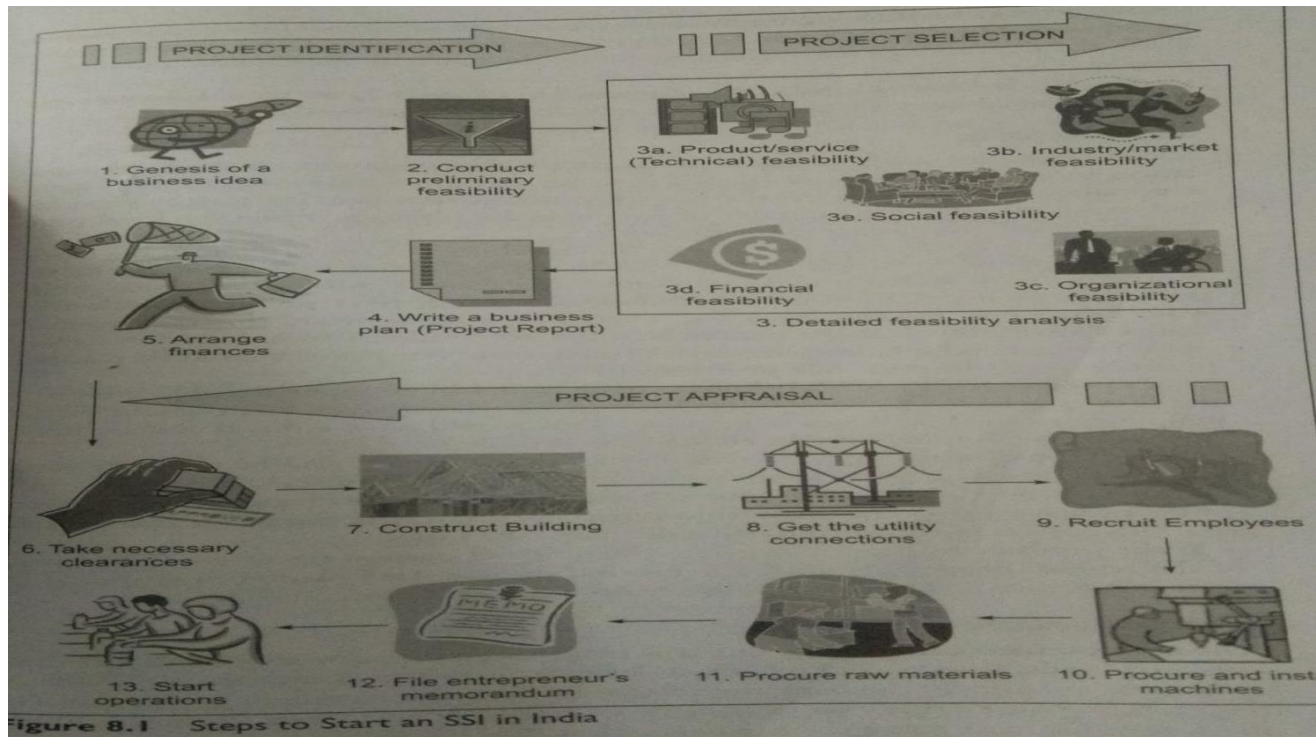


Module - 05***PREPARATION OF PROJECT*****1. MEANING OF PROJECT**

- A project is temporary endeavor undertaken to create a unique product or service.
- A project can be the achievement of a specific objectives, which involves a series of activities and tasks which consume resources.
- In the context of entrepreneurship, project is a business venture.
- **Temporary Endeavour** indicates that project would be over as soon as the product or service gets created. In case of entrepreneurship, the project is completed when a venture gets started and sees light of the day.
- **Unique** signifies that, tasks undertaken on a day-to-day routine basis cannot be considered as a project. There must be some uniqueness in the tasks to constitute a project.
- The term **specific objective** is important because a clearly spelt-out objective is important for a project, which the project team strives to achieve.
- The phrase **series of activities** describes that project requires activities and tasks to be undertaken in a sequence as per their precedence requirements.
- The term **consume resources** means, activities and tasks of a project should be real, i.e. cannot be completed without using various resources like men, machines, materials.

2. STEPS TO START AN SSI IN INDIA

- It should be noticed that the initial steps (1 to 4) are same as the steps we have seen in “**stages in entrepreneurial process**”.
- The project identification happens in step 1 and step 2, while the project selection is done in step 3 (Detailed feasibility analysis). Project appraisal (Estimating value of something) is done in step 4 and step 5.
- The project report contains a major scrutiny object for experts to ascertain the feasibility of the project and accordingly grant/deny funding.



Genesis of business idea

- This is the first step in entrepreneurial process and requires critical thinking on entrepreneur to select the most viable business ideas from a set of available options.
- It not only includes critical analysis of the merits and demerits of the innovative products or service created by the entrepreneur but also includes the study of market potential, marketing, human resources and operational issues related to business idea.

Conduct preliminary feasibility

- The preliminary feasibility involves a quick assessment about the potential of the business idea and screening out a business idea with the highest potential.
- This step is necessary to ensure that comprehensive and detailed feasibility analysis is done for the single best idea.
- Selecting the high potential idea within a couple of hours is on the basis of following four criteria
 - **Market and market related issues**
 - **Competitive advantages**
 - **Value creation and realization issues**
 - **Overall potential**

PROJECT SELECTION

- The selection of project step is done in detailed feasibility analysis.
- The steps involved in detailed feasibility analysis are
 - Product/service (technical) feasibility
 - Industry/market feasibility
 - Organizational feasibility
 - Financial feasibility
 - Social feasibility

PRODUCT/SERVICE (TECHNICAL) FEASIBILITY

- The feasibility of the product or service is performed by concept testing.
- Concept testing is showing the concept or idea to a sample group of potential customers to gauge their reaction, to take their suggestions for further development of the concept and to assess its sales potential.
- A **prototype** or a sample unit of the product can also be created in simple form depending upon the cost involved or else computer simulation can be used.

INDUSTRY/MARKET FEASIBILITY

- The feasibility analysis of industry or market involves three considerations.
- Firstly, how attractively is the market for the new business idea or concept? Basically, a market segment experiencing growth, with high profit margins and less competition would naturally be attractive for the entrepreneur.
- Secondly, efforts should be expanded to identify the position within a large market.
- Lastly, a candid assessment of the overall market potential of the new concept should be made in a realistic manner.

ORGANIZATIONAL FEASIBILITY

- Two issues should be addressed here. An assessment about the organizational prowess and capability of the initial management team which is small for a small start-up including the entrepreneur and the availability of non-financial resources.
- **Organizational prowess** means passion for the new business idea, professional managerial qualifications, prior experience and understanding of the market in which the venture would be created.

FINANCIAL FEASIBILITY

- The total initial cash needed for starting the venture and overall financial attractiveness of the investment is at the heart of the financial feasibility.

- Very rarely new start-up ventures are able to secure funding from the financial institutions as debt or able to find equity investors.
- Financial attractiveness of investment should be assessed by estimating the expected rate of return on investment.
- This estimation for the new concept would be subjective and can be based upon the comparison with similar existing business.

SOCIAL FEASIBILITY

- Social feasibility study is important to assess the receptivity of the local population of the region to business activity.
- This is especially true in certain tribal areas, where the government is trying to promote industrial activity in its pursuit of equitable distribution, while the local community is still not prepared for the same.
- This is not restricted to local tribes. Even in big cities, common public rallies against industrial activities which results in different types of pollution. Therefore, it is important that the entrepreneur makes a realistic assessment of how the new business would have an impact upon the local population.
- The positive social aspects related to the project should be properly identified like employment generation, use of local natural resources, provision of affordable products/services produced by the venture to the local population etc.
- If the production processes involve the usage of natural resources of the region, proper planning for restoration should be done in advance and associated costs should be taken into consideration.

ARRANGE FINANCES:

- The entrepreneur can arrange finances from three primary sources (apart from personal funds, friends, and relatives): lenders, angels, and venture capitalists.
- Lenders are usually the banks and financial institutions which provide debt to the entrepreneurs based on some collateral.
- The "angel" investor is generally a wealthy individual, who becomes personally involved with a start-up company-loaning expertise, experience, and money.
- Venture capitalists are the persons who invest in the start-up venture with the expectation of profitability and growth. They are the equity partners in the venture who sit on the Board of Directors, act as advisers to the management, and expect about 45 to 60 percent of annual return on investment over the coming three to five years.
- Financial assistance in India for MSME units is available from a variety of institutions. The important ones are:
 - i. Commercial/Regional Rural/Co-operative Banks
 - ii. SIDBI: Small Industries Development Bank of India (refinance and direct lending)
 - iii. SFCs/SIDCs: State Financial Corporations (e.g. Delhi Financial Corporation)/State Industrial Development Corporations.
- Long-term and medium-term loans are provided by SFCs, SIDBI, and SIDC.

- The short-term loans are required for working capital requirements, which fund the purchase of raw materials and consumables, payment of wages and other immediate manufacturing and administrative expenses.

For loans from financial institutions and commercial banks, a formal application needs to be made. The details of documentation that need to be provided with the loan application are indicated below:

- Documentation for loan application
- Balance sheet and profit loss statement for last three consecutive years of firms owned by promoters
- Income tax assessment certificates of partners/directors
- Proof of possession of land/building
- Architect's estimate for construction cost
- Partnership deed/memorandum and articles of associations of company
- Project report
- Budgetary quotations of plant and machinery

TAKE NECESSARY CLEARANCES:

- An entrepreneur has to obtain several clearances or permissions depending upon the nature of his unit and products manufactured.

REGULATORY OR TAXATION CLEARANCES

- Registration under Sales Tax Act, Commercial Tax Officer of area concerned
- Registration under Central Excise Act-Collector of Central Excise or his nominee for area
- Payment of Income Tax-ITO of the area concerned
- Registration of partnership deed-Inspector General of area concerned
- Calibration of weights and measures-Weights and Measures Inspector of State
- Power connection-Designated officer of State Electricity Board
- Employee strength exceeding 10 with power connection or 20 without power-Chief Inspector of Factories

ENVIRONMENT AND POLLUTION RELATED CLEARANCES:

- The method of granting consent under water and air pollution to SSI units has been simplified. Except for 17 critically polluting sectors given below, in all other cases, SSI units will merely have to file an application and obtain an acknowledgement which will serve the purpose of consent.
- Fertilizer (Nitrogen/Phosphate) Sugar • Cement • Fermentation and Distillery • Aluminium • Petrochemicals • Thermal power • Oil refinery Sulphuric acid • Tanneries • Copper smelter • Zinc smelter Iron and Steel • Pulp and Paper Dye and Dye intermediates Pesticides manufacturing and formulation Basic drugs and pharmaceuticals

PRODUCT SPECIFIC CLEARANCES:

1. Establishing a printing press - District Magistrate
2. License for cold storage construction-Designated official in state
3. Pesticides-Central/State Agricultural Department - Ministry of Agriculture.
4. Drugs and pharmaceuticals-Drug license from State Drug Controller
5. Dry matches/Fireworks-License under Explosives Act from Directorate of Explosives, Nagpur
6. Household electrical appliances-License from Bureau of Indian Standards
7. Wood Working Industry within 8 km from forest-District Forest Officer.
8. Milk processing and Milk products manufacturing units-Approval under Milk and Milk Products Order from State Agricultural/Food Processing Industries Department above a designated capacity.

CONSTRUCT BUILDING:

- Once an industrial plot for the unit is secured the next step is to find a suitable architect.
- Design of factory building has to be in consonance with the type of industry and should have an appropriate plant layout.
- An architect's estimate of building construction is essential for loan applications. Further, architect's certificate for money spent on building is needed for disbursement of loan.

GET THE UTILITY CONNECTIONS:

- Among the utilities, prime importance are power and water
- In many cases, getting power connection causes delay in setting up of plant.
- Power connections are generally of either LT (low-tension) or HT (high-tension) type.
- A formal application needs to be made in a specified form to the state electricity board. An electrical inspector is deputed for evaluation of application to factory site, after which the load is sanctioned.
- In areas of power shortage, it is advisable to augment the power supply with a captive generating set.
- Water connection is also obtained likewise by applying in advance in formal forms. The water supply can be augmented by installation of tube-well.

RECRUIT EMPLOYEES:

- The project report created in the earlier step contains details about the manpower and personnel requirements.
- The recruitment and selection of staff should be done in a planned manner.
- For example: The engineers and technicians should be on board by the time procurement and installation of machinery and equipment commences.

- This would be useful, as these experts would be able to give their valuable advice in relation to the machinery and equipment to be procured.
- They would also assist in the installation and trial-runs of the machinery and equipment.

PROCURE AND INSTALL MACHINES:

- The machines and equipment to be used in the production/service process are extensively analyzed during the technical feasibility study done earlier.
- However, this issue should be revisited again at the stage of deciding about the technology to be utilized in the process.
- The opinion of the engineers hired external experts and government agencies like DICs should be taken into consideration before making the final choice.

PROCURE RAW MATERIALS:

- Procurement of raw materials should be done by the time installation of machinery and equipment starts taking place.
- Some raw materials would be required for trial-runs of the machinery during the installation stage itself.
- If some raw material is to be sourced from abroad, order should be placed well advance keeping in view the lead time involved.
- The idea here is to neither keep too high an inventory of raw materials, nor too low. Too high an inventory unnecessarily ties up the working capital, while too low an inventory may disrupt the production process.

FILE ENTREPRENEUR'S MEMORANDUM:

- The entrepreneur's memorandum form is available with the District Industries Centers (DICs) and can be submitted there by the entrepreneurs.
- The form is in two parts-part one is to be filled by entrepreneurs whose ventures are still in the planning stages and part two is to be filled, when they start their actual operations.
- The forms submitted are evaluated by the DICs on following aspects (MSME, 2009):
 - i. The unit has obtained all necessary clearances whether statutory or administrative, e.g. drug license under drug control order, NOC from Pollution Control Board, if required, etc.
 - ii. Unit does not violate any locational restriction in force, at the time of evaluation.
 - iii. Value of plant and machinery is within prescribed limits.
 - iv. Unit is not owned, controlled, or subsidiary of any other industrial undertaking as per notification.
- Filling this form is beneficial to the entrepreneur in getting feedback from the DICs if any local norms are in force, which may have unintentionally been overlooked/violated by the new venture due to lack of information.

- Also, such registered firms are eligible for availing the incentives, subsidies, rebates, and concessions from the state governments.

START OPERATIONS:

- The unit should start its operations. The initial production/ operation should be done on the basis of demand projection arrived at earlier in the project report/business plan.
- The inventory of the finished goods produced should be carefully planned to make sure that it is neither too high nor too less.
- As with raw materials, a large, finished goods inventory unnecessarily ties up the working capital, while too less an inventory may result in customers going back disappointed due to non-availability of stock.

3. PROJECT REPORT

- In the Indian context, a project report for an entrepreneurial venture is as same as business plan.
- Many state governments in India provide subsidies to the entrepreneurs in the preparation of project report. Some of these states are Assam, Goa, Himachal Pradesh, Jammu and Kashmir, Kerala, Maharashtra, Meghalaya, Manipur and Tripura.
- The subsidies vary from 100% to 50% with some ceiling on subsidies.

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4. NEED AND SIGNIFICANCE OF PROJECT REPORT

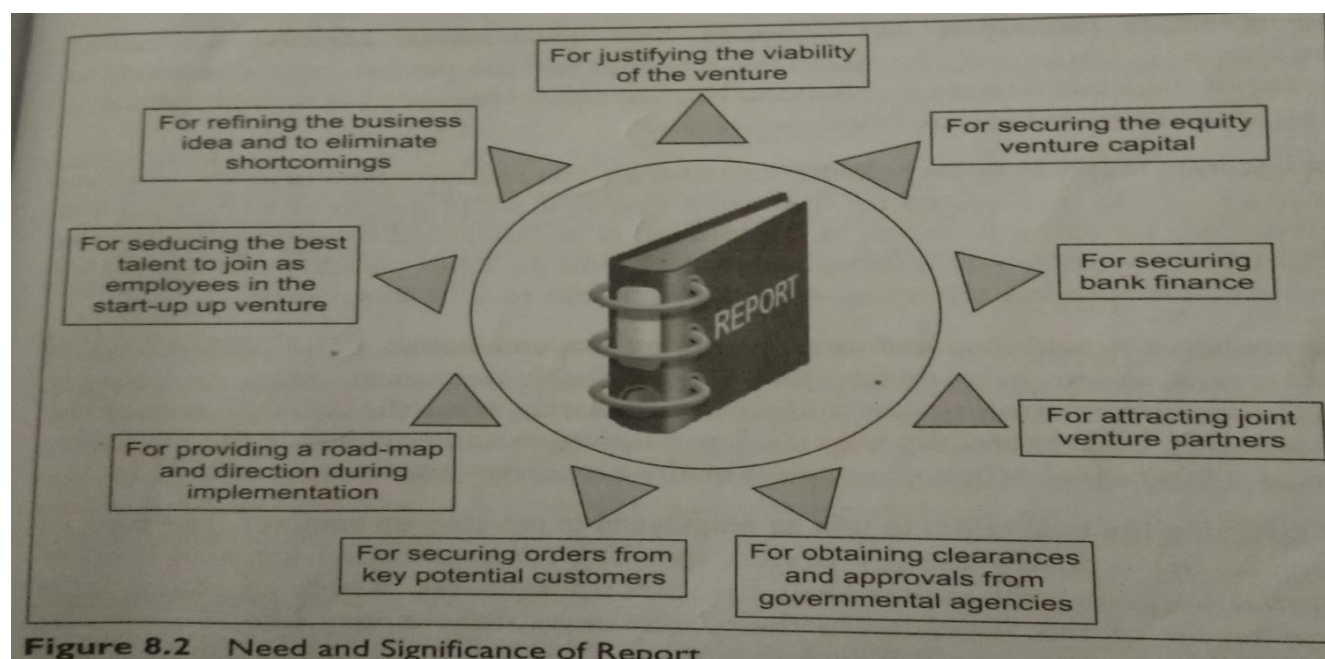


Figure 8.2 Need and Significance of Report

For refining the business ideas and to eliminate shortcomings	The project report is a means to put the business idea in black and white, to accurately think-thorough the various complexities and to eliminate any shortcomings in the business plans.
For justifying the viability of the venture	The project report serves as a powerful mechanism to justify the viability of the venture before venture partners, family, friends and relatives willing to invest as equity partners in the venture. It becomes a good reality-check before the process of convincing outsiders about feasibility of the project commences.
For securing the equity venture capital	There are angel investors and silent partners who invariably require the business plan in the form of a project report before considering sanction of equity venture capital for the project.

For securing bank finance	The debt portion of the funding is to be secured from the banks and financial institutions. The project report is a mandatory requirement for this purpose.
For attracting joint project ventures	In some instances, some existing firms may be willing to partner with you to create a joint venture, for which they would require the report to assess “fit” between firms, intellectual property protection, interactions which would be created.
For obtaining clearances and approvals from government agencies	In certain industries, government clearances are required and the project report becomes an essential document in such instances.
From securing orders from potential key potential customers.	The risk involved in a new business venture can be minimized up to great extent if some potential key customers are willing to commit orders at the outset. The project report serves as an excellent tool in this regard.
For providing a roadmap and direction during implementation	The project report becomes a major help during the project implementation stage to provide necessary information to everybody about exactly what the original plan of the project is.
For attracting the best talent to join as employees in the start-up	The best of talent in the industry usually prefers to work for established firms and multinational corporations rather than for start-up ventures, which of course have some degree of risk involved. The entrepreneur may like to showcase the project report before potential employees for key positions to convince and seduce them towards the merits of joining the start-up firm.

5. CONTENTS OF PROJECT REPORT

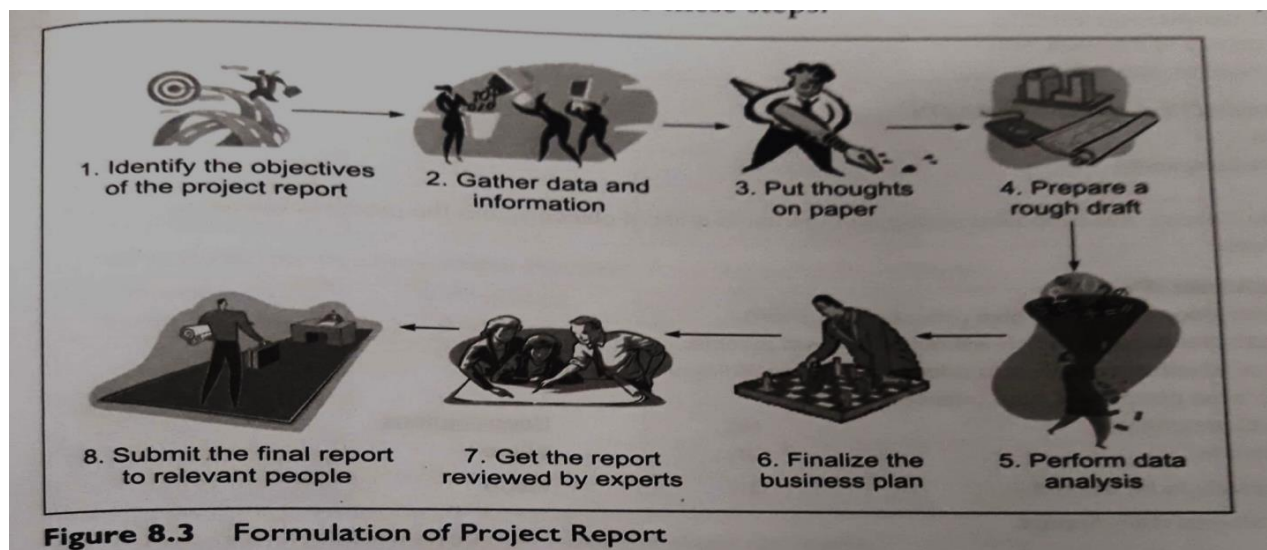
- The contents of the project report depend upon the kind of business being proposed. But in general, the contents would be more or less similar to the one listed below.
 - Cover page
 - Table of contents
 - Executive summary
 - Company information and Industry
 - Products or services
 - Marketing plan
 - Manufacturing/Operations plan
 - Management team (organization plan)
 - Project timeline (network diagram)
 - Critical risks and assumptions
 - Social plan
 - Exit strategy
 - Financial plan
 - Conclusion
 - Appendices

Cover page	The cover page of the project should contain the title of the project on the top and name or address so that readers of the report may easily contact you when required.
Table of contents	It is compiled after the main body of the project report is finalized. Each topic is covered in the report should be enumerated in the table of contents with page number of the starting page of the topic clearly mentioned against it.
Executive summary	It should be written after the main part of the project report is ready. It should not be more than two pages in length.
Company information and industry	We need to explain the ownership form of the company, the reasons for venturing into proposed business, how you satisfy the needs and expectations of the potential customers and the existing competitors in the industry.
Products or services	We highlight the key facts of the technical feasibility performed earlier during the feasibility analysis. We should justify the choice of your product/service. We should include key drawings and figures of the product in the appendices of the report with clear indication about its location in this section of the report.

Marketing plan	This section of the report contains industry/market feasibility study done earlier. Here we should describe pricing policy, findings of the marketing research done, how we plan to promote the product and so on. We need elaborate upon target market.
Manufacturing/operations plan	We describe the manufacturing/service-delivery process to be utilized for production/rendering of the product/service chosen. We should explain any innovations brought about in the process, which makes it better compared to that of the competitors.
Management team (organizational plan)	An impressive list of names that would be a part of your management team would increase the impact factor of your project report. We need to highlight how technical skills and business management skills coupled with suitable qualifications and experience of these people in the team would complement each other's profile.
Project timeline (Network diagram)	In this diagram, various activities in a project are sequentially organized and the time duration required for the execution of the project arrived at by estimating the time duration of various activities.
Critical risks and assumptions	In a business plan, there are several assumptions made. All such risks and assumptions should be candidly shared in this section of the report rather than hiding them from the headers. Ideally we should include the contingency plans to circumvent some major risks involved.
Social plan	Social plan is assuming more and more importance in today's times. In this part of the report, we should explain how our project would result in employment generation, skill development of local people, provision of goods and service produced by the company to the local population, utilization of local raw material resources etc.,
Exit strategy	This is a negative aspect of the proposed business venture, but it is equally important. Here we are expected to formulate a strategy for exiting the business in case things go out of order. A realistic exit strategy would instill a sense of security in the minds of the lenders who are planning to invest in the venture.

Financial plan	This is the most important part of the report, as the content of all previous sections would be integrated here to come up with numbers in monetary terms.
Conclusion	The conclusion of the report should summarize the key aspects of the report in a concise manner. It should end the report on a positive note so that the readers think favorably for the proposed venture.
Appendices	Appendices follow the conclusion of the report and contain the supplementary data which is important, but cannot be incorporated in the main body of the report as it would disrupt the flow of the storyline there. Appendices should be clearly marked with letters like A, B, C etc., with suitable titles of the content presented in them.

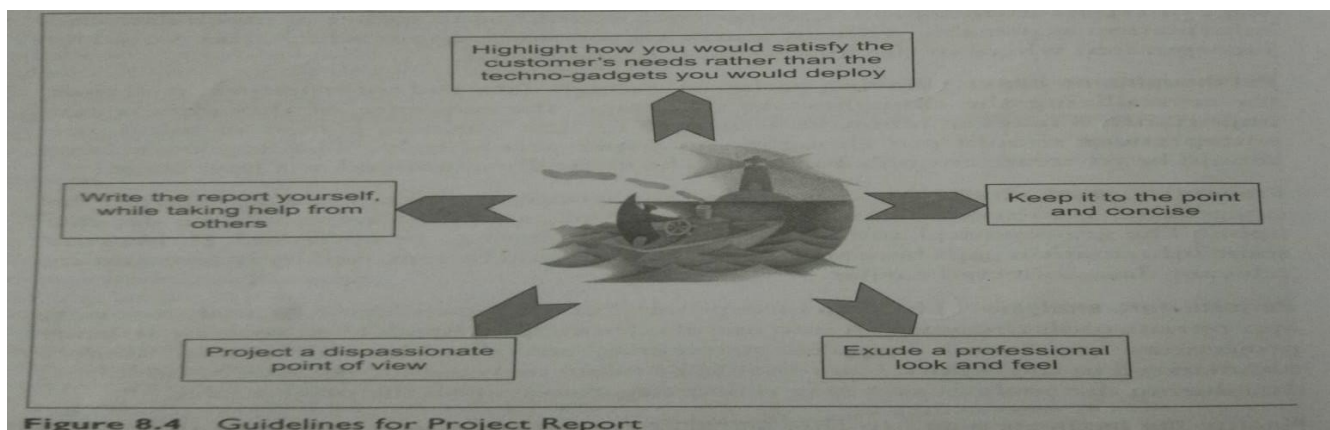
6. FORMULATION OF PROJECT REPORT



Identify the objectives of the project	A project report can have various objectives. There is no harm in having multiple objectives. However, it may be beneficial to customize the report if there is clarity on the audience to whom it would be presented. Therefore, it is important to identify the purpose and objectives of the report as the first step in its formulation.
Gather data and information	A good project report should contain reasoning backed with data and therefore it is imperative that the entrepreneur tries to collect data from all possible resources. The data could be related to market trends, product pricing, customer preferences, and competitors and so on.

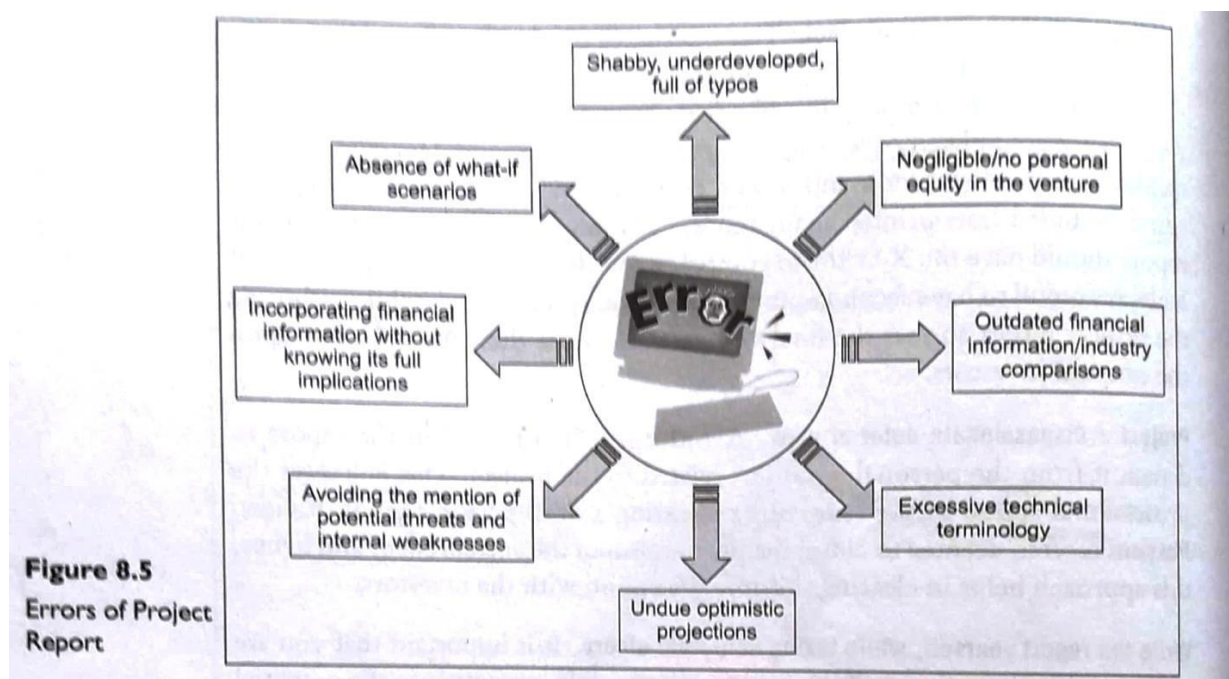
Put thoughts on paper	Having gathered enough data and information, it is the time for crystallizing the thoughts. At this stage, the sequence of thoughts is not important. Whatever tentative structure for the business plan is in mind, the entrepreneur should put thoughts on paper accordingly.
Prepare the rough draft	At this stage, the content written earlier should be categorized into sections and the sequence of such sections should be decided upon. The grammatical and typological errors have to be corrected. Any information gap here and there, these should be removed by incorporating relevant data collected earlier.
Perform data analysis	The data incorporated in the report has to be analyzed using appropriate tools to convert it into useful information. Break-even analysis, revenue projections, pro-forma financial statements etc. should be done and suitably summarized in the report.
Finalize the business plan	Data analysis calculations done earlier should be exactly reviewed, the rough draft of the report should be properly formatted, any typos and grammatical errors should be decided upon. At this stage, write the executive summary of the report, table of contents and the cover page. It is important that the whole report is reviewed a couple of times to identify any problems which are present before printing of the report is done.
Get the report reviewed by experts	It is always good to have views of others on our report. Therefore we may take help of experts, friends, and academicians etc., to review your report. If any changes suggested, incorporate in the report.
Submit the final report to relevant people	The formulation of the report culminates in submission of the report to relevant people like potential investors. The comments at the end of the presentation would also be useful in further refining the report for future presentation before audience.

7. GUIDELINES FOR PROJECT REPORT



Highlight how you would satisfy the customer's needs rather than techno-gadgets you would deploy	We should be clear about the expectations of the audience to whom the project report would be presented. The project report should have a primary focus upon the customer rather than showcasing techno-gadgets you would deploy in our processes, which is often the case with entrepreneurs from the technical background.
Keep it to the point and concise	The project report should be neither too short nor too long. Ideally, it should be about 40 pages in length, while covering all the major aspects of the proposed venture. The initial draft will be obviously longer before we trim it down to the final version, which is concise.
Exude a professional look and feel	The external appearance of the report should not be extravagant, otherwise the investors may get an impression that you drain out their money just like that.
Project a dispassionate point of view	Avoid using "I" or "we" in the report to detach it from the personal emotions related to the project. This enhances the professional appeal of the report by projecting a third person's point of view.
Write the report yourself, while taking help from others	It is important that we are well-versed with each part of the report while presenting to the potential investors, as they may pose myriad of questions to us related to it. Therefore, it would be handy if the report is authored by you rather than somebody else.

8. ERRORS IN PROJECT REPORT



Shabby, underdeveloped, full of typos	As the project report showcases the positive intent and seriousness of the entrepreneur, any tea/food stains on the report may defeat this purpose. Similarly, the typing errors in the present reflect the non-seriousness of the entrepreneur.
Negligible/no personal equity in the venture	In some instances, it has been found that the entrepreneurs proposing the project report themselves have a negligible or no personal equity in the proposed venture.
Outdated financial information/industry comparisons	Some project report incorporates financial information, which is outdated and industry comparisons which are based upon invalid or old data. This gives an impression to the investors that perhaps the report is not recently created, and the entrepreneur has failed to secure finance from all other avenues before applying to them for the same.
Excessive technical terminology	Entrepreneurs with technical background at times get carried away in using excessive technical jargons and terminologies in the project report with the intention of impressing the investors with their technical know-how.
Undue optimistic projections	The sales and revenue projections/forecasts for the proposed venture may be unduly inflated in the report. It is always a good idea to back all projections with solid reasoning and evidence.
Avoiding the mention of potential threats and internal weaknesses	A complete absence of potential threats and mitigation methods may be perceived negatively by them. Similarly, no organization is perfect in all respects and therefore, the investors expect the entrepreneur to highlight the internal weakness of the proposed venture.
Incorporating financial information without knowing its full implications	Often, the entrepreneurs take help of financial experts/chartered accounts in compiling the financial part of the project report. If the entrepreneur is unable to promptly respond to the queries from the investors on these aspects, it would reflect badly on him/her.

Absence of what-if scenarios	The business environment today is highly dynamic. Often, the project reports miss out to include the what-if scenarios to highlight the steps to be taken in case a strategy does not work as expected.
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