Unit – II

Idea Generation and Project Formulation: Ideas in Entrepreneurships – Sources of New Ideas – Techniques for Generating Ideas – Preparation of Project Report –Contents; Guidelines for Report preparation – Project Appraisal Techniques –Economic Analysis-Financial Analysis-Market Analysis.

Introduction:

The entrepreneurial idea is a feasible, financially sound, technically possible, and socially acceptable idea of a project or product that may have utility lo perspective customers. No one can come up with an idea and, in the very first instance, convert it into a business opportunity and start a small business on that basis.

The majority of good business opportunities do not come suddenly. It comes from an established mechanism to generate many ideas so that at least one idea has the potential for a business opportunity. It requires a series of steps to finalize it into a profitable business. This is the first step in idea generation and evaluation.

Entrepreneurs throughout the world use the following sources to tap to identify good ideas:

1. Customers

Prospective customers know best what they want and the habits/tastes that will be popular shortly. New product or service ideas may come from customers' reactions to the present product and the expected product idea. Contacts with prospective consumers can also reveal the features that should be built into a product or service. The attention to the customers can take the form of informally monitoring potential ideas and needs or formally arranging surveys among prospective customers. Care needs to be taken to ensure that the idea or need represents a large enough market to support a new venture.

2. Existing organization

Competing products and services of existing organizations and evaluation thereof is a successful source of new ideas. Frequently, this analysis uncovers ways to improve on these offerings, resulting in a new product that has more market appeal. The analysis of profitability and break-even level of various industries or organizations indicate promising investment opportunities which are profitable and relatively risk-free. An examination of the capacity utilization of various industries provides information about the potential for further investment.

3. Distribution channels

Member of the distribution channels; intermediaries, transient customer preference, and possible expectations may be a good business idea. Not only do channel members frequently have suggestions for completely new products, but they can also help in marketing the entrepreneur's newly developed products.

4. Government

The government can be a source of new product ideas in many ways. First, the files of the Patent Office contain numerous new product possibilities. They can suggest other more marketable new product ideas. Secondly, new product ideas can respond to government regulations, industrial policy, investment guidelines, annual plan, Five-year plan, etc. Thirdly, several government agencies nowadays assist entrepreneurs in discovering evaluating business ideas.

Fourthly, government publications on trade and industry can also help set new venture ideas.

5. Financial institutions and Development Agencies

These organizations also provide ready projects and offer suggestions to potential entrepreneurs who help identify promising projects.

Community Development Financial Institutions Fund, Small Business Administration, Office of Advocacy, United States Chamber of Commerce, Economic Development Administration, Small Business and Entrepreneurship Council, House Committee on Small Business, and many other bodies in the USA are working to improve entrepreneurship and small businesses.

6. Research and Development

The entrepreneur's own "research and development" is the largest source of new ideas. It may be a more formal endeavor connected with one's current employment or an informal laboratory in the private premises.

Formal institutional research and development are often better equipped, enabling the entrepreneur to conceptualize and develop successful new product ideas.

But many amazing product ideas have come from informal research endeavors at the private level.

7. Trade Shows, Fairs aid Exhibitions

These sources display new products and innovations in processes and services. An innovative entrepreneur can get product ideas to adapt or modify and produce with indigenous materials and technology.

8. Focus Groups

Focus groups are good sources of product ideas. A moderator leads a group of people through an open, in-depth discussion rather than simply asking questions to solicit participant response; for a new product area, the moderator focuses the group's discussion in either a directive or a nondirective manner.

The group of 8 to 14 participants is stimulated by comments from other group members to conceptualize and develop a new product idea to fulfill market needs. This is an excellent method for initially screening ideas and concepts too.

9. Brainstorming

The brainstorming method for generating new product ideas is based on the fact that people can be stimulated to greater creativity by meeting with others and participating in organized group experiences. This method would be effective if the effort focuses on a specific product or market area. The following four rules should be followed when using this method:

- No criticism is allowed by anyone in the group – no negative comments.
- Freewheeling is encouraged- the wilder the idea, the better.
- Quantity of ideas is desired- the greater the number of ideas, the greater the likelihood of useful ideas emerging.
- Combinations and improvements of ideas are encouraged – ideas of others can still produce another new idea.

The brainstorming session should be fun, with no one dominating or instituting the discussion.

10. Collective Notebook Method

In the collective notebook method, a small notebook that easily it's in a pocket, containing a statement of the problem, blank pages, and any pertinent background data, is distributed.

Participants consider the problem and its possible solutions, recording ideas at least once but preferably three times a day.

At the end of the month, a list of the best ideas is developed, along with any suggestions.

11. Heuristics Method

Heuristics relies on the entrepreneur's ability to discover through a progression of thoughts, insights, and learning. The technique is probably used more than imagined because entrepreneurs frequently must settle for an estimated outcome of a decision rather than a certainty. One specific heuristic approach is called the heuristic ideation technique (HTT). The technique involves locating all relevant concerts – that could be associated with a given product area and generating a set of all possible combinations of ideas.

Value analysis Method: The value analysis technique develops methods for maximizing value to the entrepreneur and the new venture. It is a method for developing a new idea by evaluating the worth of aspects of ideas. Under this technique, regularly scheduled times are established to develop, evaluate, and refine ideas.

12. Checklist Method

A new idea is developed through a lot of related issues or suggestions. The entrepreneur can use the list of questions or statements to guide the direction of developing entirely new ideas or concentrating on specific "idea" areas. The checklist may take any form and be of any length. One general checklist is :

- Put to other uses? New ways to use as is? Other uses if modified?
- Adapt? What else is like this? What other ideas does this ' suggest? Does the past offer parallel? What could I copy? Whom could I emulate?
- Modify? New twist? Change meaning, sour, motion, odor, form, shape? Other changes?

13. Synectics Method

Synectic is a creative process that forced individuals to solve problems through four analogy mechanisms: 'personal, direct, symbolic, and fantasy. A group works through a two-step process. The first step is to make the strange familiar.

Through generalizations or models, this involves consciously reversing the order of things and putting the problem into a readily acceptable or familiar perspective, thereby eliminating the strangeness. Once the strangeness is eliminated, participants engage in the second step, making the familiar strange through personal, direct, or—symbolic analogy, which ideally results in a unique solution being developed.

14. Dream Approach

The big dream approach to coming up with a new idea requires that the entrepreneur dreams about the problem and. Its solution- thinking big.

Every possibility should be recorded and investigated without regard to all the negatives involved or the resources required.

In other words, ideas should be conceptualized without any constraints until an idea is developed into a workable form.

15. Market Gap Analysis

Market gap analysis is a powerful method used to uncover areas in the market in which the needs and wants far exceed the supply.

This method has a hopper or gathering effect of converting everyday information into bunches of lucrative product and service gaps that few have thought of before.

16. Life-style analysis Method

Entrepreneurs can use lifestyle analysis effusively for product-service ideas. Lifestyle is a person's pattern of living expressed in his or her psychographics It involves measuring consumers' major activities (work, hobbies, shopping, sports, social events), interests (food, fashion, family, recreation), and opinions (about themselves, social issues, business, products).

The lifestyle analysis will help entrepreneurs understand new needs and want under the changed conditions. It will also reflect the changing consumer values that may be a good source of product-service ideas.

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Techniques for Generating Ideas

These techniques are beneficial for individuals and teams to generate new designs or make progress on projects. They can help promote creative thought in a simple and easy-to-understand format. Idea generation techniques can produce a wide variety of diverse ideas that can assist you in overcoming creative blocks. Using these techniques can also ensure that you or your team considers all different ideas carefully before the initiation of a project or production.

1. Reverse Brainstorming:

While the process of brainstorming is the generation of ideas to identify problem-solving methods, reverse brainstorming starts with thinking about the causes of that problem. Focusing on the causes of the problem may sometimes be more efficient than focusing on the solution. By finding potential causes, you can work proactively to resolve or prevent the cause of the problem. Often, teams use reverse brainstorming to improve products and services.

2. Brain writing

A brain writing activity is typically most effective in a group setting. Start by writing a topic on a piece of paper. Then, pass the paper around the group so that everyone has a turn to write on it and contribute their ideas to the central topic or question. The ideas of one group member can inspire the ideas of another, or someone may choose to improve upon an existing one.

3. Brain netting

Brain netting involves the use of cloud-based documents or programs for groups to share and collaborate. This form of brainstorming can be quite interactive with the addition of links, videos and images to provide visual representations and context. Using an online program also works when working with a team either live or remotely, which could be beneficial for those collaborating within different time zones.

4. Forced Relationships

The forced relationships method introduces two random and seemingly unrelated items and forces you to create a connection between them. This technique encourages innovative thinking in order to build those relationships and possibly develop a new product. You can conduct forced relationship activities in group settings or individually.

5. Role-storming

Role-storming is brainstorming with the added element of role-playing. To bring out new perspectives and different ideas, participants could imagine that they're in a different role in relation to the brainstorming goal. They could pretend they're a client or manager assessing the same goal and ask themselves what improvements to implement.

6. Storyboarding

Develop a storyboard by finding pictures, quotes and other visual information associated with the focus of your brainstorming. Then, you could arrange these items to create a narrative and add notes to help explain the progression of the ideas. Storyboarding can be a more interactive method when searching for physical items to add to the board. The physical aspect of seeking and building can allow your brain to process the visual information in front of you at a faster rate.

7. SCAMPER

S.C.A.M.P.E.R. stands for substitute, combine, adapt, modify, put to another use, eliminate and reverse. This acronym is essentially a question checklist to prompt your ideas. It asks you to consider factors like substituting a variable for another, combining one with another or adapting a variable to a different context. This method helps you think critically and consider creative approaches from several angles.

8. SWOT Analysis

S.W.O.T. is an acronym for strengths, weaknesses, opportunities and threats. You can usually use this method individually or with a team to assess the worth of proposed projects. You could ask what the strengths, weaknesses, opportunities and threats are for a particular project to help decide if you should proceed with it.

9. Wishing

This method asks for participants to wish for solutions to a given problem. These solutions can be impractical or unattainable, but your team can still discuss potential ways to make them happen. You could develop the ultimate solution to the problem by analyzing what aspects of each wish they can use or integrate into the actual solution.

10. Gap Filling

Gap filling begins with a statement of your starting point with a project or problem. Then, you'd state your final goal and begin thinking of what you can do to fill the gap between the start and endpoints. Initial responses are often more general, but through multiple processes of filling gaps, you can identify specific resolutions.

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Project Report and Contents

A project report serves like a kind of big road map to reach the destination determined by entrepreneur. The preparation of project report is of great significance for an entrepreneur. After project selection Every entrepreneur should have to prepare a project reports before established business.

Purpose of Project Report

The project report serves two essential purposes :

The first is the project report is like a road map it describes the direction the enterprise is going in, what its goals are, where it wants to be, and how it is going to get there. In simple words it enables that this is proceeding in the right direction about project. The second purpose of the project report is to attract lenders and investors. The preparations of project report are beneficial from the financial institutions and commercial banks.

Contents of Project Report:

General Information: Information on product profile and product details.

Promoter : His educational qualification, work experience, project related experience.

Location : Exact location of the project, lease or freehold, location advantages.

Land and Building : Land area, construction area, type of construction, cost of construction, detailed plan and estimate along with plant layout.

Plant and Machinery : Details of machinery required, capacity, suppliers, cost, various alternatives available, cost if miscellaneous assets.

Production process : Description of production process, process chart, technical know how, technology alternatives available, production programme.

Utilities : Water, Power, steam, compressed air requirements, cost estimates sources of utilities.

Transport and communication : Mode, possibility of getting costs.

Raw material : List of raw materials required by quality and quantity, sources of procurement, cost of raw material, tie-up arrangements, if any for procurement of raw material, alternative raw material, if any.

Man Power : Man Power requirement by skilled and semi-skilled, sources of manpower supply, cost of procurement, requirement of training and its cost.

Products : product mix, estimated sales distribution channels, competitions and their capacities , product standard, input-output ration, product substitute.

Market : End-users of product, distribution of market as local, national, international, trade practices, sales promotion devices, proposed market research.

Requirement of working capital : Working capital requirement, sources of working capital, need for collateral security, nature and extent of credit facilities offered and available.

Requirement of funds : Break-up project cost in terms of costs of land, building machinery, miscellaneous assets, preliminary expenses, contingencies and margin money for working capital, arrangements for meeting the costs of setting up of the project.

- Cost of production and profitability of first ten years
- Break-even analysis
- Schedule of implementation.

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Guidelines for Project Formulation

Formulation of project Report

A project report is an operating document. So that what information and how much information it contains depends upon the size of the enterprise, as well as nature of production.

Project formulation divides the process of project development into eight distinct and sequential stages as below:

- General information
- Project description
- Market potential
- Capital costs and sources of finance
- Assessment of working capital requirements
- Other financial aspects
- Economical and social variables
- Project implementation

The nature of information to be collected and furnished under each of these stages has been given below.

1. General Information

The information of general nature given in the project report includes the following :

Bio-data of promoter : Name and address, qualifications, experience and other capabilities of the entrepreneur. Similar information of each partner if any.

Industry profile : A reference analysis of industry to which the project belongs, e.g., past experience; present status, its organization, its problem etc.

Constitution and organization : The constitution and organization structure of the enterprises; in case of partnership form its registration with registration of firms, certificate from the directorate of industries.

Product Details : Product utility, product range, product design, advantage to be offered by the product over its substitutes if any.

2. Project description

A brief description of the project covering the following aspects should be made in the project report.

Site : Location of the unit; owned,rented or leasehold land; industrial area; no objection certificate from municipal authorities if the enterprise location falls in the residential area.

Raw Material : Requirement of raw material, whether inland or imported, sources of raw material supply.

Skilled Labour : Availability of skilled labour in the area i.e., arrangements for training laborers in various skills.

Utilities : These include –

- Power
- Fuel
- Water
- Pollution Control
- Communication and transportation facility
- Production Process
- Machinery and Equipment
- Capacity of the Plant
- Technology Selected

- Other Common Facilities
- Research and Development

3. Market Potential

While preparing a project report, the following aspects relating to market potential of the product of the product should be stated in the report.

- Demand and Supply position
- Expected Price
- Marketing Strategy
- After Sales Service

Depending upon the nature of the product, provisions made for after-sales should normally in the project report.

4. Capital costs and sources of finance

An estimate of the various components of capital items like land and buildings, plant and machinery, installation costs, preliminary expenses, margin of working capital should be given in the project report.

5. Assessment of working capital requirements

The requirement for working capital and its sources of supply should clearly be mentioned. It is preferred to prepare working capital requirements in the prescribed formats designed by limits of requirements.

It will reduce the objections from Banker's side.

6. Other financial aspects

To adjudge the profitability of the project to be set up, a projected profit and loss amount indicating likely sales revenue, cost of production, allied cost and profit should be prepared.

A projected balance sheet and cash flow statement should also be prepared to indicate the financial position and requirements at various stages of the project.

Breakdown level indicates the gestation period and the likely moratorium required for repayment of the loans. Break-Even point is calculated as

Break-Even point (BEP) = F/S – V

Where

F = Fixed Cost

S = Selling Price/Unit

V = Variable Cost/Unit

The break-even point indicates at what even of output the enterprise will break even.

7. Economical and social variables

Every enterprise has social responsibility. In view of the social responsibility of business, the abatement costs, i.e., the costs for controlling the environmental damage should be stated in the project.

In addition the following socio-economic benefits should also be stated in the report.

- Employment Generation
- Import Substitution
- Ancillaration
- Exports
- Local Resource Utilization
- Development of the Area

8. Project implementation

Every entrepreneur should draw an implementation scheme or a time-table for his project to the timely completion of all activities involved in setting up an enterprise. If there is delay in implementation project cost overrun.

On the other words, delay in project implementation jeopardizes the financial viability of the project.

In last words, An entrepreneur should have always prepare ideal project report to avoid loss and always the above facts should be kept in mind while making the project report. Otherwise There is a lot of chance that the project will failure.

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Project Appraisal Techniques –Economic Analysis-Financial Analysis-Market Analysis.

Under the project appraisal process, a financial institution conducts an assessment of various aspects of an investment proposition independently and objectively to come to a viable financing decision. Project appraisal for finance is done using five methods that are discussed below:

1. Economic Analysis

Under economic analysis, the following project aspects are taken into account: raw material requirements, level of capacity utilization, expected sales, expected costs, and plausible profits.

A business should always ascertain the profit volumes of the company as the same would determine other economic variables such as sales, purchase, expenses, etc. The company needs to anticipate the targeted sales required to achieve the forecasted profit volumes. The sales in turn depend on the demand for the product.

Thereby, enlisting the product demand as a quintessential factor for ascertaining the project feasibility. Also, the location for setting up the enterprise is essential in ascertaining the viability of the project. While selecting the location, various government policies, incentives, and concessions offered by the government schemes need to be contemplated. Therefore, location is an important attribute of economic analysis.

2. Financial Analysis:

Financial analysis is an important prerequisite for any successful business. The project appraisal involves assessing the fixed capital and working capital requirements of the business to ascertain the financial viability of the business. Fixed capital, also known as 'fixed assets' in a company, include both the tangible as well as intangible assets, which once purchased are used repetitively over a period of time. Fixed assets shall include land and building, vehicle, plant and machinery, equipment, etc. Depending upon the type of operation, scale of operation, and time of investment, the requirement of fixed capital in a company varies. While evaluating the requirement of Fixed Capital, various factors should be taken into consideration, such as, the cost of the asset, architect and engineer's fees, electrification and installation charges (which normally come to 10 percent of the value of machinery), depreciation, pre-operation expenses of trial runs, etc., Likewise, any cost incurred in remodeling, repair, and additions of buildings should also be captured in the project report.

Working capital is the excess of current assets over current liabilities. A ratio of 2:1 (Current Assets: Current Liabilities) is considered to be viable. Current assets are those assets that can be conveniently converted into cash within one week. Whereas, Current liabilities refer to those obligations that can be repaid in a period of one week. Thus, working capital suffices an organization's day-to-day requirements and hence serves as a lubricant for the smooth transition of the business. Insufficiency of working capital may adversely impact the working of the business.

3. Market Analysis:

Before commencing the production of the product, the business must conduct a market analysis to understand the potential demand for the product. Market analysis involves demand forecasting. Demand Forecasting probes into anticipating and identifying the requisite market for the product to be purchased. Some of the common methods of demand forecasting include:

1) Opinion Polling Method: A survey is conducted and the opinions of the ultimate customers are considered. The various methods are: Under this method, sales are estimated by simply adding the probable demands of all customers

Sample Survey: Under this method, a random sample of the total population is approached to ascertain the demand of the product during the forecasted period of This date of the defined

sample is taken and summed. The total demand of the sample is used to calculate the total demand of the population.

Sales Experience method: A sample market is surveyed before the sale of the new product under this method. The results of the survey are then projected to that of the entire universe in order to assimilate the total demand.

Vicarious Method: In this method, consumers are approached indirectly via dealers who have an understanding of the potential customers. In this method, the dealer's opinion about the customer's opinion is captured.

ii) Life cycle Segmentation Analysis: It is based on the concept, that like humans a product also has a defined life cycle. The product life cycle captures the following stages:

- Introduction
- Growth
- Maturity
- Saturation
- Decline

4. Technical Feasibility:

Technical feasibility refers to evaluating and assessing the adequacy of the proposed plant and equipment to produce the said product within the prescribed norms. is evaluated. It is done to Technical feasibility evaluates that whether the business has the sufficient know-how or the same needs to be procured from somewhere else. And if the arrangement is to be made, then the right sources are being researched. In the case of foreign collaboration, the terms and conditions of the same shall be clearly spelled out.

While assessing the technical feasibility of the project, the following factors should be duly considered:

- Availability of land and site.
- Availability of adequate raw materials as per defined quantity and quality.
- Availability of other inputs like water, power, transport, communication facilities.
- Availability of servicing facilities like machine shops, electric repair shops, etc.
- Adequate licenses for coping with anti-pollution law.
- Availability of workforce as per required skill and arrangements proposed for training-in-plant and outside.

5. Managerial Competence:

The ability of the management to run a business successfully is quintessential for assessing the viability of any project. A poor project may flourish with the backing of good management support. Thus, evaluating the competence of the management or the talent of the promoter serves as a strategic advantage for the success of the project.

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