ENTREPRENEURSHIP & SMALL BUSINESS MANAGEMENT (161MN404)

I-MBA 4th SEMESTER

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Module-I:
Entrepreneurship; General concept; Definition; Entrepreneurial Culture; Theory of entrepreneurship; Type of entrepreneurship; Entrepreneurial trade and motivation; entrepreneur and professional manager; process of entrepreneurial development.

Module: II
Starting a small scale unit-structure and ownership; establishment of unit; project feasibility; implementation; tax benefits incentives and concessions.

Module: III

Financial management of small business; financial planning; long term finance; working capital management; cash management; recommendation of various committee; role of various institutions both financial and non-financial institutions.

Module IV:

Marketing strategy of small scale units-elements in marketing mix; segmentation; product life cycle; pricing; distribution channel; export promotion and institutional support for marketing and exports.

Introduction

Entrepreneurship refers to all those activities which are to be carried out by a person to establish and to run the business enterprises in accordance with the changing social, political and economic environments.

Entrepreneurship includes activities relating to the anticipation of the consumers likes and dislikes, feelings and behaviours, tastes and fashions and the introduction of business ventures to meet out all these expectations of the consumers.

Entrepreneurship is considered as a 'new product' that would enable businessmen to develop new form of business organization and new business activities catering to the changing needs of the society. The liberalization of cultural rigidities are mainly due to this new product 'entrepreneurship'.

Entrepreneurship is the ability of entrepreneurs to assess the risks and establish businesses which are risky but at the same time suits perfectly to the changing scenarios of the economy.

The two major factors determine the entrepreneurship developments are:

1. Risk taking ability of entrepreneurs and
2. Power of achievement of entrepreneurs

The other factors are:

1. The performance of speculative functions to gain edge over others.
2. Considering new factors of production, time, technology and quality for success.
3. Availing new sources of capital
4. Performing functions of employer, master, merchant and undertaker.
5. Supply goods and services which are hitherto unknown to consumers.
6. Find a new market which is hitherto unexploited.
7. Seizing new opportunities for exploitation.
8. Developing the less developed countries and developing nations
9. Decision making under uncertain situations.

Definition of Entrepreneurship

In a changing environment, the entrepreneurship development activities are getting multiplied. Since the dawn of industrial revolution to till date, we encountered certain drastic changes in the economic activities. Thus, it is not an easy task to give a comprehensive definition for the word 'entrepreneurship'. Despite that, relevant definitions of entrepreneurship are listed here.

"Entrepreneurship as the function of seeking investment and production opportunity, organising an enterprise to undertake a new production process, rising capital, hiring labour, arranging the supply of materials, finding site, introducing new techniques and commodities, discovering new sources of raw materials and selecting top managers of day to day operations of the enterprise".

Need and Scope of Entrepreneurship Development

The word 'Entrepreneurship' is very often confused with the word Entrepreneur'. They look alike but carry different meanings. Entrepreneurship is nothing but all those activities which are to be undertaken by an entrepreneur. The prevailing socio, political and economic activities act as a propelling force for the aspiring personalities to become entrepreneurs. Entrepreneurship development is the outcome of the entrepreneurs. In other words, the entrepreneurs give birth to entrepreneurship. This statement is partially true because certain activities of the entrepreneurs are due to the existing policies and programmes of the Central as well as the state governments and not only by the entrepreneurs themselves. Under such circumstances, it is not the entrepreneurs who give birth to entrepreneurship. Instead, it is the existing entrepreneurship development programmes that give birth to entrepreneurs. The emergence of entrepreneurs and the level of entrepreneurship development are also the far reaching changes that are taking place in the social and political activities rather than changes taking place in the economic activities.

Entrepreneur cannot emerge from the vacuum. Entrepreneurship development depends upon the environment (both external and internal) within which the entrepreneurs have to do their business. Entrepreneurs are closely associated with the existing as well as the past entrepreneurial activities of the society. Business opportunities are identified from the social, political and economic crisis and in turn these crisis become the favourable climate for the entrepreneurs to innovate new business ventures. From this perspective, it is true that entrepreneurial activities are the resultant efforts of the prevailing entrepreneurship development programmes. On the other hand, entrepreneurs keenly observe the society and its economic activities and try to elicit innovative business opportunities.
They try to make use of the modern technology and manufacture new products which are hitherto unknown to the market and induce the consumers to buy them and thereby improving their standard of living. It is possible for entrepreneurs to find new market, new product and introduce a new form of organization. Therefore, the entrepreneurship development is due to the innovative thoughts and actions of the entrepreneurs. Thus the term entrepreneur and entrepreneurship are different and complementary with each other. Let us see the need and scope of entrepreneurship development in the forthcoming pages.

Scope of Entrepreneurship Development

Entrepreneurship development could be made in all walks of the society and in all fields of activities. The scope of entrepreneurship development encompasses the following:

I. To Identify Entrepreneurial Activities

1. The entrepreneurial activities ‘and opportunities could be identified by the planner of the Government. The Government through various economic policies and programmes like ‘Globalisation’, ‘Privatisation’, ‘Liberalisation’, ‘Free Export and Import of Goods and Services’ inviting NRI’s capital introduction of innovation in the stock market activities, and the establishment of SSI identifies entrepreneurship opportunities. These programmes give ample opportunities for the entrepreneurship development.
2. To liberalise the existing licensing policies and offer incentives and thereby attract multinational companies of various countries to develop new industries in the backward regions.
3. To encourage the researchers of entrepreneurship development to find new opportunities for the business and industrial development.
4. To identify the existing and the emerging economic, social and political crisis and find out a suitable remedial measure to overcome the crisis.
5. To offer training to the first generation entrepreneurs and encourage them to enter into new business ventures.
6. To find out the entrepreneurial activities of the neighbouring countries and the international financial institutions and other associated activities like bilateral agreements, SAARC countries Agreement, Common Wealth Countries agreements and Non- Aligned Nations agreements and the like.
7. To encourage the institutions engaged in the industrial development to find avenues for entrepreneurship development. The institutions informing entrepreneurial opportunities are: The

Government's sponsored institutes. University Departments and entrepreneurship development institutions.

II. Imparting Training to Develop Entrepreneurial Talents

Entrepreneurs can be made by means of allowing them to undergo rigorous training. The level of entrepreneurship development especially in all underdeveloped countries depends upon the extent with which the aspiring men are given training. Through training, they can be able to improve their power of achievement and power of affiliation. Training of this type shall be given to the young pupil even at the school level. The training enables entrepreneurs:

a. To know as how to search the innovative business ideas.

b. To know the various sources available for new business ideas.

c. How to process and find out the best ideas.

d. To know the various input requirements for the proposed business.

e. To find out the location for the proposed business.

f. To know as how to fulfil the various legal formalities.

g. To know as how best to make use of the existing infrastructural facilities.

h. To know the various sources of finance available for the new business venture.

i. To know as how best to overcome the resistance, and

j. To know as how to assess the market and future trend.

III. To Develop Infrastructural Facilities

Entrepreneurship development could be possible through the setting up of both social and economic infrastructural facilities for the aspiring entrepreneurs. The following infrastructural facilities are worth noting:

1. Impart entrepreneurship education to the pupils at the school level so as to enable them to develop the entrepreneurial talents.

2. Establish a separate Department of Entrepreneurship Development or School of Entrepreneurship Development at the College/ University level and allow the academics to' undertake researches on 'Entrepreneurship Development' and its allied activities.

3. Conduct the 'Entrepreneurship Development Programmer's through the setting up of Entrepreneurship Training Institutions at least at the taluk level in all parts of the country.

4. The State Governments shall give special attention to the entrepreneurship development programme. They can in collaboration with the neighbouring states, chalk out a programme of action for developing entrepreneurial activities in a phased manner.

5. The existing financial institutions especially the commercial banks situated in rural areas shall take utmost care in identifying the aspiring entrepreneurs and offer not only the required financial assistance but also the required managerial techniques so as to enable them to establish new business and withstand in the market.

6. Institutions which are engaged in the development of small industries shall frame long range planning in developing entrepreneurial talents. They should monitor the changing industrial and business scenarios and determine the future course of actions to be taken to improve the entrepreneurship development.

7. The role of R & D institutions is not only to innovate but also to inform the entrepreneurs as how best to make use of the innovation and apply in the manufacturing process. These institutions should act as entrepreneur and all its activities constitute entrepreneurship.

8. Entrepreneurship development depends upon the existence of a stable Government so that industrialists and business magnets planning as how best to help the young entrepreneurs to avail these infrastructure facilities.

Definition of Entrepreneur

An entrepreneur is one of the important segments of economic growth. Basically, an entrepreneur is a person who is responsible for setting up a business or an enterprise. In fact, he is one who has the initiative, skill for innovation and looks for high achievements. He is a catalytic agent of change and works for the welfare of people. The entrepreneur is a critical factor in the socio-economic change. He is the key man who envisages new opportunities, new techniques, new lines of production, new products and coordinates all other activities.

The term ‘entrepreneur’ is defined in different manners by different experts. “Entrepreneur is one who innovates, raises money, assembles inputs, chooses managers and sets the organisation going with his ability to identify them and opportunities which others are not able to identify and is able to fulfil such economic opportunities. Innovation occurs through i) Introduction of a new quality in a product of ii) new product iii) discovery of fresh demand and fresh sources of supply and iv) by change in the organisation and management”.

An entrepreneur is one of the important segments of economic growth. Basically, an entrepreneur is a person who is responsible for setting up a business or an enterprise. In fact, he is one who has the initiative, skill for innovation and who looks for high achievements. He is a catalytic agent of change and works for the good of people. An urge to exercise power over other things and objects persists among all human beings. The urge may vary in degree from person to person. This urge is an intrinsic quality of an entrepreneur.

Sociologists consider him as a sensitive energiser - in the modernisation of societies. The psychologists look upon him as an "entrepreneurial man", his motivations and aspirations as conducive to development. Political scientists regard him as a leader of the system. To economists, he is a harbinger of economic growth. The entrepreneur is a critical factor in the socio-economic change. He is the key man who envisages new opportunities, new techniques, new lines of production, new products and co-ordinates all other activities.

The word "entrepreneur" is derived from the French verb enterprendre. It means "to undertake". In the early 16th century, the men who organised and led military expeditions were referred to as "entrepreneurs". Around 1700 A.D., the term was used for architects and contractors of public works. Quesnay regarded the rich farmer as an entrepreneur who manages and makes his business profitable by his intelligence, skill and wealth. In many countries, the entrepreneur is often associated with a person who starts his own, new and small business. Business encompasses manufacturing, transport, trade and all other self-employed vocations in the service sector. But not every new small business is entrepreneurial or represents entrepreneurship. The term "entrepreneur" was applied to business initially by the

According to J. B. Say, "an entrepreneur is the economic agent who unites all means of production, the labour force of the one and the capital or land of the others and who finds in the value of the products which results from their employment, the reconstitution of the entire capital that he utilises and the value of the wages, the interest and the rent which he pays as well as profit belonging to himself. He emphasised the functions of co-ordination, organisation and supervision. Further, it can be said that the entrepreneur is an organiser and speculator of a business enterprise. The entrepreneur lifts economic resources out of an area of lower into an area of higher productivity and greater yield.

According to E.E. Haggen, an entrepreneur is an economic man who tries to\maximise his profits by innovations. Innovations involve problem-solving and the entrepreneur gets satisfaction from using his capabilities in attacking problems.

The New Encyclopaedia Britannica considers an entrepreneur as "an individual who bears the risk of operating a business in the face of uncertainty about the future conditions." Leading economists of all schools, including Karl Marx, have emphasised the contribution of the entrepreneurs to the development of economies, but Joseph Schumpeter, who argues that the rate of growth in an economy depends to a great extent on the activities of entrepreneurs, has probably put greater emphasis on the entrepreneurial function than any other economist.

Joseph A. Schumpeter thus writes: "The entrepreneur in an advanced economy is an individual who introduces something new in the economy - a method of production not yet tested by experience in the branch of manufacture concerned, a product with which consumers are not yet familiar, a new source of raw material or of new markets and the like." Schumpeter further states that entrepreneur's function is to "reform or revolutionise the pattern of production by exploiting an invention or more generally, an untried technological possibility for producing a new commodity.

Mr. Peter Drucker has aptly observed that, "Innovation is the specific tool of entrepreneurs, the means by which they exploit changes as an opportunity for a different business or a different service. It is capable of being presented as a discipline, capable of being learned, capable of being practised. Entrepreneurs need to search purposefully for the sources of innovation, the changes and their symptoms that indicate opportunities for successful innovation. And they need to know and to apply the principles of successful innovation." Systematic innovation, according to him, consists in the purposeful and organised search for changes and in the systematic analysis of 'the opportunities such changes might offer scope for economic and social innovation.

According to Drucker, three conditions have to be fulfilled:
1. Innovation is work. It requires knowledge. It requires ingenuity. It makes great demands on diligence, persistence and commitment.
2. To succeed, innovation must build on their strengths.
3. Innovation always has to be dose to the market, focused on the market, indeed market-driven.
Specially, systematic innovation means monitoring six sources for innovative opportunity.

Functions of an Entrepreneur
An entrepreneur is expected to perform the following functions.

1. Risk Absorption
The entrepreneur assumes all possible risks of business. A business risk also involves the risk due to the possibility of changes in the tastes of consumers, techniques of consumers, techniques of production and new inventions. Such risks are not insurable. If they materialise, the entrepreneur has to bear the loss himself. Thus, Risk-bearing or uncertainty-bearing still remains the most function of an entrepreneur. An entrepreneur tries to reduce the uncertainties by his initiative, skill and good judgment.
2. Formulate Strategic Business Decisions

The entrepreneur has to decide the nature and type of goods to be produced. He enters the particular industry which offers from he best prospects and produces whatever commodities he thinks will pay him the most employs those methods of production which seem to him the most profitable. He effects suitable changes in the size of the business, its location techniques of production and does everything that is needed for the development of his business.

3. Execute Managerial Functions

The entrepreneur performs the managerial functions though the managerial functions are different from entrepreneurial functions. He formulates production plans, arranges finance, purchased, raw material, provides, production facilities, organises sales an assumes the task of personnel management. In a large establishment these management functions are delegated to the paid managerial personnel.

4. Adopt Innovation Function

An important function of an entrepreneur is "Innovation". He conceives the idea for the improvement in the quality of production line. He considers the economic inability and technological feasibility in bringing about improve quality. The introduction of different kinds of Electronic gadgets is an example of such an innovation of new products. Innovation is an ongoing function rather than once for all, or possibly intermittent activity.

Characteristics of Entrepreneur

Entrepreneurs possess the following vital characteristics:

1. ***An especially skilful person:*** The entrepreneur is recognized as a person having a special skill and at the same time a person providing others for motivation. He may be either a single individual or an individual in a group. Whatever he may be, he possesses that special skill which is not generally found in common man.

2. ***An innovator:*** He is rightly known as an innovator who engages himself to innovate new varieties of products, explores new market horizons, and introduces new techniques of production and methods of reconstruction of industries. According to Schumpeter, the main characteristic of an entrepreneur is to innovate something. Through such innovation, the execution and effective use of a creative idea are ensured. Its success brings for commercial achievement and new horizon of economy emerges.

3. Providing completeness to the factors of production: An entrepreneur procures necessary resources from various sources for the purpose of production and by utilizing them he provides completeness to the factors of production. Moreover, he endeavours to make contact with various markets for his products. He is a risk-taker and functions as a coordinator.

4. Decision-making person: The entrepreneur is such a person who is endowed with a power to make a proper decision as regards the establishment of a business, its management, and procurement of different factors, methods of distribution and coordination of various scarce resources. Since he has a strong power of decision-making, he can take decisions on various maters rapidly. His achievement largely depends on the ability of his decision making.

5. ***Creative personality:*** As the term implies, he is known as an employer who makes optimum utilization of economic resources and thus carries on productive activities. He has a quality of creating something new and as such he is a person of creative personality. For this, he is known as a creative innovator. He creates new ideas, nurtures them in the light of his own experience,

knowledge and intellect. Through all such activities, his creative personality and mentality are exposed.

6. ***A basic plan-maker:*** An entrepreneur is the owner, employer, producer, market-creator, decision-maker, risk-taker, coordinator, and user of market information, creative individual and innovator. For this, he is regarded as a pioneer of economic development.

7. ***A pioneer of economic development:*** An entrepreneur is the owner, employer, producer, market-creator, decision-maker, risk-taker, coordinator, and user of market information, creative individual and innovator.

8. ***Dynamic leader:*** He provides proper motivation to his workers by means of leadership so that the workers can give their best efforts to the interest of the organisation.

9. ***Creator of wealth:*** The entrepreneur uses various resources for running his products or services are produced. Hence, the entrepreneur creates his personal wealth and at the same time he helps to increase social wealth, because new wealth is created due to increase in demand for product or services. As such, creation of wealth is one of the basic features of an entrepreneur.

10. ***Self-confident and ambitious:*** One of the important features of an entrepreneur is that he should be self-confident as well as ambitious. Self-confidence is regarded as one of the remarkable characteristic features for his success. This self-confidence leads him to face any situation boldly. Self-confidence relates to harmonize between word and work. Similarly, he should always have in himself, high ambition.

11. ***Risk-bearer:*** It is needless to say that an entrepreneur has to bear the various risks concerning the enterprise. Without risk bearing, his enterprise activities cannot be conducted. The capacity of an entrepreneur to bear the risks is his inherent feature. He has to bear always the risks in case of production of any new product or service. There are various types of risks to be borne by him. These are risks associated with procurement of raw materials and capital and marketing of goods, etc. this risk bearing is the prerequisite to his success. This is the part and parcel of his daily activities.

12. ***Adventurer:*** After thinking over various matters, an entrepreneur undertakes his venture and after evaluating pros and cons of all the matters, he selects the most suitable one. While making selection, he requires to be a bit adventurer. This quality is such an outlook, which leads him to accept the challenge in various adverse situations.

Entrepreneur, Entrepreneurship and Enterprise

Entrepreneurship is the function of seeking investment and production opportunity organising an enterprise to undertake a new production process, raising capital, arranging labour and raw materials, finding a site introducing a new technique and commodities, discounting new sources for the enterprise. Entrepreneur is one who combines capital and labour for the purpose of production. The word entrepreneur literally came from French language meaning someone who undertakes an enterprise. The word enterprise is attached to self-propelled, usually self-made businessman who thinks about a venture, dreams it, starts it, works on it and grow with it.

Entrepreneurship could be defined as ability of an individual or a group of individual to introduce changes or innovate like introduction of a new product or service, opening of a new market and carrying out a new organisation. These are indeed the early American thoughts an Entrepreneurship.

Entrepreneur is a man who invests and risks time, money and effort to start a business and make it successful.

The enterprise is the basic unit of an economic organisation. It produces goods and services worth more than the resources used. Thus, any development effort for it to bear fruit, must ultimately affect directly or indirectly individual enterprise. Enterprise is an undertaking, especially one which involves activity, courage, energy. It involves the willingness to assume risks in undertaking an economic activity. It also involves innovation. It always involves risk-taking and decision making. Thus, entrepreneur and enterprise are inter-linked, enterprise being the offshoot of an entrepreneur. Its success is dependent on the entrepreneur.

Types of Entrepreneurs

Entrepreneurs are classified as under different heads as given below. This helps the potential entrepreneurs to choose his own nature and style of entrepreneurship.

a) According to the Type of Business

Entrepreneurs are found in various types of business occupations of varying size. We may broadly classify them as follows:

Business Entrepreneur

Business entrepreneurs are individuals who conceive an idea for a new product or service and then create a business to materialize their idea into reality. They tap both production and marketing resources in their search to develop a new business opportunity. They may set up a big establishment or a small business unit. Trading entrepreneur is one who undertakes trading activities and is not concerned with the manufacturing work. He identifies potential markets, stimulates demand for his product line and creates a desire and interest among buyers to go in for his product. He is engaged in both domestic and overseas trade.

Industrial Entrepreneur

Industrial entrepreneur is essentially a manufacturer who identifies the potential needs of customers and tailors product or service to meet the marketing needs. He is a product oriented man who starts in an industrial unit because of the possibility of making some new product.

Corporate Entrepreneur

Corporate entrepreneur is essentially a manufacturer who identifies the potential needs of customers and tailors product or service to meet the marketing needs. He is a product oriented man who starts in an industrial unit because of the possibility of making some new product.

Corporate entrepreneur is a person who demonstrates his innovative skill in organising and managing a corporate undertaking. A corporate undertaking is a form of business organisation which is registered under some statute or Act which gives it a separate legal entity.

Agricultural Entrepreneur

Agricultural entrepreneurs are those entrepreneurs who undertake such agricultural activities as raising and marketing of crops, fertilizers and other inputs of agriculture. According to the use of Technology.

Technical Entrepreneur

A technical entrepreneur is essentially an entrepreneur of “Craftsman type”. He develops a new and improved quality of goods because of his craftsmanship. He concentrates more on production than marketing. He does not care much to generate sales by applying various sales promotional techniques. He demonstrates his innovative capabilities in matters of production of goods and rendering services.

Non-technical Entrepreneur

Non-technical entrepreneurs are those who are not concerned with the technical aspects of the product in which they deal. They are concerned only with developing alternative marketing and distribution strategies to promote their business.

Professional Entrepreneur

Professional entrepreneur is a person who is interested in establishing a business but does not have interest in managing or operating it once it is established.

b) According to Motivation

Motivation is the force that influences the efforts of the entrepreneur to achieve his objectives. An entrepreneur is motivated to achieve or prove his excellence in job performance. He is also motivated to influence others by demonstrating his power thus satisfying his ego.

Pure Entrepreneur

A pure entrepreneur is an individual who is motivated by psychological and economic rewards. He undertakes an entrepreneurial activity for his personal satisfaction in work, ego or status.

Induced Entrepreneur

Induced entrepreneur is one who is being induced to take up an entrepreneurial task due to the policy measures of the government that provides assistance, incentives, concessions and necessary overhead facilities to start a venture. Most of the entrepreneurs are induced entrepreneurs who enter business due to financial, technical and several other several other provided to them by the state agencies to promote entrepreneurship.

Motivated Entrepreneur

New entrepreneurs are motivated by the desire for self-fulfilment. They come into being because of the possibility of making and marketing some new product for the use of consumers. If the product is developed to a saleable stage, the entrepreneur is further motivated by reward in terms of profit and enlarged customer network.

Spontaneous Entrepreneur

These entrepreneurs start their business out of their natural talents and instinct. They are persons with initiative, boldness and confidence in their ability which motivate them to undertake entrepreneurial activity.

Growth Entrepreneur

Growth entrepreneurs are those who necessarily take up a high growth industry. These entrepreneurs choose an industry which has substantial growth prospects.

Super-Growth Entrepreneur

Super-growth entrepreneur are those who have shown enormous growth of performance in their venture. The growth performance is identified by the liquidity of funds, profitability and gearing.

c) According to Stages of Development

First-Generation Entrepreneur

A first generation entrepreneur is one who starts an industrial unit by means of an innovative skill. He is essentially an innovator, combining different technologies to produce a marketable product or service.

Modern Entrepreneur

A modern entrepreneur is one who undertakes those ventures which go well along with the changing demand in the market. They undertake those ventures which suit the current marketing needs.

Classical Entrepreneur

A classical entrepreneur is one who is concerned with the customers and marketing needs through the development of a self-supporting venture. He is a stereotype entrepreneur whose aim is to maximize his economic returns at a level consistent with the survival of the firm with or without an element of growth.

Innovating Entrepreneurs

Innovating entrepreneurship is characterized by aggressive assemblage of information and analysis of results, deriving from a novel combination of factors. Men/women in this group are generally aggressive in experimentation who exhibit cleverness in putting attractive possibilities into practice. One need not invent but convert even old established products or services, by changing their utility, their value, their economic characteristics, into something new, attractive and utilitarian. Therein lies the key to their phenomenal success. Such an entrepreneur is one who sees the opportunity for introducing a new technique of production process or a new commodity or a new market or a new service or even reorganization of an existing enterprise.

Imitative Entrepreneurs: Imitative entrepreneurship is characterized by readiness to adopt successful innovations by innovating entrepreneurs. They first imitate techniques and technology innovated by others.

Fabian Entrepreneurs

These categories of entrepreneurs are basically running their venture on the basis of conventions and customary practices. They don't want to introduce change and not interested in coping with changes in environment. They have all sorts of inhibitions, shyness and lethargic attitude. They are basically risk avoider and more cautious in their approach.

Drone Entrepreneurs

Entrepreneurs who are reluctant to introduce any changes in their production methods, processes and follow their own traditional style of operations. Though they incur losses and loses their market potential, will not take any effort to overcome the problem. Their products and the firm will get natural death and knockout.

Forced Entrepreneurs

Sometimes, circumstances made many persons to become entrepreneurs. They do not have any plan, forward looking and business aptitude. To mitigate the situational problem, they are forced to plunge into entrepreneurial venture. Most of the may not be successful in this category due to lack of training and exposure.

Intrapreneurship

The term 'intrapreneur' emerged in during the seventies. Several senior executives of big corporations left their jobs to start their own small businesses because the top bosses in these corporations were not receptive to innovative ideas. These executives-turned-entrepreneurs achieved phenomenal success in their new ventures, posing a threat to the corporations they had left. These types of entrepreneurs came to be known as 'intrapreneurs'. This kind of brain drain phenomena is not limited to the US, but has spread all over the world. Companies, as a result, have started devising ways and means to stop this outflow of talent, experience and innovation.

The notion of intrapreneurship requires that managers inside the company should be encouraged to be entrepreneurs within the firm rather than go outside. For an entrepreneur to survive in an organization he/she needs to be sponsored and given adequate freedom to implement his ideas. Otherwise, the entrepreneurial spark will die. The entrepreneur who starts his own business generally does so because he aspires to run his own show and does not like taking orders from others. What is needed in large bureaucratic companies is a strong and healthy risk-taking culture, where risk-taking managers are assured security and rewards. An entrepreneurial culture requires a constant generation of ideas. It needs managers who listen and respond to new ideas and are willing to risk their future, a system that rewards managers who may fail but who have generated and experimented with ideas.

Intrapreneuring means the entrepreneurial activities that acquire organizational sanctions and commitments of resources for the sole objective of innovative results. Intrapreneuring aims at boosting the entrepreneurial spirit within the limits of organization, thus creating an environment to develop. Intrapreneur is a person within a large corporation who takes direct responsibility for turning an idea into a profitable finished product through assertive risk-taking and innovation. “Intrapreneurship is Entrepreneurship practiced by people within established organizations”. Intrapreneurship revolves around the restructuring and re-emergence of the firm’s capacity to develop innovative skills and new ideas. Intrapreneurship is not just limited to the germination of new ideas, but includes even the implementation of those ideas.

Characteristics of Intrapreneurs

Following are the characteristics of intrapreneurs:
1. Intrapreneurs bridge the gap between inventors and managers. They take new ideas and turn them into profitable realities.
2. They have a vision and the courage to realize it.
3. They can imagine what business prospects will follow from the way customers respond to their innovations.
4. They have the ability to plan necessary steps for actualization of the idea.
5. They have high need for achievement and they take moderate calculated risks.
6. They are dedicated to their work that they shut out other concerns, including their family life.

Reasons for Promoting Intrapreneurs in Organisation

Following could be the reasons for promoting intrapreneurs in organization:

Intrapreneurs thrive and vibrate in all organizations (big or small): Several executives with rich experience and expertise in corporations leave their jobs to own small business, because the top management in these corporations were not receptive of their innovative ideas. These executives termed as ‘entrepreneurs’ achieved phenomenal success in their new ventures, posing a threat to the corporations they had left. Companies, as a result, started devising ways and means to stop this outflow of talent, experience and innovation and therefore nested the development of intrapreneurs.

Through their expertise and rich experience in the organization: Intrapreneurs understand the needs and wants of the customers. They generate innovative ideas from these needs and wants. Intrapreneurs do not just limit their energies to the development of these innovative ideas as they have an insatiable desire to achieve and succeed. They are hungry to see their ideas materialize into business enterprise. Venture capitalists with their wide open eyes welcome them with open arms. And hence the organization not only loses rich experience and expertise but also creates competitors for itself.

Intrapreneurs as Dreamers and Change Agents

Intrapreneurs are the “dreamers who do.” In most organizations people are thought to be either dreamers or doers. Both talents are not generally required in one job. But the trouble with telling the doers not to bother about their dreams is that they dream anyway. When they are blocked from implementing dreams of how to help your company they’re dreaming dreams of revenge. A mind is meant to imagine and then act. It is a terrible thing to split apart the dreamer and the doer. Intrapreneurs ask questions such as: “Who would I need to help me with this? How much would it cost? What things have to happen first?” and so forth. They may ask “Could we release this technology – onto the marketplace in product form aimed at such-and-such a customer need?

Entrepreneur v/s Intrapreneur

Points of difference	Intrapreneurship	Entrepreneurship
Definition	Intrapreneurship is the entrepreneurship within an existing organization.	Entrepreneurship is the dynamic process of creating incremental wealth.
Core objective	To increase the competitive strength and market sustainability of the organization.	To innovate something new of socio-economic value.
Primary motives	Enhance the rewarding capacity of the organization and autonomy.	Innovation, financial gain tad independence.
Activity	Direct participation, which is more than a delegation of authority.	Direct and total participation in the process of innovation.
Risk	Bears moderate risk.	Bears all types of risk.
Status	Organizational employees expecting freedom at work.	The free and sovereign person doesn't bother with status.
Failure and mistakes	Keep risky projects secret unless it is prepared due to high concern for failure and mistakes.	Recognizes mistakes and failures to take new innovative efforts.
Decisions	Collaborative decisions to execute dreams.	Independent decisions to execute dreams.
Whom serves	Organization and intrapreneur himself.	Customers and entrepreneur himself.
Family heritage	May not have or a little professional post.	Professional or small business family heritage.
Relationship with others	Authority structure delineates the relation.	A basic relationship based on interaction and negotiation.
Time orientation	Self-imposed or organizationally stipulated time limits.	There is no time-bound.
The focus of attention	On Technology and market.	Increasing sales and sustaining competition.
Attitude towards destiny	Follows self-style beyond the given structure.	Adaptive self-style considering Structure as inhabitants.
Attitude towards destiny	Strong self-confidence and hope for achieving goals.	Strong commitment to self-initiated efforts and goals.
Operation	Operates from inside the organization.	Operates from outside the organization.

Theory/Concept of Entrepreneurship

The concept of entrepreneur and entrepreneurship incorporates basic qualities of leadership, innovation, enterprise, hard work, vision and maximisation of profits. He is an able motivator and brings in change for the betterment of the society. All his socio-economic, organisational and managerial qualities are always directed towards the wellbeing of the society/community. He is committed to progress. He is a catalytic agent of development and change. Personal satisfaction and monetary rewards are blended with social betterment and welfare of mankind. The concepts of entrepreneur and entrepreneurship have been investigated from economic, social, political, cultural and managerial points. The development of this understanding are summarised below:

17th century:	Person bearing risks of profit (loss) in a fixed price contract with government.
1725: Richard Cantillon:	Person bearing risks is different from one supplying capital.
1797: Beaudeau:	Person bearing risks, planning, supervising, organizing, and owning.
1803: Jean Baptiste Say :	Separated profits of entrepreneur from profits of capital.
1876: Francis Walker:	Distinguished between those who supplied funds and received interest and those who received profit from managerial capabilities.
1934: Joseph Schumpeter:	Entrepreneur is an innovator and develops untried technology.
1958: Haggen:	An entrepreneur is an economic man who tries to maximise his profits by innovations.
1961: David McClelland:	Entrepreneur is an energetic moderate risk taker.
1964: Peter Drucker:	Entrepreneur maximizes opportunities through systematic innovations.
1975: Albert Shapero:	Entrepreneur takes initiative, organizes some social-economic mechanisms, and accepts risk of failure.
1980: Karl Vesper:	Entrepreneur seen differently by economists, psychologists,business persons, and politicians.
1983: Gifford Pinchot:	Intrapreneur is an entrepreneur within an already established organization.
1985: Robert Hisrich:	Entrepreneur is the process of creating something different with value by devoting the necessary time and effort, assuming the accompanying financial, psychological, and social risks and receiving the results - rewards of monetary and personal satisfaction.
1990: Vasant Desai:	The entrepreneur brings in overall change through innovation for the maximum social good. Human values remain sacred and inspires him to serve society. He has firm belief in social betterment and he carries out this responsibility with conviction. In the process, he accelerates personal, economic as well as human development. The entrepreneur is a visionary and an integrated man with outstanding leadership qualities. With a desire to excel, the entrepreneur gives top priority to Research and Development. He always works for the well-being of the society. More importantly, entrepreneurial activities encompasses all fields/ sectors and fosters a spirit of enterprise for the welfare of mankind.

Entrepreneur vs. Professional Manager

A person can become a professional manager by the acquisition of knowledge. Knowledge can be gained through formal education. An owner-manager can achieve success due to his personal and cultural traits. Many great entrepreneurs are self-made, for they were not handicapped by their lack of formal education but came out as successful entrepreneurs due to their skill and intelligence. One can easily identify such an entrepreneur manager in any profession, may it be bidi or agarbatti manufacturing, polishing or grinding, retailing or wholesaling. A professional manager is required to possess specific management knowledge relating to (a) Technical processes, products, materials, equipment and procedures; (b) Economics, knowledge about the basic objective of the entrepreneurs and its position in the economic and social system within which it is operating; (c) Human knowledge about employee motivation, moral and delegation of authority; and (d) Administrative knowledge about application and analysis of data. This will facilitate him to deal with various problems of the organisation in an effective manner.

Features	Professional Manager	Entrepreneur
Primary Motives	Wants promotion and traditional corporate rewards. Power motivated.	Wants freedom, a Goal-oriented, self-reliant, and self-motivated.
Time Orientation	Responds to targets, weekly, monthly, quarterly, annual planning horizons, the next promotion or transfer.	End goals of 5-10-year growth of business in view as guides. Takes action now to move the next step along way.
Skills	Equipped with analytical tools, people-management and political skills.	Knows business intimately. more business acumen than managerial or political skill.
Attention	Primarily on events inside corporation	Primarily on technology and market place
Market Research	Has market studies done to discover needs and guide product conceptualization	Creates needs. Creates products to discover needs and that often can't be tested with market research
Failures & Mistakes	Strives to avoid mistakes	Deals with mistakes and failures as learning experiences
Decisions	Agrees with those in power and delays decision until he/she gets a feel of what the bosses want	Follows private decisions, which are action-oriented
Relationship with Others	Hierarchy as basic relationship	Transactions and deal making as basic relationship
Attitude towards the system	Sees the system as nurturing and protective, seeks position within it	May rapidly advance in a system and sometimes reject the system
Problem solving style	Works out problems within the system	More holistic in nature
Status	Cares about status symbols	Gets the job done

Entrepreneurial Culture

Stephen McGuire defined and validated a model of organizational culture that predicts revenue from new sources. An Entrepreneurial Organizational Culture (EOC) is a system of shared values, beliefs and norms of members of an organization, including valuing creativity and tolerance of creative people, believing that innovating and seizing market opportunities are appropriate behaviors to deal with problems of survival and prosperity, environmental uncertainty and competitors' threats and expecting organizational members to behave accordingly.

Elements of Entrepreneurial Culture

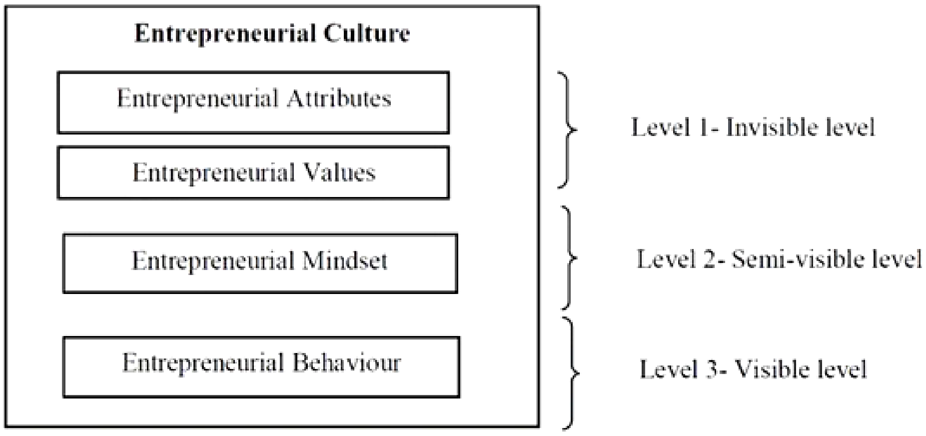
- People and empowerment focused
- Value creation through innovation and change
- Attention to the basics
- Hands-on management
- Doing the right thing
- Freedom to grow and to fail
- Commitment and personal responsibility
- Emphasis on the future

Development of an Entrepreneurial Culture

The entrepreneurial culture is formed by several aspects inside the entrepreneurial ecosystem. The entrepreneur has aspirations that make serve as the motor to undertake the entrepreneurial process, to be adverse against risk and be ambitious enough to grow a business. Also, the society has its own impressions about entrepreneurship, which can also directly or indirectly can influence the entrepreneurial activity, and if it is an attractive career path to take. Other perceptions that affect the entrepreneurial culture are the prestige that is given to entrepreneurs, the tolerance and acceptance of failure and the number of people who are considering to be an entrepreneur. When a society has a better perception about entrepreneurship, there are better chances that more entrepreneurs, investors and organizations want to take the risk to undertake and support entrepreneurs. Experts state that an individual can be embraced to act in an entrepreneurial form inside an organization and in other areas of life when the person is motivated to find itself. This shows that the individual will belong to a distinguished cultural group, since his entrepreneurial activities will differ him from other individuals.

The Three Levels of an Entrepreneurial Culture

Entrepreneurial culture is classified in three different levels which contribute to its formation, as it can be seen in the next figure.



Level 1:

Two constituents of the unconscious and invisible level are the attributes and the values. The entrepreneurial attributes are key natural and nurtured indicators that show people who can be turned into an entrepreneur. This set of characteristics have been recognized to be a driver to understand and foster entrepreneurship. The importance of the entrepreneurial attributes relies on being a critical factor in influencing the individual to undertake and start a business. To encourage entrepreneurial attributes, it has to be influenced the development and realization of business ideas. If it is desired to influence the number of people that can be turned into an entrepreneur, the focus should be done into their attributes. Nevertheless, the entrepreneur has to be also nurtured with the appropriate training and experience to encourage their entrepreneurial attributes. The entrepreneurial values are the conceptions, which could be explicit or implicit, and which in this case are distinctive of entrepreneurs, that shows the desires of selecting between the different courses of actions.

Level 2:

On the second level of semi-visible or semi-conscious, here is the entrepreneurial mind-set. The entrepreneurial mind-set is the attitude an entrepreneur responds to a certain object in a favourable or unfavourable manner based on a learned predisposition. The attitudes are the fundaments for the human behaviour to be motivated and feel personal accomplishment. The entrepreneurial attitudes influence and have been influenced by the experiences that the individual has lived, and how he thinks and feel about what he went through. If individuals have participated into governmental programs and policies that try to foster cultural entrepreneurship, their experience on this event can have an effect on their mind-set towards entrepreneurship. Various studies on the student's attitude towards entrepreneurship showed that they have a positive change towards entrepreneurship, enhancing them the will to become future entrepreneurs. Although this was one sample of students, different studies have shown that students who participate in different entrepreneurial programs with a well-structured plan tend to be enhanced in a rich entrepreneurial culture.

Level 3:

The visible level shows the entrepreneurial behaviour. The entrepreneurial behaviour is the direct act of the individual to start a new business. As defined by Williams (2010), entrepreneurial behaviour is seen as the combination of actions made by the entrepreneur, which are constantly adjusted and defined to set the opportunity until it is positioned and accepted in the market. The result of this action is the creation of a new business.

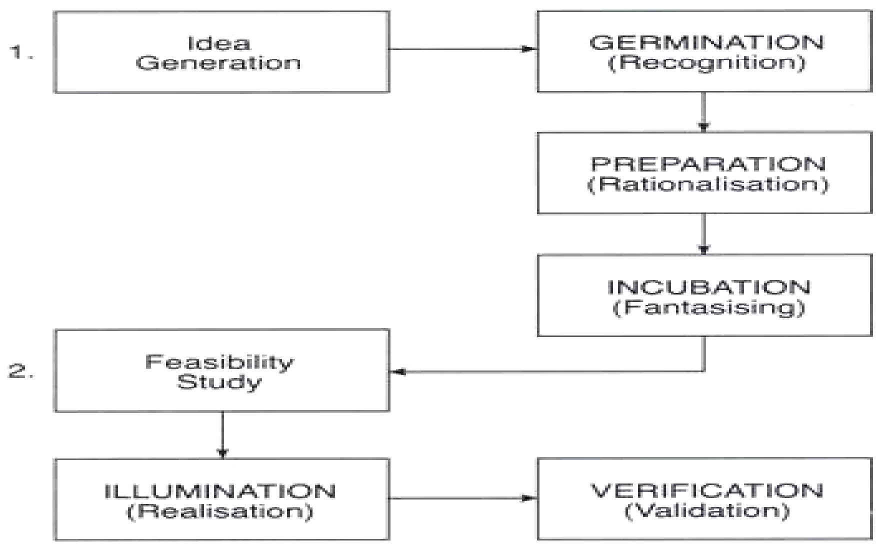
Entrepreneurial/Entrepreneurship Development Process

Entrepreneurship is a process, a journey, not the destination; a means, not an end. All the successful entrepreneurs like Bill Gates (Microsoft), Warren Buffet (Hathaway), Gordon Moore (Intel) Steve Jobs (Apple Computers), Jack Welch (GE) GD Birla, Jamshedji Tata and others all went through this process. To establish and run an enterprise it is divided into three parts – the entrepreneurial job, the promotion, and the operation. Entrepreneurial job is restricted to two steps, i.e., generation of an idea and preparation of feasibility report. In this article, we shall restrict ourselves to only these two aspects of entrepreneurial process.

Entrepreneurial activity can seem mysterious for those not familiar with the phenomenon. US culture has created heroic myths around its most famous entrepreneurs, reinforcing the idea that entrepreneurship is about individuals. As a consequence, many people believe those individuals are born entrepreneurs. In fact, it is more accurate to talk about entrepreneurship as a process. More frequently than not, a person becomes an entrepreneur because she or he is compelled to pursue a market opportunity. Through that activity—that process—entrepreneurship unfolds. A typical story of entrepreneurship is one in which the entrepreneur is influenced by his or her engagement with favorable conditions, circumstances in which an idea comes together successfully with a market opportunity. An individual has an idea or sees a problem needing a solution and generates a way to meet that need. A new venture is initiated and, if successful, an ongoing business created. Thus entrepreneurship—the creation of new ventures as either new companies or initiatives within larger organizations—is about the process of individuals coming together with opportunities, resulting in specific customers being provided with new goods and services.

For purposes of this discussion, entrepreneurship is not constrained to starting a company. While that definition is commonly assumed, entrepreneurship and entrepreneurial innovation can occur in a variety of settings including small or large companies, non-profit organizations, and governmental agencies. Entrepreneurship emerges under widely diverse circumstances, typically in response to new conditions and in pursuit of newly perceived opportunities. We focus here not on the average new venture set up to compete under existing rules against existing companies and delivering products or services comparable to those already in the market. Rather, our focus is on entrepreneurial innovators who forge new paths and break with accepted ways of doing business, creating new combinations that result in novel technologies, products, services, and operating practices.

Process 1:



1. Idea Generation:

To generate an idea, the entrepreneurial process has to pass through three stages:

a. Germination:

This is like seeding process, not like planting seed. It is more like the natural seeding. Most creative ideas can be linked to an individual's interest or curiosity about a specific problem or area of study.

b. Preparation:

Once the seed of interest curiosity has taken the shape of a focused idea, creative people start a search for answers to the problems. Inventors will go on for setting up laboratories; designers will think of engineering new product ideas and marketers will study consumer buying habits.

c. Incubation:

This is a stage where the entrepreneurial process enters the subconscious intellectualization. The sub-conscious mind joins the unrelated ideas so as to find a resolution.

2. Feasibility study:

Feasibility study is done to see if the idea can be commercially viable.

It passes through two steps:

a. Illumination:

After the generation of idea, this is the stage when the idea is thought of as a realistic creation. The stage of idea blossoming is critical because ideas by themselves have no meaning.

b. Verification:

This is the last thing to verify the idea as realistic and useful for application. Verification is concerned about practicality to implement an idea and explore its usefulness to the society and the entrepreneur.

Process 2:

Entrepreneurship development is the means of enhancing the knowledge and skill of entrepreneurs through several classroom coaching and programs, and training. The main point of the development process is to strengthen and increase the number of entrepreneurs. This entrepreneur development process helps new firms or ventures get better in achieving their goals, improve business and the nation's economy. Another essential factor of this process is to improve the capacity to manage, develop, and build a business enterprise keeping in mind the risks related to it.

In simple words, the entrepreneurship development process is about supporting entrepreneurs to advance their skills with the help of training and coaching classes. It encourages them to make better judgments and take a sensible decision for all business activities.

Process of Entrepreneurship Development

The below-mentioned steps will illustrate how to build an effective entrepreneurship development program for an entrepreneur to organize and launch the new ventures.

- **Discover** – Any new process begins with fresh ideas and objectives, wherein the entrepreneur recognizes and analyzes business possibilities. The analyzing of opportunities is a risky task, and an entrepreneur looks out for inputs from other persons, including channel partners, employees, technical people, consumers, etc. to reach an ideal business opportunity.
- **Evaluation –** The evaluation of an opportunity can be done by asking several questions to oneself. For instance, questions like whether it is worth taking a chance and investing in the idea, will it attract the consumer, what are the competitive advantages and the risk linked with it are asked. A reasonable and sensible entrepreneur will also analyze his skills and whether it matches his entrepreneurial objectives or not.
- **Developing a plan –** After the identification of an opportunity, an entrepreneur has to build a complete business plan. It is the most important step for new business as it sets a standard and the assessment criteria and sees if a company is working towards the set goals.
- **Resources** – The next step in the process of entrepreneurial development is resourcing. Here, the entrepreneur recognizes the source of finance and from where the human resource can be managed. In this step, the entrepreneur also tries to find investors for his new business.
- **Managing the company** – After the hiring process and funds are raised now its time to start the operation to accomplish the desired goals. All the entrepreneur will decide on the management structure that will be assigned to resolve the operational problems whenever it occurs.
- **Harvesting** – The last step in this process is harvesting, where an entrepreneur determines the future growth and development of the business. Here, real-time development is compared with the projected growth, and then the business security or the extension is initiated accordingly.

Entrepreneurial Motivation

Entrepreneurship Stimulants

A variety of social, economic, political and cultural factors are stimulating entrepreneurial activity and thus generating more robust economic development. These stimulants are as follows:

1. An increasing focus on capital formation. Availability of capital is a stimulant to an entrepreneur to start a new firm and/ or give birth to a new idea.
2. The ability to transform scientific and technical developments through new institutional development is a second stimulant.
3. A third stimulant is the supportive government programmes.
4. Availability of required training and inputs is the fourth stimulant.
5. A collaborative relationship between business and research and their direct attempts to transfer technology to the market place may provide stimulus to a number of entrepreneurs who seek the opportunity to commercialise their ideas.
6. Finally, an endeavour to create an environment conducive to innovation will provide a much-needed stimulant to entrepreneurial activities.

Entrepreneurial behaviour is the result of entrepreneurial motivation refers to the inner urge that ignites and sustain behaviour to satisfy need. Motivation has been derived from the word motive which implies the inner state of mind that activates provokes and directs our behaviour towards the goal.

Theories of Motivation

Need is the starting point of motivation. A satisfied need does not motivate an individual. It is only the unsatisfied need which creates tension and stimulates drives within the individuals for the satisfaction of the need and reduction of tension. Several studies have been undertaken to identify the factors that motivate people to start their own enterprises. P.N Sharma has identified nine motivating factors which are as under:

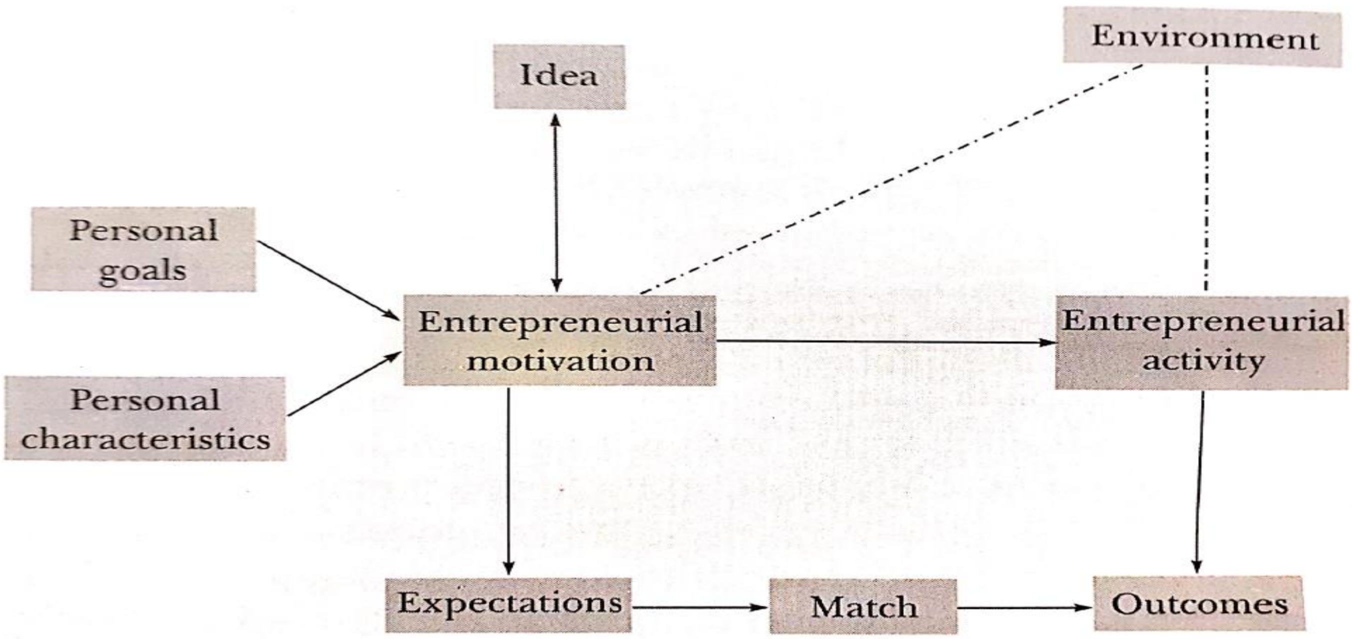
1. Educational background.
2. Occupational experience.
3. Desire to do work independently.
4. Desire to branch out to manufacturing.
5. Family background.
6. Assistance from government.
7. Assistance from financial institutions.
8. Availability of technology/ raw material.
9. Other factors demand of the particular product, utilisation of excess money earned from contractual estate business, started, manufacturing to facilitate trading/ distribution business since the product was in short supply, unstable policy of the foreign government for non residents and no chance for further promotion

The above nine factors were grouped into two major categories-internal and external. First five motivating factors were termed as internal and the last four factors as external. The internal motivating factors like education, occupational experience, family background, the desire to do something independently together make the personality of the entrepreneur. These factors generate an inclination to adopt entrepreneurial activity. The presence of internal factor is a necessary condition for the entrepreneurial activity to take place. But entrepreneurial ideas cannot fructify or take real shape without a proper or conducive environment which provide support in terms of financial assistance, technology and raw material and infrastructural facilities. These facilities from external motivating factors and serve as a spark in igniting the entrepreneurial idea. These factors give a boost to the entrepreneurial activities.

It is clear from the above that majority of the new entrepreneurs were tempted to enter industry because of three main factors viz.

1. They had strong desire to do something independent in life.
2. They were having technical knowledge or manufacturing experience
3. Availability of governmental and non-governmental assistance.

A Model of Entrepreneurial Motivation is given below:



The entrepreneurial motivation level is primarily impacted by two factors i) Personal goals – referring to the objectives of the individual behind starting an enterprise. Such objectives could include the aspects of being independent, becoming a change agent in society and a strong desire to become a technological pioneer. ii) Personal Characteristics – These include those traits in an individual which affect their ability to become an entrepreneur. Risk taking ability, leadership, decision making capacity, foresight are a few of these important traits.

The link between idea and entrepreneurial motivation is two-way. This states that often motivation leads to an idea or the high level of innovation in the idea can also motivate an individual to start their own venture. After the idea-motivation ground is developed, the individual forms certain expectations about the formation and the future growth of the firm. However it is also seen that the various internal and external factors of the environment also has a potential impact on both the motivation level as well as entrepreneurial activity. Lastly, it is quite important for the idea to transform into a viable business, only if there is a perfect match between the expectations and then market dynamics. Otherwise the idea needs to be though upon, based on feasibility factors.

Types of Business Organization One Can Setup In India

Some of the popular types of business organization one can setup in India are as follows:

1. Individual Entrepreneur/Sole Proprietorship: The common form of business organisation in India is one-man business. In agriculture and retail business, this form is the general rule. In this type of enterprise, the individual entrepreneur supplies the entire capital (even if he has to borrow); he organizes and supervises the business; and he alone is responsible for the results, i.e., gets profit or suffers losses. If necessary, he can employ some persons to assist him.

Merits of Individual Enterprise:

(i) Incentive for Hard Work: Since the risk is entirely his own, the entrepreneur has a great incentive for hard work. He works long and late. Such a hard work is bound to produce good results.

(ii) Superior Output at Low Cost: On account of very close supervision over details, quality of the goods is taken care of and the cost per unit is low. Nobody can waste materials or time or spoil machinery.

(iii) Customers Satisfaction: The customers are sent away fully satisfied. This is due to the keen personal interest that the entrepreneur takes in the business. Even a small complaint can be promptly attended to.

(iv) Sympathetic Treatment of the Employees: The employees can be kept happy and contented. This is due to the intimate personal relations that exist between the entrepreneur and his employees. He is in a position to treat them sympathetically.

(v) Low Overhead Charges: The staff maintained by the individual entrepreneur is small. Most of the work is done by the word of mouth and personally. Hence overhead charges are kept low.

Demerits:

(i) Limited Resources: The entrepreneur cannot expand his business to take advantage of increased demand. He is unable to avail of the opportunities of making profits due to lack of funds. His business will generally remain on a small scale.

(ii) No division of labour: The entrepreneur has to look into every aspect of business single-handed, and he may not be able to do it efficiently. The advantages of division of labour are lost.

(iii) Small Income: In spite of all efforts, such a business can yield only a small profit. Since the resources are limited, many profitable ventures are ruled. Business is on a small scale and income is small.

2. Partnership:

Sometimes the one-man business reaches such a stage of development that it becomes too unwieldy for one man to be able to carry on. The original entrepreneur may become too old for work. It would seem essential then to take a younger person into partnership to prevent the firm from decaying. Individual ownership thus naturally develops into a partnership. Partnership may also be formed to start a new business altogether. Two or more persons combine together to do business. Their mutual relations, their rights, and duties, the capital each is to put in, the proportion in which profits and losses are to be shared are laid down in the partnership deed. The agreement also lays down the aims of the partnership as well as the manner in which it can be dissolved. The agreement may be verbal or in writing.

Unlimited Liability: From the legal point of view, each partner is a fully authorised agent of the partnership, and every partner has the power to bind the other partners to any contract that he may enter into. Each partner is responsible for the debts of the firm, not only to the extent of his share in the business, but to the full extent of even his private resources. In other words, the liability is unlimited.

Limited Partnership: There is also a type of partnership in which one or more partners can get their liability for the partnership debts limited to their share capital or to a fixed proportion of it. This is called a limited partnership. But the liability of all partners cannot be so limited. It is essential that there are some partners whose liability is unlimited. The partners with limited liability cannot take active part in business. They are called dormant or sleeping partners.

Merits of Partnership:

(i) More Capital: It commands large capital resources. As the liability of each partner is unlimited and all partners are jointly and severally responsible for the payment of debts, the creditors feel more secure about the money they may have advanced. Hence, it is easier for a partnership to raise funds. They are thus able to do business on a large scale reaping the economies of scale.

(ii) Diverse Talent: Partnership brings about a pooling of skills and ability. Diverse talents are at the service of a partnership, and a certain degree of specialization is possible among the partners. Specialization makes for higher efficiency. A looks after the store, B is in-charge of the office and C runs the factory. This division of labour proves advantageous and fruitful.

(iii) Correct Decisions: In a partnership, there is less possibility of error of judgment. A problem is examined from more than one angle and the decision arrived at is likely to be sounder than in a one-man business.

(iv) Vigour and Zeal: The partners work with great enthusiasm and vigour. Every partner is supposed to be deeply interested in the business and is expected to give it his best.

Demerits:

(i) Unlimited Liability: Since the liability of a partner is unlimited, he can be held liable for the whole debt of the firm, not necessarily his own share. This frightens away the moneyed people. They are reluctant to join those who may have ability but no capital.

(ii) Timid and Unenterprising: Owing to unlimited liability, a partnership follows a timid policy. Each partner is anxious that the partnership should not run big risks and incur heavy liability, for any one of them can be called upon to pay the entire debt of the firm. Hence they become unduly cautions.

(iii) Less Work and More Waste: It is generally seen that a partner shirks work. Every partner tries to shift some work on to the other. But he wants to get the utmost out of the business. The partnership fund, being a common fund, is spent by every partner recklessly. Each partner tries to enrich himself at the expense of the firm. Hence it is wasteful.

(iv) Mutual Dissensions: Misunderstandings generally arise and the work suffers. Quarrels among the partners are quite common. No partner then pays any serious attention to the business

(v) No Permanence: The partnership has to be dissolved in case of retirement, death, insolvency or insanity of a partner. There is thus no continuity of life in a partnership.

3. Joint-Stock Company:

The most important type of business organization today is the joint stock company. In fact, only in this manner can a business be organised on a respectable scale. **Public Limited Company**. The joint-stock company may take the form of a public limited company. Such a company has to submit certain statements and the balance-sheet to the Registrar of Joint-stock Companies yearly. It can invite the public to buy shares by issuing a prospectus. There is no maximum limit to the number of shareholders; the minimum limit is seven. Business cannot be started unless the minimum capital laid down has been subscribed**. Private Limited Company**. This type of company is free from the necessity of submitting certain returns to the Registrar. But there are certain restrictions. If cannot issue a prospectus. The maximum number of shareholders is limited to 50.

Merits of Joint-Stock Organisation:

(i) Economies of Large Scale: The large financial resources of the company enable it to undertake business on a scale large enough to realise internal and external economies of scale. These economies are: use of modern machinery, division of labour, economies in buying and selling, lower overhead charges relating to distribution, publicity and administration, research and experiments, etc.

(ii) Limited Liability: It is a great advantage to have the liability limited. The shares are of different kinds and the value of each share is quite low. This attracts all sorts of people, rich and poor, rash and prudent, to invest their capital. Large funds can thus easily be raised which would not have been possible if the liability were unlimited.

(iii) Shares Transferable: A shareholder can sell his shares whenever he likes. He is not tied for life to the fortunes of a company. When he needs money he can get it by selling his shares. Thus the investment is quite convenient.

(iv) Economical Administration: The directors have not to be paid salaries but just a fee tor attending the Board meeting. Thus the company can get the advice of people of mature wisdom and ripe experience at a small cost. The administration is, therefore, economical.

(v) Democratic: The directors can be removed by the shareholders, if they are not found satisfactory. The company is therefore a democratic organisation. It is the will of the general body of the shareholders that is supreme.

Demerits:

(i) Shareholders Indifferent: The transferability of shares kills the interest of the shareholders in the company. On account of the indifference of shareholders, the directors are all in all. They often promote their own interests at the expense of the company.

(ii) Democratic only in Theory: The directors, self-elected at first, manage to get themselves re-elected every time by securing proxies. The shareholders who should have ultimate authority feel helpless.

(iii) Fraud and Exploitation: The shareholders are exploited by dishonest directors. Frauds are common. This frightens away the prospective investor and capital becomes shy.

(iv) Lacking Adaptability: A company lacks the adaptability and vigour of a partnership. It is a slow-moving machine. Quick decisions are not possible. This form of business organisation is thus more suited to business that can be reduced to a routine. When quick decisions are necessary, it is not suitable.

4. Co-Operative Organisation:

Producers' Co-operation: In this form of co-operation, the workers are their own masters. The business is owned by them. They elect managers and foremen. They are their own employees. The profits, if any, are divided among them all.

Consumers' Co-operation: The consumers living in a particular place, or working in an establishment, combine together. Each contributes a small capital. A store is opened in which articles of common use are stocked. Such co-operative stores are found in many colleges schools and other establishments. Usually goods are sold at market price, and points are distributed among the shareholders.

Other Forms of Co-operation: Besides such co-operative societies, others include - Marketing cooperative societies, Farmer's cooperative societies, Credit cooperative societies, and Cooperative housing societies:

Merits

(i)Equality in voting status: Irrespective of the amount of capital contribution by a member, each member is entitled to equal voting rights

(iii)Stable existence: Death, bankruptcy or insanity of the members do not affect continuity of a cooperative society.

(iv)Economy in operations: The members generally offer honorary services to the society. As the focus is on elimination of middlemen, this helps in reducing costs.

(v)Support from government: The cooperative society exemplifies the idea of democracy and hence finds support from the Government in the form of low taxes, subsidies, and low interest rates on loans

Demerits

(i)Limited resources: Resources of a cooperative society consists of capital contributions of the members with limited means.

(ii)Government control: In return of the privileges offered by the government, cooperative societies have to comply with several rules and regulations

(iii)Differences of opinion: Internal quarrels arising as a result of contrary viewpoints may lead to difficulties indecision making.

5. Franchising

A continuing relationship in which a franchisor provides a licensed privilege to the franchisee to do business and offers assistance in organizing, training, merchandising, marketing and managing in return for a monetary consideration. Franchising is a form of business by which the owner (franchisor) of a product, service or method obtains distribution through affiliated dealers (franchisees). Essentially, a franchisee pays an initial fee and ongoing royalties to a franchisor; in return, the franchisee gains the use of a trademark, ongoing support from the franchisor, and the right to use the franchisor's system of doing business and sell its products or services. In addition to a well-known brand name, buying a franchise offers many other advantages that aren't available to the entrepreneur starting a business from scratch. Perhaps the most significant is that you get a proven system of operation and training in how to use it. New franchisees can avoid a lot of the mistakes startup entrepreneurs typically make because the franchisor has already perfected daily operations through trial and error.

Merits

i) The risk of business failure is reduced by franchising. Your business is based on a proven idea. You can check how successful other franchises are before committing yourself.

ii) Products and services will have already established a market share. Therefore there will be no need for market testing.
iii) You can use a recognised brand name and trade mark. You benefit from any advertising or promotion by the owner of the franchise - the 'franchisor'.
iv) The franchisor gives you support - usually as a complete package including training, help setting up the business, a manual telling you how to run the business and ongoing advice.
v) No prior experience is needed as the training received from the franchisor should ensure the franchisee establishes the skills required to operate the franchise.

Demerits

i) Costs may be higher than you expect. As well as the initial costs of buying the franchise, you pay continuing management service fees and you may have to agree to buy products from the franchisor.
ii) The franchise agreement usually includes restrictions on how you can run the business. You might not be able to make changes to suit your local market.
iii) The franchisor might go out of business.
iv) Other franchisees could give the brand a bad reputation, so the recruitment process needs to be thorough.
v) You may find it difficult to sell your franchise - you can only sell it to someone approved by the franchisor.

E&SBM – MODULE II

Small Scale Industries are those industrial undertakings having a fixed investment in plant and machinery, whether held on an ownership basis or a lease basis or a hire purchase basis and not exceeding Rs.1 crore. It has a larger contribution to the growth of an economy. However, this investment money is varied by the Government from time to time.

A small scale unit is normally a one-man show and even in the case of a partnership the activities are mainly carried out by the active partner and the rest are sleeping partners. The area of operation of small units is localized, catering to the local or regional demand. Small industries are fairly intensive with comparatively smaller capital investment than the larger units. Therefore, these units are more suited for economics where capital is scarce, and there is an abundant supply of labour.

Characteristics of Small Scale Units (SSU's)

The important characteristics of MSMEs are summarized as follows:

- They are generally organized and run by individual entrepreneurs.
- They require less capital.
- They are fundamentally labour-intensive units facilitating greater utilization of manpower.
- They involve the use of simple technology, intensive utilization of individual skill leading to professional specialization.
- They cater the individual tastes and fashions and render personalized service to consumers.
- They are highly localized industries. Using local resources SSU's are decentralized and dispersed to rural areas.
- They are eligible for govt. assistance and patronage and for concessional finance by banks, financial institutions etc.
- They are more susceptible to change and highly reactive and receptive to socio-economic conditions.

- They are free from red-tapism and bureaucratic handicaps.
- Compared to large units, a MSME has a lesser gestation period. i.e., the period after which the on investment starts.

Role/ Importance of SSU's In Developing Countries

1) Large Employment Opportunities: They are generally labour-intensive. For every. 1 lakh of fixed investment, MSME sector provides employment for 26 persons as against 4persons in the large scale sector.

2) Economical Use of Capital: They need relatively small amount of capital. Hence it is suitable to a country like India where capital is deficient.

3) Balanced Regional Development: Generally small enterprises are located in village and small towns. Therefore it is possible to have a balanced regional growth of industries. India is a land of villages.

4) Equitable Distribution of Income and Wealth: It removes the drawbacks of capitalism, abnormal profiteering, concentration of wealth and economic power in the hands of few etc.

5) Higher Standard of Living: They bring higher national income, higher purchasing power of people in rural and semi-urban areas.

6) Mobilization of Locals Resources: The spreading of industries even in small towns and villages would encourage the habit of thrift and investment among the people of rural areas.

7) Simple Technology: New but simple techniques of production can be adopted more easily by SSU's without much investment.

8) Less Dependence on Foreign Capital: They use relatively low proportion of imported equipment and materials. The machinery needed for these industries can be manufactured within the country.

9) Promotion of Self Employment: They foster individual skill and initiative and promote self-employment particularly among the educated and professional class.

10) Promotion of Exports: With the establishment of a large number of modern SSU's in the post-independence period, the contribution of the small scale sector in the export earnings has increased much.

11) Protection of Environment: They help to protect the environment by reducing the problem of pollution.

12) Shorter Gestation Period: In these enterprises the time-lag between the execution of the investment project and the start of flow of consumable goods is relatively short.

13) Facilitate Development of Large Scale Enterprises: They support the development of large enterprises by meeting their requirements of inputs of raw materials, intermediate goods, spare parts etc. and by utilizing their output for further production.

Problems of SSU's

Some of the more important problems faced by MSMEs are as follows:

1) LACK OF MANAGERING EXPERIENCE: They may not behaving specialised knowledge in the different fields of management. At the time of initiating the project, they are not in a position to anticipate correctly their financial requirements and the size of market for their products.

2) INADEQUATE FINANCE: Generally MSMEs are not in a position to arrange full finance from their own sources. They obtain finance from unorganized finance sector at higher rate of interest.

3) LACK OF PROPER MACHINARY AND EQUIPMENT: Many MSMEs use inefficient and outdated machinery and equipment. This affects the quality of production.

4) LACK OF TECHNICAL KNOW-HOW: Do not have the knowledge about different alternative technologies and processes available for manufacturing their products to improve the quality of products and reduce costs.

5) RUN ON TRADITIONAL LINES: They have not yet adopted modern methods and techniques of production. They have not taken adequate interest in research and development efforts. Hence they cannot be run efficiently.

6) IRREGULAR SUPPLY OF RAWMATERIALS: The majority of MSMEs depends on local sources for their raw material requirements. Small entrepreneurs are forced to pay high prices for materials because they purchase materials in small quantity.

7) PROBLEM OF MARKETING: The brand name of the products of MSMEs is acute due to tough competition from large industries. It cannot afford to costly advertisement and network of distribution system. There are delays in the payment of bills by large purchasers resulting in inadequate working capital.

8) PERSONNEL PROBLEMS: It is difficult for them to get qualified persons to run the business. They cannot provide much training facilities to employees.

9) LACK OF CLEAR-CUT POLICY OF THE GOVT: The Govt. may take decisions relating to MSMEs on the basis of political consideration rather than on economic consideration.

10) BOGUS UNITS: The government should look into this aspect seriously, break the strong hold of such vested-interested and promote only genuine entrepreneurship in the country.

11) OTHER PROBLEMS: Like inefficient management, non-availability of cheap power, burden of local taxes etc.

Steps for Starting SSIs/MSMEs

As soon as a person decides to become an entrepreneur and to start a MSME, he is required to take a number of steps and formalities one after the other. They are as follows:

1) Scanning of Business Environment: it is essential on the part of the entrepreneur to study and understand the prevailing business environment. Entrepreneur should scan the business opportunities and threats in the new environment. To study the administrative framework, procedure, rules and regulations and other formalities implemented by the government. The potential entrepreneur must assess his own deficiencies, which he can compensate through training.

2) Selection of the Product: The very success of one's venture will depend on the rationality of his decision in this regard. The economic viability of the product can be ascertained by considering certain demand aspects such as volume of demand in the domestic market, volume of demand in the export market, volume of potential demand, a degree of substitution of an existing product etc. The prospective entrepreneur has to identify the product based on market research or market survey.

3) Selection of Form of Ownership: He has to select sole proprietorship or family ownership or partnership or private limited company as the form of the ownership.

4) Selection of Location and Site: Location is selected after considering certain factors such as nearness to market, sources of material and labour, modern infrastructure facilities etc. The entrepreneur has to choose a suitable plot for the factory. He may purchase land directly or choose from an industrial area developed by State Development Corporations like SIDCO, or Directorate of Industries. In order to stimulate industrial growth, the government of Odisha is providing infrastructural assistance by way of (1) Developing areas. (2).Development Plots. (3).Industrial estates, and (4).Mini industrial units.

5) Designing Capital Structure: Apart from the own capital, he may secure finance from friends and relatives, term loans from banks and financial institutions.

6) Acquiring Manufacturing Know-How or Technology: Many institutions of government, research laboratories, research and development divisions of big industries and certain consultancy agencies provide the manufacturing know-how.

7) Preparation of Project Report: The report usually covers important items like sources of finance, availability of machinery and technical know-how, sources of raw material and labour, market potential and overall profitability.

8) Registration as a Small Scale Industry: Registration with Department of industries and Commerce is only optional. There is no statutory obligation, but small scale industries can avail various facilities, incentives and concessions offered by the state as well as central government only if they registered as SSI. The registration would be done in two stages.¬Provisional Registration: It will be valid for one year with possible three extensions of six months each. It helps entrepreneur to take necessary steps to bring the units into existence. The provisional registration may enable the party to:(1) Apply to NSIC/SIDO and other institutions for procuring machines on Hire Purchase basis.(2) Apply for power connection.(3) Apply to local Bodies for permission to construct the shed to establish a unit.(4) Apply for financial assistance to SFC/Banks or other financial institutions on the basis of project report.(5) Obtain sales tax,

excise registration etc. whenever required.(6) Apply for a shed in an industrial estate/ development site in an industrial area/ material for construction of shed as the case may be.

9) Obtaining Statutory Licence: Any person should obtain the following licences and certificates before starting the venture:(A) Licence from Local Bodies For (1) Construction of the building.(2) Installation of plant and machinery.(B) Licence from the Directorate of Factories and Boilers For:(1) Approval of factory building.(2) Registration under section 6, 7 and 85 of the Factory Act.(C)No Objection Certificate from State Pollution Control Board.

10) Apply for Power Connection: There are 2 categories of power, the Low Tension (LT) and High Tension (HT). A consumer can avail LT only if the connected load is 75 HP and below. If connected load is between 75 HP and 130 HP, the consumer has the option to avail either LT supply or HT supply.

11) Arrangement of Finance: Entrepreneur needs to acquire assists of 2 kinds namely Fixed assets and current assets. Long term finance is needed to acquire fixed assets like land, building, plant and machinery and for security deposits. Short term funds are required for acquiring current assets. Current assets are essential for the day to day working of the industry. Long term funds includes owner’s capital, subsidy from central/ state govt., personal borrowings from friends and relatives and long term loans from financial institution like OSFC.

12) Registration under the Sales Tax Act: In the GST Regime, businesses whose turnover exceeds Rs. 40 lakhs (Rs 10 lakhs for NE and hill states) is required to register as a normal taxable person. This process of registration is called GST registration. For certain businesses, registration under GST is mandatory. If the organization carries on business without registering under GST, it will be an offence under GST and heavy penalties will apply. Small businesses having an annual turnover less than Rs. 1.5 crore** (Rs. 75 Lakhs for NE States) can opt for Composition scheme.

**CBIC (Central Board of Indirect Taxes and Customs) has notified the increased in the threshold turnover for opting into the Composition Scheme from Rs 1 crore to Rs 1.5 crores. The notification was effective from 1st April 2019.

Composition dealers will pay nominal tax rates based on the type of business:

- Composition dealers are required to file only one quarterly return (instead of three monthly returns filed by normal taxpayers).
- They cannot issue taxable invoices, i.e., collect tax from customers and are required to pay the tax out of their own pocket.
- Businesses that have opted for Composition Scheme cannot claim any Input Tax Credit.

Composition scheme is not applicable to:

- Service providers
- Inter-state sellers
- E-commerce sellers
- Supplier of non-taxable goods

- Manufacturer of Notified Goods
- This scheme is a lucrative option for all SMEs who want lower compliance and lower rates of taxes under GST.
- A GST taxpayer whose turnover is below Rs 1.5 crore** can opt for Composition Scheme. In case of North-Eastern states and Himachal Pradesh, the present limit is Rs 75 lakh.
- Turnover of all businesses registered with the same PAN should be taken into consideration to calculate turnover.

13) Installation of Machinery: Machinery should preferably be installed as per the plant layout.

14) Recruitment of Manpower: The number and type of workers is to be decided. After this, the required workers should be recruited.

15) Procurement of Raw Material: The raw materials may be procured indigenously or may have to be imported by the entrepreneur. The next step is to start production, which is taken up in two stages-Trial production and Commercial production having successfully test marketed the product, commercial marketing can be undertaken.

16) Application for Permanent Registration: For this, application form has to be made to the GM of DIC through IEO/ Taluk Industries Officer. The GM should inform the entrepreneur of the date and time of inspection of the unit. On being satisfied a registration certificate may be issued by the Directorate of Industries within one month of the receipt of the application. The period of the certificate whether provisional or permanent will be for a period of 2 years. Renewal certificate would be affected by the GM (DIC) within a period of 3 months from the date of expiry of certificate.

Selection of the Forms of Ownership/ Type of Organisation

There are a number of organizations that a new entrepreneur may select to meet his requirements, ambitions, tastes and designs. He may go for (1) Sole proprietorship, (2) Joint partnership, (3) Limited Liability Company (4) Corporation

Sole Proprietorship

A sole proprietorship is both the simplest and the most prevalent form of business organization. An important reason for this is that it is the least regulated of all types of business structures. Technically, the sole proprietorship is the traditional unincorporated one-person business. Form legal and tax purposes, the business is the owner. It has no existence outside the owner. The liabilities of the business are personal to the owner and the business ends when the owner dies. On the other hand, all of the profits are also personal to the owner and the sole owner has full control of the business.

Advantages
Following are the advantages of sole proprietorship form of business:

1. Total Control of the Owner: The most appealing advantage of the sole proprietorship as a business structure is the total control the owner has over the business. Subject only to economic considerations and certain legal restrictions, there is total freedom to operate the business however one chooses. Many people feel that this factor alone is enough to overcome the inherent disadvantages in this form of business.
2. Simplicity of Organisation: Related to this is the simplicity of organization of the sole proprietorship. Other than maintenance of sufficient records for tax purposes, there are no legal requirements on how the business is operated.
3. Least Regulated of all Business: As was mentioned earlier, the sole proprietorship is the least regulated of all businesses. The only license necessary for a sole proprietorship is a local business license, usually obtained by simply paying a fee to a local registration authority.
4. Registration with Local Bodies: Finally, it may be necessary to register with local, state, and federal tax bodies for I.D. numbers and for the purpose of collection of taxes. Other than these few simple registrations, from a legal standpoint little else is required to start up a business as a sole proprietorship.
5. Various Tax Benefits: A final and important advantage to the sole proprietorship is the various tax benefits available to an individual. The losses or profits of the sole proprietorship are considered personal to the owner. The losses are directly deductible against any other income the owner may have and the profits are taxed only once at the marginal rate of the owner. In many instances, this may have distinct advantages over the method by which partnerships are taxed or the double taxation of corporations, particularly in the early stages of the business.

Disadvantages
Following are the disadvantages of sole proprietorship form of business:
1. Risk to the Assets of Sole Owner: Perhaps the most important factor to consider before choosing this type of business structure is that all of the personal and business assets of the sole owner are at risk in the sole proprietorship. ! Caution: if the demands of the creditors of the business exceed those assets, which were formally placed in the name of the business, the creditors may reach the personal assets of the owner of the sole proprietorship.
2. Potential Difficulty in Obtaining Loans: A second major disadvantage to the sole proprietorship as a form of business structure is the potential difficulty in obtaining business loans. Often in starting a small business, there is insufficient guarantee to obtain a loan and the sole owner must mortgage his or her own house or other personal assets to obtain the loan.
3. Lack of Continuity: A further disadvantage to a sole proprietorship is the lack of continuity that is inherent in the business form. If the owner dies, the business ceases to exist. Of course, the assets and liabilities of the business will pass to the heirs of the owner, but the expertise and knowledge of how the business was successfully carried on will often die with the owner. Small sole proprietorships are seldom carried on profitably after the death of the owner.

Joint Partnership

A partnership is a relationship existing between two or more persons who join together to carry on a trade or business. Each partner contributes money, property, labour, and/or skill to the partnership and, in return, expects to share in the profits or losses of the business. A partnership is usually based on a partnership agreement of some type, although the agreement need not be a formal document. It may even simply be an oral understanding between the partners, although this is not recommended. A simple joint undertaking to share expenses is not considered a partnership, nor is a mere co-ownership of property that is maintained and leased or rented. To be considered a partnership for legal and tax purposes, the following factors are usually considered:

- The partners' conduct in carrying out provisions of the partnership agreement,
- The relationship of the parties,
- The abilities and contributions of each party to the partnership, and
- The control each partner has over the partnership income and the purposes for which the income is used.

Advantages

Following are the advantages of joint partnership form of business:

1. Greater Opportunity for Business: A partnership, by virtue of combining the credit potential of the various partners, has an inherently greater opportunity for business credit than is generally available to a sole proprietorship.
2. Tax Advantages: As with the sole proprietorship, there may be certain tax advantages to operation of a business as a partnership, as opposed to a corporation. The profits generated by a partnership may be distributed directly to the partners without incurring any double tax liability, as is the case with the distribution of corporate profits in the form of dividends to the shareholders. Income from a partnership is taxed at personal income tax rates however, that depending on the individual tax situation of each partner, this aspect could prove to be a disadvantage.
3. A Simple Form of Business: For a business in which two or more people desire to share in the work and in the profits, a partnership is often the structure chosen. It is, potentially, a much simpler form of business organization than the corporate form. Less start-up costs are necessary and there is limited regulation of partnerships.

Disadvantages

Following are the disadvantages of joint partnership form of business:

1. Potential for Conflict between Partners: The disadvantages of the partnership form of business begin with the potential for conflict between partners. Of all forms of business organization, the partnership has spawned more disagreements than any other. This is generally traceable to the lack of a decisive initial partnership agreement that clearly outlines the rights and duties of the partners.
2. Unlimited Personal Liability: A further disadvantage to the partnership structure is that each partner is subject to unlimited personal liability for the debts of the partnership. ! Caution: The potential liability in a partnership is even greater than that encountered in a sole proprietorship.
3. Legal Liability: Related to the business risks of personal financial liability is the potential personal legal liability for the negligence of another partner. In addition, each partner may even be liable for the negligence of an employee of the partnership if such negligence takes place during the usual course of business of the partnership. Again, the attendant risks are broadened by the potential for liability based on the acts of other persons. Of course, general liability insurance can counteract this drawback to some extent to protect the personal and partnership assets of each partner.

4. Lack of Continuity: Again, as with the sole proprietorship, the partnership lacks the advantage of continuity. A partnership is usually automatically terminated upon the death of any partner. A final accounting and a division of assets and liabilities is generally necessary in such an instance unless specific methods under which the partnership may be continued have been outlined in the partnership agreement.

Limited Liability Company (LLC)

The limited liability company is a hybrid type of business structure. It contains elements of both a traditional partnership and a corporation. The limited liability company form of business structure is relatively new. Its uniqueness is that it offers the limited personal liability of a corporation and the tax benefits of a partnership. A limited liability company consists of one or more members/owners who actively manage the business of the limited liability company. There may also be non-member managers employed to handle the business.

Advantages

1. The members/owners in such a business enjoy a limited liability, similar to that of a shareholder in a corporation. In general, their risk is limited to the amount of their investment in the limited liability company.
2. Since none of the members will have personal liability and may not necessarily be required to personally perform any tasks of management, it is easier to attract investors to the limited liability company form of business than to a traditional partnership.
3. The members will share in the potential profits and in the tax deductions of the limited liability company, but in fewer of the financial risks involved. Since the limited liability company is generally taxed as a partnership, the profits and losses of the company pass directly to each member and are taxed only at the individual level.
4. A further advantage of this type of business structure is that it offers a relatively flexible management structure.
5. A final advantage is that limited liability companies are allowed more flexibility than corporations in how profits and losses are actually allocated to the members/owners.

Disadvantages

1. In as much as the business form is still similar to a partnership in operation, there is still a potential for conflict among the members/owners of a limited liability company.
2. Limited liability companies are formed according to individual state law, generally by filing formal Articles of Organization of a Limited Liability Company with the proper state authorities in the state of formation.
3. Limited liability companies are, generally, a more complex form of business operation than either the sole proprietorship or the standard partnership. They are subject to more paperwork requirements than a simple partnership but somewhat less than a corporation.

4. Limited liability companies are too far more state regulations regarding both their formation and their operation than either a sole proprietorship or a partnership.
5. Similar to traditional partnerships, the limited liability company has an inherent lack of continuity.

Corporation

A corporation is a creation of law. It is governed by the laws of the state where it was incorporated and of the state or states in which it does business. In recent years it has become the business structure of choice for many small businesses. Corporations are generally, a more complex form of business operation than either a sole proprietorship or partnership. Corporations are also subject to far more state regulations regarding both their formation and operation. The following discussion is provided in order to allow the potential business owner an understanding of this type of business operation. The corporation is an artificial entity. It is created by filing Articles of Incorporation with the proper state authorities. This gives the corporation its legal existence and the right to carry on business. The Articles of Incorporation act as a public record of certain formalities of corporate existence. Adoption of corporate bylaws, or internal rules of operation, is often the first business of the corporation, after it has been given the authority to conduct business by the state. The bylaws of the corporation outline the actual mechanics of the operation and management of the corporation.

Advantages of corporation form of business:
1. One of the most important advantages to the corporate form of business structure is the potential limited liability of the founders of and investors in the corporation. The liability for corporate debts is limited, in general, to the amount of money each owner has contributed to the corporation. Unless the corporation is essentially a shell for a one-person business or unless the corporation is grossly under-capitalized or under-insured, the personal assets of the owners are not at risk if the corporation fails. The shareholders stand to lose only what they invested. This factor is very important in attracting investors as the business grows.
2. A corporation can have a perpetual existence. Theoretically, a corporation can last forever. This may be a great advantage if there are potential future changes in ownership of the business in the offing. Changes that would cause a partnership to be dissolved or terminated will often not affect the corporation. This continuity can be an important factor in establishing a stable business image and a permanent relationship with others in the industry.
3. Unlike a partnership, in which no one may become a partner without the consent of the other partners, a shareholder of corporate stock may freely sell, trade, or give away his or her stock unless this right is formally restricted by reasonable corporate decisions. The new owner of such stock is then a new owner of the business in the proportionate share of stock obtained.

Disadvantages
Following are the various disadvantages of corporation form of business:
1. Loss of Individual Control: Due to the nature of the organizational structure in a corporation, a certain degree of individual control is necessarily lost by incorporation. The officers, as appointees of the board of directors, are answerable to the board of management decisions.
2. Technical Formalities: The technical formalities of corporation formation and operation must be strictly observed in order for a business to reap the benefits of corporate existence.

Corporate meetings, both at the shareholder and director levels, are more formal and more frequent. In addition, the actual formation of the corporation is more expensive than the formation of either a sole proprietorship or partnership. The initial state fees that must be paid for registration of a corporation and are also subject to a greater level of governmental regulation than any other type of business entity. These complications have the potential to overburden a small business struggling to survive.
3. Finally, the profits of a corporation, when distributed to the shareholders in the form of dividends, are subject to being taxed twice.

Business Plan

A business plan is a formal statement of a set of business goals, which are believed to be attainable, and the plan for reaching those goals. It may also contain background information about the organisation or team attempting to reach those goals. Business plans may also target changes in perception and branding by the customer, client, tax-payer, or larger community. When the existing business is to assume a major change or when planning a new venture a 3 to 5 year business plan is required, since investors will look for their annual return in the 3 to 5 year time.

The objectives of a business plan are to:
1. Give directions to the vision formulated by entrepreneur.
2. Objectively evaluate the prospects of business.
3. Monitor the progress after implementing the plan.
4. Persuade others to join the business.
5. Seek loans from financial institutions.
6. Visualize the concept in terms of market availability, organizational, operational and financial feasibility.
7. Guide the entrepreneur in the actual implementation of the plan.
8. Identify the strengths and weakness of the plan.
9. Identify challenges in terms of opportunities and threats from the external markets.
10. Clarify ideas and identify gaps in management information about their business, competitors and the market.
11. Identify the resources that would be required to implement the plan.
12. Document ownership arrangements, future prospects and projected growths of the business venture.

Generally, a business plan has the following components:

1. Title Page and Contents

A business plan should be presented in a binder with a cover listing the name of the business, the name(s) of the principal(s), address, phone number, e-mail and website addresses, and the date. You don't have to spend a lot of money on a fancy binder or cover. Your readers want a plan that looks professional, is easy to read and is well-put-together.

Include the same information on the title page. If you have a logo, you can use it, too. A table of contents follows the executive summary or statement of purpose, so that readers can quickly find the information or financial data they need.

2. Executive Summary

The executive summary, or statement of purpose, succinctly encapsulates your reason for writing the business plan. It tells the reader what you want and why, right up front. Are you looking for a $10,000 loan to remodel and refurbish your factory? A loan of $25,000 to expand your product line or buy new equipment? How will you repay your loan, and over what term? Would you like to find a partner to whom you'd sell 25 percent of the business? What's in it for him or her? The questions that pertain to your situation should be addressed here clearly and succinctly.

The summary or statement should be no more than half a page in length and should touch on the following key elements:

- Business concept describes the business, its product, the market it serves and the business' competitive advantage.
- Financial features include financial highlights, such as sales and profits.
- Financial requirements state how much capital is needed for startup or expansion, how it will be used and what collateral is available.
- Current business position furnishes relevant information about the company, its legal form of operation, when it was founded, the principal owners and key personnel.
- Major achievements points out anything noteworthy, such as patents, prototypes, important contracts regarding product development, or results from test marketing that have been conducted.

3. Description of the Business

The business description usually begins with a short explanation of the industry. When describing the industry, discuss what's going on now as well as the outlook for the future. Do the necessary research so you can provide information on all the various markets within the industry, including references to new products or developments that could benefit or hinder your business. Base your observations on reliable data and be sure to footnote and cite your sources of information when necessary. Remember that bankers and investors want to know hard facts--they won't risk money on assumptions or conjecture.

When describing your business, say which sector it falls into (wholesale, retail, food service, manufacturing, hospitality and so on), and whether the business is new or established. Then say whether the business is a sole proprietorship, partnership, C or Sub chapter S corporation. Next, list the business' principals and state what they bring to the business. Continue with information on who the business' customers are, how big the market is, and how the product or service is distributed and marketed.

4. Description of the Product or Service

The business description can be a few paragraphs to a few pages in length, depending on the complexity of your plan. If your plan isn't too complicated, keep your business description short, describing the industry in one paragraph, the product in another, and the business and its success factors in two or three more paragraphs.

When you describe your product or service, make sure your reader has a clear idea of what you're talking about. Explain how people use your product or service and talk about what makes your product or service different from others available in the market. Be specific about what sets your business apart from those of your competitors.

Then explain how your business will gain a competitive edge and why your business will be profitable. Describe the factors you think will make it successful. If your business plan will be used as a financing proposal, explain why the additional equity or debt will make your business more profitable. Give hard facts, such as "new equipment will create an income stream of $10,000 per year" and briefly describe how.

Other information to address here is a description of the experience of the other key people in the business. Whoever reads your business plan will want to know what suppliers or experts you've spoken to about your business and their response to your idea. They may even ask you to clarify your choice of location or reasons for selling this particular product.

5. Market Analysis

A thorough market analysis will help you define your prospects as well as help you establish pricing, distribution, and promotional strategies that will allow your company to be successful vis-à-vis your competition, both in the short and long term.

Begin your market analysis by defining the market in terms of size, demographics, structure, growth prospects, trends, and sales potential. Next, determine how often your product or service will be purchased by your target market. Then figure out the potential annual purchase. Then figure out what percentage of this annual sum you either have or can attain. Keep in mind that no one gets 100 percent market share, and that a something as small as 25 percent is considered a dominant share. Your market share will be a benchmark that tells you how well you're doing in light of your market-planning projections.

You'll also have to describe your positioning strategy. How you differentiate your product or service from that of your competitors and then determine which market niche to fill is called "positioning." Positioning helps establish your product or service's identity within the eyes of the purchaser. A positioning statement for a business plan doesn't have to be long or elaborate, but it does need to point out who your target market is, how you'll reach them, what they're really buying from you, who your competitors are, and what your USP (unique selling proposition) is.

How you price your product or service is perhaps your most important marketing decision. It's also one of the most difficult to make for most small business owners, because there are no instant formulas. Many methods of establishing prices are available to you, but these are among the most common.

- Cost-plus pricing is used mainly by manufacturers to assure that all costs, both fixed and variable, are covered and the desired profit percentage is attained.
-
- Demand pricing is used by companies that sell their products through a variety of sources at differing prices based on demand.
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- Competitive pricing is used by companies that are entering a market where there's already an established price and it's difficult to differentiate one product from another.
-
- Markup pricing is used mainly by retailers and is calculated by adding your desired profit to the cost of the product.

You'll also have to determine distribution, which includes the entire process of moving the product from the factory to the end user. Make sure to analyze your competitors' distribution channels before deciding whether to use the same type of channel or an alternative that may provide you with a strategic advantage.

Finally, your promotion strategy should include all the ways you communicate with your markets to make them aware of your products or services. To be successful, your promotion strategy should address advertising, packaging, public relations, sales promotions and personal sales.

6. Competitive Analysis

The purpose of the competitive analysis is to determine:

- the strengths and weaknesses of the competitors within your market.
- strategies that will provide you with a distinct advantage.
- barriers that can be developed to prevent competition from entering your market.
- any weaknesses that can be exploited in the product development cycle.

The first step in a competitor analysis is to identify both direct and indirect competition for your business, both now and in the future. Once you've grouped your competitors, start analyzing their marketing strategies and identifying their vulnerable areas by examining their strengths and weaknesses. This will help you determine your distinct competitive advantage.

Whoever reads your business plan should be very clear on who your target market is, what your market niche is, exactly how you'll stand apart from your competitors, and why you'll be successful doing so.

7. Operations and Management

The operations and management component of your plan is designed to describe how the business functions on a continuing basis. The operations plan highlights the logistics of the organization, such as the responsibilities of the management team, the tasks assigned to each division within the company, and capital and expense requirements related to the operations of the business.

8. Financial Components of Your Business Plan

After defining the product, market and operations, the next area to turn your attention to are the three financial statements that form the backbone of your business plan: the income statement, cash flow statement, and balance sheet.

The income statement is a simple and straightforward report on the business' cash-generating ability. It is a scorecard on the financial performance of your business that reflects when sales are made and when expenses are incurred. It draws information from the various financial models developed earlier such as revenue, expenses, capital (in the form of depreciation), and cost of goods. By combining these elements, the income statement illustrates just how much your company makes or loses during the year by subtracting cost of goods and expenses from revenue to arrive at a net result, which is either a profit or loss. In addition to the income statements, include a note analyzing the results. The analysis should be very short, emphasizing the key points of the income statement. Your CPA can help you craft this.

The cash flow statement is one of the most critical information tools for your business, since it shows how much cash you'll need to meet obligations, when you'll require it and where it will come from. The result is the profit or loss at the end of each month and year. The cash flow statement carries both profits and losses over to the next month to also show the cumulative amount. Running a loss on your cash flow statement is a major red flag that indicates not having enough cash to meet expenses-something that demands immediate attention and action.

The cash flow statement should be prepared on a monthly basis during the first year, on a quarterly basis for the second year, and annually for the third year. The following 17 items are listed in the order they need to appear on your cash flow statement. As with the income statement, you'll need to analyze the cash flow statement in a short summary in the business plan. Once again, the analysis doesn't have to be long and should cover highlights only. Ask your CPA for help.

The last financial statement you'll need is a balance sheet. Unlike the previous financial statements, the balance sheet is generated annually for the business plan and is, more or less, a summary of all the preceding financial information broken down into three areas: assets, liabilities and equity.

Balance sheets are used to calculate the net worth of a business or individual by measuring assets against liabilities. If your business plan is for an existing business, the balance sheet from your last reporting period should be included. If the business plan is for a new business, try to project what your assets and liabilities will be over the course of the business plan to determine what equity you may accumulate in the business. To obtain financing for a new business, you'll need to include a personal financial statement or balance sheet.

In the business plan, you'll need to create an analysis for the balance sheet just as you need to do for the income and cash flow statements. The analysis of the balance sheet should be kept short and cover key points.

9. Supporting Documents

In this section, include any other documents that are of interest to your reader, such as your resume; contracts with suppliers, customers, or clients, letters of reference, letters of intent, copy of your lease and any other legal documents, tax returns for the previous three years, and anything else relevant to your business plan.

Establishment of SSU's

The establishment of an enterprise is primarily concerned with the least cost location, so that again transport costs are a crucial element in the location decision. A German economist, Alfred Weber devised the theory of industrial location, in 1909. In the early part of the industrial revolution factories developed in areas that were already producing manufactured goods. These were the places where woollen textiles were produced in farmhouses on farms that bred the sheep. The shift was from the farmhouse to a mill, in the same area. By chance many of these textile mills were on coalfields, so that when the shift from water powered to steam coal powered mills occurred, the transition was in the same place. The same thing happened as steel production was also shifted from local forges to coal powered mills.

The early industrial revolution saw mills and factories develop on coalfields, and remain entrenched there for more than a century. By the end of the 19th century, these raw material locations were losing their ascendancy. At the beginning of the industrial revolution roads were of poor quality and slow. Canals were rapidly constructed to move heavy industrial materials, but nowhere did these form a really convenient network. It was the development of railways into extensive networks by the end of the 19th century, which enabled industrial location to free itself from raw material sites. This trend continued with roads and vehicles in the twentieth century, but water transport and especially the sea, remained dominant for long distance transport of industrial goods. Weber's analysis came at the point where railway networks had developed to their ultimate extent. He was therefore concerned with the balance of location between raw material site, the market for manufactured goods, and transport.

A company may own several factories, probably indifferent locations. The industry comprises many factories, or plants, and a number of independent enterprises. Industrial location is primarily concerned with the setting of a single enterprise, rather than the whole industry, although the location of the industry is in itself a location factor. The concepts of site and situation play separate roles, although we may use the word site in relation to location when we are really looking at the situation of the enterprise. The site of an enterprise, or group of enterprises, is the actual physical location, or block of land. There are some basic location constraints for the site. Example: A plentiful supply of flat land, access to transport, power and water, availability of labour, and capital and finance facilities.

Almost all cities will possess appropriate industrial sites and these will be zoned by councils. It is therefore the situation, or the relative location, in relation to other factories and the industry that is important. Like agricultural and central place location theories, Weber makes assumptions that simplify reality, but unlike these other theories, he does not assume an equal distribution. Rather he assumes that raw materials are unequally distributed in fixed locations.

A) Assumptions

Following are the various assumptions in this context:
1. There is an uneven distribution of natural resources on the plain. Raw materials are concentrated in specific sites.
2. The size and location of markets are given at fixed points on the plain.
3. There are fixed locations of labour where wage rates are fixed and labour is immobile.
4. The area has a uniform culture, climate and political system.
5. Entrepreneurs minimize costs of production.
6. Perfect competition exists.
7. Costs of land, structures, equipment and capital do not vary regionally.
8. There is a uniform system of transport over a flat surface.

B) Raw Material or Market Site

In the first instance we consider whether to locate an industry in the raw material or market location. If there is no weight loss or weight gain in production, you can site your factory at either location, because the transport costs are the same each way. Transport costs are not identical for raw material and manufactured goods and thus, a relative weight must be calculated.
Weber did this with a material index, whereby the relative weight gain or loss is calculated.
_ Total weight of the finished product
_ Total weight of materials used to manufacture

C) Material Index

If the product is a pure material its index will be 1. If the index is less than 1 the final product has gain weight in manufacture, thus favouring production at the market place. The weight gain is most likely to come from the addition of ubiquitous materials, like water, that we can expect to occur anywhere. Such a product would be a drink, soft drinks or beer, where a small quantity of usually dried materials are added to water and bottles to make a much heavier and more fragile final product. Most products lose weight in manufacture, such as a metal being extracted from an ore. Thus their material index will be more than 1, thus favouring the raw material site.

The significance of the material index is in calculating precisely the difference between the unit transport costs of raw materials and finished products. The number of the index is used to calculate a relative weighting, as well as weight loss or gain the material index and weighting of transport costs can also take account of loss or gain in transport, of features such as perishability, fragility and hazard.

D) Need for Enterprise Location

The need for Plant Location arises under the following circumstances:
1. Whenever a new enterprise is to be established.

2. In the case of established enterprise, the need for enterprise location arises when expansion, decentralization and diversification is undertaken to meet the increased demand for its products.
3. When the existing factory is not in a position to obtain renewal of the lease.
4. Whenever an undesirable location is to be abandoned.
5. When the tendency of shifting the market, depletion of raw materials, changes in transportation facilities, new processes requiring a different location are observed in a factory.
6. When a new branch or branches are to be opened for increasing the volume of production or distribution or both.

Steps in Enterprise Location:
1. Selection of the region
2. Selection of the locality or community
3. Selection of the exact site, and
4. Selection of an optimum site

Measures Taken By the Government for the Establishment & Promotion of MSMEs

Some of the measures taken by the government are as follows:

ADMINISTRATIVE FRAMEWORK:

Administrative mechanism for SSI is being looked after by the Department of Small Scale Industries, Agro and Rural Industries within the Ministry of Industry. With the Department there is Small Industries Development Organization (SIDO) headed by a department commissioner. SIDO has 27 small industries service institutes, 31 branch institutes, 37 extension centres, 18 field testing centres, four production centres and two footwear training centres. To provide different services and support to village and small entrepreneurs under a single roof, 422 Districts Industries Centres (DIC) have been set up to cover 431 districts out of the total of 436districtsof the country. National Institute of Small Industries Extension Training (NISIET) conduct research and training programmes and provides consultancy services. National Small Industries Corporation (NSIC) deals with marketing including Government purchases and supplying machinery on hire purchase.

POLICY INSTRUMENTS:

Policy instruments adopted by the government to encourage the growth of SSI comprise: (1) Financial incentives. (2) Fiscal incentives. (3) General incentives.(4) Special incentives in backward areas, and (5) Reservation of items for SSI.(1)Financial Incentives: SIDBI provides direct assistance, among others for specialized marketing agencies, industrial estates, acquisition of machinery/ equipment, both indigenous and imported, seed capital scheme and National Equity Fund Scheme, bills re-discounting and direct discounting scheme. State and Local Government provides financial subsidies like interest rate and capital subsidies, and water and electricity subsidies and subsidies for the acquisition of land.(2)Fiscal Incentives: These comprise investments allowance, tax holidays, additional depreciation for new plant and machinery and state and local Governments provide exemption from electricitytariffs.3)General Incentives: These include, among other things, reservation of items for exclusive purchases from SSI, price preference over medium and large units in public sector purchases and scheme for Self-Employment to Educated Unemployed Youths (SEEUY).(4)Special Incentives in Backward Areas: Some of the schemes which are operational are concessional finance scheme, transport subsidy scheme, interest subsidy scheme and income tax incentives, etc.

INDUSTRIAL ESTATES

It is defined as a method of “Organizing, housing and servicing industry, a planned clustering of industrial enterprises offering standard factory buildings erected in advance of demand and a variety of services and facilities to the occupants.” In short, industrial estate is place where the required facilities and factory accommodation are provided by the government to the entrepreneurs to establish their industries there. The first and foremost industrial estate was established at Rajkot in Gujarat in 1955.

Features of Industrial Estates

The following are the important features of industrial estates:

- It is a tract of land subdivided and developed into factory plots or sheds. ϖIt is a planned clustering of industrial units.
- It may be developed in urban, semi-urban or rural areas.
- It may be large, medium or small.
- It may be set up by the Government, or by co-operatives or even by private agencies.
- It provides several common infrastructural facilities such as water, power, roads, training, banks, repairs and maintenance etc.

Advantage of Industrial Estates

1) Economies of Scale: It arises because all the industrial units enjoy common infrastructural facilities like water, roads, etc. As the size of the industrial units increases, the costs of estate development and administration per unit of each facility decrease.
2) External Economies: Several industrial units are clustered together in an industrial estate. This enables them to enjoy the benefits of agglomeration and external economies like improved transport facilities, availability of trained labour, repair facilities, power and water etc.
3) Low Investment: Even a small entrepreneur can acquire an industrial plot or shed on rent or hire purchase basis.
4) Less Risks: Since all units enjoy common facilities and low capital investment, risks are relatively low.
5) Mutual Co-Operation: All industrial units located in an industrial estate face common problems and seek to achieve common objectives.
6) Balanced Regional Development: It is possible to secure a balanced regional development by developing industrial estates in industrially backward areas.
7) Saving Of Time and Effort: An individual entrepreneur is relieved of trouble of searching for suitable space.

8) Entrepreneurial Development: Industrial estates reduce risks and increase profitability through internal and external economies.

MICRO & SMALL ENTERPRISES - CLUSTER DEVELOPMENT PROGRAMME (MSE-CDP)

The Ministry of Micro, Small and Medium Enterprises (MSME), Government of India (GoI) has adopted the Cluster Development approach as a key strategy for enhancing the productivity and competitiveness as well as capacity building of Micro and Small Enterprises (MSEs) and their collectives in the country. A cluster is a group of enterprises located within an identifiable and as far as practicable, contiguous area or a value chain that goes beyond a geographical area and producing same/similar products/complementary products/services, which can be linked together by common physical infrastructure facilities that help address their common challenges. The essential characteristics of enterprises in a cluster are (a) Similarity or complementarity in the methods of production, quality control & testing, energy consumption, pollution control, etc., (b) Similar level of technology & marketing strategies/practices, (c) Similar channels for communication among the members of the cluster, (d) Common market & skill needs and/or (e) Common challenges & opportunities that the cluster faces.

Objectives of the Scheme:

(i) To support the sustainability and growth of MSEs by addressing common issues such as improvement of technology, skills & quality, market access, etc.
(ii) To build capacity of MSEs for common supportive action through formation of self-help groups, consortia, upgradation of associations, etc.
(iii) To create/upgrade infrastructural facilities in the new/existing Industrial Areas/Clusters of MSEs.
(iv) To set up Common Facility Centres (for testing, training, raw material depot, effluent treatment, complementing production processes, etc.).
(v) Promotion of green & sustainable manufacturing technology for the clusters so as to enable units switch to sustainable and green production processes and products.

Components:

(i) Common Facility Centers (CFCs): The GoI grant will be restricted to 70% of the cost of Project of maximum Rs.20.00 crore. GoI grant will be 90% for CFCs in NE & Hill States, Island territories, Aspirational Districts/L WE affected Districts, Clusters with more than 50% (a) micro/ village, (b) women owned, (c) SC/ST units. The cost of Project includes cost of Land (subject to maximum of 25% of Project Cost), building, pre-operative expenses, preliminary expenses, machinery & equipment, miscellaneous fixed assets, support infrastructure such as water supply, electricity and margin money for working capital.

(ii) Infrastructure Development: The GoI grant will be restricted to 60% of the cost of Project (Rs.lO.OO crore for Industrial Estate & Rs.15 .00 crore for Flatted Factory Complex). GoI grant will be 80% for Projects in NE & Hilly States, Island territories, Aspirational Districts I LWE affected Districts, industrial areas / estates / Flatted Factory Complex with more than

50% (a) micro/ village, (b) women owned, (c) SC/ST units. For existing clusters, upgradation proposals will be based on actual requirements.

(iii) Marketing Hubs / Exhibition Centres by Associations: The GoI grant will be restricted to 60% of the cost of Project of maximum Rs.l0.00 crore for Product Specific Associations with SMO rating of Gold Category and above from NABET (QCI) and 80% for Associations of Women Entrepreneurs. Remaining project cost is to be borne by SPV / State Government. The GoI contribution will be towards construction of building, furnishings, furniture, fittings, items of permanent display, miscellaneous assets like generators, etc.

(iv) Thematic Interventions: The GoI grant will be restricted to 50% of total cost of maximum 5 Thematic Interventions not exceeding Rs.2.00 lakh for each in approved / completed CFC for activity mentioned below. As such the maximum GoI grant under this component for each CFC would be Rs. 1O.OO lakh. Remaining cost would be borne by SPV / State Government. (a) Training Programmes. b) Exposure Visits. (c) Strengthening the Business Development Service (BDS) provision through a panel of service providers. (d) Any other activity related to creating business eco-system in cluster mode.

(v) Support to State Innovative Cluster Development Programme: A few State Governments have initiated State funded Cluster Development Programme to support soft and hard interventions in clusters with limited funding support. In order to strengthen this activity, this component would provide co-funding of the CFC projects of State Cluster development Programme on matching share basis. The GoI fund would be limited to State Government share or Rs.5.00 crore whichever is lower. The GoI assistance would be 90% of project cost not exceeding Rs.5.00 crore in respect of CFC projects in North East/Hilly States, Island territories, Aspirational Districts/L WE affected Districts, as well as for projects where beneficiaries are SC/ST/Women owned enterprises, as per the scheme guidelines of State Cluster Development Programme

Project Management

A Project simply means an investment opportunity exploited for profit. It is an idea or plan which is intended to be carried out or a finite task to be completed. In the words of Gillinger “Project is a whole complex of activities involved in using resources to gain benefits”. The World Bank defines a project as ‘an approval for a capital investment develops facilities to provide goods and services’.

CHARACTERISTICS OF A PROJECT

A project is undertaken to achieve a purpose. The following are the characteristics of a project.•A project involves investment of money and money’s worth.•The objective of a project is to earn profit.•It is concerned with production of goods and services.•Every project has risk and uncertainty associated with it.•It has a fixed set of objectives.•It is subjected to a lot of change.•It has a definite beginning and an end.•It has a life cycle reflected by growth, maturity and decay.•It is combination of various elements such as technology, equipment, materials, machinery and people.•A project requires team work

PROJECT MANAGEMENT

Project management is the process of planning, organizing, monitoring and controlling of all aspects of a project and motivating all involved to achieve project objectives of safety and completion within a defined time, cost and performance. Arson has defined project management as," the achievement of a project's objectives through people, and involves organizing, planning and control of the resources assigned to the project together with the development of constructive human relations with all those involved, both in company and with the other companies involved".

PHASES OF PROJECT MANAGEMENT

It consists of the following stages:

1. Project Identification: It refers to identification of business/investment opportunities. It involves scanning of the environment to find out investment opportunities
2. Project Formulation: It is the translation of the idea into concrete project with scrutiny of its important preliminary aspects.
3. Project Appraisal: It involves searching, scrutiny, analysis and evaluation of market, technical, financial and economic variables. It examines the viability of the project.
4. Project Selection: It is the process of choosing a project rationally in the light of objectives and inherent constraints on the basis of appraisal.
5. Project Implementation: It is the stage of birth of an enterprise. At the end of this stage, the idea becomes a reality.
6. Project Follow Up and Evaluation: It is the process of assessing the performance of the project after it started functioning. Project evaluation simply means assessing the progress of the project

NEED OF PROJECT MANAGEMENT

The need for project management arises due to the following reasons:

1) Complexity of Project: Project involve time, effort, money etc. If there is any fault in planning or implementation of projects, the resources put in the projects would be a waste.
2) Achievement of Objectives: Unless projects are managed well, the objective for which the projects are undertaken cannot be achieved.
3) Environmental Changes: A project should be well equipped to meet the environmental challenges .The success of the project depends upon how the project is able to cope with the changing environment.
4) Competition: To face out the competition provision of a good or a service is not sufficient. It must provide a package which meets an entire need rather than just part of that need.

5) Constraints: The constraints relate to time, materials, demand, labour etc. The success of a project depends on how well it is possible to manage the so called constraints.
6) RiskandUncertainty: At every stage of project there are challenges and problems. As the project moves new challenges and problems may arise. The risks and uncertainties cannot be eliminated but can be minimized through proper management of project.
7) Time Overrun and Cost Overrun: If a project takes more time than the scheduled time, it is known as time overrun. If a project incurs more costs than budgeted, it is called cost overrun.
8) Project Control and Evaluation: It is done either at the end of the project or few years after the completion of the project. This enables to learn lessons from the projects.

PROJECT REPORT

A project report may be defined as a document with respect to any investment proposal based on certain information and factual data for the purpose of appraising the project. It states as to what business is intended to be undertaken by the entrepreneur and whether it would be physically possible, financially viable, commercially profitable and socially desirable to do such a business. Project report is an essential document for procuring assistance from financial institutions and for fulfilling other formalities for implementation of the project. The project report (Detailed Feasibility Report) is based on a preliminary report or pre-investment report. Thus the project report is a post investment decision report.

Importance of Project Report

Project report is a written plan of the project to be undertaken for the attainment of objective. It enables an entrepreneur to know the inputs required and confirms that he is proceeding in the right direction. It spells out the reasons of allocating resources of the firm for the production of goods and services during a specific period. An important aspect of the project report lies in determining the profitability of the project with minimum risks in the execution of the project. The important uses of P.R. are summarized as follows:

- It helps the entrepreneur in establishing techno-economic viability of the project.
- It helps in getting term loan from banks and financial institutions.
- It helps in approaching bank for getting working capital loan.
- It helps in securing supply of scarce raw materials also.
- It gives a general idea of resource requirements and means of procuring them.
- It shows the feasibility of the project and possibility of achieving profits.

Contents of Project Report

It contains relevant information in detailed and systematic manner as below:
1) INTRODUCTION: General information regarding the company and production description.
2) BACKGROUND OF THE PROMOTER:-Name, address, age, family background, educational qualification, work experience, investment potential etc.
3) PRODUCT:-Details of products to be produced, details of application of the product, proposed product mix, product standard etc.

4) MARKET AND MARKETING:-Market potential analysis, major buyers, area to be covered, trade practices, sales promotion devices, trade practice and trade channels adopted by the competitors, demand analysis, proposed market research etc.
5) LOCATION:-Locational advantages, criteria for selecting the location, exact location of the project, other choices.
6) PRODUCTION PROCESS:-Details of technology, process flow chart, manufacturing process, production programme etc.
7) RAW MATERIAL:-List of raw material required in terms of quality and quantity, sources of requirement, cost of raw material etc.
8) UTILITIES:-Water, power, steam-sources and costs, effluent disposal etc.
9) TRANSPORT AND COMMUNICATION:-Method, possibility of getting and costs of transport.
10) MANPOWER REQUIREMENT:-Requirement of skilled, semi-skilled personnel, technical and non-technical personnel, cost of procurement, capacity, and suppliers cost, alternatives available, cost of miscellaneous assets.
11) LAND AND BUILDING:-Land area, construction area, cost of construction, detailed plan, and plant layout along with cost.
12) PLANT AND MACHINERY:-Details of machinery and equipment required.
13) COST OF PROJECT AND SOURCES OF FINANCE:-Working capital required, preliminary and pre-operative expenses, contingencies and arrangements for the meeting the cost of project.
14) FINANCIAL VIABILITY OF THE PROJECT:-Cost of production and profitability for the first years, break even analysis, and analysis of cash flow and fund flow statements.

Project Feasibility Study

A feasibility report is an investment proposal base on certain information and factual data appraising the project. This type of feasibility study may be required by the financing institutions, project sponsor, and project owner. The feasibility report enables the project holder to know the inputs required and if rightly prepared confirms to the convictions that he is proceeding in the right direction. In other words, a project needs to be fully defined in order to provide terms of reference for the management of the project.

A project can be considered to have been fully established when the following conditions are fulfilled.

➢The technical configuration of the project has been fully defined.

➢The performance requirement for the various technical system and the key equipment have been specified.

➢Cost estimate for the project is frozen.

➢Techno-economic viability of the project has been examined, appraised and approved.

➢An overall schedule for implementation of the project has been drawn-up.

The feasibility report is prepared during the definition phase of a project. It lies in between project formulation stage and appraisal and sanction stage. It is prepared to present an in-depth techno-commercial analysis carried out on the project idea for consideration of the financial institutions and other authorities empowered to take the investment decision.

Components of Feasibility Study

Project feasibility study comprises of market analysis, technical analysis, financial analysis, and social profitability analysis. The analysis is mainly interested only in the commercial profitability and thus examining only the market, technical and financial aspects of the project. But, generally the gamut of feasibility of a project covers the following areas.
1. Commercial and economic feasibility
2. Technical feasibility
3. Financial feasibility
4. Managerial feasibility
5. Social feasibility or acceptability

1. Commercial and Economic Feasibility: The economic feasibility aspect of a project relates to the earning capacity of the project. Earnings of the project depends on the volume of sales. If taken into consideration the following important indicators. ➢Present demand of the goods produced through the project. i.e. market facility (or) getting a feel of the market. ➢Future demand: a projection may be made about the future demand. The period normally depend upon the scale of investment.➢ Determining the extent of supply to meet the expected demand and arriving at the gap.➢ Deciding in what way the project under consideration will have a reasonable chance to share the market.➢ Anticipated rate of return on investment. If it is positive the project justifies the economic norm in the relationship between cost and demand. Future demand can be estimated after failing into consideration the potentialities of the export market, the charges in the income and prices, the multiples use of the product, the probable expansion of industries and the growth of new industries. The share of the proposed project in the market could be identified by considering the factors affecting the supply position such as competitive position of the unit, existing and potential competitors, the extent of capacity utilisation, unit's costs advantages and disadvantages, structural changes and technological innovations bringing substitute into the market. The commercial feasibility of a project involves a study of the proposed arrangements for the purchase of raw materials and sale of finished products etc. This study comprises the following two aspects. ➢Arriving at the physical requirement of production input such as raw materials, power, labour etc., at various level of output and converting them into cost. In other words, deciding costing pattern. ➢Matching costs with revenues with a view to estimating the profitability of the project and the break-even point. The possibility ultimately decides whether the project will be a feasible proposition.

2. Technical Feasibility: The examination of this aspect requires a thorough assessment of the various requirements of the actual production process and includes a detailed estimate of the goods and services needed for the project. So, the feasibility report

should give a description of the project in terms of technology to be used, requirement of equipment, labour and other inputs. Location of the project should be given special attention in relevance to technical feasibility. Another important feature of technical feasibility relates the types of technology to be adopted for the project. The exercise of technical feasibility is not done in isolation. The scheme has also to be viewed from economic considerations; otherwise, it may not be a practical proportion however sound technically it may be. The promoters of the project can approach the problem of preparation of technical feasibility studies in the following order: ➢Undertaking a preliminary study of technical requirements to have a quick evaluation. If preliminary investigation indicate favourable prospects working out further details of the project. The exercise begins with engineering and technical specifications and covers the requirements of the proposed project as to quality, quantity and specification type of components of plant & machinery, accessories, raw materials, labour, fuel, power, water, effluent disposal transportation etc. Thus, the technical feasibility analysis is an attempt to study the project basically from a technician's angle. The main aspects to be considered under this study are: technology of the project, size of the plant, location of the project, pollution caused by the project production capacity of the project, strength of the project. Emergency or stand-by facilities required by the project sophistication such as automation, mechanical handling etc. required collaboration agreements, production inputs and implementation of the project.

3. Financial Feasibility: The main objective of this feasibility study is to assess the financial viability of the project. Here, the main emphasis is in the preparation of financial statement, so that the project can be evaluated in terms of various measures of commercial profitability and the magnitude of financing required can be determined. The decision about the financial feasibility of a project should be arrived at based on the following consideration: ➢For existing companies, audited financial statements such as balance sheets, income statements and cash flow statements. ➢For projects that involve new companies, statements of total project cost, initial capital requirements, and cash flow relative to the projective time table. Financial projections for future time periods, including income statements, cash flows and balance sheets. Supporting schedules for financial projections stating assumptions used as to collection period of sales, inventory levels, payment period of purchases and expenses and elements of production cost, selling administrative and financial expenses. Financial analysis showing return on investment return on equity, break-even volume and price analysis. If necessary sensibility analysis to identify items that have a large impact on profitability or possibly a risk analysis.
4. Managerial Feasibility: The success or failure of a project largely depends upon the ability of the project holder to manage the project. Project is a bundle of activities and each activity has its own role. For the success of a project, a project holder has to co-ordinate all the activities in such a way that the additive impact of different inputs can produce the desired result. The ability to manage and organise all such inter related activities come within the concept of management. If the person in charge of the project, has the ability, has the ability to manage all such activities, the desired result can be anticipated. There are three ways to measure the managerial efficiency. a. Heredity skill b. Skill acquired through training. c. Skill acquired in course of work.

5. Social Feasibility: A project may cross all the above barriers mentioned above and found very suitable but it will lose its entire creditability, if it has no social acceptance. Though the social customs, conventions such as caste community, regional influence etc. are creating hindrance for development of a project should avoid all such social conflicts which will stand on the successful implementation of the project. (e.g.) Considering the interests of the general public; projects which offer large employment potential, which channelize the income from less developed areas will stimulate small industries. In a nut shell, the feasibility report should highlight on these five testing stones before it can be declared as complete and only after judging through these indicators a project can be declared as viable and can be submitted for finance or any other assistance from any institutions.

Project Implementation

Implementation simply means carrying out the activities described in your work plan. Executing a project in any sector is a very complex mission, as it requires the coordination of a wide range of activities, the overseeing of a team, the management of budget, the communication to the public, among other issues. Independent of whether it is a social project to raise the awareness and promote hygiene or it is a construction project for service delivery, there is a certain process that has to be followed. The following lines will give you an introduction into the implementation of projects, and highlights key aspects that have to be taken into account for a successful implementation

Advantages

- Implementation gives the opportunity to see the plans become a reality
- Execution of projects allows end-users to have access to better services and living environment
- Success stories and experiences can be shared with specialists from other areas

Disadvantages

- Evidence of corrupt practices in procurement will undermine the entire process and waste precious resources
- Poor financial planning can lead to budget constraints in the midst of implementation
- The decision on when a project is complete often causes friction between implementers and the community.

Introduction

Project implementation (or project execution) is the phase where visions and plans become reality. This is the logical conclusion, after evaluating, deciding, visioning, planning, applying for funds and finding the financial resources of a project. Technical implementation is one part of executing a project. It requires the coordination of a wide range of activities, diverse institutional arrangements, and different time frames. Projects in this area cover issues such as: social development, health, environmental sustainability, institutional strengthening, technical implementation, pilot plants, service delivery, social marketing, hygiene promotion, sanitation promotion and capacity building.

It is important to take into account that independently of the nature of the project, implementation takes time, usually more than it is planned, and that many external constraints can appear, which should be considered when initiating the implementation step (i.e. seasonality in availability of community engagement/resources)

Objectives of the Implementation Phase - The objectives of the implementation phase can be summarised as follow:

- Putting the action plan into operation
- Achieving tangible change and improvements
- Ensuring that new infrastructure, new institutions and new resources are sustainable in every aspect
- Ensuring that any unforeseen conflicts that might arise during this stage are resolved
- Ensuring transparency with regard to finances
- Ensuring that potential benefits are not captured by elites at the expenses of poorer social groups

How to Get Started

Before implementing the action plan, it is important to ensure that all the roles and responsibilities are distributed and understood. "The basic requirement for starting the implementation process is to have the work plan ready and understood by all the actors involved. Technical and non-technical requirements have to be clearly defined and the financial, technical and institutional frameworks of the specific project have to be prepared considering the local conditions. The working team should identify their strengths and weaknesses (internal forces), opportunities and threats (external forces). The strengths and opportunities are positive forces that should be exploited to efficiently implement a project. The weaknesses and threats are hindrances that can hamper project implementation. The implementers should ensure that they devise means of overcoming them. Another basic requirement is that the financial, material and human resources are fully available for the implementation" Other actions need to be taken before work can begin to implement the detailed action plan, including:

- Scheduling activities and identifying potential bottlenecks.
- Communicating with the members of the team and ensuring all the roles and responsibilities are distributed and understood.
- Providing for project management tools to coordinate the process.
- Ensuring that the financial resources are available and distributed accordingly

Tips for Implementing Successful Projects

- Field management staff must make time to establish an atmosphere of candour and trust with partners during implementation so that concerns may be raised (and often resolved) informally.
- Realistic long-term planning of finances is key to the implementation of an action plan

- A communication strategy can be used to raise awareness of the positive benefits for the community
- At the end of a planning and implementation cycle, a press release is useful to highlight successful stories and announce the publication of a final document
- Expectations among stakeholders and the general public are likely to be high following the participatory approach to the development of the preceding stages of the planning process. It is therefore important that actions are visible and demonstrate tangible results early to build confidence in the process.

Tax Benefits available to Small-Scale Industries in India

In India Entrepreneurs are offered a number of incentives because they fulfil two main objectives of economic development. Firstly, they facilitate decentralization of industries. They assist in the dispersal of industries over the entire geographical area of the country. Secondly, they facilitate the transformation of a traditional technique into modern technique characterized by improved skills, high production and higher standard of living.

INCENTIVES

It is the financial and promotional assistance provided by the government to the industries for boosting up industrial development in all regions particularly in backward areas. Incentives include concession, subsidies and bounties. ‘Subsidy’ denotes a single lump-sum which is given by a government to an entrepreneur to cover the cost. It is granted to an industry which is considered essential in the national interest. The term Bounty denotes bonus or financial aid which is given by a government to an industry to help it compete with other units in home market or in a foreign market. Bounty offers benefits on a particular industry; while a subsidy is given in the interest of the nation. The object of incentives is to motivate an entrepreneur to start new ventures in the larger interest of the nation and the society.

ADVANTAGES OF INCENTIVES AND SUBSIDIES

They offer following advantages:
 They act as a motivational force which makes the potential entrepreneur to enter into business activities.
 They encourage the entrepreneur to start industries in the backward areas.
 They help the government to get a balanced regional development.
 They help to develop new enterprises which lead to economic development.
 They make the entrepreneur to face competition successfully.
 They help to reduce the overall problems of small scale entrepreneurs.

NEED FOR INCENTIVES AND SUBSIDIES

The need for incentives and subsidies arises for the following reasons:

1) **To Remove Regional Disparities in Development**: Industries may be concentrated and overcrowded in some regions, in order to correct this regional balance, incentives are provided to entrepreneurs. They will start new ventures in such backward areas. Thus the backward areas become developed and regional imbalances are corrected.
2**) To Provide Competitive Strength, Survival and Growth**: several other incentives are provided for the survival and growth of industries. For example, reservation of products, price preference etc. will improve the competitive strength. Other concessions like concessional finance, tax relief etc., contribute their survival and growth.
3) **To Generate More Employment and Remove Unemployment**: Market adjustments and external economies play a significant role in the economic development of a country. Subsidies cause movement of entrepreneurs from developed areas to developing or backward areas. In short, incentives and subsidies serve as a catalyst to start a dynamic process of development.
4) **To Promote Entrepreneurship**: Industrial estates, availability of power, concessional finance, capital investment subsidy, transport subsidy etc, are few examples of subsidies which are aimed at encouraging entrepreneurs to take up new ventures.

PROBLEMS RELATING TO SUBSIDIES

Some problems may arise in devising and implementing a subsidy system. They are as follows.
- A subsidy may remain unutilized.
- If the administration is inefficient or corrupt, subsidy will not produce the desired results.
- It is very difficult to measure the impact of subsidies.
- Subsidies may lead to inefficiency in the long run.
- Subsidies once introduced are difficult to withdraw.
- The administrative procedure must be effective.
- The cost of administering a subsidy should be considered.
- The subsidy scheme should be communicated to prospective beneficiaries.
- The quantum of subsidy should be adequate to produce the desired results.
- The target groups to whom the subsidy is to benefit should be clearly determined.

Tax benefits available to Small-Scale Industries in India are as follows:

Tax Holiday:

Under section 80J of the Income Tax Act 1961, new industrial undertakings, including small-scale industries, are exempted from the payment of income- tax on their profits subject to a maximum of 6% per annum of their capital employed. This exemption in tax is allowed for a period of five years from the commencement of production.

A small-scale industry has to satisfy the following two conditions to avail of this tax exemption facility:

1. The unit should not have been formed by the splitting or reconstruction of an existing unit.

2. The unit should employ 10 or more workers in a manufacturing process with the power or at least 20 workers without power.

Depreciation:

Under Section 32 of the Income Tax Act, 1961, a small-scale industry is entitled to a deduction on depreciation account on block of assets at the prescribed rate. Small enterprise is allowed subject to a maximum of Rs. 20 lakh deduction for depreciation on plant and machinery on the diminishing balance method.

In case of an asset acquired before the accounting period, depreciation is calculated on its written down value. For plant and machinery that are used in manufacturing in double or triple shift, an additional allowance called 'Extra Shift Allowance' is also available.

A small-scale industry should satisfy the following conditions before it becomes eligible for deduction in depreciation:

1. The assets must be owned by the assesse.

2. The assets must actually be used for the purpose of the assesse's business or profession.

3. Depreciations allowance or deduction is allowed only on fixed assets, i.e. building machinery, plant and furniture.

Rehabilitation Allowance:

A rehabilitation allowance is granted to small-scale industries under Section 33-B of the Income Tax Act, 1961 whose business is discontinued on account of the following reasons:

1. Flood, typhoon, hurricane, cyclone, earthquake, or other natural upheavals;

2. Riot or civil disturbance;

3. Accidental fire or explosion; and

4. Action by an enemy or action taken in combating an enemy.

The rehabilitation allowance should be used for business purposes within three years of unit's re-establishment, reconstruction, or revival .The rehabilitation allowance is allowed to the unit equivalent of 60 per cent of the amount of the deduction allowable to the unit.

Investment Allowance:

The Investment allowance was introduced way back in 1976 to replace the initial depreciation allowance. The investment allowance under Section 31 A of the Income Tax Act, 1961 is allowed at the rate of 25 per cent of the cost of acquisition of new plant or machinery installed.

Although the investment allowance has been made available for the articles or things except certain items of low priority, yet as per the Eleventh Schedule to the Income Tax Act 1961, a special dispensation has been provided for the plant and machinery installed in small-scale industries. In comparison with other industries, small-scale industries are at an advantage in claiming a deduction of investment allowance. A small-scale industry can avail of investment allowance provided it has put to use machinery or plant either in the year of installation or in the immediate following year failing which the benefit will be forfeited.

Expenditure on Scientific Research:

Under Section 35 of the Income Tax Act, 1961, the following deductions in respect of expenditure on scientific research are allowed:

1. Any revenue expenditure incurred on scientific research related to the business of the assessee in the previous year.

2. Any sum paid to a scientific research association or a university, college, institution or to a public company which has its object, the undertaking of a scientific research.

3. Any capital expenditure incurred on scientific research related to the business of the assessee subject to the provision of Section 35(2) of the Income Tax Act, 1961.

In case of any unabsorbed capital expenditure incurred on scientific research, the provision of the Income Tax Act allow to carry it forward for adjustment against the profits earned by the business in the subsequent years for an indefinite time period.

Amortization of Certain Preliminary Expenses:

The Indian companies and resident persons, under Section 35D of the Income Tax Act 1961, are allowed to write off the preliminary and developmental expenses incurred by them in connection with the setting up of a new industrial unit or expansion of an existing industrial unit.

The examples of preliminary expenses are:

a. Expenses incurred in connection with the preparation of a feasibility report necessary for their business;

b. Engineering expenses related to the business; and

c. Legal charges, if any, for drafting agreements.

The writing off of the preliminary expenses is allowed against subject to a maximum of ten annual installments beginning with the previous year in which the new unit commences its production or expansion of an existing unit is completed. The aggregate amount of expenditure allowed be deducted is limited to 2.5 per cent of the total cost of the project.

A small-scale unit established in a backward area, under Section 80-HH, is allowed a deduction of 20 per cent on its profits and gains provided the unit satisfies the following conditions:

a. The unit began its production after 31st December 1970 in any backward area of the country;

b. It is a newly established unit in a backward area. It is neither split nor reconstituted out of a business already in existence in any backward area;

c. It has not been formed by the transfer to a new business plant or machinery which was previously used for any purpose in any backward area; and

d. It employs 10 or more workers in a manufacturing process with power or 20 or more workers without power.

Tax Concession to Small-Scale Industries in Rural Areas:

The Finance (No.2) Act of 1977 inserted a new Section 80-HHA in the Income Tax Act, 1961. The tax payers, under this Section 80-HHA, are entitled to a deduction of 20 % of the profits and gains derived by running small-scale industries in the rural areas.

The deduction is allowed for a period of 10 years from the year of commencement of manufacturing activity after 30^{th} September 1977. For this purpose, the expression rural area means any area as defined under the Explanation to Section 35 CC (I) of the Income Tax Act, 1961. However, this tax deduction benefit is not allowed to the small-scale units engaged in mining activity.

The small-scale industry can avail of this tax deduction only after fulfilling the following conditions:

1. The small-scale unit is not formed by splitting or reconstruction of a business already in existence.

2. 'It is not formed by the transfer to a new business of machinery or plant previously used for any purpose.

3. The accounts of the unit are audited by a chartered accountant.

4. It employs 10 or more workers in manufacturing process carried on without the aid of power.

5. The unit does not claim a simultaneous deduction under Section 80-HH of the Income Tax Act, 1961.

Tax Concessions to Small-Scale Industries in Backward Areas:

The Planning Commission of India, in 1970-71, declared 247 districts out of 435 districts as backward areas with a view to provide them special incentives and concessions to establish industries in these backward areas. The newly established small-scale industries in these areas specified in the Eighth Schedule to the Income Tax Act, 1961 are entitled to a deduction of 20% of their profits and gains from their gross total income.

This deduction is allowed for a period of 10 years beginning with the year of commencement of manufacture or production. However, if a small-scale industry has already been established in a non-backward area and later shifted to backward area, the unit will be allowed this deduction on the profits earned from the undertaking after shifting in the backward area for a period of 10 years. A small-scale industry established in backward area but engaged in mining activity is not entitled to such deduction benefit.

The unit has to satisfy the following conditions to be eligible to avail of this tax benefit:

1. It is established on or after 31th December, 1970.

2. It employs at least 10 workers in a manufacturing process carried on with the aid of power or at least 20 workers manufacturing process carried on without the aid of power.

Expenditure on Acquisition of Patents and Copyrights:

Under Section 35-A of the Income Tax Act, 1961, any expenditure of capital nature incurred in acquiring a patent and copyright by a small-scale industry is deductible from its income. But the expenditure should be incurred after 28th February 1966. The expenditure can be deducted in 14 equal installments beginning with the previous year in which the expenditure was incurred in acquiring patents and copyrights for the unit.

Profits from Business of Publication of Books:

Under Section 80-1A of the Income Tax Act, 1961 which has replaced Section 80-1 w.e.f. the assessment year 1991-92, 20% of the profits earned by a small- scale industry from the business of publication of books is deductible from its gross total income. The deduction benefit is available for total period of five years beginning with the assessment year 1992-93.

In addition, deductions are also available in respect of:

1. Royalties from any company in India (Under Section 80 M)

2. Royalties from any certain foreign companies (Under Section 800)

3. Inter-corporate Dividends (Under Section 80 M)

4. Income of Co-operative Societies (Under Section SOP)

5. Carry forward and set -off business losses (Under Section 72)

E&SBM – MODULE III

Financial Management in a Small Scale Business

Introduction

In the previous unit, we dealt with the steps for starting a small business enterprise. This unit will help you to understand the financial statements and business ratios. The various sections and sub-sections of this unit will also summarize the sources of finance and managing cash flows. Whenever there comes an idea of launching a new venture, the first thing that comes in mind is how to avail the required money for the proposed venture or business. Finance is the life-blood of a business enterprise or an organization. Also the success and failure of the new venture to a great extent remains dependent on the financial planning. Therefore, it is very important for every entrepreneur to draw up a financial plan at the starting stage of his new business or venture. A well-defined clear cut plan will help in determining the need of finance at different stages of business.

Financial planning

It is at the heart of every successful business. A financial plan, which includes detailed financial statements and projections, forms the core of your overall business plan. Financial planning should be completed at least once a year and revised monthly to incorporate actual results. It has two main purposes:

a. It enables sound business decisions about what financial resources your company actually needs, and about what financial moves your company needs to make, to be successful.

b. It helps to obtain the necessary financing to establish your business, continue its operation, and help it grow.

Solid financial planning demonstrates to potential investors and lenders that you are planning for success and that you are serious, thorough, knowledgeable and realistic. In addition to impressing upon investors and lenders that you have done your homework and thought through your financial plan, the actual plan allows them to quickly evaluate the following:

- The short and long term prospects for your business
- Your company's profit potential
- Your company's strengths and weaknesses
- Future opportunities and challenges
- The amount and type of financing your business will need to be successful

The business will only be as strong as its financial plan. For your financial plan to attract investors and be valuable as a business planning tool, it must be based on reliable numbers and careful calculations.Your financial plan should include:

- Start-up costs, if you are starting a new business
- Cash flow projections
- Projected (pro forma) balance sheets and income statements
- Balance sheets and income statements for at least the previous year (if your business is already in operation)
- A break-even analysis
- A ratio analysis (if your business is already in operation)

Remember that current financial statements are based on the actual numbers which describe your company's financial performance over the past year or years. Financial projections look into the future and estimate, as realistically as possible, the future performance of your company. When completing financial projections, it is advisable to use best, worst, and most likely scenarios. If your business is already in operation, your accountant can easily prepare your financial statements, provided your bookkeeping records are accurate and up-to- date. Your accountant or a business consultant can help you prepare your financial projections. The business sections of libraries and bookstores also provide guidance materials for completing your financial statements and projections.

Start-up Costs

If you are starting a new business, first determine start-up costs. These are one-time expenditures that your company must make before it opens its doors for business. Included are such costs as equipment, furniture, fixtures, supplies and materials, inventory, renovations (leasehold improvements), licences, permits, and incorporation fees (if applicable).

Expenses incurred after the opening date are called operating expenses and will appear in your company's income statements and cash flow projections. Once your business is in operation, you will require adequate funds to finance your new business from start-up until monthly cash flows are positive. (See Cash Flow Projections below.)

Cash Flow Projections

A cash flow projection or forecast is an estimate of when you expect to receive cash from your sales and, therefore, when you expect to pay bills. It is a critical part of your financial planning and business plan because it shows how much money will flow into and out of your business each month. Cash flow projections are usually done for each month and at least one year into the future.

A cash flow projection is an important management tool because it does the following:

- Estimates the amount of money necessary to finance month-to-month business operations.
- Enables you to plan for the times when revenue will not be sufficient to cover expenses.
- Demonstrates to potential lenders that you expect to have sufficient revenue to repay loans on a regularly-scheduled basis.
- Can be used to compare estimated and actual cash flows on a monthly basis. This will allow you to constantly adjust your cash flow projections and identify potential problem areas.

Preparing a Cash Flow Projection

The first step in preparing a cash flow projection is to estimate how much revenue you expect to generate from sales on a monthly basis. When estimating your monthly sales revenue

- Consider sales from previous years (if applicable)
- Consider best and worst case projections, but use the most likely scenario for your business planning
- Decide on a credit policy (example, cash on delivery or 30 days credit) and then estimate what percentage of your sales will be on credit

Once you've estimated your monthly revenue, next decide how you will pay expenses and debts. Consider the following:

- Which bills must be paid promptly, and which payments can be delayed when necessary

- How promptly you must pay your own suppliers (for example, cash on delivery or 30 days)
- The amount and how often you pay your employees
- The amount of your monthly loan payments and when these payments are due
- Your plans to purchase assets and capital assets, such as equipment and vehicles

It is important that cash flow projections are completed on an ongoing basis, are compared to actual cash flow results, and are revised when necessary.

Income Statements

An income statement presents your actual business revenues and expenses, the difference between which is your company's net profit (or loss) over a specified period of time. An income statement is sometimes referred to as a profit and loss statement, an income and expenses statement, or an operating statement, it must be completed at least once a year.

A budget projection (pro forma) income statement compares estimated revenue and expenses and then calculates your estimated net profit (or loss) over a specific period of time. For existing businesses, this is usually the next year of operation. For new businesses, this is usually the first year of operation. Potential investors and lenders will want to see a projected income statement for at least one, and possibly three, years. Be sure to include best and worst case projections, as well as most-likely scenarios.

Check your projected income statement at least every three months. If your projections prove to be significantly inaccurate, find out why. This may help you identify an emerging problem for your business.

Balance Sheets

A balance sheet provides a snapshot record, at a specific point in time, of everything your business owns (assets), as well as what it owes (liabilities) and the owner's equity. Assets include cash, inventory, accounts receivable, and fixed assets, such as property, equipment, and vehicles. Liabilities include taxes owed, accounts payable, mortgages, leases, bank loans, and loans from shareholders. According to tax laws, firms must complete and file a balance sheet at least once a year.

On the balance sheet, total assets will equal the total of liabilities plus the owner's equity. For example, suppose assets are Rs. 1,20,000 and liabilities are Rs. 1,00,000. Your equity, as owner, would be Rs.20,000. Owner's equity can also be described as the net worth of the business (assets minus liabilities).

Break-even Analysis

Your break-even analysis allows you to calculate the amount of sales your business needs to not lose money. Your business' break-even point is where **total costs = total revenues**, and it is an important calculation in order to determine the viability and profitability of your business.

A break-even analysis is based on three main factors:

- Selling price: for information on how to determine selling price,
- Fixed costs: these costs, such as rent, mortgages, equipment leases, loan repayments, insurance, and core staff, do not change as sales increase or decrease
- Variable costs: these costs, such as additional staff salaries, the costs of goods sold, supplies and materials, increase or decrease in direct proportion to sales

Here is an example of a simple break-even calculation:

Barbara's Bowls:

Barbara produces and sells clay bowls for $40 dollars each. She calculates that the actual (variable) cost to produce each bowl in labour, supplies, and materials is $30. This means her gross profit on each bowl is $10 ($40 minus $30).

She has calculated that her fixed monthly costs, such as rent, utilities, and equipment are $1,000. This $1,000 must be paid whether or not she produces any clay bowls.

To calculate how many bowls she must sell each month to break even, she divides her fixed costs ($1,000) by her gross profit ($10) or 100 bowls to break even.

Business Ratio Analysis

There are a number of business ratios which potential lenders and investors will use in order to assess the relative health of your business. Ratio analysis is a useful management tool because it helps identify positive and negative trends in your business performance.

The data for your ratio analysis comes from your balance sheet and income statement. Your ratios should be compared to the ratios of similar businesses, which can be obtained from industry associations, business libraries, or your lender.

Ask your accountant or business advisor to help you calculate ratios relevant to your business. Useful ratios include the following:

Current Ratio: Comparing current assets to current liabilities is an indicator of your business' ability to pay its bills. For example, a ratio of 2:1 means that you have twice as many current assets, such as cash-on-hand, accounts receivable, and inventory, as you do current liabilities. Lenders and investors look more favorably at companies with high current ratios (generally above 2:1).

Formula: Cash + Accounts receivable + Inventory/Current liabilities 1

Quick Ratio (Acid Test Ratio): This ratio is the same as the current ratio without including inventory. Some inventory is not easy to sell, so the Quick Ratio is seen as a better measure of relative “liquidity”.

Formula: Cash + Accounts receivable + Marketable securities / Current liabilities

Debt to Equity Ratio: This ratio compares what the business owes (debt) to what it owns (equity), giving a picture of what proportion of the business’s financial commitments are covered by the owners’ investment. Total debt is divided by equity (assets minus liabilities). Lenders and investors will compare your debt to equity ratio against other similar businesses. A ratio below 2:1 is desirable.

Formula: Total debt / Assets - liabilities

Return on Investment Ratio: Net profits are compared to investment (equity), and the result is shown as a percentage (e.g. 7% ROI). Return on investment is considered to be one of the best criteria for determining a business’ profitability. If the return on investment is low, it might be better invested elsewhere.

Formula: Net profit/ Equity x 100

Inventory Turnover Ratio (Stock Turns): In retail operations, sales are compared to inventory to indicate the average turnover of inventory in a given year. This number (e.g. inventory turned over 6 times last year) is compared with industry norms. Remember that the turnover figure is only an average and does not include information on specific items within the inventory.

Formula: Cost of goods sold/Average value of inventory

Working Capital: While not a true ratio, working capital represents assets available to protect the ability of the business to repay short-term obligations. This number alone, however, is not useful without knowing how the working capital is being utilized. The other ratios, above, provide this analysis.

Formula: Current assets - Current liabilities

Methods of Financing Your Business

Once you've completed your financial calculations, statements, and projections, you will have a clearer idea of how much money you need to raise in order to finance your business. The two main ways of financing a business, a) **equity financing and b) debt financing**, will be discussed in this section.

a) Equity Financing

Equity capital is the amount of money that you and/or your partners put into the business or raise from other investors. Equity is not debt. While investors share in the profits (or losses) of the business, their investment is not a loan.

Remember that to attract investors (shareholders) or partners, you must be able to demonstrate both the profitability and the reasonable risk of your business venture. The best way of doing this is through solid financial planning. Consult your lawyer and your accountant before you enter into any equity agreement for your small business. The most popular sources are discussed below.

- **Personal Investment from Self, Friends, and Relatives**

Personal savings, securities, real estate, and other personal assets are the most obvious source of cash for equity financing. Friends and relatives may provide additional sources of funds. In most cases, the small business owner must assume the largest share of the risk— this means making the largest investment in the business.

Personal investment in the business by you, your family, and your friend's demonstrates a faith in, and a commitment to, your business. This is important to other potential investors and lenders. In fact, banks and other lending institutions have established guidelines for the amount of investment that is required before they will lend money to a business. This is sometimes called the debt-to-equity ratio, and it varies depending on the type and nature of your business.

- **Partner Investment**

If you cannot supply all the equity capital needed to finance your small business, you may have to find one or more partners willing to put money into the venture. Obtaining a partner means that ownership of the business, including its profits and liabilities, is normally shared.

In most cases, partners want a say about how the business is run. Limited partners, sometimes called silent partners, can contribute financially to your business without participating in its management. Limited partners are normally only responsible to the business or its creditors in proportion to the amount they have invested in the partnership; however, parties considering a partnership agreement should seek legal advice on this and related issues.

- **Venture Capital**

A number of venture capital firms provide equity financing, usually for high risk enterprises with potential. Most venture capital investment is directed to the expansion of existing businesses. As a general rule, venture capitalists plan to liquidate all or part of their investment in your business at a substantial profit within five to ten years.

Venture capitalists are in a high-stakes, high-risk business. In negotiations, they will aggressively try to make the best deal they possibly can with you. Besides fast-growth prospects, they look for sound management and a high degree of financial commitment on the part of the small business owner/operator.

While most venture capitalists do not wish to become involved in your day-to-day operations, they will require representation on your board of directors. Some venture capital sources may consider equity participation if your venture meets their criteria.

- **Shareholder Investment**

A business may be incorporated as a private or public corporation. A private corporation can have up to 50 shareholders, but it cannot sell shares to the general public. The vast majority of new small business corporations are private. For more information on incorporating.

Ownership is shared in a private corporation, generally in proportion to the amount of investment of each shareholder (which may be translated into the number of voting shares each person owns). You must be able to demonstrate the viability and profitability of your business venture to attract potential shareholders.

Because public corporations can sell their shares to anyone, they provide the greatest opportunity for raising equity capital. However, offering shares to the public can be a long, complicated and expensive procedure.

Nevertheless, when your business becomes sufficiently large and prosperous, a public share offering can be an attractive method of obtaining financing.

- **Employee Investment**

Another way of raising funds is to ask employees to invest in the business. You might consider making your most talented and dedicated employees a partnership offer, or, if your business is incorporated, you could sell stock to employees to provide a form of profit sharing.

Employees may be willing to invest in your business because they understand its products or services, trust the management, and are able to closely monitor their investment. Having a stake in the business can positively influence employees' working habits since they will benefit from its success. On the other hand, when employees have a share in the business, it could prove difficult to remove, retire, or replace them if they become unproductive or uncooperative.

b) Debt Financing

With your equity capital in place, you are now in a position to approach lenders for a business loan. Debt capital is the money your business borrows. It must be fully repaid with interest, over a specific time period. While lenders do not share in business profits as investors do, they must be repaid with interest whether the business is showing a profit or not. Potential lenders include the following:

- Banks and Trust Companies
- Credit Unions
- Private Investors

- Commercial Non Baking Finance Companies's

A a small business owner/operator, should familiarize themselves with the lenders' requirements before determining the type and the source of your debt financing.

When determining the type of debt financing that is right for your business, remember this basic rule:

Finance day-to-day operations (working capital) with short-term operating loans

Finance long-term fixed assets with longer-term loans or mortgages

- **Business Term Loans (Financing Fixed Assets)**

Major purchases require foresight and careful planning. The fixed assets of a busi- ness, such as land, buildings, and equipment, are usually financed through a combi- nation of equity capital contributed by the owner(s) and business term loans.

A business term loan has a maturity of not less than one year and usually not more than 15 years. The security offered for repayment is usually the assets being financed. The repayment schedule is generally based on the useful life of the asset. This type of debt financing is frequently referred to as fixed-asset financing.

Lenders will finance only a percentage of the value of the asset being purchased. For example, a bank may lend up to 75% of the value of a truck, to be repaid within five years, and up to 80% for a building, to be repaid within 12 years.

The benefits of a business term loan are the following:

- The loan agreement is based on the borrower's ability to repay the loan out of earnings
- As long as the borrower meets the terms of the loan agreement, no payments other than the regular installments will be required before the due date of the loan
- A long-term working relationship is established between lender and borrower

When lending on a medium to long-term basis, credit institutions tend to focus on the earning power of your business over a period of years. Therefore, to obtain long- term loans, your business plan must convince lenders of the viability and profitability of your business venture over time. If the loan is given to a limited business (corporation), the lender may require your personal guarantee so, if the business cannot repay the loan, you will be personally liable.

- **Small Business Loans Act**

Under the MSME Act 2006, the government program supports term debt financing to small businesses. The program is administered by many lending institutions to which a small business owner can apply. Talk to your lending institution to see if you qualify for a business loan under the terms and conditions of this program.

- **Operating Loans (Financing Working Capital)**

Obtaining sufficient working capital is frequently cited as one of the most difficult challenges facing small businesses. Obtaining an operating loan allows you to meet day-to-day operating costs. Working capital secured through operating loans should not be used to finance long-term fixed assets.

- **Line of Credit (Demand Loans)**

A line of credit is provided by financial institutions to assure the working capital required by your business. The financial institution will negotiate and lend up to a fixed amount of money under certain terms and conditions. It can cancel the line of credit at any time (hence the name demand loan). However, it will generally not cancel without cause. Demand loans are usually secured by current assets, such as accounts receivable or inventory, and, for most small businesses, a personal guarantee. Be sure to read and understand the terms and conditions before committing to a line of credit.

Lines of credit are extremely useful and flexible. The amount owing on the loan goes up (to the credit limit) and down as your business needs the money. Interest is paid only on the amount outstanding at the end of each month. However, advances are provided in fixed amounts so, again, understand the terms of your line of credit.

- **Accounts Receivable Financing**

In this method of financing, lenders will make cash available to your business using accounts receivable as security. With accounts receivable financing, you are able to secure a continuous source of operating funds without entering into long-term financing arrangements.

There are two methods by which this is accomplished. In the first method, your customers are asked to pay the lender directly. This is generally not desirable because it may upset the relationship you have with your customers. Using the second method, you receive payment from your customers and send the total payment intact to the lender.

The lender will return any excess payments after deducting finance charges.

- **Inventory Financing**

For some established firms, inventory will be financed by banks or commercial finance companies for up to 50% of the value of the raw materials, work in progress, and finished goods.

New businesses that require large amounts of unsold inventory, such as retail stores, often experience difficulty obtaining inventory financing. In most cases when inventory financing takes place, there must be a ready market for the products, and they should not be perishable or subject to early obsolescence.

Working Capital Management

Ask the owner of a small business about financial management and you will likely hear about the joys and tribulations of managing cash, accounts receivable, inventories, and accounts payable. Working-capital management—managing short-term assets (current assets) and short-term sources of financing (current liabilities)—is extremely important to most small companies.1 In fact, financial discipline is of utmost importance for the successful running of the business. Good business opportunities can be irreparably damaged by ineffective management of a firm's short-term assets and liabilities.

A firm's **working-capital cycle** is the flow of resources through the company's accounts as part of its day-to-day operations. The steps in a firm's working capital cycle are as follows:

Step 1: Purchase or produce inventory for sale, which increases accounts payable—assuming the purchase is a credit purchase—and increases inventories in hand.
Step 2: Either sell the inventory for cash, which increases cash, or sell the inventory on credit, which increases accounts receivable.
Step 3: Pay the accounts payable, which decreases accounts payable and decreases cash. Or pay operating expenses and taxes, which decreases cash.
Step 4: Collect the accounts receivable when due, which decreases accounts receivable and increases cash.
Step 5: Begin the cycle again.

Depending on the industry, the working-capital cycle may be long or short. For example, it is only a few days in the grocery business; it is longer, most likely months, in an automobile dealership. Whatever the industry, however, management should be working continuously to shorten the cycle.
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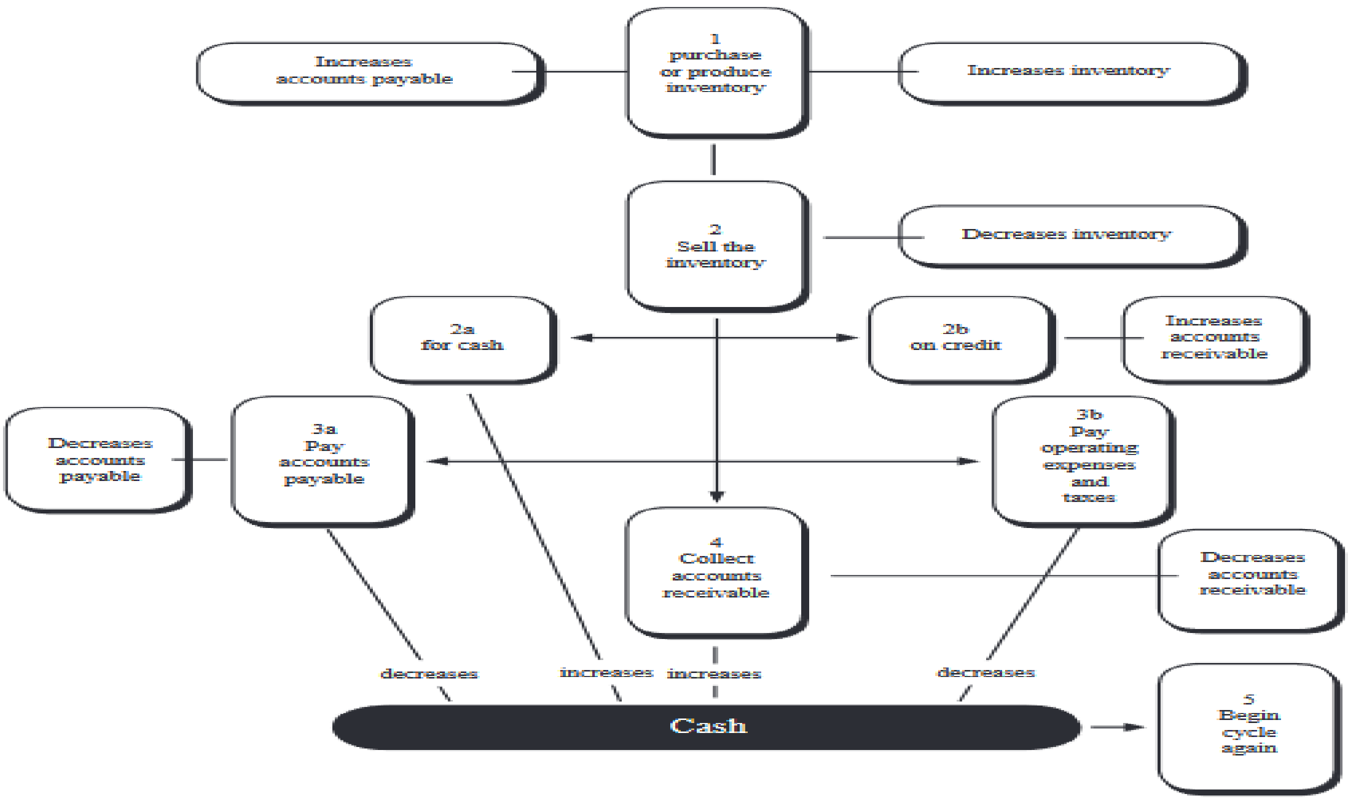
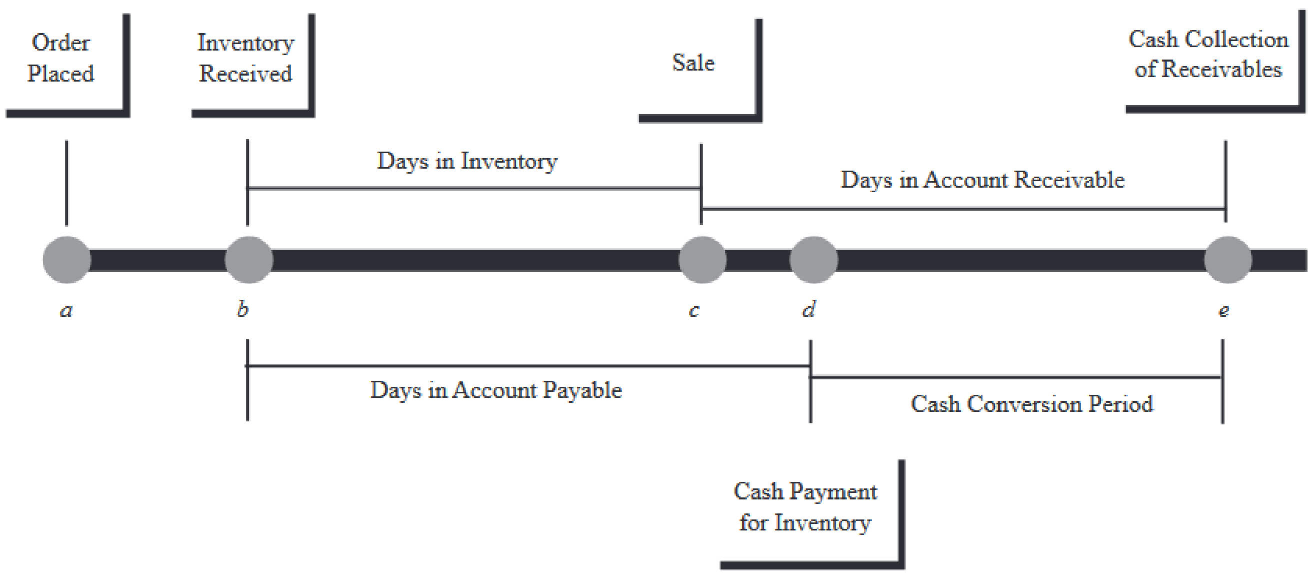


Timing and Size of Working-Capital Investments

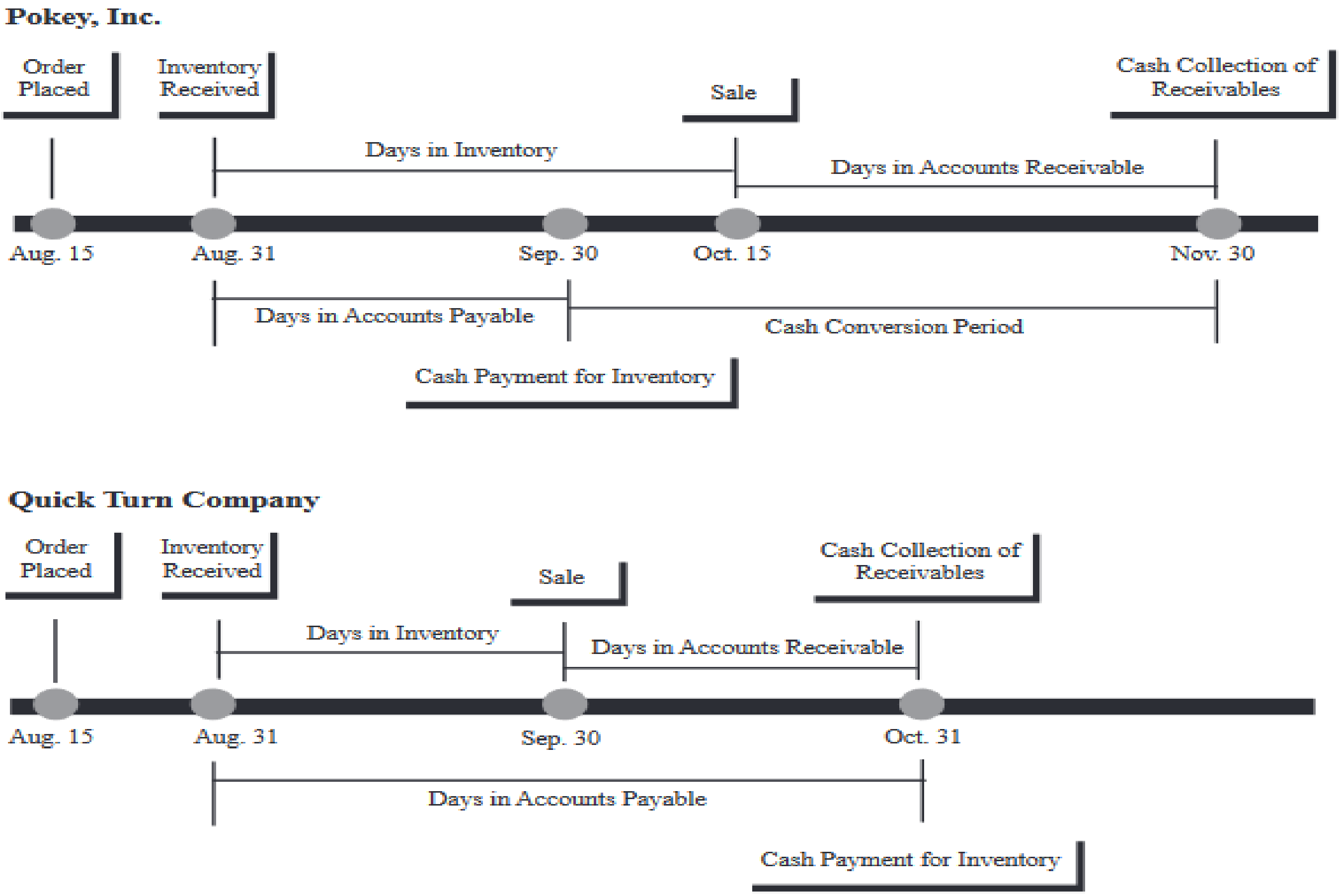
The owners of small business companies need to understand the working-capital cycle, in terms of both the timing of investments and the size of the investment required (for example, the amounts necessary to maintain inventories and accounts receivable). The owner's failure to understand these relationships results in many financial problems of small companies. It has been noticed that too many entrepreneurs wait until a problem arises to deal with working capital. The figure below shows the chronological sequence of a hypothetical working-capital cycle. The time line reflects the order in which events unfold, beginning with an investment in inventory and ending with collection of accounts receivable. The key dates in the exhibit are as follows:
Day a: Inventory is ordered in anticipation of future sales.
Day b: Inventory is received.
Day c: Inventory is sold on credit.
Day d: Accounts payable come due and are paid.
Day e: Accounts receivables are collected.

The investing and financing implications of the working-capital cycle reflected in the figure below are as follows: Money is invested in inventory from day b to day c. The supplier provides financing for the inventories from day b to day d. Money is invested in accounts receivable from day c to day e. Financing of the firm's investment in accounts receivable must be provided from day d to day e. This time span, called the cash conversion period, represents the number of days required to complete the working-capital cycle, which ends with the conversion of accounts receivable into cash. During this period, the firm no longer has the benefit of supplier financing (accounts payable). The longer this period lasts, the greater the potential cash flow problems for the firm.



Examples of working-capital management

The figure below offers two examples of working-capital management by firms with contrasting working-capital cycles: **Pokey, Inc**., and **Quick Turn Company**. On August 15, both firms buy inventory that they receive on August 31, but the similarity ends there. Pokey, Inc., must pay its supplier for the inventory on September 30, before eventually reselling it on October 15. It collects from its customers on November 30. As you can see, Pokey, Inc., must pay for the inventory two months prior to collecting from its customers. Its cash conversion period—the time required to convert the paid-for inventories and accounts receivable into cash—is 60 days. The firm's managers must find a way to finance this investment in inventories and accounts receivable, or else they will experience cash flow problems. Furthermore, although increased sales should produce higher profits, they will compound the cash flow problem because the company will have to finance the investment in inventory until the accounts receivable are collected 60 days later. Now consider Quick Turn Company's working-capital cycle, shown in the bottom portion of the figure. Compared to Pokey, Quick Turn Company has an enviable working-capital position. By the time Quick Turn must pay for its inventory purchases (October 31), it has sold its product (September 30) and collected from its customers (October 31). Thus, there is no cash conversion period because the supplier is essentially financing Quick Turn's working-capital needs.



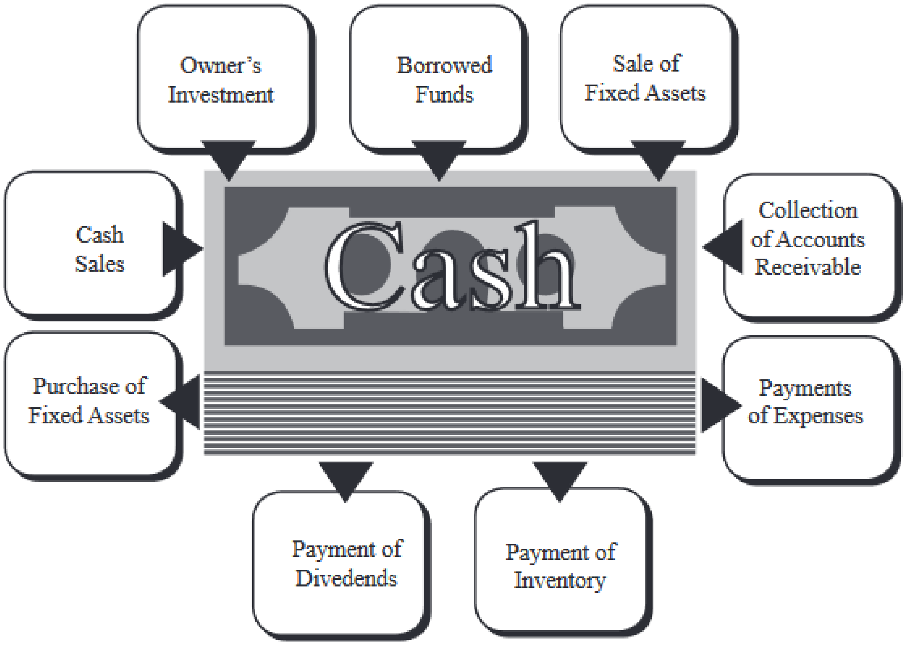
Managing Cash Flows

It should be clear by now that the core of working-capital management is monitoring cash flows. Cash is continually moving through a business. It flows in as customers pay for products or services, and it flows out as payments are made to other businesses and individuals who provide products and services to the firm, such as employees and suppliers. The typically uneven nature of cash inflows and outflows makes it imperative that they be properly understood and managed.

Nature of Cash Flows

A firm's net cash flow may be determined quite simply by examining its bank account. Monthly cash deposits less checks written during the same period equal a firm's net cash flow. If deposits for a month add up to $100,000 and checks total $80,000, the firm has a net positive cash flow of $20,000. The cash balance at the end of the month is $20,000 higher than it was at the beginning of the month. The figure below graphically represents the flow of cash through a business. It includes not only the cash flows that arise as part of the firm's working-capital cycle but other cash flows as well, such as those from purchasing fixed assets and issuing stock. More specifically, cash sales, collection of accounts receivable, payment of expenses, and payment for inventory reflect the inflows and outflows of cash that relate to the working-capital cycle, while the other items in the figure below represent other, longer-term cash flows.

As has been emphasised on several occasions, calculating cash flow requires that we distinguish between sales revenue and cash receipts—they are seldom the same. Revenue is recorded at the time a sale is made but does not affect cash flow at that time unless the sale is a cash sale. Cash receipts, on the other hand, are recorded when money actually flows into the firm, often a month or two after the sale. Similarly, it is necessary to distinguish between expenses and disbursements. Expenses occur when materials, labour, or other items are used. Payments (disbursements) for these expense items may be made later, when checks are issued. Depreciation, while shown as an expense, is not a cash outflow. Given the difference between cash flows and profits, it is absolutely essential that the entrepreneur develop a cash budget to anticipate when cash will enter and leave the business. In the next section, we will describe and illustrate the cash budgeting process.



Cash Budget

The cash budget is a primary tool for managing cash flows. The budget is concerned specifically with dollars received and paid out. In contrast, the income statement takes items into consideration before they affect cash—for example, expenses that have been incurred but not yet paid and income earned but not yet received. By using a cash budget, an entrepreneur can predict and plan the cash flows of a business. No single planning document is more important in the life of a small company, either for avoiding cash flow problems when cash runs short or for anticipating short-term investment opportunities if excess cash becomes available.

Managing Accounts Receivables

How accounts receivable affect cash? This has to be understood. Granting credit to customers, although primarily a marketing decision, directly affects a firm's cash account. By selling on credit and thus allowing customers to delay payment, the selling firm delays the inflow of cash. The total amount of customers' credit balances is carried on the balance sheet as accounts receivable-one of the firm's current assets. Of all noncash assets, accounts receivable are closest to becoming cash.

Sometimes called near cash, or receivables, accounts receivable typically are collected and become cash within 30 to 60 days following a sale.

Managing Inventories

Inventory is a "necessary evil" in the financial management system. It is "necessary" because supply and demand cannot be managed to coincide precisely with day-to-day operations; it is an "evil" because it ties up funds that are not actively productive.
Reducing Inventory to Free Cash Inventory is a bigger problem for some small businesses than for others. The inventory of many service companies, for example, consists of only a few supplies. A manufacturer, on the other hand, has several inventories: raw materials, work in process, and finished goods. Retailers and wholesalers—especially those with high inventory turnover rates, such as firms in grocery distribution—are continually involved in solving inventory management problems.

The emphasis in this section is on practices that will minimise average inventory levels, thereby releasing funds for other uses. The correct minimum level of inventory is the level needed to maintain desired production schedules and/or a certain level of customer service. A concerted effort to manage inventory can trim excess inventory and pay handsome dividends.

Monitoring Inventory: One of the first steps in managing inventory is to discover what's in inventory and how long it's been there. Too often, items are purchased, warehoused, and essentially forgotten. A yearly inventory for accounting purposes is inadequate for proper inventory control. Items that are slow movers may sit in a retailer's inventory beyond the time when markdowns should have been applied. Computers can provide assistance in inventory identification and control. Although physical inventories may still be required, their use will only serve to supplement the

Controlling Stockpiles Small business managers tend to overbuy inventory for several reasons. First, an entrepreneur's enthusiasm may lead him or her to forecast greater demand than is realistic. Second, the personalisation of the business–customer relationship may motivate a manager to stock everything customers want. Third, a price-conscious manager may be overly susceptible to a vendor's appeal to "buy now, because prices are going up." Managers must exercise restraint when stockpiling. Improperly managed and uncontrolled stockpiling may greatly increase inventory-carrying costs and place a heavy drain on the funds of a small business

Managing Accounts Payable

Cash flow management and accounts payable management are intertwined. As long as a payable is outstanding, the buying firm can keep cash equal to that amount in its own checking account. When payment is made, however, that firm's cash account is reduced accordingly. Although payables are legal obligations, they can be paid at various times or even renegotiated in some cases. Therefore, financial management of accounts payable hinges on negotiation and timing. Any business is subject to emergency situations and may find it necessary to ask creditors to postpone its payable obligations. Usually, creditors will cooperate in working out a solution because it's in their best interest for a client firm to succeed.
"Buy now, pay later" is the motto of many entrepreneurs. By buying on credit, a small business is using creditors' funds to supply short-term cash needs. The longer creditors' funds can be borrowed, the better. Payment, therefore, should be delayed as long as acceptable under the agreement. Typically, accounts payable (trade credit) involves payment terms that include a cash discount. With trade-discount terms, paying later may be inappropriate.

Capital Budgeting

Capital budgeting, and investment appraisal, is the planning process used to determine whether an organization's long term investments such as new machinery, replacement of machinery, new plants, new products, and research development projects are worth the funding of cash through the firm's capitalization structure.

Some capital budgeting decisions that might be made by a small firm include the following:

- Develop and introduce a new product that shows promise but requires additional study and improvement.
- Replace a firm’s delivery trucks with newer models.
- Expand sales activity into a new territory.
- Construct a new building.
- Hire several additional salespersons to intensify selling in the existing market.

Capital Budgeting Techniques

The three major techniques for making capital budgeting decisions are: (1) the accounting return on investment technique, (2) the payback period technique, and (3) the discounted cash flow technique, using either net present value or internal rate of return. They all attempt to answer the same basic question: Do the future benefits from an investment exceed the cost of making the investment? However, each technique addresses this general question by focusing on a different specific question. The specific question each addresses can be stated as follows:

Accounting return on investment: • How many dollars in average profits are generated per dollar of average investment?
Payback period: • How long will it take to recover the original investment outlay?
Discounted cash flows: • How does the present value of future benefits from the investment compare to the investment outlay?

Three simple rules are used in judging the merits of an investment. Although they may seem trite, the rules state in simple terms the best thinking about the attractiveness of an investment. A) The investor prefers more cash rather than less cash. B) The investor prefers cash sooner rather than later. C) The investor prefers less risk rather than more risk.

Financial and Non-Financial Institutions Supporting Small Scale Industries in India

These institutions include:

1. Industrial Finance Corporation of India (IFCI):

IFCI was set up as a statutory corporation in July 1948. With effect from July 1, 1993 it has been converted into a company.

Objectives:

The purpose of the IFCI is "to make medium and long-term credits more readily available to industrial concerns in India, particularly in circumstances where normal banking accommodation is inappropriate or recourse to capital issue methods is impracticable." The corporation provides financial assistance for the setting up of new ventures as well as for the modernisation and expansion of existing enterprises. The IFCI gives priority to dispersal of industry, development of backward areas, growth of industries in the co-operative sector, etc.

It pays special attention to the following types of projects:

(i) Projects located in backward regions,

(ii) Projects promoted by new entrepreneurs and technocrats,

(iii) Projects based on indigenous technology,

(iv) Projects having potential for exports and import substitution,

(v) Projects likely to meet growing demand for essential commodities,

(vi) Projects that provide machinery, fertilisers, pesticides and other inputs for agriculture.

Forms of Assistance:

IFCI provides financial assistance in the forms of loans, guarantees, underwriting, direct subscription to shares and debentures, etc. It also offers equipment leasing, buyers' and suppliers' credit, finance to leasing and hire-purchase firms and merchant banking services.

Criteria for Assistance:

While granting assistance, the IFCI takes into consideration the following factors – (i) importance of the industry, (ii) feasibility of the project, (iii) demand and supply of the product, (iv) availability of raw materials and technical know-how, (v) cost of the project, (vi) resources of the concern, (vii) managerial competence and experience, and (viii) security offered.

Progress and Review:

There has been a spectacular rise in the financial assistance provided to small- scale units and new entrepreneurs. IFCI generally finances up to half of the total cost of setting up/ modernisation/expansion of an industrial unit.

2. Industrial Credit and Investment Corporation of India (ICICI Bank):

ICICI was set up as a public limited company on January 5, 1955.

Objectives:

To – (i) assist in the promotion, expansion and modernisation of industrial enterprises in the private sector; (ii) encourage and promote the participation of private capital, both Indian and foreign, in such enterprises; and (iii) encourage and promote private ownership of industrial investment and expansion of investment markets.

Forms of Assistance:

ICICI provides assistance in the form of loans, guarantees, direct subscription to shares and debentures, sponsoring and underwriting issues, making funds available for reinvestment, securing and furnishing technical and managerial advice. It also provides equipment leasing, suppliers' credit, merchant banking and venture capital services.

Eligibility for Assistance:

ICICI provides assistance to companies in private sector and joint sector. It can also assist co-operative societies. It is authorised to provide foreign currency loans to proprietary and partnership firms. Ordinarily assistance exceeding Rs. 5 lakh is provided. Loans are given for buying capital assets. ICICI helps in the promotion of new enterprises as well as in the expansion and modernisation of existing concerns.

Criteria for Assistance:

While granting assistance, ICICI takes into account the basic soundness of the project, competence and experience of management, sources of finance and contribution of the promoters, nature of security, reasonableness of cost estimates, repaying capacity of the borrower, etc.

Progress and Review:

Over the years, ICICI has emerged as the leading supplier of foreign currency loans and as a pioneer in the field of underwriting. However, it is not a significant source of finance for small-scale industries. It is now more a commercial bank than a development financial institution.

3. Industrial Development Bank of India (IDBI):

IDBI was set up on July 1, 1964 as an apex institution in the field of industrial finance.

Objectives:

The objectives of the IDBI are to – (i) co-ordinate, regulate and supervise the activities of all financial institutions providing term finance to industry; (ii) enlarge the usefulness of these institutions by supplementing their resources and by widening the scope of their assistance; (iii) provide direct finance to industry to bridge the gap between demand and supply of long-term and medium-term finance of industrial concerns in both public and private sectors; (iv) locate and fill up gaps in the industrial structure of the country; (v) adopt and enforce a system of priorities so as to diversify and speed up the process of industrial growth.

The Bank has been conceived of as a development agency that will ultimately be concerned with all questions or problems relating to industrial finance in the country.

IDBI provides assistance to small-scale units indirectly through its refinance and bills rediscounting schemes. It is not possible for IDBI to reach large number of small industrial units scattered all over the country directly. Therefore, IDBI provides refinance of loans granted by banks and State financial Corporations to small-scale units.

Refinance Assistance:

IDBI replenishes the loans provided by commercial banks, co-operative banks, regional rural banks, SFCs, SIDCs, SIICs to small Scale sector. IDBT has imposed selling on rates of interest to be charged by primary lenders so that the benefit goes ultimately to the borrowing units.

Some of the important details of the scheme are as follows:

(i) Promoter's contribution normally varies from 10% to 22.5%.

(ii) Refinance is provided at concessional rates of interest in respect of loans to specified types of borrowers.

(iii) The period of repayment is fixed by the lending institution after taking into account profitability and debt servicing capacity of the assisted units, suspect to a maximum of 10 years.

(iv) A debt equity ratio up to 3:1 is permitted except for projects involving seed/special capital assistance wherein a ratio of 2:1 is applicable.

(v) A rebate of 0.5 per cent is allowed to small industries which obtain ISI mark for all their products.

(vi) Refinance is also provided for rehabilitation of sick units. Rehabilitation assistance might include margin money for additional working capital, payment of statutory liabilities, cash losses during nursing, margin capital expenditure for restarting the units towards viability.

(vii) Refinance for modernisation is provided to help small units to improve/update technology with a view to improve productivity and quality.

Automatic Refinance Scheme:

The objective of this scheme is to avoid delays in the flow of finance to small-scale industries. Loans up to Rs. 7.5 lakh are fully refinanced and assistance is sanctioned within days. Under the scheme concessional interest rate is charged from SC/ST, women, and physically handicapped entrepreneurs up to Rs. 50,000.

No minimum promoter contribution is insisted upon from such entrepreneurs. A new scheme to subsidies the cost of training for women entrepreneurs and consultancy services, up to the stage of implementation has been launched.

Composite Loan Scheme:

Since January, 1979 the automatic refinance scheme also covers composite loans given to artisans, small and cottage industries in villages and small towns with a population not exceeding 5,00,000. Loans up to Rs. 50,000 are given under this scheme. The loan can be utilised for equipment finance or working capital or both. Loan is provided at a concessional rate of 10% in backward areas and 12% in other areas. No margin contribution on the part of the beneficiary is required.

Single Window Scheme:

This scheme is designed to provide working capital assistance to small- scale units. New small-scale and tiny units with project cost up to Rs. 5 lakh and working capital requirement up to Rs. 2-5 lakh are eligible under the scheme. Both term loan and working capital has to be sanctioned by a single institution.

Seed Capital Scheme:

The scheme aims at assisting new entrepreneurs who lack adequate resources of their own to set up small-scale units. The assistance is given in the form of interest-free soft loans to proprietary and partnership firms up to Rs. 15 lakh. The assistance is repayable over a period of 10 years with a moratorium of 5 years. The scheme is operated through SFCs and SIDCs.

Special Scheme for Ex-Servicemen:

Under this scheme, ex-Servicemen (including widows of ex-Servicemen) and disabled service personnel are provided assistance by IDBI in collaboration with Director General of Resettlement. They are provided equity support to the extent of Rs. 1, 80,000 per project for starting small-scale units. Projects costing up to Rs. 12 lakh are eligible for assistance.

The promoter is required to contribute at least 10% of the project cost. A nominal interest at the rate of 1 per cent is charged. The assistance is repayable within a period of 10 years, including an initial moratorium of 5 years.

In case of transport operators the repayment period is 5 years including grace period of 3 years.

Bills Rediscounting Scheme:

Under the scheme, suppliers of indigenous machinery can discount their bills and promissory notes with banks and other financial institutions. These can in turn avail of rediscount facilities from the IDBI. This facility is available for purchase of machinery for modernisation, expansion and diversification. An advance or down payment of 15% (10% in case of commercial vehicles and textile machinery) is generally insisted upon.

Credit Guarantee Scheme:

IDBI provides guarantees to banks and other financial institutions for loans made to small-scale units. The guarantee extends to 75 per cent of the amount in default or the amount guaranteed whichever is lower.

IDBI also provides assistance to NSIC for the supply of machinery on hire-purchase basis.

Export Finance:

IDBI operates three schemes to encourage exports from small-scale sector:

(a) Refinancing of medium term export credit granted by approved banks

(b) Direct credit to exporters

(c) Overseas buyers’ credit.

Small Industries Development Bank of India (SIDBI):

In view of the increasing need for financial assistance to small-scale industries, a specialised financial institution exclusively for the small-scale sector became necessary. Accordingly, the SIDBI was set up as a subsidiary of the IDBI. It commenced operations on April 2, 1990. SIDBI took over the Small Industries Development Fund and the National Equity Fund set up earlier in IDBI.

SIDBI has been assigned the role of apex financial institution for the promotion, financing and development of small-scale sector and for coordinating the activities of other institutions engaged in providing assistance to small scale units.

The main functions of SIDBI are as follows:

(a) Refinancing of term loans granted by SFCs, SIDCs/banks and other eligible financial institutions;

(b) Direct discounting and rediscounting of bills arising out of sale of machinery/capital equipment by small-scale manufacturers on deferred credit and rediscounting of short- term trade bills arising out of sale of products of the small-scale sector;

(c) Providing assistance for development of marketing infrastructure, creating new marketing channels for the products of small-scale units in domestic and foreign markets;

(d) Direct assistance for development of industrial estates/areas with requisite infrastructural facilities;

(e) Resource support to National Small Industries Corporation and State Small Industries Development Corporations for their raw material supply and marketing of products as well as their hire-purchase and leasing activities;

(f) Extending technical and related support services;

(g) Providing equity type of assistance to special target groups like new promoters, women and ex-servicemen under national Equity Fund, Mahila Udyam Nidhi and Self Employment Scheme for Ex-Servicemen;

(h) Providing resource support for the promotion of factoring companies, to mitigate the difficulties faced by small-scale units on account of delayed payment;

(i) Direct assistance to help widen the supply base of small-scale ancillary units and encouraging the existing units to undertake technology up gradation/modernisation for improving the quality and competitiveness of their products;

(j) Promoting employment-oriented industries in semi-urban areas so as to check unhealthy migration to urban areas.

SIDBI has done commendable work to assist the small-scale sector. A special scheme for acquisition of computers and accessories was introduced in 1991-92 to improve productivity and operational efficiency of small-scale units. SIDBI introduced two new schemes during 1992-93; equipment finance scheme for providing direct finance to existing well-run small-scale units taking up technology up gradation/modernisation and refinance for resettlement of voluntarily retired workers of NTC.

The other new scheme launched was venture capital fund exclusively for small- scale units, with an initial corpus of Rs. 10 crores. It enrolled itself as an institutional member of the OTC Exchange of India (OTCEI). SIDBI also provides financial support to National Small Industries Corporation for providing leasing, hire-purchase and marketing support to the industrial units in the small-scale sector.

There has been a continuous increase in the assistance provided by SIDBI to the small-scale sector.

4. National Small Industries Corporation:

NSIC provides finance to small scale units by way of supply of machinery on hire-purchase basis. The corporation takes upon itself the entire purchase responsibility beginning from locating competent suppliers to delivery of machines. Minimum assistance provided is Rs. 25,000 and an entrepreneur is required to pay 30% earnest money. Special concessions are given to tiny units, units in backwards areas, technocrats, SC/ST, physically handicapped and ex-Servicemen.

In line with the fast changing scenario of the small scale sector in the context of liberalization, National Small Industries Corporation (NSIC) has been reorienting its strategies for developing competitive ability in small scale units. In sharp contrast to specialized financial institutions, NSIC offers an integrated package of financial services of long range interest to the small scale sector.

In view of the importance of NSIC at the national level and the significant initiatives it has taken in the post liberalization period, it is planned to highlight the innovative approaches adopted by the corporation in the recent years, as part of the review of the working of the corporation for the 1991-97 period.

Contribution of innovative changes introduced in recent years is still small quantitatively, but the focus is on the direction of helping existing small scale units to strengthen their efforts at technological up gradation, adoption of new processes and technologies, diversification and improvement of R & D capabilities apart from export orientation.

The sequence of review is given here – changing role and 40 anniversary celebrations, software technology park, Techmart India, Udyog expo, technology transfer centre, strategic alliance of NSIC, CSIR, and APCTT for technology acquisition and modernization, technology up gradation and new technologies developed, international cooperation and project exports, product exports, industrial design centre, financial services scheme, enterprise building programme, hire purchase, equipment leasing and modernization, raw material assistance, marketing support programme, government stores purchase programme, review of operations and recognition gained by the corporation from various quarters.

The National Small Industries Corporation Ltd. (NSIC) was established by the Union Ministry of Industry in 1955 to promote, aid, and foster the growth of small scale industries in the country. NSIC continues to remain in the forefront of industrial development throughout the country with its multifaceted programmes and projects to assist the SSI sector.

On 19 April, 1995, NSIC celebrated its 40th anniversary. As the small scale sector continues to be an important instrument for enterprise building, dispersal of industries and employment generation, NSIC continues to perform its assigned role successfully in this endeavour.

Due to the changed industrial scenario and gradual globalization of the economy, small scale sector has to face stiff competition as the insulated and protected market conditions are no longer likely to be available. To enable SSI sector to meet this challenge, NSIC has been reorienting its policies and programmes. The NSIC is committed to strengthen the SSI sector to play a dominant role in the post liberalization period

7. State Financial Corporations (SFCs):

IFCI caters largely to the needs of large-scale and medium-scale enterprises. To cater to the needs of small scale industries, the State Finance Corporations Act, 1951 was passed. Under this Act, a financial Corporation has been set up in every State and Union Territory.

Forms of Assistance:

SFCs provide assistance in the following forms:

(a) Advancing long-term and medium-term loans to small-scale and medium-scale units organized as proprietorships, partnerships, companies and co-operative societies.

(b) Guaranteeing loans raised by small-scale units in the capital market.

(c) Guaranteeing deferred payments.

(d) Underwriting the issues of shares, debentures and bonds of industrial concerns.

(e) Subscribing to debentures of industrial concerns.

(f) Operating refinance schemes of IDBI.

(g) Disbursing loans as agents of State Governments.

Limits of Assistance:

The maximum assistance is Rs. 30 lakh for proprietorships and partnerships and 60 lakh for companies and co-operative societies. Industrial undertakings with a paid up capital plus fee reserves of more them Rs. 1 crore are not eligible for assistance. The assistance is generally repayable within a period of 10 years. Small-Scale units located in backward areas are provided assistance at a concessional rate of interest.

SFCs operate special schemes for women entrepreneurs, ex-Servicemen, SC/ST entrepreneurs, handicapped entrepreneurs, road transport operators, hotels, tourism, hospitals and nursing homes. Under the Composite Loan Scheme both term loan and working capital is provided.

SFCs assistance has two noteworthy features. First, assistance to units located in backward areas has been increasing rapidly and accounts for more than 40 per cent of the total assistance. Secondly, the share of small-scale units in the total assistance has increased steeply to 90% per cent.

8. SIDO and Marketing Assistance to Small Scale Industries:

The Small Industries Development Organization (SIDO) continues to be the nerve centre of the small industry development programme in the country. Although the actual marketing of small industry products remains outside its scope, SIDO's work with regard to indirect marketing assistance to small scale units is akin to that of a friend, philosopher, and guide – it is the only institution which regularly collects and assimilates a wealth of useful statistics about small scale industries through a series of surveys and studies.

This includes industry outlook reports; industry prospect sheets; area surveys; and market surveys. In fact, the report on various surveys undertaken by the economic investigation division of the organization is the only source of organized market information available to small scale units. SIDO, through its network of Small Industries Service Institutes (SISIs), provides consultancy and training services in marketing management.

9. Export-Import Bank:

EXIM Bank was established in January 1982 with a view to providing financial assistance to exporters and importers and functioning as a nodal body for coordinating the work of the institutions engaged in financing export-import of goods and services with a view to promoting the country's international trade.

The powers of Exim bank are summarized in the following points:

i. Grant loans and advances to commercial banks or other eligible financial institutions by way of refinance of export-import loans.

ii. Underwriting security issues of any company engaged in export or import.

iii. Accept, collect, discount, rediscount, purchase, sell or negotiate within or outside India, bills or promissory notes relating to export or import.

iv. Open, grant, issue, and confirm letters of credit and collect bills and other documents thereunder.

v. Undertake development and merchant banking activities related to export-oriented units.

vi. Provide investment finance to Indian exporters for equity participation in joint ventures abroad.

vii. Other activities related to foreign trade like buying, selling, or dealing in foreign exchange.

Through its innovative packages of financial assistance it has successfully promoted Indian exports. It has established an Export Development Fund for the purpose of research, training, survey, and market intelligence in connection with the country's international trade.

EXIM Banks export financing schemes comprise of the following:

i. Direct financial assistance to Indian exporters to enable them to extend term credit to overseas importers of eligible Indian goods.

ii. Pre-shipment credit to Indian exporters to enable them to buy raw materials to facilitate production for export.

iii. Lines of credit facility to enable overseas financial institutions, foreign governments, etc. to lend term-loans to foreign importers to finance import of Indian goods.

iv. Refinance of export credit to commercial banks authorized to deal in foreign exchange,

v. Export bills rediscounting scheme of the bank enables commercial banks in India to fund post shipment export credit to Indian exporters.

In 1984, EXIM introduced a new financial programme to support deemed exports in India. Deemed exports occur in case of specified transactions within India which result in foreign exchange earning or savings of foreign exchange. For example, supplies made by Indian manufacturers to units in

Free Trade Zones and 100 per cent export units qualify as deemed exports. The Bank offers deferred credit at an internationally competitive rate to eligible deemed exports either through the supplier or directly to the buyer.

10. Industrial Finance Corporation of India (IFCI):

Industrial Finance Corporation of India (IFCI) is the first national level Development Bank set up in 1948, soon after Independence by an Act of Parliament with the objective of providing medium and long term finance to eligible industrial concerns in the country.

IFCI's activities may be broadly classified into:

i. Project Financing Operations and

ii. Promotional Activities.

i. Project Financing Operations:

Project Financing Operations benefit medium-large and large sized industrial projects organized in co-operative or corporate sector. IFCI provides support measures to improve productivity of human and material resources and accelerate the process of industrialization.

As part of its promotional activities, it participates with IDBI and ICICI to provide a range of services.

IFCI has also its own promotional schemes with the following objectives:

(a) Fill in gaps in promotion and growth of industries in rural, tiny, and small scale sector.

(b) Provide needed guidance in modernization, market surveys, marketing assistance, quality control, etc., and also in identification, formulation, implementation, and operation of industrial projects in rural, tiny, and small/medium scale sectors.

(c) Improve productivity of material and human resources.

ii. Promotional Schemes:

These are broadly sub-divided into the following three categories:

a. Consultancy Fee Subsidy Schemes:

Subsidy under these schemes is routed through technical consultancy.

Subsidy is available for following specific purposes under distinct schemes:

(1) Scheme of subsidy for meeting cost of feasibility studies to small entrepreneurs in rural, cottage, tiny and small scale sector,

(2) Scheme of subsidy for promotion of ancillary and small scale industries,

(3) Scheme of subsidy to new entrepreneurs for meeting cost of market research/surveys.

(4) Scheme of subsidy for providing marketing assistance to small scale units.

(5) Scheme of subsidy for revival of sick units in tiny and small scale sectors,

(6) Subsidy scheme for implementing modernization programme of small scale sector.

(7) Scheme of subsidy for control of pollution in small and medium scale units.

b. Interests' Subsidy Schemes:

Subsidy is available for following specific purposes under distinct schemes:

(1) Interest subsidy for Self-Development and Self-employment of Unemployed Young Persons.

(2) Scheme of interest subsidy to women entrepreneurs,

(3) Interest subsidy for encouraging adoption of indigenous technology.

(4) Scheme of interest subsidy for encouraging quality control measures in the small scale sector.

c. Assistance Schemes:

These include:

Schemes of assistance for encouraging quality control measures in small scale sector.

Role of NBFC's in supporting SSU's

NBFCs in India are growing to be the most preferred lender for Small business loans – but do you know why? NBFCs in India (Non-Banking Financial Company) are the second largest provider of micro-credit for small businesses, accounting for over 30.2% of the total industry. Non-banking financial companies (NBFCs) are financial institutions that offer banking services but do not have a banking license. NBFCs in India exist primarily to grant credit to small businesses. NBFCs help MSMEs meet their fund requirements by offering them loans.

Features of NBFCs:

- NBFCs can offer banking services such as loans and credit facilities, currency exchange, money markets, underwriting and merger activities.
- Unlike banks, NBFCs cannot carry out money transfers and they do not accept demand drafts and cheques.
- NBFCs are not subject to the banking regulations and oversight by federal and state authorities that traditional banks are tied to.
- Examples of NBFCs in India include Investment banks, mortgage lenders, money market funds, insurance companies, hedge funds, private equity funds, and lenders.

What are the Benefits of NBFCS in India for small businesses?

Earlier, small businesses looked to banks to get loans. However, NBFCs are stepping up their presence in the lending department. MSMEs have turned away from taking loans from banks because of:

- Tight and stringent regulatory norms
- Humongous paperwork
- Need for collateral to secure loans.

The benefits that come with applying for loans through NBFCs are:

- NBFCS can provide loans and credit facilities and can trade in money market instruments.
- NBFCs can use Aadhar based KYC to avoid repeating the KYC process for customers. This increases customer convenience as they will not have to undergo the KYC process when applying for loans with NBFCS (if they have already got their KYC done at a bank)
- NBFCs are faster than banks with regard to approving loan applications for borrowers.
- The Financial institutions customise their products according to the needs of the business applying for a loan.
- NBFCs are less stringent to eligibility, requirement, and paperwork.

The types of NBFCs registered with the RBI are:-

- **Equipment leasing Company**: **-** Is any financial institution whose principal business is that of leasing equipment's or financing of such an activity.
- **Hire-purchase Company**: **-** is any financial intermediary whose principal business relates to hire purchase transactions or financing of such transactions.
- **Loan Company**: **-** means any financial institution whose principal business is that of providing finance, whether by making loans or advances or otherwise for any activity other than its own (excluding any equipment leasing or hire-purchase finance activity).
- **Investment Company**: **-** is any financial intermediary whose principal business is that of buying and selling of securities.

BAJAJ FINSERV

Bajaj Finserv offers customised and affordable finance that helps you cater to varied business needs with ease. With low interest rates, flexible repayment options and good customer service, this option is convenient and hassle-free and will help you improve the profitability of your business.

Loans options from Bajaj Finserv:

-Working Capital Loans to manage daily business operations
-Machinery Loans to finance equipment purchase and related costs
-Business Loans For Women that give female entrepreneurs financial support
-SME/MSME Business Loans to finance small-scale businesses
-Business Loans for traders, manufacturers and service enterprises

Bajaj Finserv's Business Loans offer the following benefits:

Flexi Loan facility for meeting unpredictable business needs

You can opt for a Flexi Loan facility under any Bajaj Finserv Business Loan wherein you get an approved loan amount for a fixed period. You can make withdrawals from this sanctioned amount in instalments of your choosing, as and when the need arises. The rest of the amount will be available to you until the end of the tenor at your discretion. More importantly, you will only have to pay interest on the amount that you use. This helps you save on interest payments on the unused amount. Also, you have the freedom to pay just the interest as EMI, while the principal is payable at the end of the tenor. This means that you can manage your cash flow efficiently, and plan your loan in a way that the repayment time coincides with your business receivables. You can also make part prepayments when you have excess income, and re-avail prepaid funds when you need to at no charge.

Simple eligibility criteria with minimal documents to increase convenience

The eligibility criteria for a Bajaj Finserv Business Loan are simple, making it easy for you to access funds via this loan. You should be between 25–55 years old, with a business vintage of at least 3 years. Besides, you should have filed business tax returns for at least a year, and have your turnover audited by a chartered accountant. In a nutshell, the following business types are eligible for a business loan: -Self-employed professionals like doctors, accountants, etc. -Self-employed non-professionals like traders, manufacturers, retailers, etc -Entities such as partnerships, limited liability partnerships, private limited companies and closely held limited companies Along with your application, you only have to submit a handful of documents such as KYC documents, certificate of business and financial documents including bank statements to avail the loan. This reduced the time you spend on applying for the loan and offers faster processing too.

Availability of a high loan amount to meet your business requirements

With a high loan amount of Rs.30 lakh, you can use the funds for various business needs such as buying equipment, upgrading or expanding your existing setup or to fill working capital gaps. Once you take the loan, there is no restriction on how you can use the amount.

Collateral-free loans that are easy and simple to apply for

Bajaj Finserv’s Business Loans are collateral-free so you need not risk your personal or business assets. Since you don’t have to pledge an asset, the application and approval process is even quicker.

Pre-approved loan offers that give you access to fast financing

Pre-approved offers include discounted interest rates and additional top-up loans. These can help fulfil additional finance needs as your business grows. Besides, if you’re an existing customer with Bajaj Finserv, you have the added benefit of not having to apply for the loan from scratch, since your basic details are already in the records.

Easy online application for increased convenience

You can apply for a Bajaj Finserv Business Loan from the comfort of your home or office at the click of a button. You can get the loan approved almost instantly because of the simple online process and minimal documentation requirements.

Fast approval and disbursal of funds for urgent business needs

With up to Rs.30 lakh available to you in as soon as 24 hours, you can finance even the most urgent business needs in a timely manner.

MUTHOOT FINCORP

Key Features and Benefits of Small Business Loans From Muthoot Fincorp

Loan with Insurance Coverage

All our loans for small businesses can be protected by Credit Shield, whereby the nominee of the loan will not have to worry about repayments in case of the unfortunate event – the death of the borrower during the tenure of the loan. Our Muthoot Blue MSME Credit Shield offers easy and fast disbursal, interest rate charged on reducing balance, instant insurance coverage, lowest premiums, loan and life cover under single policy, and daily or monthly instalments.

Loans designed for all business needs

Business owners can avail our loans just like any SME Business Loan to buy new stock, purchase equipment , or any other working capital needs or meet spurts in demand due to seasonal trade or to expand the scope of the business. Our Small Business Loan starts from Rs 15000 and goes upto Rs 8,00,000.

Easy repayment options

We offer loans with easy repayment options. You do not have to leave your shop or counter even for a minute as the repayment facility is available at your doorstep under EDI Small Business Loans. There are a variety of repayment modes such as NACH, bank transfers, online payments, payment at the branch and doorstep collection.

Flexible Tenure with nil preclosure charges

Small Business Loans offered by Muthoot Fincorp come with varied and flexible tenure options. The tenure depends on the capital/loan you require for the business. The daily instalment plan under EDI Small Business Loans has the flexibility of repaying in 122 working days in 104 instalments. Whereas for loan with monthly instalments, tenures range from 6 to 36 months depending on the scheme you choose

Eligibility Criteria Required for Small Business Loans

Our loan for SME in India are designed to meet the ever growing aspirations of business owners, and to become their preferred financial service provider of choice. The criteria to avail our Small Business Loan is simple and flexible. Please call our customer care executive at 1800 102 1616 or visit your nearest Muthoot Fincorp branch for more details.

- The age of the applicant should be between 21 years to 65 years of age
- It is necessary to have a co-applicant
- You should have had the same business premise for at least 2 years
- You should have an operational bank account
- A minimum 600 of CIBIL score is ideal (wherever applicable) to get Small Business Loan from Muthoot Fincorp

Key Recommendations of Committee's

The Committee's approach to the financial architecture for MSME encompasses the following key elements:

- Encouraging registration;
- Opening of bank accounts;
- Access to equity financing;
- Creating a platform for receivables financing;
- Expanding and enhancing guarantee cover;
- Increasing distribution and reach to cover the large number of micro, small and medium enterprises (MSMEs) in the country through a wider base of financial intermediaries.

The Committee envisages creation of an apex policy administration authority to oversee administration of policy as seen in several countries with a well-developed MSME ecosystem. The Committee recommendations stress on creating a financial architecture for the MSME sector that would use technology driven platforms to drive inclusion in financing of the large number of MSMEs which do not have access to credit. This will facilitate realisation of the Make in India goal as articulated by the Prime Minister and be in consonance with the Government's Digital India mission. Simple registration/facilitation procedures, universal financial inclusion, strong guarantee programmes and a wider distribution network should enhance the connect between unbanked MSMEs and the financial system. Based on the recommendations of the Committee, bank credit to the MSME sector which was`10 lakh crore as of March 2014 could scale up to as much as `30 lakh crore in five years. The Committee recommendations would result in:

- Reducing operating costs
- Augmenting existing credit analysis processes with use of payment information for assessing credit worthiness
- Reducing credit costs for financiers
- Reducing borrowing costs for MSMEs.

The key recommendations to achieve the above goals are set out below:

1. **Create an apex authority** which would be called the National MSME Authority under the Ministry of MSME. To ensure a single point resource centre which will be a nodal agency to execute and administer programs, benefits & grievance redressal, facilitate ease of doing business, registration & inclusion and to design policy and implement the series of measures articulated in this report, there is a need for an apex authority to be established. The Authority will establish and administer an appropriate centralised and integrated National MSME Portal to target universal registration of MSMEs through an online, mobile-enabled simple one-page registration/facilitation form for MSMEs based on self-declaration with a simplified set of rules and documents, and issue a unique identifier, or Udyog Aadhar to the MSME.

The Authority will:

•Build seamless linkages with other relevant departments/ authorities to streamline other facilities, registrations& approvals

•Establish linkages between the portal and credit providers and guarantee/ insurance providers

•Act as a resource centre for all central government and state government MSME schemes across the country
•Coordinate with institutions providing equity finance, guarantees and financial assistance to improve the programmes funded by the government
•Enhance ease of doing business through accreditation of agencies to expand its own distribution reach
•Focus on advocacy and capacity building by leveraging skilling and research initiatives already in place
•Act as a grievance redressal forum

2. **Achieve, in a time bound manner, universal financial inclusion of MSMEs** by using the above registration to ensure that every registered MSME has a bank account. This can be an existing business banking account, and where bank account details are not available the process can facilitate opening a new business banking account with the information provided, including the ability to open a bank account entirely online using e-KYC (electronic validation of KYC requirement).The bank account should be linked to the Udyog Aadhar. To facilitate ease of doing business certain changes in the Companies Act, the Limited Liability Partnership Act and the Income Tax Act could be undertaken are suggested to provide simplified compliance, presumptive taxation and simplified dissolution for MSMEs.

3. Increase the flow of equity to the MSME sector by operationalising the `10,000 crore fund proposed in the Union Budget FY2014-15. The fund can be further leveraged multiple times to mobilize additional capital from private and institutional sources by increasing the eligible pool of domestic investors, providing appropriate tax incentives to qualified investors, as may be determined by regulatory authorities, for equity investment in small enterprises and formulating an easy exit policy to encourage innovation and risk taking to start new enterprises. Simultaneously, there is a need to introduce a level playing field for domestic equity financing as compared to foreign investors investing in start-ups/MSMEs. The divergent treatment of capital gains compared to mutual funds and listed equity may also be removed

4. Encourage establishment of an effective, online, technology-driven receivables financing platform with wide participation by credit providers, MSMEs, corporate and government units. This would be a key component of the new architecture, as permitted under the Trade Receivables Discounting System (TReDS) guidelines issued by the Reserve Bank of India(RBI).A strong receivables financing platform in the form of TReDS can lower the corpus requirement for guarantees for MSMEs. The bill acceptance and payment history data from TReDS should flow to credit bureaus to rate payment behaviour of corporate and government units.

5. Expand coverage under and enhance effectiveness & utilization of credit guarantee/insurance schemes and make the programmes accessible to a wider set of credit providers, upto and including select NBFCs and micro finance institutions. For this purpose, a seven fold increase in the corpus from `4,000 crore to about `28,000 crore over the next five years may be considered. The Ministry of MSME could determine the corpus required for guarantee schemes targeted at MSMEs based on the above estimate and augment the corpus in yearly tranches over the next five years. Of this, an amount of `5,000 crore could be considered in the forthcoming year. Other measures have been spelt out in detail in the chapter on guarantee and insurance schemes.

6. The financial architecture to serve the MSME sector should encompass a wider and deeper set of entities which will include scheduled commercial banks, non-bank finance companies, microfinance institutions, cooperative banks, the proposed new small finance banks and the proposed Post Bank of India. These entities could leverage outreach points outside the formal financial system (akin to the banking correspondent model) to enhance access to financial services through a hub-and-spoke approach, as also leverage the National MSME Portal to expand access.

7. Encourage expansion in coverage of credit bureaus to include a wider range of credit institutions and a wider range of transaction records to facilitate a better credit and payment history of the buyer and the seller. This is particularly relevant for MSMEs which seek credit from the formal financial sector for the first time and do not have a credit history. This has been further explained in the chapter on financial intermediaries.

E&SBM – MODULE IV

Marketing Considerations for a Small Business

Introduction

Marketing plays a major role in our daily lives. Each day is filled with consuming products made available by marketers. We pay for marketing each time we buy a product. In fact, half of every rupee spent at the retail level goes to cover the marketing costs. Marketing is responsible for satisfying customers, which, in turn, increases our standard of living and quality of life. The strategy for marketing goods produced by entrepreneur must, therefore, be ultimately beneficial to the consumer. No consumer is going to purchase goods unless he is satisfied with their quality and wherever necessary by an efficient after-sales service. ***Marketing*** **is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.** This section will help to understand the various aspects of marketing management.

SEGMENTATION

Development of a successful marketing strategy begins with an understanding of the market for the good or service. A market is composed of people or institutions with need, sufficient purchasing power and willingness to buy. The market place is heterogeneous with differing wants and varying purchase power. The heterogeneous marketplace can be divided into many homogeneous customer segments along several segmentation variables. The division of the total market into smaller relatively homogeneous groups is called market segmentation. **—Market segmentation is the division of a mass market into identifiable and distinct groups or segments, each of which has common characteristics and needs, and displays similar responses to marketing actions**. Products seldom succeed by appealing to everybody. The reasons are simple: not every customer is profitable nor worth retaining, not every product appeals to every customer. Hence the organizations look for a fit between their competencies and the segments profitability.

The logic of Segmentation

The concept of market segmentation has helped marketing decision making since the evolution of marketing. The goal of market segmentation is to partition the total market for a product or service into smaller groups of customer segments based on their characteristics, their potential as customers for the specific product or service in question and their differential reactions to marketing programs. Because segmentation seeks to isolate significant differences among groups of individuals in the market, it can aid marketing decision making in at least four ways:

1. Segmentation helps the marketer by identifying groups of customers to whom he could more effectively target marketing efforts for the product or service

2. Segmentation helps the marketer avoid trial-and-error methods of strategy formulation by providing an understanding of these customers upon which he can tailor the strategy

3. In helping the marketer to address and satisfy customer needs more effectively, segmentation aids in the implementation of the marketing concept

4. On-going customer analysis and market segmentation provides important data on which long-range planning (for market growth or product development) can be based.

Bases for Segmenting the Consumer Markets

Consumer markets are those where the products are purchased by ultimate consumers for personal use. Industrial markets are those where the goods and services are purchased for use either directly or indirectly in the production of other goods and services for resale. Market segmentation of these markets use different variables.

A) Geographic Segmentation: Geographic segmentation divides the market into geographical units such as nations, states, regions, counties, cities, or neighbourhoods. The company can operate in one or a few areas, or it can operate in all but pay attention to local variations. In that way it can tailor marketing programs to the needs and wants of local customer groups in trading areas, neighbourhoods, even individual stores.

B) Demographic Segmentation: One reason demographic variables such as age, family size, family life cycle, gender, income, occupation, education, religion, race, generation, nationality, and social class are so popular with marketers is that they‘re often associated with consumer needs and wants. Another is that they‘re easy to measure.

C) Psychographic Segmentation: Psychographics is the science of using psychology and demographics to better understand consumers. In psychographic segmentation, buyers are divided into groups on the basis of psychological/personality traits, lifestyle, or values. People within the same demographic group can exhibit very different psychographic profiles.

D) Behavioural Segmentation: In behavioural segmentation, marketers divide buyers into groups on the basis of their knowledge of, attitude toward, use of, or response to a product. These include: i) Needs and Benefits ii) Decision Roles iii) User and Usage-Related Variables

TARGETING

Targeting Approaches

Target market selection is the next logical step following segmentation. Once the market-segment opportunities have been identified, the organization got to decide how many and which ones to target. Lot of marketing effort is dedicated to developing strategies that will best match the firm's product offerings to the needs of particular target segments. The firm should look for a match between the value requirements of each segment and its distinctive capabilities. Marketers have identified four basic approaches to do this:

1. Undifferentiated Marketing: A firm may produce only one product or product line and offer it to all customers with a single marketing mix. Such a firm is said to practice undifferentiated marketing, also called mass marketing.
2. Differentiated Marketing: Firms that promote numerous products with different marketing mixes designed to satisfy smaller segments are said to practice differentiated marketing. It is still aimed at satisfying a large part of the total market.
3. Concentrated Marketing: Rather than trying to market its products separately to several segments, a firm may opt for a concentrated marketing approach. With concentrated marketing (also known as niche marketing), a firm focuses its efforts on profitably satisfying only one market segment.
4. Micro Marketing: This approach is still more narrowly focused than concentrated marketing. Micro marketing involves targeting potential customers at a very basic level, such as by the postal code, specific occupation or lifestyle.

POSITIONING

In marketing, positioning has come to mean the process by which marketers try to create an image or identity in the minds of their target market for its product, brand, or organization. It is the 'relative competitive comparison' their product occupies in a given market as perceived by the target market. Re-positioning involves changing the identity of a product, relative to the identity of competing products, in the collective minds of the target market.

Product positioning process:

Generally, the product positioning process involves:

- Defining the market in which the product or brand will compete (who the relevant buyers are)
- Identifying the attributes (also called dimensions) that define the product 'space'
- Collecting information from a sample of customers about their perceptions of each product on the relevant attributes
- Determine each product's share of mind
- Determine each product's current location in the product space
- Determine the target market's preferred combination of attributes (referred to as an ideal vector)
- Examine the fit between: The position of your product & The position of the ideal vector
- Position.

Market Strategy

Small Businesses can gain a competitive advantage over larger competitors by tailoring their products or services to meet the demands of the individual customer. This tailoring can be done through the means of the product/service offered, price, promotion, and distribution. The above are known as the marketing mix. Another advantage is that small businesses offer a more personalized interaction with the customer.

First of all, a marketing strategy that you should take advantage of both offline and online is networking. This is probably the single most important strategy you can look into. As a small business, you will find that one of your first and most important hurdles is simply getting people to know that you exist. If people don't know you've started a small business and that you have amazing widgets or services to sell, they're not going to ask to buy those widgets or hire you for those services, regardless of how wonderful and amazing they might be. So your first job as a small business entrepreneur will be to get the word out. Beyond online and offline networking, another avenue for marketing in both venues is promoting your business through ads. In the real world, this can be done through print and flyer ads, stationary, vehicle tags, and window displays, while on the internet, you can pursue things like pay per click marketing.

A set of strategies found quite commonly in smaller businesses are growth strategies. One way to look at strategies to grow your business is through the way you will use products and markets or customers, such strategies are as given below

Current product/current market: Market penetration is a strategy of increasing your share of existing markets. You might achieve this by raising customers' awareness of your products and services or finding new customers.

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Current product/new market: Market development is a strategy of finding and entering new markets with your current product or service range. The new market could be a new region, a new country or a new segment of the market.

New product/current market: Product development is a strategy for enhancing benefits you deliver to customers by improving your existing products and services or developing new ones.

New product/new market: Diversification is a strategy that usually carries high costs and high risks. It often requires firms to adopt new ways of doing business and so has consequences far beyond simply offering new products/services in a new market. It is therefore usually a strategy to be adopted when other options are not feasible.

Pricing Strategies

Pricing is an important function of marketing. Price is the exchange value of a product. It is the amount of money or other products needed to acquire a product. Barter is the exchange of products for other products. When developing a marketing program, an organization can compete on the basis of price and non-price factors. Following are few of the strategies for pricing a product:

- Premium Pricing: Use a high price where there is a unique brand. This approach is used where a substantial competitive advantage exists and the marketer is safe in the knowledge that they can charge a relatively higher price. Such high prices are charged for luxuries such as Cunard Cruises, Savoy Hotel rooms, and first class air travel.
- Penetration Pricing: The price charged for products and services is set artificially low in order to gain market share. Once this is achieved, the price is increased. This approach was used by Jio Telecom and Tata Sky TV. These companies need to land grab large numbers of consumers to make it worth their while, so they offer free telephones or satellite dishes at discounted rates in order to get people to sign up for their services. Once there is a large number of subscribers prices gradually creep

- Economy Pricing: This is a no frills low price. The costs of marketing and promoting a product are kept to a minimum. Supermarkets often have economy brands for soups, spaghetti, etc. Budget airlines are famous for keeping their overheads as low as possible and then giving the consumer a relatively lower price to fill an aircraft.
- Price Skimming: Price skimming sees a company charge a higher price because it has a substantial competitive advantage. However, the advantage tends not to be sustainable. The high price attracts new competitors into the market, and the price inevitably falls due to increased supply. Manufacturers of digital watches used a skimming approach.
- Psychological Pricing: This approach is used when the marketer wants the consumer to respond on an emotional, rather than rational basis. For example Price Point Perspective (PPP) 399 Rupees not 400 Rupees. It's strange how consumers use price as an indicator of all sorts of factors, especially when they are in unfamiliar markets. Consumers might practice a decision avoidance approach when buying products in an unfamiliar setting, an example being when buying ice cream.
- Product Line Pricing: Where there is a range of products or services the pricing reflects the benefits of parts of the range. For example car wash; a basic wash could be Rs.100, a wash and wax Rs.200 and the whole package for Rs.300.

- Optional Product Pricing: Companies will attempt to increase the amount customers spend once they start to buy. Optional 'extras' increase the overall price of the product or service. For example airlines will charge for optional extras such as guaranteeing a window seat or reserving a row of seats next to each other. Again budget airlines are prime users of this approach when they charge you extra for additional luggage or extra legroom.

Marketing Mix

Definition: The ***marketing mix*** refers to the set of actions, or tactics, that a company uses to promote its brand or product in the market. The 4Ps make up a typical marketing mix - Price, Product, Promotion and Place. However, nowadays, the marketing mix increasingly includes several other Ps like Packaging, Positioning, People and even Politics as vital mix elements.

What are the 7Ps of marketing mix?

Price: refers to the value that is put for a product. It depends on costs of production, segment targeted, ability of the market to pay, supply - demand and a host of other direct and indirect factors. There can be several types of pricing strategies, each tied in with an overall business plan. Pricing can also be used a demarcation, to differentiate and enhance the image of a product.

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

Place: refers to the point of sale. In every industry, catching the eye of the consumer and making it easy for her to buy it is the main aim of a good distribution or 'place' strategy. Retailers pay a premium for the right location. In fact, the mantra of a successful retail business is 'location, location, location'.

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

People: The role of the service employee becomes much more critical since to a very real extent the employee is the service, given the absence of any tangible aspect. They carry the responsibility of projecting the image of the service firm.

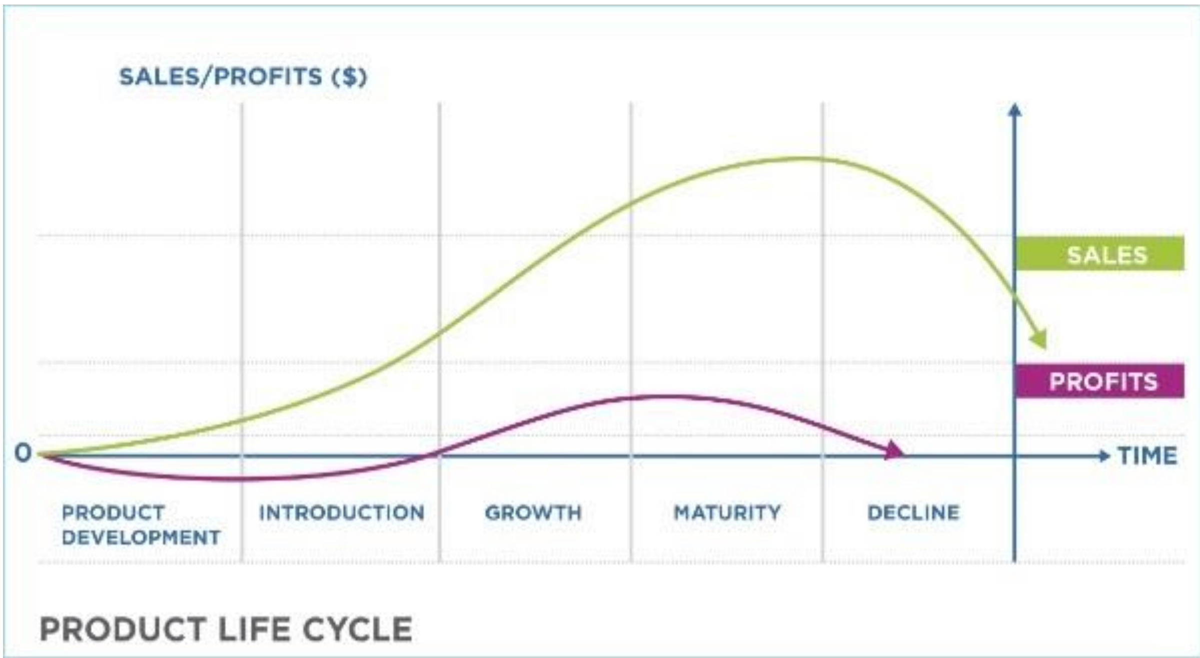
Physical Evidence: Physical evidence of service includes all the tangible representations of service such as clear signage, good ventilation, adequate space, internet presence, equipment and facility. As services are intangible, customers are searching for any tangible cues to help them understand the nature of the service experience.
Process: Process is referred to as the procedures, mechanisms and flow of activities by which the service is delivered i.e. the service delivery and operating systems. Delivering customer expectations depends on how well various steps function together.

What is the importance of the marketing mix?

All the elements of the marketing mix influence each other. They make up the business plan for a company and handled right, can give it great success. But handled wrong and the business could take years to recover. The marketing mix needs a lot of understanding, market research and consultation with several people, from users to trade to manufacturing and several others.

Product Life Cycle

Product life cycle is the timeline of demand for the product from its initial stage of introduction.



Let us now discuss the various stages of a product, starting from its innovation to its decline stage.

Stages of Product Cycle

Product life cycle can be defined as the life cycle of the product. It means the various stages a product sees in its complete life span.

Product life cycle comprises of the following four stages −

- Introduction or innovation
- Growth
- Maturity
- Decline

Let us start by describing the first stage we have in the product life cycle, that is, the introduction stage.

Introduction Stage

The product is introduced in the market in this stage; it is the initial stage of the product.

- Sales of the product are low in this stage because there may not be a need of the product in the market.
- The product may undergo brand trouble.
- In this stage, there is very little or no profit.
- The demand for the product is created and developed in this stage.

After this initial stage, the next stage of the product is the growth stage.

Growth Stage

In this stage, the demands and market share increases as well as competition emerges in the market.

- Generally, the price remains constant in this stage.
- Marketing and promotional expenses increase.
- There is rapid increase in sales.
- The manufacturing cost decreases so there is increase in profit margin.
- It penetrates other market segment.

In the growth stage, there is a boom in the demand of the product and the profit increases substantially.

Maturity Stage

The price of the product is comparatively low, but the advertisement and promotion cost increases in this stage.

- This stage remains for a comparatively longer duration.
- In this stage, there is high competition.
- Profit is decreased.
- Sales growth can be divided into the following three categories in the maturity stage −
  - Growth
  - Stability
  - Decay

In growth, there is an increase in the demand of the product. In stability, the demand of the product remains constant. In decay, there is a slight decrease in the demand.

Decline Stage

There is a decrease in sales in this stage. Demand of product also decreases.

- There is decrease in the price of the product.
- Margins are lowered.
- There is introduction of new product in market.
- New strategies are implemented.

This is the final stage of the product. There is a decrease in demand and sales of the product.

Importance of Product Life Cycle

Product life cycle is an important tool for market forecasting, planning and control. Product life cycle is important in various ways. The situation of the product can be analyzed properly and changes can be made in order to increase profit. Some other important features are −

- Helpful in formulating a proper product policy, production and pricing.
- Helpful in modifying the marketing policy.
- Helpful to the marketer regarding competition.
- Cautions the management about the decline stage of the product.

Distribution Channel

A distribution channel is the route through which goods or services move from the company to the customer or the transfer of payment happens from the customer to the company. Distribution channels can mean selling of products directly or selling through wholesalers, retailers etc. The same applies for payment transfer from customers to company; it can move through a path or can be sent directly to the company.

Functions of Distribution Channels

Distribution channels basically function to deliver goods from the manufacturer to the customer. The following are the functions of distribution channels −

- Facilitate selling by being physically close to customers
- Gather information about potential and current customer competitions, other factors and forces of the environment
- Provide distributional efficiency by bridging the gap between the manufacturer and the user efficiently and economically
- Assemble products into assortments to meet buyers' needs
- Match segments of supply with segments of demand
- Assist in sales promotion
- Assist in introducing new products
- Assist in implementing the price mechanism
- Assist in developing sales forecast
- Provide market intelligence and feedback
- Maintain records

- Take care of liaison requirements
- Standardize transaction

Objectives of Distribution Channels

Objectives of a distribution channel are planned as per the target of the enterprise and executed respectively. The following are the various objectives behind the planning of distribution channels −

- To ensure availability of products at the point of sale
- To build channel member's loyalty
- To stimulate channel members to put greater selling efforts
- To develop management efficiency in channel organization
- To identify the organization at the level
- To have an efficient and effective distribution system for making the products and services available readily, regularly, equitably and fresh.

Major Channels of Distribution

Here is a list of some of the major channels of distribution −

- Manufacturer → Consumer
- Manufacturer → Retailer → Customer
- Manufacturer → Wholesaler → Customer
- Manufacturer → Wholesaler → Retailer → Customer
- Manufacturer → Agent → Retailer → Customer
- Manufacturer → Agent → Wholesaler → Customer
- Manufacturer → Agent → Wholesaler → Retailer → Customer

Profit distribution decreases as the channel length increases.

Designing Distribution Channels

We have seen what a distribution channel is. Let us now see the designing process of a distribution channel. The following steps are involved in the designing of a channel system −

- Formulating the channel objectives
- Identifying the functions to be performed by the channel
- Analyzing the product and linking the channel design to the product characteristics
- Evaluating the distribution environment, including legal aspects
- Evaluating competitor's channel designs
- Evaluating company resources and matching the channel design to the resources
- Generating alternative designs, evaluating them and selecting the one that suits the firm best

Export Production Assistance and Export Marketing Assistance

Although the intensity and coverage of these measures have undergone change with the liberalization of policy, there does exist a number of schemes for export production as well as marketing. The various export assistance or promotion measures are undertaken through a number of organisations existing both at the Centre and State level. Export assistance includes facilities for efficient export production and marketing.

1) Export Production Assistance:

Export production assistance is available right from the stage of acquiring land and building, procuring plant machinery, equipments, components, spares, technical guidance/training, to giving finance and credit in time at comparatively cheaper rate. Export production assistance includes following facilities provided to enhance the assistance:

i) Infrastructural Facilities:

Besides providing land and building to exporting units, Special Economic Zones, Technology Parks, Export Promotion Parks, Industrial Estates, etc., have been set-up in various parts of the country.

There are 8 Special Economic Zones at Kandla (Gujarat), Santa Cruz (Maharashtra), Falta (West Bengal), Noida (U.P.), Cochin (Kerala), Chennai (Tamil Nadu), Surat (Gujarat), and Visakhapatnam (Andhra Pradesh) which arc functional at present (Sept '03). Whereas all the Zones, except Seepz, are multi-product Zones, the Seepz at Santa Cruz in Bombay is exclusively for Electronics and Gem and Jewellery items. Private Bonded Warehouses for Exports are also allowed to be set-up in DTA (Domestic Tariff Area) for procurement of goods from domestic manufacturers without payment of duty. Such applies are considered as physical export, provided payment for the same is made in foreign exchange.

Government has also recently permitted development of Special Economic Zones by Private/State or Joint Sector. Export Promotion Industrial Parks Scheme has been introduced with a view to involving State Government in providing infrastructural facilities for export-oriented production. Technology Park for Electronic Hardware and Software development for export have also been set-up, mostly on the lines of SEZs providing same facilities for production and export.

ii) Manufacture-in-Bond:

Manufacture-in-bond facility is available both in the excise as well as customer regulations. Whereas rule 13 of the Central Excise Rules relates to Excise Regulations, Section 65 of the Customs Act provides facilities of manufacture in bond.

iii) Machinery and Equipments:

Besides making available machinery and equipments on lease, there is a special facility to import CG (Capital Goods) at 5% duty under EPCG, i.e., Export Promotion Capital Goods Scheme.

iv) Production Inputs:

Raw-materials, components, spares, consumables, etc., whether indigenous or imported, can be obtained for export production under various schemes. Imported inputs for use in export products are importable duty free under the Duty Exemption/Remission Scheme, popularly known as Advance Licensing Scheme, Duty Free Replenishment Certificate (DFRC), and Duty Entitlement Passbook (DEPB) Scheme, although there are several other schemes covered there under. Still another scheme known as duty free import entitlement scheme has been introduced for status holder exporters including service providers.

Goods (including CG) are also allowed to be imported without an import license or Customs Clearance Permit (CCP) for jobbing, repairing, servicing, etc., against bond, surety/security. Such goods are to be re-exported with specified minimum value addition. There are special for export of gold/silver jewellery and articles as also for specified sectors like pharmaceuticals, readymade garments other than leather garments, electronics/writing instruments, and engineering goods.

v) Technology Upgradation:

Besides allowing duty free import of technical samples/prototypes and trade samples upto specified value, simplified approval mechanism has been introduced for foreign technology agreements. Foreign exchange is also released liberally for foreign visits and testing abroad of indigenous raw materials. National Laboratories, National Test House, etc., provide technical guidance for export production. The Pilot Test House offer special technical support facilities to the industry. SISIs and Regional Testing Laboratories also provide technical support.

vi) Packing Credit:

It is also known as pre-shipment credit. It is available even if there is no export other in hand. It consists of cash credits and overdraft facilities, and given at a concessional rate of interest. Pre-shipment credit is also available in foreign currency under the PCFC Scheme. It is applicable to both the domestic and imported inputs for export goods.

vii) Back-to-Back Letter of Credit (L/C):

An inland Back-to-Back Letter of Credit Scheme has been instituted which makes sub- suppliers of raw-materials, samples, etc., to exporter, eligible for export packing credit on the basis of export order or L/C in the name of the export order holder.

2) Export Marketing Assistance:

A number of steps have been taken to assist the exporters in their marketing effort. These include conducting, sponsoring or otherwise assisting market surveys and research; collection, storage, and dissemination of marketing information, organising and facilitating participation in international trade fairs and exhibitions; credit and insurance facilities; release of foreign exchange for export marketing activities; assistance in export procedures; quality control and pre-shipment inspection; identifying markets and products with export potential; helping buyer-seller interaction, etc.

Some of the schemes and facilities which assist export marketing are as follows:

i) Marketing Development Fund (MDF):

This came into being in 1963-64, the nomenclature was changed to Marketing Development Assistance (MDA) in 1975. The fund is administered for providing grants/assistance to Export Promotion Councils, other export bodies, also for special schemes approved for specific export promotion efforts. The fund is on the decline, and sufficient amount had not been set apart in recent years.

Assistance under the MDA is available for market and commodity researchers; trade delegations and study teams; participation in trade fairs and exhibitions; establishment of offices and branches in foreign countries; and grants-in-aid to EPCs and other approved organisations for export promotion. Interest on Export Credit by commercial banks and approved cooperative banks enjoy a subsidy of 1.5% out of MDA. Most of the MDA expenditure in the past was absorbed by the CCS. The CCS helped the exporters to increase the price competitiveness of the Indian products in foreign markets.

ii) Cash Compensatory Support:

Cash assistance for exports, which was later termed as Cash Compensatory Support (CCS.) was introduced in 1966. The stated objectives were to enable exporters to meet competition in foreign markets, to develop marketing competence and to neutralize disadvantages inherent in the existing stage of development of the economy. The main basis for the CCS Scheme was to provide compensation for unrebated indirect taxes (on both final and intermediate stages of production) which enter into export production but are not refundable through Duty Drawback System.

iii) Foreign Exchange:

It is released for undertaking approved market development activities such as participation in trade fairs and exhibitions, foreign travel for export promotion, advertisement abroad, market research, procurement of samples, and technical information from abroad.

iv) Trade Fairs and Exhibitions:

As trade fairs and exhibitions are effective media of promoting products, facilities are provided for enabling and encouraging participating of Indian exporters/manufacturers in such events. Foreign exchange is released for such purpose, the cost of participation is subsidized and the ITPO plays an important role in organising and facilities participation in trade fairs/exhibitions. Besides the ITPO, some other promotional agencies also organise trade fairs. For example, the MPEDA organises sea foods trade fair in India, in every 2nd year, which attracts a number of foreign buyers and others connected with the sea foods industry.

v) Export Risk Insurance:

As international business in fraught with different types of risks, measures have been taken to provide insurance covers against such risks. The Export Credit Guarantee Corporation (ECGC) has policies covering different political and commercial risks associated with export marketing, certain types of risks associated with overseas investments and risks arising-out of exchange rate fluctuations. Further, ECGC extends the export credit risks cover the commercial banks. Marine insurance is provided by the general Insurance Corporation and its subsidiaries.

vi) Finance:

The export-import bank and commercial banks and certain other financial institutions like specified cooperative banks provide pre-shipment and post-shipment finance to exports. Some of these institutions also provide suppliers' credit including line of credit, to promote Indian exports. Export credits generally carry concessional interest rates.

vii) Quality Control and Pre-Shipment inspection:

A number of steps have been taken by the Government to improve the quality of exports and to ensure that only goods of appropriate quality are exported from the country. The Export (Quality Control and Inspection) Act empowers the Government to make necessary regulations in this respect.

viii) Institutional Assistance:

Export marketing is assisted in different ways by a number of organisations like the ITPO, EPCS, Commodity Boards, Export Development Authorities like the MPEDA and APEDA, IIFT, Indian Mission abroad, etc.

ix) Dollar Denominated Credit for Exporters:

There has been a persistent complaint, rightly so, from the exporters that the interest rates in India are higher. This consequently is reflected in the cost of the products, which makes firms non-competitive in quite a few products.