Entrepreneurship
(Discovering New Ways)

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From the desk of
Dr. T. X. A. ANANTH, BBA, MSW, MBA, MPhil, PhD,
President – University Council

Dear Learner,
Welcome to DMI – St. Eugene University!
I am sure you are expert in using the PC Tablets distributed by us. Now your world is open to Internet and using the tablet for your educational learning purposes. The very same book you are holding in your hand now is available in your V-Campus portal. All the teaching and learning materials are available in your portal.
As our Chancellor, Rev.Fr. Dr. J. E. Arulraj , mentioned, it is not just the success for DMI-St. Eugene University alone, it is success for the technology, it is success for the great nation of Zambia and it is success for the continent of Africa.
You can feel the improvement in the quality of the learning materials in the printed format. Improvement is done in quality of the content and the printing. Use it extensively and preserve it for your future references. This will help you to understand the subjects in a better way. The theories of the subjects have been explained thoroughly and the problems have been identified at learners' level. This book is made up of five units and every unit is mapped to the syllabus and discussed in detail.
I am happy at the efforts taken by the University in publishing this book not only in printed format, but also in PDF format in the Internet.

With warm regards

Dr. T. X. A. ANANTH
President – University Council

CONTENTS

UNIT I - AN ENTREPRENEUR

An Entrepreneur is an individual who efficiently and effectively combines the four factors of production. Those factors are

- Land or natural resources
- Labour or human input into production using available resources
- Capital or any type of equipment used in production i.e. machinery
- Enterprise which is intelligence, knowledge, and creativity

Entrepreneurship is often difficult and tricky, as many new ventures fail is often. Most commonly, the term entrepreneur applies to someone who creates value by offering a product or service. Entrepreneurs often have strong beliefs about a market opportunity and organize their resources effectively to accomplish an outcome that changes existing interactions.

Business entrepreneurs are viewed as fundamentally important in the capitalistic society. Some distinguish business entrepreneurs as either "political entrepreneurs" or "market entrepreneurs," while social entrepreneurs' principal objectives include the creation of a social and/or environmental benefit.

An enterprise can be set up in designated industrial areas, where infrastructure facilities are available and is near to the market identified. It can also be set up in any other area depending upon nature of activity and local municipal rules.

Entrepreneurship is the practice of starting new organizations or revitalizing mature organizations, particularly new businesses generally in response to identified opportunities. Entrepreneurship is often a difficult undertaking, as a vast majority of new businesses fail. Entrepreneurial activities are substantially different depending on the type of organization that is being started. Entrepreneurship ranges in scale from solo projects (even involving the entrepreneur only part-time) to major undertakings creating many job opportunities.

Many "high-profile" entrepreneurial ventures seek venture capital or angel funding in order to raise capital to build the business. Angel investors generally seek returns of 20-30% and more extensive involvement in the business. Many kinds of organizations now exist to support would-be entrepreneurs, including specialized government agencies, business incubators, science parks, and some NGOs.

Advantages of Entrepreneurship: Every successful entrepreneur brings about benefits not only for himself/ herself but for the region or country as a whole. The benefits that can be derived from entrepreneurial activities are as follows:

- Enormous personal financial gain.
- Self-employment, offering more job satisfaction and flexibility of the work force.
- Development of more industries, especially in rural areas or regions disadvantaged by economic changes, for example due to globalization effects.
- Encouragement of the processing of local materials into finished goods for domestic consumption as well as for export.
- Income generation and increased economic growth.
- Promotion of the use of modern technology in small-scale manufacturing to enhance higher productivity.
- Encouragement of more researches/ studies and development of modern machines and equipment for domestic consumption.
- Development of entrepreneurial qualities and attitudes among potential entrepreneurs to bring about significant changes in the rural areas.
- Freedom from the dependency on the jobs offered by others.
- The ability to have great accomplishments.

Contributions of Entrepreneurs

1) **Develop new markets:** Under the modern concept of marketing, markets are people who are willing and able to satisfy their needs. In Economics, this is called effective demand. Entrepreneurs are resourceful and creative. They can create customers or buyers. This makes entrepreneurs different from ordinary businessmen who only perform traditional functions of management like planning, organization, and coordination.

2) **Discover New Sources Of Materials:** Entrepreneurs are never satisfied with traditional or existing sources of materials. Due to their innovative nature, they persist on discovering new sources of materials to improve their enterprises. In business, those who can develop new sources of

materials enjoy a comparative advantage in terms of supply, cost and quality.

3) **Mobilize Capital Resources:** Entrepreneurs are the organizers and coordinators of the major factors of production, such as land, labor and capital. They properly mix these factors of production to create goods and service. Capital resources, from a layman's view, refer to money. However, in economics, capital resources represent machines, buildings, and other physical productive resources. Entrepreneurs have initiative and self-confidence in accumulating and mobilizing capital resources for new business or business expansion.
4) **Introduce new technologies:** Aside from being innovators and reasonable risk-takers, entrepreneurs take advantage of business opportunities, and transform these into profits. So, they introduce something new or something different. Such entrepreneurial spirit has greatly contributed to the modernization of economies. Every year, there are new technologies and new products. All of these are intended to satisfy human needs in a more convenient and pleasant way.
5) **Create Employment:** The biggest employer is the private business sector. Millions of jobs are provided by the factories, service industries, agricultural enterprises, and the numerous small-scale businesses.

Promotion of Entrepreneurship: Entrepreneurship was potential to support economic growth and social cohesion; it is the policy goal of many governments to develop a culture of entrepreneurial thinking. This can be done in a number of ways: by integrating entrepreneurship into education systems, legislating to encourage risk-taking, and national campaigns

Many of these initiatives have been brought together under the umbrella of Global Entrepreneurship Week, a worldwide celebration and promotion of youth entrepreneurship, which started in 2008.

Financial assistance: Money or financeis available from institutions such as Nationalized Banks, Regional Rural Banks, etc. depending upon the project requirement and promoters background. Financial assistance has two components. Loan for fixed capital is used to acquire Plant and Machinery, land and building. Working capital loan is used to meet day to day operational cost of the production.

The general conditions for getting financial assistance are:

- Eligibility criteria
- Technical /Economic viability
- Promoters contribution
- Capacity to repay loan
- Collateral securities/guarantee

Characteristics of an entrepreneur

Hard work: Willingness to work hard distinguishes a successful entrepreneur from unsuccessful one. The entrepreneur with his tedious, sweat-filled hours and perseverance revive their business even from on verge of failure. In nutshell, most of the successful entrepreneurs work hard endlessly, especially in the beginning and the same becomes their whole life.

Desire for high achievement: The entrepreneurs have strong desire to achieve high goals in business. This high achievement motive strengthened them to surmount the obstacles, suppress anxieties, repair misfortunes and devise expedients and only set up and run a successful business.

Highly optimistic: The successful entrepreneurs are not distributed by the present problems faced by them. They are optimistic for future that the situation will become favourable to business in future. Thus, they can run their enterprises successfully in future.

Independence: One of the common Characteristics of the successful entrepreneurs has been that they do not like be guided by others and to follow their routine. They resist to be pigeonholed. They liked to be independent in the matters of their business.

Foresight: The entrepreneurs have a good foresight to know about future business environment. In other words, they well visualize the likely changes to take place in market, consumer attitude, technological developments, etc. and take timely actions accordingly.

Good organizer:

Different sources required for production are divorced from each other. It is the ability of the entrepreneurs that brings together all resources required for starting up an enterprise and then to produce goods.

Innovative: Production is meant to meet the customers' requirements. In view of the changing taste of customers from time to time, the entrepreneurs initiate research and innovative activities to produce goods to satisfy the customers' changing demands for the products. The research institute/centres established by corporate houses are examples of the innovative activities taken by the successful entrepreneurs in our country

Entrepreneurs have many of the same traits as leaders, similar to the early great man theories of leadership; Entrepreneurs are often contrasted with managers and administrators who are said to be more methodical and less prone to risk-taking. Such person-centric models of entrepreneurship have shown to be of questionable validity, not least as many real-life entrepreneurs operate in teams rather than as single individuals

- The Entrepreneur has an enthusiastic vision.
- The Entrepreneur's vision is an interlocked collection of specific ideas.
- The overall blueprint to realize the vision is clear.
- The Entrepreneur promotes the vision with enthusiastic passion.
- The Entrepreneur develops strategies to change the vision into reality.
- The Entrepreneur takes the initial responsibility to cause a vision to become a success.
- Entrepreneurs take prudent risks.
- An Entrepreneur is usually a positive thinker and a decision maker.

Qualities needed for an Entrepreneur

- Capacity to assume risk
- Possessing self confidence
- Technological knowledge
- Alternates to new opportunities
- Willingness to accept change
- Ability to innovate/imitate
- Ability to organize
- Ability to control

Types of Entrepreneurs: Clarence Danh of, on the basis of his study of the American agriculture, classified entrepreneurs in the manner that at the initial stage of economic development, entrepreneurs have less initiative and drive as economic development proceeds, they become more innovative and enthusiastic. Basing on this, he classified entrepreneurs into four types. These are discussed in seriatim.

Innovative entrepreneurs: An innovative entrepreneur is one who introduces new goods, inaugurates new method of productions, discovers new market and reorganizes the enterprise. itis important to note that such entrepreneurs can work only when a certain level of development is already achieved, and people look forward to change and improvement.

Imitative entrepreneurs: These are characterized by readiness to adopt successful innovation inaugurated by innovating entrepreneurs. Imitative entrepreneurs do not innovate the changes themselves, they only imitate techniques and technology innovated by others. Such types of entrepreneurs are particularly suitable for the under-developed regions for bringing a mushroom drive of imitation new combination of factors of production already available in developed regions.

Fabian entrepreneurs: Fabian entrepreneurs are characterized by very great caution and skepticism in experimenting any change in their enterprises. They imitate only when it becomes perfectly clear that failure to do so would result in loss of the relative position in the enterprise.

Drone entrepreneurs: These are characterized by refusal to adopt opportunities to make changes in production formulate even at the cost of severely reduced returns relate to other like producers. Such entrepreneurs may even suffer from losses but they are not ready to make changes in their existing production methods.

There are other types of entrepreneurs listed by behavioral scientists:

Solo operators: These are entrepreneurs who essentially work alone and if needed at all, employ a few employees. In the beginning, most of the entrepreneurs start their enterprise like them.

i. Active partners: They are those entrepreneurs who start/carry on an enterprise as a joint venture. it is important that all of them actively participate in the operations of the business. Entrepreneurs who only contribute funds to the enterprise but do not actively participate in business activity are called 'partners'.

ii. **Inventors:** Such entrepreneurs with their competence and inventiveness invent new products. Their basic interest lies in research and innovative activities.

iii. **Challengers:** These are the entrepreneurs who plunge into industry because of the challenges it presents. When one challenge seems to be met, they begin to look for new challenges.

iv. **Buyers:** They are those entrepreneurs who do not like to bear much risk. Hence, in order to reduce risk involved in setting up new enterprise, they like to buy the ongoing one.

v. **Life timers:** These entrepreneurs take business as an integral part of their life. Usually the family enterprise and businesses which mainly depend on exercise of personnel skill fall in this type/category of entrepreneurs.

Intrapreneurs: Recently, a new breed of entrepreneurs has been coming to the fore in large industrial organisations. They are called 'intrapreneurs'. They emerge from within the confines of an existing enterprise. In big organisations, the top executives are encouraged to catch hold of new ideas and then convert these into products through research and development activities within the framework of organisations.

The concept of entrepreneurship has become very popular in developed countries like America. It is found that an increasing number of intrapreneurs is leaving their jobs in big organisations and is starting own enterprises. Many of such intrapreneurs have become exceedingly successful in their venture. What is more that they are causing a threat to the organisations they left? Such intrapreneurs breed to the innovative entrepreneurs who inaugurate new products.

Having understood the meanings of entrepreneurs and intrapreneurs, now the two can easily be distinguished from each other on the following bases:

Distinction between Entrepreneur and Intrapreneur		
Difference	**Entrepreneur**	**Intrapreneur**
Dependency	An entrepreneur is independent in his/her operations	An intrapraneur is dependent on an entrepreneur

Raising funds	Required funds are raised by an entrepreneur	Not raised by an intrapreneur
Risk baring	Entrapreneurs complete risk	An intrapreneur does not bear risks
Operation	An entrepreneur operates the organisation from outside	An intrapreneur operates from within the organisation

Functions of an Entrepreneur: An entrepreneur does perform all the functions necessary right from the genesis of an idea up to the establishment of an enterprise. These can be listed in the following sequential manner.

- Idea generation and scanning of the best suitable idea
- Determination of the business objectives
- Product analysis and market research
- Determination of form of ownership/organisation
- Completion of promotional formalities
- Raising necessary funds
- Procuring machine and material
- Recruitment of men
- Undertaking the business operation

Distinction between an Entrepreneur and Manager: Sometime the two terms, namely, an entrepreneur and manager are considered as synonyms, i.e., meaning the same. In fact, the two terms are two economic concept meaning two different meanings.

The major points of distinction between the two are presented in following table.

Points	Entrepreneurs	Manager
Motive	The main motive of an entrepreneur is to start a venture by setting up an enterprise. He understands the venture for his personal	But, the main motive of a manager is to render his services in an enterprise already set up by someone else.

	gratification.	
Status	An entrepreneur is the owner of the enterprise.	A manager is the servant in the enterprise owned by the entrepreneur.
Risk-bearing	An entrepreneur being the owner of the enterprise assumes all risks and uncertainty involved in running the enterprise.	A manager as a servant does not bear any risk involved in the enterprise.
Rewards	The reward an entrepreneur gets for bearing risks involved in the enterprise is profit which is highly uncertain.	A manager gets salary as reward for the services render by him in the enterprise. Salary of a manager is certain and fixed.
Innovation	Entrepreneur himself thinks over what and how to produce goods to meet the changing demands of the customers. Hence, he acts as an innovator also called a 'change agent'.	But, what a manager does is simply to execute the plans prepared by the entrepreneur. Thus, a manager simply translates the entrepreneur's idea into practice.
Qualifications	An entrepreneur needs to possess qualities and qualifications like high achievement motive, originality in thinking, foresight, and risk bearing ability and so on.	On the contrary, a manager needs to possess distinct qualifications in terms of sound knowledge in management theory and practice.

Theories of Entrepreneurship

1. Schumpeter's Theory of Innovation: Joseph Schumpeter in 1934 has developed the famous **innovative theory of entrepreneurship**.

Schumpeter tried to **establish correlation between theeconomic activity and economic development of a country**. According to him the innovation function of entrepreneurs is responsible for the rapid economic development of any country. Schumpeter states that entrepreneur is basically an innovator who introduces new combinations as mentioned below:

a) Introduction of a new good which consumers are not yet familiar or a new quality of a good.

b) Introduction of new technology of production

c) Opening a new market

d) Discovering a new source of raw material

e) Carrying out a new form of organization either creating a monopoly position or breaking up of a monopoly position in the industry.

Schumpeter made a distinction between an innovator and an inventor. The inventor discovers new materials and new methods. Whereas the innovator utilizes these inventions and discoveries in order to make new combinations. He further states that an individual is an entrepreneur only when he carries out new combinations and ceases to be an entrepreneur, the moment he runs the established business. In other words innovation is the main function of entrepreneur and not the maintenance of the enterprise.

Critical evaluation: Schumpeter's theory of innovation has been criticized on the following grounds.

i) Schumpeter has given undue emphasis on the innovative function of entrepreneurs and has ignored the other equally important functions viz. risk taking and organizing.

ii) Schumpeter's theory holds goods to developed countries only. In underdeveloped and developing countries there is a scarcity of innovative entrepreneurs.

iii) Schumpeter does not consider individuals running the established enterprises as entrepreneurs.

iv) Schumpeter's theory neglects the role of small entrepreneurs in economic development. It stresses on establishment of large enterprises based on new combinations of production.

v) According to Schumpeter, there is no separate class of entrepreneurs in a society.

vi) Schumpeter's theory fails to give satisfactory answer to questions like why some countries have more entrepreneurship talent than others.

2) McCleland's Need Achievement Theory: This theory of entrepreneurship is developed by David McCleland. David McCleland and his colleagues studied the motives responsible for entrepreneur's development and concluded that high achievement motive induces an individual towards entrepreneurship. McCleland states that individuals with high need achievement will be motivated to become entrepreneur. It is a tendency to strive for excellence, one's performance, achieving high levels of success for the sake of personal accomplishment and not for the sake of just monetary rewards. The motive of hi-achievement guides the actions of people and induces them towards entrepreneurship. People with high need achievement motive are more likely to succeed as entrepreneurs.

McCleland further states that it is possible to inculcate the need for achievement motive in a person. Deliberate efforts are required to be made from the childhood of a person. If the child is given training with emphasis on standards of excellence, maternal warmth, self-reliance and low father domination the child can afterwards become an entrepreneur. McCleland identified two main characteristics of entrepreneurship viz. doing things in a new and better way and taking decision under uncertainty, parents can bring up their children in a particular manner which helps to raise the level of achievement motivation.

Thus McCleland's theory gives emphasis on psychological factors of entrepreneurship development. Such persons excel in their pursuit not for the sake of monetory rewards or gaining social prestige but for the sake of an inner feeling of personal accomplishment.

Critical evaluation: McCleland takes into consideration psychological factors only and ignores the impact of other factors on entrepreneur's development.

b. It is not possible for all families and educational institutions to inculcate the achievement motivation in children.

c. It is not necessary to put efforts on developing achievement motivation from the childhood itself. It is possible to impart entrepreneurial training at later stages also.

3. Hagen's Status Withdrawal Theory: This is another important psychological theory of entrepreneurship developed by E. Hagen. Hagen has attributed the withdrawal of status of a group as the starting point for entrepreneurship development process. According to Hagen, entrepreneurship is a function of status withdrawal which forces the members of group who has lost its status to become aggressive and innovative and become entrepreneurs. However this process has a long term process. After three-four generations, this situation takes place in the status loosing group and the members of such group try to regain their status by showing aggressive entrepreneurial drive. When a social group losses its status it responds to such a loss in a number of ways.

Hagen has categorized these responses into following four types.

Retreatist: A person who continues to work in the society but remains indifferent to his work and position.

Ritualist: A person who acts in the ways accepted and approved by the society, whose behaviour is defensive but has no hopes of improving his position.

Reformist: A person who fights against the injustice caused to him, tries torebel against the established society and form a new society.

Innovator: A creative person who welcomes change, tries to do things in a different and better manner. Such a person is likely to be an entrepreneur. Innovators are creative. They accept more challenges and responsibility. Entrepreneurs are made from these innovators. These persons try to regain their lost status by establishing new enterprises on a large scale. The example of Samurai group in Japan can be cited in this context.

Critical evaluation: According to Hagen, entrepreneurship emerges after three to five generations. But in reality this much longer period is not required. In some countries even the first generation entrepreneurs have been successful in their entrepreneurial pursuit. This theory concentrates on psychological factors and ignores other factors which are responsible for entrepreneurial growth.

4. Max Weber's Theory of Social Change: Max Weber studied the entrepreneurship issues from the sociological point of view and presented his theory of social change. Max Weber was the first thinker to explain the impact of ethical value system of the society on entrepreneurial growth. According to Max Weber, the spirit of rapid industrial growth depends upon the ethical values professed by the society. He found relationship between protestant ethic and the spirit of capitalization. He states that Protestants progressed fast in bringing about capitalism in Europe only because their ethical value system provided them with rational economic attitude, gave recognition to work hard for accumulate in gassets, undertake economic activities and allowed them to enjoy the material life by fulfilling their worldly desires.

Critical evaluation: Max Weber's theory of social change is based on invalid assumptions. Hindu community always responds to changes, changed its values and allowed the disciples to accumulate assets, work hard for establishment of capitalism. Hindu community never opposed the spirit of capitalism and adventure. The rapid progress made by India after independence disproves Max Weber's theory. Jews and Jains are known for their enterprise, hard work, savings and wealth accumulation.

5. Kunkel's Theory of Social Behaviour: Kunkel's theory deals with social behaviour in the context of entrepreneurship supply. According to Kunkel, supply of entrepreneurs is a function of social, political and economic structure. Individuals are performing various activities in a society of these activities some are accepted by the society and those activities are rewarded. The reward acts as a stimulating factor for the repeated behaviour of an individual. This pattern of social behaviour is nothing but entrepreneurial behaviour. The supply of entrepreneurship depends upon following four structures found in a society.

a) **Limitation structure:** The society limits specific activities. This limitation structure affects not only the entrepreneurs but also all other members of a society.

b) **Demand Structure:** The individuals demand rewards for their acts. The demand structure motivates individual towards entrepreneurship.

c) **Opportunity Structure:** Opportunity structure comprises of the availability of capital, management, technological skills and information about production methods, labour and market. Favourable opportunity structure increases the supply of entrepreneurship.

d) **Labour Structure:** It is related with the supply of competent and willing labour. The supply of labour depends on a number of factors like alternative means of livelihood, traditionalism and expectations of life.

Entrepreneurship supply increases when the labour structure is favourable.

Critical evaluation: Kunkel's theory assumes the ideal structure for the supply of entrepreneurship. But in reality we rarely find such ideal structures.

6.Peter Drucker's Theory of Systematic Innovation: Peter Drucker, the management guru has developed the theory of systematic innovation. Drucker's thought on entrepreneurship have been presented in his book 'Innovation and Entrepreneurship – Practice and Principles.' According to Drucker "Systematic innovation consists in the purposeful and organized search for change sand in the systematic analysis of the opportunities such changes might offer for economic or social innovation."

Sources of Systematic innovation opportunity: According to Drucker, there are seven sources of systematic innovation opportunity.

Sources within the enterprise

1. Unexpected successor unexpected failure.
2. Incongruity between real and expected situation.
3. Process need
4. Changes in industry structure or market structure.

Sources outside the enterprises

a) Demographic changes

b) Changes in perception and mood

c) New knowledge – scientific & non-scientific.

Drucker further stated that innovation is the specific tool of entrepreneurs by which they always search for changes, respond to the changes occurring and exploit them into opportunities. Innovation is a purposeful and well-planned activity.

Critical evaluation: It is very difficult to predict the occurrence of sources of opportunity. Reliability of these sources is another problem attached with Drucker's theory, e.g. new knowledge may be good but not reliable from commercial point of view. In spite of this criticism, Drucker has given a comprehensive theory of entrepreneurship.

Role of Socio-Economic Environment **on Entrepreneurship**

Economic Factors: Economic factors influence the growth of entrepreneurship. The important economic factors are:

Infrastructural Facilities: Entrepreneurship development requires certain basic infrastructures like power, transportation, communication, technical information etc. These provide external economies and improve the efficiency of investments by entrepreneurs. These infrastructural facilities are scarce in less developed countries. The entrepreneurs themselves have to procure these facilities at their own cost. They have to obtain these facilities at higher costs. This will greatly discourage the entrepreneurship development. In advanced countries, those who are desirous of starting an enterprise will find no difficulty in procuring the infrastructural facilities at reasonable costs.

Financial Resources: Finance is the life blood of business activity. Capital is required to obtain materials, machinery, equipment, etc. and to undertake innovation. Capital is regarded as lubricant to the process of production. The lack of financial resources discourages the youth and potential entrepreneurs to start new ventures. Hence, the need for fixed and working capital should be adequately met if new entrepreneurs are to come forward and grow.

Availability of Material and Know-how: Entrepreneurship is encouraged only if there is an adequate supply of materials and know-how. Easy availability of materials attracts more individuals towards entrepreneurship. Technical know-how is essential for innovation. With technical knowledge, men discover more and sophisticated techniques of production.

Labour Conditions: The quality rather than quantity of labour is another factor which influences the emergence and growth of entrepreneurship. The availability of cheap labour positively affects entrepreneurship. Labour problem can be solved not by capital intensive technologies but by increasing their mobility, by offering them facilities, incentives and concessions in every remote corner of the country.

Market: The size and composition of market influence entrepreneurship in their own ways. Practically, monopoly in a particular product in a market becomes more influential for entrepreneurship than a competitive market.

Support System: Ability, initiative and support systems include financial and commercial institutions, research, training, consultancy services, ancillary industry etc.

Government Policy: The socio- political and economic policies of the government inhibit or foster entrepreneurial growth. Land and factory sheds at concessional rates, adequate sources of power, supply of materials and other physical facilities should be provided by the government to facilitate the setting up of new enterprises. The government has a dominant role to play in the industrial development of backward regions with a view to attain a balanced regional development.

Social Factors: What mould a man into an entrepreneur is the sociological and environmental factors during childhood, and at the school, personal experience in adult life at the college and job environments, the mobility, occupation and support from parents. The social factors include:

Legitimacy of Entrepreneurship: System of norms and values within a socio – cultural setting is responsible for the emergence of entrepreneurship. The degree of approval or disapproval granted to entrepreneurial behaviour will influence its emergence and its characteristics if it does emerge.

Social Marginality: Individuals or groups on the perimeter of a given social system or between two social systems provide the personnel to assume the entrepreneurial roles. Social marginality is likely to promote entrepreneurship are largely determined by two factors, namely the legitimacy of entrepreneurship and social mobility.

Family, Role Models and Association with Similar Type of Individuals: If an individual has a supportive family, he or she is more likely to become an entrepreneur. Similarly, if an individual has role models who have been successful in entrepreneurship, certainly, he may be motivated to start ventures. If a person is in association with entrepreneurs, this may add to his or her desire of setting up a new venture. There are the industries depend upon family based inheritance. Roberts (1991) has developed the idea of the 'entrepreneurial heritage 'to describe the importance of the family background for the entrepreneur. This heritage includes factors such as the father's occupation, the family work ethic and religion, family size and the first born son, growing up experience and so on.

Caste System: Certain religions and caste encourage the growth of entrepreneurial talent. Some religious communities like the Jews seem to have an affinity for entrepreneurial activity.

Occupation : Those born in rich families with silver spoons in their mouth have not only an advantage of having financial resources for carrying out business but also learn the business skill by continuous interaction and contacts with parents, customers, employees and visitors in family shops, offices and homes.

Education and Technical Qualifications: Education is the best means of developing man's resourcefulness which encompasses different dimensions of entrepreneurship. It may be expected that the high level of education may enable the entrepreneurs to exercise their entrepreneurial talent more efficiently and effectively.

Social Status: Every human being aspires for a high social status and once he achieves a reasonable level, his aspirations and desires for its start getting multiplied. People work hard to maintain their status as it also contributes to their entrepreneurial growth.

Social Responsibility: It is the obligation to the society in which the business enterprise operates. An entrepreneur generates employment for others besides helping himself.

Entrepreneur's Leadership

Definition of leadership: Leadership defined as "the ability of a manager to induce subordinates to work with confidence and zeal" According to George R. Terry leadership is "the activity of influencing people to strive willingly for mutual objectives"

Characteristics of leadership

Self-Esteem: Underlying everything is a high sense of one's own self-worth. Without that, individuals will never undertake tough challenges. If one does not have it, it's important to develop self-esteem.

Need to Achieve: This need has been associated with entrepreneurs and leaders who constantly seek to perform at their best. For example, this leadership characteristic would have described Oliver Cromwell (1599 to 1658) the Lord Protector of England, who once remarked, "He who stops being better, stops being good." The great Harvard psychologist David McClelland is most associated with need for achievement, a need learned by children primarily from their parents (McClelland, 1965).

Individuals high in this need are open to feedback, are goal oriented, seek to be unique, and strive for accomplishments based on their own efforts—characteristics important to effective leadership. They also take risks, not extreme risks, but moderate ones.

And what is moderate risk? Moderate risk means you have the ability to influence events, but don't have complete control. The key is that individuals believe they will be successful, but it is not a sure thing.

Screening for Opportunity: Like all individuals, leaders screen incoming information to separate the useful from the useless. However, successful entrepreneurs and business leaders screen incoming information to constantly seek new growth opportunities. They act like gold miners who must shift through tons of dirt to find those a few precious golden nuggets.

Unfortunately, the vast majority of business people seem blind to new opportunities and so continually miss new ways to grow the business. Some would argue that it is not really finding opportunity, but getting lucky. Of course there are individuals who seem to have the knack of being in the right place and the time. For example, I have a good friend George who had escaped communist Romania in the early 1960s and made his way to the United States.

After being here for a while, he decided to start a leather goods business. Putting together a few samples, he then went out to talk to buyers about the possibility of getting started. Getting an appointment with the very first buyer, he showed his samples and got this response, "I'll buy everything you can sell me." He asked why he was so fortunate and the buyer responded, "I wanted to drop our previous vendor since he was ripping us off" From this "lucky" start, George went on to develop an extremely successful business—becoming a millionaire many times over. One could argue that he was lucky or that he capitalized on an opportunity missed by competitors.

Locus of Control: Successful leaders and entrepreneurs typically show a high internal locus of control (Lee, 2001). In many different studies done over the years, those with a high internal locus of control are more likely to experience success, than individuals who are high on the external locus of control. When someone perceives events as under the control of others, fate, luck, the system, their boss, etc. they have an external locus of control. Individuals high on the internal locus of control have a different assumption about how the world works. They assume that any success they experience is due to their personal efforts and that they have the ability to influence events. Interestingly, internal also assume failure was also their fault.

Goal Orientation: Businesses come and go, but those that last always share a common characteristic with their founder—a relentless drive to accomplish goals. They understand what the priorities are and continue to work at toward that goal, day in and day out.

For many, leadership characteristic of staying focussed on a goal is a very difficult thing to do since life in the world of business tends to distract us. McKinsie in this book “The Time Trap” put it this way, “A man was struggling to cut down enough trees to build a fence. An old farmer came by, watched for a while, and then quietly said, “Saw’s kind of dull, isn’t it?” “I reckon,” said the fence builder. “Hadn’t you better sharpen it? Said the farmer. “Maybe later," said the man, "I can’t stop now—I got all these trees to cut down.” Our goal should be to continue to perfect ourselves, something we rarely have time for.

Optimism: Underlying successful entrepreneurial leadership is a boundless font of optimism that never seems to end. When faced with a problem, they view it as a challenge. When faced with a setback, they view it as a new direction, when told no, they say, “Maybe not now, but I know you’ll change your mind later.” This characteristic contrasts sharply with the vast majority of people who project a more pessimistic, defeatist quality. It’s this belief in the positive that serves as the foundation for dealing with the many set-backs one will inevitably encounter in the world of business.

Young children naturally have a positive view which seems to turn more negative as they age. Parents can easily test this in children by asking the question, “What will you be when you grow up?” Young children confidently say, exactly what they want to be. However, ask a teenager the same question and they aren’t so sure.

Courage: Many professors talk about entrepreneurs as risks takers. But this leadership characteristic is like saying snow is cold—it is accurate but missing something. Another way is to say the same thing is that one must have guts. It requires a great deal of courage to build a company from the ground up.

Someone once explained that large organizations function like "womb" protecting employees from a harsh and unforgiving environment. It takes a great deal of courage to leave a corporate or government womb and strike out by oneself into the cold, cruel world of business. When one first starts a business, one is alone.

Tolerance to Ambiguity: This term refers to a person's tolerance to uncertainty and risk. Entrepreneurs generally score high on this scale (Entrailgo, 2000).As we age, we have a tendency to be more comfortable repeating a relatively small set of behaviors. For example, we eat pretty much the same food, shop in the same stores, watch the same programs, have lunch with the same people, and listen to the same music. etc. One may change jobs, but rarely does one change industries. Its' amazing how many people end up retiring in the same industry in which they got their first job

If one's tolerance for ambiguity is low, one will gravitate toward large, established organizations—better still, work for the government where things change little if at all. In contrast to older, established organizations, entrepreneurial start-ups exist in an environment where almost everything is new and many things have not been done before. For example, no policies exist to guide action and start-ups typically lack the old timers who serve as the voice of experience.

Strong Internal Motivation or the "Fire Inside": The motivation that drives our behavior comes from two sources: internal (intrinsic) and external (extrinsic). Intrinsic factors include constructs like needs, desires, motives, and will power. Extrinsic factors include any type of motivational influence from the environment such as rewards and punishments.

For entrepreneurs, the most important motivational factor is the intrinsic one. Entrepreneurs keep going despite the fact that employees tell them they are foolish, friends say they are wasting their time, and family tells them to get a real job. When the intrinsic drive goes away, so does any chance of success.

A few years ago, we put together a 160-hour program to teach very bright scientists and engineers how to put together an investor quality business plan. The thinking was that with the right knowledge and coaching, these future entrepreneurs would be able to get a seed round from investors and go on to build a fast growing organization. However, a number of these individuals never opened the doors. Why you might ask? It wasn't that they lacked knowledge and brilliance—it was a lack of desire, what we called the "fire inside."

Entrepreneur's Risk-Taking: Risk-taking is something when a person mainly entrepreneur risks everything in the hope of achievement or accepts greater potential for loss in decisions and tolerates uncertainty.

Characteristics of a Risk-Taking Entrepreneur:

1. **Heightened expectations:** This is when a person has goals that can be unrealistic and unattainable to some, but which the risk taker feels very confident will occur.
2. **Constant learning:** This is when an individual refuses to rest on his or her past performance and always keeps researching, testing and looking to learn.
3. **Embrace change:** A risk- taker who embraces change looks forward to a constant flux of new information and is always trying for improvements.
4. **Trust instincts:** Many risk takers make decisions based on both intelligent data and a gut instinct. It's a feeling that they have regarding a decision. It usually isn't the safest decision or the most practical, but it can lead to great risk and success.
5. **Gambler:** The last trait is that most risk takers like to gamble against the odds or risk everything. If someone tells them it is not possible, they automatically will try to complete the task.

Importance of Risk Taking Abilities for Entrepreneurs: Risk can be defined as possibility of failure or loss or other adverse consequences in pursuing some activity or venture. Risk bearing and entrepreneurship are inseparable from each other. Risk, as an attribute, affects entrepreneurial behaviour. It is, among other things, the element of risk involved in entrepreneurial career, many people become hesitant to become entrepreneur.

Even those who take risk by joining entrepreneurship differ in the degree of risk taking ability and willingness. Depending on the degree of risk, risks can be categorized as high risk, moderate risk, and low risk. All three types of risks influence entrepreneurial behaviour differently.

A willingness to take risks can give an entrepreneur a competitive edge. For example, opening a second shop where other business owners are afraid to open one could pay off with a loyal customer base. Taking out a loan could give the business owner the necessary startup capital needed to fund his business.

Business risks can move a business forward. They can gain the owner a reputation as someone who knows how to make good decisions and accurate business assessments. Entrepreneurs with a well-informed risk-taking spirit might see opportunities where others don't and might be able to spot trends well before the market is saturated.

- Unforeseen opportunities often come from risk-taking.
- Taking risks shows confidence and helps you stand out as a Leader
- Learn from risks -- and those lessons may lead us on an important, new path.
- Success won't fall in your lap -- you have to pursue it.
- You don't achieve your dreams by playing it safe

How to Develop Risk-Taking Behaviour: Like creative behaviour, risk-taking behaviour is also not inborn. Therefore, it can also be developed. How? We all have an inevitable but different risk-bearing orientation based on our background, education, value-system, personality, experience, etc.Accordingly, some of us have high risk-taking orientation, some others have moderate risk-taking, and yet some others have low risk- taking orientation.

This orientation of our risk-taking persists within us unless we try to change it. Both low and high risk orientations have entrepreneurial implications. While the high risk orientation makes the objectives of enterprise unattainable, low level risk does not arouse required challenge for achievement in establishing and running an enterprise.

In fact, it is often the moderate level of risk that makes the entrepreneurial venture both attainable and challenging, i.e. the two essential ingredients of entrepreneurial success. Hence, there is a need for entrepreneurs to have moderate level of risk-taking orientation to succeed in their entrepreneurial venture.

Types of Entrepreneur's Risk

HIGH RISK	MODERATE RISK	LOW RISK
When an entrepreneur starts a venture without much knowledge about the product, there are likely more chances of failure and in turn, high risk. In practice, not many entrepreneurs follow this approach.	These are the entrepreneurs who do a lot of work and calculations to reduce the chances of failure and, thus, moderate the risk involved in their ventures. They take calculated risks. The basic difference between an entrepreneur and gambler lies in this one factor – the entrepreneur through his/her calculated actions, continuously influences the outcome and, thus, reduces the risk while the gambler does not.	There may be entrepreneurs who undertake some activity or venture where they would like to achieve 100% of what is desired. In fact, these entrepreneurs do not take any risk. These entrepreneurs are called 'Fabian Entrepreneurs.'

The different ways and means like high optimism, tolerance for ambiguity, high need for achievement, passion despite failure, belief about one's (internal) locus of control, perseverance, etc. can help one appropriate his/her risk-bearing orientation at a moderate level

Decision-Making of Entrepreneurs

Decision Making Styles: Management is the art of making decisions; and good management is the art of making good decisions. To become a better decision maker, and thus a better manager, it helps to be cognizant of your decision making options.

There are four different decision making styles, each of which you might apply in different situations.

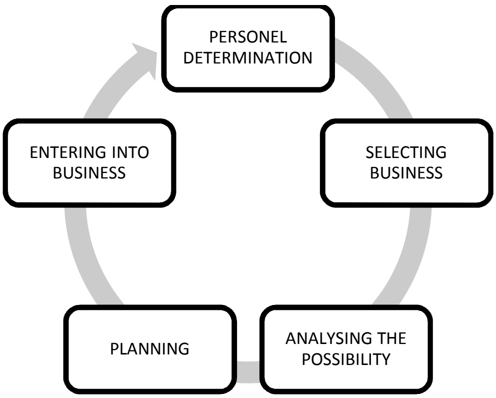
Autonomous Decision: This is a decision you make yourself. You, as the manager, make the decision, based either on information you already have, or on information you've gathered from employees and other sources. Autonomous decisions are appropriate when you have sufficient expertise, when you have private information, or when it's urgent. Autonomous decisions also apply when you have already made up your mind, or when the problem is trivial.

Consultative Decision: A consultative decision is when you share the problem with direct reports, discussing it with the whole team, as a team. Although you try to have everyone buy into the solution and are open to being convinced, in the last analysis the decision is yours to make. Consultative decisions are especially appropriate when the implementation of the decision is within an individual person's area, and your decision is easily directive. Such decisions also apply when the problem is of intermediate importance, or when you want to avoid major errors. Consultative decisions are also important when the team is not (yet) working well together and thus requires decision making leadership.

Joint Decision: In a joint decision, you and your direct reports share in the decision-making process, making decisions by consensus. By consensus, we mean that the decision may not be your first choice, but it's something we can live with and support. Joint decisions work best when the problem is important and complex, and when there is not one single expert, but perhaps several members of the team have expertise. Joint decisions also help ensure a quality solution.

Delegative Decision: When the problem is delegated to one or more employees who have the authority to make the decision, this is a delegative decision. Delegate when there is one expert (and you are not it). You can also delegate when the problem is not that important, or if the task can also serve as a developmental exercise (provided you and your team can live with the solution). Keeping these definitions in mind when you are faced with decisions will allow you to be more self-conscious of which style you are using, or should be using, and will help you become a better manager.

Steps of Entrepreneurial Decision Making



There are lots of controversy about the steps and characteristics of an entrepreneur. Some urges that characteristics are the most important thing to be an entrepreneur. It is true, because in order to be an entrepreneur, a person must possess some characteristics. But exploring these characteristics and qualities to become an entrepreneur, is not an easy task. Because there is no certain guideline for being an entrepreneur. It cannot learn in school, college or in university.

Moreover, entrepreneurs are likely to come from families in which parents sets high standard for their children's' performance, encourage habits of self-reliance and avoid being strict disciplinarians *(Siropolis, 1998)*. And become successful in the field of business or entrepreneur is not an easy task. But some steps can be followed to find out the appropriate business sector, which increase the chance of being a successful entrepreneur. The steps are discussed in as follows –

Step 1: Personal Determination: An important step in entrepreneurial decision making is the self-assessment to determine whether you have the personal traits you need to succeed in business. Owning a business provides entrepreneurs the independence and the opportunities to achieve what is important to them, given the opportunity to use full potential and contribute to society. Again on the other side this choice have uncertainty in income and future, high risk, high level of stress, low quality of life at the beginning *(Zimmerer& Scarborough, 2005)*. So deciding whether to go for it or not is one of the important factors. If anyone has decided about it then the next step will start for him/her.

Step 2: Selecting Business: The second step is selecting the business that the person wants to enter. The number of business may one or two or more. But the main question is what type of business should be selected? This question is very hard to answer. It varies from person to person. It depends on the personal attitude, for instance – a study shows that 41% choose to be entrepreneur to be his own boss, 16% choose for making money, 12% choose for creating something new, 9% choose for proving himself, 6% choose by dissatisfied with job. And from other side it also depends on the environment in which the business is going to operate, for example – luxury product business is not so much suitable for village side but it is quiet suitable in the city or town.

First it should be determined about the business. It is better if the number of business selected is more than one or two, because it will enhance the possibility of entering into the business. The better way to choice the business is to determine what type of business interest you most. If the business / businesses are interesting to you it will increase the chance of being successful in the business, you will learn quickly and can ran the business with customer satisfaction.

Step 3: Analyzing the Possibility of Selected Business: Now another important part is analyzing the viability or feasibility of selected options in various aspects. The first part is the social acceptance of the selected business. The success of the business, especially small business as the most of the entrepreneurs are start with small business, vastly depend on the social acceptance of such business. Other deciding factors are demographic trends or the age, race, ethnicity and location of the target customers. This trend is important because the basis for any market is people.

Technology, the application of science and engineering skills and knowledge to solve production and organizational problems, is another deciding factor, because it directly associated with production and operation process. Other deciding factors are economic system and laws and regulations etc. Last and the most important factor to be considered is financial aspect. Money required to start the selected business should be determined exclusively. By considering all of these factors, first the options should be ranked and then selecting the best option based on other factors, such as – personal choice, financial capabilities etc.

Step 4: Planning: The most important step in the entrepreneurial decision making is planning. The work of planning is basically mental. It requires thinking through logically *(Skinner & Houston, 2003)*. A proper planning will reduce the stress and hazardous of managing a new business and act as a proper guideline for the future operation. This planning process is quite different from the planning of management process. This planning includes planning about operation, marketing, and management and financing.

The details of this planning are as follows:

Operation Planning*:* This aspect describes the product or services offers and finds out its unique features; explain why people will buy the product or service and available legal protection – patents, copyrights, trademarks and danger of technical. This part of the planning also explains the type of manufacturing or operating should be used; describes the facilities, labor, raw materials and product processing requirements. This section should offers the following description; operating or manufacturing methods, operating facilities (location, space and equipment), quality controls methods, procedures to control inventory and operations, sources of supply and purchasing procedures. If the business is not the manufacturing business some of the activities related to production will not present in this section.

Management Plan: This part will identify the key players – active investors, management team, and directors – citing the experience and competence they possess. This section should offer the following description; management team, outside investors, directors and their qualifications, outside resource people and their qualifications and plans for recruiting and training employees.

Marketing Plan: In this step entrepreneur will painstakingly researched their markets and the marketing plan should be creative and productive. It describes how the entrepreneur plans to use his marketing tools – marketing channels, price, advertisement, personal selling, and sales promotion. This section should also offer the following description; analysis of target market and profile of target customer, methods of identifying and attracting customers, selling approach, types of sales forces and distribution channels, types of sales promotion and advertising and credit and pricing policies. But the marketing plan may differ sharply in some aspects between manufacturing organization and merchandising organization.

Financial Plan: A financial plan binds all the preceding steps by translating operating plans – production, marketing, management and all other plans related to the operations of the venture – into money. In other words, the financial plan is the monetary expression of the entrepreneur's operating plans.

This part of the plan should contain the following descriptions:

- Projected financial statement for the next three or five years or as available
- Income statements
- Balance sheets
- Cash flow statements
- Cash budgets
- Break even analysis of profit and cash flows
- Planned source of financing

It is the most important part of the planning as it is the financial indication of the business in future and set out the primary monetary target for the entrepreneurs. Another reason is that it includes source of financing for the business. And another thing is that all the part of the financial aspects should be backed by strong arguments.

Step 5: Entering into the Business: The last step of the process is to entering or starting the business. But this part includes another decision making process, because there are three ways for entering into the business:

1. Starting a new business.
2. Buying an existing business.
3**.** Doing business under other (franchising).

All the three ways have advantages and disadvantages includes with them.

The advantages and disadvantage of the last two are discussed below:

Buying an Existing Business: Advantages of buying an existing business include the following:

- Established infrastructure
- Goodwill
- Market share
- Skilled employees
- Suitable location
- Existing supply chain
- No startup cost
- Legal facilities

But in the other way it may have legal binding, inefficient management, ill will, unsuitable location, old and out dated machinery, lower customer satisfaction etc. so in case of buying an existing business following steps should be followed:

1. Prepare a list of potential candidates.
2. Investigate the all candidate's problems and benefits
3. Choose the best

Franchising: An advantage of franchising includes

- Least costly
- Profit incentives
- Decision making authority
- No legal restriction
- Easy to discontinue

But in other way it may have unlimited personal liabilities, limited skills and capabilities, isolation, limited access to capital and lack of continuity. So in choosing of franchising the above mentioned three steps can be followed here also.

Entrepreneur's Business planning: Business plans are decision-making tools. The content and format of the business plan is determined by the goals and audience. For example, a business plan for a non-profit might discuss the fit between the business plan and the organization's mission. Banks are quite concerned about defaults, so a business plan for a bank loan will build a convincing case for the organization's ability to repay the loan.

A business plan is a formal statement of business goals, reasons they are attainable, and plans for reaching them. It may also contain background information about the organization or team attempting to reach those goals.

Comprehensive business plans have three sections

- Business concept
- Marketplace
- Financial

These are broken down into seven components that include the overview or summary of the plan, a description of the business, market strategies, competition analysis, design and development, operations and management, and financial information.

Business plans may be internally or externally focused. Externally focused plans target goals that are important to external stakeholders, particularly financial stakeholders. They typically have detailed information about the organization or team attempting to reach the goals. With for-profit entities, external stakeholders include investors and customers. Internally focused business plans target intermediate goals required to reach the external goals. They may cover the development of a new product, a new service, a new IT system, a restructuring of finance, the refurbishing of a factory or a restructuring of the organization.

Business plans that identify and target internal goals, but provide only general guidance on how they will be met are called strategic plans. Operational plans describe the goals of an internal organization, working group or department. Project plans, sometimes known as project frameworks, describe the goals of a particular project. They may also address the project's place within the organization's larger strategic goals.

The Process of Business Planning: Business planning begins by deciding what you are trying to achieve and the outcomes you are seeking or the problems you are trying to solve. Having identified these, planning proceeds by a series of steps, as follows:

- Describe your business activities or plans
- Outline the current status of the business or its planned activity in Year 1

- Describe the external market, any competition and where you place yourself in the market
- Decide the objectives of the plan over a given period of time
- Develop strategies for achieving these objectives
- Identify risks and opportunities of various strategies
- Develop coping strategies that limit risks and exploit opportunities
- Develop a series of working plans
- Calculate costs and income as part of an overall financial plan
- Ensure the strategy is set down clearly and concisely

Importance of Business Planning

To clarify direction: The primary purpose of a business plan is to define what the business is or what it intends to be over time. Clarifying the purpose and direction of your business allows you to understand what needs to be done for forward movement. Clarifying can consist of a simple description of your business and its products or services, or it can specify the exact product lines and services you'll offer, as well as a detailed description of your ideal customer.

To have future vision: Businesses evolve and adapt over time, and factoring future growth and direction into the business plan can be an effective way to plan for changes in the market, growing or slowing trends, and new innovations or directions to take as the company grows. Although clarifying direction in the business plan lets you know where you're starting, future vision allows you to have goals to reach for.

To attract financing: The Small Business Administration states that "The development of a comprehensive business plan shows whether or not a business has the potential to make a profit." By putting statistics, facts, figures and detailed plans in writing, a new business has a better chance of attracting investors to provide the capital needed for getting started.

To attract team members: Business plans can be designed as a sale tool to attract partners, secure supplier accounts and attract executive level employees into the new venture. Business plans can be shared with the executive candidates or desired partners to help convince them of the potential for the business, and persuade them to join the team.

To manage company: A business plan conveys the organizational structure of your business, including titles of directors or officers and their individual duties. It also acts as a management tool that can be referred to regularly to ensure the business is on course with meeting goals, sales targets or operational milestones.

UNIT II - ENTREPRENEURIAL GROWTH

Several factors restrict the entrepreneurial growth in a society. These factors may be divided into two groups, viz. economic and non-economic factors. These factors affect entrepreneurial development in the less developed countries.

Factors in Entrepreneurial Growth

Economic factors: Shortage of capital, lack of infrastructural facilities, non-availability of raw materials, labour shortage, defective tax structure, lack of technology, indifferent attitude of bankers etc. retard entrepreneurship

Non-economic factors: Following are the non-economic factors obstruct the growth of entrepreneurship.

i) **Social factors:** Customs, traditions, lack of social mobility, rationality of society, social system etc.

ii) **Personal factors:** Lack of creativity, low achievement motive, indifferent attitude, lack of entrepreneurial qualities, suspect personality etc.

iii) **Other factors:** Increasing competition, ineffective administration, lack of political will, complex laws, inadequate facilities of higher education, adverse attitude of the government etc.

Role of Government in supporting Entrepreneurship: There is no simpler way to create new job positions, increasing GDP and rising standard of population than supporting entrepreneurship and encouraging and supporting people who dare to start their own business. Employment is one of the most important factors in determining the performance of an economy and the attendant social and political wellbeing of a country. In Malaysia, small businesses employ 55% of workforce in agriculture, manufacturing and services sectors of the economy

- To provide information on regulations, standards, taxation, customs duties, marketing issues;
- To advise on business planning, marketing and accountancy, quality control and assurance;
- To create incubator units providing the space and infrastructure for business beginners and innovative companies, and helping them to

solve technological problems, and to search for know-how and promote innovation; and

- To help in looking for partners. In order to stimulate entrepreneurship and improve the business environment for small enterprises.

Major support from the government

- Providing a set of incentives and subsidies to make it possible for small businesses
- To access funds at affordable interest rates, both for short and medium term needs. For example both india and malaysia have set up special funds for accessing venture capital by small businesses at concessionary rates.
- Access to affordable and reliable energy and communication facilities to run their small businesses more efficiently and profitably.
- Assist small businesses acquire the skills such as management skills to plan, coordinate, evaluate, monitor and exercise quality.
- Access to necessary information in a timely manner.
- Offer a whole range of business development services (BDS) to small businesses

MSME Policy framework of Zambian government towards entrepreneurship

Training:

- In conjunction with TEVETA and Ministry of Education facilitate entrepreneurship training for students, young citizens and needy peoples.
- Develop the capacity of Business Development Service (BDS) Providers in rural and urban areas to offer high quality entrepreneurship and business management training and other required BDS Services.
- Establish Institutes of Micro, Small and Medium Enterprises and Entrepreneurship in selected business schools to spearhead MSME research, entrepreneurship, and enterprise management training.

Innovation and level of technology:

- Establish within the Business Incubation Centres, Technology Innovation Centres (TICs) offering common facility, technology upgrading and Research and Development related services to MSME sector.

- Establishment of annual award schemes that recognize innovations and technology development within the sector.
- Build the capacity of existing technology Service Providers (e.g TDAU and National Institute for Industrial and Scientific Research) to effectively deliver support to MSME.
- Enter into bilateral and multilateral agreements with international organisations involved in technology transfer and upgrading in order to improve access by MSMEs.
- Develop a system for promotion, diffusion, and commercialisation of indigenously developed technologies.

Market accessibility:

- Conduct market studies to identify viable market niches which MSMEs can target with their goods and services and disseminate information to MSME representative organisations.
- Develop and implement value chain analysis and development programmes for specific sub-sectors. e.g. Food Processing sector.
- Develop and implement Business brokering and subcontracting programmes that facilitate access by MSMEs to sub-contracting services with large-scale businesses.
- Initiate discussions and sign trade agreements with neighbouring countries (particularly DRC, Namibia, Angola, Mozambique and Zambia) to open up export market opportunities for MSMEs.
- Facilitate implementation of MSME Trade Shows and Exhibitions.
- Facilitate participation of MSMEs in International Fairs and in Trade Missions.

Credit Facilities:

- Establish part of the CEE Development Fund as a graduated financing vehicle for developing the MSME Sector
- Through relevant government agencies, engage financial institutions into developing suitable business financing products for MSMEs. These should include equity, leasing, hire purchase, trade finance, and investment financing.
- Strengthen the capacity of development banks to provide growth-oriented financing solutions to MSMEs.

- In collaboration with the Credit Reference Bureau, provide referral to confirm credit worthiness of specific MSMEs.
- In collaboration with the Lusaka Stock Exchange, operation alise the secondary market for MSMEs on the Stock Exchange to create alternative sources of business financing.
- Provide incentives to Financial Institutions in order to encourage lending to MSMEs.
- Establish Credit Guarantee Schemes to improve access and minimise collateral constraints among MSMEs.

Infrastructure:

- Develop the capacity of local authorities to establish and management Multi-Facility Economic Zones and collaborate with private sector real estate developers to construct Business Industrial parks.
- Provide guidelines and incentives for business premises development programmes such as build-operate-transfer or build-own-operate schemes.
- In collaboration with private sector service providers, improve MSMEs access to telecommunication, internet, and banking services.
- In collaboration with Road Development Agency and Local Municipal Councils improve access roads to central business premises and Industrial Parks.

Other policies:

- Promote establishment of business linkages between agricultural farming blocks, large Companies and MSMEs in order to establish enhance marketing channels.
- Provide tax incentives to stimulate development of MSMEs in rural and peri-urban areas.
- Build the capacity of MSMEs development organisations including associations of women entrepreneurs, to design programmes that take into account the specific needs and challenges that women entrepreneurs face.
- Develop special programmes that specifically target vulnerable members of local communities such as women, youth and other people with disabilities

Implementation of MSME policy: ZDA MSE Division shall be responsible for regulating the MSME sector and its various implementing organisations and structures and ensuring that all MSME development activities create synergy and are directed at achieving set national goals and objectives.

Functions of ZDA

- Make detailed impact analysis on select sectors of the economy such as textiles, agriculture, mining, tourism, education, skills training, communication, transport, infrastructures development, automobiles, information technology, chemicals and steel engineering goods, through a multi-disciplinary team;
- Establish a database of facilities, human resource and their skills, sources of finance, technology, raw materials, machinery, equipment and supplies with the view to promoting accessibility of these industry;
- Develop entrepreneurship skills and the business culture in the citizens of Zambia;
- Promote and facilitate the development of micro and small business enterprises;
- Formulate investment promotion strategies;
- Promote and coordinate government policies on, and facilitate, investment in Zambia;
- Assist in the security from any state institution any permission, exemption, authorization, licence, bonded status, land and any other thing required for the purposes of establishment of operating a business enterprise;
- Undertake economic and sector studies and market surveys so as to identify investment opportunities

The Role of Non-Government in Supporting Entrepreneurship: An NGO or a Non-Governmental Organization is an association that functions for the benefit of civil society. These groups belong to the civic or community sector as they do not represent any form of government or private institution. Unlike business companies, NGO’s operate on a non-profit basis similar to a charity. Today we have several NGO contributing to entrepreneurship development in the country. The major ones are SOS Children's Villages, Oxfam, Catholic Relief Services, CARE International and Lutheran World Relief. The NGOs involved in entrepreneurship development can be classified into three types.

i. **Primary level NGOs**: the NGOs who mobilize their own resources, operate at international level and execute developmental activities themselves or through intermediate fall within this category. ACTIONAID, OXFAM, Christian children fund etc. are prominent example of the primary level NGOs.

ii. **Intermediate NGOs**: these NGOs procure funds from various agencies, import training and conduct workshops for target workforce. SEWA and AWAKE are examples of intermediate NGOs.

iii. **Grass root level NGOs**: these NGOs are those who conduct field activities by establishing direct contact with the grass root people (needy). E.g. Global giving.

The training imparted to the needy by the NGOs can be classified into three broad types:

i. **Stimulation:** conducting EDPs and other training programmes for the target people with a view to stimulate enterprising attitude among them.

ii. **Counseling:** providing counseling and consultancy services to the needy ones how to prepared a project, feasibility report, purchase of plant and machinery, and performing other procedural activities.

iii. **Assistance:** assisting the target group in marketing their products and securing finance from financial institution.

Lastly, the role of NGOs in entrepreneurship development can better be understood in terms of their strengths and weaknesses in the context of entrepreneurship development. The NGOs have revealed the following strengths as an edge over others:

- The lean overhead and operating costs to reach the poor and needy.
- Flexibility and responsiveness in operation to invent appropriate solution.
- Nearness to client groups made them to be sensitive to community need.
- Capacity for innovation and experimentation with new groups and untried development approach.
- Stimulating and mobilizing interest in the community.
- Depend on customer satisfaction.
- Act as a test bed and sound board for government policies and programmes.

That one cannot imbue in others what one cannot possess oneself' applies to the NGOs also. The well-noted weaknesses the NGOs suffer from are listed as follows.

- Role conflict as to the traditional areas of operation and micro-entrepreneurship development.
- Doubtful leadership and succession.
- Anti-business philosophy, lack of programme integration due to lack of proper understanding of entrepreneurship approach.
- Inadequate opportunities to work as trainer/motivator.
- Absence of impact assessment because of self-righteousness on the part of NGO leaders.
- Not all NGOs are ready and equipped to take up this activity.

In spite of these so called weaknesses, the role of NGOs in entrepreneurship development cannot be undermined. Evidences are galore to mention that a few NGOs in India have succeeded largely in imparting entrepreneurial skills among the weaker section of the society.

The Role of the NGO: NGO's address humanitarian issues through careful utilization of their grants. They focus on development projects to support and assist people in society. NGOs are consequently active in a broad range of areas. They can be community specific or international many international NGOs like Amnesty International, involved in major humanitarian concerns such as campaigning against human rights abuses and Medicines Sans Frontiers who provide medical supplies and related services to affected people.

In this way, the objectives of NGOs may differ, and are dependent on the type of work they do. For example, an NGO may be geared towards research, relief, service provision, advocacy or participation oriented programmes. These projects are managed and implemented to aid and advance local people. They promote awareness, educate and inform. Regardless of the type of field an NGO may be in, they share a common purpose to do good in the world.

NGO can support your business: Over the past few decades NGOs have increasingly gained momentum as influential movements. This has led to an increased amount of international organizations working in different parts of the world, particularly developing countries. There are a number of international NGO's which focus on business development objectives and entrepreneur programmes. These NGO's adopt a broad range of approaches in an attempt to grow businesses, support SMEs and develop entrepreneurs.

Some aim to provide necessary resources to foster entrepreneurial spirit while others assist through knowledge exchange. A dynamic NGO, The Grameen Foundation is involved in the Sinapi Aba Trust in Ghana. This is one of the largest microfinance institutions in Ghana. It helps entrepreneurs by providing access to micro loans for small scale business. This foundation assisted Akousa, a young entrepreneur in Ghana, to take out a micro loan to start a trading store in her area. After years of selling from door to door, she now runs a small kiosk selling fish, tomatoes, eggplant, and other items.

How to find NGOs in the Africa Report Directory: As stated many NGO's work in partnership with other organisations such as development finance institutions, donor agencies and social enterprises. Together, these groups design interventions to help meet the challenges of starting and growing a business in developing economies. The following list contains a number of examples of NGOs, social enterprises and finance institutions that support entrepreneurs through various development programmes.

- **African Agricultural Capital (AAC)**: This is a venture capital investment fund is specifically created to invest in small and medium-sized agriculture-related businesses in East Africa. This organization focuses on providing farmers with improved access to market opportunities. It focuses on early stage businesses where risk capital is needed and where high long term investment returns can be generated.
- **Kickstart:** This is an organisation that believes self-motivated private entrepreneurs managing small-scale enterprises can play a dynamic role in the economies of developing countries. This organisation develops and promotes technologies that can be used by dynamic entrepreneurs to establish and run profitable small scale enterprises.
- **Business Council for Peace**: It is a non-profit international volunteer network of business professionals. In countries emerging from war, particularly Afghanistan and Rwanda, volunteers of Bpeace work to help

women entrepreneurs expand their businesses, create employment and build a peaceful future for their communities.

- **The International Fund for Agricultural Development (IFAD):**The IFAD is a specialized agency of the United Nations, is as an international financial institution. Working with rural poor people, governments, donors, non-governmental organizations and many other partners, IFAD focuses on country-specific solutions, which can involve increasing rural poor peoples' access to financial services, markets, technology, land and other natural resources.

To explore more organisations that assist business development, visit our directory at the top of the homepage. Listed under Resources under 'Finance' or 'Assistance' you can browse the directory to find organisations that may do work specific to your entrepreneurial needs. Click here for a direct link to the directory.

Women entrepreneurs: Women entrepreneurs may be defined as a women or group of women who initiates organize run a business enterprise. In terms of Schumpeterian concept of innovative entrepreneurs, women who innovate, imitate or adopt a business activity are called "Women entrepreneurs". The government of India has defined Women entrepreneur based on women participation in equity and employment of a business enterprise.

Accordingly, a women entrepreneur is defined as **"an enterprise owned and controlled by a women having a minimum financial interest of 51% of the capital and giving at least 51% of the employment generated in the enterprise to women".** However, this definition is subject to criticism mainly on the condition of employing more than 50% women workers in the enterprises owned and run by the women.

In nutshell, Women entrepreneurs are those women who think of a business enterprise, initiate it, organize and combine the factors of productions, operate the enterprise and undertake risk and handle economic uncertainty involved in running a business enterprise.

Problems of women entrepreneurs: Women entrepreneurs encounter two sets of problem, viz., general problems of entrepreneurs and problems specific to Women entrepreneurs. The basic problem of a woman entrepreneur is that she is a woman. These are summarized as follows.

1) Shortage of Finance: Owing to lack of confidence in women's ability by others.

2) Shortage of Raw Material: Women entrepreneurs find it difficult to procure material and other necessary inputs. The prices of many raw materials are quite high.

3) Inadequate Marketing Facilities: Most of the women entrepreneurs depend on intermediaries for marketing their products. It is very difficult for the women entrepreneurs to explore the market and to make their product popular

4) Keen Competition: Women entrepreneurs face tough competition from male entrepreneurs and also from organized industries.

5) High Cost of Production: High prices of material, low productivity. Under utilisation of capacity etc. account for high cost of production.

6) Family Responsibilities: Management of family may be more complicated than the management of the business. Hence she cannot put her full involvement in the business. Occupational backgrounds of the family and education level of husband has a direct impact on the development of women entrepreneurship.

7) Low Mobility: One of the biggest handicaps for women entrepreneur is her inability to travel from one place to another for business purposes.

8) Lack of Education: Lack of knowledge and experience creates further problems in the setting up and operation of business.

9) Low Capacity to Bear Risks: Women lead a protected life dominated by the family members. She is not economically independent. She may not have confidence to bear the risk alone. If she cannot bear risks, she can never be an entrepreneur.

10) Social Attitudes: Women do not get equal treatment in a male dominated society. Wherever she goes, she faces discrimination.

11) Low Need for Achievement: Generally, a woman will not have strong need for achievement. Every women suffers from the painful feeling that she is forced to depend on others in her life. Her pre-conceived notions about her role in life inhibit achievement and independence.

12) Lack of Training: A women entrepreneur from middle class starts her first entrepreneurial venture in her late thirties or early forties due to her commitments towards children. Her biggest problem is the lack of sufficient business training.

13) **Lack of Information:** Women entrepreneurs sometimes are not aware of technological developments and other information on subsidies and concessions available to them. They may not know how to get loans, industrial estates, raw materials etc

To Develop Women Entrepreneurs: Right efforts from all areas are required for greater participation in the entrepreneurial activities by women. The following efforts can be taken into account for effective development of women entrepreneurs.

1. Consider women as specific target group for all developmental programmes.
2. Better educational facilities and schemes should be extended to women folk from government part.
3. Adequate training programme on management skills to be provided to women community.
4. Encourage women's participation in decision-making.
5. Vocational training to be extended to women community that enables them to understand the production process and production management.
6. Skill development to be done in women's polytechnics and industrial training institutes.
7. Training on professional competence and leadership skill to be extended to women entrepreneurs.
8. Training and counselling on a large scale of existing women entrepreneurs to remove psychological causes like lack of self-confidence and fear of failure.
9. Counselling through the aid of committed NGOs, psychologists, managerial experts and technical personnel should be provided to existing and emerging women entrepreneurs.
10. Continuous monitoring and improvement of training programmes.
11. Activities in which women are trained should focus on their marketability and profitability.
12. Making provision of marketing and sales assistance from government part.

13. To encourage more passive women entrepreneurs the Women training programme should be organised that teach to recognize her own psychological needs and express them.
14. State finance corporations and financing institutions should permit by statute to extend purely trade related finance to women entrepreneurs

Small Scale Entrepreneurs

Definitions of Small and Medium Enterprises (SMEs): The definitions of "small" and "medium" sized enterprises differ from one country to another. Each country adopts different criteria for defining SMEs with regard to the number of workers employed the, volume of output or sales, the value of assets, etc. As far as the case of Pakistan is concerned no concentrated efforts are observed at a macro level to define SMEs. Numerous efforts have been made to formulate basic policy guidelines limited to the small-scale industry while ignoring a vital component, the medium sized enterprises. As a result, inconsistent policies have been formed from time to time without taking into considerations the overall importance of SME sector.

The need for a uniform definition is crucial for the successful development of this sector. Various organizations follow different definitions of SME's SME Management according to their needs. Mainly these definitions are based on one variable, the fixed assets; key motive is to cater the credit requirements of the small-scale sector.

Concept of small business: Clifford Baum back regards small business as one that inactively managed by its owner highly personalized largely local in its area of operation. They are relatively small in size within the industry and largely dependent on the internal resources of capital to finance its growth. A business is small if it meets two or more of the following criteria.

- Management of firm is independent in the sense that owners themselves are managers.
- Capital is supplied by ownership and is held by an individual or a small group.
- Area of operation is local.
- The size of the firm in the industry is small as compared to the highest unit in its field. An ancillary unit one which sells not less than 50% of it's manufacture to one or more industrial units.

According to Zambia's 2008th MSME policy, "Small Business enterprise" means any business enterprise:

(a) Whose amount of total investment, excluding land and buildings, does not exceed:-

(i) In the case of manufacturing and processing enterprises, Eighty Million Kwacha to two hundred million kwacha (K80,000,000 – K200,000,000) in plant and machinery

(ii) In the case of trading and service providing enterprises, One Hundred Million Kwacha (K150,000,000);

(b) Whose annual turnover will be around one hundred and fifty million kwacha to Three Hundred and fifty Million Kwacha (K150,000,000 – K300,000,000)

(c) Employing up to fifty (11 to 50) persons.

"Medium Business enterprise" means any business enterprise:

(a) Whose amount of total investment, excluding land and buildings, does not exceed:

(i) In the case of manufacturing and processing enterprises, Two Hundred Million Kwacha to Five hundred million Kwacha (K200, 000, 000 to K 500, 000,000) in plant and machinery

(ii) In the case of trading and service providing enterprises, One Hundred and fifty one Million Kwacha to Three hundred million kwacha (K151,000,000 to K300,000,000)

(b) Whose annual turnover shall be between Three Hundred and Eight hundred million Kwacha (K 300, 000, 000-800,000,000)

(c) Employing up to One Hundred (51 to 100) persons.

Objectives of small scale industries

- To generate immediate and large scale employment opportunities with relatively low investment.
- To eradicate unemployment problem from the country.
- To encourage dispersal of industries to all over country covering small towns, villages and economically lagging regions.
- To bring backward areas too in the mainstream of national development.
- To promote balanced regional development in the whole country.
- To ensure more equitable distribution of national income.
- To encourage effective mobilization of country's untapped resources.

- To improve the level of living of people in the country.

Characteristics of small scale industry: A small scale industry is beautiful because of the following important characteristics:

- They are generally organized and run by individual entrepreneurs.
- They require less capital.
- They are fundamentally labour-intensive units facilitating greater utilization of man power.
- 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 SMEs are decentralized and dispersed to rural areas.
- They are flexible to a large extent. They are more susceptible to change and highly reactive and receptive to socio-economic conditions.
- They are free from red-tape and bureaucratic handicaps.
- Compared to large units, a SME has a lesser gestation period.

Types of small scale industry: Small scale industries can be classified into five main types as follows.

i. **Manufacturing industries:** i.e., industries producing complete articles for direct consumption and also processing industries

ii. **Feeder industries** specialising in certain types of products and services, e.g. casting, electro-plating, welding, etc.

iii. **Serving industries** covering light, repair, shops necessary to maintain mechanical equipment

iv. **Ancillary to large industries**, producing parts and components rendering services

Advantages of SMEs

1) They are relatively more environmental friendly.
2) They are generally based on local resources.
3)They provide ample opportunities for creativity and experimentation.
4) They facilitate equitable distribution of income and wealth.
5) These helps in the balanced regional development.
6) It is possible to make necessary changes as and when required.

7) These help in reducing prices.
8) There is a close and direct personal contact with the customer and employees.
9) They create more employment opportunities. They are labour intensive. They offer ample scope for self-employment.
10) They require only less capital. It is a boon to a country where capital is deficient.
11) SME alone can satisfy individual tastes and offer personalized service to the customers.

Problem of small scale industries: Some of the more important problems faced by SMEs are as follows:

1) Lack of Managing Experience: They may not be having specialised knowledge in the different fields of management.

2) Inadequate Finance: Generally SMEs 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 Machinery and Equipment: Many SMEs use inefficient and outdated machinery and equipment.

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.

6) Irregular Supply of Raw Materials: Small entrepreneurs are forced to pay high prices for materials because they purchase materials in small quantity.

7) Problem of Marketing: It cannot afford to costly advertisement and network of distribution system.

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 Government: The Govt. may take decisions relating to MSMEs on the basis of political consideration rather than on economic consideration.

10) Other Problems: This could be inefficient management, non-availability of cheap power, burden of local taxes etc.

Typical Small Business

- Retailing: It's a traditional business where normally the owner is the boss and owner
- Services: such as legal and accounting, courier services and beauty parlors etc.
- Construction activity.
- Whole sale business.
- Financing, insurance and real estate.
- Transportation, communication and public utilities.
- Manufacturing.

Qualities of a Small Scale Entrepreneur

- **Mental Ability** consists of :
  (a) Overall intelligence,
  (b) Creative thinking, i.e. the ability to adapt to various situations,
  (c) Analytical ability, i.e. ability to systematically analyze the business problems.
- **Human Relation Ability** is demonstrated by emotional stability, skill in interpersonal relations, Sociability, tactfulness, empathy (to put oneself to another's place
- **Communication Ability** is the skill in conveying information to others so that understanding is created.
- **Technical Knowledge** is the expertise in such areas as personal selling techniques, operating a complex piece of equipment, analysis and interpretation of financial records etc.
- **Decision Making Ability** is the skill in selecting satisfactory course of action from among various alternatives.
- **Conceptual Ability** is the ability to comprehend the organizational structure and how each unit fits into the whole. It enables him to recognize opportunities.

Salient Features

Single Owner Entrepreneur: He/she works with his/her own hands combines the entrepreneur function of initiating the business making investments, taking decisions and performing managerial functions.

Age Pattern: The mean age of entrepreneur was found to be 42 years and of their enterprises 12 years. It is comparable to the Korean age pattern (46).

Educational Level: Differing from industry to industry 60% have school education and 30%have college or better education only 10% have professional or graduation level.

Social Background: Social background has an important role in certain industries and on the other hand heritage is dominant. But overall it is very diversified.

Sizes and Investment: Majority started in a small way with less than 10 workers and 1/2 to 2/3 of the firms started with less than 50,000 investments.

Growth: The growth was fast in case of small firms than in large firms.

Profitability: It is therate of profit is higher in case of small industries in comparison with the large industries.

Rural Entrepreneurship: Like entrepreneurship, rural entrepreneurship also conjures different meanings to different people. Without going into semantics, rural entrepreneurship can simply be defined as entrepreneurship emerging in rural areas is rural entrepreneurship. In other words, establishing industrial units in the rural areas refers to rural entrepreneurship. Or say, rural entrepreneurship implies rural industrialization. Let us know, for the sake of our knowledge the meaning of rural industry.

Rural industry means any industry location in rural area, population of which does not exceed 10,000 or such other figure which produces any goods or renders any services with or a without use of power. The definition of village industry has been recently modified by the Indian government so as to enlarge its scope. Accordingly, any industry located in rural area, village or town with a population of 20,000 and below and an investment of Rs .3 crores in plant and machinery is classified as a village industry. As a result of widening of the scope of village industries, 41 new village industries have been added making a total of 101 as against 70 industries earlier.

All the village industries have been grouped into seven major categories as follows:

i. Mineral-based industry,
ii. Forest based industry,
iii. Agro-based industry,
iv. Polymer and chemical –based industry,
v. Engineering and non-conventional industry,
vi. Textile industry
vii. Service industry

Having understood the meaning of rural entrepreneurship and rural industry, Let us move on to appreciate the need for and significance of entrepreneurship in India.

Need for Rural Entrepreneurship: The need for rural entrepreneurship for developing industries in the rural areas is imbued with multiplicity of justification as listed below;

1. Rural industries being labour intensive have high potential in employment generation. Thus, they serve as an antidote to the widespread problems of disguised unemployment or under- employment stalking the rural territory.
2. By providing employment, these industries have also high potential for income generation in the rural areas. These thus help in reducing disparities income between rural and urban areas.
3. These industries encourage dispersal of economic activates in the rural areas and, thus, promote balanced regional development.
4. Development of industries in the rural areas also helps build up village democracy.
5 Rural industries also help protect and promote the art and creativity i.e. the age –old rich heritage of the country.
6. Rural industrialisation fosters economic development in rural areas. This curbs rural urban migration, on the one hand, and also lessens the disproportionate growth in the cities, reduces growth of slums, social tension, and atmospheric pollution ,on the other .

7. Last but no means the least, rural industries being environment friendly lead to development with destruction i.e. the most desideratum of the time.

Advantages for Rural Entrepreneurship

1. Abundant natural resources including land, water and minerals
2. Land is easily available at relatively much lower prices.
3. Availability of labour particularly of semi-skilled and unskilled type is easy and at lower wage rates.
4. Rural environment is free of pollution.
5. Tax burden in rural areas is low, which increases competitive strength of rural industry.

Problems of rural entrepreneurship

1. Inadequate credit availability due to indifferent attitudes of modern financial institutions.
2. Obsolete technology – Rural techniques of production are quite primitive and have become obsolete, production based on this is of no quality and cannot compete in modern markets because of high cost per unit.
3. The quality of rural production is substandard, Rural entrepreneurs are not aware of the importance of quality production.
4. In rural areas infrastructural facilities are either absent or very poor. This relates to roads, railways, power, water, transport and communication as also education and training.
5. Ignorance- Rural population is burdened with ignorance, lack of educational facilities and lack of training in industrial skills.
6. Adverse social attitude
7. Problem of markets- it is very difficult to sell their output because of lack of effective market locally and absence of safe, cheap and quick transport facilities.

Export Entrepreneurs: Export means selling goods to a trader in the foreign country. The export trade has special signification in the economy of the country. Its importance lies in earning enough amounts of foreign currencies to make payment for the goods imported from abroad. If a country's imports exceed its exports, it has either to get loans from the foreign countries or part with its gold in required quantities to make payments for the imported goods. Export entrepreneur is defined as the individual who sets up a business that sells the goods and services for customers/clients in foreign countries.

The export field is not the sole purview of the conglomerate corporate trader makes up only about 4% of all exporters which means that the other 96% of exporters are from small outfits.This explains why every country tries to sell as much as possible to other countries. The problems of Export entrepreneurs are general such as lack of capital/financial facilities, lack of technological know-how, lack of raw materials, lack of skilled labors, lack of education, lack of promotion schemes from government and bottlenecks in customs clearance procedures.

Types of Export Business

- **Export Management Company (EMC):** An EMC handles export operations for a domestic company that wants to sell its product overseas but doesn't know how (and perhaps doesn't want to know how).
- **Export Trading Company (ETC):** While an EMC has merchandise to sell and is using its energies to seek out buyers, an ETC attacks the other side of the trading coin. It identifies what foreign buyers want to spend their money on and then hunts down domestic sources willing to export.
- **Import/Export Merchant:** This international entrepreneur is a sort of free agent. He has no specific client base, and he does not specialize in any one industry or line of products. Instead, he purchases goods directly from a domestic or foreign manufacturer and then packs, ships and resells the goods on his own.
- **Manufacturer cum Exporter**: This entrepreneur manufactures his products and sells it to the clients or customers by exporting it.

Export procedures: The procedure or steps involved in exporting goods from a port in a country to a foreign country may well be discussed under the following headings. In other words, an export transaction in India has to pass through the following stages.

Obtain Export Licence: After setting up an export company, get the export license for particular commodities from the government.

Make an inquiry: By choosing your export product, you would have sent export samples to your international buyer if required and got approved. After necessary communication with your overseas buyer on terms of payment (Documents against acceptance, documents against payments, letter of credit) and terms of delivery (FOB, CNF and CIF), you arrange to issue pro-forma invoice.

Receipt of indent: After that an indent i.e. an order from a foreign buyer is received in the export trade. The full description of quantity, packing method of dispatch, price, insurance and payments etc. of the goods must be mentioned in the indent.

Necessary enquiries: The exporter does not dispatch goods in all circumstances when he receives the indent. He makes necessary enquiry about his customers. The enquiry is primarily made about good will of the customer.

Demanding letter of credit: Before sending the goods the exporter needs to be satisfied with the credit worthiness of the importer. For this he demands a letter of credit from the importer. The importer has to get it from a bank. Usually, a letter of credit in favor of the exporter is a widely accepted procedure.

Secure the shipping order: The exporter proceeds to make arrangements for shipping the goods through a shipping company after being satisfied with the credit worthiness of the foreign buyer. For this purpose he enters into an agreement with a shipping company well in advance. When the space of a ship is hired by the exporter, the agreement between him and the shipping company is known as the 'charter party'.

Fixation of exchange: In the foreign trade, payment by the buyer to the seller is made in the currency of the country of the buyer. So, for payment to the exporter, the currency of the importer needs to be converted into the currency of the exporter. The rate at which this conversion is made is called exchange rate.

Collection of goods: if the goods to be shipped are not available in the god owns of the exporter, he has to purchase them from the local or inland suppliers. He may hire the services of export agent for the same. The export agents are specialised in such purchases. They have full knowledge of the whereabouts of commodities of good and cheaper price.

Packing and marking: packing of goods is a very important part of the procedure of exporting goods. As the goods have to travel over a long distance, they need to be packed with utmost care. A shipping company charges freight not only on the basis of the weight of the goods but also the space occupied. After packing of goods is done, each package is distinctly marked for the purpose of easy identification by means of a stencil. The name of the importer, the port of destination, the measurement of the package and in some cases the gross weight, tare i.e., the weight of the packing material and net weight are mentioned on the cover of the package as marking. Usually the marking is made by putting some geometrical figure which generally includes the initials of the importer, place of destination and the number of indents.

Appointment of forwarding agent: when the goods are ready for dispatch, the exporter appoints a forwarding agent and hires his services.

Observance of customs formalities: the forwarding agent, immediately after his appointment attends to all the customs formalities. First of all he prepares the shipping bill in triplicate. A shipping bill is a form in which the exporter is required to state his name, description of the goods, name of the ship which is to carry the goods, the port of destination etc. it is obtained from the customs office. There are different forms for different classes of goods. For this purpose, goods are classified as

- Free goods
- Dutiable goods
- Goods for re-export or 'bonded goods'.

The forwarding agent also makes an 'application to Export' in duplicate. Forms for this are available with the landing and shipping. Thereafter, the agent presents the shipping bills and the 'application to export' at the landing and shipping dues office. He pays the necessary shipping charges after which all the three copies of the shipping bill and one copy of the 'application to export' bearing endorsement for payment of shipping charges is returned to him.

The agent, then, 'submits the copies of the shipping bill along with the export license and application to export to the custom office. The customs authorities scrutinize the documents and assess the duties to be paid by the exporter on dutiable goods. Second copy of the shipping bill is retained by the customs office and the other documents including the first and third copies of the shipping bill are returned to the agent. After this, the agent again goes to the landing and shipping dues office. There he pays the duty and shipping dues against which a customs export pass is issued in the name of the exporter.

Sending goods on dock: after the export duty and shipping dues are paid, the agent makes arrangement to send the goods to the docks to be loaded on board in the ship. The permission from the dock authorities is obtained by paying necessary fees.

Loading goods on ship: the agents make arrangement for the goods on ship with the help of dock authorities. The customs authorities who are present will check the goods and their quantity before loading the ship. After verification the dock authorities direct their men to load the goods on the ship.

The captain of the ship after accepting the goods on the ship issues clean mate's receipt which is called mate's receipt. The captain issues clean mates on the goods being in good conditions and foul mate's receipt when packing is defective.

Obtain freight note and bill of lading: The dock authority hands over the mates receipt to the agent of the exporter when the goods are loaded. Now the agents approach the office of the shipping company and deposits the mates receipt. The shipping company, thereafter, prepares the freight note mentioning the amount of freight payable. It is usual to charge an amount called the primage, being payment for supervision of the loading of goods on board the ship. It amounts to certain percentages, generally 10% of the freight charges. On payment of the freight and primage charges, next step is to obtain three to five copies of the form of bill of lading.

Insurance of goods: the agent insures the goods with an insurance company to save the goods against the risks of marine insurance. The importer informs the agent accordingly, if he wants to get the goods insured with a particular insurance company.

Forwarding agents advice: the forwarding agent prepares bill for all expenses incurred when all formalities are completed. The bill includes his commission along with expenses. However, he sends the advice note copies of bill of lading, marine insurance policy, shipping order, etc. to the exporter.

Preparation of necessary documents: on receipt of the advice note and other documents from the forwarding agent the exporter prepares the following documents;

- Invoice
- Consular invoice: describes the shipment of goods and shows information such as the consignor, consignee, and value of the shipment are available from the country's embassy.
- Certificate of origin
- Foreign bill of exchange

Advice to the importer: next step is to hand over the above mentioned documents when they are ready along with bill of lading and marine insurance policy to this regard. Thereafter he sends advice to the importer in this regard. The banker of the exporter sends all these documents to its branch or agent bank in the importer's country.

Securing payment: the final step in the export procedure is to secure payment in settlement of transaction from the importer can receive payment in three different ways: documentary bill of exchange, advance from under a letter of hypothecation, direct bills on banker drawn against a letter of credit

Common Export Documents

Commercial Invoice: This is a bill for the goods from the seller to the buyer. These invoices are often used by governments to determine the true value of goods when assessing customs duties. Governments that use the commercial invoice to control imports will often specify its form, content, number of copies, language to be used, and other characteristics.

Export Packing List: Considerably more detailed and informative than a standard domestic packing list, an export packing list lists seller, buyer, shipper, invoice number, date of shipment, mode of transport, carrier, and itemizes quantity, description, the type of package, such as a box, crate, drum, or carton, the quantity of packages, total net and gross weight (in kilograms), package marks, and dimensions, if appropriate.

Pro Forma Invoice: This is an invoice prepared by the exporter before shipping the goods, informing the buyer of the goods to be sent, their value, and other key specifications. It also can be used as an offering of sale or price quotation.

Certificate of Origin (CO): The Certificate of Origin is required by some countries for all or only certain products. In many cases, a statement of origin printed on company letterhead will suffice. The exporter should verify whether a CO is required with the buyer and/or an experienced shipper/freight forwarder or the Trade Information Centre.

Certificates Related to Shipment

- **Mate's Receipt**
- **Shipping Bill**
- **Cart Ticket**
- **Certificate of Measurement**
- **Bill of lading:** a contract between the owner of the goods and the carrier (as with domestic shipments). For vessels, there are two types: a straight bill of lading, which is non-negotiable, and a negotiable or shipper's order bill of lading. The latter can be bought, sold, or traded while the goods are in transit.
- **Airway Bill:** Air freight shipments require airway bills. Airway bills are shipper-specific (i.e., USPS, Fed-Ex, UPS, DHL, etc.).

Documents Related to Payment

- Letter of Credit
- Bill of exchange
- Trust Receipt
- Letter of Hypothecation
- Bank Certificate of Payment

Other Related Documents

Fumigation Certificate: The Fumigation Certificate provides evidence of the fumigation of exported goods (especially agricultural products, used clothing, etc.). This form assists in the quarantine clearance of any goods of plant or animal origin. The seller is typically required to fumigate the commodity at his or her expense a maximum of 15 days prior to loading.

Certificate of Inspection: The governments of a number of countries have contracted with international inspection companies to verify the quantity, quality, and price of shipments imported into their countries. Requirements for pre-shipment inspection are normally spelled out in letter-of-credit or other documentary requirements. Inspections companies include Bureau Veritas, SGS and Intertek. Some countries require pre-shipment inspection certificates for shipments of used merchandise.

Insurance Certificate: These certificatesare used to assure the consignee that insurance will cover the loss of or damage to the cargo during transit. These can be obtained from your freight forwarder or publishing house. Note: an airway bill can serve as an insurance certificate for a shipment by air. Some countries may require certification or notification.

Phyto-sanitary Certificate: All shipments of fresh fruits and vegetables, seeds, nuts, flour, rice, grains, lumber, plants, and plant materials require a phyto-sanitary certificate. The certificate must verify that the product is free from specified epidemics and/or agricultural diseases. Additional information and forms are available from Animal and Plant Health Inspection Service.

UNIT III - ENTREPRENEURIAL ENTRY INTO INTERNATIONAL BUSINESS

There is various ways an entrepreneur can become a player in international business and market and the mode of operating overseas are dependent on the goals of the entrepreneur and the company's strength and weaknesses. The modes of entering or engaging in international business can be divided into three categories:

- Exporting
- Non-equity arrangement
- Direct foreign investment

Exporting: It normally involves the sale and shipping of products manufactured in one country to a customer located in other country. There are two general classification of exporting:

i. Indirect exporting
ii. Direct exporting

Indirect Exporting: This is selling goods to another country through person in the entrepreneur's home country.

Direct Exporting: This is selling goods to other country by taking care of the transaction.

Non-Equity Arrangements: This is for conducting international business through an arrangement that does not involve any investment. When market and financial conditions warrant the change, an entrepreneur can enter into international business by one of three types of non-equity arrangements:

i. Licensing
ii. Turn-key projects
iii. Management contracts

Licensing: This is to allow someone else to use something of the company's. Licensing involves an entrepreneur who the manufacturer is giving a foreign manufacturer the right to use a patent, trademark, technology, production process, or production in return for the payment of a royalty.

Turn key projects: These are projects where the facility is built from the ground up and turned over to the client ready to go turn the key and the plant is operational. This is a very good way to enter foreign markets as the client is normally a government and often the project is being financed by an international financial agency such as the World Bank so the risk of not being paid is eliminated.

Management contracts a method for doing specific international task.

Direct Foreign Investment: The wholly owned foreign subsidiary has been the preferred mode of ownership for entrepreneurs using a direct foreign investment for doing business in international markets. Joint ventures and minority & majority equity positions are also methods for making direct foreign investments. The percentage of ownership obtained in the foreign venture by the entrepreneur is related to nationality, the amount of overseas experience, the nature of the industry, and the rules of the host government.

Acquisition: The purchase of one business or company by another company or other business entity. Such purchase may be of 100%, or nearly 100%, of the assets or ownership equity of the acquired entity.

Joint ventures: It is the 1+1=3 process. Two companies agree to work together in a particular market, either geographic or product, and create a third company to undertake this. Risks and profits are normally shared equally. The best example of a joint venture is Sony/Ericsson.

Greenfield Investments: Greenfield investment is where you buy the land, build the facility and operate the business on an on-going basis in a foreign market. It is certainly the most costly and holds the highest risk.

Merger: It is alegal consolidation of two entities into one entity.

Types of merger

Horizontal merger: This merger involves the combining of two companies that are direct competition with one another. In other words, they are trying to sell the same product to customers who are in a common market.

Vertical merger: This type of merger involves a customer and a company or a supplier and a company merging. Imagine a baseball bat company. This would be an example of the supplier merging with the producer and is the essence of vertical merger.

Market extension merger: This involves the combination of two companies that sell the same products in different markets. As market extension merger allows for the market that can be reached to become larger and is the basis for the name of the merger.

Product extension merger: This merger is between two companies that sell different but somewhat related products in a common market. This allows the new larger company to pool their products and sell them with greater success to the already common market the two separate companies shared.

Diversified activity merger: It is a combination of at least two totally unrelated firms.

Generation of Business Ideas: Profit making is the chief drive behind every business/enterprise. Therefore the prospective entrepreneur has to search for a sound business idea, which can generate reasonable profit for him. For that, he has to screen keenly the socio-economic, cultural, legal and market environments. SWOT analysis represents conscious, deliberate and systematic effort by an organisation to identify opportunities that can be profitably exploited by it. Periodic SWOT analysis facilitates the generation of ideas. Operational objectives of a firm may be one or more of the following.

- Cost reduction.
- Productivity improvement.
- Increase in capacity utilisation.
- Improvement in contribution margin.

After conceiving the business idea, he gives a practical shape to his idea. Likewise, the idea of water proof band-aid and sanitary napkins (for women) were conceived by Johnson and Johnson. Conceiving the business idea is mental process supported by certain virtues like curiosity, initiative, vision and courage.

The business idea could emerge from one or more of the following sources.

a. Success stories of friends, relatives and other entrepreneurs.
b. Increasing demand for certain products in home market and foreign markets where price advantage could be obtained.
c. Experience of others in manufacture or sale of a product
d. Chances of producing a substitute of an article imported for which there is a good demand in home country.
e. Visit to trade fairs and exhibitions
f. Study on demand supply imbalance

g. Government's industrial, import-export policies and the policies for development of backward area

h. Survey reports, books, periodicals, news papers

i. Invention of new production process or product development

j. Availability of a particular raw material and skilled personnel

k. Potential demand for ancillary products for well-established big industries

l. Consultation with business advisor and experienced person

m. Study of potential for tourism to identify the prospects for hotels, motels, houseboats and sightseeing facilities etc.

n. Birth of novel product/technology.

o. Survey of local skills based on which suitable industries can be identified

p. Study of import statistics may reveal some commodities, which can be indigenously manufactured.

q. Finding out solutions for our day-to-day problems e.g. door alarm, car alarm etc.

Identification of Business opportunities

In this context, it would be appropriate to refer to Peter Drucker who has explained three kinds of opportunities, as under.

a. Additive opportunities – These are concerned with utilization of existing resources without making any changes. There is least risk in additive opportunities

b. Complementary opportunities – These are concerned with the introduction of new ideas, which lead to change in the existing structure. There is greater risk in complimentary opportunities.

c. Breakthrough opportunities – These are concerned with drastic and fundamental changes in the existing business. There is the greatest risk inbreakthrough opportunities.

An entrepreneur is basically an opportunity seeker. A number of business opportunities may be available, however, seeking the right business opportunity depends upon the entrepreneur's capabilities, his strengths and weaknesses and also on his preferences.

For seeking the best business opportunity, the following explorations may be useful.

a) Environment exploration –This means the study of different environmental factors. The study of demographic environment includes the in-depth study of growth rate of population, age-composition, sexcomposition, occupational- pattern, and income-composition etc. E.g. Low infant mortality rate and high birth rate ensures the increasing demand for baby-soap, baby hair oil, gripe-water, toys and kids wear etc. Socio-economic conditions, culture, basic features of resources etc. are also studied.

b) Present business exploration – This relates to the study of present pattern of business activities, the study of the consumption pattern, the study of emerging trends in the pattern of trading and consumption and the pattern of demand.

c) Technology exploration – It is the study of new business opportunities created by change in technology For example, in case of printing industry, traditional system of printing has gone and computer based multi-colour printing opportunities have emerged.

d) Idea exploration – Business ideas are related to different factors. The exploration of idea may relate to

- Growth related ideas – e.g. change in age-composition of population and lifestyles gives an impetus to fashion-industry, mobile and bike industry etc.
- Resource -related ideas – e. g. agro-based industry (i.e. pickle-making, ketchup, sauce, jams, mineral based industry (i.e. water, pharma) marine-based industry (i.e. Fishery)
- Import-export related ideas – i.e. export of mushrooms, strawberries, jewellery in foreign markets.
- Service-sector related ideas –for example repairs, maintenance of cars and automobiles. Nowadays, housekeeping (i.e. cleaning the big premises) has been emerging as an industry.

Market Analysis

Steps in Market Feasibility

1. Collection of Secondary Information
2. Conduct Market survey
3. Characteristics of market
4. Market Planning
5. Demand Forecasting

Collection of Secondary Information: Secondary information is information that has been gathered in some other context and is already available. The important sources of secondary information useful for market and demand analysis in Zambia are mentioned below:

Census of Zambia:A decennial publication of the government of Zambia, it provides inter alia, information of population, demographic characteristics, household size and composition, and maps

Conduct market survey: The market survey may be a census survey or a sample survey. In a census survey, the entire population is covered. (The word 'population' is used here in a particular sense. It refers to the totality of all units under consideration in a specific study. Examples: all industry using milling machines, all readers of the economic times) census surveys are employed principally for intermediate goods and investment goods when such goods are used by a small number of firms. In other cases a census survey is prohibitively costly and may also be infeasible. For example, it would be inordinately expensive - in fact almost impossible – to cover every user of lifebuoy or every person in the income bracket Rs.10000 – 15,000.

Due to the above mentioned limitations of the census survey, the market survey, in practice, is typically a sample survey. In such a survey a sample of population is contacted or observed and relevant information is gathered. On the basis of such information, inferences about the population may be drawn.

The information sought in a market survey may relate to one or more of the following:

- Total demand and rate of growth demand
- Demand in different segments of the market
- Income and price elasticity of demand
- Motives for buying
- Purchasing plans and intentions
- Satisfaction with existing product
- Unsatisfied needs
- Attitude towards various products
- Distributive trade practices and preferences
- Socio-economic characteristics of buyers

Steps in sample survey: Typically, a sample survey consists of following steps:

Define the target population: In defining the target population the important terms should be carefully and unambiguously defined. The target population may be divided into various segments which may have differing characteristics. For example, all television owners may be divided into three to four income brackets.

Select the sampling scheme and sample size: There are several sampling schemes: simple random sampling, sequential sampling, stratified sampling, systematic sampling, and non-probability sampling. Each scheme has its advantages and limitations. The sample size, other things being equal, has a bearing on the reliability of the estimates the larger the sample size, the greater the reliability.

Develop the questionnaire: The questionnaire is the principal instrument for eliciting information from sample of respondents. The effectiveness of questionnaire as a device for eliciting the desired information depends on its length, the types of questions. Developing the questionnaire requires a thorough understanding of the product/service and its usage, imagination, insights into human behaviour, appreciation of subtle linguistic nuances, and familiarity with the tools of descriptive and inferential statistics to be used later for analysis. It also requires knowledge of psychological scaling techniques if the same are employed for obtaining information relating to attitudes, motivation, and psychological traits. Industry and trade market surveys, in comparison to consumer surveys, generally involve more technical and specialised questions.

Since the quality of the questionnaire has an important bearing on the results of the market survey, the questionnaire should be tried out in a pilot survey and modified in the light of problems/difficulties noted.

Recruit and train the field investigation: Recruiting and training of field investigators must be planned well since it can be time consuming. Great care must be taken in recruiting the right kind of investigators and imparting the proper kind of training to them. Investigators involved in industry and trade market surveys need intimate knowledge of the product and technical background, particularly for products based on sophisticated technologies.

Obtain information as per the questionnaire from the sample of respondents: Respondents may be interviewed personally, telephonically, or by mail for obtaining information. Personnel interviews ensure a high rate of response. They are, however, expensive and likely to result in biased responses because of the presence of the interviewer. Mail surveys by snail mail or e-mail are economical and evoke fairly can did responses. The response rate, however, is often low. Telephonic interviews, common in western countries, have very limited applicability; in India telephone tariffs are high and telephone connections few.

Scrutinize the information gathered: Information gathered should be thoroughly scrutinized to eliminate data which is internally inconsistent and which is of dubious validity. For example, a respondent with a high income and large family may say that he lives in a one room tenement. Such information, probably inaccurate, should be deleted. Sometimes data inconsistencies may be revealed only after some analysis.

Analyse and interpret the information: Information gathered in the survey needs to be analysed and interpreted with care and imagination. After tabulating it as per a plan of analysis, suitable statistical investigation may be conducted, wherever possible and necessary. For purposes of statistical analysis, a variety of methods are available. These may be divided into two broad categories: parametric methods and non-parametric methods. Parametric methods assume that the variable or attribute under study conforms to some known distribution. Non-parametric methods do not presuppose any particular distribution.

Results of the data based on the sample survey will have to be extrapolated to the target population. For this purpose, appropriate inflationary factors, based in the ratio of the size of the target population to the size of the sample studies, will have to be used.

The statistical analysis of data should be directed by a person who has a good background in statistics as well as economics.

It may be emphasized that the results of the market survey can be vitiated by:

1. Non representativeness of the sample
2. Imprecision and inadequacies in the questions
3. Failure to the respondents to comprehend the questions
4. Deliberate distortions in the answers given by the respondents
5. Inept handling of the interviews by the investigators

6. Cheating on the part of the investigators
7. Slip-shod scrutiny of data
8. Incorrect and inappropriate analysis and interpretation of data

Characteristics of the market: Based on the information gathered from secondary and sources and through the market survey, the market for the product / survey may be described in terms of the following:

- Effective demand in the past and present
- Breakdown of demand
- Price
- Methods of distribution and sales promotion
- Consumers
- Supply and competition
- Government policy

Effective demand in the past and present: To gauge the effective demand in the past and present, the starting point typically is apparent consumption which is defined as:

Production + imports-exports-changes in stock level

The figure of apparent consumption has to be adjusted for consumption of the product by the producers and the effect of abnormal factors. The consumption series, after such adjustments, may be obtained for several years.

In a competitive market, effective demand and apparent consumption are equal. However, in most of the developing countries, where competitive markets do not exist for a variety of products due to exchange restrictions and controls on production and distribution, the figure of apparent consumption may be adjusted for market imperfections. Admittedly, this is often a difficult task.

Breakdown of demand: To get a deeper insight into the nature of demand, the aggregate (total) market demand may be broken down into demand for different segments of the market. Market segments may be defined by

i. Nature of product
ii. Consumer group
iii. Geographical division

Nature of product: one generic name often subsumes many different products: steel covers sections, rolled products, and various semi-finished products; commercial vehicles, cover trucks and buses of various capacities; so on and so forth.

Consumer groups: consumers of a product may be divided into industrial consumers and domestic consumers. Industrial consumers may be sub-divided industry-wise. Domestic consumers may be further divided into different income groups.

Geographical division: a geographical breakdown of consumers is helpful, particularly for products which have a small value-to-weight relationship and for products which require regular, efficient after sales service.

Price: Price statistics must be gathered along with statistics pertaining to physical quantities may be helpful to distinguish the following types of prices:

i. Manufacturer's price quoted as FOB (free on board) price or CIF (cost, insurance, and freight) price.
ii. Landed price for imported goods
iii. Average wholesale price
iv. Average retail price

Methods of distribution and sales promotion: The method of distribution may vary with the nature of the product. Capital goods, industrial raw materials or intermediates, and consumer products tend to have different distribution channels. Likewise, the methods used for sales promotion (advertising, discounts, gift scheme, etc.) may vary from product to product.

The method of distribution and sales promotion employed presently and their rationale must be specified. Such a study may explain certain patterns of consumptions and high light the difficulties that may be encountered in marketing the proposed products.

Supply and competition: It is necessary to know the existing sources of supply and whether they are foreign or domestic. For domestic sources of supply, information along the following lines may be gathered: location, present production capacity, planned expansion, capacity utilization level, bottlenecks in production, and cost structure.

Competition from substitutes and near-substitutes should be specified because almost any product may be replaced by some other product as a result of relative changes in price, quality, availability, promotional effort, and so on.

Government policy: The role of the government in influencing the demand and market for a product may be significant. Government plans, policies, and legislations, which have a bearing on the market and demand of the product under examination, should be spelt out. These are reflected in: production target in national plans, import and export trade controls, import duties, export incentives, excise duties, sales tax, industrial licensing, preferential purchasing, credit controls, financial regulations, and subsidies/penalties of various kinds.

Market Planning

- **Current Marketing Situation:** It examines the market situation, competitive situation, distribution situation, and the macro-environment.
- **Opportunity and Issue Analysis:** SWOT analysis
- Objectives : Objectives have to be clear-cut, specific, and achievable
- **Marketing Strategy:** The marketing strategy covers the following: target segment, positioning, product line, price, distribution, sales force, sales promotion, and advertising
- **Action Programme:** Action programmes make the strategy or strategies operational.

Demand forecasting

(i) Trend projection method: It consists of

(i) Determining the trend of consumption by analyzing past consumption statistics

(ii) Projecting future consumption by extrapolating the trend.

The trend of consumption may be represented by one of the following relationships:

Linear Relationship: Yt = a + bt … (1)

Exponential Relationship: Yt = aebt … (2)

This relationship may be estimated by using one of the following methods:

- visual curve fitting method
- least squares method.

(ii) Consumption level method: Useful for a product which is directly consumed, this method estimates consumption level on the basis of elasticity coefficients, the important ones being the income elasticity of demand and the price elasticity of demand.

Income elasticity of demand: The income elasticity of demand reflects the responsiveness of demand to variations in income. It is measured as follows:

$$E1 = \frac{Q2 - Q1}{I2 - I1} \times \frac{I1 + I2}{Q2 + Q1}$$

Where E1 = income elasticity of demand

Q1 = quantity demanded in the base year

Q2 = quantity demanded in the following year

I1 = income level in the base year

I2 = income level in the following year

Technical Analysis: Analysis of technical and engineering aspects is done continually when a project is being examined and formulated. Other types of analysis are closely intertwined with technical analysis. The broad purpose of technical analysis is

(a) To ensure that the project is technically feasible in the sense that all the inputs required to set up the project are available

(b) To facilitate the most optimal formulation of the project in terms of technology, size, location, and so on.

Manufacturing process: For manufacturing a product/service often two or more alternative technologies are available. For example:

- Steel can be made either by the Bessemer process or the open hearth process.
- Cement can be made either by the dry process or the wet process.
- Soda can be made by the electrolysis method or the chemical method.
- Paper, using bagasse as the raw material, can be manufactured by the Kraft process or the soda process or the Simon cusi process.
- Vinyl chloride can be manufactured by using one of the following reactions: acetylene on hydrochloric acid or ethylene on chlorine.
- Soap can be manufactured by the semi-boiled process or the fully boiled process.

Choice of Technology: The choice of technology is influenced by a variety of considerations:

- Plant capacity

- Principal inputs
- Investment outlay and production cost
- Use by other units
- Product mix
- Latest development
- Ease of absorption

Plant capacity: often, there is a close relationship between plant capacity and production technology. To meet a given capacity requirement perhaps only certain production technology may be viable.

Principal inputs: the choice of technology depends on the principal inputs available for the project. In some cases, the raw materials available influence the technology chosen. For example, the quality of limestone determines whether the wet or dry process should be used for a cement plant.

Investment outlay and production cost: the effect of alternative technologies on investment outlay and production cost over a period of time should be carefully assessed.

Use by other units: the technology adopted must be proven by successful use by other units.

Product mix: the technology chosen must be judged in terms of the total product-mix generated by it, including saleable by-products.

Latest developments: the technology adopted must be based on the latest developments in order to ensure that the likelihood of technological obsolescence in the near future, at least, is minimised.

Ease of absorption: the ease with which a particular technology. Can be absorbed can influence the choice of technology. Sometimes a high-level technology may be beyond the absorptive capacity of a developing country which may lack trained personnel to handle that technology.

Materials Inputs and Utilities: Material inputs and utilities may be classified into four broad categories:

i. Raw materials
ii. Processed industrial materials and components
iii. Auxiliary materials and factory supplies
iv. Utilities

Raw materials: Raw materials (processed and/or semi processed) may be classified into four types

- Agricultural products
- Mineral products
- Livestock and forest products
- Marine products

Agricultural products: in studying agricultural products, the quality must first be examined. Then, an assessment of the quantities available, currently and potentially, is required. The questions that may be raised in this context are: what is the present marketable surplus? What is the present area under cultivation? What is the likely increase in yield per acre?

Mineral products: in assessing mineral raw materials, information is required on the quantum of exploitable deposits and properties of the raw materials. The study should provide details of the location, size and depth of the deposits and the viability of open cast or underground mining. In addition, information should be generated on the composition of the ore, level of impurities, need for beneficiation, and physical, chemical and other properties.

Livestock and forest products: secondary sources of data on livestock and forest products often do not provide a dependable basis for estimation. Hence, in general, a specific survey may be required to obtain more reliable data on the quantum of livestock produce and forest products.

Marine products: assessing the potential availability of marine products and the cost of collection is somewhat difficult. Preliminary marine operations, essential for this purpose, have to be provided for in the feasibility study.

Processed industrial materials and components: These are base metals, semi-processed materials, manufactured parts, components, and sub-assemblies which represent important inputs for a number of industries. In studying them the following questions need to be answered: in the case of industrial materials, what are their properties? What is the total requirement of the project? What quantity would be available from domestic sources? What quantity can be procured from foreign resources? How dependable are the supplies? What has been the past trend in prices? What is the likely future behaviour of prices?

Auxiliary materials and factory supplies: In addition to the basic raw materials and processed industrial materials and components, a manufacturing project requires various auxiliary materials and factory supplies like chemicals, additives, packaging materials, paint, varnishes, oils, grease, cleaning materials, etc. the requirements of such auxiliary materials and supplies should be taken into account in the feasibility study.

Utilities: A broad assessment of utilities (power, water, steam, fuel, etc.) may be made at the time of the input study though a detailed assessment can be made only after formulating the project with respect to location, technology, and plant capacity. Since the successful operation of a project critically depends on the adequate availability of utilities, the following questions should be raised while conducting the inputs study. What quantities are required? What are the sources of supply? What would be the potential availability? What are the likely shortages/bottlenecks? What measures may be taken to augment supplies?

Plant Capacity: This is also referred to as production capacity) refers to the volume or number of units that can be manufactured during a given period.

Several factors have a bearing on the capacity decision. These are:

- Technological requirement
- Input constraints
- Investment costs
- Market conditions
- Resources of the firm
- Governmental policy

Technological requirement: for many industrial projects, particularly in process type industries, there is certain minimum economic size determined by the technological factor. For example, a cement plant should have a capacity of at least 300 tones per day in order to use the rotary kiln method; otherwise, it has to employ the vertical shaft method which is suitable for lower capacity.

Input constraints: in a developing country like India, there may be constraints on the availability of certain inputs. Power supply may be limited; basic raw materials may be scarce; foreign exchange available for imports may be inadequate. Constraints of these kinds should be borne in mind while choosing the plant capacity.

Market conditions: the anticipated market for the product/service has an important bearing on the plant capacity. If the market is likely to be very strong, a plant of higher capacity is preferable. If the market is likely to be uncertain, it might be advantageous to start with a smaller capacity. If the market, starting from a small base, is expected to grow rapidly, the initial capacity may be higher than the initial level of demand-further additions to capacity may be effected with the growth of the market.

Government policy: The capacity level may be influenced by the policy of the government. Traditionally, the policy of the government was to distribute the additional capacity to be created in a certain industry among several firms, regardless of economies of scale. This policy has been substantially modified in recent years and the concept of 'minimum economic capacity' has been adopted in several industries.

Financial Feasibility: It is defined as the process of obtaining relevant information about a project in order to ascertain its financial viability. The preliminary steps involved in the financial analysis include:

1) Estimation of total capital outlay involves in the project.
2) Estimation of operating costs.
3) Estimation of operating revenue.

Its purpose is to find out whether the project is attractive enough to secure funds needed for its various activities and whether the project will be able to generate enough income to achieve the objective for which it is undertaken.

Cost of Project: Conceptually, the cost of project represents the total of outlay associated with projects which are supported by long-term funds. It is the sum of the outlays on the following:

- Land and site development
- Buildings and civil works
- Plant and machinery

- Technical know-how and engineering fees
- Expenses on foreign technicians and trainings for local employees (at abroad).
- Miscellaneous fixed assets
- Preliminary and capital issue expenses
- Pre-operative expenses
- Margin money for working capital
- Initial cash losses

Land and site development: The cost of land and site development is the sum of the following:

- Basic cost of land including conveyance and other allied charges
- Premium payable on leasehold and conveyances charges
- Cost of leveling and development
- Cost of laying approach roads and internal roads
- Cost of gates
- Cost of tube wells

The cost of land varies considerably from one location to another. While it is very high in urban and even semi-urban locations, it is relatively low in rural locations. The expenditure on site development6, too, varies widely depending on the location and topography of the land.

Building and civil works: buildings and civil works cover the following:

- Buildings for the main plant and equipment
- Buildings for auxiliary services like steam supply, workshops, laboratory, water supply, etc.
- Godowns, warehouses, and open yard facilities
- Non-factory buildings like canteen, quest houses, time office, excise house, etc.
- Quarters for essential staffs
- Silos, tanks, wells, chests, basins, cisterns, hoopers, bins, and other structures necessary for installation of the plant and equipment
- Garages
- Sewers, drainage, etc.
- Other civil engineering works.

The cost of the buildings and civil works depends on the kind of structures required which, in turn, are dictated largely by the requirements of the manufacturing process. Once the kinds of structure required are specified, cost estimates are based on the plinth area and the rates for various types of structures. These rates, of course, vary with the location to some extent.

Plant and machinery: the cost of the plant and machinery, typically the most significant component of the project cost, consist of the following:

- Cost of imported machinery: this is the sum of

(i) FOB (free on board) value
(ii) Shipping, freight, and insurance cost
(iii) Import duty
(iv) Clearing and transport charges

- Cost of indigenous machinery: this consist of

(i) FOR (Free On Rail) cost
(ii) Sales tax, octroi, and other taxes, if any
(iii) Railway freight and transport charges to the site

- Cost of the stores and spares
- Foundation and installation charges

The cost of the plant and machinery is based on the latest available quotation adjusted for possible escalation. Generally, the provision for escalation is equal to the following product: (latest rate of annual inflation applicable to the plant and machinery) x (length of the delivery period).

Technical know-how and engineering fees: often it is necessary to engage technical consultants or collaborators from local and/or abroad for advice and help in various technical matters like preparation of the project report, choice of technology, selection of the plant and machinery, detailed engineering, and so on. While the amount payable for obtaining the technical know-how and engineering services for setting up the project is a component of the project cost, the royalty payable annually, which is typically a percentage of sales, is an operating expense taken into account in the preparation of the projected profitability statements.

Expenses on foreign technicians and training of local technicians abroad: services of foreign technicians may be required in Zambia for setting up the project and supervising the trial runs. Expenses on their travel, boarding, and lodging along with their salaries and allowances must also be includes here.

Miscellaneous fixed assets: fixed assets and machinery which are not part of the direct manufacturing process may be referred to as miscellaneous fixed assets. They include items like furniture; office may be referred to as miscellaneous fixed assets. They include items like furniture, office machinery and equipment, tools, vehicles, railway siding, diesel generating sets, transformers, boilers, piping systems, laboratory equipment, workshop equipment, workshop equipment, effluent treatment plants, firefightingequipment, and so on. Expenses incurred for the procurement or use of patents, license, trademarks, copyrights, etc. and deposits made with the electricity board may also be included here.

Preliminary capital issue expenses: expenses incurred for identifying the project, conducting the market survey, preparing the feasibility report, drafting the memorandum and articles of association and incorporating the company are referred to as preliminary expenses.

Expenses borne in connection with the raising of capital from the public are referred to as capital issue expenses are: under writing commission, brokerage, and fees to managers and registrars, printing and postage expenses, advertising and publicity expenses, listing fees, and stamp duty.

Pre-operative expenses: expenses of the following types incurred till the commencement of commercial production are referred to as pre-operative expenses:

i. Establishment expenses
ii. Rent, rates, and taxes
iii. Travelling expenses
iv. Interest and commitment charges on borrowings
v. Insurance charges
vi. Mortgage expenses
vii. Miscellaneous expenses

Means of Finance: To meet the cost of the project the following means of finance are available:

- Share capital
- Term loans

- Debenture capital
- Deferred credit
- Incentive sources

Share capital: there are two types of share capital – equity capital and preference capital. Equity capital represents the contribution made by the owners of the business, the equity shareholders, who enjoy the rewards and bear the risks of ownership. Equity capital being a risk capital carries no fixed rate of dividend. Preference capital represents the contribution made by preference shareholders and the dividend paid on it is generally fixed.

Term loans: provided by financial institution and commercial banks, term loans represent secured borrowings which are a very important source (and often the major source) for financing new projects as well as for the expansion, modernization, and renovation schemes of existing firms. There are two broad types of term loans available: local currency term loans and foreign currency term loans. While the former are given for financing land, building, civil works, indigenous plant and machinery, and so on, the latter are provided for meeting the foreign currency expenditure towards the import of equipment and technical know-how.

Debenture capital: akin to promissory notes, debentures are instruments for raising debt capital. There are two broad types of debentures: non-convertible debentures and convertible debentures. **Non-convertible debentures** are straight debt investments. Typically they carry a fixed rate of interest and have a maturity period of 5 to 9 years. **Convertible debentures**, as the name implies, are debentures which are convertible, wholly or partly, into equity shares. The conversion period and price are announced in advance.

Deferred credit: many a time the suppliers of the plant and machinery offer a **deferred credit** facility under which payment for the purchase of the plant and machinery can be made over a period of time.

Incentive sources: the government and its agencies may provide financial support as an incentive to certain types of promoters or for setting up industrial units in certain locations. These incentives may take the form of **seed capital assistance** (provided at a nominal rate of interest to enable the promoter to meet his contribution to project), or **capital subsidy** (to attract industries to certain location), or **tax**

deferment or **exemptio**n (particularly from sales tax)for a certain period.

Estimation of Sales and Production

Typically, the starting point for profitability projections is the forecast of sales revenues. In estimating sales revenues, the following considerations should be borne in mind:

i. It is not advisable to assume a high capacity utilization level in the first year of operation. Even if the technology is simple and the company may not face technical problems in achieving a high rate of capacity utilization in the first year itself, there are likely to be other constraints like raw material shortage, limited power, marketing problems, etc. It is sensible to assume that capacity utilization would be somewhat low in the first year and rise thereafter gradually to reach the maximum level in the third or fourth year of operation. A reasonable assumption with respect to capacity utilization is as follows: 40-50 per cent of the installed capacity in the first year, 50-80 per cent in the second year, and 80-90 per cent from the third year onwards.

ii. It is not necessary to make adjustments for stocks of finished goods. For practical purposes, it may be assumed that production would be equal to sales.

iii. The selling price considered should be the price realizable by the company net of excise duty. It shall, however, include dealers' commission which is shown as an item of expense (as part of the sales expenses).

iv. The selling price used may be the present selling price-it is generally assumed that changes in selling price will be matched by proportionate changes in cost of production. If a portion of production is saleable at a controlled price, take the controlled price for that portion.

Cost of production: Given the estimated production, the cost of production may be worked out. The major components of cost of production are:

1. Material cost
2. Utilities cost
3. Labour cost
4. Factory overhead cost

1. **Material cost:** The most important element of cost, the material cost comprises the cost of raw materials, chemicals, components, and consumable stores required for production. It is a function of the quantities in which these materials are required and the prices payable for them.

   While estimating the material cost, the following points should be borne in mind.

(i) The requirements of various material inputs per unit of output may be established on the basis of one or more of the following:

(a) Theoretical consumption norms,

(b) Experience of the industry

(c) Performance guarantees, and

(d) Specification of machinery suppliers.

(ii) The total requirement of various material inputs can be obtained by multiplying the requirements per unit of output with the expected output during the year.

(iii) The prices of material inputs are defined in CIF (cost, insurance, and freight) terms.

(iv) The present costs of various material inputs are considered. In other words, the factor of inflation is ignored. It may be recalled that the factor of inflation is ignored in estimating the sales revenues too.

(v) If seasonal fluctuations in prices are regular, the same must be considered in estimating the cost of material inputs.

2. **Utilities Cost:** Utilities consist of power, water, and fuel. The requirements of power, water, and fuel may be determined on the basis of the norms specified by the collaborators, consultants, etc. or the consumption standards in the industry, whichever is higher.

3. **Labour Cost:** Labour cost is the cost of all the manpower employed in the factory. Labour cost naturally is a function of the number of employees and the rate of remuneration. The requirement of workers depends on the number of operators/helpers required for operating various machines and manning various services. The number of supervisory personnel and administrative staff may be calculated on the basis of the general norms prevailing in the industry. In estimating remuneration rates, the prevailing rates in the industry/area should be taken into account. The remuneration should include, besides basic pay, dearness

allowance, house rent allowance, conveyance allowance, medical reimbursement, leave travel concession, provident fund contribution, gratuity contribution, and bonus payments. In addition, account should be taken of vacations, overtime work, night work, work on holidays, etc.

4. **Factory Overheads Cost:** The expenses on repairs and maintenance, rent, taxes, insurance on factory assets, and so on are collectively referred to as factory overheads. Repairs and maintenance expense depends on the state of the machinery-this expense tends to be lower in the initial years and higher in the later years. Rent, taxes, insurance, etc. may be calculated at the existing rates. A provision should be made for meeting miscellaneous factory expenses. In addition, a contingency margin may be provided on the items of factory overheads.

Working Capital Requirement and its Financing: In estimating the working capital requirement and planning for its financing, the following points have to be born in mind:

The working capital requirement consists of the following:

(i) Raw materials and components (indigenous as well as imported),

(ii) Stocks of goods-in-process (also referred to as work-in-process),

(iii) Stocks of finished goods

(iv) Debtors

(v) Operating expenses

(vi) Consumable stores

The principal sources of working capital finance are:

(i) Working capital advances provided by commercial banks,

(ii) Trade credit

(iii) Accruals and provisions

(iv) Long term sources of financing

Locational Feasibility: The choice of location and site follows an assessment of demand, size, and input requirement. Though often used synonymously, the terms 'location' and 'site' should be distinguished. Location refers to a fairly broad area like a city, an industrial zone, or a coastal area; site refers to a specific piece of land where the project would be set up.

The choice of location is influenced by a variety of considerations:

- Proximity to raw materials and markets
- Availability of infrastructure
- Labour situation
- Governmental policies
- Other factors

Proximity to raw materials and markets: An important consideration for location is the proximity to the sources of raw materials and nearness to the market for the final products. In terms of a basic locational model, the optimal location is one where the total cost (raw material transportation cost plus production cost plus distribution cost for the final product) is minimized. This generally implies that:

i. A resource based project like a cement plant or a steel mill should be located close to the source of the basic material. **Example:** limestone in the case of a cement plant and iron ore in the case of steel plant)
ii. A project based on imported material may be located near a port
iii. A project manufacturing a perishable product should be close to the centre of consumption

However, for many industrial products proximity to the source of raw material or the centre of consumption may not be very important. Petro-chemical units or refineries, for example, may be located close to the source of raw material, or close to the centre of consumption.

Availability of infrastructure: The availability of power, transportation, water, and communications should be carefully assessed before a location decision is made.

Adequate supply of power is a very important condition for locations-insufficient power can be a major constraint, particularly in the case of an electricity-intensive project like an aluminum plant. In evaluating power supply the following should be looked into: the quantum of power available, the stability of the power supply, the structure of the power tariff, and the investment required by the project for a tie-up in the network of the power supplying agency.

For transporting the inputs of the project and distributing the outputs of the project, adequate transport connections-whether by rail, road, sea, inland water, or air are required. The availability, reliability and cost of transportation for various alternatives locations should be assessed.

Given the plant capacity and the types of technology, the water requirement for the project can be assessed. Once the required quantity is estimated, the amount to be drawn from the public utility system and the amount to be provided by the project from surface or sub-surface sources may be determined. For doing this the following factors may be examined: relative costs, relative dependability, and relative qualities.

In addition to power, transport, and water, the project should have adequate communication facilities like telephone and internet.

Labour situation: In labour intensive projects, the labour situation in a particular location becomes important. The key factors to be considered in evaluating the labour situation are:

- Availability of labour, skilled, semi-skilled and un-skilled
- Prevailing labour rates
- Labour productivity
- State of industrial relations judged in terms of frequency and severity of strikes and lockouts
- Degree of unionization

Governmental policies: Governmental policies have a bearing on location. In the case of public sector projects, location is directly decided by the government. It may be based on a wider policy for regional dispersion of industries.

In the case of private sector projects, location is influenced by certain governmental restriction and inducements. The government may prohibit the setting up of industrial projects in certain areas which suffer from urban congestion. More positively, the government offers inducements for establishing industries in backward areas. These inducements consist of subsidies, concessional finance, sales tax loans, power subsidy, income tax benefits, lower promoter contribution, and so on.

Other factors: several other factors to be assessed as well before arriving at a location decision. These are:

- Climatic condition
- General living condition

- Proximity to ancillary units
- Ease in copying with pollution

Climatic condition: the climatic conditions like temperature, humidity, wind, sunshine, rainfall, snowfall, dust, flooding, and earthquakes have an important influence on location decision. They have a bearing on the cost as they determine the extent of air-conditioning, de-humidification and refrigeration, special drainage, and so on required for the project.

General living condition: the general living conditions like the cost of living, housing situation, safety, and facilities for education, health care, transportation and recreation need to be assessed carefully.

Proximity to ancillary units: most firms depend on ancillary units for components and parts. If the ancillary units are located nearby coordination becomes easy, transportation and recreation need to be assessed carefully.

Ease in copying with environmental pollution: a project may cause environmental pollution in various ways: it may throw gaseous emissions; a study should analyze the cost of mitigating environmental pollution to tolerable levels at alternative locations.

Legal Issue for the Entrepreneur

Intellectual Property: This which includes patents, trademarks, copy rights, and trade mark and trade secrets – represents important intangible assets to the entrepreneur and should be understood even before engaging the services of an attorney.

Legal Issues in setting up the Organisation:

Patents: Grants holder protection from others making, using, or selling similar ideas that have originated with you**.**

Trade mark: A distinguishing word, name, or symbol used to identify a product.

Copy right: Right given to prevent others from printing, copying, or publishing any original works of authorship.

Trade secrets: Protection against others revealing or disclosing information that could be damaging to business.

Licensing: it is a contractual agreement giving rights to others to use intellectual property in return for a royalty or fee.

Contracts: it is a legally binding agreement between two parties.

Managerial Competence: These are the personnel skills, motives and attitudes necessary for a job. Some of them are

- Creative problem solving (aptitude)
- Mobilization of resources
- Search for better performance towards results
- Relationship to others
- Dynamic perspective
- Team work
- Customer focus

The important aspects that areanalyzed by investors and financial institutions in managerial competence are:

- **Track record in earlier project:** It is the evaluation of past track record of the project management team in terms of ability to plan, manage, execute and complete the project. **Resourcefulness:** To be a promoter of economic wellness of organisation.
- **Better understanding of business:** Estimate the possibility of successful execution and completion
- **Commitment to project:** Level of commitment and seriousness towards project by the promoter and team
- **Integrity:** The personal integrity of project and team

Business Opportunities to entrepreneurs: There is plenty of exciting business opportunities if there is an incentive to work with other countries which can generate employment for people in developing countries.

1. **Online Customer Support:** There is a company that has pioneered an idea. The customer in America who needs support will have his problem solved via email by a team of people from the country with has generated the idea. The Internet has opened the door for this type of opportunity. It really is true that the geographic barriers are coming down.

   The Potential: The business potential in this type venture is the cost savings of running a business in a different country. There is a huge labour pool of good quality workers.

   The Downside: The risk is that the customers will not be served well if the staff is not trained properly. The staff needs to understand the mindset of the customer of the country generating employment. This can easily be overcome as long as the potential problem is recognized.

2.E-Commerce Export Opportunities: There are plenty of things that can be purchased and exported. One young man has sought out unusual coffee and spices and now has an e-commerce site where he sells these items through the mail. Perhaps it is not even necessary to purchase and warehouse anything. Partnering and establishing joint ventures with companies would give you the opportunity to handle a variety of products without the risk and cost. You could simply create a website that sells the products. This is not much different than Amazon.com. They just sell books published by others. Often they have the book sent to the customer directly from the publisher eliminating the shipping and storage.

The Potential: The potential is to find a niche market. Perhaps this could be in the area of health care products, herbs or plants that are only found in many countries.

The Downside: The risk is that the product may not sell. Fortunately the Internet can be used to test the market before taking much risk. It is much easier to find the demand for items and then meet that demand to start with the product.

3. Export Animations, Multimedia, Graphics or Other Content Products: This idea utilizes the skilled creative labor force in any country.

The Potential: The potential is to fill the huge demand for quality content that the web is creating.

The Downside: The downside is that it requires careful supervision to assure that the product communicates effectively to a Western audience such as taste for colors is different to that of a country developing these graphics, animations and products.

4. **Export Data Services:** Any kind of outsourcing of data entry or data conversion is a good candidate for a successful startup business in any country that has a large population. The workers can do their work so that the doctor has the text document the next morning.

The Potential: The potential for this type of business venture is great. The reason there is such a global demand for this kind of work is because companies want to have their documents in a digital format. This conversion may include scanning the document into the computer and then going one-step further and tagging and indexing them in HTML SGML or XML so that it can be put on the Internet and easily retrieved.

The Downside: The risk is in, not maintaining top quality work for the client. This has been a complaint of many clients.

5. **Start Software Company:** There is nothing new about this. There are plenty of success stories. Any developing country with a large population with encourages foreign involvement and investment and has turned on the green light to hi-tech companies. They have even created some tax incentives for this industry.

   The Potential: The potential is for the development of quality software using the extremely intelligent labor force at a low cost. Cost savings can be found in rent, insurance etc. High quality programmers can be hired for 25%-50% of the cost of the same software programmers in the West.

   The Downside: The downside is that there are inefficiencies related to working in India i.e.: erratic power, government bureaucracy, poor Internet connections etc. Unless the cost saving is considerable, many of the problems related to doing business in India will offset the benefit.

UNIT IV - PROJECT

A Project simply means an investment opportunity exploited for profit. It is an idea or a plan which is intended to be carried out or a finite task to be completed. In the words of Gillinger 'A 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 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.

Phases of Project Life Cycle

Pre-Investment Phase: It is concerned with formulation of objectives, demand forecasting, evaluation of input characteristics, selection of strategy, projections of financial profile, cost benefit analysis and finally pre-investment appraisal. Some expenditure has to be incurred in the form of conducting surveys, feasibility studies etc.

Construction Phase: This stage consumes maximum expenditure. Construction phase consists of developing the infrastructure for the project. The capital requirement includes cost on land, buildings, civil works, machinery equipment, ancillaries etc.

Normalization Phase: The primary objective of this stage is to produce the goods and services for which the project was established. The expenditure has to be incurred on raw materials, fuel, utilities, and administration and operation maintenance. Etc.

Classification of Projects

1) Little and Mirrles's classification: They classify projects as being quantifiable and non-quantifiable.

Quantifiable projects: are those in which quantitative assessment of benefits can be made. Projects for industrial development, power generation, mineral development etc. fall under this category.

Non quantifiable projects: are those in which the benefits cannot be measured quantitatively. Projects involving health, education and defence fall under this category.

2) Sectoral Projects:

a) Agriculture and allied sector

b) Irrigation and power sector

c) Miscellaneous sector

d) Transport and communication sector

e) Industry and mining sector

3) Techno-Economic Projects: Projects may be classified into the following three groups:

A) Factor Intensity Oriented Classification

i) **Capital intensive** –Large investments in plant and machinery

ii) **Labour intensive** – Large investment is made in human resources

B) Causation Oriented Classification

i) Demand based projects –Start of project due to non-availability of certain goods or services

ii) Raw material based projects – Project is started because of the availability of certain raw materials, skills or other inputs

C) Magnitude Oriented Classification: The size of investment forms the basis of classification. May be classified as Large-scale, Medium-scale and Small-scale.

4)Financial Institutions Classification: The projects are classified according to their age and experience and the purpose for which the project is being taken up. They are as follows:

A) Profit Oriented Projects:

1) New projects

2) Expansion projects

3) Modernization projects

4) Diversification projects

B) Service Oriented Projects:

1) Welfare projects

2) Service projects

3) Research and development projects

5) According to the Urgency of the Execution:

A) Normal Projects: In this type of project adequate time is allowed for implementation. This type of project will require minimum capital cost.

B) Crash Projects: Additional capital costs are incurred to save time. It is normally achieved in procurement and construction where time is brought from vendors and contractors by paying extra money to them.

C) Disaster Projects: Vendors who can supply within a very short time are selected irrespective of the cost.

Project Management: This 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.

Harson 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

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.

Objectives of Project Management

1) To achieve maximum productivity at minimum cost.

2) To maximize income and return.

3) To minimize risk and uncertainty.

4) To eliminate waste and improve efficiency.

5) To make the most efficient and effective use of resources such as manpower, money, materials, technology etc.

Roles and Responsibilities of a Project Manager

1) Manage personnel.

2) Satisfy government, customer, promoters and public.

3) Coordinate and integrate activities across multiple functional lines.

4) Define and maintain the integrity of the project.

5) Set targets and develop systems and procedures to accomplish project objectives.

6) Developing project execution plan.

7) Coping with risk associated with project management.

8) Managing human interrelationships.

9) Maintaining the balance between technical and managerial project functions.

Need of Project Management

1) Complexity of Project: 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: 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) Risk and Uncertainty: At every stage of project life cycle 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 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 Stakeholders are individuals and organizations that are actively involved in the project, or whose interests may be affected as a result of project execution or project completion. They may also exert influence over the project's objectives and outcomes. The project management team must identify the stakeholders, determine their requirements and expectations, and, to the extent possible, manage their influence in relation to the requirements to ensure a successful project.

Key Stakeholders include the following:

1. **Project Manager:** The person, who is responsible for managing the project.
2. **Customers, End Users:** The person or organization that will use the project's product. These may be multiple layers of customers **Example:** The customer for a new pharmaceutical product can include the doctors who prescribe it, the patient who take it and the insurers who pay for it. In some application areas, customers and user are synonymous, while in others, customer refers to the entity acquiring the project's product and users are those who will directly utilizes the project's product.
3. **Performing Organization:** The enterprise whose employees are most directly involved in doing the work of project.
4. **Project Management working on the Project:** The members of the team who are directly involved in project management activities.
5. **Project Team Members:** The group that is performing the work of the project. It includes the members who are directly involved in the project work activities.
6. **Sponsors:** The person or group that provides financial resources, in cash, or kind, for the project.

Steps to Manage Projects:

i. Creation of project charter

ii. Recruitment of project personnel
iii. Preparation of project plan- includes project schedule, communication plan and quality plan
iv. Make contract with suppliers
v. Build the deliverables
vi. Monitor and control

Project Appraisal means the assessment of a project. It is critical and analytical evaluation of the project from different angles. Project appraisal is a process whereby a leading financial institution makes an independent and objective assessment of the various aspects of an investment proposition for arriving at a financial decision and is aimed at determining the viability of a project.

Process of Project Appraisal: Every financial institution requires a detailed evaluation of the feasibility from the point of view of

1. Managerial Competence.
2. Technical Appraisal
3. Market Appraisal
4. Economic Appraisal
5. Financial Appraisal

Managerial Competence: The managerial competence of promoters can be judged with special reference to

i) Promoter's educational background
ii) Promoter's experience in the field /business and industrial experience
iii) Promoter's entrepreneurial talents
iv) His integrity
v) Past performance
vi) Resourcefulness of promoter

Technical appraisal: It refers to a careful examination and a thorough assessment of the various inputs of the project like land, labour, machineries, equipment, transportation, energy sources and technical know-how etc. required for producing the proposed product/service. Generally, technical analysis deals with the following components.

I. Location of the project: As the location of the project significantly influences the cost of production and distribution and thereby revenue of the project.
2. Site of the project – Nature of production plays vital role in selection of

site. For example, jute production, and rubber production need abundant supply of water; hence they have to be located near the deposits of water.

3. Plant capacity and scale of operations
4. Manufacturing process or technology selected
5. Rapidity of obsolescence of technology
6. Availability and cost of raw material components required
7. Power and water facilities
8. Technical viability in the application of the finished product
9. Personnel/skilled or trained labour force

Market Appraisal: Marketing is the important activity, which brings revenue. The lending financial institutions pay meticulous attention to the ability of the prospective enterprise to market its products or services. Following methods can be adopted for estimating the market for the proposed product or services:

i) **Opinion Poll Method**– Under this method, the opinions of end users of the product/service are collected through sample market surveys and dealers' opinion about the customers' opinion.

ii) **Life-Cycle Segmentation Method**– A product has various stages of its life cycle namely introduction stage, growth stage, maturity stage, saturation stage and decline stage, and analyze the following factors such as

i. Demand supply position of proposed product/service
ii. The nature and type of competition
iii. Potential demand for the product
iv. Quality, after-sales-service, price, design package, marketing channels etc.

Economic Appraisal: Evaluation of economic viability can be carried out through projection of profitability worked out for a period ranging from three to ten years. The profitability of a project should be established on a long-term basis, keeping in view a spread of five years after a reasonable level of capacity utilization is achieved. Calculation of certain ratio such as debt-service coverage ratio, payback period, average rate of return, net present value, break-even sales and internal rate of return.

Financial Appraisal: The appraisal of the financial aspects involves scrutiny of:

- **Cost of the project and means of financing** - This includes the estimation of cost of the project and identification of sources of finance. While estimating the cost of the project, the financial requirements both for fixed and working capital should be accurately worked out. The sources of finance shall be identified either as Owned funds / equity: i.e. issue of equity share sand preference shares, reserves and surplus and retained earnings or Borrowed funds /debt finance: i.e. debentures, term loans and long-term borrowings, public deposits and deferred payment guarantees.
- **Cash flow estimates** - This refers to the projection of the future sources of cash and their application. Cash flow statement helps to ascertain the cash requirements for different purposes and to fix the repayment schedule on the basis of cash accruals.
- **Project balance sheets** - This reflects the financial position of the firm in future years during the entire period of the term loan.

Project Appraisal Techniques

Pay Back Method: It is cash based technique. It is a period over which the investment would be paid back. It is a breakeven point of the project, where the accumulated returns equal investment. It is also called 'pay-out' or 'pay-off' period or 'recoupment' or 'replacement period'.

1. When Annual Cash Inflows Are Equal: when cash inflows/benefits are even or equal payback period is calculated as follows:

Payback period = Original cost of project (cash outlay) I/Annual net cash inflow (net earnings) C

Example: If cash outlay is K 500000 and Annual net cash inflow is K100000 for 7 years

Payback Amount = 500000 / 100000 = 5 years

The whole cost of the original investment is recovered with five years

2. When Annual Cash Inflows Are Unequal: when cash inflows/ benefits are not equal pay back period is calculated in the form of cumulative cash inflows as follows:-

Example: If the cost of the project is K100000 and the cash inflows are:

1^{st} year K10000;
2^{nd}year K15000;
3^{rd} year K25000;
4^{th} year K30000
5^{th} year K30000.

Payback period to recover original investment of K100000 comes to 4 years and 8 months.

K80000 is recovered in 4years and to recover the balance K20000, 8 months are required.

(20000/ 30000) = 2/3 years or 8 months.

Payback period can also be calculated as follows

Pay Back Period = E + (B/C)

Where,

E = No. of years immediately preceding the year of final recovery

B = Balance amount still to be recovered

C = Cash inflow during the year of final recovery

Decision Rule (or selection criterion):

According to pay back criterion, the shorter the payback period, the better the project.

Advantages of Payback Method

- It is simple to understand and easy to apply.
- It is very important for cash forecasting, budgeting and cash flow analysis.
- It minimizes the possibility of losses through obsolescence.
- It takes into account liquidity.
- It is easier for projects yielding returns in initial years

Disadvantages of Payback Method

- It ignores the time value of money.
- It completely ignores cash inflows after the payback period. This method does not measure profitability of projects. It insist only on recovery of the cost of the project.
- It does not measure the rate of return.
- It may become misleading because it is based on a single factor.

Average Rate of Return: It represents the ratio of the average annual profits to the average investment in the project. It is based on accounting profits and not cash flows. This is also known as **Accounting Rate of Return (ARR).**

Method or Return on Investment Method or Unadjusted Rate of Return Method: ARR is found out by dividing average income by the average investment. It is calculated with the help of the following formula:

ARR= (Average income/average investment)×100

Decision Rule (or Selection Criterion): The higher the ARR, the better the project. If the projects are mutually exclusive, the project with highest rate of return is selected. If the calculated ARR is equal to or more than the company's target rate of return, the project will be accepted. If the calculated ARR is less than the company's target rate of return, the project will be totally rejected.

Advantages of ARR

- It is simple to understand and easy to apply.
- It takes into consideration earnings over the entire life of the project.
- It considers profitability of the investment.
- Projects of different character can be compared.
- Rate of return may be readily calculated with the help of accounting data.

Disadvantages of ARR

- This method does not give any importance to the time value of money.
- It does not differentiate between the size of the investment required for each project
- It is based upon accounting profits, instead of cash flow.
- It considers only the rate of return and not the life of the project.
- It ignores the fact that profit can be reinvested.

Net Present Value Method (NPV): This method involves discounting future cash flows to present values. The cash outflow (i.e., initial investment whose present value is the same) is deducted from the sum of the present values of future cash inflows (returns or benefits). The balance amount is NPV which may be either positive or negative. If the NPV is positive, it means that the actual rate of return is more than the discount rate and it contributes to the wealth of the shareholder. A negative NPV indicates that the project is not even covering the cost of capital. It means that the actual rate of return is less than the discount rate.

Computation Procedure of NPV

Determination of Minimum Rate of Return: To discount cash flows a minimum rate of interest should be selected. This generally the firm's cost of capital (i.e., the minimum rate of return an investor expects from the firm to earn on the proposed investment).

Computation of PV of cash inflows and outflows: The present value of cash flows for different years may be calculated with the help of the following formula:

$PV = C_1/ (1+r) + C_2/ (1+r)^2 + \ldots\ldots + C_n/ (1+r)^n$

C1, C2, Cn = Cash inflows for n years

r = Discount factor or interest rate

n = Number of years

In practice, the 'Present Value Table' is used to calculate PV.

PV = Cash Inflow × Discount Factor of the Concerned Period.

Computation of NPV: The difference between total present value of cash inflows and total present value of cash outflows should be found out. The resulting amount is the Net Present Value.

Decision Rule (or Selection Criterion): In the case of mutually exclusive or alternative projects, (where only one project is to be selected) accept a project that has the highest positive NPV. In the case of individual investment, accept a project if its NPV is positive. If the NPV is negative, reject it.

Advantages of NPV

- It takes into account the time value of money.
- It focuses attention on the objective of maximization of the wealth of the project.
- It considers the cash flow stream over the entire life of the project.
- It is highly useful in case of mutually exclusive projects.
- This method is most suitable when cash inflows are not uniform.
- This method is generally preferred by economists

Disadvantages of NPV

- It involves complicated calculations.
- It is difficult to select the discount rate.

- This method is not suitable in case of projects involving different amounts of investment.
- The relative desirability of project will change with a change in the discount rate.
- Not suitable in case of two projects having different useful lives.

E) Benefit Cost Ratio (Profitability Index Method):

Two projects having different investment outlay cannot be compared by Net Present Value method because it indicates the NPV in absolute terms. In such a situation Benefit Cost Ratio should be applied. It is the ratio of benefits (cash inflows) to (cash outflows). It is the ratio present value of cash inflows to present value of cash outflows. Thus it measures present value of returns. This method is also known as **Profitability Index or Present Value Index Method.**

Benefit Cost Ratio is computed as follows:

Benefit Cost Ratio = PV of cash inflows / PV of cash outflows

Decision Rule (or Selection Criterion)

"Accept the project if its Profitability Index (PI) is more than one and reject the project if its PI is less than one. In the case of mutually exclusive projects, the project with higher PI is to be selected. Higher the Profitability Index better is the project.

Advantages of Benefit Cost Ratio/Profitability Index

- It is very scientific and logical
- It is based upon the real profitability of projects.
- It is very useful to compare the projects having different investments.
- It reflects time value of money.
- It considers all cash flows during the life of the project.

Disadvantages of Benefit Cost Ratio/Profitability Index

- It is comparatively difficult to understand and follow
- This method is not in accordance with accounting principals
- It cannot be used for comparing those projects having unequal lives.
- It is difficult to estimate effective life of a project.

Internal Rate of Return (IRR): This was first introduced by Joel Dean. In IRR, we try discounting at different discount rates until we reach the rate at which the present value of cash inflows equal to present value of cash outflows (investment). Thus, internal rate of return is the rate at which total present value of future cash flows is equal to initial investment. In other words, it is the rate at which NPV is zero. This rate is called the internal rate because it exclusively depends on the initial outlay and cash proceeds associated with the project and not by any other rate outside the investment.

Calculation of IRR: NPV indicates the present value of the cash flows of a project at a particular discount rate. IRR attempts to ascertain the interest rate at which the present value of cash inflow is made equal to the initial investment. IRR is a time adjusted rate of return which equates present value of cash inflows, with original cash outflow. IRR can be calculated through trial and error method and the following steps:

1) Locate the factor in the annuity table, corresponding to the number of years of the project, to obtain the discount percentage intervals that represents closeness value to NPV =0.

2) Ascertain the exact discount percentage using interpolation

IRR = lower percentage + (NPV at lower rate / sum of NPV's of lower and higher percentage

(don't consider sign)) * difference in percentage

Decision Rule (or Selection Criterion): The calculated IRR is compared with the desired minimum rate of return. If the IRR is greater than the desired minimum rate of return, the project is accepted and if it is less than the desired minimum rate of return, then the project is rejected.

Advantages of IRR

1) This method considers all the cash flows over the entire life of the project.
2) Cost of capital need not be calculated.
3) IRR gives a true picture of the profitability of the project even in the absence of cost of capital.
4) Projects having different degrees of risk can easily be compared.
5) It takes into account the time value of money.

Disadvantages

1) It is difficult to understand and use in practice because it involves tedious and complicated calculation.
2) Sometimes it may yield negative rate or multiple rates which is rather confusing.
3) It is applicable mainly in large projects.

4) It yields results inconsistent with the NPV method if projects differ in their expected life span, investment timing of cash flows.

Break even analysis: Break-even point is the level of production/sales where the industrial enterprise shall make no profit no loses it will just break-even.

Break-even point (BEP) = F/(S-V)

Where, F = Fixed Costs

S = Sales Projected

V = Variable Costs

Debt-Service coverage ratio

Debt Service coverage ratio = (Net Profit after tax + Depreciation + Interest for one year)/ (Instalments + interest (for one year)).

Project Selection: A project-screening model that generates useful information for project choices in a timely and useful fashion at an acceptable cost can serve as a valuable tool in helping an organization make optimal choices among numerous alternatives. With these criteria in mind, let's consider some of the more common project-selection techniques.

i. Checklist Model
ii. Simplified scoring Model
iii. Analytical Hierarchy Process Model
iv. Profile Model
v. Financial Model
vi. Options Model

Analytical Hierarchy Process: It was developed by Dr. Thomas Saaty to address many of the technical and managerial problems frequently associated with decision making through scoring models. The AHP methodology can also dramatically improve the process of developing project proposals. In firms that have incorporated AHP analysis, new project proposals must contain, as part of their core information, a sophisticated AHP breakdown listing the proposed project, alternatives, and projected outcomes.

The Analytical Hierarchy Process offers a real advantage over traditional scoring models, primarily because it reduces many of the technical and managerial problems that plague such approaches. An increasingly popular method for effective project selection, the AHP is a four-step process.

1. Structuring the Hierarchy of Criteria: The first step consists of constructing a hierarchy of criteria and sub criteria. Let's assume, for example, that a firm's IT steering committee has selected three criteria for evaluating project alternatives:

(1) Financial benefits

(2) Contribution to strategy

(3) Contribution to IT infrastructure.

The Financial benefits criterion, which focuses on the tangible benefits of the project, is further subdivided into long-term and short-term benefits. Contribution to strategy, an intangible factor, is subdivided into three sub criteria:

(a) Increasing market share for product X

(b) Retaining existing customers for product Y

(c) Improving cost management

2. Allocating Weights to Criteria: The second step in applying AHP consists of allocating weights to previously developed criteria and, where necessary, splitting overall criterion weight among sub criteria. In the same example, financial benefits received a weighting value of 52%, which was split between Short-term benefits (30%) and Long-term benefits (70%). This configuration means that long-term financial benefits receives an overall weighting of $(0.52) \times (0.7) = 36.4\%$.

3. Assigning Numerical Values to Evaluation Dimensions: The third step, once the hierarchy is established, we can use the pair wise comparison process to assign numerical values to the dimensions of our evaluation scale.

4. Evaluating Project Proposals: In the final step, we multiply the numeric evaluation of the project by the weights assigned to the evaluation criteria and then add up the results for all criteria.

Business Plan: A business plan or project report is a written statement of what an entrepreneur proposes to take up. It is a kind of guide frost or course of action what the entrepreneur hopes to achieve in his business and how is he going to achieve it.

A business plan or project report is a document that shows how a business is going to achieve its objectives laid out in the plan both from a customer marketing viewpoint and the financial statements to back up the written plan. Typically a business plan contains top level business strategy, research data, marketing plans, tactical plans and financial forecasts. A standard business plan written for banks is no more than 20 pages but a plan to put a company through an IPO might be 100-200 pages. Business plan written document describing all relevant internal and external elements and strategies for starting a new ventures.

Information Needs for Business Plan: Before committing time and energy to preparing a business plan, the entrepreneur should do a quick feasibility study of the business concept to see if there are any possible barriers to success. The information, obtainable from many sources, should focus on marketing, finance, and production.

Market information: one of the initial important elements of information needed by the entrepreneur is the market potential for the product or service. In order to ascertain the size of the market, it is first necessary for the entrepreneur to define the market.

Example:

- Is the product most likely to be purchased by men or women?
- People of high income or low income?
- Rural or urban dwellers?
- Highly educated or less educated people?

A well-defined target market will make it easier to project market size and subsequent market goals for the new venture. For example, an entrepreneur has developed a unique training aid for golfers. This product allows the user to practice in the basement or garage during the offseason. The product will determine distance, slice, or hook of a drive. The product would thus appeal to a well-defined market: avoid golfers who are interested in improving their score.

To assess the total market potential, the entrepreneur should consider trade associations, government reports, the internet, and published studies. In some instances this information is readily available. In our golfing example, the entrepreneur should be able to estimate the size of the market from secondary data. Golf magazines and associations would provide information on the golf market is also likely to available. Information from golf stores or from pro shops regarding training aids would also be helpful. Contacting a few of these stores to discuss training aids could provide valuable insights for the business plan. From this, the entrepreneur would be able to determine an approximate size of the market.

Operation information needs: the relevance of a feasibility study of the manufacturing operations depends on the nature of the business. Most of the information needed can be obtained through direct contact with the appropriate source. The entrepreneur may need information on the following

- Location: the company location's and its accessibility to customers, suppliers, and distributors to be determined.
- Manufacturing operations: basic machine and assembly operations need to be identified, as well as whether any of these operations would be subcontracted and by whom.
- Raw materials: the raw materials needed and supplier's names, addresses, and costs should be determined.
- Equipment: the equipment needed should be listed and whether it will be purchased or leased.
- Labor skills: each unique skill needed, the number of personnel in each skill, pay rate, and assessment of where and how these skills will be obtained should be determined.
- Space: the total amount of space needed should be determined, including whether the space will be owned or leased.
- Overhead: each item needed to support manufacturing – such as tools, supplies, utilities, and salaries – should be determined.

Most of the above information should be incorporated directly into the business plan. Each item may require some research, but each is necessary to those who will assess the business plan and consider funding the proposal.

Financial information: before preparing business plan, the entrepreneur must have a complete evaluation of the venture. The assessment will primarily tell potential investors if the business will be profitable, how much money will be needed to launch the business and meet short-term financial needs, and how this money will be obtained (e.g., stock and debt).

There are traditionally three areas of financial information that will be needed to ascertain the feasibility of the new venture:

1. Expected sales and expense figures for at least the first three years
2. Cash flow figures for the first three years
3. Current balance sheet figures and pro forma balance sheets for the first three years

Determination of the expected sales and expense figures for each of the first 12 months and each subsequent year is based on the market information discussed earlier. Each expense item should be identified and given on a monthly basis for the year Estimates of cash flow consider the ability of the new venture to meet expenses at designated times of the year. The cash flow forecast should identify the beginning cash, expected accounts receivable and other receipts, and all disbursements on a monthly basis for the entire year.

Current balance sheet figures provide the financial conditions of the business at any particular time. They identify the assets of the business, the liabilities (what is owed), and the investment made by the owner or other partner.

Contents of Business Plan: A well-prepared, attractive written business plan is an essential document in the quest for either debt or equity financing, to provide a benchmark against which to compare actual company performance, and to refine strategies and develop ideas on how the business should be conducted. Although the written business plan of a start-up venture must be tailored to the particular business and industry, the essential items in a written business plan include the following:

Cover page

The cover page should include the following:

(a) Company Name
(b) Logo
(c) Contact Person
(d) Address and Phone Number
(e) Date and State of Incorporation
(f) Confidentiality and Nondisclosure Statement

Table of Contents and Table of Appendices: The table of contents and table of appendices should refer the reader to the sections and subsections of the business plan.

Executive Summary: This is the first part of the business plan to be read by potential lenders and investors. In the case of a poorly written executive summary, the executive summary is often the *only* part of the business plan that gets read. Accordingly, you should take the time necessary to prepare a dynamic executive summary that describes the business, identifies the stage of the company and its strategic direction, describes the company's market and marketing plan, briefly discusses the background of management, and states the company's revenue and profit expectations. Remember, you only get one chance to make a good first impression.

Body of Business Plan: The body of the business plan should include detailed discussions of the following subjects:

I. Background and Purpose

(a) History –A Brief Overview of the History of the Company
(b) Current Status of Company
(c) The Product or Service Concept
(d) Business Objectives

II. Market Analysis

(a) Overall Industry or Market
(b) Specific Market Segment
(c) Competition
(d) Sales Forecasts

III. Product or Service Development

(a) Research and Development
(b) Production Requirements and Process
(c) Proprietary Features and Protections Thereof
(d) Quality Assurance Measures
(e) Contingency Plans

IV. Marketing

(a) Survey Results
(b) Marketing Strategy
(c) Contingency Plans

V. Financial Data

(a) Current Financial Position
(b) Accounts Payable
(c) Accounts Receivable

(d) Cost Control Measures
(e) Break-Even Analysis
(f) Financial Aspects such as in DCF technique
(g) Financial Projections

VI. Organization Structure and Management: Describe the qualifications and responsibilities of management. The quality of management is often the key factor in obtaining debt or equity funding.

(a) Key Personnel
(b) Other Personnel
(c) Directors and Advisors
(d) Professional Advisors
(e) Key Future Personnel
(f) Forecasted Labor Force

VII. Ownership

(a) Business Structure
(b) Current Capitalization
(c) Forecasted Capitalization – stating how much money will be sought the form of the proposed investment, how the funds will be used, and the percentage of ownership to be provided in exchange for the investment
(d) Exit Strategy – state how and when investors will be able to get their money out of the business
(e) Royalty or Licensing Arrangements

VIII. Risk Factors: Describe the key risks facing the company, including risks presented by:

(a) Cost Overruns
(b) Failure to Meet Production Deadlines
(c) Problems with Labor, Suppliers, or Distributors
(d) Sales Projections not Met
(e) Unforeseen Industry Trends
(f) Competition
(g) Unforeseen Economic, Social, or Political Developments
(h) Technological Developments
(i) Inadequate Capital
(j) Business Cycles
(k) Other Risks

IX. Conclusion

(a) Summary

(b) Timetable for Funding and Future Developments

Project Report: Preparation of detailed project report is a post-investment decision exercise. A project report is a report, which provides all the necessary information of the unit proposed to be set up for the manufacture of a product or rendering a service.

For providing the financial assistance, the bankers/financial institutions and other developmental agencies require the project report. A project report enables the entrepreneur to know how much money, manpower and material would be required to set up the project, and the type of machines and technology required, and ultimately the economic gains likely to be generated from the project.

Importance of a project report

1. A project report serves as a master plan clearly indicating as to what are the goals and objectives a project and how to achieve them.
2. A project report is like a road map, which describes the right direction to be followed.
3. A project report gives a general idea of various resource requirements such as raw materials, manpower, finance, infrastructure facilities and also means of procuring them.
4. A project report indicates the economic, financial, commercial, technical and social feasibility of the venture.
5. A project report clearly reveals the prospective financial rewards to the entrepreneur in the form of profits.
6. A project report anticipates the problems in advance and aids the entrepreneur in decision-making.
7. A project report ensures the successful survival of the business unit.
8. A project report convinces the financial institutions about its viability and paves the way for financial assistance.

Contents of a project report: Generally, a project report contains the following

1. **General Information**

- Bio-data of promoters (name, address, qualifications, capabilities etc.)

- Industry profile (analysis of industry to which the project belongs e.g. past performance, present status, form of organization, problems faced etc.)
- Constitution and organization (form of organization viz. proprietary, partnership firm-registered or not etc. and Registration certificate from PACRA)
- Product details (product range, its utility, product designs/drawings)

2. **Project Description:** A brief description of the following aspects is provided here.

- Location and site (town, street, number, details of total area, owned or leasehold, etc.)
- Physical infrastructure (transportation and communication facilities, supply of electricity, fuel, water and other consumables; disposal of wastes)
- Raw materials, their quality and procurement, raw material stock to be maintained, total value of raw material
- Skilled labour and personnel requirements, technical staff, i.e. availability and training arrangements of skilled labour, number of factory staff and their monthly and yearly emoluments
- Machinery, equipment and common facilities
- Manufacturing process and technology

3. Market potential

- Expected demand and supply position product-mix and estimated annual sales, cost and price position, marketing strategy, after-sales services, seasonality, distribution system, competitors and their capacities etc.

4. Capital costs and sources of finance

- An estimate of capital expenditure (cost of land and building, plant and machinery, installation chargers, furniture and fixtures, vehicles, preliminary and preoperative expenses, contingency provision etc.)
- Probable sources of finance (owner's contribution, loans and deposits to be raised, capital subsidies from Central Governments)

5. Assessment of working capital requirements

- Estimation of working capital requirements
- Arrangements made with commercial banks requirement of margin

6. Financial considerations

- Cost of production and profitability
- Break-even analysis
- Projected balance sheet and cash flow
- Schedule of implementation of the project
- Repayment schedule

7. Economic and social considerations

- Costs to be incurred for controlling the damage like pollution, effluents, emissions etc.
- Generation of employment, promotion of ancillaries, import substitution and export potentials, utilization of local resources, development of the local area etc.

8. Enclosures and annexures

- To make the project realistic and practical it is imperative to enclose the necessary documents (certificates of educational qualifications, quotations of machinery and equipment, copy of partnership deed, PACRA registration, copy of building plan approved by authority, copy of sanction of power and water connection, NOC from Pollution Control Board, cash flow statement and so on.)

UNIT V - PRODUCT STRATEGIES

Global Product Communication Strategies: In international marketing product and communication strategies are usually considered together because the need satisfaction, purpose of product use or usage occasion and the product communication are rather inseparable. Keegan has identified the following five alternative product communication strategies in international marketing with reference to modification of product and communication (i.e. promotional theme).

- Straight extension
- Product extension, communication adoption
- Product adaption, communication extension strategy
- Dual adaption
- Product invention

Straight extension: The firm adopts the same policy used in its home market.

International Product Strategy	Product Example	Consumer Need Satisfied	Product Strategy	Communication Strategy
Strategy 1 Product and Communication Extension	Gillette Razor	Disposable, easy to use product	Extension	Extension
Strategy 2 Product Extension Communication Adaptation	Wrigley Chewing Gum	USA: Substitute for Smoking Europe: Dental benefits	Extension	Adaptation
Strategy 3 Product Adaptation Communication Extension	McDonalds	Fast-Food	Adaptation: Adding local products to range	Extension: Using global campaign
Strategy 4 Product and Communication Adaptation	Slim Fast	Identical: Lose Weight	Adaptation: Consumer preferences for different flavors	Adaptation: Celebrity in Germany, Teacher in UK
Strategy 5 Product Invention	Buckler Beer	Non-alcoholic beer	Invention	Develop new communication

Product extension, communication adaptation: Under this strategy, the firm markets the same product but employs modified communication about the product in foreign markets. For example, bicycles are used mainly for sporting and exercising in several developed countries, but in many other countries of the world they provide basic transportation.

Product adaptation, communication extension strategy: Under this strategy, essentially the same promotional message is used in abroad as at home; but the product is modified to suit the foreign market conditions, the strategy assumes that the product will serve the same function in foreign markets under different use conditions.

Dual adaptation: The dual adaption strategy involves a modification of both the product and communication to meet the foreign needs and considerations of the foreign market. This strategy is called for when differences exist in the environmental conditions of use and in the function which a product serves. Dual adaption is very expensive but worthwhile if markets in the various countries promise to be large enough.

Product invention: The product invention strategy involves the development of new product suitable for the tapping a foreign market. For example, low cost products may have to be developed for low income countries. A product invention strategy may even mean "inventing backward."

Branding: A brand is a name and a mark intended to identify the product of one seller or groups of sellers and differentiating the product from competing products. A brand name consists of words, letters and numbers that can be vocalized. And a brand mark is the part of brand that appears in the form of symbol, design or distinctive color. A brand mark is recognized by sight but cannot be expressed. Trademark is a brand that has been adopted by a seller and given legal protection.

"The American Marketing Association defines a brand as a name, term, sign, symbol, or design, or a combination of these, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors."

Types of brands: There are four choices of brands.

(a) Individual brand name. This is the option chosen by Procter & Gamble for example, who even have different brand names within the same product line, e.g. Bold, Tide. The main advantage of individual product branding is that an unsuccessful brand (e.g. Strand cigarettes) does not adversely affect the firm's other products, nor the firm's reputation generally.

(b) Blanket family brand name for all products, e.g. Hoover, Heinz (originally 'Heinz 57 varieties'). This has the advantage of enabling the global organisation to introduce new products Quickly and successfully. Also the cost of introducing the new product in terms of name research and awareness advertising will be reduced (e.g. Ronda lawn mowers).

(c) Separate family names for different product divisions, e.g. the US-based company Sears sells electrical appliances under the name Kenmore, and women's clothing under the Kerry brook brand. This is obviously the option for the global organisation with 'inconsistent' product lines where the family brand name above is not appropriate. But within each 'family' the advantages identified in (b) still apply.

(d)The company trade name combined with an individual product name, e.g. KelloggsCorn Flakes, Rice Crispies etc.). This option both legitimises (because of the company name) and individualises (the individual product name). As in (b) above it allows new 'names' to be introduced quickly and relatively cheaply.

Branding Policies: First question is whether to brand or not to brand. Homogenous products are difficult to brand (Not Purdue, Robinson Brick). Branding policies are:

- **Individual Branding:** Naming each product differently P&G, facilitates market segmentation and no overlap.
- **Overall Family Branding:** All products are branded with the same name, or part of a name, IE Kraft, promotion of one item also promotes other items.
- **Line Family Branding:** Within one product line. IE P&Gs Ivory line.
- **Brand Extension Branding:** Use one of its existing brand names as part of a brand for an improved or new product, usually in the same product category.

  75% new products are brand extensions!!

Packaging: Some texts consider packaging so important that they place it in the marketing mix as a fifth ‘P.’ Most texts consider packaging as a part of product policy. Packaging includes all activities that focus on the development of a container and a graphic design for a product. A package may have three levels; the primary package is the container of the product such as a bottle, jar, or tube, the secondary package is the box of cardboard or some other material containing the primary package; and the last is shipping package that contains more units of secondary package.

Packaging of a product is important and can make a product more visible, desirable, versatile, safe, or convenient to use. Good packaging has the power to influence customers' attitudes and purchase decisions. Often, customers have one of the strongest associations with a brand based on the looks of its packaging. Package attractiveness can become an important means of brand recognition. Also, the information conveyed or inferred from the package can help build or reinforce valuable brand associations.

Packaging is much more than just putting the product in a container and covering it with a wrapper. Packaging materials serve the purpose of not only protecting the product but also keeps it in functional form, such as milk, juices, and sprays. Packaging helps prevent damage and loss. Packaging also helps to check tampering. A reusable package often makes a product more desirable. In a country like India, reusable packages are often used in sales promotion, such as Bournvita container was a glass jar that could be used for other purposes, or 4kgs Surf was packaged in a plastic bucket. Housewives used the container (bucket) to wash clothes and for other purposes.

Packaging Strategies:

In managing the packaging of a product, executive must make the following strategic decisions.

1) **Packaging the product line:** A company must decide whether to develop a family resemblance when packaging related products. Family packaging uses either higher similar package for all products with a common and clearly noticeable feature. Family packages makes since when products are of similar quality and have a similar use.

2) **Multi packaging:** For many years, there has been a trend toward multiple-packaging, the practice of placing several units of same product in one container. For example, dehydrated soups, motor oil, beer, candy bars and countless other products are packaged in multiple units.

3) **Changing the package:** When something is detected in package then company must change a poor feature in an existing package. For this firm's need to consider continuing developments such as new

Pricing Strategy: Once the production design is decided upon, the price of the product needs to be determined before selling it in the market. The enterprise has to take decision like at what price product will be sold out, how the price will be determined etc. pricing policy help answer these questions. Therefore, what will be determined etc. pricing policy help answer these questions. Therefore, what follows is meaning of price, its objectives, consideration, policies etc.

Meaning of Price: Price goes by various names. It is the compensation that consumers pay for product or services. Freight, fare license fee, tuition fee, professional charge, rent, interest etc. but price in an enterprise/business system is seldom so simple. By definition, price is the money that customers must pay for a product or service. In other words, price is an offer to sell for a certain amount of currency. Here, the word, 'offer indicates that price is subject to change if there are found insufficient number of customers at the original price of the product. That is why prices are always on trial. If they are found to be wrong, either they must be immediately changed or the product itself must be withdrawn from the market.

Pricing of the product is something different from its price. In simple words, pricing is the art of translating into quantitative terms the value of a product to customers at a point of time. Someone has opined that "the key to pricing is to build value into the product and price it accordingly."

Price goes by many other names, rent, fare, rate, interest, toll, premium and even bribe but all these names add up to one thing.

Pricing Objectives

Market penetration: market penetration may be a very important objective, particularly for the new entrepreneurs.

Market share: the price may be manipulated to increase the market share.

Market skimming: this is often the case with innovative products. The product is introduced with a high initial price to skim the cream of the market. The price may be subsequently reduced to achieve greater market penetration.

Profit maximization: in many cases, the primary pricing objective is maximization of profit.

Return on investment: achieving the target rate of return is the most important pricing objective in a number of cases.

Shorten pay-back period: when the market is uncertain and risky because of factors like swift technological changes, short product life cycles, political reasons, and threat of potential competition etc., recouping the investment as early as possible would be an important objective.

FACTORS AFFECTING PRICES:

The prices that a firm can fir its products are subject to many influences. The various factors economic and non-economic impinge upon the prices of the products. The important factors that may apply to all types of products are:

- product characteristics
- product cost
- objectives of firm
- competitive situations
- demand for the product
- customers' behaviour
- government regulations

One can classify the above factors into internal and external or controllable and uncontrollable factors. In our above factors, the first three factors can be classified as internal or controllable factors and the remaining four as external or uncontrollable factors.

A word about each of these factors will introduce us to the total scene of factors affecting prices.

- **Product characteristics:** by product characteristics, we mean numerous factors, i.e., the product life cycle, the product perishability, the product substitution and demand postponability or the magnitude of the resistance.

- **Product cost:** the second factors, the most important in determining price, are the cost of the product itself. While making marketing strategy, the decision
- **Demand:** This has a large impact on pricing. Since demand is affected by such factors as the number and size of competitors, what they are charging for similar products, the prospective buyers, their capacity and willingness to pay and their preferences, these factors have to be taken into consideration while fixing prices.
- **Competition:** Knowledge of what prices the competitors are charging for a similar product and what possible lie ahead for raising or lowering prices also affects pricing.
- **Government regulations:** The regulatory pressure and anti price rise and control measures effectively discourage companies form cornering too large a share of the market or controlling prices.

Methods of Pricing

- Cost Plus Pricing
- Pricing for a Rate Of Return
- Going Rate Pricing
- Customary Price

1) Cost plus pricing; It means that costing the prices of one unit of a product is equal to the total cost of the unit plus the desired profit on the unit.

Example: Suppose the total fixed cost (TFC) of company for production is \$30,000 the management wishes to earn \$ 20,000 as profit and firm has decided to produce 400 units. Thus the formula for determination of price,

$$\text{Price} = \frac{\text{TFC+TVC+ Projected profit}}{\text{Units produced}}$$

$$= \frac{30,0000+90,000+20,000}{400}$$

This cost plus pricing approach ensure that desired profit level will be achieved however; it relies on forecasts which can be dangerous because costs often change rapidly. There are some situations where cost plus pricing approach to pricing is perfectly suitable.

For example: The price of some products remain suitable from year to year e,g Milk , bread, paper chips etc. The cost plus pricing system is useful in such fields where the firms are given a job or government contract because the demand is known. Setting price can be determined as

S.P = C+M Where

S.P = setting price

C= cost

M= markup.

2) Pricing for a rate of return: An important problem that a firm might have to face is one of adjusting the prices to changes in costs for this purpose the popular policies that are often followed are as under:

- Revise prices to maintain a constant percentage mark-up over costs
- Revise prices to maintain profits as a constant percentage of total sales.
- Revise price to maintain a constant return on invested capital
- Rate of return pricing is a refined variant of full cost pricing. It has the same inadequacies, viz. it tends to ignore demand and fails to reflect competition adequately.
- It is based upon a concept of cost which may not be relevant to the pricing decision at hand and overplays the precision of allocated. The fixed cost and capital employed.

3) Going rate pricing:- In this method, firm basis its price largely on competition and pay less attention to its own cost and demand. Going rate pricing is quite popular where demand elasticity is difficult to measure.

- **Pricing below competition level:-** A variation of market- based pricing is to set a price at some point by discount retailers. These stores offer fewer services and operate on principle of low mark up and high volume.
- **Price above competition level: - Producers** or retailers sometimes set their prices above market level. Usually above market pricing works only when the product is distinctive or when seller has acquired prestige in its field. E, g prestigious stores of jewelry, clothing, perfumes etc.

4)Customary Prices: Prices of certain goods become more or less fixed for considerable periods of time, for such goods, changes in cost are usually reflected in changes in quality or quantity. Only when the costs change significantly, the customary prices of these goods are changed. Customary prices may be maintained even when products are changed.

For e.g. the new model of an electric fan may be priced at the same level as the discontinued model. This is usually so even in the face of lower costs. A lower price may cause an adverse reaction on the competitors leading them to a price war as also on the consumers who may think that the quality of the new model is inferior. Perhaps, going along with the old price is the easiest things to do the maintenance of existing prices as long as possible is a factor in the pricing of many products.

If a change in customary prices is intended, the pricing executive must study the pricing policies and practices of competing firms and the behaviour and emotional make-up. Another way out, especially when an upward move is sought is to test the new prices on a limited market to determine the consumer reaction.

Strategies of Pricing

- New – Product Pricing Strategies
- Psychological Pricing
- Discriminatory Pricing
- Product Mix Pricing Strategies
- Discounts and allowances

Psychological Pricing: Many consumers use price as an indicator of quality. Image pricing is especially effective with ego-sensitive products such as perfumes and expensive cars. A $100 bottle of perfume might contain $10 worth of scent, but gift givers pay $100 to communicate their high regard for the receiver. Similarly, price and quality perceptions of cars interact: Higher-priced cars are perceived to possess high quality; higher-quality cars are likewise perceived to be higher priced than they actually are. In general, when information about true quality is unavailable, price acts as a signal of quality.

When looking at a particular product, buyers carry in their minds a *reference price* formed by noticing current prices, past prices, or the buying context. Sellers often manipulate these reference prices. For example, a seller can situate its product among expensive products to imply that it belongs in the same class. Reference-price thinking is also created by stating a high manufacturer's suggested price, by indicating that the product was priced much higher originally, or by pointing to a rival's high price.

Often sellers set prices that end in an odd number, believing that customers who see a television priced at $299 instead of $300 will perceive the price as being in the $200 range rather than the $300 range. Another explanation is that odd endings convey the notion of a discount or bargain, which is why both toysrus.com and etoys.com set prices ending in 99. But if a company wants a high-price image instead of a low price image, it should avoid the odd-ending tactic.

Discriminatory Pricing: Companies often adjust their basic price to accommodate differences in customers, products, locations, and so on. Discriminatory pricing occurs when a company sells a product or service at two or more prices that do not reflect a proportional difference in costs. Discriminatory pricing takes several forms:

- **Customer-segment pricing**: Different customer groups pay different prices for the same good or service. For example, museums often charge a lower admission fee to students and senior citizens.
- **Location pricing:** The same product is priced differently at different locations even though the costs are the same; for example, theaters often vary seat prices according to audience preferences for different locations.
- **Time pricing**: Prices are varied by season, day, or hour. Public utilities use time pricing, varying energy rates to commercial users by time of day and weekend versus weekday. A special form of time pricing is yield pricing, which is often used by airlines to fill as many seats as possible.

New Product Pricing Strategies

Pricing strategies usually change as the product passes through its life cycle. Companies can choose between two strategies:

- **Market-Skimming Pricing:** Setting a high price for a new product to skim maximum revenues layer by layer from the segments willing to pay higher price; the company makes fewer but more profitable sales. But it makes sense only if: the product's quality supports its high price, the costs of producing a smaller volume is not so high that they cancel the advantage of charging more and competitors should not be able to enter the market easily.

- **Market-Penetration Pricing:** Setting a low price for a new product in order to attract a large number of buyers and market share. So the companies set a low initial price to penetrate the market. However this strategy works only if: the market is highly price sensitive so that lower prices produce market growth, production and distribution costs decrease as the sales increase, low price helps to keep out the competition. Dell entered the market using penetration pricing.

Product Mix Pricing Strategies: When the product is a part of product-mix, there are five kinds of strategies involved:

- **Product Line Pricing:** In product line pricing, management must decide on the price steps to set between various products in a line. This should take into account the differences in products features, customer evaluations, competitor's prices etc.
- **Optional-Product Pricing:** The pricing of optional or accessory products along with the main product. For example, a car buyer may choose to order a CD changer as an optional product.
- **Captive-Product Pricing:** Setting a price for products which must be used along with the main product. For example, HP makes printers and cartridges. It makes very low margins on its printer (the main product) but very high margins on cartridges .
- **By-Product Pricing:** Setting a price for the by-products. Like in processing meats, petroleum products, chemicals etc. Using by-product pricing, the manufacturer will find a market for the by-products and should accept any price that covers more than the cost of storing and delivering them. For example, at Alba, water is obtained as a by-product while manufacturing aluminum. This water can now be sold to the market.
- **Product Bundle Pricing:** Combining several products and offering the bundle at a reduced price. For example, fast food restaurants bundle a burger, French fires and soft drink at a combo price.

Discounts and allowances: Discount and allowances results in a deduction from the list price in the form of cash or something else.

- **Cash discount:** Cash discount is a price reduction to buyers who pay their bills promptly. The typical example is 2/10; n/30 which means the buyer can deduct 2% from the cost by paying the bill within 10 days.
- **Quantity discounts:** A quantity is a deduction in price to buyers who buy large volume. The discount may be based on dollar amount. Quantity discounts are offered by seller to encourage customer to buy in large amount.
- **Cumulative and non-cumulative quantity:** A non-cumulative discount is based on the size of an individual order of one or more products. Cumulative discounts are based on the total volume purchased over a period of time.
- **Seasonal discounts:** A seasonal discount is a price reduction to buyers who buy products or services out of season.
- **Trade-in-allowances:** These are price reduction granted in a sold item when buying a new one. It is common in automobile companies.

Distribution Strategies

Distribution is one of the Four Aspects of Marketing: A distribution business is the middleman between the manufacturer and retailer or (usually) in commercial or industrial the business customer.

Production is need for consumption. Having produced the products, these need to be made available to the final users to of the product, i.e., the consumers scattered in large geographical areas. Since, many a times it becomes extremely difficult, if not impossible to reach the customers on its own, to reach the customers on its own, the firm needs the help of marketing intermediaries, like wholesalers serve as channels to reach their products to the consumers. Let us consider a few on distribution channels.

According to the committee on the definition of the American marketing association "a channel of distribution or marketing channel is the structure of intra-company organization units and extra-company agents and dealers, wholesale and retail, through which a product, commodity or service is marketed."

Classification of distribution channels

Common channels for distribution of consumer goods, business goods and services are discussed below.

1) Distribution of channel goods:-There are five channels are used for distribution of tangible goods to ultimate consumer.

a) Producer---->Consumer The shortest, simplest channels of distribution for distributing gods are from producer to consumer. It involves no middle man. The producer may sell from door to door or by mail.

Door to Door: In these channels companies use their representatives to sell their gods from door to door such as insurance magazines, newspapers, milk etc.

By Mail: Some companies also sell their products by mails. A farmer sells their fruit and a vegetable directly to consumer at road is also using this method. It is short and direct method.

b) Producer → Retailer→ Consumer: Many large retailers buy directly from manufacturers and agricultures' large no. of our purchases are mad through this channel such as automobiles, clothing, gasoline etc. In this case manufacturers keep contact with retailers, take purchase orders. The retailers then sell to ultimate consumers.

c) Producer → Wholesaler → Retailer → Consumer: This type of channel mostly used by small manufacturers and small retailers to distribute such things that have a large market need. The products such as drugs, lumber, hardware and many food items are distributed in such channel process.

d) Producer → Agents→ Retailers→ Consumers: Instead of using wholesaler many producers prefer to use manufacturer's agents, a broker or some other agent's middleman to reach the retail market. A glass marker selected a food broker to reach store market.

e) Producer → Agent → Wholesaler → Retailer → Consumer: To reach small retailers, the producers often use agent middleman, who in turn call on with wholesales that sell to small stores. Agent can be especially useful for making contacts and bringing buyers and sellers together. They are common in food industry, where they are called "food brokers".

2) Channels for Distribution of Business Goods

a) Producers → Industrial Users: This direct channel is used for most expensive products. Manufacturers of large installations such as air planes, generators etc. use this channel.

b) Producer →Industrial Distribution→ Users: Producers of operating supplies and small accessory equipment frequently use industrial distributors to reach their market.

c) Producer → Agent→User: Firms without their own marketing department find this channel. Also a company that wants to introduce a new product or enter a new market may prefer to use agents rather than its own sales force.

d) Producer → Agent →Industrial Distributors → Users: This channel to similar to previous one. It is used when it is not possible to sell through agents directly to business users.

3) Distribution of Services: The intangible nature of services creates special distribution requirements. There are only two common channels.

a) Producer→ Consumer: As service is intangible so it requires direct contact b/w consumer and producer. Thus direct channel is used, as for many professional services such as health, care, legal advice and personal services as hair cutting etc.

b) Producer→Agent→ Consumer: While direct distribution is often necessary for a service to be performed, producer consumer contact may not be required for key distribution activities; Agents frequently assist a service without producer. Many services as travel, loading, advertising media and insurance use agents.

Promotion Strategy: This is to communicate with individuals, groups or organizations to directly or indirectly facilitate exchanges by informing and persuading one or more audiences to accept an organization's products.

Promotional Mix: Organizations combine specific ingredients of the promotional mix to promote a particular product.

All promotional tools (promotional mix):

- Advertising
- Sales Promotion
- Publicity
- Personal selling

Advertising is a paid form of non-personal communication about an organization or its products that is transmitted to a target audience through a mass/broadcast medium.

The objectives of advertising

The objectives of advertising may be any of the following:

- To ensure a certain exposure for the advertised product or service;
- To create awareness of new products, or developments to existing products;
- To improve customer attitudes towards the product or the firm;
- To increase sales (although it is difficult to relate advertising to sales volumes) and profits. For a non-profit making organisation, the equivalent purpose will be to increase response to the product or service;
- To generate enquiries from potential customers. (Advertisements in magazines might include a coupon or card, to be filled in and returned if the reader would like further information. Similarly, TV advertisements sometimes give a telephone number to call for further information);
- To change the attitudes and habits of people at whom the advertisement is directed. Government advertisements often have this objective – e.g. campaigns against drinking and driving, against smoking, warnings about burglaries and fire hazards and appeals to save energy.

Sales promotion: These are materials that act as a direct inducement, offering added value, or incentive for the product, to resellers, sales persons or consumers. It is designed for immediate (short term) increase in product sales.

Nature of Sales Promotion: Encompasses all promotional activities and materials other than personal selling, advertising and publicity. It has grown dramatically in the last ten years due to short term focus on profits. Funds are usually earmarked for advertising are transferred to sales promotion. It is often used in conjunction with other promotional efforts.

Scope and importance of sales promotion:

- Companies are looking to get a competitive edge
- Quick returns are possible for short term profits
- More consumers are looking for promotions before purchase
- Channel members putting pressure on manufacturer. for promotions
- Advances in tech. make SP easier (i.e. coupon redemption)

Sales Promotion Opportunities and Limitations

- Increase in sales by providing extra incentive to purchase. May focus on resellers (push), consumers (pull) or both.
- Objectives must be consistent with promotional objectives and overall company objectives.
- Balance between short term sales increase and long term need for desired reputation and brand image.
- Attract customer traffic and maintain brand/company loyalty.
- Reminder functions-calendars, T Shirts, match books etc.
- Impulse purchases increased by displays
- Contests generate excitement esp. with high payoffs.

Limitations

- Consumers may just wait for the incentives
- May diminish image of the firm, represent decline in the product quality.
- Reduces profit margins, customers may stock up during the promotion.
- Shift focus away from the product itself to secondary factors, therefore no product differential advantage.

Consumer Sales Promotion Techniques encourage/stimulate customers to patronize a specific retail store or to try a specific product.

Coupons: Usually reduce the purchase price or offered as cash. Need to state the offer clearly and make it easy to recognize. Stores/marketers are honouring competitors coupons etc. Stores often don't have enough of the couponed item in stock.

Demonstrations: Excellent attention getters. Labour costs are usually high.

Frequent User Incentives: Major airlines, helps foster customer loyalty to a specific company. **Credit card companies'** offer branded company products based on card usage with immediate rewards. This is what is *very* appealing about this card...immediate reward, as opposed to having to build up points for an air flight etc.

Airlines have had to raise the threshold of their award programs 35,000 from 20,000, 2 free round trip tickets due to $3+trillion liabilities

Long Distance telephone also offer free air miles, >$25/mo = air miles Frequent User cards are used to collect information for companies enabling them to better target their customers.

Point of Purchase Display: Outside signs, window displays, counter pieces, display racks. 90% of retailers believe that point of purchase materials sell products. It is essential for product introductions. Also with 2/3 of purchasing decisions made in the store, they are important.

Free Samples: Stimulate trial of product. Increase sales volume at the early stage of the product life cycle and obtain desirable distribution. It is the most expensive sales promotion technique. Not appropriate for mature products and slow turnover products.

With Sampling there is too a free lunch: Discusses the pros and cons of free sampling.

Money Refunds/Rebates: Submit proof of purchase and mail specific refund, usually need multiple purchase for refund. Helps promote trial use, due to the complexity of the refund, it has little impact. Customers have a poor perception of rebate offered products. Used extensively in the Auto and Computer industry.

Premium Items: Offered free or at minimum cost as a bonus. It is used to attract competitors' customers, different sizes of established products.

Consumer Contests and Sweepstakes: Consumers compete based on their analytical or creative skills. Must be accurate or you will anger customers/retailers. Sweepstakes are prohibited in some states.

Trade Sales Promotion Techniques: Push Policy emphasizes promotions focused on the next intermediary. Trade Sales Promotion Techniques stimulate wholesalers and retailers to carry products and to market them aggressively. Producers use sales promotion techniques to encourage resellers to carry their products and to promote them more effectively.

Allowances and Discounts

- **Merchandise** – Reimburse for extra retail support, i.e. advertising, shelf space
- **Case** – Discount on cases ordered in specific period.
- **Finance** – Paying for financial costs/losses associated with consumer sales promotions.

Publicity: According to the Institute of Public Relations in the United Kingdom, it is the 'planned and sustained effort to establish and maintain goodwill and mutual understanding between an organization and its public'. A firm's public includes its employees, stakeholders, trade unions, general public, customers (past, present and future), charities, media, government and politicians, etc.

Public Relations means building good relations with the company's various publics by obtaining favorable publicity, building up a good corporate image and removing rumors, undesirable stories and events. The Public Relations department can use the following functions: press relations, product publicity, public affairs, lobbying, investor relations and development.

The Role and Impact of Public Relations: Public Relations can have strong impact on public awareness at a much lower cost than advertising. If the company develops an interesting story, it can be picked up by the media, having the same effect as advertising without costing millions of dollars. The PR department is usually located at the corporate headquarters. Although PR still captures only a small portion of overall marketing budget, it is increasingly playing an important role in brand-building.

Major PR tools Public Relations use several tools like:

1. News
2. Speeches
3. Giving talks at trade associations
4. Special events
5. Written materials
6. Audiovisual materials
7. Corporate identity
8. Buzz marketing
9. Mobile marketing.

Personal Selling: It is the best means of oral and face-to-face communication and presentation with the prospect for the purpose of making sales. There may be one prospect or number of prospect in the personal conversion. It occurs through personal communication in an exchange situation.

- More specific communication aimed at one or more persons.
- Effective at building buyers preferences, convictions and actions.
- Cost per person is high, most expensive promotional tool.
- Greater impact on consumers

- Provides immediate feedback
- Allows marketers to adjust message quickly to improve communication.
- Buyer feels a great need to listen and respond.
- Long term commitment is needed to develop a sales force.

Scope and Importance of Personal Selling: Sales personnel include stockbrokers, manufacturing sales representatives, real estate brokers etc.

Nature of Personal Selling

Gives marketers:

- The greatest freedom to adjust a message to satisfy customers informational needs, dynamic.
- Most precision, enabling marketers to focus on most promising leads. vs. advertising, publicity and sales promotion
- Give more information
- Two way flow of information, interactivity.
- Discover the strengths and weaknesses of new products and pass this information on to the marketing department.
- Highest cost. Businesses spend more on personal selling than on any other form of promotional mix.
- Goals range from
  - Finding prospects
  - Convincing prospects to buy
  - Keeping customers satisfied--help them pass the word along.

Types of Sales Persons

- **Order Takers:** They seek repeat sales, make certain that customers have sufficient product quantities where and when they need it. Do not require extensive sales effort. Arrange displays, restocks them, answer phone calls. They are low compensation, and can operate with little training, but there is a high turnover of personnel.
- **They are of two types:**
  - **Inside Order Takers** receive orders by mail/phone, sales person in a retail store.

- o **Field Order Takers** travel to customers. Use laptop computers to improve tracking of inventory and orders etc.

- **Order Getters:** Sell to new customers and increase sales to present customers, sometimes called creative selling. Generate customer leads, provide information, persuading customers and closing sales. They are required for high priced, complex and/or new products. The work is high pressure, requires expensive, time consuming training.
- **Support Personnel:** They facilitate the selling function. Primarily business to business products.
- o **Missionary Salespeople:** Distribute information regarding new goods or services, describes attributes and leaves materials, does not close sales. Assist producers' customers in selling to their own customers. IE call on retailers and persuade them to carry the product. Pharmaceuticals may go to doctors offices and persuade them to carry their products.
- o **Trade Salespeople** May perform order taking function as well. Spend much time helping customers, especially retail stores, to promote the product. Restock the shelves, set up displays. Technical Salespersons Offer technical assistance to current customers. Usually trained engineers etc.
- o **Service Salespeople** interacts with customers after sale is complete.

Team selling: It is an entire team of selling professionals in selling to and servicing major customers, especially when specialized knowledge is needed to satisfy different interests in customers' buying centers.

Franchising and Acquisitions

Acquisition: It is the purchase of one corporation by another, through either the purchase of its shares, or the purchase of its assets.

There's only one real way to achieve massive growth literally overnight, and that's by buying somebody else's company. Acquisition has become one of the most popular ways to grow today. Since 1990, the annual number of mergers and acquisitions has doubled, meaning that this is the most popular era ever for growth by acquisition.

Companies choose to grow by acquiring others to increase market share, to gain access to promising new technologies, to achieve synergies in their operations, to tap well-developed distribution channels, to obtain control of undervalued assets, and a myriad of other reasons. But acquisition can be risky because many things can go wrong with even a well-laid plan to grow by acquiring: Cultures may clash, key employees may leave, synergies may fail to emerge, assets may be less valuable than perceived, and costs may skyrocket rather than fall. Still, perhaps because of the appeal of instant growth, acquisition is an increasingly common way to expand

Advantages of an Acquisition: For an entrepreneur, there are many advantages to acquiring a existing business, indicated below.

Established business: The most significant advantage in acquiring an existing business is that the acquired firm has an established image and track record. If the firm has an established image and tracked record and has been profitable, the entrepreneur would need only to continue its current strategy to be successful with the existing customer base**.**

Location: In the case of acquiring an existing business, there is no question concerning the new customer since they are already familiar with the location.

Established marketing structure: one of the most important factors that affect the value of an acquired firm is its existing channel and sales structure. Known suppliers, wholesalers, retailers and manufacturers reps are important assets to an entrepreneur. With this structure already in place, the entrepreneur can concentrate on improving or expanding the acquired business.

Cost: The actual cost of acquiring an existing business can be lower than other methods of expansion.

Existing employees: The employees of existing business can be an important asset to the acquisition process. They know how to run the business and can help ensure that the business will continue in its successful mode. They already have established relationships with customers, suppliers, and channel members and reassure these groups when a new owner takes over the business.

Franchising is a permission given by a person or entity permitting the distribution of goods or services under his trademark, service mark or trade name by an agreement to another person or entity.

The Different Types of Franchises: Now that you understand what a franchise is, you might think it's time to rush out and buy one. Not so fast! There are literally dozens of types of franchises, and thousands on the market. Before you even think about looking for one, you'll need some background information to guide you through the sometimes, confusing world of franchises.

Primary Types of Franchises: There are two main types of franchises:

- Industrial
- Commercial

Industrial franchises occur when the franchisor is franchising a product, not a business. He or she will likely not offer you the entire process for completing the product. This is the most independent type of franchising because how you sell the product is entirely up to you. Far more common are commercial franchises. These fall into two main categories:

- **Goods:** The primary goal of this franchise is to market a specific product. In this way it's similar to industrial franchising, but the business itself will be associated with the product, and there will be a business plan and other such guidelines for you to follow. A fast food restaurant or clothing chain is an example of this sort of franchise.
- **Services:** In this case you aren't selling a product but a service. You're banking on the franchisor's company name to help you market your service. Again, there will be business plans and guidelines for you to follow. A tax office is an example of this sort of franchise.

Obviously, this will become important during the decision making process. Most people will gravitate towards a commercial franchise, but you will have to decide whether your skill sets match goods or services more closely.

Types of Franchising: In addition to the two main *types* of franchising, there are also four main *methods* of franchising. By and large, these methods apply mainly to commercial franchises, which are what most beginning franchisees will target.

1. The Single Unit Franchise: This is the most common method of franchising, and the one most people think of when they hear the word "franchise." In this method, a franchisee purchases a franchise from a franchisor and is assigned a specific territory. The franchisee then runs the franchise independently but with the franchisor's assistance within his or her given area.

2. The Sequential Franchise: Sequential franchising is an outgrowth of single unit franchising. Sequential franchising occurs when a successful franchisee decides to purchase a second franchise location from the same franchisor in another territory. There is theoretically no limit to how many locations a franchisee may own in sequential franchising, but usually each new location is purchased one-at-a-time, both to give the franchisee enough time to focus on establishing the new location and to prove to the franchisor that the franchisee is capable of running multiple businesses.

3. The Area Franchise: The area franchise is similar to the sequential franchise, except the arrangement is understood at the outset. Rather than buying a single location, the franchisee purchases the rights to an entire area. It is then up to the franchisee to establish locations within that area. Under some contracts, the number of franchises is left to the franchisee's discretion, but under others the franchisee might be expected to establish a given number of locations in a set time.

4. The Sub franchise: Sub franchising occurs when a franchisor selects a franchisee to act as a franchisor for a given area. In other words, the franchisee takes on the responsibilities of a franchisor, finding franchisees, training them, and providing ongoing support in a given area. The franchisee acts as a sort of manager on the franchisor's behalf, managing all franchises in a given area while answering to the initial franchisor.

Other Types of Franchises to Consider: While these are the main types of franchising and franchising methods, there are other factors to consider when purchasing a franchise. The main one is, what do you enjoy? It's important to seek out a franchise that caters to your interests. Just a few of the franchise types out there include:

Restaurants	Print and copy services
Clothing chains	Home-based businesses
Gyms	Marketing consultants
Computer services	Automotive services
Financial services	Cosmetics
Real estate firms	Educational services

Shops	Pest control services
Animal services (i.e. pets)	Employment services

The type of franchise you pursue relates to what you enjoy, your skill set, and your abilities. Don't let yourself be rushed into selecting a franchise that isn't right for you. Stop to consider:

- Time commitments
- Enjoyment factor
- Number of employees (if any) required
- Marketing

And anything else that applies to your situation. The International Franchise Association lists over seventy-five categories of franchises. That should give you some idea of the variety of choice out there! Take your time to browse these categories -- this isn't a decision to undertake lightly.

How to be a Successful Entrepreneur: Being an entrepreneur is about more than just starting a business or two, it is about having attitude and the drive to succeed in business. All successful Entrepreneurs have a similar way of thinking and possess several key personal qualities that make them so successful in business. Successful entrepreneurs like the ambitious Richard Branson have an inner drive to succeed and grow their business, rather than having a Harvard Business degree or technical knowledge in a particular field. All successful entrepreneurs have the following qualities:

Inner Drive to Succeed: Entrepreneurs are driven to succeed and expand their business. They see the bigger picture and are often very ambitious. Entrepreneurs set massive goals for themselves and stay committed to achieving them regardless of the obstacles that get in the way.

Strong Belief in themselves: Successful entrepreneurs have a healthy opinion of themselves and often have a strong and assertive personality. They are focused and determined to achieve their goals and believe completely in their ability to achieve them. Their self-optimism can often been seen by others as flamboyance or arrogance but entrepreneurs are just too focused to spend too much time thinking about un-constructive criticism.

Search for New Ideas and Innovation: All entrepreneurs have a passionate desire to do things better and to improve their products or service. They are constantly looking for ways to improve. They're creative, innovative and resourceful.

Openness to Change: If something is not working for them they simply change. Entrepreneurs know the importance of keeping on top of their industry and the only way to being number one is to evolve and change with the times. They're up to date with the latest technology or service techniques and are always ready to change if they see a new opportunity arise.

Competitive by Nature: Successful entrepreneurs thrive on competition. The only way to reach their goals and live up to their self-imposed high standards is to compete with other successful businesses.

Highly Motivated and Energetic: Entrepreneurs are always on the move, full of energy and highly motivated. They are driven to succeed and have an abundance of self-motivation. The high standards and ambition of many entrepreneurs demand that they have to be motivated!

Accepting of Constructive Criticism and Rejection: Innovative entrepreneurs are often at the forefront of their industry so they hear the words "it can't be done" quite a bit. They readjust their path if the criticism is constructive and useful to their overall plan, otherwise they will simply disregard the comments as pessimism. Also, the best entrepreneurs know that rejection and obstacles are a part of any leading business and they deal with them appropriately. True entrepreneurs are resourceful, passionate and driven to succeed and improve. They're pioneers and are comfortable fighting on the frontline The great ones are ready to be laughed at and criticized in the beginning because they can see their path ahead and are too busy working towards their dream.

The Secrets of an Entrepreneur: Is there a way to determine whether you can be a successful entrepreneur, or you are better off to work for somebody else? Alas, there is no formula for success. However, most successful entrepreneurs share these ten characteristics. Check if you possess any one of them:

1. Think success. To attain the kind of success that you want, you need to dream big. Every success story starts with big dreams. You need to have big dreams for yourself - which you want to be somebody rich, famous or fulfilled. You need to have a clear vision of what you want to achieve. But it doesn't stop in dreaming alone. You should actively visualize success in your mind that you can almost feel it, touch it or it is within your reach. Play this image back at every opportunity. What does it feel to triple your current income? How will your life change? What will your business look like if you achieved the million-dollar mark?

Successful entrepreneurs possess an attitude of openness and faith that you can have what you want if you can simply envision it as the first step on the path of action to acquiring it. Management gurus have taught us the power of visualization - seeing yourself in your mind as having accomplished your dreams. If you want to be a successful writer, envision yourself signing books for a throng of people who have lined up to have your autograph. If you want to be rich, picture yourself in luxurious surroundings holding a fat bank account.

The process of envisioning success for you should be a constant activity. You need to think that you are successful (or will be one) every single waking hour. A personal development coach shared me her secret to help her continuously visualize her goals for the moment: when climbing stairs, recite your goal with every step you take. So if you want more money, say "I will have money" in every step of the stairs. This technique will reinforce your goal and keep it fresh in your consciousness.

2. Be passionate with what you do. You start a business to change any or all part of your life. To attain this change, you need to develop or uncover an intense, personal passion to change the way things are and to live life to the fullest. Success comes easily if you love what you do. We have to be relentless in our pursuit of goals about things that we love. If you hate your job right now, do you think you will ever be successful at it? You may plod along, even become competent at the tasks, but you will never be a great success at it.

You will achieve peak performance and do what you have to do to succeed only if you are doing something that interests you or something that you care about. Entrepreneurs who succeed do not mind the fact that they are putting in 15 or 18 hours a day to their business because they absolutely love what they do. Success in business is all about patience and hard work, which can only be attained if you are passionate and crazy with your tasks and activities.

3. Focus on your strengths. Let's face it; you cannot be everything to everybody. Each of us has our own strengths and weaknesses. To be effective, you need to identify your strengths and concentrate on it. You will become more successful if you are able to channel your efforts to areas that you do best. In business, for example, if you know you have good marketing instincts, then harness this strength and make full use of it. Seek help or assistance in areas that you may be poor at, such as accounting or bookkeeping. To transform your weakness to strength, consider taking hands-on learning or formal training.

4. Never consider the possibility of failure. Ayn Rand, in her novel *The Fountainhead,* wrote, "It is not in the nature of man – nor of any living entity, to start out by giving up." As an entrepreneur, you need to fully believe in your goals, and that you can do it. Think that what you are doing will contribute to the betterment of your environment and your personal self. You should have a strong faith in your idea, your capabilities and yourself. You must believe beyond a shadow of a doubt that you have the ability to recognize and fulfill them. The more you can develop faith in your ability to achieve your goals, the more rapidly you can attain it. However, your confidence should be balanced with calculated risks that you need to take to achieve greater rewards. Successful entrepreneurs are those who analyze and minimize risk in the pursuit of profit. As they always say, "no guts, no glory."

5. Plan accordingly. You have a vision, and you have enough faith in yourself to believe that you can achieve your vision. But do you know how to get to your vision? To achieve your vision, you need to have concrete goals that will provide the stepping-stone towards your ultimate vision. Put your goals in writing; not doing so just makes them as intangible fantasies. You need to plan each day in such a way that your every action contributes to the attainment of your vision. Intense goal orientation is the characteristic of every successful entrepreneur. They have a vision, and they know how to get there. Your ability to set goals and make plans for your accomplishment is the skill required to succeed. Plan, plan and plan – because without which failure is guaranteed.

6. Work hard: Every successful entrepreneur works hard, hard and hard. No one achieves success just by sitting and staring at the wall every single day. Brian Tracy puts it out this way, "You work eight hours per day for survival; everything over eight hours per day is for success." Ask any successful businessperson and they will tell you immediately that they had to work more than 60 hours per week at the start of their businesses. Be prepared to say goodbye to after-office drinks every day, or a regular weekend get-away trip. If you are in a start-up phase, you will have to breathe, eat and drink your business until it can stand on its own. Working hard will be easy if you have a vision, clear goals, and are passionate with what you do.

7. Constantly Look for Ways to Network. In business, you are judged by the company you keep - from your management team, board of directors, and strategic partners. Businesses always need assistance, more so small businesses. Maybe the lady you met in a trade association meeting can help you secure funding, or the gentleman at a conference can provide you with management advise. It is important to form alliances with people who can help you, and whom you can help in return. To succeed in business, you need to possess good networking skills and always be alert to opportunities to expand your contacts.

8. Willingness to Learn. You do not need to be a MBA degree holder or PhD graduate to succeed in your own business. In fact, there are a lot of entrepreneurs who did not even finish secondary education. Studies show that most self-made millionaires have average intelligence. Nonetheless, these people reached their full potentials achieved their financial and personal goals in business because they are willing to learn. To succeed, you must be willing to ask questions, remain curious, interested and open to new knowledge. This willingness to learn becomes more crucial given the rapid changes in technologies and ways of doing business.

9. Persevere and have faith. No one said that the road to success is easy. Despite your good intentions and hard work, sometimes you will fail. Some successful entrepreneurs suffered setbacks and resounding defeats, even bankruptcy, yet managed to quickly stand up to make it big in their fields. Your courage to persist in the face of adversity and ability to bounce back after a temporary disappointment will assure your success. You must learn to pick yourself up and start all over again. Your persistence is the measure of the belief in yourself. Remember, if you persevere, nothing can stop you.

10. Discipline yourself. Thomas Huxley once said, "Do what you should do, when you should do it, whether you like it or not." Self-discipline is the key to success. The strength of will to force yourself to pay the price of success - doing what others don't like to do, going the extra mile, fighting and winning the lonely battle with yourself.