company.

- While respecting the past, they focus their energies and resources on the future of the business and the family.

Non-family Managers

- Discuss career paths in the company and clearly state if top positions are not open for them.
- Offer compensation and benefits that are at par with the others in the industry.
- Involve non-family managers in top level decision making
- Set targets and use performance measures to build motivation.
- Emphasize the contribution of non-family managers in company meetings.
- Treat family members like employees at work.
- Involve non-family managers in succession planning.
- Some senior non-family managers can be used as 'bridge' heads to smoothen the succession
- Periodically assess the motivation level of non-family managers

Succession

Need for Succession

- Retirement
- Deteriorating health
- Illness or some other non-terminal physical incapacitation
- Death, which can be a sudden unexpected event or an anticipated event caused by some terminal disease
- Business decline or financial problems. Lenders may insist on a change in leadership
- Legal problems necessitating a change in leadership

Dealing with succession

- Choose a successor
- Grooming the successor
- Planning
- Early Entry vs late entry

Best practices

- Communication
- Independence

- Shared vision
- Documentation
- Conflict resolution

CHARACTERISTICS OF AN ENTREPRENEUR

- Passion
- Believe they are game changers
- Business Savvy
    - They know their competitors
    - They understand their eco system
    - They know their customers
- Confident
- Planners
- "Nobody plans to fail, they just fail to plan."
- Persuasive
    - Elevator pitch→ **Communication must have impact**
    - Outgoing, mix with people
    - Network seamlessly among their peers, funding agencies
- Money Managers
    - Good grip over accounting and finance-An MBA degree helps
- They never give up
    - Nothing is sacrosanct, Assumption is the mother of all sins
    - Even during downturns they are optimistic
    - Dhirubhai launched his textile mill VIMAL when there was depression in the sector
    - Paytm was launched much before currency ban

TOURISM ENTREPRENEURS

- Tourism
    - Eco Tourism
    - Medical Tourism
    - Religious Tourism
    - Adventure Tourism
- Social Entrepreneurs
- Agriculture Entrepreneurs

- Education Entrepreneurs

What is Tourism Entrepreneurship?

- Tourism → ***Mobility for Recreation***
- Leisure and recreation
- Leisure is discretionary time
- Tourism Ecosystem consists of
    - Transport
    - Accommodation
    - Catering
    - Natural Resources
    - Entertainment
    - Other facilities like Shops, banks and tourist operators
- Tourism → Professional application of knowledge, skills and competencies to monetize a Tourism related idea by a person or group of persons
- Legal Tourism excludes *wildlife hunting, flesh trade and drug trafficking, etc.*

Some sobering facts

- 70% of GDP of Malaysia, Singapore, Thailand comes from Tourism
- India is ranked 47th in Tourism revenues worldwide
- Tourism is the 3rd largest forex earner for India
- Great potential for Tourism development in India
- Became a state subject
- Kerala and Rajasthan are tourist dependent states
- Tourism has received **industry status** in India in 1980s
- 1.8 crore people in India employed in the Tourism sector
- Odisha despite having a great tourism potential lag behind as there are few professionals working in the industry
- **Tagline of Odisha Tourism?**

    India's best kept secret

Benefits of Tourism

- Leaves a soft print→ Nobody gets affected negatively
- Leaves low carbon foot print-**Explain**

- Natural resources are not exploited
- Provides great employment opportunities
- Valuable forex earner
- Locals earn money from internal mobility of people

Eco Tourism

- Purposeful travel to natural areas to understand the culture and natural history of the environment
- Taking care not to alter the integrity of the ecosystem
    - Don’t pollute
    - Don’t deface monuments
- Providing economic opportunities for local people
- Hallmarks
    - Design, build and operate leaving a soft imprint
    - Money to the local economy and local communities
    - Contribute financially to environmental protection
    - Educate visitors and the local community
- Revenue Collection
    - Entrance fee, facility use fee, License/Permit fee, Sales, Royalty, On-site donations, Collection from tour operators, other sources

Tribal Hamlets in Odisha

Players in Tourism ecosystem

- Hotels
- Hire Taxis, Buses (AC/ Non AC)
- Tour operators
- Guides
- Catering
- Local people
- Shops, artifacts, banks
- Local community

EDI

Entrepreneurship Development Institute

Meaning of EDI

- EDI is a programme meant to develop entrepreneurship abilities among the people
- A planned effort to identify, inculcate, develop and polish the capabilities and skills of a person to become and behave like an entrepreneur
- By equipping a person with knowledge, skills and capabilities, it is hoped that the person would start and run an enterprise

Need for EDP

- **Kakinada experiment by Prof. David. C. McClelland of Harvard University**
- Training provided to 52 persons in 3 batches
- Traits and competencies distinguish a successful entrepreneur from an unsuccessful one
- **Need for Achievement** is a trait found in entrepreneurs
- 3 months training programme by Small Industries Extension and Training Institute (SIET)
- People who underwent training are better off than others
- Conclusion traditional beliefs are a myth and that training can provide motivation create entrepreneurs
- This model was adopted by Gujarat Industrial and Investment Corporation (GIIC)
- The success of GIIC in Gujarat in 1960s and 70s spurred other states to adopt this programme

Objectives of EDI

- Develop the quality NEED FOR ACHIEVEMENT
- Analyze environment to set up Small industry and business
- Select the product
- Formulate the proposal
- Understand the process
- Know sources of help and support available for starting SSI
- Acquire managerial skills to run an SSI
- Appreciate uncertainty→ Customers are not guaranteed unlike in PSUs like NALCO, Tata Steel and other heavy industries
- Discipline

- Proper communication, hiring, remuneration, marketing
- Broad vision
- Passion and integrity
- Compliance with law of the land

Curriculum

- General intro to entrepreneurship
- Motivation training
- Management skills like finance, HR, marketing, production
- Support systems and procedure
- Fundamentals of project feasibility study
- Plant visits

Phases of EDP

- Pre-training
    - Selection of entrepreneurs for training
    - Infra
    - Faculty
    - Publicity, application form, training syllabus, opportunity scanning or mapping
- Training
- Post-training

Selection Process

- Psychological tests-TAT, Risk taking, Personal efficacy (Locus of Control)
    - Those having internal LOC are more suitable than candidates having high external LOC
- Educational and socio-economic background
- Analysis of application blank
- Group planning exercises
- Personal Interviews
- <u>Drawbacks of the Selection process</u>
- Costly and time consuming
- Lack of proper faculty or experts

Evaluation and Problems of EDPs

- **Evaluation**
- 1 out of 4 candidates actually set up a venture
- Most of the people encounter funding, marketing, distribution problems
- Majority give up and join the unemployed category
- **Problems**
- Lack good faculty or trainers to motivate the selected candidates
- No sincerity, commitment in conducting EDPs
- EDPs are looked as a mechanism to generate surplus income rather than a place where people are transformed from job seekers to job creators
- Antithetic attitude of banks and financial institutions

ENTREPRENEURIAL ENVIRONMENT

Opinion Matters….

- **Who do you respect most?**
- IAS Officers
- OAS Officers
- Commissioner of Police
- High Court Judges
- PO of PSU Bank
- RBI Head
- Local Businessmen
- Member of Parliament (MP)
- MLA

Why Study Environment?

- Entrepreneurship is not a spontaneous process or event
- It depends on environment factors like
  - Economic
  - Social
  - Political

- Psychological

- If the supporting environment is positive then entrepreneurs emerge

Economic factors

- **Capital**
    - Land, Machinery, raw materials can be procured
    - Lubrication to the process of production
- **Labour**
    - ***Quality of labour rather than quantity is important***→ Bangla Labourers preferred over Indian labourers
    - Cheap labour→ Rise of China, Vietnam, Thailand and India
    - Scare Labour→ Rise of Germany and Japan→ More technological dependence
    - High cost labour→ Labour saving innovations→ USA
- **Raw Material**
    - Availability of raw material is important but is not a necessary condition for emergence of entrepreneurs
    - ***Odisha→ Japan***
    - Tamil Nadu→ Automobile power
- **Market**
    - Place to sell is important
    - ***A monopoly market sees emergence of more entrepreneurs than a highly competitive market***
    - Improvement in transportation is the key as far as raw materials and finished goods are concerned

Non-Economic factors

- ***Economic factors are necessary but not sufficient conditions for emergence of entrepreneurs***
- **IS Entrepreneurship a respectable profession?**
- Does society look upon entrepreneurs as role models for new generation or are they seen as opportunists who are greedy about making money!
- Gujarat, TN, Punjab, Karnataka and Maharashtra **worship entrepreneurs and businessmen**

- **while**
- West Bengal, Kerala, Bihar and Odisha look upon rich entrepreneurs **NEGATIVELY**.
- **In these states IAS, OAS, Bank POs, Teachers are held in high esteem but entrepreneurs are not seen as hero's or heroines**
- **Social Mobility**
  - Hunt for opportunities leads to migration of professionals Kerala→ Dubai
  - Sundar Pichai, Indra Nooyi, Nadella made it big in USA
- **Marginality**
  - Marwari's, Gujaratis and Punjabis in Odisha are marginal groups who have thrived as entrepreneurs while educated Odias have aspired for govt jobs
- **Security**
  - Entrepreneurs emerge during turbulent times than stable times!
  - Covid has been a death blow for many businesses and entrepreneurs but has also witnessed new entrepreneurs in large numbers.
  - Those young people who are supplying Oxygen, food, medicines to needy will emerge tomorrow with lots of ideas once the impact of Covid diminishes

Psychological Factors

- **Need Achievement**
  - McClellands has propagated that individual with high need achievement emerge as entrepreneurs compared to indivs with low NA
- **Withdrawal of Status Respect**
  - Brahmins and Kshatriyas in India emerging as creative entrepreneurs as they have been displaced from their social position
  - Samurai's of Japan displaced from their social position

Government Actions

- **Govt actions lead to emergence of entrepreneurs**
- Till late 1980s all Indian governments used to **looked down upon private enterprise**
- Post liberalization govts have been providing incentives like
- Establishing SEZ
- Incentives in purchase of land at low cost, low tax, subsidies, etc for earning forex

- In BBSR GOO is providing land at low rates to *major hospitals and educational institutions to flourish*
- In Bangalore the Govt is providing land at low rates to *major IT companies, Bio Tech companies to flourish*
- Financing SMEs

EDIs, DIC of Odisha

SICKNESS IN SSI – CAUSES, SYMPTOMS & CURES

Sickness vs Bankruptcy

- Bankruptcy is the end of an enterprise. When a company goes bankrupt the govt agencies sell the assets of the company
- When a company becomes sick the banks try to infuse funds or restructure the top management to revive the company
- Typically large companies go bankrupt
- Sickness is visible among SME
- **Sick Companies**
- Tungabhadra Steel Products.
- STCL Ltd (Formerly Spice Trading Corporation of India)
- Central Inland Water Transport Corporation.
- Bharat Wagons and Engineering.
- Bharat Jute.
- **Bankrupt Companies**
- Zee Entertainment Enterprises.
- Essel Group.
- Anil Ambani.
- Avantha Group.
- Naresh Goyal.
- CCD.

Defining Sickness of an SSI

- As per RBI definition: A sick unit is one which incurs ***cash losses for one year*** and, in the judgement of the bank, it is ***likely to incur cash losses for the current year*** as well as ***for the following year***.

- The unit has an imbalance in its financial structure such as Current Ratio of less than 1:1 and worsening debt-equity ratio, namely the ratio to total outside liabilities to the Net Worth
- When the cumulative losses exceed Capital and Reserve

Signals of Sickness

- **Sickness is not an overnight phenomenon but happens gradually over years**
- Shortage of liquid funds to meet short term financial obligations
- **Excessive inventories**
- Non submission of data to bank or FI
- Frequent breakdowns in plant and machinery
- **Decline in product quality**
- Delay or default in payment of statutory dues like PF, Sales Tax, Excise duty, ESI, etc
- Decline in technical efficiency
- **Frequent turnover of personnel**

Symptoms of Industrial Sickness

- **Cash shortages**
- Plunging financial ratios
- Creative accounting or window dressing
- **Plunging share price**
- Seeking loans from banks and FIs continually
- Delay in audit of accounts
- **Morale degradation of employees and desperation among the top or middle management**

Delay or default in statutory dues

Incidence of sickness

- Sickness is a global phenomenon even in developed countries like **USA, UK, Japan and Germany**
- In India the situation is alarming in recent years with the flooding of cheap products from China, Bangladesh, Thailand, etc
- Sickness is most visible in the more industrialized states like Maharashtra, Gujarat, Tamil Nadu but is equally prevalent in UP, WB and Odisha

- Entry level sickness or an SSI in the initial years is susceptible to fall sick due to low financial strength and non-acceptance of its products by the market

Causes of Sickness: External & Internal

- External→ Worldwide recession→ Affects many sectors like Steel, jewelry, automobile, tourism, etc.
- Govt Policy → Import liberalization, Export controls
- Change in Industrial policy→ Subsidies stopped, import tax increased, tax holidays ceased
- Scarcity of raw materials, electricity, transport and skilled labour
- Lack of demand for the product
- Economy in recession
- Pandemic
- Industrial strikes
- Shortage of working capital
- Natural calamities like floods, droughts, etc

An SME/SSI faces

- Financial Constraints→ Difficulties in raising timely funds
- Production Constraints→ Unable to produce as per capacity
- Marketing Constraints→ Inability to prepare a cohesive marketing strategy
- Manpower Constraints→ Inability to attract quality human resources

Internal Causes

- Lack of Demand
- **Lack of good Management**
- **Poor implementation**
- Marketing problems
- **Shortage of WC**
- Scarce raw materials
- **Power shortages**
- Labour problems
- **Equipment problems**

Consequence of Sickness

Prepared By Kamesh Chivukula
(Associate Prof. Marketing)

- Huge financial losses to lenders like banks and FIs
- Loss of employment opportunities
- Emergence of industrial strikes
- Wastage of scarce resources
- Adverse effect on investors and entrepreneurs
- Loss of revenue to the government

ENTREPRENEURIAL COMPETENCY

Enterprise Launching Competency

- **Competence** to understanding the nature of business
- **Procuring→ Pasteurization→ Purification→ Packing→ Distribution**
- **Comp** to determine potential of the business→ Revenues & Profits
- **Comp** to develop a business plan
- **Comp** to obtain technical assistance→ Consultant from Hyd, Noida
- Planning marketing strategy→ Adv, Promotion, Shelf display, POP banners
- Finance the business
- Locate business
- Complying with govt regulation

Examples of Competency/Incompetency

- Launch of Nano→ Flop
- Jaguar Acquisition from Ford→ Loss making →Emotional decision not strategic
- Tatas in Ecommerce?
- Big Basket Acquisition by Tata→ Watch list→ Tata's are weak in marketing
- Anil Ambani→ Reliance Entertainment, Reliance Telecom, Infra, etc→ **Disaster** → Emotional decisions-Glamour instead of hard headed thinking
- Competency is doubtful
- Jiomart Ecommerce started by Mukesh Ambani→ Learning the nuts and bolts of the business during the pandemic
    - **Reliance Retail** (groceries, veg&fruits, cosmetics, home products, etc),

- **R Trends→** Apparel & Footwear) 40 marquee international brands such as Armani, Burberry, Diesel, GAS, Marks & Spencer, Superdry, Brooks Brothers, Steve Madden Digital,
- **Reliance Jewelry**

What is competency?

- Knowledge
- Skills
- Perception Traits
- Motive
- Knowledge
- Work related
- Skills
    - Leadership
    - Articulate Communication
- Perception Traits
    - Self-perception→ S&W
    - Perceiving S&W of others
    - Team player
    - Handles ambiguity well
    - Demonstrates initiative
- Motives
    - Self-development
    - Focuses' on client success, customer satisfaction
    - Preserves personal integrity

Major entrepreneurial competencies

- Initiative
- Looking for opportunities
- **Persistence**
- Info seeker
- **Quality conscious**

- **Commitment**
- Efficient
- Planner
- Problem solver
- Self confidence
- Assertive
- **Persuasive**
- Good monitor
- **Employee well wisher**
- Strategist

Research shows… Competency traits

- **Enterprising person**
- **Welcomes advanced technology**
- **Looks for change**
- Invest his income in enterprise
- **Takes advantage of opportunity**
- Risk taker
- Adapts to change
- **Organize resources**
- A**mbitious**

Developing entrep competencies

- Competency identification and recognition
  - Identify the entrepreneurial competency set to behave like an entrepreneur
- Competency assessment
  - What competencies the person possesses against the set of competencies required
- Competency mapping
  - Identifying the GAP
- Development intervention
  - Training

MODULE-2

WRITING BUSINESS PLANS

What is a Business Plan?

- A business plan is a guide for a company that identifies its goals and outlines the steps for achieving those goals.
- Business plans can be used to
    - start a company,
    - apply for a business loan,
    - plan long-term strategies and
    - maintain a business
- Document which outlines how an entrepreneur
    - Presents details about his venture
    - Forecasts his venture's performance
- Are you just making a better mouse trap?
- Mistaken notion that if a company produces a technically better product than its competitors it will be more successful in the marketplace
- Has the entrepreneur taken all possible hurdles into account?
- Does the BP present the skills of the team?

4 Interdependent factors critical to every business plan

- The People
    - Men/Women starting and running the venture
    - Outside parties providing the service
        - Suppliers
        - Website and App developers
        - Lawyers
        - Accountants
- The Opportunity
    - Product/Service
    - Who and Where is the Customer
    - How fast the business is expected to grow

    - What are the hurdles
- The Context
    - Govt and Industrial Policy
    - Bank interest rates
    - Demographic trends
    - Inflation
- Risk and Reward

If things go wrong how will the team react

PEOPLE

- Who are these people?
- What do they know?
- Whom do they know?
- How well are they known?
- Pritish Gupta creating a business plan for an air cooler in Odisha
- Who is PG?
    - MBA from XIMB
- What does he Know about Air Coolers?
    - Has an electronics shop in BBSR for the past 40 years
- Whom does he know?
    - They are familiar with suppliers of AC equipment in Delhi and Jaipur
- How well is he known?

PG belongs to a well-known business family in BBSR and CTC

OPPORTUNITY

- Where is the market?
- Who are the competitors?
    - Are there too many competitors?
- Is the industry attractive?
    - Is it growing or stagnant?
- Can it reach a significant scale in 5 years (Rs.100 crores)

- How will the venture build and launch its product or service in the market place? Details are important…be realistic
- Dogs may not eat the dog food if it is too costly!
- How long will it take to acquire customers?
- How will it receive payment?
- Music sharing App Spotify
    - Youth is a growing and large market
    - Competitors are Gaana and Jio music which does not have Spotify's collection of songs
    - Customers are the mobile savvy and trend setters who attract others
    - Subscription model of payment on a weekly, monthly, yearly basis

THE CONTEXT

- When airlines were privatized 15 companies jumped into the fray in India
- Eventually only 3-4 have survived so far
- Real estate property is expensive in BBSR. DLF is the culprit!
- Builders are not able to build flats for the middle class in BBSR in the 15-25 lakhs range unlike in Hyderabad, Kolkata, Bangalore, Chennai, Pune, etc.
- Demand for flats in the 15-25 lakhs are available only on the outskirts of the city
- Flats cost 60-100 lakhs in the city centres like Cs'pur, Saheed N, Satya N, Nayapally, etc
- Regulatory authority has squeezed the real estate builders to build within a stipulated time as promised or pay penal interest.

RISK & REWARD

- BP is a Snapshot of an event in the future
- But the future is very uncertain
- BP must realistically look upon all risks like
    - Key people leaving
    - Product or service not able to capture the customer imagination
    - Govt regulatory changes
    - Too many competitors jump into the fray and make profits low
- Harvesting (Time to cash out by VCs or angels)

  - IPOable
  - Can it be sold to a large prospective company
  - Worst case scenario→ Can its assets be sold at a profit if the company folds up

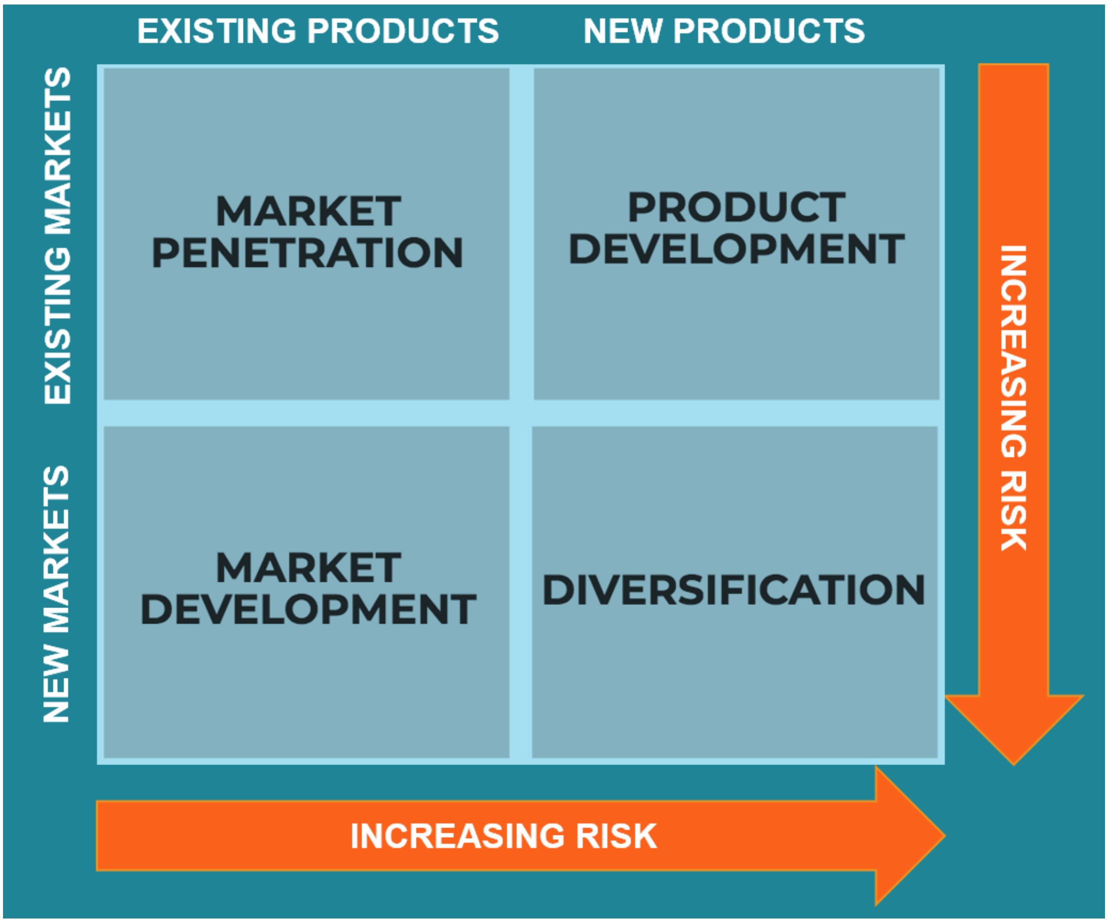
MARKETING STRATEGIES FOR ENTREPRENEURS

- Product→ Reason for existence
- Place→ Location of the market→ Segment→ Niche
- Price
  - Cost based Price-Traditional
  - Penetration Pricing-Yipee noodles, Godrej Handwash
  - Competitive Pricing-Soaps, Detergents, shampoos, Footwear, Ready made garments
  - Skimming Price-New tech companies like Tesla, Airlines, iPhone, High Fashion LMVH, Designer labels
  - Value Pricing-Tourism, Vacation packages
  - Huge discounts-Food delivery, Ecommerce-Want to change the habits of customers permanently
- Promotion-Getting the message across AIDA principle
- Packaging→ Vital role-Showcases the class of the product- Malls only stock classy products

MARKETING STRATEGIES IN THE DIGITAL ERA

I. Use social media
II. Create video tutorials
III. Start blogging
IV. Understand search engine optimization
V. Leverage influencers
VI. Build a great lead magnet
VII. Use Facebook ads with re-targeting
VIII. Use LinkedIn the right way
IX. Create an affiliate program
X. Use Email Marketing Sequences

ANSOFF MATRIX



- **MARKET PENETRATION→ EXISTING PRODUCTS-EXISTING MARKETS**
- When a firm focuses on selling its current products to existing customers, it is pursuing a market penetration strategy.
- The marketing activities that will dominate in this type of marketing plan are those that emphasize
- Increasing the loyalty of existing customers so that they are not vulnerable to loss to competitors→
    - Pure IT introducing electrical water purifiers,
    - FOGG introducing new deo variants to keep Wild stone at bay
- Attracting competitors' customers
    - Jio launching its Wi Fi services for homes
- Increasing the frequency of product use
    - Burger King, KFC, Dominos not just a snack but a meal with fries and cola
    - Discounts by Swiggy and Zomato

- Converting nonusers into users
    - Milk Mantra offering bakery and cakes to its customers
    - Jio’s 4G plan attraction
    - Coke introducing Diet Coke
- **MARKET DEVELOPMENT→ EXISTING PRODUCTS-NEW MARKETS**
- The efforts to expand sales by **selling current products in new markets** are referred to as a market development strategy.
- Such efforts may involve **entering new geographic markets, such as international markets**.
- Creating product awareness and developing distribution channels are key marketing activities.
- For example, as fast food restaurants have moved into international markets, they have often changed their menus to better match the food preferences of customers in local markets.
    - Macdonald’s Mac Aloo Tiki and other vegetarian offerings,
    - Instant Idli and Instant Dosa in eastern India by MTR
    - Milk Mantra selling Chenna Podo in Visakhapatnam in AP
- **Expanding into a new market with an existing product carries some risk** because the new market is not well known to the firm and the firm and its products are not well known in the market

PRODUCT DEVELOPMENT STRATEGY

- Creating new products to sell to existing customers, a product development strategy, is a common marketing strategy among firms that can leverage their relationships with existing customers.
    - For example, American Express has been able to leverage its relationships with its credit card customers to also sell travel-related services.
    - Similarly, cable television companies have expanded their offerings into Internet and telephone services.
    - Swiggy offering home delivery of meat and groceries
    - Milk Mantra offering new bakery and cake variety to existing customers
- Research and development activities play a dominant role in this strategy. The time required to develop and test new products may be long, but once a product is developed,

creating awareness, interest, and availability should be relatively rapid because the firm already has a relationship with customers.

- **Diversification Strategy**
- A diversification strategy involves taking new products into new markets.
- This is really the creation of a completely new business.
- This is the riskiest of strategies and the strategy likely to require the most patience in waiting for a return on investment.
  - Tata into E Commerce, E Com Medicine JV with 1MG
  - Reliance entering retail
  - Diversification is the new mantra of corporate India ever since the pandemic ruined businesses and reputations

Working Capital Management – Small Business Owners or Entrepreneurs

What is working capital management?

Working capital management is when a business plan is maneuvered in such a manner so as to ensure that a company can operate efficiently by using and monitoring its existing assets and liabilities in the best possible way, it is known as working capital management.

Working capital management – objectives

In order to ensure the liquidity of finance, there are two main objectives of working capital management. The first one is managing timely payments from customers as insufficient cash flow (working capital) will lead to the company's failure in fulfilling obligations as they fall due, which again might result in late salary distribution to employees, late payment to suppliers and other credit providers. This, in turn, may result in losing the loyalty of employees, losing supplier discounts and hence a falling credit rating. Furthermore, default on the part of a company may give rise to consequences such as the compulsory liquidation of assets in order to repay creditors.

The second key objective is generating profits. Funds used as working capital are more likely to earn very little, or in fact, no, return. Therefore a company with a high level of working capital might not achieve the expected return on capital employed, i.e., {Operating profit ÷ (Total equity and long-term liabilities)} as expected by its investors.

Hence while determining the working capital's appropriate level there is a trade-off between profitability and liquidity:

- **Overtrading** – not enough working capital to match the level of business activities. This can also be called under-capitalization and is categorically characterized by a high rising ratio of short-term finance to long-term finance
- **Over-capitalisation** – an excess level of working capital, thereby resulting in inefficiency.

Working capital management – its importance

Working capital means the existing net current assets required for daily operating activities. It can also be defined as the total of current assets minus the current liabilities wherein its components are generally trade and inventory receivables along with bank overdraft and trade payables.

Many big businesses that, at first sight, may appear profitable often are forced to shut down due to their inability to handle short-term obligations at times when they fall due. Hence successful management or maneuvering of working capital is a necessity for a business to remain in existence.

Working capital management needs great care owing to potential interactions among its components. For instance, if the credit period that is offered to customers is extended it can result in extra sales. However, in such cases, the company might have to rely on a bank overdraft as its cash position may fall owing to the extended wait for payment from customers. Sometimes the overdraft's interest might surpass the profit gained from the additional sales, particularly if there is a rise in the cases of bad debts.

The importance of managing effective working capital

Although the role of working capital is vital in any form of business, managing the working capital is a daily activity, unlike capital budgeting decisions. Furthermore, inefficiency at any stage of management may have a negative impact on the working capital and its management. Given below are some important points that show why it is vital to take the management of working capital seriously.

- Makes possible Higher Return on Capital
- Improvement in Solvency and Credit Profile
- Better Liquidity
- Increased Profitability
- Uninterrupted Production
- Business Value Appreciation
- Edge over Competitors
- Most Suitable Financing Terms
- Being Ready for Peak Demand and Shocks

Working capital relevance

The ratio of working capital is very crucial to creditors because it shows the company's liquidity. The current liabilities are paid with existing assets like cash, marketable securities and cash equivalents. The faster the conversion of an asset into liquid cash, the higher are the chances of the company successfully paying off its debts. When the current liabilities are higher than the current assets, there will be ample capital for the company for its daily operations.

In other words, the company will have sufficient capital to work with. Hence this ratio serves as a measuring scale of a company's short-term financial health and efficiency. Anything below 1 indicates a negative W/C (working capital) whereas anything over 2 is indicative that the company is not investing the surplus assets. The ratio between 1.2 and 2.0 is regarded as the most ideal ratio. The second name for working capital is net working capital.

How is working capital calculated?

Working capital is found out by reducing the current liabilities from the current assets which imply that the working is calculated by the following formula:

Working capital = Current assets – current liabilities

The current assets are the current liabilities and accounts and cash receivable including the accounts payable.

Some important things are as mentioned below:-

- DSO or Days Sales Outstanding – the no. of the days in average required by the customers of the company for paying the necessary invoices.
- DPO or Days Payables Outstanding – the no. of the days in average required by the company which it takes for paying the suppliers.
- DIO or Days Inventory Outstanding – the no. of the days in average required by any business required for selling its inventory or stock.
- CCC or Cash Conversion Cycle – the no. of the days in average required by any business for converting the investment of the inventory in cash.

The formula for calculation of CCC is as mentioned below:-

CCC = DIO + DSO – DPO

The smaller a company's CCC is, the faster it converts the cash into the inventory and again back to the cash. Companies may greatly reduce the cash conversion cycle or CCC in 3 ways:

- Asking their customers for faster payments (DSO)
- Increasing their payment tenure to their suppliers (DPO)

- Decreasing the time for which their inventory is being held (DIO)

Formulas for working capital analysis

There are many different formulas for analysis of working capital analysis, some of them are mentioned below:-

Ratio Analysis – Used for measuring the short tenure of any firm's liquidity

Ratio of Liquidity

Formula	Ratio
Assets Current/ Liabilities Current	Ratio of current
Assets Liquid/ Liabilities Current	Quick Ratio also known as Acid Test Ratio
[Short-term securities which also includes Cash and Bank] / Liabilities Current	Ratio of cash position/ Liquid Ratio Absolute

The ratio of Inventory Turnover = Total cost of all the goods sold/average cost of the inventory

When one does not know the cost of the goods of the items sold check the below formulas:-

Formula	Ratio
Goods Sold Cost/Cost of Average Inventory	Ratio of Inventory Turnover
Net Sales/Average Cost of Inventory	
Total Cost of the Goods which are Sold / Inventory at the Selling Price in Average	

Working capital in simple words

Working capital, in simpler terms, is a difference between a business's current liabilities and its current assets.

Current assets such as inventories, receivable accounts, and cash.

Current liabilities are short-term borrowings, liabilities accrued and accounts payable. A common approach is to subtract this cash from the current assets and from current liabilities one needs to deduct the financial debt.

Types of working capital

Working Capital is basically divided into 2 main categories as mentioned below:-

A. Based on the capital generated, the working capital is:-

1. Networking capital – the difference between current liabilities and current assets
2. Gross working capital – a company's current assets

B. Depending on the time period, the working capital is:-

1. Variable working capital – extra capital left after fixed working capital

Fixed working capital – investments required for starting and managing any business.

Gross working capital's importance

The investments in these current assets should not be inadequate or excessive than required since it can impact negatively on the capacity of production and also lead to the solvency of this company. This greatly undermines any business's profit. Gross working capital helps in maintaining this that is why it is crucial.

Net Working capital's importance

The networking capital is important for checking the liquidity position and for ensuring that these current assets are exceeding the current liabilities. This capital number also provides its creditor a very clear picture of the financial soundness of the company.

Measuring the efficiency of the working capital

The efficiency of the working capital can be easily measured by various ratios. The cycle of working capital and its corresponding ratios are generally compared to the benchmarks of other industries and peers of the company. Some of the general measures which are generally used while estimating the working capital management efficiency often include the current ratios, inventory outstanding days, payables outstanding days, sales outstanding days, etc. For the small-scale operations in the small business, the money flow is always in a tight supply and the investment in this area of the working capital might be an issue.

Some of the small companies are mostly unable to fund these operating cycles with payable accounts and so, need to depend on this cash which is mostly generated by various internal income sources such as the owner, etc. if one is able to manage the working capital efficiently, these small businesses would be easily able to free up their cash for paying debts or for the reinvestments.

Effective capital management

Working capital management is the core factor to the effective management of running a business because:

- current assets include the majority of the assets in case of some companies
- shareholder wealth being more closely related to the generation of cash rather than accounting profits

- Inability to control the working capital, and hence to control liquidity, is a major reason for the corporate collapse.

Finding the working capital estimate of the company

1. The profits must be ignored while calculating its working capital as its profits can or cannot be taken again as the working capital and even though this amount could be greatly reduced due to dividends, taxes and others.
2. One should consider 100 percent WIP value unless otherwise mentioned.
3. Stock calculation of the completed products and all the debts should be done at the cost unless otherwise mentioned.

Factors that affect the needs of working capital

The needs of the working capital are not the same for every company. It varies from business to business. There are two factors that affect working capital needs. They are

- Endogenous – Endogenous factors are the ones that can include the size of the company, its structure, and its strategy.
- Exogenous. – Exogenous factors are the one's which includes
    - the availability and access of banking services
    - interest rates
    - services or products sold
    - type of industry
    - macroeconomic conditions
    - the number, strategy and the size of competitors of the given company

Liquidity management

For managing liquidity properly one must ensure that a particular business possesses proper cash resources for the daily business needs and also the required fluidity for some unexpected needs of any amount which is reasonable. This is very important as it affects any business's creditworthiness, which would be contributing to determining any business's failure or success.

The lower any business's liquidity the more likely any company would face financial distress while the different conditions are equal.

But, too much of the cash which is parked in or low- or non-earning assets will also reflect some poor resource allocation.

For liquidity management to be proper, it should be manifested at some proper level of the cash or/and the ability of any organization to efficiently and quickly generating the cash resources for financing the business needs.

Accounts receivables management

The company must grant the customers flexibility or commercial credit level while ensuring the proper amount of cash inflow.

The company would be determining these credit terms for offerings dependent on the financial capacity of any customer, the policies of the industry, and the policy of the competitors.

Any credit term needs to be ordinary that implies that the customer generally must be given a number of days for paying their invoice. Any business's policy and manager's discretion needs to be determined if different conditions are required, like cash on delivery, cash before delivery, periodic billing or bill to bill.

Inventory management

The inventory management ensures that any business stays on a proper level of the inventory for dealing with fluctuations for the demand and with the day-to-day operations without too much investing into any asset.

An excessive inventory implies that there is an extra amount of the capital which is tied to the company. This increases any risk of the unsold inventory and also the potential obsolescence which erodes inventory value.

A shortage of inventory must be avoided, as this would imply the lost sales of the company.

Short term debt management

Just like any liquidity management, the short-term financing management must be focused on ensuring that any company has enough funds required in financing the short-term operations without any excessive risk.

The management of the short-term finances requires the selection of a proper financing instrument and also sizing any funds that are accessed through each of the instruments. Some of the popular sources are uncommitted lines, regular credit lines, collateralized loans, revolving credit agreements, factoring and discounted receivables.

The company must ensure there would be proper access in liquidity for dealing with the cash needs at peak. Such as, the company requires a revolving credit agreement for dealing with any unexpected funds.

Accounts payable management

The accounts payable start from any trade credit which is granted by any suppliers of the company, for normal operations. There is a proper balance between commercial debt and early payments.

The early payments might reduce any liquidity available in the company that can be used in more productive ways.

Late payments can destroy the reputation of the company and its commercial relationships if it is at a high level of debt might reduce the company’s creditworthiness.

Solutions for the working capital management

Companies can deploy a wide range of solutions to ensure effective working capital management, both for their suppliers as well as for themselves. These include:

- **Electronic invoicing** – Submitting electronic invoices results in fast delivery of invoices to customers thereby fetching fast payments. This method enables companies to transform purchase orders into invoices automatically.
- **Cash flow forecasting** – By forecasting the future cash flows the companies can prepare beforehand for any upcoming cash gaps and ensure better use of any surpluses.
- **Supply chain finance** – Also called reverse factoring – it is a way of offering suppliers early payment via one or more third-party funders. Suppliers then improve their DSO by getting paid early at a low cost of funding.
- **Dynamic discounting** – This is another solution that buyers can use to make early payments to suppliers and allow buyers to secure an attractive risk-free return on their surplus cash.
- **Flexible funding** – Last but not least, working capital providers that offer flexible funding might allow buyers to choose between supply chain finance and dynamic discounting models. In other words, companies can adapt to their different working capital needs while continuing to support their suppliers.

FOR WORKING Capital Management Strategies and HR Strategies for Entrepreneurs Please refer to PPTS.

MODULE 3

START-UP ENTREPRENEURS

What or who is a Startup Entrepreneur?

- A startup is a young company founded by one or more entrepreneurs to develop a unique product or service and bring it to market. By its nature, the typical startup tends to be a shoestring operation, with initial funding from the founders or their friends and families.
- A startup company is a new business which is potentially fast growing and aims to fill a hole in the marketplace by developing and offering a new and unique product, process or service but is still overcoming problems.
- Startup companies need to receive various types of funding in order to rapidly develop a business from their initial business model that they can grow and build up.
- Bootstrapping→ Getting initial level of fundings from friends and family members.
- Apple computers started in a garage by Jobs and Wozniaki
- After developing their personal computer they showed it to their friends, professionals corporate critics

- On approval they went in for modest production by collecting funds from an angel investor by offering him 10 % stock
- When the hype of PCs went viral Jobs decided to build a big facility thru funding by VCs

MINIMUM VIABLE PRODUCT (MVP)

- A minimum viable product, or MVP, is a product with enough features to attract early-adopter customers and validate a product idea early in the product development cycle.
- In industries such as software, the MVP can help the product team receive user feedback as quickly as possible to iterate and improve the product.
- Flipkart→ Delivering books and CDs, Macintosh→ Selling the first few computers, Big Basket→ Delivering in Mumbai's specific localities
- MVP for Windows OS was a demo version to corporates
- MVP for Zomato was showing restaurant menus and location of restuarants. Restaurants paid a nominal amount for showing their menu and location in Mumbai.
- MVP for Milky Moo was selling half liter milk packets at kirana stores.
- Acceptability of consumers in large numbers is the benchmark on which the product is manufactured in large numbers

BASIC CHARACTERISTICS OF STARTUP ENTREPRENEURS

- Young and highly educated promoters
- Use of technology (Not mandatory)→ MOM instant Upma, Fried Rice, Biryani being sold at retail outlets, IKEA Furniture
- Sources of funding→ Bootstrapping (Own Funds), Angels and VCs
- Need for high funding
- Large markets
- Creates a buzz in the market through hype or advertisements
- Valuations more important than revenues
- Profits are not as important as revenue generations
- Believe in providing huge incentives
- Typically try to change the buying behaviour of the customer

Difference Between a Startup and a traditional Entrep
Startup

- High growth
- Large Market-Swiggy, Paytm

- Scalable-High revenues
- Large need for Funding → VCs and Angels
- Exit Strategy→ IPOs or Buyouts

Traditional Entrepreneur or Small Business

- Slow or medium growth
- Defined market-Kalamandir, Pantaloons
- Not Scalable revenues and profits are finite
- Bank Loans and Grants
- Typically business passes onto next generation

What is meant by valuation of a startup?

To calculate valuation using this method, you **take the revenue of your startup and multiply it by a multiple**. The multiple is negotiated between the parties based on the growth rate of the startup

Why valuations are more important than revenues?

If Company A is valued at 1 Crore then it can give shares or 10% or 10 lakhs to an investor for funding

Why revenues are more important than ROI or profits?

Market size and no of customers ensures higher funding. A profit may come years later but in the meanwhile it is changing the way customers behave.

STARTUP VALUATION

Startup Valuation: Everything You Need to Know

Startup valuation is simply the value of a startup business taking into account the market forces of the industry and sector in which that business belongs

What Is Startup Valuation?

Startup valuation is simply the value of a startup business taking into account the market forces of the industry and sector in which that business belongs.

These factors include the balance (or imbalance) between demand and supply of money, the size of recent events, the willingness of investors to pay premiums to invest in the company and the level of need the company has for money.

What Is a Startup?

A startup company is a new business which is potentially fast growing and aims to fill a hole in the marketplace by developing and offering a new and unique product, process or service but is still overcoming problems.

Startup companies need to receive various types of funding in order to rapidly develop a business from their initial business model that they can grow and build up.

Difference Between Startup Valuation and Mature Business Valuation

Startup businesses will usually have little or no revenue or profits and are still in a stage of instability. It is likely their product, procedure or service has reached the market yet. Because of this it can be difficult to place a valuation on the company.

With mature publicly listed businesses that receive steady revenue and earnings it is a lot easier. All you have to do is value the company as a multiple of their earnings before interest, taxes, depreciation, and amortization (EBITDA).

EBITDA

EBITDA is best shown with the following formula - **EBITDA = Net Profit + Interest +Taxes + Depreciation + Amortization**

For example, if a company earns $1,000,000 in revenue and production costs of $400,000 with $200,000 in operating expenses, as well as a depreciation and amortization expense of $100,000 that leaves an operating profit of $300,000. The interest expense is $50,000 leading to earnings before taxes of $250,000. With a 20% tax-rate the net income becomes $200,000. With EBITDA you would add the £200,000 net profit to the tax and interest to get the operating income of $300,000 and add on the depreciation and amortization expense of $100,000 giving you a company valuation of $400,000.

With startup valuations there is no substantial information to base a valuation on other than assumptions and educated guesses.

What Will Get A Startup A Good Valuation?

A high startup valuation is based on the startup being able to show or possess the following things:

- **Traction** – One of the biggest factors of proving a valuation is to show that your company has customers. If you have 100,000 customers you have a good shot at raising $1 million
- **Reputation** – If a startup owner has a track record of coming up with good ideas or running successful businesses, or the product, procedure or service already has a good reputation a startup is more likely to get a higher valuation, even if there isn't traction.
- **Prototype** – Any prototype that a business may have that displays the product/service will help
- **Revenues** – More important to business to business startups rather than consumer startups but revenue streams like charging users will make a company easier to value
- **Supply and Demand** – If there are more business owners seeking money than investors willing to invest, this could affect your business valuation. This also includes a business owner's desperation to secure an investment, and an investors willingness to pay a premium
- **Distribution Channel** – Where a startup sells its product is important if you get a good distribution channel the value of a startup will be more likely to be higher.
- **Hotness of Industry** – If a particular industry is booming or popular (like mobile gaming) investors are more likely to pay a premium, meaning your startup will be worth more if it falls in the right industry.

What Will Reduce A Startup Valuation?

An investor will not pay a premium, or may not even invest if a startup contains or shows the following:

- **Poor Industry** – If a startup is in an industry that has recently shown poor performance, or may be dying off.
- **Low Margins** – Some startups will be in industries, or sell products that have low-margins, making an investment less desirable.
- **Competition** – Some industry sectors have a lot of competition, or other business that have cornered the market. A startup that might be competing in this situation is likely to put off investors.
- **Management Not Up To Scratch** – If the management team of a startup has no track record or reputation, or key positions are missing
- **Product** – If the product doesn't work, or has no traction and doesn't seem to be popular or a good idea
- **Desperation** – If the business owner is seeking investment because they are close to running out of cash

Funding Stages

Because startups typically go through a series of 'funding stages' their valuations can differ after each round of funding, and typically they'll want to show growth between each round, the usual funding stages are as follows,

1. **Seed Funding** – Typically known as the 'friends and family' round because it's usually people known to the business owner who provide the initial investment. But, Seed funding

can also come from someone not known to the founder called an 'Angel Investor'. Seed Capital is often given in exchange for a percentage of the equity of the business, usually 20 percent or less, with funds raised usually between $250,000 and $2,000,000.

2. **Round A Funding –** This is the stage that venture capital firms usually get involved. It is when startups have a strong idea about their business and product and may have even launched it commercially. The Round A funding is typically used to establish a product in the market and take the business to the next level, or to make up the shortfall of the startup not yet being profitable. Funds raised usually fall between $2 and $15 million.
3. **Round B Funding –** The startup has established itself but needs to expand, either with staff growth, new markets or acquisitions
4. **Debt Funding –** When a startup is fully established it can raise money through a loan or debt that it will pay back, such as venture debt, or lines of credit from a bank.
5. **Mezzanine Financing and Bridge Loans** – Typically the last round of funding where extra funds are acquired in bridge financing loans in the run-up to an IPO, acquisition, management buyout, or leveraged buyout. This is usually short-term debt with the proceeds of the IPO or buyout paying it back.
6. **Leveraged Buyout (LBO)** – A Leveraged Buyout is the purchase of a company with a significant amount of borrowed money in the form of bonds or loans instead of cash. Usually the assets of the business being purchased are used as leverage and collateral for the loan used to purchase it.
7. **Initial Public Offering (IPO)** – An Initial Public Offering is when the shares of a company are sold on a public stock exchange where anyone can invest in the business. IPO opening stock prices are usually set with the help of investment bankers who help sell the shares.

Why Is Startup Valuation Important?

Valuation matters to business owners because it decides the share of a company that they have to give away to an investor in exchange of money. The higher the valuation of a company the less that company needs to give to an investor in terms of shares and equity in exchange or the more money in an investment they are likely to receive.

With a startup the value of a company at the start or 'seed' stage will be close to zero. However, the valuation will be higher than that because you have to factor in growth potential in order to get investors to part with their cash.

For example, a startup trying to secure 'seed' investment will offer 10 percent of the company for $100,000. This values the company at $1,000,000 but that doesn't necessarily mean it is actually worth $1,000,000 but the startup is suggesting to the investor that there is a potential for the company to be worth that figure after growth and investment.

Valuation is also important to investors; it is the main factor that suggests how much of a return they will get on their investment.

Do Startups Need A High Valuation To Be Successful?

The success of a startup doesn't rely on it receiving a high valuation, and in some cases it is better to not receive a high valuation. When you get a high valuation for your seed round, you need a higher one for the next funding round, meaning that a lot of growth is needed between rounds.

A good general rule to follow is that within 18 months a startup will need to show that it grew ten times. This is usually achieved with one of the two following strategies.

1. **Go big or go home** – A startup can raise as much money as possible at the highest valuation possible, spending that money to encourage as much growth as possible as quickly as possible. If successful a startup will have a much bigger valuation in the next funding round and often, the 'Seed' round will pay for itself.
2. **Pay as you go –** A startup would only raise money that it needs, spending as little as possible whilst aiming for steady growth.

What Methods Are Good Ways to Value Startups?

There are many different methods used in deciding on a startup's valuation, whilst all of them differ in some way, they are all good to use.

- Venture Capital Method
- Berkus Method
- Scorecard Valuation Method
- Risk Factor Summation Method
- Cost-to-Duplicate Method
- Discounted Cash Flow Method
- Valuation By Stage Method

Venture Capital Method

The Venture Capital Method (VC Method) is one of the methods for showing the pre-money valuation of pre-revenue startups. The concept was first described by Professor Bill Sahlman at Harvard Business School in 1987. It uses the following formulas:

- Return on Investment (ROI) = Terminal (or Harvest) Value ÷ Post-money Valuation
- Then: Post-money Valuation = Terminal Value ÷ Anticipated ROI

Terminal (or Harvest) value is the startup's anticipated selling price in the future, estimated by using reasonable expectation for revenues in the year of sale and estimating earnings.

If we have a tech business with a terminal value of 4,000,000 with an anticipated return of investment of 20 times and they need $100,000 to get a positive cash flow we can do the following calculations.

- Post-money Valuation = Terminal Value ÷ Anticipated ROI = $4 million ÷ 20X
- Post-money Valuation = $200,000
- Pre-money Valuation = Post-money Valuation – Investment = $200,000 - $100,000
- Pre-money Valuation = $100,000

Berkus Method

The Berkus Method assigns a range of values to the progress startup business owners have made in their attempts to get the startup off of the ground. The following table is the up-to-date Berkus Method,

If Exists:	Add to Company Value up to:
Sound Idea *(basic value)*	$1/2 million
Prototype *(reducing technology risk)*	$1/2 million
Quality Management Team *(reducing execution risk)*	$1/2 million
Strategic relationships *(reducing market risk)*	$1/2 million
Product Rollout or Sales *(reducing production risk)*	$1/2 million

Scorecard Valuation Method

The Scorecard Valuation Method uses the average pre-money valuation of other seed/startup businesses in the area, and then judges the startup that needs valuing against them using a scorecard in order to get an accurate valuation

- The first step is to find out the average pre-money valuation of pre-revenue companies in the region and business sector of the target startup
- The next step is to find out the pre-money valuation of pre-revenue companies using the Scorecard Method to compare. The scorecard is as follows,
    - Strength of the Management Team – 0-30 percent
    - Size of the Opportunity – 0-25 percent
    - Product/Technology – 0-15 percent
    - Competitive Environment – 0-10 percent
    - Marketing/Sales Channels/Partnerships – 0-10 percent
    - Need For Additional Investment – 0-5 percent
    - Other – 0-5 percent
- The final step is to assign a factor to each of the above qualities based on the target startup and then to multiply the sum of factors by the average pre-money valuation of pre-revenue companies

Risk Factor Summation Method

The Risk Factor Summation Method compares 12 elements of the target startup to what could be expected in a fundable and possibly profitable seed/startup using the same average pre-money valuation of pre-revenue startups in the area as the Scorecard method. The 12 elements are:

- Management
- Stage of the business

- Legislation/Political risk
- Manufacturing risk
- Sales and marketing risk
- Funding/capital raising risk
- Competition risk
- Technology risk
- Litigation risk
- International risk
- Reputation risk
- Potential lucrative exit

Each element is assessed as follows:

- +2 - very positive for growing the company and executing a wonderful exit
- +1 - positive
- 0 - neutral
- -1 - negative for growing the company and executing a wonderful exit
- -2 - very negative

The average pre-money valuation of pre-revenue companies in your region is then adjusted positively by $250,000 for every +1 (+$500K for a +2) and negatively by $250,000 for every -1 (-$500K for a -2).

Cost-to-Duplicate Method

This approach involves looking at the hard assets of a startup and working out how much it would cost to replicate the same startup business somewhere else. The idea is that an investor wouldn't invest more than it would cost to duplicate the business.

The big problem with this method is that it doesn't include the future potential of the startup or intangible assets like brand value, reputation or hotness of the market.

With this is in mind, the cash-to-duplicate method is often used as a 'lowball' estimate of company value.

Discounted Cash Flow (DCF) Method

This method involves predicting how much cash flow the company will produce, and then calculating how much that cash flow is worth against an expected rate of investment return. A higher discount rate is then applied to startups to show the high risk that the company will fail as it's just starting out.

This method relies on a market analyst's ability to make good assumptions about long-term growth which for many startups becomes a guessing game after a couple of years.

Valuation by Stage

The valuation by stage method is often used by angel investors and venture capital firms to come up with a quick range of startup valuation.

This method uses the various stages of funding to decide how much risk is still present with investing in a startup. The further along a business is along the stages of funding the less the present risk.

- A valuation-by-stage model might look something like this:
- Estimated Company Value Stage of Development $250,000 - $500,000
- Has an exciting business idea or business plan $500,000 - $1 million
- Has a strong management team in place to execute on the plan $1 million – $2 million
- Has a final product or technology prototype $2 million – $5 million
- Has strategic alliances or partners, or signs of a customer base $5 million and up

Startups with just a business plan will receive a small valuation, but that will increase as they meet developmental milestones.

Reasons to Do Startup Valuation Correctly

There are many valuation tools and methods out there so knowing which ones to use and for reasons is just as important as knowing how to use them.

1. **You are what the market says you are** – If investors think a startup is worth $500,000 then that is what it is worth. The business owner might think it is worth more but if they are unable to raise money with a valuation above $500,000 then that is market valuation.
2. **You can tell the market what you're worth** – It is possible to show the market how much a startup is worth using one of the above valuation methods.
3. **You're not worth anything until you make a profit** – If a startup isn't making a profit it probably isn't worth very much. But it's important for a startup to focus on the future and estimate how many years it will take to become profitable.

Common mistakes

Do Your Research

It is important to research and get an actual factual basis when valuing a startup. Many business owners seem to pluck valuation figures out of nowhere, which puts off potential investors.

It is useful to compare the startup to similar companies in the same industry and geography to help determine worth. Sites like BizBuySell and BizQuest can help with this.

It can also be useful to consult accountants and lawyers to help in valuing your startup.

Don't Get Carried Away

For many startup owners it's easy to get carried away and value their startup at the highest valuation possible. Whilst this is likely to help them secure investment they forget that they'll likely have to deliver on the expectations they've set with their valuation.

Business owners should be careful about overvaluing their startup, and perhaps show a little restraint.

Frequently Asked Questions

- **Should I only use one method?**

  You can use one or multiple methods and get multiple different valuations. Remember all of these methods involve guesswork.

  Also, as these things are subjective, an investor might feel the startup has a much higher or lower valuation than the one you worked out yourself.

- **What do angel investors target for returns?**

  Some angel investors target 5X to 10X return on investment (ROI) in four to eight yields. This gives them a return rate of about 25 to 75 percent. Others target 30X ROI. These are just rules of thumb, what return an angel investor will want on their investment depends entirely on the individual investor.

- **Why does startup valuation matter?**

  Valuation matters to business owners because it decides how much investment they can receive and how much of the startup they might have to give away to receive that investment.

- **How to calculate your valuation at the early stages?**
  - Work out how much money you need to grow to a point that will enable your startup to reach the next round of investment.
  - If this is $100,000 the investor is unlikely to negotiate downward because you've shown that this is the minimum you need to grow your business, which is in the investor's interests.
  - Then you need to figure out how much of the company to give to the investor, usually this will be less than 50 percent to keep the founder with a controlling share of the business. Typically at the start of the business this is as small as possible.
  - Let's say it's 5 percent - 20 percent equity that you give away to get the $100,000.
  - This puts the pre-money valuation of your startup to $500,000 if you give away 20 percent of the company, and $2,000,000 if you give away 5 percent of the company
- **Do you need a high valuation?**

  While a high valuation can lead to a larger investment it isn't necessary for your startup. If you start the seed stage with a high valuation it can be difficult to grow the company in the next rounds of funding.

- **How much money should I raise?**

  It is best to discuss this with the potential investor so that the business owner and the investor agree, especially as this figure will go on to decide the startup's valuation.

STARTUP ECOSYSTEM

RECAP

- Startups are founded on the premise of finding a solution to a need or a problem.
    - CureBay.com is trying to find a solution to rural health care
- Startups are not new business ventures or an extension of a traditional businesses
    - Reliance diversifying into Reliance Retail
    - Birla taking over Pantaloons
- Startup founders are typically educated individuals who are backed by skills and capabilities
    - Srikumar Mishra XIMB, Bhavish Aggarwal (Ola) IITian, Swiggy Promoters BITS Pilani, ID Fresh Mustafa, IIM B, Bansals IITains, etc
- They are risk takers→ Chucking their promising corporate jobs to jump into the bandwagon
- Multiple sources of funding→ Boot Strapping, Banks, Angel investors, Venture Capital, PE

Startup Ecosystem

- Ecosystem consist of **elements** and **institutions** vital for survival and growth
- Startup ecosystem needs several elements to be in place be dynamic
- The requisite elements of a healthy ecosystem such as
    - network of startups
    - large industrial houses or PSUs
    - academic linkages
    - media support
    - incubators
    - angel investors
    - large market
- Unlike Bangalore and Hyderabad where several startups are emerging in the **IT and Bio Technology space**, Mumbai which is home to **fintech startups**, Bhubaneswar does not have any sector specific startups dominating the scene

Startup Ecosystem-**Elements**

- Ideas
- MVP

- Funding→ Initial and consistent funding from myriad sources
- Mentors→ Experienced entrepreneurs who can guide startup founders
- Govt. Policies→ Incentives which make the ecosystem attractive
- Odisha govt and central govt provides assistance to startups
- Startup India, Startup Odisha are funding and support organizations who also provide mentoring services apart from courses for entrepreneurs
- Elements....
- **Market**→ For selling startup products and services
- **Media**→ Highlighting achievements of startups
- **Network of other startups**→ Share ideas and marketing strategies
- **Large companies** which support startups by buying from them
    - When a KIIT student invented a new tube light, KIIT Univ placed an order of Rs.15 lakhs
- **Universities**→ Which can provide the sources of information, areas or sectors with potential
- **Incubators**→ Which can save the initial cost of setting up offices, Provide initial funding
    - BIITM student is being funded by NIT R Incubation centre 3 lakhs per annum or 25K per month seed capital for his Aloe Vera juice venture
    - Atal Incubation Centre providing capital and grooming support to promising ventures

Easy funding must not be available for startups, they need to struggle in the initial days

- It's the Caterpillar to Butterfly argument.
- A butterfly struggles greatly to emerge from a caterpillar body, this struggle provides its wings strength to fly. If you help a butterfly to come out from a caterpillar it will not be able to fly.
- The Eagle's struggle for survival after reaching 40 years
- Twitter the immensely popular SM platform spent 3 years to make themselves profitable

STARTUP FUNDING

Bootstrapping

- Finding own sources of funding
- Personal savings

- Funds from family and friends
- Reason why entrepreneurs do not pitch for high funding initially?
- Market acceptability is not clear
- Cut down risk
- Develop MVP and showcase among small group for feedback and reactions!

Angel Investors

- Angels provide capital for a venture in the initial stages when the risk of failure is maximum.
- Angels take equity from entrepreneurs instead of a steady interest on periodic basis unlike banks
- Angels are wealthy individuals who have money to spare for investments in startups
- There are many wealthy Odia businessmen or philanthropists who are willing to help local boys and girls with funds if they are convinced about the idea and business plan
- Typically in return for the funds they are given some private equity which can be cashed when the company grows big
- **There is an association of Angels who can be approached for funds**
- **Startup Odisha is a govt funding agency**
- **Anil Kumar M visit link https://www.investmentnetwork.in/angel-investors/aged-27live-bhubaneswar-bhubaneswar-1-398573**
- **Provides funds in a myriad sectors**

TOP Angels Investors in India

- In India, the top angel investors in H1 2019 are
- Sanjay Mehta with eight deals this year,
- VC Karthic,
- Siddharth Ladsariya,
- Sharan Aggarwal and
- Sachin Tagra – each adding seven deals.

Anil Kumar M

- Aged 27.
  Live in Bhubaneswar, Odisha.
  B-Tech in Mechanical Engineering.
  I run my own business in Odisha.

- My Areas of Expertise
- Investment Range
- Rs.100,000 to Rs.500,000
- Stages
- Pre-Startup/R&D, MVP/Finished Product, Achieving Sales, Breaking Even, Profitable, Other
- Industries→ Education & Training, Medical & Sciences, Transportation, Agriculture, Software, Media, Business Services, Finance, Manufacturing & Engineering, Energy & Natural Resources, Property , Hospitality, Restaurants & Bars, Products & Inventions, Retail, Sales & Marketing, Fashion & Beauty, Technology, Food & Beverage, Entertainment & Leisure, Personal Services
- Locations→ Chandigarh, Delhi, Gujarat, Karnataka, Maharashtra, Odisha, West Bengal
- Countries→ India

VENTURE CAPITALISTS (VC)

- Professional investors
- They provide multiple rounds of funding
- They involve in day-to-day operations
- They direct the operations of the company
- Some big names:
- 1) Tiger Global,
- 2) SEQUOIA CAPITAL,
- 3) NEXUS VENTURE PARTNERS,
- 4) KALAARI CAPITAL,
- 6) CHIRATAE VENTURES,
- 7) VENTURE EAST,
- 8) SAIF PARTNERS,
- 9) MATRIX PARTNERS,
- 10) 3one4 CAPITAL.

OTHER ELEMENTS

UNIVERSITIES
Stanford University has been a major startup centre
Alphabet, Nike, CISCO, HP, Paypal, Netflix, Expedia, Yahoo, Intuit, etc
Harvard University→ Facebook, Morgan Stanley, Microsoft, Cognizant, etc
IIT Bombay→ https://www.ecell.in/startupportal/
BITS Pilani→ https://tracxn.com/d/startups-by-alumni/bits-pilani-alumni
IIT Delhi→ https://edc.iitd.ac.in/startup/index.html
IIM Ahmedabad→ https://tracxn.com/d/startups-by-alumni/iim-ahmedabad-alumni
IIM Bangalore→ https://www.nsrcel.org/startups/

WHY UNIVERSITIES HAVE BEEN ABLE TO NURTURE STARTUP CULTURE?

- Young energy
- Group of likeminded people coming together
- Animal Instincts
- Loads of enthusiasm
- Fresh concepts
- Educated Lot interested to start a venture rather than work for a salary
- Talented youngsters have a high need for achievement, excitement in working with friends, script history
- In India once a person falls into the routine of 9am-5pm culture, a steady salary, bachelor with dowry prospects→ parents typically are interested to get the kids married and settled

SOME UNIVERSITIES IN ODISHA ARE ALSO TRYING TO NURTURE STARTUPS

- XIMB Cenderit→ Social development projects
- KIIT Incubator cell
- CV Raman Global University Incubator cell
- Centurion University
- BIITM Entrepreneur Cell funded by AICTE
- Private Incubators
- Funds come from Govt of India

SERVICE PROVIDERS

- Raw material Suppliers
- Logistics companies
- Priya is able to provide thali in a plastic thali with compartments

- Enabling companies to satisfy the needs of the customers
- OfBusiness is a $3 Billion company which is providing raw materials to SMEs
- Operations in Industrial estates
- Incubators

SEED CAPITAL

Seed Funding Sources: How Startups Can Raise Seed Capital

- From bootstrapping to seed VC funds, startups have plenty of options to start off
- Approaching the right investors during the seed stage can bring the ideal results
- Finding a less-aggressive investor who can guide and mentor the startup is better for the long run

Seed capital or seed money helps in setting the trajectory of a business. In most cases, it decides the fate of the startup as a lot of companies fail to take the first step due to the lack of seed capital. For startups, it is also quite difficult to get funding because investors generally prefer companies that have a track record. But, startups need seed funding in one form or the other and without it, the chances of their survival are grim.

Startup seed funding is required for early market research, product development, legal costs, operating expenses, etc. All of these investments are essential for the functioning of a startup. The funds are also used to pay the salaries of the team.

Identifying Seed Investors

There are several sources of seed funding but only approaching the right ones can bring the ideal results. It is important to first know how to pick an investor.

Do they have any expertise in the field?

It is usually a better decision to go with an investor who has expertise in the field where the idea or product is being targeted. They can not only guide the startup with their experience but also better evaluate the business potential.

What is their influence in the industry?

Expertise is one thing but startups also need to consider the investor's influence in the industry. If they are well known, they will have good contacts in the industry which will, in turn, help the startup.

What is their funding ability?

It would be a waste of effort if the investor can't provide the minimum seed capital that a startup requires. To avoid such a situation, the founders will need to do some preliminary research and background checks.

Are they easy to work with?

Finding an investor who is easy to work with is better for the long run. A more aggressive investor might want to make changes in the functioning of your organisation which is not always ideal.

Why Seed Funding Matters

It is a fact that starting a new business and lifting it up off the ground is a huge ask for most entrepreneurs and it only gets tougher with capital constraints. Seed funding helps get things started before the business earns any revenue. It is an effective solution for startups and growing businesses as it provides the much-needed early monetary support.

It can cover everything from infrastructure costs, marketing and development costs as well as the cost of initial hiring. Investment is the fuel of any business and seed funding is the first drop of this fuel. As seed money becomes much-needed cash reserve or working capital, not having it is one of the main reasons for failure.

There are several other reasons why seed funding is important:

- Cover for insufficient funds
- Reduces founder risk in the venture
- Brings strategic partners to the table
- Access to working capital
- Easier scaling up and growth acceleration

Sources Of Seed Funding for Startups

On the path of seed funding, the first step is understanding the different type of investors or potential investors as there are multiple sources where one can aid from:

1. **Crowdfunding**:
   With more than 500 crowdfunding platforms currently active, this has become one of the most popular avenues of seed funding. Crowdfunding platforms are usually open and anybody in the world may end up backing the concept, idea or product. Some examples of successful crowdfunding campaigns include the Oculus Rift which raised more than $2 Mn, Pebble wearables which raised more than $10 Mn, and Indian company Exploride, which raised more than $500K for its heads-up display for cars.
2. **Corporate seed funds:**
   This is a great source of seed funding as it comes with big visibility for the startup brand. Tech giants such as Apple, Google and Intel back startups regularly with seed money. Big

companies often look at startups as a future source of profit, IP or talent, and that's the primary motivation for investment here. GV is the investment arm of Alphabet (Google's parent company), while Intel Capital is chipmaker Intel's dedicated division for startup investments.

3. **Incubators**
   Incubators generally provide small seed investments and offer services such as office space or management training. Most incubation programmes do not take equity from the startup but do offer support beyond just funding. The Indian Angel Network Incubator, IIT-Bombay's Society for Innovation and Entrepreneurship or SINE, Khosla Labs and state-backed incubators such as T-Hub and KSUM are some of the most active incubators in India.
4. **Accelerators**
   Accelerators are more focused on supporting startups in scaling up their business rather than backing and nurturing early-stage innovation. Accelerators also back startups through small seed investments along with professional services, networking opportunities, mentoring and workspace. Unlike most incubators, most accelerators take equity as they are privately funded. The popular accelerators include Y Combinator, Techstars and 500 Startups.
5. **Angel investors**
   Angel investors are individuals that offer capital in place of ownership equity or convertible debt. They are called angel investors because they provide capital at times when the risk of a startup failing is fairly high, which is during the early stage. In India, the top angel investors in H1 2019 are Sanjay Mehta with eight deals this year, followed by VC Karthic, Siddharth Ladsariya, Sharan Aggarwal and Sachin Tagra – each adding seven deals.
6. **Personal Savings**
   Founders may put in their personal wealth and savings as seed funding. Also known as bootstrapping, this brings extra financial pressure but there is no pressure on founders to return borrowed money.
7. **Debt Funding**
   Debt mostly includes money taken from banks as loans or borrowed from friends and family. Sometimes, venture capitalists or angel investors also issue loans instead of equity investments to ventures in sectors where cash burn is high, but so is the traction.
8. **Convertible Securities**
   These are investments which start off as loans but change into equity or shares depending on the progress of the company, and when it reaches certain milestones such as sales or revenue targets.
9. **VC Funding**
   Venture capitalists are marquee investors that provide funding based on a number of parameters such as growth potential, market conditions, founder vision, idea or simply execution. In return, they take some portion of equity or stake in the startup. VCs usually join multiple rounds of investment after the seed stage, if the startup managers to reach those rounds. For seed funding, Accel Ventures, Seedfund, Sequoia Surge, Axilor Ventures, SEAFund are some of the most venture capital firms in India.
10. **Angel Funds or Angel Networks**
    Sometimes, investors come together to form angel networks or groups where they each

invest small amounts in the idea or the company during the early stage financing round. The major angel networks in the market currently are AngelList, Indian Angel Network, Lead Angels, as well as angel networks for each major startup hub in India.

Stages of a Startup Development

Like any other growing thing, all businesses have lifecycles, and although many factors influence growth, there are 6 specific stages of a startup as they develop. Though the time spent in each stage will be different for every growing company, there are six main phases. Why does it matter what start-up stage your company is presently in? “Knowing where you are in your journey will help you manage your time and resources efficiently,” writes Rahul Varshneya in “4 Definitive Ways to Grow Your Startup.” With a sense of what’s to come, you can effectively plan for success in later phases. Here’s a look at the six stages of a start-up and what you can expect from each one.

Stage 1: Concept and Research

It seems everybody has (what they consider) a million-dollar idea, but making an idea into reality is very rare. Rarer still is the “great idea” that not only gets off the ground, but finds its perfect audience. A huge factor in a start-up’s success comes before the company itself ever launches. Before you do anything else, carefully research your target audience and your offering’s potential product-market fit Do people really need your product or service? What problem does your offering solve? Is your idea already out there, being sold by an existing company? Answering these questions entails a lot of research into your potential competition and industry, but it also takes talking to hypothetical customers about how your offering might help them. Research in hand, create a business plan and mission statement. Set goals for your development over the coming years.

Stage 2: Commitment

Here’s where you move from a concept to a company, putting your research into practice. Create a prototype, develop a process, and start building a team. Secure funding. Continue to refine your business model. Work towards a minimum viable product, begin initial marketing to drum up some word of mouth, then launch.

Stage 3: Traction

Traction, or validation, is typically the first year of a start-up. This is the stage where you begin to get the word out about your product and gain your first customers. Here you find out whether or not your company is truly viable. “Before their companies start to grow, most entrepreneurs mistake traction for growth. Both come at different stages in the lifecycle of the startup and play very different roles,” says Varshneya. At this stage, focus on growing your customer base and actually attaining the product-market fit you researched earlier.

Stage 4: Refinement

In the refinement stage, typically year 2, you are receiving—and soliciting—feedback from early adopters, then using that feedback to continue refining your product or service. How can you improve your offering? What about your customer experience? Concentrate on expanding the aspects of your product that are most beneficial to customers. Your early interactions with customers go a long way toward establishing your credibility and building customer trust. Show that you are taking customers' concerns into account as you continue to develop your offering. Refinement also means refining your process, making it more efficient. How can you streamline your process? Are there parts of the workflow you can cut out altogether? Is product performance matching your projections, and if not, where is it getting derailed? Test your strategies and track conversion rates, social media analytics, and any other data you can to inform your decisions.

Stage 5: Scaling

The next stage of a startup is scaling, or growing—further growing your customer base, your offerings, and your company itself. In this stage, which can start at year 2 to 3 and last for years, you iterate on what's working and put processes into place to iterate faster. Continue optimizing your marketing strategies to efficiently pull in customers and increase your conversion rates. Build out your staff and infrastructure to support your growing workload. For the smoothest scaling up, build scaling mechanisms into your business plan from the beginning. How and when will you hire more employees? How will you expand your marketing? What about growing your physical premises and technological infrastructure? Keep in mind, however, that you'll need to stay agile as you grow—the process can be unpredictable. Like refinement, scaling requires considerable awareness about your process. As a founder, this likely means limiting or delegating any non-essential tasks you are performing. "While scaling up, there may be many tasks on a daily or weekly basis that hold you back or slow you down," advises Varshneya. "While scaling up, you want to channel all your focus on just one thing—growth."

Stage 6: Becoming Established

Congratulations—your company is no longer a start-up, but an established enterprise. In this stage (likely year 3 or after), you may see considerable growth, although not at the dramatic rate you did while scaling up. Focus on increasing customer retention and loyalty, testing and refining your marketing strategies, and further developing your strengths.

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