

LECTURE NOTES

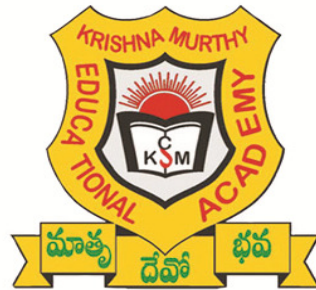
ON

ENTREPRENEURSHIP

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UNIT – I

Entrepreneurship

“Entrepreneurship is the act of being an entrepreneur, which can be defined as “one who undertakes innovations, finance and business acumen in an effort to transform innovations into economic goods.”

Entrepreneurship can create new organizations or develop a strategy to revitalize mature organizations in response to a perceived opportunity.

The most obvious form of entrepreneurship is that of starting a new business also called As “startup Company”. More recently, the term has evolved to include other types of entrepreneurship such as:

- Social entrepreneurship that applies the “entrepreneurial principles to organize, create and manage a venture to achieve social change” and
- Political entrepreneurship or “starting a new political project, group, or political party.”

No society can exist without entrepreneurship. Every society depends on entrepreneurs.

Definition of 'Entrepreneur'

An individual who, rather than working as an employee, runs a small business and assumes all the risk and reward of a given business venture, idea, or good or service offered for sale. The entrepreneur is commonly seen as a business leader and innovator of new ideas and business processes.

Who is an entrepreneur? What characteristics define an entrepreneur?

Dan Sullivan Says that:

“An entrepreneur is someone who does not expect compensation until he has created value for someone else.”

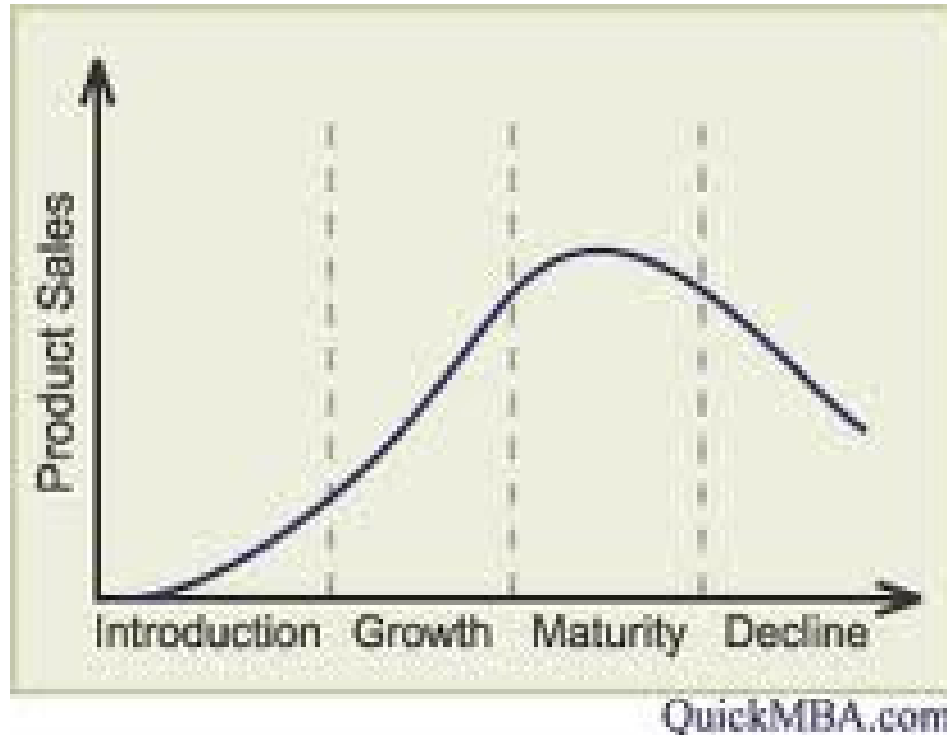
Jean-Baptist Say, Says that:

“Entrepreneur is someone who takes resources from a lower level of productivity and raise them to a higher level.”

What are the major obstacles in starting a company and becoming entrepreneur?

The life cycle of any business has four stages:

1. Starting a business
2. Staying in business
3. Growing a business
4. Exiting a business




And at every stage, companies and entrepreneurs face numerous obstacles. Each stage has different challenges. For example, a player who is new to a sport will have different challenges a player with 10 years of experience.

In the startup stage, a company might be dealing with issue like funding, pricing a product, or strategies for service delivery. In the growing stage, the business look for new entry points or acquire a competitor to gain a bigger market share.

Whatever the obstacles are in the life of an entrepreneur and a company, it is important to identify them. The last thing anyone wants is to fight an unseen enemy.

The next step is to create a plan of action to overcome each of the obstacles. The most important step is execution.

 The rule of thumb is: Prioritize all of the challenges ahead of time. Plan to attack each one starting from the most important to the least important.

Personal and business obstacles are also part of the game. Just like wind or rain are part of a football game, obstacles are part of our lives. Entrepreneurs must accept this as a fact and learn how to overcome whatever life presents.

Characteristics of an Entrepreneur:

The characteristics of entrepreneurs are numerous? a successful entrepreneur possesses a combination of traits that show both innovation and leadership qualities. Scholars from around the world have worked tirelessly to discover just what characteristics make a good entrepreneur; what exactly makes up a business founder's x-factor? While a lot of the findings are still pretty much open to debate, there's no questioning that great entrepreneurs have the following traits:

Ambition

A good entrepreneur is driven to make something of himself. He knows what he wants, and he sets a course to get it. His motivation to achieve something can sometimes be overwhelming, and the urge to establish himself can be quite consuming. An entrepreneur's ambition is often the key ingredient that gets him off of his chair and puts him into action, turning his daydreams into reality.

Enthusiasm

Often coming hand-in-hand with ambition, enthusiasm plays a great role in the entrepreneur's motivation. While ambition may be the key to the entrepreneur's ignition, enthusiasm is the gas. Every successful entrepreneur has a positive outlook giving him the energy to pursue his endeavors. Without enthusiasm, an entrepreneurial project will slowly wither into inactivity and failure.

Creativity

When problems do arise, you can count on creativity to bail you out. Creativity is probably what led you to envision your company in the first place, and it'll be creativity that will help you realize the possible solutions to any hitches that might come your way. Successful entrepreneurs find inspiration throughout the entire process, and often discover ways to turn roadblocks into opportunities.

Decision-making

Entrepreneurs call all the necessary shots. While their creativity makes them men of ideas, it's their ability to make decisions that will make them men of action. The decisions that entrepreneurs make will determine the fate of the company, and it's only through decision-making that things will actually happen. An entrepreneur with poor decision-making skills will have his company caught in a state of inactivity and degradation; good decision-making skills, on the other hand, will ensure that the best possible measures in putting up the business will be enforced.

Perseverance

Perhaps the most important of all the characteristics of entrepreneurs is the ability to withstand the troubles that come with starting a business. Beginning a new enterprise is an

immensely difficult task, and as an entrepreneur, you'll have to stick through the storms and stress if you want your venture to be a success. It sometimes takes years for a good idea to start making you money, but when it does, you'll be glad you stood strong in the face of adversity.

Entrepreneurial traits

1. Passionate

Strong and barely controllable emotion

You need to be driven by a clear sense of purpose and passion. Typically, that passion comes from one of two sources: the topic of the business, or the game of business-building itself.

Why do you need passion? Simply because you're likely to be working too hard, for too long, for too little pay with no guarantee that it'll work out... so you need to be motivated by something intrinsic and not money-related.

2. Resilient

If you're going to build a startup, you'll need a spirit of determination coupled with a high pain tolerance. You'll need to be willing and able to learn from your mistakes – to get knocked down repeatedly, get up, dust yourself off, and move forward with renewed motivation.

People will constantly tell you your baby's ugly, that your business won't work. Now, you should listen carefully and be open to constructive criticism. But after a while, having the door slammed in your face repeatedly can be withering, and the best entrepreneurs learn to feed off the negativity and actually gain strength from it.

3. Self-Possessed

You need a strong sense of self. You can't be threatened by being surrounded by talented, driven people. To truly succeed, you'll need the self-confidence to surround yourself with people "who don't look like you"... that is, people with skills, background and domain knowledge that complement your own. And check your ego at the door: you shouldn't be too proud to make coffee for the team, empty the waste baskets, or do the bank runs.

4. Decisive

You'll need to develop a comfort-level with uncertainty and ambiguity. Entrepreneurs gather as much information as they can in a short period of time, and then MOVE, MOVE, MOVE!! The attitude is that it's not going to be perfect... We only have 9% or so of the data from which to base our decision... but if we wait to have all the information, we'll never get moving... and be mired in indecision. (Big organizations are really good at this – the mired thing – saying, We don't have enough information, so let's continue to study... form a committee or a task force)

5. Fearless

On the sliding scale from "risk-averse" to "risk-seeking," it shouldn't surprise anyone that entrepreneurs tend to be closer to the latter. But you don't need to be a nut-

case, the sort who bungee-jumps without a helmet. Smart entrepreneurs develop an intuitive ability to sniff out and mitigate startup business risk. But you know you're going to fall down, and feel comfortable with that fact and that you're going to learn from your failures and adjust as you go.

6. Financially Prepared

You'll need the right personal financial profile to make the leap. This doesn't mean that only the rich can be entrepreneurs. But unless and until you've got the personal financial 'runway' (ability to go without a steady paycheck and subsidized benefits) of at least 18 to 24 months (ideally longer), you might hold off on quitting your day job.

Consider launching the startup as a side-business if that's possible, while continuing to work the 8-to-5 shift to cover the bills. Or approach your boss about going part-time. Then, once your business generating cash flow, you can dial back on your hours, or submit your resignation and go full-time with your startup.

7. Flexible

I challenge you to find an entrepreneur running a startup four or more years old where that business doesn't differ dramatically from the vision sketched out in their original business plan. The point is that the folks who stay on their feet are the ones who stay flexible and adjust to new information and changing circumstances.

8. Zoom Lens-Equipped

You may not start out with a fool-proof gyroscope, but to survive as an entrepreneur, you'll need that strong sense of perspective. How to maintain simple, clear focus. How to be at peace with, and learn from, a failure. Understanding that not all battles are worth winning, and when to walk away. Knowing that most in your startup aren't as entrepreneurial as you – that this may be a very cool job for them, but it's still a job. Knowing when to go home and give your loved ones a hug. When to go for a run.

Can you 'pan out' to see a compelling big vision for your business, then 'zoom in' and focus on near-term startup goals? Successful entrepreneurs can facilely move back and forth between these two views. They're able to articulate the big picture, while simultaneously managing and executing to the 'zoom-in' picture.

9. Able to Sell

Whether you're a born extrovert or introvert, as a founder/CEO, you'll find yourself always selling. You'll be selling your vision to prospective partners and funding sources. You'll be selling prospective recruits on why they should quit their day jobs and join this startup they've never heard of. You'll be selling your products and services (yes, you'll probably be personally closing at least the first few sales). You'll be selling your employees on why they should remain calm and stay with the ship when the seas inevitably get rough.

10. Balanced

You may not start out with a fool-proof gyroscope, but to survive as an entrepreneur, you'll need that strong sense of perspective. How to maintain simple, clear focus. How to be at peace with, and learn from, a failure. Understanding that not all battles are worth winning, and when to walk away. Knowing that most in your startup aren't as entrepreneurial as you – that this may be a very cool job for them, but it's still a job. Knowing when to go home and give your loved ones a hug. When to go for a run.

Entrepreneur vs. manager:

The terms Entrepreneur and Manager are considered one and the same. But the two terms have different meanings.

The following are some of the differences between a manager and an entrepreneur.

- The main reason for an entrepreneur to start a business enterprise is because he comprehends the venture for his individual satisfaction and has personal stake in it where as a manager provides his services in an enterprise established by someone.
- An entrepreneur and a manager differ in their standing, an entrepreneur is the owner of the organization and he bears all the risk and uncertainties involved in running an organization where as a manager is an employee and does not accept any risk.
- An entrepreneur and a manager differ in their objectives. Entrepreneur's objective is to innovate and create and he acts as a change agent where as a manager's objective is to supervise and create routines. He implements the entrepreneur's plans and ideas.
- An entrepreneur is faced with more income uncertainties as his income is contingent on the performance of the firm where as a manager's compensation is less dependent on the performance of the organization.

Intrapreneur vs. Entrepreneurs

Meaning of Intrapreneur:

“A person within a large corporation who takes direct responsibility for turning an idea into a profitable finished product through assertive risk-taking and innovation”

- Entrepreneurs provide the spark. Intrapreneur keep the flame going.
- Entrepreneurs are found anywhere their vision takes them. Intrapreneur work within the confines of an organization.
- Entrepreneurs face many hurdles, and are sometimes ridiculed and riddled with setbacks. Intrapreneurs may sometimes have to deal with conflict within the organization.

- Entrepreneurs may find it difficult to get resources. Intrapreneurs have their resources readily available to them.
- Entrepreneurs may lose everything when they fail. Intrapreneurs still have a paycheck to look forward to (at least for now) if they fail.
- Entrepreneurs know the business on a macro scale. Intrapreneurs are highly skilled and specialized.

Entrepreneurial Decision Process:

- Entrepreneurial Decision Process is about deciding to become an entrepreneur by leaving present activity i.e. a movement from the present lifestyle to forming a new enterprise. The decision to start a new company occurs when an individual perceives that forming a new enterprise is both desirable and possible.

The decision to become an entrepreneur to start a new business consist of several sequential steps-

1. The decision to leave a present career or lifestyle (Pushing and pulling influences active in the decision to leave a present career or lifestyle)
2. The decision about desirability of new venture formation i.e. the aspects of a situation that make it desirable to start a new venture and this relates to culture, subculture, family, teachers and peers.
3. The decision about possibility of new venture formation i.e. factors making it possible to create a new venture like government, background, marketing, financial, role models.

Desirability of New Venture Formation :- (Aspects of a situation that make it desirable to start a new company)

1. The perception that starting a new company is desirable results from an individual's culture, subculture, family, teachers and peers.

On the other hand in some countries making money is not as valued and failure may be a disgrace. The rate of business formation in these countries is not as high.

2. Many subcultures that shape value systems operate within a cultural framework. These subcultures support and even promote entrepreneurship.
3. Studies indicate that a high percentage of founders of companies had fathers and/or mothers who valued independence.
4. Encouragement to form a company is also gained from teachers, who can significantly influence individuals.
5. An area having a strong educational base is also a requirement for entrepreneurial activity.

6. Peers are important, also, as is an area with an entrepreneurial pool and peer-meeting place.

Possibility of New Venture Formation : - (Factors making it possible to create a new venture)

- ✓ Although the desire of new venture formation derived from the individual's culture, subculture, family, teachers and peers needs to be present before any action is taken, the second feature necessary centers around this question "What makes it possible to form a new company?"
 - He government contributes by providing the infrastructure to help a new venture.
 - The India has the necessary roads, communication and transportation systems, utilities, and Economic stability
- ✓ Formal education and previous business experience give a potential entrepreneur the skills needed to form and manage a new enterprise.
- ✓ Although educational systems are important in providing the needed business knowledge, individual will tend to be more successful in forming in fields in which they have worked.
- ✓ The market must be large enough and the entrepreneur must have the marketing know-how to put together the entire package.
- ✓ The entrepreneur must have the marketing know-how to put together the entire package.
- ✓ A role model can powerfully influence the perception of venture possibility.
- ✓ Finally, financial resources must be readily available.
 - Although most start-up money comes from personal savings, credit, and friends, but there is often a need for additional capital.
- ✓ Risk-capital availability plays an essential role in the development and growth of entrepreneurial activity.

Role of Entrepreneurship in economic development

The entrepreneur who is a business leader looks for ideas and puts them into effect in fostering economic growth and development. Entrepreneurship is one of the most important input in the economic development of a country. The entrepreneur acts as a trigger head to give spark to economic activities by his entrepreneurial decisions. He plays a pivotal role not only in the development of industrial sector of a country but also in the development of farm and service sector. The major roles played by an entrepreneur in the economic development of an economy are discussed in a systematic and orderly manner as follows.

(1) Promotes Capital Formation:

Entrepreneurs promote capital formation by mobilizing the idle savings of public. They employ their own as well as borrowed resources for setting up their enterprises.

Such types of entrepreneurial activities lead to value addition and creation of wealth, which is very essential for the industrial and economic development of the country.

(2) Creates Large-Scale Employment Opportunities:

Entrepreneurs provide immediate large-scale employment to the unemployed which is a chronic problem of underdeveloped nations. With the setting up of more and more units by entrepreneurs, both on small and large-scale numerous job opportunities are created for others. As time passes, these enterprises grow, providing direct and indirect employment opportunities to many more. In this way, entrepreneurs play an effective role in reducing the problem of unemployment in the country which in turn clears the path towards economic development of the nation.

(3) Promotes Balanced Regional Development:

Entrepreneurs help to remove regional disparities through setting up of industries in less developed and backward areas. The growth of industries and business in these areas lead to a large number of public benefits like road transport, health, education, entertainment, etc. Setting up of more industries lead to more development of backward regions and thereby promotes balanced regional development.

(4) Reduces Concentration of Economic Power:

Economic power is the natural outcome of industrial and business activity. Industrial developments normally lead to concentration of economic power in the hands of a few individuals which results in the growth of monopolies. In order to redress this problem a large number of entrepreneurs need to be developed, which will help reduce the concentration of economic power amongst the population.

(5) Wealth Creation and Distribution:

It stimulates equitable redistribution of wealth and income in the interest of the country to more people and geographic areas, thus giving benefit to larger sections of the society. Entrepreneurial activities also generate more activities and give a multiplier effect in the economy.

(6) Increasing Gross National Product and Per Capita Income:

Entrepreneurs are always on the look out for opportunities. They explore and exploit opportunities,, encourage effective resource mobilization of capital and skill, bring in new products and services and develops markets for growth of the economy. In this way, they help increasing gross national product as well as per capita income of the people in a country. Increase in gross national product and per capita income of the people in a country, is a sign of economic growth.

ETHICS AND SOCIAL RESPONSIBILITY OF ENTREPRENEUR:

A. The entrepreneur must establish a balance between ethical exigencies, economic expediency, and social responsibility.

- i. A manager's attitudes concerning corporate responsibility tend to be supportive of laws and professional codes of ethics.
- ii. Entrepreneurs have few reference persons, role models, and developed internal ethics codes.
- iii. Entrepreneurs are particularly sensitive to peer pressure and social norms in the community as well as pressures from their competitors.
- iv. Internationally, U.S. managers have more individualistic and less communitarian values than managers in European countries.

B. While ethics refers to the "study of whatever is right and good for humans," business ethics concerns itself with the investigation of business practices in light of human values.

- i. "Business ethics" has emerged as an important topic.
- ii. The word "ethics" stems from the Greek êthos, meaning custom and usage.

C. Development of Our Ethical Concepts.

- i. Socrates, Plato, and Aristotle provide the earliest writings dealing with ethical conceptions; earlier writings involving moral codes can be found in both Judaism and Hinduism.
- ii. American attitudes on ethics result from three principle influences:
 - a. Judeo-Christian heritage.
 - b. Belief in individualism.
 - c. Opportunities based on ability rather than social status.

D. Research on business ethics can be broken down into four broad classifications:

- a. Pedagogically-oriented inquiry.
- b. Theory-building without empirical testing.
- c. Empirical research, measuring the attitudes and ethical beliefs of students and academic faculty.
- d. Empirical research within business environments.

Opportunities for entrepreneurs in India and abroad

There is certainly no formula to become a successful entrepreneur. Some may succeed and make good profits, others sink along the way. Which are the most lucrative sectors for entrepreneurs? Here's a list of 20 good opportunities entrepreneurs can look at...

1. Tourism

Tourism is a booming industry in India. With the number of domestic and international tourists rising every year, this is one hot sector entrepreneurs must focus on. India with its diverse culture and rich heritage has a lot to offer to foreign tourists. Beaches, hill stations, heritage sites, wildlife and rural life, India has everything tourists are looking for.

But this sector is not well organized. India lacks trained professionals in the tourism and hospitality sectors. Any business in this sector will thrive in the long run as the demand continues to grow every year. Foreign tourist arrivals during January-March were 15.63 lakh with a growth rate of 12.8 percent, compared to 13.86 lakh during the first three months last year.

2. Automobile

India is now a hot spot for automobiles and auto-components. A cost-effective hub for auto components sourcing for global auto makers, the automotive sector is potential sector for entrepreneurs. The automobile industry recorded a 26 per cent growth in domestic sales in 2009-10.

The strong sales have made India the second fastest growing market after China. India being one of the world's largest manufacturers of small cars with a strong engineering base and expertise, there are many segments that entrepreneurs can focus on in India's automobile and auto components sector.

3. Textiles

India is famous for its textiles. Each state has its unique style in terms of apparels. India can grow as a preferred location for manufacturing textiles taking into account the huge demand for garments. Places like Tripura and Ludhiana are now export hubs for textiles. A better understanding of the markets and customers' needs can boost growth in this sector.

4. Social ventures

Many entrepreneurs are taking up social entrepreneurship. Helping the less privileged get into employment and make a viable business is quite a challenge. There are many who have succeeded in setting up social ventures. With a growing young population in rural areas who have the drive and enthusiasm to work, entrepreneurs can focus on this segment.

5. Software

India's software and services exports are likely to rise with export revenue growth projected at 13 to 15 percent to hit about \$57 billion by March 2011.

With one of the largest pool of software engineers, Indian entrepreneurs can set higher targets in hardware and software development.

The information technology enabled services have contributed substantially to the economy. With more companies outsourcing contracts to India, business to business solutions and services would be required. Entrepreneurs can cash in on the rise in demand for these services with innovative and cost effective solutions.

6. Engineering goods

India continues to be one of the fastest growing exporters of engineering goods, growing at a rate of 30.1 per cent. The government has set a target of \$110 billion by 2014 for total engineering exports. Entrepreneurs must capitalize on the booming demand for products from the engineering industry.

Woman as Entrepreneur

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CREATING AND STARTING THE VENTURE

LEARNING OBJECTIVES

1. To identify information needs and sources for business planning.
2. To enhance awareness of the ability of the Internet as an information resource and marketing tool
3. To present helpful questions for the entrepreneur at each stage of the planning process.
4. To understand how to monitor the business Plan

INFORMATION NEEDS

Before preparing a business plan, the entrepreneur should do a quick feasibility study to see if there are possible barriers to success. The entrepreneur should clearly define the venture’s goals, which provide a framework for the business plan. The business plan must reflect reasonable goals.

Market Information

It is important to know the market potential for the product or service. The first step is to

define the market. A well-defined target market makes it easier to project market size and market goals. To assess the total market potential, the entrepreneur can use trade associations, government reports, and published studies.

Operations Information Needs

The entrepreneur may need information on:

- ☞ Location
- ☞ Manufacturing operations
- ☞ Raw materials
- ☞ Equipment
- ☞ Labor skills
- ☞ Space
- ☞ Overhead

LEARNING OBJECTIVES

- A. To define what the business plan is who prepares it, who reads it, and how it is evaluated.
- B. To understand the scope and value of the business plan to investors, lenders, employees, suppliers, and customers.

PLANNING AS PART OF THE BUSINESS OPERATION

Planning is a process that never ends. In the early stages, the entrepreneur should prepare a preliminary plan. The plan will be finalized as the enterprise develops. Many different types of plans may be part of any business operation-financial, marketing, production, and sales plans. Plans may be short term or long term, or they may be strategic or operational. All of these plans have one purpose: to provide guidance and structure to management in a rapidly changing market environment.

What Is the Business Plan?

A business plan is a written document prepared by the entrepreneur that describes all the relevant external and internal elements involved in starting a new venture. It addresses both short- and long-term decision making. The business plan is like a road map for the business' development. The Internet also provides outlines for business planning. Entrepreneurs can also hire or offer equity to another person to provide expertise in preparing the business plan. In developing the business plan the entrepreneur can determine how much money will be needed from new and existing sources.

WHO SHOULD WRITE THE PLAN

The business plan should be prepared by the entrepreneur; however, he or she may consult many sources. Lawyers, accountants, marketing consultants, and engineers are useful supplemental sources. Other resources are the Small Business Administration, Service Core of Retired Executives, Small Business Development Centers, universities, friends, and relatives. To help determine whether to hire a consultant, the entrepreneur needs to make an objective assessment of his or her own skills.

HOW DO POTENTIAL LENDERS AND INVESTORS EVALUATE THE PLAN

Because the business plan should address the needs of all the potential evaluators, software packages and Internet samples should be used only to assist in preparation. As the entrepreneur becomes aware of who will read the plan, changes will be necessary. Suppliers may want to see a business plan before signing a contract to supply products or services. Customers may also want to review the plan before buying the product. The business plan should consider the needs of these constituencies. Potential suppliers of capital will vary in their needs and requirements in the business plan. Lenders are primarily interested in the ability of the new venture to pay back the debt and focus on the four C's of credit:

- ✓ The entrepreneur's credit history or character.
- ✓ Their ability to meet debt and interest payments (cash flow.)
- ✓ The collateral or tangible assets being secured.

PRESENTING THE PLAN

It is often necessary for an entrepreneur to orally present the business plan to investors. Typically the Entrepreneur provides a short (20-30 minutes) presentation of the business plan. The entrepreneur must sell their business concept in a short time period. A venture capitalist or angel group may also ask the entrepreneur to present the plan to their partners before making a final decision.

Sources of New Ideas

There are mainly 5 Ways for Sources of New Ideas:

- Consumers
- Existing Companies
- Distribution Channels
- Government
- Research & Development.

1. Consumers– the potential consumer should be the final focal point of ideas for the entrepreneurs. The attention to inputs from potential consumers can take the form of informally monitoring potential ideas or needs or formally arranging for consumers to have an opportunity to express their concerns. Care needs to be taken to ensure that the new idea or the needs represents a large enough market to support a new venture.

2. Existing Companies– with the help of an established formal methods potential entrepreneurs and intrapreneurs can evaluate competitive products & services on the market which may result in new and more market appealing products and services.

3. Distribution channels– members of the distribution channels are familiar with the needs of the market and hence can prove to be excellent sources of new ideas. Not only do the channel members help in finding out unmet or partially met demands leading to new products and services, they also help in marketing the offerings so developed.

4. Government– it can be a source of new product ideas in two ways firstly, the patent office files contain numerous product possibilities that can assist entrepreneurs in obtaining specific product information, and secondly, response to government regulations can come in the form of new product ideas.

5. Research & development– Entrepreneur's own R&D is the largest source of new idea. A formal and well-equipped research and development department enables the entrepreneur to conceive and develop successful new product ideas.

Methods of generating new ideas for entrepreneurs

The following are some of the key methods to help generate and test new ideas:

1. Focus Groups – these are the groups of individuals providing information in a structural format. A moderator leads a group of people through an open, in-depth discussion rather than simply asking questions to solicit participant response. Such groups form comments in open-end in-depth discussions for a new product area that can result in market success. In addition to generating new ideas, the focus group is an excellent source for initially screening ideas and concept.

2. Brainstorming – it is a group method for obtaining new ideas and solutions. It is based on the fact that people can be stimulated to greater creativity by meeting with others and participating in organized group experiences. The characteristics of this method are keeping criticism away; freewheeling of idea, high quantity of ideas, combinations and improvements of ideas. Such type of session should be fun with no scope for domination and inhibition. Brainstorming has a greater probability of success when the effort focuses on specific product or market area.

3. Problem inventory analysis– it is a method for obtaining new ideas and solutions by focusing on problems. This analysis uses individuals in a manner that is analogous to focus groups to generate new product areas. However, instead of generating new ideas, the consumers are provided with list of problems and then asked to have discussion over it and it ultimately results in an entirely new product idea.

Creative Problem Solving

Creative Problem Solving is a way of thinking and behaving. The following definitions allow for a common understanding of some terms that are used as the foundation for this workbook.

Therefore, CREATIVE PROBLEM SOLVING or CPS is a process, method, or system for approaching a problem in an imaginative way and resulting in effective action.

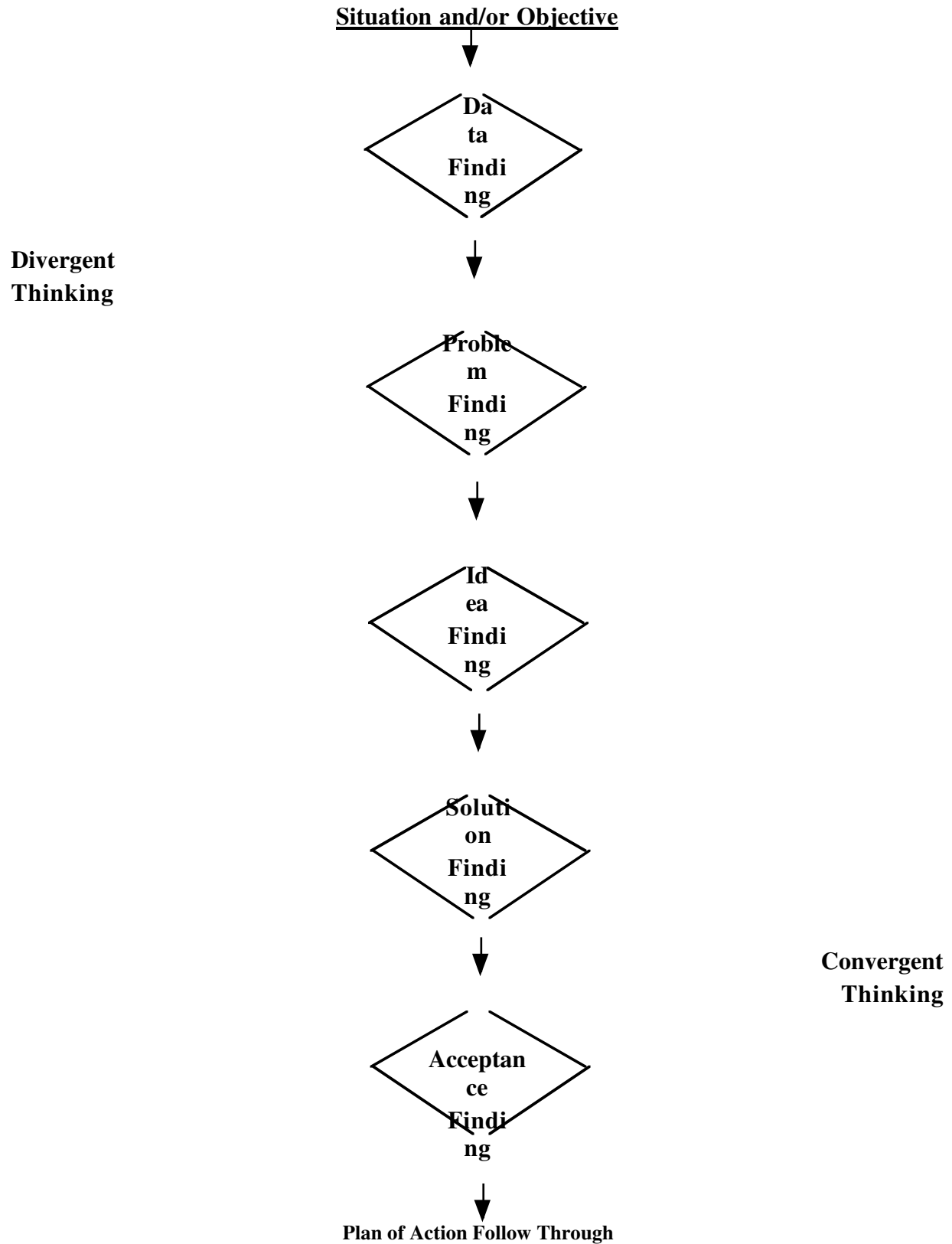
The Creative Problem Solving process presented in this workbook is known as the Osborn-

Parnes problem-solving model. This particular model uses the following steps:

1. Mess finding an effort to identify a situation that presents a challenge.
2. Data finding an effort to identify all known facts related to the situation; to seek and identify information that is not known but essential to the situation is identified and sought.
3. Problem Finding an effort to identify all the possible problem statements and then to isolate the most important or underlying problem.
4. Idea finding an effort to identify as many solutions to the problem statement as possible.
5. Solution finding using a list of selected criteria to choose the best solution(s) for action.
6. Acceptance Finding making every effort to gain acceptance for the solution, determine a plan of action, and implement the solution.

Although CPS can be applied individually, problems are often most effectively solved in a team, where brainstorming allows for more ideas to be generated. Thinking of many ideas is critical to effective problem solving using the Osborn-Parnes model.

Whole Brain Approach to Problem Solving



Mess Finding

State the Situation:

The first step in taking action is to identify a situation which presents a challenge... an opportunity... or is a concern that you want to do something about or is an objective you desire to attain.

When you recognize a messy situation, it is helpful to write a brief abstract that captures the essence of what is happening right now--or what is not occurring that should be.

Write your concerns, thoughts, and the changes you would like to see in your situation. LET YOUR THOUGHTS FLOW. Describe the situation in a three sentence overview.

Data Finding

List all the key facts associated with your situation or your desired objective as you perceive them. Ask yourself:

Who is involved?

What is involved?

What are some examples of the problem?

What causes the problem?

When will it happen?

Where does it or will it happen?

How does it or will it happen?

Why does it happen?

Are there any more problems caused by the situation?

Problem Finding

Considering the data you have gathered about your situation during Fact Finding, determine what you want to accomplish in more specific terms. Ask yourself the following questions:

What is the real problem? What is my objective?

What do I want to accomplish? What are my concerns?

What is my challenge?

What wish would I like to fulfill?

This step involves DIVERGENT THINKING, so record as many different problem statements as you can. Begin each statement with the phrase "In What Ways Might we..." (IWWMW) or "How Might I..." (HMI...).

Idea Finding

Try to answer your problem statement with many ideas in as many different ways as possible.

DIVERGENT THINKING, combined with deferred judgment, is critical in this step. Your goal is to generate lots of ideas. It is often helpful to set a number goal before you start listing ideas. Try for 50-75 ideas before you discuss each and become selective.

The essence of the deferred judgment principle is to allow a period of time for listing all the ideas that come to mind without judging them. Quantity of ideas and complete freedom of expression without any evaluation are key concepts. S-T-R-E-T-C-H your mind to break old habits of thinking.

Feel free to combine or modify any ideas to produce additional ideas. Divergent behavior must prevail.

Let your ideas flow freely without internal or external criticism. If time permits, incubate--let the problem and ideas rest in your subconscious for a time--to generate additional ideas.

Let your divergent process create ideas. Start listing them below--continue on additional sheets of paper. RECORD ALL IDEAS.

Preliminary Judgment : Using your convergent skills, review all your ideas and circle six to eight that seem to have the greatest potential.

Solution Finding

You must now decide what criteria, standards, or "Yardsticks" should be applied to weigh the worth of your selected ideas. These criteria will be used to determine the best solution(s) to your problem.

Your ideas affect cost, time, reliability, quality, morale, customers, legality, safety, company practices and approvals, feasibility, timeliness, and ease of implementation. Any or all of these, as well as others, can be considerations for criteria.

Let your DIVERGENT THINKING create a preliminary list of factors or criteria that will be used to evaluate your ideas. Write the list below.

Selection of Criteria

Using your CONVERGENT THINKING, review your criteria listed above and circles the five or six which you feel to be the most critical for evaluating your ideas.

Now, use a 10-point scale to weight your selected criteria (10 is high).

When you are satisfied with your criteria, record them on one axis of the decision matrix on the following sheet. Then record your selected ideas on the other axis.

You are now ready to develop your plan of action. To ensure successful implementation of your best idea(s), it is necessary to have little value until it is put to use

Acceptance Finding

You are now ready to develop your plan of action. To ensure successful implementation of your best idea(s), it is necessary to have little value until it is put to use gain maximum acceptance. Remember, an i.

Consider the following--How should you alter or modify your idea so it will be as acceptable as possible to those it will affect and to those who will pass judgment on it? Ask yourself the following questions along with others that are relevant.

Whom will my idea affect?
How might I gain their acceptance?
What resources are needed to implement my idea?
How might I best develop a return on investment?
What major obstacles will I confront?
How might I overcome any obstacles?
What might go wrong?
Why would something go wrong?
What can I do to prevent problems?
What opportunities might present themselves?
How might I best gain support for my idea?
How might I best present and sell my proposal?
What should I not do?

Product Planning and development Process:

New products are a vital part of a firm's competitive growth strategy. Leaders of successful firms know that it is not enough to develop new products on sporadic basis.

What a count is a climate of a products development that leads to one triumph after another. It is Commonplace for major companies to have 50percent or more of their current sales In Products introduced within the last 10 years.

Some Additional facts about new products are:

- ✓ Many new products are failures. Estimates of new product failures range from 33%- 90%, depending on industry.
- ✓ New product sales grow far more rapidly than sales of current products, potentially providing a surprisingly large boost to a company's growth rate;
- ✓ Companies vary widely in the effectiveness of their new products programs;
- ✓ A major obstacle to effectively predicting new product demand is limited vision;
- ✓ Common elements appear in the management practices that generally distinguish the Relative degree of efficiency and success between companies.

In one recent year, almost 22 000 products were introduced in supermarkets, drugstores, Mass merchandisers and health food stores.

- ☐ Idea generation
- ☐ Idea screening
- ☐ Project planning
- ☐ Product development
- ☐ Test marketing
- ☐ Commercialization

Idea Generation

Every product starts as an idea. But all new product aides do not equal merit or potential for economic or commercial success. Some estimates indicate that as many as 60-70 ideas are necessary to yield one successful product. To develop a new product the following step must be realized:

Idea screening

The primary function of the idea screening process is twofold: first, to eliminate ideas for New products that could not be profitably marketed by the firm, and second, to expand Viable ideas into full product concepts. New product ideas may be eliminated either because They are outside the fields of the firm's interest or because the firm does not have the Necessary resources or technology to produce the product at a profit.

These three risk categories are:

1. Strategic risk – strategic risk involves the risk of not matching the role or purpose of a new product with a specific strategic need or issue of the organization;
2. Market risk – market risk is the risk that a new product won't meet a market need; As Products are being developed, customer requirements change and new technologies Evolve;
3. Internal risk – internal risk is the risk that a new product won't be developed within The desired time and budget;

Project planning

This stage of the process involves several steps. It is here that the new product proposal is evaluated further and responsibility for the project is assigned to a project team. The proposal is analyzed in terms of production, marketing, financial and competitive factors. A development budget is established and some preliminary marketing and technical research is undertaken. Alternative product features and component specifications are outlined. Finally, a project plan is written up, which includes estimates of future development, production and marketing costs along with capital requirements and manpower needs. Project proposal is given to top management for a go or no-go decision.

Various alternatives exist for creating and managing the project team. A key component contributing to the success of many companies' product development efforts relates to the emphasis placed on creating cross-functional teams early in the development process. Frequently, marketing and sales personnel are called in to lead the teams.

Product development

At this juncture, the product idea has been evaluated from the standpoint of engineering, Manufacturing, finance and marketing. If it has met all expectation, it is considered a Candidate for further research and testing. A development report to management is prepared That spells out in fine detail:

1. Results of the studies;
2. Required plan design;
3. Production facilities design;
4. Tooling requirements;
5. Marketing test plan;
6. Financial program survey and
7. estimated release data.

Test Marketing

Up until now the product has been a company secret. Now management goes outside the Company and submits the product candidate for customers approval. Test marketing is a Controlled experiment in a limited geographic area to test the new product or in some cases Certain aspects of the marketing strategy, such as packaging or advertising.

The main goal of a test market is to evaluate and adjust the general marketing strategy to be used and the appropriate marketing mix. Throughout the test market process, findings are being analyzed and forecasts of volume developed. Upon completion of a successful test market phase, the marketing plan can be finalized and the product prepared for launch.

Commercialization

This is the launching step in which the firm commits to introducing the product into the marketplace. During this stage, heavy emphasis is placed on the organization structure and management talent needed to implement the marketing strategy. Emphasis is also given to following up on such things as bugs in the design, production costs, quality control, and inventory requirements.

Importance of time

Over the course of the last five years, companies have placed an increasing emphasis on shortening their products' time to market. Time to market can be defined as the elapsed time between product definition and product availability. It has been well documented that companies that are first in bringing their products to market enjoy a competitive advantage both in terms of profits and market share.

Quality level

Consumers consider that the level of product quality when making purchase decisions is both new and existing products. At minimum, buyers want product that will perform the functions they are supposed to and do so reasonably well. Some customers are willing to accept lower quality if product use is not demanding and the price is lower.

In designing new products, marketers must consider what criteria potential customer use to

Determine their perceptions of quality. Eight general criteria are given below:

1. Performance – How well does the product do what it is supposed to do?
2. Features – Does the product have any unique features that are desirable?
3. Reliability – Is the product likely to function well and not break down over a Reasonable time period
4. Conformance – Does the product conform to established standards for such things as Safety?
5. Durability – How long will the product last before it will be worn out and have to be Replaced?
6. Serviceability – How quickly and easily can any problems be corrected?
7. Overall evaluation – Considering everything about the product, including its physical Characteristics, manufacturer, brand image, packaging and price, how good is this Product?

Product design

Many well-designed products are easy to use as intended and pleasing to the senses. Designing new products with both ease of use and aesthetic appeal can be difficult, but it can clearly differentiate a new product from competitors. Good design can add great value to a new product.

Product safety

Clearly, new products must have a reasonable level of safety. Safety is both an ethical and practical issue. Ethically, customers should not be harmed by using a product as intended.

The practical issue is that when users get harmed by a product, they may stop buying, tell Others about their experience, or sue the company.

Causes of New Product Failure

Many new products with satisfactory potential have failed to make the grade. Here is a brief list of some of the more important causes of new product failures after the products have been carefully screened, developed and marketed:

1. No competitive point of difference, unexpected reactions from competitors;
2. Poor positioning;
3. Poor quality of product;
4. Non-delivery of promised benefits of product;
5. Too little marketing support;

6. Poor perceived price/quality value;
7. Faulty estimates of market potential and other marketing research mistake;
8. Faulty estimates of production and marketing costs;
9. Improper channels of distribution and marketing costs;
10. Rapid change in the market after the product was introduced.

Need for research

The keystone activity of any new product planning system is research – not just marketing research, but technical research as well. This need will be more clearly understood if some of the specific questions commonly raised in evaluating product ideas are examined:

1. What is the anticipated market demand over time? Are the potential applications for the product restricted?
2. Can the item be patented? Are there any antitrust problems?
3. Can the product be sold through present channels and sales force?
4. At different volume levels, what will be the unit of manufacturing costs?
5. What is the most appropriate package to use in terms of color, material, design and so forth?
6. What is the estimated return on investment?
7. What is the appropriate pricing strategy?

UNIT – II

What Is the Business Plan?

A business plan is a written document prepared by the entrepreneur that describes all the relevant external and internal elements involved in starting a new venture. It addresses both short- and long-term decision making. The business plan is like a road map for the business' development. The Internet also provides outlines for business planning. Entrepreneurs can also hire or offer equity to another person to provide expertise in preparing the business plan. In developing the business plan the entrepreneur can determine how much money will be needed from new and existing sources.

SCOPE AND VALUE OF THE BUSINESS PLAN

The business plan must be comprehensive enough to address the concerns of employees, investors, bankers, venture capitalists, suppliers, and customers.

Three perspectives need to be considered:

- The entrepreneur understands the new venture better than anyone.
- The marketing perspective considers the venture through the eyes of the customer.
- The investor looks for sound financial projections.
- The depth of the business plan depends on the size and scope of the proposed venture.

The business plan is valuable to the entrepreneur and investors because:

1. It helps determine the viability of the venture in a designated market.
2. It gives guidance in organizing planning activities.
3. It serves as an important tool in obtaining financing.

Potential investors are very particular about what should be included in the plan. The process of developing a business plan also provides a self-assessment of the entrepreneur. This self-evaluation requires the entrepreneur to think through obstacles that might prevent the venture's success. It also allows the entrepreneur to plan ways to avoid such obstacles.

WRITING THE BUSINESS PLAN

The business plan should be comprehensive enough to give a potential investor a complete understanding of the venture.

Introductory Page

The title page provides a brief summary of the business plan's contents, and should include:

- ☐ The name and address of the company
- ☐ The name of the entrepreneur and a telephone number
- ☐ A paragraph describing the company and the nature of the business
- ☐ The amount of financing needed

- ☐ A statement of the confidentiality of the report
- ☐ It also sets out the basic concept that the entrepreneur is attempting to develop.

Executive Summary

This is prepared after the total plan is written. It should be three to four pages in length and should highlight the key points in the business plan. The summary should highlight in a concise manner the key Points in the business plan.

Issues that should be addressed include:

1. Brief description of the business concept
2. Any data that support the opportunity for the venture.
3. Statement of you this opportunity will be pursued.
4. Highlight some key financial results that can be achieved
5. Because of the limited scope of the summary, the entrepreneur should ascertain what is important to the audience to whom the plan is directed.

Environmental and Industry Analysis

The entrepreneur should first conduct an environmental analysis to identify trends and change occurring on a national and international level that may impact the new venture.

Examples of environmental factors are:

- ☐ Economy
- ☐ Culture
- ☐ Technology
- ☐ Legal concerns

All of the above external factors are generally uncontrollable. Next the entrepreneur should conduct an industry analysis that focuses on specific industry trends Some examples of industry factors include:

- Industry demand
- Competition

The last part of this section should focus on the specific market. This would include such information as who the customer is and what the business environment is like. The market should be segmented and the Target market identified.

Description of the Venture

The description of the venture should be detailed in this section. This should begin with the mission Statement or company mission, which describes the nature of the business and what the entrepreneur hopes to accomplish. The new venture should be described in detail, including the product, location, personnel, background of entrepreneur, and history of the venture. The emphasis placed on location is a function of the type of business. Maps that locate customers, competitors, and alternative locations can be helpful. If the building or site decision involves legal issues, the entrepreneur should hire a lawyer

Evaluating Business Plans:

The following areas are of interest to lenders and investors:

- a) The purpose of the loan (expansion or startup business)

- b) Sources and uses of the funds
- c) Management of the business
- d) Industry information
- e) Financial analysis
- f) Collateral (secured)
- g) Personal debt/credit history of borrower

Technical Business Plans may be evaluated on the following:

- 1. Viability
- 2. Management background
- 3. Market advantage
- 4. Technology

A. Viability

Definition:

The viability of a business is measured by its long-term survival, and its ability to have sustainable profits over a period of time. If a business is viable, it is able to survive for many years, because it continues to make a profit year after year. The longer a company can stay profitable, the better its viability.

Example

The small company showed its viability by making a profit every year of its existence.

B. Management Background

For every Business Plan we have to check the background of Management, because for every business finance is very important without capital no business will run.

C. Market advantage

It means that if the product is giving less profit means Entrepreneur has to introduce several offers and discounts to give pick up of the product. It means that taking the Market to sell as they wish.

D. Technology

Technology gives to evaluate the Business Plans efficiently and fastly for better output. Now a day's technology plays a vital role in the business world.

Using and Implementing Business Plans:

The core of your business plan is your vision for the future. From this vision, you will be able to set objectives for various parts of the business and these objectives will need to be well communicated to all involved to ensure a coherent approach to the tasks in hand. Your business objectives are statements about what you want individual parts of the business to

achieve. You may, for instance, have a series of objectives about the financial side of the business, or about its products and services, or about your marketing. The objectives you set create a 'strategy' for the business.

Business Plan Implementation



A vital stage in business planning:

Business plan implementation: Here is where the business plan implementation puts theory into practice. If theory and practice do not come together, the plan will remain on the drawing board. The business plan must be implemented with due regard to deadlines set. The responsibility of each individual involved in the plan must be clearly delineated. The implementation plan must form an integral part of the business plan. The manager must have a clear idea of the practical impact of his business ideas.

Business Plan Implementation Steps

- ❖ Establishing the business objectives
- ❖ Defining and assigning the tasks needed to attain the objectives set
- ❖ Setting out a timescale
- ❖ Monitoring activities and progress

Business Plan Implementation Objectives

The objectives must be clearly and concisely set out, with the planning of key way stages. They must at the same time be realistic, demanding but achievable.

Tasks

The tasks must be listed with the individuals responsible for completing each task. They must be simply and clearly stated, and need not be oppressive. The results envisaged should outweigh the time and effort devoted to the tasks.

Timescale

Each task, and its duration, must be framed within a clear timescale. The result clearly displays all the activities necessary with their deadlines.

Monitoring Activity and Progress

During the monitoring process, delays must be highlighted. This stage identifies and rectifies the delays. Within a business plan, several implementation plans will be needed for the particular aspects of the business: product planning, marketing, financial problems and human resource management (Business Plan Implementation).

THE MARKETING PLAN

LEARNING OBJECTIVES

1. To understand the differences between business planning, strategy plans, and market planning.
2. To describe the role of marketing research in determining market strategy for the marketing plan.
3. To illustrate an effective and feasible procedure for the entrepreneur to follow in engaging in a market research study.
4. To define the steps in preparing the marketing plan.
5. To explain the marketing system and its key components.
6. To illustrate different creative strategies that may be used to differentiate or position the new venture's products or services.

PURPOSE AND TIMING OF THE MARKETING PLAN

The marketing plan establishes how the entrepreneur will effectively compete and operate in the marketplace. Marketing planning should be an annual activity focusing on decisions related to the marketing mix variables. The marketing plan section should focus on strategies for the first three years of the venture. For the first year, goals and strategies should be projected monthly. For years two and three, market results should be projected based on longer-term goals. Preparing an annual marketing plan becomes the basis for planning other aspects of the business.

MARKET RESEARCH FOR THE NEW VENTURE

Information for developing the marketing plan may require some marketing research. Marketing research involves the gathering of data in order to determine such information as who will buy the product, what price should be charged, and what is the most effective promotion strategy. Marketing research may be conducted by the entrepreneur or by an external supplier or consultant. Market research begins with definition of objectives. Many entrepreneurs don't know what they want to accomplish from a research study.

Defining the Purpose or Objectives

One effective way to begin the marketing plan is to make a list of the information that will be needed to prepare the marketing plan.

Possible objectives:

- Determine what people think of the product or service and if they would buy it.
- Determine how much customers would be willing to pay for the product.
- Determine where the customer would prefer to purchase the product.
- Determine where the customer would expect to hear about such a product or service.

Gathering Data from Sources

A secondary source interprets and analyzes primary sources. These sources are one or more steps removed from the event. Secondary sources may have pictures, quotes or graphics of primary sources in them. Some types of secondary sources include:

- PUBLICATIONS: Textbooks, magazine articles, histories, criticisms, commentaries, encyclopedias

Examples of secondary sources include:

- A journal/magazine article which interprets or reviews previous findings
a history textbook

An obvious source is data that already exists, or secondary data, found in trade magazines, libraries, government agencies, and the Internet. The Internet can provide information on competitors and the industry, plus can be used for primary research. Commercial data may also be available, but the cost may be prohibitive. Free secondary information is available through:

- ✓ Census and the Department of Commerce.
- ✓ State departments of commerce, chambers of commerce, and local banks.
- ✓ Private sources of data, such as Predicates the Business Index
Development Publications can be found in a good business library.

CHARACTERISTICS OF A MARKETING PLAN

An effective marketing plan should:

1. Provide a strategy to accomplish the company mission.
2. Be based on facts and valid assumptions.
3. Provide for the use of existing resources.
4. Describe an organization to implement the plan.
5. Provide for continuity.
6. Be simple and short.
7. Be flexible.

There are 5 Business plan to implement

- ✓ [Marketing Planning](#)

- ✓ [Finance Planning](#)
- ✓ [People Planning](#)
- ✓ [Product Planning](#)
- ✓ [Supply Planning](#)

Marketing Planning:

From the analysis carried out, you will no doubt have set some objectives about marketing. 'Marketing' is a very broad area of the business - indeed there are likely to be marketing implications associated with almost all your objectives.

Your marketing plan will include detail about:

- ❖ your products and /or services
- ❖ the place in which you sell them and the way that you distribute them
- ❖ the price you charge for them
- ❖ the promotion you undertake

These are commonly described as the '4Ps' of marketing.

The plan will show your intention of how you will undertake the full range of marketing activities. It will be based on the data you collected about your competitors, your market places and other areas discussed earlier. It will also reflect the potential you have identified through analysis for:

- adding or amending products and/or services to your range
- finding new customers or better satisfying the needs of existing customers.
- finding new markets
- taking advantage of changes in business environment, especially changes in existing market places
- combating threats posed by competitors and taking advantage of their weaknesses

Finance Planning:

- A financial plan is often seen as the basis for many other parts of the business plan. This particular plan, designed to meet the financial objectives you have set, is important in that it pulls together the one common denominator of all other plans - and that is cash. The financial plan for the business will have at its heart standard features:
- profit forecast
- cash flow forecast
- projected balance sheet

The financial plan you set should be tailored to meet your individual business needs. To do so, it will refer to your particular business circumstances and may also include one or all of a range of other financial tools, such as:

- ✚ business funding structure
- ✚ working capital analysis
- ✚ sales forecast
- ✚ returns achieved on sales

- ✚ break-even analysis
- ✚ contribution from production
- ✚ stock analysis

Looking into these different forms of analysis will quickly show you that they individually serve differing business requirements. You will need to decide which are most relevant to your business situation and from which you will gain most advantage.

People Planning:

Having the right people with the right skills is vital to every business. A successful business will recognize that, to be competitive in the 21st Century, it must be proactive in training and developing its employees and it must have in place a strategy for achieving this.

The plan needs to concentrate on the objectives which arise from the business vision. It could cover a wide range of business issues including the identification and satisfaction of training and development needs to meet business and individual requirements. People planning can be crucial in achieving longer term objectives by equipping employees with the right skills - and it is on those skills that the business will be competitive in its market places. The plan will also cover broad statements on recruitment, employment, induction, training and a range of other related business functions.

The Employment Department's 'Investors in People' initiative centres on the proven fact that concentration on 'people' issues can bring significant business benefits. Your local Training and Enterprise Council in England or Wales, or your Local Enterprise Company in Scotland, will be able to offer help and guidance on this matter.

Product Planning:

Throughout this guide, 'product' is taken to mean your product or - if you are a service provider - your service. Whichever your areas of activity, today's changing business environment and trends in customer buying patterns have to be closely monitored. The business needs to be able to react quickly and effectively when changes occur. In addition, you will want to influence future trends throughout your own marketing effort - but you need to carefully plan future product and service developments to coincide with likely changes. The life cycle of a product or of a service can be estimated and the various stages it goes through will determine its contribution to the business. The effect of this is that your plans for improving or extending products and/or services are closely linked to your marketing and financial plans.

Quality of your products and services is an important area within your plan. Closely linked to your pricing strategy, the question of product development affects the whole of the business - and everyone in it.

You set your quality standards to satisfy the needs and desires of your customers. Many industries have acknowledged quality levels and the concept of 'benchmarking' is an innovative way to create partnerships from which all parties benefit through exchange of information.

Supply Planning:

The relationships you develop with your suppliers and your customers are also important influencing factors to be addressed when looking at your product plan. Associated with the issue of quality, these relationships are crucial to future business success.

Financial Plan and the Organizational Plan:

Financial Plan:

Most people have heard of the benefits of personal financial planning and want to better manage their personal finances. Yet it can seem so overwhelming. If you're not sure where to start, this financial planning primer can help. It establishes priorities for anyone at any financial stage of life and lays out, in eight simple steps, just how to take control of your finances.

1. Create and review a financial plan. Basically, a financial plan is a written set of goals, strategies and timelines for accomplishing these goals: buying your first home, funding or managing a retirement nest egg, funding your children's education, paying off debts, and so on. Writing out this plan, whether on a yellow pad, a spreadsheet or with the help of a certified financial planner (CFP) professional motivates you to be accountable and implement your to-do list of action steps. It provides direction, gives you a benchmark from which to evaluate your progress, and helps you prioritize the most efficient use of your financial resources.

Be sure to review your plan periodically to adjust for changing financial circumstances or desires, or life events such as a change in marital status, job loss, retirement, the birth of a child, or a death in the family.

2. Organize your financial records. It's much easier to successfully manage your finances if you know what those finances are. So gather up the following financial records:

- ✓ investment accounts
- ✓ bank statements
- ✓ tax returns
- ✓ mortgage and credit card statements
- ✓ insurance policies
- ✓ estate planning documents

Then organize them so you can find and access them easily. By getting them all together, you'll be able to more easily evaluate where you're at today and can set the stage for your goals and priorities going forward. And while you're at it, don't forget to inventory your personal possessions. This documents not only their value for planning purposes but also provides a record for your insurance company in the event your possessions are lost due to a theft or natural disaster.

3. Calculate your net worth. Once your financial records are organized, calculate your net worth. This is simply a matter of figuring out what you own less what you owe. If your assets (house, bank accounts, investments and so on) exceed your liabilities (mortgage, student loans, credit card debts, etc.), then your net worth will be positive. On the other hand, if your liabilities exceed your assets, you'll have a negative net worth.

Net worth is the best measurement of the state of your financial health and should be used as the basis for any financial decisions you make. Your goal should be to increase your net worth on an

annual basis. At year-end, you should recalculate your net worth and compare it against last year's benchmark. By doing this, you'll instantly be able to see your progress.

4. Establish a spending plan. A spending plan details where your money comes from and where it goes. The inflows include your salary, bonus, interest income and any other source of income you have. Inflow is the part that's generally easiest to recall. The outflow section is a detailed listing of where your money goes. The most important outflow should be your savings. If you're living within your means, then your inflow will equal your outflow.

Having a balanced spending plan should be a financial priority regardless of where you are in life or what your net worth is. A spending plan identifies the key areas where you want your resources to go and highlights wasted spending. It can also provide an early warning of impending financial problems.

If this is your first time establishing a spending plan, consider using a software tool such as a spreadsheet or a software package like Quicken to help you. These tools could significantly cut down the amount of time and effort it takes to develop your plan.

5. Build an emergency fund. Ideally, you want to have enough cash on hand to cover three to six months of basic living expenses should you lose your regular sources of income. Depending on your job security, you may want to increase the number of months' worth of reserves. For example, self-employed individuals may want to have twelve months of reserves, especially if their income is variable in nature.

6. Reduce or minimize consumer debt. Debt drags down the rest of your financial efforts like a heavy anchor. If your consumer debt--credit cards, student loans, auto loans and personal loans--is eating up 15 to 20 percent or more of your monthly spending, make reducing it a priority. And why waste funds paying what are most likely very high interest rates on your cards and loans?

7. Draft four, key estate-planning documents. Every adult should have (1) a will; (2) a durable power of attorney, which appoints someone to handle your legal and financial affairs if you're unable to; (3) a living will, which declares what life-sustaining medical treatments you want should you be incapacitated; and (4) a health-care durable power of attorney, which appoints someone to oversee your medical interests should you no longer be able to. Different states have different names for the medical documents, but they're all critical to your smart financial planning.

8. Obtain adequate insurance. Managing risk is essential to your long-term financial security. The point of having insurance, from medical and disability coverage to life, auto and homeowner's, is to protect you from financial catastrophe. Simply stated, you buy insurance to cover expenses you couldn't make out of your own pocket. It's imperative to keep in mind that you should buy insurance when you don't need it, because when you do need it, you can't get it.

The Organizational Plan:

Organizational planning should include long-term and short-term planning. The plan should predict where the organization will be in two or five years, listing specific, measurable goals and results. The plan should also include a specific "to-do" list that keeps everyone informed of the necessary actions and resources, as well as listing who is responsible for all the tasks. It should also include a reasonable time frame for these tasks to be accomplished. Failure to plan will damage the effectiveness of the organization and can even lead to complete break-down.

Material Resources

Lack of planning is certain to result in shortages or delays of necessary materials. Without an analysis of how often resources need to be replenished, these necessities will not be found where and when needed. The necessary resource might be something as small as staples for the stapler, or as essential as running out of the raw material needed to manufacture the product that is sold. In all cases, a business cannot flourish if the management of its resources is not being monitored and planned for.

Finances

Cash flow issues are bound to occur if the organization does not plan properly for where and when the finances are needed. Late payments are likely to result in suppliers becoming unreliable or cutting off the supply of their goods or services. Late payments can also result in additional interest payments or other financial penalties that cut into profits. Cash flow problems can go so far as to result in the inability to pay employees on time. This is bound to have a negative impact on employee loyalty and retention.

Human Resources -- Productivity

Without planning, there will be no mission statement and no vision. Employees are most productive when they understand the bigger picture behind what they are doing, so productivity will decrease. There is also likely to be much wasted time, as some workers will be duplicating the work of others, while some essential tasks will be overlooked. This is all likely to result in the need for crisis management. Workers will spend a great deal of time "putting out fires" caused by the fact that no one is able to anticipate the problems that will regularly occur. In addition, larger projects will take longer than necessary, or may never reach completion, because no one did the planning necessary to break them down into more manageable segments.

Human Resources -- Morale

Employees in organizations suffering from lack of planning are likely to experience low morale. The workers will be aware of their disorganized environment, and will suffer stress and frustration because they will have difficulty executing their assigned tasks. There likely will be a high staff turnover rate, which leads to lowered productivity. Some employees might be laid off because of lowered profits and this will further diminish morale. Other employees might feel unappreciated and over-worked as the organization will be under-staffed. This will exacerbate the downward spiral and the business is likely to fail.

What formalities must you complete?

Before you launch your new firm, you must deal with a few formalities and register your firm with the following authorities:

Health insurance

The statutory health-insurance fund needs to be informed about the move to self-employment. The fund will then examine whether this is a “full-time” activity. Here, a role is played by the hours worked and the likely level of income.







Tax office

If you are offering a professional service (i.e. are a member of the “Freie Berufe”, such as tax adviser, doctor, journalist), you only need to apply for a tax number from the tax office.

Trade office

Anyone else setting up a business must register their project with the trade office of the municipality in which the firm is opened.

To do so, you need:

-  a valid ID or passport
-  a residence permit
-  depending on the sector (e.g. catering), a permit or authorization
-  a craft card if you are setting up in business in the craft sector
-  a trade card for activities similar to the craft sector
-  and between ten and forty Euros for the registration fee

The trade office automatically informs the following authorities with which you also have to be registered: tax office; accident insurance fund; chamber of industry and commerce or chamber of crafts; local court (trade register); trade supervisory office (responsible for the health and safety of your employees and customers; it checks ovens, drinks dispensers, etc.). Play safe and check whether all of these bodies have actually received the information.

Health office

Depending on which sector you are working in, you may need a permit or a certificate of non-objection from the health office. This applies, for example, to new businesses in catering and the sale of foodstuffs. In the case of start-ups in catering or childcare, the health office and the trade supervisory office (varies from region to region) will also examine the standards of hygiene in your rooms. Also, you will need a certificate of good conduct from the police and confirmation from the chamber of industry and commerce that you have participated in a seminar on hygiene and the handling of food.

Construction Office

If you wish to use rooms previously used for other purposes as your future operational rooms, you need to apply for a change in use from the relevant Construction Office. The planning of rebuilding work and of new buildings for commercial purposes must also be co-ordinate in good time with the construction office.

Trade supervisory office

Find out in good time before operations commence whether the rooms you plan to use meet statutory requirements.

Commercial register

Apart from very small businesses and companies organized as a GBR (Gesellschaft burger lichen Rechts), all companies must be entered in the electronic commercial register at the local court. The electronic commercial register is public and provides information about the company (name of company, name of owner, personally liable shareholder, etc.)

UNIT-III

FINANCING AND MANAGING THE NEW VENTURE

Finance is one of the important prerequisite to start an enterprise or capital is work as lubricant in a production process. The success of new venture is very much depend on availability of finance or capital.

This taken by the entrepreneur well in advance Regarding the future financial aspects of his/her enterprise is called financial planning or it deals with following questions like Amount of money needed, Sources of money, Time when money required.

SOURCES OF FINANCE

Finance/capital can be arranged from two major Sources:

- ✓ **Internal Source:** Refer to the owner's own money known as equity. This amount fulfill very limited requirement of enterprise or it is very thin.
- ✓ **External source :** Arranged from financial Complete requirement of enterprise and generally taken for long period.

CLASSIFICATION OF FINANCIAL NEEDS

□ ON THE BASIS OF EXTENT of PERFORMANCE

- **Fixed Capital:** The money invested in current assets like raw material, finished goods, machinery, equipment, furniture etc.
- **Working Capital:** Money required for day to day operations of business/enterprise.

□ ON THE BASIS OF PERIOD OF USE:

- ❖ **Long Term Capital:** Money whose repayment is arranged for more than five years in future.
- ❖ **Short Term Capital:** Borrowed capital/money that is to be repaid within one year.

INTERNAL SOURCE

- ✓ **Retained Profit:** Profit earned by entrepreneur may be used to finance the future needs of firm.
- ✓ **Reducing Working Capital:** By judging the exact requirement, part of working capital may be used For financing the enterprise.
- ✓ **Sale of Assets:** By selling fixed assets which are of little use, fund may obtained.
- ✓ **Personal Savings of the Owner:** Like PF, insurance policy, investment, building may be used for fund.

- ✓ **Deferred Credit:** goods, machine, plant may be taken on credit basis for a particular time period by giving bank security to supplier.

EXTERNAL SOURCE:

- Deposits or borrowings from Friend/Relatives
- Credit facilities from commercial banks
- Terms loans from financial institutions.
- Mortgage loans against fixed assets
- By issuing Shares or Debentures
- Public Deposits (Govt. Bonds etc.)
- Venture Capital

CAPITAL SOURCES FOR YOUR BUSINESS

Not having enough capital is the cause of many small business failures. Adequate capital is needed to start up the business, operate through hard times, and provide a good chance to become a profitable enterprise.

There is no one best method of raising capital. Financing methods will vary as a result of legal, legislative and economic changes. Variations among lending institutions can affect your ability to raise funds. Your success in raising funds for a new business depends on good planning, realistic forecasting, and knowing what sources of capital are available.

To raise capital for your new business, you should be able to answer four questions.

1. How much capital will I need?
2. How much of my own capital can I put in the business?
3. How much capital can I get from someone else?
4. How can I convince someone to provide me with capital?

Planning your financial needs

Your ability to plan the financial needs of your new venture will play a big part in how much capital you will be able to raise. Prepare a loan package that includes your business plans, market

analysis, projected balance sheet, profit and loss projections, and cash flow projections. Lenders prefer these financial projections monthly for at least one year, and then annually for three years.

The amount of detail and research needed in the financial projections is directly related to the amount of outside capital you hope to secure. In addition, a loan package must include the amount of the loan, how the loan money will be used, when the money will be needed, when the loan will be repaid, the source of repayment funds, and the amount of collateral you have to secure the loan. You should also include the amount of equity capital you are personally investing in the business venture.

Another part of the loan package should be personal information about you and anyone else involved directly or indirectly in the new business. Don't assume the potential lender knows this information. Even if you have known each other for years, the lender may not have an accurate picture of your personal history and current financial situation.

The personal information included in the loan package should include education, work history and business experience of everyone involved in the new business. You should also include credit references, personal income tax statements for three years and updated financial statements. Information about the nature of the loan and personal histories of those involved may be a major factor in getting the loan.

If you seek professional help with the financial projections and loan package, it is vital that you be totally familiar with the financial information. Your knowledge and understanding of the loan package will be important when the lender evaluates it.

The five Cs of credit

What do lenders look for in a loan package? You, the borrower, provide part of the information, but the potential lenders will also use their own credit files and outside sources. A traditional, time-tested checklist is the five Cs of credit: character, capacity, collateral, conditions and capital. By understanding each of these from the lender's viewpoint, you can anticipate your strong and weak points as they may appear to a potential lender.

1. Character

To the potential lender, character means that you will make every possible effort to repay the loan. You must be a good manager, be honest, and have a good reputation as perceived by the lender. Therefore, it is important to be honest about your personal strengths and weaknesses.

2. Capacity

Will your new business generate the cash flow to repay the loan? Do you have the capacity to repay the loan? Lenders not only look at the business's financial projections, but also your ability to repay the loan if the business does not work out as planned. Do you have outside income (investments, a working spouse)? Would you be able to return to your present job? Do you have other skills that could produce income? Be prepared to provide solid answers to these questions and be able to offer real evidence.

3. Collateral

In case the new venture is not successful and the lender must foreclose, will the collateral cover the loan? Is the collateral adequately insured? Is the collateral marketable? In the past, a co-signer (someone who signs the loan along with you) has been used as collateral for many small business ventures. However, banks and traditional lending institutions now look less favorably at co-signers as collateral. Collecting from co-signers is becoming increasingly hard, and bankers then lose not one, but two customers. You can use your home or other real estate, cash value of life insurance policies or marketable securities as collateral for business loans. However, before borrowing against these items, consider carefully the consequences of the worst possible situation in your business if you are forced to liquidate.

4. Conditions

Conditions are those factors over which you have little or no control. The lender will look at the conditions, or trends, in the overall business economy, the trends in your community, the seasonal character of your business, and the nature of your product or service. Other factors entering the decision-making process are whether the lender may have already invested in a competing business and how much competition there is in your market. Be prepared to tell the lender how you plan to deal with these conditions, how you have assessed the market, and how your business will weather economic changes.

5. Capital

Knowledgeable lenders will not put money into a new business unless they have concrete evidence that you have personally made a sizable financial commitment to the business. They know from experience that if the venture turns bad it will be easier for you to back out if you do not have your own money at risk. From your personal resources, you should try to provide as much of the

needed capital as you can afford to put at risk. Depending on the capital needs, you cannot expect any lender to loan 80 percent or more of the capital, as they may for a home or investment real estate. New small businesses fail at a rapid rate and when they do fail, the assets cannot be easily turned into cash for payment of the loan. Therefore, a new business is a much higher risk for them than a home loan. You should expect to invest a much higher percentage of the needed capital for your new business.

Different types of small businesses require different amounts and types of capital to get started. In some cases, the new businesses may only need capital for short periods of time for inventory purchases or salaries. In other cases, facilities and equipment must be bought or leased, inventory purchased, and you must have enough cash left over to run the business until revenue can support the needed cash flow. Knowing the type and amounts of capital needed will help you figure out the best source of capital for your new venture.

Equity versus debt capital

If you do not have enough personal capital, you can sell equity or you can incur debt. If shares of equity are sold in a partnership or corporation, the capital is not repaid, but the investor takes an ownership interest in the business and receives a portion of the business' profits. Even though equity capital does not burden a new business with loan repayments and interest charges, it reduces the primary owner's share of the profits. Debt must be repaid with interest, but normally the lender has no ownership control. Borrowing money at the very start of a new business will drain off income to make the debt payments.

Commercial loans

There are three types of commercial loans that are usually defined in terms of the length of time the loan is made.

- Short-term commercial loans (30 to 90 days) are the most common loans made to a small business. They usually cover business operation expenses such as rent, insurance, advertising, inventory or salaries. Short-term loans are often unsecured and repayment is usually a lump sum, including interest when the loan matures.
- Intermediate-term loans are for one to five years to purchase business equipment, buy fixed assets or provide working capital. Intermediate-term loans are usually secured by the new equipment or business assets. They sometimes have low monthly payments, with a large balloon payment at the end of the term.

- A long-term commercial loan is for five years or more to purchase an existing business, buy real estate, or construct or improve a building or facility. The long-term loan is always secured by the assets for which the loan was made, usually requires constant monthly payments and often has a variable interest rate.

Ten sources of capital

With your new business plan, financial projections and financing knowledge, you are now ready to secure outside capital for your new venture. The following 10 types of financing sources are ranked according to amount of preparation required and ease of securing the outside capital. Less preparation to secure a loan does not mean it is the best source, nor the least expensive source of capital. Of course, there will be exceptions to these general statements about each financial source.

1. Trade or supplier credit

Payment terms offered by your suppliers are a potential source of credit. Study the discounts for early payment and the penalty for late payment to determine the true cost of the credit. While some suppliers will extend credit only to well-established, proven firms, many will extend limited credit to new businesses to encourage another outlet for their merchandise. Planning for use of trade credit is essential. To establish good trade credit, a new business must make timely payments as agreed. Trade credit is effectively used by large businesses to buy products at lower cost than small firms. Do not depend too much on trade credit from one supplier. If repayment problems arise, you may find your major source for supplies cut off when you need it the most.

2. Life insurance policies

A standard feature of most life insurance policies (except term insurance) is the owner's ability to borrow against the cash value of the policy. The money can be used for any business or personal need. It normally takes two years for a policy to accumulate sufficient cash value. You may borrow up to 95 percent of the cash value of the policy for an indefinite period of time. As long as you continue to pay the insurance premiums, the interest can frequently be deferred indefinitely. The policy loan will reduce the dollar value of the policy and, in case of death, the loan is repaid first and then the beneficiaries receive the remainder. Some older life insurance policies guarantee very favorable interest rates.

3. Friends and relatives

It is best not to borrow from friends and relatives, but many people do. If you must borrow from a friend or relative, do it on a business basis by putting the agreement in writing. Check with a lawyer if you want a binding, legal agreement. You may also get a sample business loan contract form from a bank or lending institution. Use it as a basis for a written agreement that both parties find acceptable. Unrealistic and/or naive investment expectations have ruined many friendships and family relationships.

4. Customers

When customers pay for work in installments as it is completed or provide some of the materials, they are, in effect, financing the business. For example, a carpenter reduces capital requirements when the customer purchases the building materials for a remodeling project. In addition, it is not uncommon to request a deposit from customers when ordering items, particularly special items.

5. Leasing companies

Leasing business equipment is another way to reduce capital needs. Everything from office furniture to food processing equipment can be obtained from leasing companies or commercial finance companies. Leasing is generally more expensive than bank financing and is limited to items that have a long serviceable life, widespread use, and are easily repossessed in the event of default. In many cases, you have the option to buy the equipment for an agreed upon amount at the end of the lease period.

6. Commercial finance companies

Commercial finance companies are generally seen as the place to go when you are unable to secure financing from a bank. Commercial finance companies, like banks, are concerned with your ability to repay the loan; however, they are more willing to rely on the quality of the collateral rather than your track record or profit projections. If you do not have substantial personal assets or collateral, a commercial finance company may not be the best place to secure start-up capital for a business. Commercial finance company capital is usually several percentage points higher than bank financing.

7. Commercial banks

Commercial banks are by far the most visible lenders and make the greatest number and variety of loans. However, banks are generally conservative lenders. Although they accept collateral for business loans, loan approval rests on your ability to repay the loan as shown by your profit projections, management skills and your personal record. Strive to establish and keep a good working relationship with your banker. It may help to involve the banker in the planning process for your new business. Avoiding the banker until you need money may make a loan harder to get because the banker is unfamiliar with the business and its history.

8. Small Business Administration

The Small Business Administration (SBA) is an independent government agency formed in 1953 to help small businesses. The SBA provides loan guarantees, participates with bank loans, and, if funds are available, makes a limited number of direct loans. To receive financial help from SBA, a business must be unable to secure reasonable financing from other sources. A business must also fit the SBA's generalized criteria for a small business, which vary for different types of businesses.

SBA loan interest rates vary from year to year based on the cost of money to the government. Also, the maturity of a SBA loan is limited to 10 years, except for the purchase or construction of buildings that may have a maturity of 20 years. A loan proposal for the SBA is generally more complex and more documented than one for banks. Unlike commercial lenders, the SBA will sometimes ignore a losing track record if a business shows signs of improvement with a healthy future. For more information, contact the SBA office in Maine:

9. Small Business Investment Companies

Small Business Investment Companies (SBIC) are privately owned companies that are licensed and regulated by the SBA. SBICs were created to supply equity capital, long-term loan funds and management help to small businesses. There are investment companies in Maine that are ready to help businesses with excellent potential. Most investment companies prefer to lend to established companies or finance purchases of existing businesses. The SBA or your local bank can assist you in contacting one of the SBICs in Maine.

10. Rural Economic and Community Development Agency

The Rural Economic and Community Development Agency (RECD) will guarantee term loans to non-farming businesses in rural areas. The guarantees can cover up to 90 percent of the total

loan from a private lending institution, and there is no loan limit for one company. The RECD requires the same extensive loan documentation as the SBA. However, RECD's goal is to improve rural areas and, therefore, the agency requires more detail on number of jobs to be created and the impact the new business would have on overall employment in an area.

VENTURE CAPITAL

Meaning:

Venture Capital is defined as providing seed, start-up and first stage finance to companies and also funding expansion of companies that have demonstrated business potential but do not have access to public securities market or other credit oriented funding institutions.

Venture Capital is generally provided to firms with the following characteristics:

- Newly floated companies that do not have access to sources such as equity capital and/or other related instruments.
- Firms, manufacturing products or services that have vast growth potential.
- Firms with above average profitability.
- Novel products that are in the early stages of their life cycle.
- Projects involving above-average risk.
- Turnaround of companies

Venture Capital derives its value from the brand equity, professional image, constructive criticism, domain knowledge, industry contacts; they bring to table at a significantly lower management agency cost.

A Venture Capital Fund (VCF) strives to provide entrepreneurs with the support they need to create up-scalable business with sustainable growth, while providing their contributors with outstanding returns on investment, for the higher risks they assume.

The three primary characteristics of venture capital funds which make them eminently suitable as a source of risk finance are:

- That it is equity or quasi equity investment
- It is long term investment and
- It is an active form of investment.

VENTURE CAPITALISTS

When someone refers to venture capitalist, the image that comes in mind is Mr. Money bags. We all think of venture capitalists as someone who is sitting on millions of dollars and who with the wave of his magic wand turns your dreams into reality. Well, if that's what you think is all about why run after him – "play Santa yourself"

Venture Capitalists is like any other professional who is paid for doing his job, yes, venture capitalist is nothing but a fund manager whose job is to manage funds that are raised. A venture capitalist gets a fee to invest in companies that interest his investors.

Difference between a Venture Capitalist and Bankers/Money Managers.

- Banker is a manager of other people's money while the venture capitalist is basically an investor.
- Venture capitalist generally invests in new ventures started by technocrats who generally are in need of entrepreneurial aid and funds.
- Venture capitalists generally invest in companies that are not listed on any stock exchanges. They make profits only after the company obtains listing.
- The most important difference between a venture capitalist and conventional investors and mutual funds is that he is a specialist and lends management support and also
 - Financial and strategic planning
 - Recruitment of key personnel
 - Obtain bank and debt financing
 - Access to international markets and technology
 - Introduction to strategic partners and acquisition targets in the region
 - Regional expansion of manufacturing and marketing operations
 - Obtain a public listing

Factor to be considered by venture capitalist in selection of investment proposal

There are basically four key elements in financing of ventures which are studied in depth by the venture capitalists. These are:

1. Management: The strength, expertise & unity of the key people on the board bring significant credibility to the company. The members are to be mature, experienced possessing working knowledge of business and capable of taking potentially high risks.

2. Potential for Capital Gain: An above average rate of return of about 30 - 40% is required by venture capitalists. The rate of return also depends upon the stage of the business cycle where funds are being deployed. Earlier the stage, higher is the risk and hence the return.

3. Realistic Financial Requirement and Projections: The venture capitalist requires a realistic view about the present health of the organization as well as future projections regarding scope, nature and performance of the company in terms of scale of operations, operating profit and further costs related to product development through Research & Development.

4. Owner's Financial Stake: The financial resources owned & committed by the entrepreneur/owner in the business including the funds invested by family, friends and relatives play a very important role in increasing the viability of the business. It is an important avenue where the venture capitalist keeps an open eye.

STAGES OF FINANCING BY VENTURE CAPITALIST

Venture capital can be provided to companies at different stages. These include:

I. Early- stage Financing

- **Seed Financing:** Seed financing is provided for product development & research and to build a management team that primarily develops the business plan.
- **Startup Financing:** After initial product development and research is through, startup financing is provided to companies to organize their business, before the commercial launch of their products.
- **First Stage Financing:** Is provided to those companies that have exhausted their initial capital and require funds to commence large-scale manufacturing and sales.

II. Expansion Financing

- **Second Stage Financing:** This type of financing is available to provide working capital for initial expansion of companies, that are experiencing growth in accounts receivable and inventories, and is on the path of profitability.
- **Bridge Financing:** Bridge financing is provided to companies that plan to go public within six to twelve months. Bridge financing is repaid from underwriting proceeds.

III. Acquisition Financing

As the term denotes, this type of funding is provided to companies to acquire another company. This type of financing is also known as buyout financing. It is normally advisable to approach more than one venture capital firm simultaneously for funding, as there is a possibility of delay due to the various queries put by the VC. If the application for funding were finally rejected then approaching another VC at that point and going through the same process

CHARACTERISTICS OF VENTURE CAPITAL:

Ideas and innovations, which have potential for high growth but has inherent uncertainties, are Financed by Venture capitalists. Further, venture capitalists provide networking, management and marketing support as well. Therefore, venture capital refers to risk finance as well as managerial support. This blend of risk financing and handholding of entrepreneurs by venture capitalists creates an environment particularly suitable for knowledge and technology based enterprises. Start ups, where fund is needed most, are seldom funded by Venture capitalist. However, a rare combination of product opportunity, market opportunity, and proven management may attract venture fund even in Start ups.

- (a) Expect a very high growth rate in the assisted enterprise,
- (b) bring management and business skills,
- (c) expect medium term gains (5-10 years), and
- (d) do not insist for any collateral to cover the capital provided.

ADVANTAGES

Venture capital has a number of advantages over other forms of finance, such as:

Finance - The venture capitalist injects long-term equity finance, which provides a solid capital base for future growth. The venture capitalist may also be capable of providing additional rounds of funding should it be required to finance growth.

Business Partner - The venture capitalist is a business partner, sharing the risks and rewards. Venture capitalists are rewarded by business success and the capital gain.

Mentoring - The venture capitalist is able to provide strategic, operational and financial advice to the company based on past experience with other companies in similar situations.

Alliances - The venture capitalist also has a network of contacts in many areas that can add value to the company, such as in recruiting key personnel, providing contacts in international markets, introductions to strategic partners and, if needed, co-investments with other venture capital firms when additional rounds of financing are required.

Facilitation of Exit - The venture capitalist is experienced in the process of preparing a company for an initial public offering (IPO) and facilitating in trade sales. Venture capitalist combines risk capital with entrepreneurial management and advance technology to create new products, new companies and new wealth. Risk finance and venture capital environment can bring about innovation, promote technology, and harness knowledge-based ventures. In this sense, venture capital is different from other types of financing such as

- development finance,
- seed capital, (At times Venture Capitalist provide)
- term loan / conventional financing,
- passive equity investment support, and
- R&D funding sources.

Venture capital is a source of investment in the form of seed capital in unproven areas, products or start-up situations. The concept of venture capital is relatively new to the Indian economy, and is gaining prominence in the recent years.

Angel Investment:

Meaning

An investor who provides financial backing for small startups or entrepreneurs. Angel investors are usually found among an entrepreneur's family and friends. The capital they provide can be a one-time injection of seed money or ongoing support to carry the company through difficult times.

Advantages and disadvantages of business angel funding

Before approaching a business angel (BA) for investment, you should consider whether other forms of finance could better meet your organization's needs. For other sources of alternative funding, see the page on [alternatives to equity finance](#) in our guide on [equity finance](#).

Advantages of business angel financing

The advantages of BA funding for your business can include:

- BAs are free to make investment decisions quickly
- no need for collateral - i.e. personal assets
- access to your investor's sector knowledge and contacts
- better discipline due to outside scrutiny
- access to BA mentoring or management skills
- no repayments or interest

Disadvantages of business angel financing

The disadvantages of BA funding for your business can include:

- not suitable for investments below £10,000 or more than £250,000
- takes longer to find a suitable BA investor
- giving up a share of your business
- less structural support available from a BA than from an investing company

RECORD KEEPING

Introduction

Keeping records is crucial for the successful management of a business. A comprehensive recordkeeping system makes it possible for entrepreneurs to develop accurate and timely financial reports that show the progress and current condition of the business. With the financial report you can generate from a good recordkeeping system, you can compare performance during one period of time (month, quarter or year) with another period, calculate trends and plan for the business's future.

For a business to be successful, its owner must possess a good blend of these skills: sales, customer service, management and recordkeeping. The sole proprietor must assume all the responsibility; but if the business has more than one owner or employee, it has the advantage of bringing sales, customer service, management and detail-oriented persons together to cover all aspects of the business.

Purpose

The purpose of a good recordkeeping system is to provide management information to use in operating the business. Because cash flow and profitability are closely tied to financial analysis, it is vital that the entrepreneur understand the external and internal financial factors that affect

business. The recordkeeping system provides the foundations for monitoring and measuring the progress of the business. It provides a blueprint for fiscal control by monitoring and measuring sales, costs of goods sold, gross profits, expenses and taxes. The entrepreneur should be involved in setting up the recordkeeping system and the chart of accounts, which includes elements that are critical in managing the day-to-day operations of the specific business.

Quick overview

Setting up a basic recordkeeping system

Many business finance professionals recommend that all entrepreneurs be knowledgeable about basic recordkeeping practices. The entrepreneur who decides to purchase a manual or computerized recordkeeping system, or has a bookkeeper or accountant, still needs to understand the basic premises.

The following is a simplified lexicon of basic recordkeeping that demonstrates how to set up your own accounting system.

Journal: Journal is a book for recording business transactions in chronological order. A simple method of recordkeeping is to use 13-column paper for journals. You derive the information for each journal entry from original source documents, such as receipts for cash paid or received, checks written or received, cash register tapes, sales tickets, etc. The information appearing on these documents must be analyzed to determine the specific accounts affected and the dollar amounts, then the proper journal entry is recorded.

transaction: It is entered in a journal before it is entered in ledger accounts. Transactions are entered into the journals by date, amount, description and account to which the transaction has been assigned. For example, when rent is paid, the journal entry would be made in the cash disbursement journal under the accounts of cash and rent. A journal is also called the book of original entry.

Different journals are used for different source documents. Cash coming into the business (cash sales, bank loans, interest income) is entered in chronological order in a cash receipts journal. Cash going out of the business (expenses: rent, insurance, payroll, purchases,) is recorded in a cash disbursement journal. The check book is the source for recording disbursements.

Disbursements: It should be made by check from a business account that is separate from your personal bank account. This provides an audit trail in case of an IRS audit. Sales and Purchases on credit are entered into a sales journal and purchases journal, respectively. These journals are the original entry for the accounts receivable and accounts payable. A payroll journal is used to show employee gross wages, taxes/other deductions withheld and net wages. It also shows the employer's share of FICA, Medicare and unemployment taxes. A general journal is used for miscellaneous entries and adjustments such as depreciation and inventory.

The accounting system is built around a list of account names called a chart of accounts and is organized under the categories of assets, liabilities, owner's equity, revenue or income, cost of goods sold (for a business that sells a product), operating expenses and other income/expenses. The accounts you keep are tailor made for your particular business.

Assets are things of value owned by a business including cash, receivables, investments, buildings, land, equipment, vehicles, etc.

Liabilities are those amounts the business owes the creditors. They include payables, notes, loans, mortgages, etc.

Owner's equity or capital (sometimes called net worth) is the investments of the owners and the accumulation of profit or losses for the business since it began. It is also the difference between Assets and Liabilities.

Revenue or income is the money that came into the business from the sale of goods and services. Income is measured for a period of time.

Cost of goods sold is the cost of the product being sold by the business. A service type business will not have a cost of goods sold.

Operating expenses are the daily expenses in running a business. For example, rent, advertising, insurance, etc.

Other income/expenses are not daily necessities or a required part of the business operation. However they are a part of doing business such as interest income and expense.

At the end of each month, all transactions are totaled and only the total of each account is posted to the general ledger on three-column paper. The general ledger is a cumulative (year to date) book that contains the individual accounts maintained by the business and shows the balances in each account.

Financial statements (Balance sheet and income statement) are prepared using the account balances from the general ledger.

The balance sheet is a financial report as of a specific date that lists the assets, liabilities and owner's equity of a company. It is a "snapshot" of the business at a point in time.

The income statement or profit and loss statement (P&L) is the financial report that shows if the business had a profit or loss. It is the Revenue minus the Expenses

Single vs. double entry recordkeeping

Now you have laid out the blueprint for your recordkeeping, monitoring and measurement systems. There are some other considerations that will affect your recordkeeping functions. One consideration is whether to use single entry or double entry recordkeeping.

Single entry

Single entry is a simple listing of cash receipts and checks paid out. It is not a debit/credit system. It records monies received in a cash receipts journal (cash in) and monies paid out in the cash disbursements journal (cash out). From these two listings, a simple profit and loss statement and cash flow statement can be developed. The single entry can be kept manually on a notepad or journal with columns labelled with your chart of account numbers.

Double entry

Because the double entry system is more sophisticated, an understanding of bookkeeping principles is needed to implement it. A small business with a limited number of transactions and employees can get by on a single entry system, either manual or computerized. All businesses require accounts receivable controls, accounts payable controls and pricing policies. For larger businesses with employees, with different departments or with inventory to manage, it is wise to implement a double entry recordkeeping system because it affords checks and balances.

RECRUITMENT

The process of finding and hiring the best-qualified candidate (from within or outside of an organization) for a job opening, in a timely and cost effective manner. The recruitment process includes analyzing the requirements of a job, attracting employees to that job, screening and selecting applicants, hiring, and integrating the new employee to the organization.

The recruitment and selection is the major function of the human resource department and recruitment process is the first step towards creating the competitive strength and the strategic advantage for the organizations. Recruitment process involves a systematic procedure from sourcing the candidates to arranging and conducting the interviews and requires many resources and time.

General recruitment process is as follows:

□ Identifying the vacancy:

The recruitment process begins with the human resource department receiving requisitions for recruitment from any department of the company. These contain:

- Posts to be filled
- Number of persons
- Duties to be performed
- Qualifications required

- ✓ Preparing the job description and person specification.
- ✓ Locating and developing the sources of required number and type of employees (Advertising etc).
- ✓ Short-listing and identifying the prospective employee with required characteristics.
- ✓ Arranging the interviews with the selected candidates.
- ✓ Conducting the interview and decision making
- ✓ Identify vacancy
- ✓ Prepare job description and person specification
- ✓ Advertising the vacancy

- ✓ Managing the response
- ✓ Short-listing
- ✓ Arrange interviews
- ✓ Conducting interview and decision making

The recruitment process is immediately followed by the selection process i.e. the final interviews and the decision making, conveying the decision and the appointment formalities.

Step 1: Identify Vacancy and Evaluate Need

Recruitments provide opportunities to departments such as aligning staff skill sets to initiatives and goals and planning for departmental and individual growth. Although there is work involved in the hiring process, proper planning and evaluation of the need will lead to hiring the right person for the role and team.

Newly Created Position

When it is determined a new position is needed, it is important to:

- Understand and take into consideration strategic goals for the University and/or department. Are there any upcoming changes that may impact this role?
- Conduct a quick analysis of UCR Core Competencies. Are there any gaps? What core skills are missing from the department? Evaluate the core skills required now and those which may be needed in the future.
- Conduct a Job Analysis if this position will be new to your department. This will also help to identify gaps.

Replacement

When attrition occurs, replacing the role is typically the logical step to take. Before obtaining approval to advertise the position, consider the following:

- As with a newly created position, it may be helpful to conduct a Job Analysis in order to tailor the position to what is currently required and to ensure proper classification. Your HR Classification Analyst can assist in reviewing and completing.
- Review the role and decide if there are any changes required as certain tasks and responsibilities performed by the previous person may not or should not be performed by the new person

Carefully evaluate any changes needed for the following:

- Level required performing these tasks; considering the appropriate classification level. Be aware that changes in the classification of positions from represented to no represented will require union notice and agreement
- Tasks carried out by the previous employee
- Tasks to be removed or added if any of the work will be transferred within department
- Supervisory or lead responsibility
- Budget responsibility (if any)
- Work hours
- Is there still a requirement for this role at all?

Step 2: Develop Position Description

- A position description also referred to as a job description is the core of a successful recruitment process. From the job description, interview questions, interview evaluations and reference checks questions are developed.
- A well-written job description:
 - Provides a first and sometimes, lasting impression of the campus to the candidate
 - Clearly articulates responsibilities and qualifications to attract the best suited candidates
 - Improves retention as turnover is highest with newly hired employees. Employees tend to be dissatisfied when they are performing duties they were not originally hired to perform.
 - Provides an opportunity to clearly articulate the value proposition for the role and the department and helps attract candidates to apply

Identify Duties and Responsibilities

- Prior to developing the job description the hiring manager should identify the following:
 - General Information
 - Position Purpose
 - Essential Functions
 - Minimum Requirements
 - Preferred Qualifications

1. General Information

- Department Name
- Department Head
- Supervisor Name
- Title Codes and Full-Time Equivalent numbers of employees supervised
- Special Requirements and Conditions:
 - Specific requirements job seekers must possess or complete in order to be hired (e.g. background check, valid driver's license, etc.)
 - BFOQs which are in compliance with UCR's applicable policies (e.g. physical or mental requirements)
- Contact Staff Employment and Development for assistance with special requirements and conditions

2. Minimum Requirements

The minimum requirements or “basic qualifications” are those qualifications or criteria which was established in advance and advertised to potential applicants:

- Must be relevant and relate back to the duties and responsibilities of the job (e.g., should not list driving requirement if not part of responsibilities or duties of the job).
- “Soft skills” can be required qualifications (e.g., communication/collaboration) and will:
 - Vary among applicants
 - Cannot be ascertained in resume
 - Able to evaluate in interview
- Can be position/department specific (e.g. valid driver’s license)
- Can be assessed by reviewing the resume
- Must be objective, non-comparative and business-related:

Listing too many skills as requirements significantly limits your applicant pool and selection. A good rule of thumb is no more than 3-5 required skills depending upon the level of the position.

Step 3: Develop Recruitment Plan

Each position requires a documented Recruitment Plan which is approved by the organizational unit. A carefully structured recruitment plan maps out the strategy for attracting and hiring the best qualified candidate and helps to ensure an applicant pool which includes women and underrepresented groups including veterans and individuals with disabilities.

In addition to the position’s placement goals the plan contains advertising channels to be used to achieve those goals. The recruitment plan is typically developed by the hiring manager in conjunction with the Departmental HR Coordinator. Placement goals identified are entered into the position requisition in the ATS.

To ensure the most current placement goals are identified for the department and unit, you may contact the office of Faculty and Staff Affirmative Action. Recruitment Plan Elements:

- A. Posting Period
- B. Placement Goals
- C. Additional Advertising Resources
- D. Diversity Agencies
- E. Resume Banks

Step 4: Select Search Committee

To ensure applicants selected for interview and final consideration are evaluated by more than one

individual to minimize the potential for personal bias, a selection committee is formed. The hiring manager will identify members who will have direct and indirect interaction with the applicant in the course of their job. Each hiring manager should make an effort to appoint a search committee that represents a diverse cross section of the staff. A member of the committee will be appointed as the Affirmative Action and Compliance Liaison who will monitor the affirmative action aspects of the search committee. The Hiring Manager will determine the size (no more than 6) and composition of the committee based on the nature of the position. It is highly recommended the committee members include:

- At least one individual who has a strong understanding of the role and its contribution to the department
- A job specialist (technical or functional)
- Staff representative if position has supervisory responsibilities
- An individual who will interact closely with the position and/or serves as a main customer

Step 5: Post Position and Implement Recruitment Plan

Once the position description has been completed, the position can then be posted to the UCR career site via the ATS. Every effort should be made to ensure the accuracy of the job description and posting text. It is not advisable and in some instances, not possible to change elements of a posted position. The reason for this has to do with the impact a given change may have on the applicant pool.

To post the position:

- The requisition is then routed to the HR Recruitment Analyst who will post the position
- Applications can be reviewed once the minimum number of posting days has been reached

Step 6: Review Applicants and Develop Short List

Once the position has been posted, candidates will apply via UCR's job board. Candidates will complete an electronic applicant for each position (resume and cover letter are optional). Candidates will be considered "Applicants" or "Expressions of Interest".

All applicants must be reviewed and considered. Applicants are those who apply during the initial application period as described in Step 5. Candidates who apply after the initial application period will be considered "expressions of interest" and not viewable by the search committee.

Step 7: Conduct Interview

The interview is the single most important step in the selection process. It is the opportunity for the employer and prospective employee to learn more about each other and validate information provided by both. By following these interviewing guidelines, you will ensure you have conducted a thorough interview process and have all necessary data to properly evaluate skills and abilities.

Preparing for the Interview

Once the short list (typically 3-5 identified for interview) is approved by the Office of Faculty and Staff Affirmative Action, the interview process can begin. It is important to properly prepare for the interview as this is the opportunity to evaluate the skills and competencies and validate the information the applicant has provided in their application and resume. Choose one or two questions from each competency and minimally required skills to develop your interview questions. Review the applicant's application or resume and make note of any issues that you need to follow-up on.

- **Phone Interviews**
- **Panel Interviews**
- **Virtual Interviews**
- **Interview Questions**

Step 8: Select Hire

Final Applicant

Once the interviews have been completed, the committee will meet to discuss the interviewees. Committee members will need to assess the extent to which each one met their selection criteria.

The search committee rating sheet will be helpful in justifying decisions and making them as objective as possible.

The most important thing to remember is that you will need to be able to justify your decision. Documentation is key and required to be in compliance with OFCCP requirements. As one of the most critical steps in the process, it is important to keep the following in mind:

- The best candidate for the position was chosen based on qualifications
- The candidate will help to carry out the University and Department's missions

Reference Checks

Reference checks should be conducted on the final applicant prior to making an offer. While it is advisable to conduct a reference with the candidate's current supervisor before a candidate starts employment, if the candidate is reluctant a conditional offer of employment can be made.

Before you begin the reference check process, be sure to:

1. Prepare carefully

- Familiarize yourself thoroughly with the information the applicant has already provided, including the application, resume, work sample (if applicable) and interview responses

- Identify areas that require elaboration or verification such as the work sample
- Set up a telephone appointment with one or more references provided by the applicant
- Many employers are prohibited from providing information without a release, so if requested, send the signed Applicant Release and Disclosure consent form and the job description (optional) in advance of your telephone call
- Write down your questions before you call, highlighting the information you want verified or expanded upon.
- Note: You may consider conducting reference checks on all finalists before the final selection is made.

2. Describe the position

- Describe the responsibilities, duties, and working environment of the position for which the individual has applied.
- After describing the position, ask, “Given our requirements, what is your assessment of the individual’s qualifications for the job?”

Step 9: Finalize Recruitment

Upon completion of the recruitment process the offer to the selected finalist is made. The salary to be offered is to be equitable and lead to the retention and motivation of employees.

Prior to initiating the offer, it is recommended that one more check of the selection process be completed as follows:

- Review the duties and responsibilities of the position and ensure they were accurately described and reflected in the job description and interview process
- Review selection criteria used to ensure they were based on the qualifications listed for the position
- Confirm interview questions clearly matched the selection criteria
- Confirm all applicants were treated uniformly in the recruitment, screening, interviewing and final selection process

Initiating the Offer

- Once a final check of the selection process and the final applicant has been determined, the Committee Chair or designee will notify the Departmental HR Coordinator with the finalist’s name, salary and start date enter the selection information into the ATS
- The Departmental HR Coordinator reviews the requisition in the ATS and ensures all applicants on the requisition have been assigned a decision code
- The Departmental HR Coordinator forwards this information to the Organizational HR Coordinator for review and approval
- Once approved, the Departmental HR Coordinator notifies the Committee Chair or designee of offer approval
- The Committee Chair or designee makes the offer to the finalist

Motivation

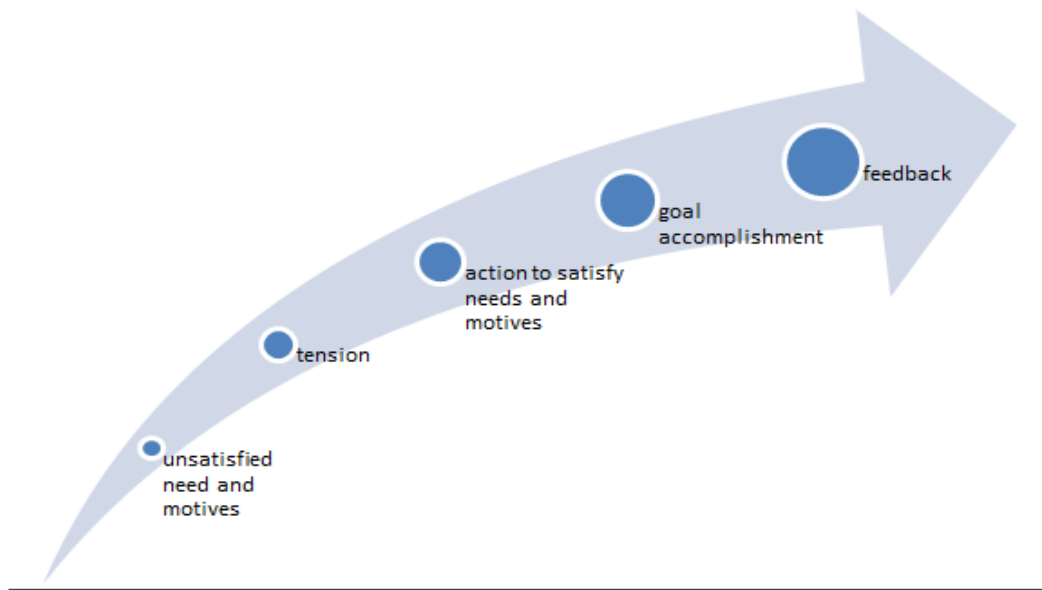
Definition

Motivation is the processes that accounts for an individual's intensity, direction, and persistence of efforts towards attaining a goal."

Nature of Motivation

1. Unending Process
2. Psychological Concept
3. The whole individual is motivated
4. Goals are Motivators
5. Frustrated man cannot motivated.

Process of motivation



1. **Unsatisfied needs and motives:** it is the first process of motivation. This stage involves unsatisfied needs and motives. Such unsatisfied needs can be activated by internal stimulus such as hunger and thirst. They can also be activated by external stimulus such as advertisement and window display

2. **Tension:** this stage involves tension. Unsatisfied needs create tension in the individual. Such tension can be physical, psychological, and sociological. In this situation, people try to develop objects that will satisfy their needs.

3. **Action to satisfy needs and motives:** this stage involves action of people to satisfy needs and motives. Such tension creates strong internal stimulus that calls for action. Individual engages in action to satisfy needs and motives for tension reduction. For this purpose, alternatives are searched and choice is made, the action can be hard work for earning more money

4. **Goal accomplishment:** this stage involves goal accomplishment. Action to satisfy needs and motives accomplishes goals. It can be achieved through reward and punishment. When actions are carried out as per the tensions, then people are rewarded others are punished. Ultimately goals are accomplished.

5. **Feedback:** this is the last stage for motivation. Feedback provides information for revision or improvement or modification of needs as needed. Depending on how well the goal is accomplished their needs and motives are modified. Drastic changes in environment necessitate the revision and modification of needs

Team Leading

1. **Provide purpose.** Everything starts with vision. You cannot have a real team without one because people will not find the desire to achieve the common goal

The team members will work together and sacrifice only if they can see what they're working toward. Capturing and communicating vision is your role as a team leader. Only you can do it. Create an inspiring vision. Provide the big picture and keep the vision of the big picture before yourself and your people. Every team member "has a role to play, and every role has its part in contributing to the bigger picture.

2. **Build a star team, not a team of stars.** Your team will not reach its potential if players are unwilling to subordinate their personal goals to the good of the team. As Ervin "Magic" Johnson put it, "Everybody on a championship team doesn't get publicity, but everyone can say he's a champion." Be personally a team player. Teach people to cooperate to make a team a winning team, and thus all of them winners. Involve everyone. Establish shared and an environment oriented to trust, joint creativity, open communication, and cohesive team effort. Help resolve dysfunctional behaviour. Facilitate joint problem solving and collaboration. Fully utilize diversity of team members.
3. **Establish shared ownership for the results.** Start with yourself – share your own individual results with the group. Shared responsibility is better achieved if the pay and reward system has a significant element that is dependent on the overall outcome. Keep the team informed how individual members are performing – it is important if Individuals' rewards depended on the performance of the group as a whole.
4. **Develop team members to fullest potential.** Bring out the best in your people. Help team members to develop so that all of them could effectively participate on the team. Lead. Train, coach and provide effective feedback.

5. **Make the work interesting and engaging.** Create enjoyable work environment. Encourage entrepreneurial creativity, risk-taking, and constant improvement. This includes also freedom to fail and fun in the workplace. Maintain healthy group dynamics. Facilitate problem solving and collaboration.
6. **Develop a self-managing team.** Be a superleader. Develop team members so that they can lead themselves. Don't give direct commands or instructions, use questions (such as "What do you think should be done?") and coaching instead. Empower people, delegate authority, and be open to ideas. Trust your team, rely on their judgment. Give your people authority to decide as much as possible. Encourage your team to engage in self-leadership behaviors such as self-observation, role-playing exercises, and self-problem solving. Encourage your team or groups within your team to evaluate themselves and to give both positive and negative feedback. Share with the team members certain areas of your responsibility. Ask for their input when you need to make a decision regarding recruitment, firing, discipline, training, and promotion.
7. **Motivate and inspire team members.** Be enthusiastic, inspire and energize people. Set stretch goals. Recognize and celebrate team and team member accomplishments and exceptional performance
8. **Lead and facilitate constructive communication.** Lead the rich array of types of communication exchanged between team members that include goal setting, task assignments, work scheduling, announcements, problem solving, performance evaluation, corrective, praise, discussions, etc. Communicate in a way that is truthful and believable to team members. Provide constructive feedback to the team on where and how it might improve. Encourage open communication among team members and communicate team views to and from other teams. Encourage self-criticism and rehearsal. Strive for team consensus and win-win agreements. Provide guidance to the team based on upper management direction.
9. **Monitor, but don't micromanage.** Avoid close supervision; do not over boss; do not dictate. Help keep the team focused and on track. Communicate team status, task accomplishment, and direction. Intervene when necessary to aid the group in resolving issues.

Marketing & Sales Control Methods:

To know whether our marketing and sales strategies are effective and are generating positive results are not. New venture must establish some measurements that focus on key controllable variables that affect marketing and sales efforts. Marketing controls are the set of practices and procedures employed by firms to monitor and regulate their marketing activities in achieving their marketing objectives or goal or it controls proposed marketing plan against predefined goals.

- **MARKET SHARE ANALYSIS:** We can find out market share by taking the venture's sales as a percentage of total industry sales or our venture's sales how much percentage contribute in a total sale.
- **SALES ANALYSIS:** We can analyze/monitor sales information for a particular time period like no. of sales enquires made in a week, no. of customer attended in a month, no. of meetings with potential customers and how many new customers are created in a particular time.

- **DISTRIBUTION:** To supply exact quantity of products or quantity as needed by retailers or Distributor entrepreneur must monitor increase or decrease distribution channel. Unavailability of stock at right time, in right quantity creates opportunities for competitor to create new Customers
- **CUSTOMER SATISFACTION:** With the help of marketing research, an entrepreneur can find out satisfaction level of customers towards products or services offered by them. It help to create new customer and retain existing customers.

E-COMMERCE:

- E-commerce involves digitally enabled (Online) commercial transactions (Buying and selling)
Between and among organizations and individuals
- Digitally enabled transactions include all transactions (Online Order, Billing, Payment Delivery etc.) mediated by digital technology
- Commercial transactions involve the exchange of value across organizational or individual boundaries in return for products or services

Electronic Commerce is an emerging concept that describes buying and selling of products, services and information with the help of Internet via computer networks.

E-commerce is not limited to buying and selling products online but along with transaction it also deal With its customer, suppliers, accountants, payment services, government agencies and competitors Online Along with online selling, EC will lead to significant changes in customize distribution and exchanged, Search and bargain for product and services.

Advantages of Electronic commerce

All the advantages of electronic commerce for businesses can be summarized in one statement:

Electronic commerce can increase sales and decrease costs.

Advantages:

- A business can reduce the costs of handling sales inquiries, providing price quotes, and determining product availability by using electronic commerce in its sales support and order-taking processes.
- Electronic commerce provides buyers with a wider range of choices than traditional commerce.
- Electronic commerce provides buyers with an easy way to customize the level of detail in the information they obtain about a prospective purchase.

- Electronic payments of tax refunds, public retirement, and welfare support cost less to issue and arrive securely and quickly when transmitted over the internet.
- Electronic payments can be easier to audit and monitor than payments made by cheque, providing protection against fraud and theft losses.
- Electronic commerce can also make products and services available in remote areas.

Disadvantages:

Some businesses are less suitable for electronic commerce. Such businesses may be involved in the selling of items which are perishable or high-cost, or which require inspection before purchasing. Return-on-investment is difficult to calculate.

- ✓ Many firms have had trouble recruiting and retaining employees with the technological, design, and business process skills needed to create an effective electronic commerce presence.
- ✓ Difficulty of integrating existing databases and transaction-processing software designed for traditional commerce into the software that enables electronic commerce.
- ✓ Many businesses face cultural and legal obstacles to conducting electronic commerce.

INTERNET ADVERTISING:

Internet advertising has proven to be a targeted approach to reaching your customer base, and is easily the most cost effective and measurable method of obtaining new customers.

It's an ideal way to reach potential customers with a solution that's cost effective, offers precise targeting and easy to understand tracking tools. Online search advertising reaches over 94.5% of Australian internet users who use search engines to find products or services online.

Each one of these users is interested in the search keywords they have entered, which makes the web such an effective way to connect with prospects interested in your business.

Responsive Audiences

More and more Australians are using search engines like Google every day. Over 10.7 million Australians are online at least monthly and many of them are looking to buy products or services while you read this. This is great news for small business owners who can use advertising platforms like Google AdWords to reach this captive audience.

Benefits for your Business

- Being found first in search results
- Gaining an advantage over your competitors
- Attaining the highest rate of traffic to your website
- Taking your position as your industry's leader
- Attracting more quality sales leads

- Increasing business revenue
- Improving business sustainability

Types of Advertising

There are multiple types of advertising, each with their own strengths and weaknesses. There is no “best” type of advertising; ultimately, the particular method used depends on the kind of site it is being run on, the needs of the advertiser, and the audience the advertising will reach.

1) Sponsorships

This is one of the traditional forms of advertising. Essentially, an advertiser will sponsor an entire site, or at least a section of a site or a specific page on a site. With this type of advertising it is most common for the sponsorship to be exclusive for a given period of time. Normally an advertiser will use this kind of advertising for branding, or for introducing a new product. Since visitors to the site will see the same sponsorship advertising constantly, rather than in rotation with other ads, it is more likely to sink in and be established in their minds.

2) Banner Run

This is perhaps the most basic and traditional form of advertising. With this method, the advertiser essentially buys a run of advertising, usually for a specific period of time. They will agree to pay a specific CPM for a certain number of impressions over a specific period of time. Sometimes this type of advertising will still take on elements of Sponsorship Advertising. Most commonly, publishers will sell a Banner Run on a specific section of a site, or specific ad spots on a page. For impressions across the premium ad placements on their site, for a higher rate.

3) Affiliate

Affiliate advertising is based on the concept of an advertiser rewarding a publisher (the affiliate) for any business that is brought in. Generally speaking, the publisher will run ads for an affiliate with special tracking code that helps the advertiser to identify which site a visitor came from. Affiliate systems can also often keep track of which visitors actually sign up for or buy something as well, and the affiliate can be rewarded accordingly. Affiliate systems can reward

4) Pay per Click

Most commonly, this type of advertising is associated with search engines and contextual Advertising generally, the advertiser pays out to the publisher (and the PPC network, if one is being Used) for each click on an ad. Commonly these ads will be text links, and will be shown either as Part of a search results page, or based on the content of a site.

- BANNER ADS (DOUBLECLICK)
 - Standardized ad shapes with images
 - Normally not related to content
- CONTEXT LINKED ADS (GOOGLE ADSENSE)
 - Related to content on page
- SEARCH LINKED ADS (GOOGLE ADWORDS)
 - Related to search terms
- ADVERTISING (BANNER, POP-UPS WINDOW)
 - Sponsorships link
 - Online demo version
- E-MAIL MARKETING
 - Spam mail, Hypertext

UNIT – IV

NEW VENTURE EXPANSION STRATEGIES AND ISSUES

LEARNING OBJECTIVES

- To explain the methods for expanding the venture.
- To discuss the types of joint ventures and their uses.
- To discuss the concepts of acquisitions and mergers.
- To discuss the appropriateness and uses of leveraged buyouts.
- To discuss the different types of franchises.
- To identify the steps in evaluating a franchise opportunity.

JOINT VENTURES:

With the increase in business risks, hyper-competition, and failures, joint ventures have increased. A joint venture is a separate entity involving two or more participants as partners. They involve a wide range of partners, including universities, businesses, and the public sector.

Historical Perspective

Joint ventures are not new. In the U.S. joint ventures were first used for large-scale projects in mining and railroads in the 1800s. The largest joint venture in the 1900s was the formation of ARAMCO by four oil companies to develop crude oil reserves in the Middle East. Domestic joint ventures are often vertical arrangements made between competitors allowing economies of scale. The increase in the number of joint ventures has been significantly throughout the 1990s.

Types of Joint Ventures

The most common type is that between two or more private-sector companies. Some joint ventures are formed to do cooperative research. Another type of joint research for research development is the not-for-profit research organization. Industry-university agreements for the purpose of doing research are also increasing. Two problems have kept this type venture from increasing even faster. A profit corporation wants to obtain tangible results-such as a patent-from its research investment, and universities want to share in the returns. The corporation usually wants to retain all proprietary data while university researchers want to make the knowledge available. Joint ventures between universities and corporations take many forms, depending on the parties involved and the subject of the research. International joint ventures are increasing rapidly due to their relative advantages. Both companies can share in the earnings and growth. The joint venture can have a low cash requirement. Also, the joint venture provides ready access to new international markets. Such a venture causes less drain on a company's managerial and financial resources than wholly owned subsidiary. There are drawbacks in establishing international joint ventures. The business objectives of the partners can be quite different. Cultural differences can create managerial difficulties. Government policies

sometimes can have a negative impact on the venture. The benefits usually outweigh the drawbacks.

Factors in Joint Venture Success

One critical factor for success is the accurate assessment of the parties involved and how best to manage the new entity. A second factor involves the symmetry between the partners. Another factor is that the expectations about the results of the joint venture must be reasonable. The final factor is the timing. A joint venture should be considered as one of many options for supplementing the resources of the firm.

Features and Evaluation of Joint Venture

Meaning

When two or more persons join together to carry out a specific business venture and share the profits on an agreed basis it is called a 'joint venture'. Each one of them who join as a party to the joint venture is called 'Co-Venturer'.

Features Of Joint Ventures

1. Joint venture is a special partnership without a firm name.
2. Joint venture does not follow the accounting concept 'going concern'.
3. The members of joint venture are known as co-ventures.
4. Joint venture is a temporary business activity.
5. In joint venture, profits and losses are shared in agreed proportion. If there is no agreement
Regarding the distribution of profit, they will share profit equally.
6. Joint venture is an agreement for pooling of capital and business abilities to be employed in some
Profitable venture.
7. At the end of venture, all the assets are liquidated and liabilities are paid off: if necessary the assets
And liabilities could be shared by co-ventures.
8. Joint venture always follows cash basis of account

ACQUISITIONS

An acquisition is the purchase of a company or a part of it in such a way that the acquired company is completely absorbed and no longer exists. Acquisitions can provide an excellent way to grow a business and enter new markets. A key issue is agreeing on a price. Often the structure of the deal can

be more Important to the parties than the actual price. A prime concern is to ensure that the acquisition fits into the overall direction of the strategic plan.

Advantages

- Established business.
- The acquired firm has an established image and track record.
- The entrepreneur would only need to continue the existing strategy to be successful.
- Location is already established.
- Established marketing structure.
- The employees of an existing business can be important assets.
- They know the business and can help the business continue.
- Employees already have established relationships with customers, suppliers, and channel members.

Dis advantages

Culture Clashes

Even a company has a personality, a culture that permeates the entire organization. If you acquire a company that has a way of doing things that conflict with yours, the employees of the acquired company may bristle at your management style. Conversely, your employees may not accept managers and supervisors from the acquired company.

Redundancy

When you acquire a company, you may have employees who duplicate each other's functions. This can cause excessive payroll expenditures where you pay for two employees to do the work of one.

Increased Debt

If you borrow money to acquire a company, that debt goes on the books of the original company. In order to service that debt, you need revenues from the acquired company. Since many companies become the target of acquisitions because they are struggling financially, you may find that the financial problems of the acquired company prevent you from generating the income you need to pay the new debt.

Market Saturation

If you acquire a company that is in the same line of business as your original company, your hopes for market expansion may hit a barrier: the two companies together already dominate the market. You may find it difficult to grow sales after the acquisition because not enough new customers exist outside of the customer base you and the acquired company have established.

Definition of 'Merger'

The combining of two or more companies, generally by offering the stockholders of one company securities in the acquiring company in exchange for the surrender of their stock.

Benefits of Mergers:

1. Economies of scale. This occurs when a larger firm with increased output can reduce average costs. Different economies of scale include:

- i) technical economies if the firm has significant fixed costs then the new larger firm would have lower average costs
- ii) bulk buying – discount for buying large quantities of raw materials
- iii) financial – better rate of interest for large company
- iv) Organisational – one head office rather than two is more efficient

2. International Competition. Mergers can help firms deal with the threat of multinationals and compete on an international scale

3. Mergers may allow greater investment in R&D This is because the new firm will have more profit. This can lead to a better quality of goods for consumers

4. Greater Efficiency. Redundancies can be merited if they can be employed more efficiently

Franchising

Definition: A continuing relationship in which a franchisor provides a licensed privilege to the franchisee to do business and offers assistance in organizing, training, merchandising, marketing and managing in return for a monetary consideration. Franchising is a form of business by which the owner (franchisor) of a product, service or method obtains distribution through affiliated dealers (franchisees).

TYPES OF FRANCHISING

Product or Trade Name Franchising

The product and trade name franchising system has evolved from suppliers or manufacturers creating sales contracts with dealers to buy or sell their products or product lines. In this relationship the dealer (franchisee) requires the trade name, trademark, and/or product from the supplier or manufacturer. The franchisee identifies with the supplier through the product line. This method of franchising consists primarily of distribution by a single supplier of manufactured products to dealers who then in turn resell this to the end consumer

Conversion

A new franchising technique allows independently operated businesses to convert to the form of an existing franchise business system. The new franchisee is expected to make changes in the existing

business which would bring them into conformity with the common marketing display and trade identity.

Business Format Franchising

We will be primarily concerned with the business format method of franchising which permits the franchisee to use the franchisor's products and services, trade name, trademark, and most importantly, the prescribed business format.

The business format provides the franchisee with great depth of knowledge and information concerning a great breadth of business activities including: marketing, promotion, site selection, price suggestions, grand opening plans, management, operations, training, financing, accounting systems, and legal support or information. This method or business opportunity allows an individual without prior experience an opportunity to be completely trained and informed about how to operate a new and different business. This also requires the franchisor to take the franchisee through a fairly extensive training program and to provide continuous training for the franchisee even after the franchising unit has been started.

Public Issues

(A) INTRODUCTION

Every Company needs funds for its business. Funds requirement can be for short term or for long term. To meet short term requirements, they may approach banks, lenders & may even accept fixed deposits from public/shareholders. To meet its long term requirements, funds can be raised either through loans from lenders, Banks, Institutions etc. (which carry financial burden) or through issue of capital. Capital can be raised through private placement of shares, public issue, right issue etc. Public issue means raising funds from public. Promoters of the Company may have plans for the Company, which may require infusion of money. The main purpose of the public issue, amongst others, is to raise money through public and get its shares listed at any of the recognized stock exchanges in India.

ADVANTAGES OF PUBLIC ISSUE

- Money non-refundable except in the case of winding up or buy back of shares.
- No financial burden i.e. no fixed rate of interest payable. However, in order to service the equity, dividend may be paid.
- Enhance shareholders' value if the Company performs well.
- Greater Transferability.
- Trading & Listing of securities at stock exchanges.
- Better liquidity of securities.

- Helps building reputation of promoters, Company & its products/services, provided the Company performs well

DIS-ADVANTAGES OF PUBLIC ISSUE

- Time consuming process.
- Expensive.
- Several legal formalities.
- Involvement of many intermediaries.
- Transparency requirements and public disclosure of information may lead to lack of privacy.
- Continuous compliance of provisions of listing agreement and other legal requirements.
- Constant scrutiny of performance by investors.
- May lead to takeover of the company
- Securities of the Company may be made subjective to speculative attacks.

Rights Issue

New stock (share) issue offered to existing stockholders (shareholders) in proportion to their current stock/shareholding, for a specified period and at a specified (usually discounted) price. Its objective is to afford them the opportunity to maintain their percentage of ownership of the firm. See also scrip issue. Also called rights offering.

How it works

A rights issue is directly offered to all shareholders of record or through broker dealers of record and may be exercised in full or partially. Subscription rights may either be transferable, allowing the subscription-right shareholder to sell them privately, on the open market or not at all. A rights issue to shareholders is generally made as a tax-free dividend on a ratio basis (e.g. a dividend of one subscription right for one share of Common stock issued and outstanding). Because the company receives shareholders' money in exchange for shares, a rights issue is a source of capital in an organization.

Considerations

Issue rights the financial manager has to consider:

- Engaging a Dealer-Manager or Broker Dealer to manage the Offering processes
- Selling Group and broker dealer participation
- Subscription price per new share
- Number of new shares to be sold
- The value of rights vs. trading price of the subscription rights
- The effect of rights on the value of the current share

- The effect of rights to shareholders of record and new shareholders and rights holders

Underwriting

Rights issues may be underwritten. The role of the underwriter is to guarantee that the funds sought by the company will be raised. The agreement between the underwriter and the company is set out in a formal underwriting agreement. Typical terms of an underwriting require the underwriter to subscribe for any shares offered but not taken up by shareholders. The underwriting agreement will normally enable the underwriter to terminate its obligations in defined circumstances. A sub-underwriter in turn sub-underwrites some or all of the obligations of the main underwriter; the underwriter passes its risk to the sub-underwriter by requiring the sub-underwriter to subscribe for or purchase a portion of the shares for which the underwriter is obliged to subscribe in the event of a shortfall. Underwriters and sub-underwriters may be financial institutions, stock-brokers, major shareholders of the company or other related or unrelated parties.

Bonus issue

When a company management decides to issue bonus shares, it results in the increase of the company's share capital. This increase in share capital is funded by the company's Reserves and Surplus (retained earnings in the balance sheet). For example, suppose a company issued one lakh equity shares of face value of Rs 10, the company's share capital is Rs 10 lakhs. Now, if the company wants to give a one-for-one bonus (1:1) to its shareholders, it has to generate another one lakh shares and transfer Rs 10 lakhs from its reserves and surplus account to share capital account.

Thus, the bonus is like 100 percent dividends as far as the company's reserve and surplus is concerned. A bonus issue permanently increases the share capital of the company, and hence, implies that the company has to service the enlarged equity capital in line with future market expectations. Bonus is treated as a company reward to the existing equity investors of the company. A bonus issue reflects the management's confidence in the future and gives a very strong signal in the market.

Stock split

The concept of stock split came into the limelight a few years ago when electronic holdings of stocks started in the demat format. Historically, the face value of shares used to be Rs 10 (usually) or Rs 100 (for some stocks). The prime reason was to maintain uniformity and avoid confusion and manual errors. With the adoption of the demat system, it became much easier to have and trade shares with multiple face value denominations. However, as per the regulations, the face value should be in multiples of Re 1.

Usually, a company's management thinks of stock split when they want to increase the liquidity of shares in the market. When the market price of shares goes up quite a bit, it is difficult for the investors to buy even small quantity of shares in the market. The company may decide to split the share's face value to increase the liquidity of shares, and hence a drop in price. When a share is split,

say, from Rs 10 face value to Re 1 face value, there would be no impact on the company's share capital. The company's share capital and reserves remain unchanged.

Choosing Location and Layout

Much like choosing a form of ownership and selecting particular sources of financing, the location decision has far-reaching and often long-lasting effects on a small company's future. Entrepreneurs who choose their locations wisely-with their customers' preferences and their companies' needs in mind-can establish an important competitive edge over rivals who choose their locations haphazardly. Because the availability of qualified workers, tax rates, the quality of infrastructure, traffic patterns, and many other factors vary from one site to another, the location decision is an important one that can influence the growth rate and the ultimate success of a company.

Factors:

Choosing the Region

The first step in selecting the best location is to focus at the regional level. Which region of the country has the characteristics necessary for a new business to succeed? Common requirements include rapid growth in the population of a certain age group, rising disposable incomes, the existence of necessary infrastructure, a nonunion environment, and low costs. At the broadest level of the location decision, entrepreneurs usually determine which regions of the country are experiencing substantial growth. Every year many popular business publications prepare reports on the various regions of the nation-which ones are growing, which are Stagnant, and which are declining. Studying shifts in population and industrial growth will give an entrepreneur an idea of where the action is-and isn't.

Choosing the State

Every state has an economic development office to recruit new businesses to that state. Even though the publications produced by these offices will be biased in favor of locating in that state, they still are an excellent source of facts, and can help entrepreneurs assess the business climate in each state. Some of the key issues to explore include the laws, regulations, and taxes that govern businesses and any incentives or investment credits the state may offer to businesses locating there. Other factors to consider include proximity to markets, proximity to raw materials, wage rates, quantity and quality of the labour supply, general business climate, tax rates, and Internet access.

PROXIMITY TO MARKETS: Locating close to markets they plan to serve is extremely critical to manufacturers, especially when the cost of transporting finished goods is high relative to their value. Locating near customers is necessary to remain competitive. Service firms often find that proximity to their clients is essential. If a business is involved in repairing equipment used in a specific industry, it should be located where that industry is concentrated. The more specialized a business, or the greater [he relative cost of transporting the product to the customer, the more likely it is that proximity to the market will be of critical importance in the location decision. For instance,

with its location in the centre of the country and its ready access to a variety of transportation systems, St. Louis, Missouri, has become home to many companies' distribution centres. Not only do businesses in St. Louis benefit from a well-educated workforce, they also can ship to customers anywhere in the country quickly and efficiently.

PROXIMITY" TO NEEDED RAW MATERIALS: If a business requires raw materials that are difficult or expensive to transport, it may need a location near the source of those raw materials. For instance, one producer of kitty litter chose a location on a major vein of kaolin, the highly absorbent clay from which kitty litter is made. Transporting the heavy low-value material over long distances would be impractical--and unprofitable. In other situations in which bulk or weight is not a factor, locating in close proximity to suppliers can facilitate quick deliveries and reduce holding costs for inventories. The value of products and materials, their cost of transportation, and their unique function all interact in determining how close a business needs to be to its source of supplies.

WAGE RATES: Existing wage rates will provide another measure for comparison among states. Wages can sometimes vary significantly from one state or region to another, significantly affecting a company's cost of doing business. Another factor influencing wage rates is the level of union activity in a state. How much union organizing activity has the state seen within the past two years? Is it increasing or decreasing? Which industries have unions targeted in the recent past?

LABOR SUPPLY NEEDS. For many businesses, especially "new economy" companies, one of the most important characteristics of a potential location is the composition of the local workforce. Entrepreneurs must consider two factors when analyzing the labour supply in a potential location: the number of workers available in the area and their levels of education, training, adaptability, and experience.

BUSINESS CLIMATE. What is the state's overall attitude toward your kind of business? Has it passed laws that impose restrictions on the way a company can operate? Does the state impose a corporate income tax? Is there an inventory tax? Are there "blue laws" that prohibit certain business activity on Sundays? Does the state offer small business support programs or financial assistance to entrepreneurs? These are just some of the issues an owner must compare on a state-by-state basis to determine the most suitable location. Some states are more "small business friendly" than others. For instance, Entrepreneur magazine recently named Fort Worth-Arlington, Texas, as one of the best areas for small businesses, citing a positive attitude toward growing and developing small companies as a major asset. Many factors make Fort Worth (once known as Cow town because of its stockyards) a desirable location, including its diversified economic base, a strong core of more than two dozen Fortune 500 companies, significant population of private investors anxious to invest in promising small companies, and several state and local government support systems offering entrepreneurial assistance and advice. The renaissance of the downtown business district is creating new opportunities for small businesses, and both Dallas-Fort Worth International Airport and Alliance Airport (a specialized commercial air facility) provide important pieces of business infrastructure.

TAX RATES: Another important factor entrepreneur must consider when screening states for potential locations is the tax burden they impose on businesses and individuals. Income taxes may be the most obvious tax. States impose on both business and individual residents, but entrepreneurs also must evaluate the impact of payroll taxes, sales taxes, property taxes, and specialized taxes on the cost of their operations. Currently, seven states impose no income tax on their residents, but state governments always impose taxes of some sort on businesses and individuals. In some cases, states offer special tax rates or are willing to negotiate fees in lieu of taxes for companies that will create jobs and stimulate the local economy.

INTERNET ACCESS: Speedy and reliable Internet access is an increasingly important factor in the location decision. Fast Internet access through cable, DSL, or T1 lines is essential for high-tech companies and those engaging in e-commerce. Even those companies that may not do business over the Web currently are finding the odds very high that they will use the Web as a business tool within the near future. Companies that fall behind in high-tech communication will find themselves at a severe competitive disadvantage.

Issues Related to Selection of Layout

Plant layout problem is an area of arranging facilities such as equipment, department, section, etc., inside the plant or work place. It is one of the most critical strategic decisions. This is because :

- Plant layout is generally a onetime activity as it is very difficult to frequently rearrange the facilities.
- It requires a long term vision about factory so that minimal dislocations occur when the factory expands or goes through minor changes in process, production schedule or product mix
- Wrong arrangements of facilities lead to more travel time between processes. This causes more through-put time, more work-in-process, more material handling, etc.

UNIT V

PRODUCTION AND MARKETING MANAGEMENT

Production Management:

Production management means planning, organising, directing and controlling of production activities.

Production management deals with converting raw materials into finished goods or products. It brings together the 6M's i.e. men, money, machines, materials, methods and markets to satisfy the wants of the people.

Importance of Production Management

The importance of production management to the business firm:

1. **Accomplishment of firm's objectives:** Production management helps the business firm to achieve all its objectives. It produces products, which satisfy the customers' needs and wants. So, the firm will increase its sales. This will help it to achieve its objectives.
2. **Reputation, Goodwill and Image:** Production management helps the firm to satisfy its customers. This increases the firm's reputation, goodwill and image. A good image helps the firm to expand and grow.
3. **Helps to introduce new products:** Production management helps to introduce new products in the market. It conducts Research and development (R&D). This helps the firm to develop newer and better quality products. These products are successful in the market because they give full satisfaction to the customers.
4. **Supports other functional areas:** Production management supports other functional areas in an organisation, such as marketing, finance, and personnel. The marketing department will find it easier to sell good-quality products, and the finance department will get more funds due to increase in sales. It will also get more loans and share capital for expansion and modernisation. The personnel department will be able to manage the human resources effectively due to the better performance of the production department.
5. **Helps to face competition:** Production management helps the firm to face competition in the market. This is because production management produces products of right quantity, right quality, and right price and at the right time. These products are delivered to the customers as per their requirements.
6. **Optimum utilisation of resources:** Production management facilitates optimum utilisation of resources such as manpower, machines, etc. So, the firm can meet its capacity utilisation objective. This will bring higher returns to the organisation.

7. **Minimises cost of production:** Production management helps to minimise the cost of production. It tries to maximise the output and minimise the inputs. This helps the firm to achieve its cost reduction and efficiency objective.
8. **Expansion of the firm:** The Production management helps the firm to expand and grow. This is because it tries to improve quality and reduce costs. This helps the firm to earn higher profits. These profits help the firm to expand and grow.

Marketing Management

Definition:

Marketing (management) is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational goals

Definition: Marketing

Marketing is a societal process by which individuals and groups obtain what they need and want through creating, offering, and exchanging products and services of value freely with others

5 P's of Marketing

Five Ps

- ❖ Product
- ❖ Price
- ❖ Place
- ❖ Promotion
- ❖ People

The 5 Ps of marketing

Product

The product refers to all of the features, advantages and benefits that your customers can enjoy from buying your goods or services. When marketing your product, you need to think about the key features and benefits your customers want or need, including (but not limited to) styling, quality, repairs, and accessories.

Price

This refers to your pricing strategy for your products and services and how it will affect your customers. You should identify how much your customers are prepared to pay, how much mark-up you need to cater for overheads, your profit margins and payment methods, and other costs. To attract customers and retain your competitive advantage, you may also wish to consider the possibility of discounts and seasonal pricing.

Promotion

These are the promotional activities you use to make your customers aware of your products and services, including advertising, sales tactics, promotions and direct marketing.

Place

Place is about getting the products to the customer, and includes where a product or service is made, sold or distributed. You can set yourself apart from your competition through the design of your retail space and by using effective visual merchandising techniques. If you are not a retail business, place is still an important part of your marketing. Your customers may need a quick delivery turnaround, or want to buy locally manufactured products. If you are starting a new business, finding the right business location will be a key marketing tactic.

People

People refer to the staff and salespeople who work for your business, including yourself.

When you provide excellent customer service, you create a positive experience for your customers, and in doing so market your brand to them. In turn, existing customers may spread the word about your excellent service and you can win referrals. Give your business a competitive advantage by recruiting the right people, training your staff to develop their skills, and retaining good staff.

Production Management

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Production Management

Techniques:

Organisations will adopt a variety of techniques to produce their goods or services. The

Technique adopted will depend on a number of factors including;

- The product or service
- Quality of the product or service
- Quantity of the product or service
- Size of the organization
- The type of organization
- The organization's resources
- Legislation applicable to the organization

The most common methods of production include Line Production, Continuous flow production, Batch Production and Just in Time Production. The aim of all is to add value. Adding value is the process of converting the input to an output so that its desirability to the customer increases. The input is the product or service at the start of the production process. The output is the product or service at the end of the production process.

Line Production

Just as the name suggests line production is producing goods along a line of production. The goods will be passed along a line containing different stages. At each stage in the line the goods will be altered. Often a person/group of people will be responsible for just one stage in the process. Car assembly or fast food "drive thrus", often adopt Line production as identical products are produced each day. Nowadays some organisations will employ robots rather than people to undertake the stages in line production. Robots are believed to be more efficient and unlike humans will not get bored and cause errors.

Continuous Flow Production (CFP)

This is simply adopting line production 24 hours day/seven days a week, using automatic equipment. The automatic equipment will operate in the same manner day in day out. The ability to work in this manner is another advantage robots/machinery have over humans. CFP does not involve humans so it is not used in the service industry unlike line production.

Batch Production

This is the method employed when the organisation needs to produce a fixed amount of each of the type of goods it produces. In this instance production technique and resources will be adapted, to produce the product required and to produce just the amount required. A good example is a pizza factory. Let's imagine the factory produces 150 pepperoni pizzas, 265 ham and pineapple pizzas and 75 cheese and tomato pizzas each day.

Just In Time Production (JIT)

This method of production generates goods/services "just in time" for them to be sold rather than preparing them months or weeks in advance. To save storage costs, the parts needed to make the end product will arrive just before they are used to manufacture the product. This means that the production process is carefully planned and organised. Production must be efficient and speedy otherwise the goods will not be manufactured "in time" for the customer. Conversely if there are no/few orders then production will slow down or stop altogether.

Plant Utilization and Maintenance

Definition:

The time when a factory is being used to produce goods as a percentage of the total time it could be used, or the number of machines being used as a percentage of the total number that could be used.

Capacity utilization (%) =

$$\frac{\text{Actual output per month (or per annum)} \times 100\%}{\text{Maximum possible output per month (or per annum)}}$$

Maximum possible output per month (or per annum)

For example, if a firm could produce 1200 units per month, but is actually producing 600 per month, its capacity utilisation is as follows:

$$\text{Capacity utilisation \%} = \frac{600 \text{ units per month} \times 100\%}{1200 \text{ units per month}}$$

1200 units per month

$$= 50\%$$

Financial implications

A firm's level of capacity utilisation determines how much fixed costs should be allocated per unit, so as a firm's capacity utilisation increases, the fixed costs (and therefore also, total costs) per unit will decrease. For example, if the firm above had fixed costs of £12,000 per month, the fixed costs per unit would be £20 per unit at 50% capacity utilisation, but only £10 per unit at 100% capacity utilisation.

It therefore follows that a firm should be most efficient if it is running at 100% capacity utilisation. However, if a firm is running at full capacity, there are a number of potential drawbacks:

- There may not be enough time for routine maintenance, so machine breakdowns may occur more frequently and orders will be delayed
- It may not be possible to meet new or unexpected orders so the business cannot grow without expanding its scale of production
- Staff may feel under excessive pressure, leading to increased mistakes, absenteeism and labour turnover
- If the factory space is overcrowded, work may become less efficient due to the untidy working conditions
- It may be necessary to spend more on staff overtime to satisfy orders, increasing labour costs

Problems arising from low capacity utilisation

- Higher fixed costs per unit mean reduced profitability; if prices were raised to cover these costs, this would probably lead to reduced sales unless the product was price inelastic
- Spare capacity can portray a negative image, particularly in a business where it can be seen that it is no longer busy – such as a shop or a health club - signifying loss of popularity
- Staff can become bored and demoralized if they don't have as much to do, especially if they fear losing their jobs

Benefits of low capacity utilization

Low capacity utilisation is unlikely to be desirable in the long term as the higher unit costs will make it difficult to compete. However it is not all bad news and possible short term benefits include:

- A firm may have more time for maintenance and repairs and for staff training, to prepare for an upturn in trade
- There may be less stress for employees than if they were working at full capacity
- The firm can cope with new orders; firms in expanding markets may expect to have low utilisation whilst they build their sales

Plant Maintenance:

Plant maintenance usually refers to the methods, strategies, and practices used to keep an industrial factory running efficiently. This can include anything from regular checks of equipment to make sure

they are functioning properly, to cleaning garbage bins and toilets. The general aim of plant maintenance is to create a productive working environment that is also safe for workers.

Maintain the plant

- The plant should be inspected according to its inspection, testing, monitoring schedule by a person competent to detect faults or items requiring maintenance and able to initiate corrective action. Safety controls and engineering controls are items that require Inspection, Testing and Monitoring.
- Maintenance is carried out according to the recommendations of the designer/manufacture
- Plant should be de energized, tagged and/or locked out of service during the process of being cleaned, serviced, repaired or altered if that process could pose a risk to health and safety. A SWP should be followed for this process.
- Regular workplace safety inspections where plant is checked for correct functioning and operation will help to identify plant which may pose a hazard and require ad hoc repair or maintenance

Designing the Work Place

The workplace today is a result of historical innovations that were designed to make the workplace a productive environment. However the world of work continues to change, and the design factors that once were helpful are adding less value than they once did.

Here are a set of principles and practices you can use in designing offices and workplaces.

- Work patterns: How we work differently.
 - The In/Out pattern
 - The Traveler pattern
- Working spaces: Patterns of space we use.
 - ✓ Hotel
 - ✓ Desk sharing
 - ✓ Meeting room
- Overall design principles: Basic guidelines for workplace design.
 - ❖ Support the work of individuals
 - ❖ Support the work of groups
 - ❖ Create a motivating environment
- Physical design principles: Principles for the solid stuff.
- Physical layout elements: Aisles, pillars and so on make a difference.
- Psychological principles: Basic human needs are important.
- Office design: Principles for creating good offices.
- Workstation design: Designing the desk where people sit.
 - ✚ Chairs
 - ✚ Lighting
 - ✚ Storage
 - ✚ Utilities
- Workplaces for teams: Building places where people can work together.

- Designing experiences: Within your workplace, for all who visit and work there.

INVENTORY CONTROL

Meaning:

Coordination and supervision of the supply, storage, distribution, and recording of materials to maintain quantities adequate for current needs without excessive oversupply or loss

Why Inventory Control?

Control of inventory, which typically represents 45% to 90% of all expenses for business, is needed to ensure that the business has the right goods on hand to avoid stock-outs, to prevent shrinkage (spoilage/theft), and to provide proper accounting. Many businesses have too much of their limited resource, capital tied up in their major asset, inventory. Worse, they may have their capital tied up in the wrong kind of inventory. Inventory may be old, worn out, shopworn, obsolete, or the wrong sizes or colors, or there may be an imbalance among different product lines that reduces the customer appeal of the total operation.

Inventory control involves the procurement, care and disposition of materials. There are

Three kinds of inventory that are of concern to managers

- ✓ Raw materials,
- ✓ In-process or semi-finished goods,
- ✓ Finished goods

The reasons for inventory control are:

- Helps balance the stock as to value, size, color, style, and price line in proportion to demand or sales trends.
- Help plan the winners as well as move slow sellers
- Helps secure the best rate of stock turnover for each item
- Helps reduce expenses and markdowns.
- Helps maintain a business reputation for always having new, fresh merchandise in Wanted sizes and colors.

Methods:

1) **Order Point (O)**: The **order point** is the quantity specified by the warehouse manager as the point at which the item should be reordered. If the available stock level reaches or falls below the

order point quantity, the NCAS notifies the warehouse manager to reorder the item via the **Replenishment Action Report (RRACT)**.

When the inventory control is O, the warehouse manager must also specify the quantity of stock to be reordered. The warehouse manager can use either a fixed order quantity or an economic order quantity to specify the quantity of stock to be reordered.

The **fixed order quantity** requires the warehouse manager to specify the amount of the item that should be ordered each time the available stock level falls to the order point. The fixed order quantity can be of two types: absolute or time supply. With the absolute quantity, the warehouse manager specifies a specific number of items to be ordered. With the time supply quantity, the order quantity is specified as a number of days' supply. If the order quantity is specified in days' supply, the NCAS calculates the quantity based upon the item's demand history.

2) Computed Order Point (C): The computed order point control is similar to the order point control. However, instead of using a fixed order point to determine when an item should be reordered, the NCAS uses the safety stock level, lead time, and forecasted monthly demand to calculate the order point. The safety stock level is the amount of cushion in units or in time for the item at the reorder point. The amount of cushion in time refers to the number of days that the current on-hand supply of an item will last. The lead time is the number of days from the time a purchase order is created until the goods are received at the warehouse.

3) Minimum/Maximum (M): The minimum/maximum control specifies the point at which an item should be reordered (minimum stocking level) and a reorder quantity ceiling (maximum stocking level). The NCAS uses the order point (minimum stocking level), inventory standard (maximum stocking level), and order multiple to determine the order quantity.

- When inventory levels for an item fall below the minimum, as designated by the value in the ORDER POINT field, the NCAS will notify the warehouse manager that replenishment should be initiated.
- The inventory standard is the ceiling or maximum inventory level permitted for that item at that warehouse. In other words, replenishment should not exceed the inventory standard.

Material Handling

Material handling is an important element, which determines the productivity of a warehouse. Material handling is highly labor intensive as compared to any other operations in a warehouse. Therefore the personnel cost in material handling is usually high. Most of the activities in material handling require significant manual handling and hence has little benefits from computerization and improved information technology.

Objectives / Roles

1) Handling

The primary handling objective in a warehouse is to sort inbound shipment according to precise customer requirements. The three handling activities are receiving, in-storage handling and shipping.

2) Receiving:

When material reaches the warehouse it has to be received by the warehouse. One of the important activities here is to unload the goods from the transportation vehicle. Most of the time unloading is done manually. Containerized or unit-load shipments considerably reduce the unloading time.

3) In-storage Handling:

In-storage handling consists of all movement within a warehouse facility. The two types of in-storage handling are transfer and section.

Various transfers of goods happen within the warehouse. The goods as soon as they are received in the warehouse are transferred to the storage area. The second transfer may be required during order selection where goods are transferred from storage area to order selection area. The final transfer of goods takes place when the goods are finally shipped from the warehouse. Here the goods are transferred from the or election to the shipping or outbound area.

4) Shipping: Shipping consists of checking and loading orders onto transportation vehicles. As in receiving, shipping is manually performed in most systems.

Material handling principles

The principles of materials handling which ensures effective and efficient handling of material are as follows:

1. **Planning Principle:** All material handling should be the result of a deliberate plan. Non-plan movement of materials should be avoided as far as possible.
2. **Standardization Principle:** Material handling equipment, controls, and software should be standardized. While standardizing it should be ensured that performance objectives and flexibility in operations are not sacrificed.
3. **Work Principle:** Material handling work should be minimized without sacrificing productivity.
4. **Ergonomic Principle:** human capabilities and limitations must be taken into consideration while designing material handling tasks and equipments.

5. **Unit Load:** Unit load should be properly determined so that it accommodates all materials and material handling becomes easier.

Quality Control:

Meaning:

Quality control (QC) is a procedure or set of procedures intended to ensure that a manufactured product or performed service adheres to a defined set of quality criteria or meets the requirements of the client or customer. QC is similar to, but not identical with, quality assurance (QA). QA is defined as a procedure or set of procedures intended to ensure that a product or service under development (before work is complete, as opposed to afterwards) meets specified requirements. QA is sometimes expressed together with QC as a single expression, quality assurance and control (QA/QC).

Seven Basic Quality Tools

Start your quality journey by mastering these tools, and you'll have a name for them too: "indispensable."

- **Cause-and-effect diagram** (also called Ishikawa or fishbone chart): Identifies many possible causes for an effect or problem and sorts ideas into useful categories.
- **Check sheet:** A structured, prepared form for collecting and analyzing data; a generic tool that can be adapted for a wide variety of purposes.
- **Control charts:** Graphs used to study how a process changes over time.
- **Histogram:** The most commonly used graph for showing frequency distributions, or how often each different value in a set of data occurs.
- **Pareto chart:** Shows on a bar graph which factors are more significant.
- **Scatter diagram:** Graphs pairs of numerical data, one variable on each axis, to look for a relationship.
- **Stratification:** A technique that separates data gathered from a variety of sources so that patterns can be seen (some lists replace "stratification" with "flowchart" or "run chart")

Marketing Functions:

WHAT IS MARKETING?

Marketing is defined as the process of determining the needs and wants of consumers and being able to deliver products that satisfy those needs and wants. Marketing includes all of the activities necessary to move a product from the producer to the consumer. Think of marketing as a bridge from the producer to the consumer.

Marketing starts with market research, a learning process in which marketers get to know everything they can about the needs and wants of consumers, and it ends when somebody buys something. Many companies feel that services provided to customers after the purchase also are an important part of marketing. All of these enterprises -- production, advertising, transportation, processing, packaging, and selling -- are included in the marketing process.



THE SEVEN FUNCTIONS OF MARKETING

In order for the marketing bridge to work correctly -- providing consumers with opportunities to purchase the products and services they need -- the marketing process must accomplish nine important functions.

The functions are:

Buying - people have the opportunity to buy products that they want. **Selling** - producers function within a free market to sell products to consumers. **Financing** - banks and other financial institutions provide money for the production and marketing of products.

Storage - products must be stored and protected until they are needed. This function is especially important for perishable products such as fruits and vegetables.

Transportation - products must be physically relocated to the locations where consumers can buy them. This is a very important function. Transportation includes rail road, ship, airplane, truck, and telecommunications for non-tangible products such as market information.

Risk-Taking - insurance companies provide coverage to protect producers and marketers from loss due to fire, theft, or natural disasters.

Market Information - information from around the world about market conditions, weather, price movements, and political changes, can affect the marketing process. Market information is provided by all forms of telecommunication, such as television, the internet, and phone.

Grading and Standardizing - Many products are graded in order to conform to previously determined standards of quality.

Processing - processing involves turning a raw product

Market Segmentation:

Market segmentation is a marketing strategy that involves dividing a broad target market into subsets of consumers who have common needs, and then designing and implementing strategies to target their needs and desires using media channels and other touch-points that best allow reaching them.

Segmentation

Segmenting is the process of dividing the market into segments based on customer characteristics and needs.

The main activity segmenting consists of four sub activities. These are:

1. determining who the actual and potential customers are
2. identifying segments
3. analyzing the intensity of competitors in the market
4. selecting the attractive customer segments.

The first, second and fourth steps are described as market segmentation. The third step of analyzing the intensity of the competitors is added to the process of segmenting in this process description. When different segments are identified, it is not necessary that these segments are attractive to target. A company is almost never alone in a market -- competitors have a great influence on the attractiveness of entering a certain market. When there is a high intensity of competitors, it is hard to obtain a profitable market share and a company may decide not to enter a certain market. The third step of segmenting is the first part of the topic of competitor analysis.

Targeting

After the most attractive segments are selected, a company should not directly start targeting all these segments -- other important factors come into play in defining a target market. Four sub activities form the basis for deciding on which segments will actually be targeted.

The four sub activities within targeting are:

1. defining the abilities of the company and resources needed to enter a market
2. analyzing competitors on their resources and skills
3. considering the company's abilities compared to the competitors' abilities
4. deciding on the actual target markets.

The first three sub activities are described as the topic competitor analysis. The last sub activity of deciding on the actual target market is an analysis of the company's abilities to those of its competitors. The results of this analysis leads to a list of segments which are most attractive to target and have a good chance of leading to a profitable market share.

Positioning

When the list of target markets is made, a company might want to start on deciding on a good marketing mix directly. But an important step before developing the marketing mix is deciding on how to create an identity or image of the product in the mind of the customer. Every segment is different from the others, so different customers with different ideas of what they expect from the product. In the process of positioning the company:

1. identifies the differential advantages in each segment
2. decides on a different positioning concept for each of these segments. This process is described at the topic positioning, here different concepts of positioning are given.

The process-data model shows the concepts resulting from the different activities before and within positioning. The model shows how the predefined concepts are the basis for the positioning statement. The analyses done of the market, competitors and abilities of the company are necessary to create a good positioning statement.

When the positioning statement is created, one can start on creating the marketing mix.

Methods for segmenting consumer markets

Geographic segmentation

Marketers can segment according to geographic criteria—nations, states, regions, countries, cities, neighbourhoods, or postal codes. The geo-cluster approach combines demographic data with geographic data to create a more accurate or specific profile.[1] With respect to region, in rainy regions merchants can sell things like raincoats, umbrellas and gumboots. In hot regions, one can sell summer wear. In cold regions, someone can sell warm clothes. A small business commodity store may target only customers from the local neighborhood, while a larger department store can target its marketing towards several neighborhoods in a larger city or area, while ignoring customers in other continents.

Behavioural segmentation

Behavioural segmentation divides consumers into groups according to their knowledge of, attitude towards, usage rate or response to a product

Segmentation by occasions

Segmentation according to occasions relies on the special needs and desires of consumers on various occasions - for example, for products for use in relation with a certain holiday. Products such as Christmas decorations or Diwali lamps are marketed almost exclusively in the time leading up to the related event, and will not generally be available all year round. Another type of occasional market segments are people preparing for a wedding or a funeral, occasions which only occur a few times in a person's lifetime, but which happen so often in a large population that ongoing general demand makes for a worthwhile market segment.

Segmentation by benefits

Segmentation can take place according to benefits sought by the consumer or according to perceived benefits which a product/service may provide.

Market Research

Market research is any organized effort to gather information about target markets or customers. It is a very important component of business strategy. The term is commonly interchanged with marketing research; however, expert practitioners may wish to draw a distinction, in that marketing research is concerned specifically about marketing processes, while market research is concerned specifically with markets.

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

Market research, which includes social and opinion research, is the systematic gathering and interpretation of information about individuals or organizations using statistical and analytical methods and techniques of the applied social sciences to gain insight or support decision making.

Market research for business/planning

Market research is for discovering what people want, need, or believe. It can also involve discovering how they act. Once that research is completed, it can be used to determine how to market your product. Peter Drucker believed market research to be the quintessence of marketing.

There are two major types of market research. Primary Research sub-divided into Quantitative and Qualitative research and Secondary research.

For starting up a business, there are some important things:

- **Market information**

Through Market information one can know the prices of different commodities in the market, as well as the supply and demand situation. However, not market research reveal more than economic information. Market researchers have a wider role than previously recognized by helping their clients to understand social, technical, and even legal aspects of markets.

- **Market segmentation**

Market segmentation is the division of the market or population into subgroups with similar motivations. It is widely used for segmenting on geographic differences, personality differences, demographic differences, technographic differences, use of product differences, psychographic differences and gender differences. For B2B segmentation firmographics is commonly used.

- **Market trends**

Market trends are the upward or downward movement of a market, during a period of time. Determining the market size may be more difficult if one is starting with a new innovation. In this case, you will have to derive the figures from the number of potential customers, or customer segments.

- **SWOT Analysis**

Is a written analysis of the Strengths, Weaknesses, Opportunities and Threats to a business entity? Not only should a SWOT be used in the creation stage of the company but could also be used throughout the life of the company. A SWOT may also be written up for the competition to understand how to develop the marketing and product mixes. Besides information about the target market, one also needs information about one's competitors, customers, products, etc. Lastly, you need to measure marketing effectiveness. A few techniques are:

- Customer analysis
- Choice modeling
- Competitor analysis
- Risk analysis
- Product research
- Advertising the research
- Marketing mix modeling
- Simulated Test Marketing

Definition of 'Distribution Channel'

The chain of businesses or intermediaries through which a good or service passes until it reaches the end consumer. A distribution channel can include wholesalers, retailers, distributors and even the internet. Channels are broken into direct and indirect forms, with a "direct" channel allowing the consumer to buy the good from the manufacturer and an "indirect" channel allowing the consumer to buy the good from a wholesaler. Direct channels are considered "shorter" than "indirect" ones.

A channel of distribution consists of three types of flows:-

- Downward flow of goods from producers to consumers
- Upward flow of cash payments for goods from consumers to producers
- Flow of marketing information in both downward and upward direction i.e. Flow of information on new products, new uses of existing products, etc from producers to consumers. And flow of information in the form of feedback on the wants, suggestions, complaints, etc from consumers/users to producers.

An entrepreneur has a number of alternative channels available to him for distributing his products. These channels vary in the number and types of middlemen involved. Some channels are short and directly link producers with customers. Whereas other channels are long and indirectly link the two through one or more middlemen.

These channels of distribution are broadly divided into four types:-

- **Producer-Customer:-** This is the simplest and shortest channel in which no middlemen are involved and producers directly sell their products to the consumers. It is fast and

economical channel of distribution. Under it, the producer or entrepreneur performs all the marketing activities himself and has full control over distribution. A producer may sell directly to consumers through door-to-door salesmen, direct mail or through his own retail stores. Big firms adopt this channel to cut distribution costs and to sell industrial products of high value. Small producers and producers of perishable commodities also sell directly to local consumers.

- **Producer-Retailer-Customer:-** This channel of distribution involves only one middlemen called 'retailer'. Under it, the producer sells his product to big retailers (or retailers who buy goods in large quantities) who in turn sell to the ultimate consumers. This channel relieves the manufacturer from burden of selling the goods himself and at the same time gives him control over the process of distribution. This is often suited for distribution of consumer durables and products of high value.
- **Producer-Wholesaler-Retailer-Customer:-** This is the most common and traditional channel of distribution. Under it, two middlemen i.e. wholesalers and retailers are involved. Here, the producer sells his product to wholesalers, who in turn sell it to retailers. And retailers finally sell the product to the ultimate consumers. This channel is suitable for the producers having limited finance, narrow product line and who needed expert services and promotional support of wholesalers. This is mostly used for the products with widely scattered market.
- **Producer-Agent-Wholesaler-Retailer-Customer:-** This is the longest channel of distribution in which three middlemen are involved. This is used when the producer wants to be fully relieved of the problem of distribution and thus hands over his entire output to the selling agents. The agents distribute the product among a few wholesalers. Each wholesaler distribute the product among a number of retailers who finally sell it to the ultimate consumers. This channel is suitable for wider distribution of various industrial products.

Sales Promotion:

Definition:

Stimulation of sales achieved through contests, demonstrations, discounts, exhibitions or trade shows, games, giveaways, point-of-sale displays and merchandising, special offers, and similar activities.

METHODS OF SALES PROMOTIONS

There are four methods involved in sales promotions

1. Consumer sales promotions
2. Trade sales promotions
3. Business to business promotions
4. Sales persons promotions

1) CONSUMER SALES PROMOTIONS (CSP):

In the previous section, we defined sales promotion as “those marketing activities other than selling, advertising and publicity, that stimulate consumer purchasing and dealer effectiveness”. In this section we are going to discuss promotional activities aimed at the final consumer. These activities rely on what is known as a “pull strategy”- that is they depend on the consumer to literally pull the product through the distribution channels. Before looking at the tools and techniques of (CSP) let us look at some of its specific goals:

a) Encourage trial: Most new products fail because too few people try the product or because trial does not lead to repeat purchase. Especially when the concept is new, most people are hesitant to take risks. Sales promotion directed at the consumer offers a reason for trying the new offering.

b) Encourage brand loyalty: It is not enough to persuade consumers to try your product. The real challenge lies in getting them to stay with your brand. As we saw with the subscription wars competitors are always ready to come up with counter offers to woo away your customers.

c) Increase product usage: (CSP) could also aim to persuade customers to buy a product in larger quantities.

- Money-back offer:
- Premiums:
- Contests and sweepstakes:
- Frequency programmes:
- Point of purchase displays:
- Joint sales promotion:

TRADE SALES PROMOTIONS (TSP):

CSP contributes only partially to the success of a product. Much also depends on the willingness of wholesalers and retailers to carry and sell the product. This is particularly important today when power has shifted from the marketer to the retailer. A few years ago, companies with huge advertising budgets and extensive distribution networks could use their marketing muscle to move products onto retail shelves. Today retailers command terms and demand incentives from the manufacturer for giving preference to his products. Some specific objectives of TSPS are:

- Encourage stock of new products.
- Raise or lower inventory levels of an existing product.
- Provide an incentive to sell a product.

Encourage more prominent and attractive display of a product. Offer support and training for distributors and the sales force. Strengthen relations with the trade.

Either one or a combination of tools/techniques may be used to achieve the above goals:

- Trade deals:
- Buying allowance
- Display allowance
- Sales support
- Yellow pages advertising
- Specialty advertising

BUSINESS TO BUSINESS (B2B)

Business to business is also an important method of sales promotions. But they are used for industrial products and not much for consumer products. Therefore their sales promotions techniques may also differ from that of consumer products. For example a company needs spare parts as a major input or raw material then it will have an auction where different suppliers will come and the supplier that bids the lowest price will be chosen.

SALES PERSON'S PROMOTIONS

The following promotion aids are used for sales force promotions:

- a) Sales meetings: producers often organize annual meetings for the sales force for giving them necessary information about any new product to be introduced, new sales plans and techniques and the new sales programme of the producers.
- b) Contest: sales contest for the salesman are organized from time to time by the producers. They are awarded with cash prizes and other benefits on the basis of highest sales, minimizing field expenses etc.
- c) Sales literature and letters: salesmen are provided with various printed literatures, such as sales manuals, folders, price lists, designs and directories of customers etc. it is extremely helpful to them in their contacts with customers.
- d) Product demonstration kits and visual sales aids: salesmen are often provided with sales kits, containing the models of industrial and technical products.
- e) Premiums bonus and gifts: premiums are given for achieving prescribed sales quotes. Bonus is paid to salesmen from the portion of profits of the firm every year to motivate him for better efforts.

Product Pricing:

No matter what type of product you sell, the price you charge your customers or clients will have a direct effect on the success of your business. Though pricing strategies can be complex, the basic rules of pricing are straightforward:

- All prices must cover costs and profits.
- The most effective way to lower prices is to lower costs.
- Review prices frequently to assure that they reflect the dynamics of cost, market demand,

- response to the competition, and profit objectives.
- Prices must be established to assure sales.

Before setting a price for your product, you have to know the costs of running your business. If the price for your product or service doesn't cover costs, your cash flow will be cumulatively negative, you'll exhaust your financial resources, and your business will ultimately fail.

When is the right time to review your prices? Do so if:

- You introduce a new product or product line;
- Your costs change;
- You decide to enter a new market;
- Your competitors change their prices;
- The economy experiences either inflation or recession;
- Your sales strategy changes; or
- Your customers are making more money because of your product or service.

Prices are generally established in one of four ways:

Cost-Plus Pricing

Many manufacturers use cost-plus pricing. The key to being successful with this method is making sure that the "plus" figure not only covers all overhead but generates the percentage of profit you require as well. If your overhead figure is not accurate, you risk profits that are too low. The following sample calculation should help you grasp the concept of cost-plus pricing:

Cost of materials	\$50.00
+ Cost of labor	30.00
+ Overhead	40.00
= Total cost	\$120.00
+ Desired profit (20% on sales)	30.00
= Required sale price	\$150.00

Demand Price

Demand pricing is determined by the optimum combination of volume and profit. Products usually sold through different sources at different prices--retailers, discount chains, wholesalers, or direct mail marketers--are examples of goods whose price is determined by demand. A wholesaler might buy greater quantities than a retailer, which results in purchasing at a lower unit price. The wholesaler profits from a greater volume of sales of a product priced lower than that of the retailer. The retailer typically pays more per unit because he or she are unable to purchase, stock, and sell as great a quantity of product as a wholesaler does. This is why retailers charge higher prices to customers. Demand pricing is difficult to master because you must correctly calculate beforehand what price will generate the optimum relation of profit to volume.

Competitive Pricing

Competitive pricing is generally used when there's an established market price for a particular

product or service. If all your competitors are charging \$100 for a replacement windshield, for example, that's what you should charge. Competitive pricing is used most often within markets with commodity products, those that are difficult to differentiate from another. If there's a major market player, commonly referred to as the market leader that company will often set the price that other, smaller companies within that same market will be compelled to follow.

To use competitive pricing effectively, know the prices each competitor has established. Then figure out your optimum price and decide, based on direct comparison, whether you can defend the prices you've set. Should you wish to charge more than your competitors, be able to make a case for a higher price, such as providing a superior customer service or warranty policy. Before making a final commitment to your prices, make sure you know the level of price awareness within the market.

If you use competitive pricing to set the fees for a service business, be aware that unlike a situation in which several companies are selling essentially the same products, services vary widely from one firm to another. As a result, you can charge a higher fee for a superior service and still be considered competitive within your market.

Markup Pricing

Used by manufacturers, wholesalers, and retailers, a markup is calculated by adding a set amount to the cost of a product, which results in the price charged to the customer. For example, if the cost of the product is \$100 and your selling price is \$140, the markup would be \$40. To find the percentage of markup on cost, divide the dollar amount of markup by the dollar amount of product cost:

This pricing method often generates confusion--not to mention lost profits--among many first-time small-business owners because markup (expressed as a percentage of cost) is often confused with gross margin (expressed as a percentage of selling price). The next section discusses the difference in markup and margin in greater depth.

Pricing Basics:

To price products, you need to get familiar with pricing structures, especially the difference between margin and markup. As mentioned, every product must be priced to cover its production or wholesale cost, freight charges, a proportionate share of overhead (fixed and variable operating expenses), and a reasonable profit. Factors such as high overhead (particularly when renting in prime mall or shopping center locations), unpredictable insurance rates, shrinkage (shoplifting, employee or other theft, shippers' mistakes), seasonality, shifts in wholesale or raw material, increases in product costs and freight expenses, and sales or discounts will all affect the final pricing.

Overhead Expenses. Overhead refers to all non labor expenses required to operate your business. These expenses are either fixed or variable:

- **Fixed expenses.** No matter what the volume of sales is, these costs must be met every month. Fixed expenses include rent or mortgage payments, depreciation on fixed assets (such as cars and office equipment), salaries and associated payroll costs, liability and other

insurance, utilities, membership dues and subscriptions (which can sometimes be affected by sales volume), and legal and accounting costs. These expenses do not change, regardless of whether a company's revenue goes up or down.

- **Variable expenses.** Most so-called variable expenses are really semivariable expenses that fluctuate from month to month in relation to sales and other factors, such as promotional efforts, change of season, and variations in the prices of supplies and services. Fitting into this category are expenses for telephone, office supplies (the more business, the greater the use of these items), printing, packaging, mailing, advertising, and promotion. When estimating variable expenses, use an average figure based on an estimate of the yearly total.

Cost of Goods Sold. Cost of goods sold, also known as cost of sales, refers to your cost to purchase products for resale or to your cost to manufacture products. Freight and delivery charges are customarily included in this figure. Accountants segregate cost of goods on an operating statement because it provides a measure of gross-profit margin when compared with sales, an important yardstick for measuring the business' profitability. Expressed as a percentage of total sales, cost of goods varies from one type of business to another.

Normally, the cost of goods sold bears a close relationship to sales. It will fluctuate, however, if increases in the prices paid for merchandise cannot be offset by increases in sales prices, or if special bargain purchases increase profit margins. These situations seldom make a large percentage change in the relationship between cost of goods sold and sales, making cost of goods sold a semivariable expense.

Determining Margin. Margin, or gross margin, is the difference between total sales and the cost of those sales. For example: If total sales equal \$1,000 and cost of sales equals \$300, then the margin equals \$700.

Gross-profit margin can be expressed in dollars or as a percentage. As a percentage, the gross-profit margin is always stated as a percentage of net sales. The equation: $(\text{Total sales} - \text{Cost of sales}) / \text{Net sales} = \text{Gross-profit margin}$.

Global Aspects of Entrepreneurship

Definition:

Global entrepreneurship is a trait or characteristic in our definition of a global leader. Global entrepreneurs are professionals who use their global understanding and connections to identify transnational and cross-cultural opportunities and turn them into new value-creating initiative. While entrepreneurship usually means the creation of a new business, the scope of many global leaders' efforts goes beyond business creation. Value creation obviously happens in established companies every day and many global leaders act as intrapreneurs pursuing opportunities from within an organizational context. Furthermore the term global entrepreneur recognizes that not only businesses create new value - many global entrepreneurs operate from within the non-profit world establishing international social enterprises.

Global entrepreneurs typically create value in three distinct ways:

- The first is by tapping into commonalities – or convergence - between markets and cultures. This

approach is common for organizations trying to bring a standard brand promise to diverse cultures, such as global brands Nike or McDonald's. Alternatively it is companies like Intel that are bringing broadly applicable, convergent technological solutions to diverse communities.

- Conversely, global entrepreneurs may tap differences – or divergence - among regions in order to access distinct comparative advantages. Some IKEA products, for example, are designed in Sweden and assembled in China using African cotton and Polish plywood.

- Global entrepreneurs also access networks and create value by building platforms that allow global exchange. Hong Kong-based Global Sources, for example, uses a standard trading platform to facilitate exchange between suppliers in Asia and clients around the world.

Advantages of Global Entrepreneurship:

1. Sales life of the products can be enhanced by exploring new markets for their sale.
2. Reduction of dependence on the shops of the country where you are selling the goods recently.
3. You can take the advantage of corporate know-how and expertise.
4. You will get to know how to compete with the foreign markets and beat them on their soil by entering the field of global entrepreneurship.
5. Moreover, if your business is weighed down by fluctuations in one of the markets due to seasonal changes and demand cycles, then you can perhaps make up by tapping over the markets in other countries which would compensate for the undesirable effects.

Disadvantages of Global Entrepreneurship:

1. Sometimes one may fail to plan in the strategy of going global because of the vastness of business in case of Global entrepreneurship.
2. You are getting calls from a number of countries. This does not mean that you will start dealing in every country that calls you for selling your product. You have to exhibit patience, or else, you will end up losing almost everything
3. Don't think that the same language like English will be used in every country for business dealings. Hence, for this purpose you need to know a number of different languages.
4. A lot of traveling may have to be done for the business dealings in case of global entrepreneurship. Hence, be ready for this expenditure as well.