

# **ENTREPRENEURSHIP**

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## **NOTE:**

MAKAUT course structure and syllabus of 4<sup>th</sup> semester has been changed from 2022. ENTREPRENEURSHIP has been introduced as a new subject in the present curriculum. Taking special care of this matter we are providing chapter wise model questions & answers, so that students can get an idea about university questions patterns.

# INTRODUCTION TO ENTREPRENEURSHIP

## Multiple Choice Type Questions

1. Which of the following statements is correct? [MODEL QUESTION]
- a) Self – employment and entrepreneurship is one and the same thing
  - b) Entrepreneurship is considered to be the best form of employment
  - c) An entrepreneur possesses employment generation capacity.
  - d) An entrepreneur enjoys a guaranteed income.
- Answer: (c)
2. Entrepreneurship training is imparted in [MODEL QUESTION]
- a) Banks
  - b) Financial institutions
  - c) national small industries corporation
  - d) MSME-DI
- Answer: (d)
3. The term 'Entrepreneurship' stands for [MODEL QUESTION]
- a) synonym of entrepreneurship
  - b) A manager who leaves the company to start his venture
  - c) Entrepreneurs within a corporate
  - d) an entrepreneur who fails in his venture
- Answer: (b)
4. Entrepreneurs who take business as an integral part of their life is called [MODEL QUESTION]
- a) Challengers
  - b) Solo operators
  - c) Lifetimes
  - d) Drone entrepreneur
- Answer: (c)
5. Short-term loan by an entrepreneur is taken for [MODEL QUESTION]
- a) Land & building
  - b) Plant and machinery
  - c) Computer & equipment
  - d) Working capital
- Answer: (d)
6. The odd trait which does not describe an entrepreneur is [MODEL QUESTION]
- a) high levels of initiative
  - b) autonomy
  - c) opportunity seeker
  - d) trend follower
- Answer: (d)
7. Intrapreneurs are [MODEL QUESTION]
- a) small businessman
  - b) corporate executives
  - c) corporate executives turned businessman
  - d) Unsuccessful entrepreneurs
- Answer: (c)

8. The most important trait of an Entrepreneur is [MODEL QUESTION]
- a) innovation
  - b) money
  - c) labour
  - d) none of these
- Answer: (a)

9. Which words fit the definition of intrepreneur? [MODEL QUESTION]
- a) Someone working within an existing business to introduce innovation and change
  - b) Taking risks for business gains
  - c) Someone generally stick to the processes already in use
  - d) None of the above
- Answer: (a)

10. Which of the following is a common entrepreneurial trait? [MODEL QUESTION]
- a) A high need for achievement
  - b) Viewing changes as threatening
  - c) A need for structured environments
  - d) All of the above
- Answer: (a)

11. According to Schumpeter, an Entrepreneur is [MODEL QUESTION]
- a) Missionary
  - b) Visionary
  - c) Innovator
  - d) Initiator
- Answer: (c)

12. What is the process by which individuals pursue opportunities without regard to resources they currently control? [MODEL QUESTION]
- a) Startup management
  - b) Entrepreneurship
  - c) Financial analysis
  - d) Feasibility planning
- Answer: (b)

13. Which of the following is not one of the environmental factors that may influence the potential of a small business? [MODEL QUESTION]
- a) Banks recognizing the needs of small firm
  - b) An industry with economies of scale
  - c) Close contacts with customers related to problem solving activities
  - d) Industrial structure favours small independent units
- Answer: (a)

14. The twin characteristics of entrepreneurship as identified by McClelland are [MODEL QUESTION]
- a) innovativeness and decision making under uncertainty
  - b) perception of opportunity and far-sightedness
  - c) risk bearing and decision making
  - d) None of these
- Answer: (a)

**ENTREPRENEURSHIP**  
**[MODEL QUESTION]**

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15. An entrepreneur was described "as a person who innovates and introduces something new in the economy" by [MODEL QUESTION]
- a) Francis Walker
  - b) Joseph Schumpeter
  - c) J. B. Say
  - d) Peter Drucker
- Answer: (b)
16. Role of an entrepreneur is [MODEL QUESTION]
- a) Generation of employment
  - b) Complementing economic growth
  - c) Introduction of new products to market
  - d) All of these
- Answer: (d)
17. The word 'entrepreneur' is derived from the French root which means [MODEL QUESTION]
- a) adventurism
  - b) thrill seeking
  - c) managing
  - d) to undertake
- Answer: (d)
18. A drone entrepreneur is one who [MODEL QUESTION]
- a) is very cautious in adopting change
  - b) refuses to use opportunities
  - c) adopts change easily
  - d) is highly innovative
- Answer: (b)
19. Favourable religious belief behind the rise of entrepreneurs was noted by [MODEL QUESTION]
- a) Schumpeter
  - b) Max Weber
  - c) Diamond
  - d) Higgins
- Answer: (b)
20. Gap filling was considered as one of the functions of entrepreneur by [MODEL QUESTION]
- a) McClelland
  - b) A.H. Cole
  - c) Libenstein
  - d) Adam Smith
- Answer: (c)
21. Who gave emphasis on innovative idea of entrepreneurs? [MODEL QUESTION]
- a) Carlton
  - b) Cochran
  - c) Max Webber
  - d) P. F. Drucker
- Answer: (d)
22. The resistance of employees in an organization against flexibility, growth, and diversification can be overcome by developing [MODEL QUESTION]
- a) entrepreneurship
  - b) intrapreneurship
  - c) managerial domain
  - d) administrative domain
- Answer: (b)
23. Which of the following is alternatively called corporate venturing? [MODEL QUESTION]
- a) Risk
  - b) Intrapreneurship
  - c) Act of starting a new venture
  - d) Offering new products by an existing company
- Answer: (b)

24. An entrepreneur doing business within the national border is called [ENTREPRENEURSHIP]
- a) international entrepreneurship
  - b) domestic entrepreneurship
  - c) entrepreneurship
  - d) imports
- Answer: (c)
25. Responsive societies will [MODEL QUESTION]
- a) Adapt to changes
  - b) Encourage collaboration
  - c) Empower innovators
  - d) All of these
- Answer: (d)
26. An intrapreneur [MODEL QUESTION]
- a) is semi-independent
  - b) is real owner of the business
  - c) bears full risk of the business
  - d) takes profits of the business
- Answer: (a)
27. An entrepreneur was described "as a person who buys a certain price for a product to result it at an uncertain price" by [MODEL QUESTION]
- a) Richard Cantillon
  - b) Joseph Schumpeter
  - c) J.B. Say
  - d) Carl Menger
- Answer: (a)

## Short Answer Type Questions

1. Define the term 'Entrepreneurship'. [MODEL QUESTION]
- Answer:
- Concept*
- The term 'Entrepreneurship' has been derived from the French word **entreprendre**.
  - Entrepreneurship is the process of development of individual talents to provide supply of entrepreneurial services. It is the combination of the individual, the environment, socio-cultural factors and the support systems.
- Definition of Entrepreneurship*
- Various thinkers have defined entrepreneurship in different ways. Some of the definitions are stated as under:
  - According to **Robert C. Ronstadt**, "entrepreneurship is the dynamic process of creating incremental wealth. This wealth is created by individuals who assume the major risks in terms of equity, time and/or career commitment of providing value for some product or service. The product or service itself may or may not be new or unique but value must somehow be infused by the entrepreneur by securing and allocating the necessary skills and resources".
  - **Berna** defines, entrepreneurship is basically a type of human skill or more accurately, a combination of skills and abilities.

- **Bowen and Hisrich** state that entrepreneurship is the process of creating something different with value by devoting the necessary time and effort, assuming and accompanying financial, psychic and social risk receiving the resulting rewards of monetary and personal satisfaction.
- According to **Joseph A. Schumpeter**, a great **Harvard economist**, the task of entrepreneurship "is to reform or revolutionize an invention or, more generally, an untried technological possibility for producing a new commodity or producing an old one in a new way, by opening up a new source of supply of materials or a new outlet for products. Entrepreneurship as defined, essentially consists in doing things that are not generally done in the ordinary course of business routine."

**2. Distinguish between an entrepreneur and a manager.** [MODEL QUESTION]

**Answer:**

<b>Manager</b>	<b>Entrepreneur</b>
1. A manager is normally and academically qualified person having a degree in Arts/Science/Commerce or Engineering and Technology along with an MBA	1. An entrepreneur may or may not be qualified and the academic qualifications may not be of much extra value in developing business
2. A manager is satisfied with his day-to-day management work of an existing running business owned by an individual group or a professional company belonging to share holders	2. An entrepreneur has to be mentally and physically busy all the time developing his own business, delving into the nitty-gritty of business problems and bearing the stress and strain.
3. A manager will normally get a fixed salary at the end of the month, and sometime may get a commission on production or marketing	3. An entrepreneur normally draws a monthly salary/alliance/lump sum from his business accounts which may be flexible depending on the business position. He may however siphon off some money from the business and either buy some shares/car or land/remove some money in separate account. This may be an honest effort or a business tactics depending on the particular entrepreneur.
4. A manager normally gets the backing and support of the senior managers and top people of the company and is normally a happy person with a regular stereo typed life style, going to office at 10.00 A.M and leaving at 5.00 P.M unless he is in a department where his presence is required at odd hours.	4. An entrepreneur on the other hand has a very irregular life, working hard throughout the day visiting Govt. offices, banks, customers etc. and coming back home very late at night. His earning per month is normally about four times of his contemporary manager if he is an successful entrepreneur.

**3. Differentiate between convergent thinking and divergent thinking?** [MODEL QUESTION]

Convergent thinking	Divergent thinking
Convergent thinking refers to the process of figuring out a concrete solution to any problem.	Divergent thinking refers to the process of thinking to which explores multiple possible solutions in order to generate creative ideas.
It is a straight forward process that focuses on figuring out the most effective answer to a problem.	This process refers to opening the mind in various directions and trying out multiple solutions for a problem.
Methods used in convergent thinking involve reorganising the previously tried out techniques and re-applying them along with the stored information.	Here, methods relate to figuring out new procedures to solve a problem despite existing solutions.
This process helps to find out the best possible answer to any problem, which are accurate most of the time and there is no room for ambiguity.	As this process keeps the options open, accurate answers may not be completely identified.
The characteristics of convergent thinking is speed, accurately and logic.	The characteristics of divergent thinking is spontaneous free flowing and non-linear.

**4. Name the Theories of Entrepreneurship.** [MODEL QUESTION]

**Answer:**

From different angles and view points, different theories of Entrepreneur have been proposed. The theories of entrepreneurs are named as under:

1. **Max Weber's** theory of social change
2. **Hagen's** theory of social change
3. **Cochran's** theory of sociological change.
4. **Hoselitz's** culture theory of Entrepreneurship
5. **McClelland's** theory of n-achievement
6. The Risk-Bearing theory of Hawley Knight.
7. The Innovation theory of J.A. Schumpeter.
8. The Market Process theory of F.A. Hayek

**Long Answer Type Questions**

- a) Define the terms Entrepreneur and Intrapreneur. [MODEL QUESTION]  
 b) Differentiate between Entrepreneurship and Intrapreneurship.

**Answer:**

a) **Entrepreneur:** The term **entrepreneur** is a loanword from French and was first defined by the Irish-French economist Richard Cantillon as the person who pays a certain price for a product to resell it at an uncertain price, thereby making decisions about obtaining and using the resources while consequently admitting the risk of enterprise. The term first appeared in the French Dictionary "Dictionnaire Universel de Commerce" of Jacques des Bruslons published in 1723.

**Intrapreneur:** In 1992, *The American Heritage Dictionary* acknowledged the popular use of a new word, intrapreneur, to mean "A person within a large corporation who takes

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direct responsibility for turning an idea into a profitable finished product through assertive risk-taking and innovation". Intrapreneurship is now known as the practice of a corporate management style that integrates risk-taking and innovation approaches, as well as the reward and motivational techniques that are more traditionally thought of as being the province of entrepreneurship.

### b) Entrepreneurship versus Intrapreneurship:

Entrepreneurship	Intrapreneurship
1. Entrepreneurship is the process of uncovering and developing an opportunity to create value through innovation and seizing that opportunity.	1. Intrapreneurship represents the initiation and implementation of innovative systems and practices within an organization.
2. Entrepreneurship consists essentially in doing things that are not generally done in the ordinary course of business routine.	2. Intrapreneurship improves the economical and financial performance of the company, by applying a more efficient use of the resources and by using a motivational system for its employees.
3. In entrepreneurship, the entrepreneurs make risky decisions using their own resources.	3. The intrapreneurship is the revolutionary inside the organization who fights for change and renewal from within the system. In intrapreneurship, intrapreneurs make risky decisions by using the resources of the company.
4. In entrepreneurship, entrepreneurs prefer to develop tacit knowledge.	4. In intrapreneurship, intrapreneurs work in organizations that have their own policies, procedures etc.

**2. Discuss the role and importance of Entrepreneurs in complementing the economic growth of a country.** [MODEL QUESTION]

**Answer:**

The role and importance of Entrepreneurs in economic growth are summarized as under:

**1. Employment generation:** Entrepreneurs generate employment both directly and indirectly. Directly, self employment as an entrepreneur and indirectly by starting many industrial units they offer jobs to millions. They generate huge number of employment opportunities. Employment generation by this sector has shown a phenomenal growth. It is a powerful tool of job creation. Thus, entrepreneurship is the best way to fight the evil of unemployment.

**2. National Income:** National Income consists of the goods and services produced in the country and imported. The goods and services produced are for consumption within the country as well as to meet the demand of exports. The domestic demand increases with increase in population and increase in standard of living. The export demand also increases to meet the needs of growing imports due to various reasons. An increasing number of entrepreneurs are required to meet this increasing demand for goods and services. Thus entrepreneurship increases the national income.

**3. Mobilization of resources and entrepreneurial skill:** Small-scale industries can mobilize a good amount of savings and entrepreneurial skill from rural and semi-urban areas that remain untouched from the clutches of large industries and put them into productive use by investing in small-scale units. Small entrepreneurs also improve social welfare of a country by harnessing dormant, previously overlooked talent. Thus, a huge amount of latent resources are being mobilized by the small-scale sector for the development of the economy.

**4. Equitable distribution of income and dispersal of economic power:** Developing a large number of entrepreneurs helps in dispersing the economic power amongst the population. Thus it helps in weakening the harmful effects of monopoly.

**5. Balanced regional development through regional dispersal of industries:** The growth of Industry and business leads to a lot of Public benefits like transport facilities, in a few large cities of different states of Indian union. When the industries are concentrated in selected cities, development gets limited to these cities. When the new entrepreneurs grow at a faster rate, in view of increasing competition in and around cities, they are forced to set up their enterprises in the smaller towns away from big cities. This helps in the development of backward regions.

**6. Better standards of living:** Entrepreneur plays a vital role in achieving a higher rate of economic growth. Entrepreneur is able to produce goods at lower cost and supply quality goods at lower price to the community according to their requirements. When the price of the commodities decreases the consumers get the power to buy more goods for their satisfaction. In this way they can increase the standard of living of the people.

**7. Creating innovation:** An entrepreneur is a person who always looks for changes. Apart from combining the factors of production, he also introduces new ideas and new combination of factors. He always tries to introduce newer and newer techniques of production of goods and services. An entrepreneur brings economic development through innovation.

**8. Provides opportunities for development of technology:** Small-scale industries have tremendous capacity to generate or absorb innovations. They provide ample opportunities for the development of technology and technology in return, creates an environment conducive to the development of small units. The entrepreneurs of small units play a strategic role in commercializing new inventions and products. It also facilitates the transfer of technology from one to the other. As a result, the economy reaps the benefit of improved technology.

**9. Indigenization:** Small-scale industries make better use of indigenous organizational

and management capabilities by drawing on a pool of entrepreneurial talent.

**10. Supports the growth of large industries:** The small-scale industries play an important role in assisting bigger industries and projects so that the planned activity of development work is timely attended. They support the growth of large industries by providing components, accessories and semi finished goods required by them. In fact, small industries can breathe vitality into the life of large industries.

## ENTREPRENEURSHIP

# ENTREPRENEURIAL BEHAVIOUR

## Multiple Choice Type Questions

1. Which one of the following needs is found to be dominating in case of an entrepreneur?  
 a) N Pow      b) N Aff      c) N Ach      d) None of these  
 Answer: (c)

2. Which of the following is an internal motivating factor? [MODEL QUESTION]  
 a) Govt. assistance  
 b) Availability of labour and raw materials  
 c) Previous experience  
 d) Promising demand for the product  
 Answer: (c)

3. Which of the following is not an external motivating factor? [MODEL QUESTION]  
 a) Enterprising attitude  
 b) Encouragement from big business houses  
 c) Govt. support and assistance  
 d) Availability of factors of production  
 Answer: (a)

4. The concept of risk taking behavior in entrepreneurship was introduced by  
 a) Richard Cantillion      b) J.B. Say      c) Francis Walker      d) None of these  
 Answer: (a)

5. According to McClelland an entrepreneur has to be [MODEL QUESTION]  
 a) profit seeker      b) conservative      c) opportunist      d) achiever  
 Answer: (d)

6. Achievement theory is given by [MODEL QUESTION]  
 a) Schumpeter      b) Drucker      c) Marshall      d) McClelland  
 Answer: (d)

7. Maslow's need hierarchy theory is based on [MODEL QUESTION]  
 a) five basic needs  
 b) four basic needs  
 c) three basic concepts  
 d) none of these  
 Answer: (a)

8. In stage of responsibility allocation process the entrepreneur follows [MODEL QUESTION]  
 a) highly centralized decision making process  
 b) highly decentralized decision making process  
 c) somewhat centralized decision making process  
 d) no particular standard  
 Answer: (d)

9. Individuals influencing an entrepreneur's career choice and style are known as which of the following?  
 a) Role model  
 b) Moral-support network  
 c) Professional support network  
 d) Support system  
 Answer: (a)

## ENTREPRENEURSHIP

[MODEL QUESTION]

[MODEL QUESTION]

## Short Answer Type Questions

1. What are the risks faced by an entrepreneur? [MODEL QUESTION]

Answer:

- An entrepreneur has to face different types of risks.
- Firstly, an entrepreneur has to face, in launching a small business, a substantial business risk in the sense that the failure rate of big enterprise is quite high.
- Secondly, an entrepreneur has to face a high degree of financial risk simply because he invests most, if not all, of his personal finance in his own business, as he does not get seed (venture) capital normally from the external sources.
- Thirdly, an entrepreneur takes a career risk in the sense that he leaves a secure job for initiating a venture with highly uncertain future.
- Fourthly, an entrepreneur incurs family and social risks – he is left with little time for attention to family and others.
- Lastly, an entrepreneur assumes a psychological risk.

2. 'Entrepreneurship is influenced by Risk Taking Behaviour and Innovation'. Do you agree with this statement? Briefly justify your assertions. [MODEL QUESTION]

Answer:

The two qualities of entrepreneurs namely, Risk taking behavior and innovation is definitely influence the quality of entrepreneurs but it is also true that entrepreneurship is influenced and developed by (a) family background (b) idea, Item or service selection (c) capacity to prepare project report (d) capacity of interpersonal relationship (e) idea about marketing and (f) self-confidence.

An entrepreneur is also influenced by the above in different cases.

3. Point the relationship between Innovation and Entrepreneurship. [MODEL QUESTION]

Answer:

While creativity is the seed which inspires entrepreneurs, innovation is itself the process of entrepreneurship. According to P.F. Drucker, innovation is the means by which the entrepreneur either creates new wealth-producing resources or endows existing resources with enhanced potentiality for creating wealth. He also states that innovation is the specific function of entrepreneurship.

**Long Answer Type Questions**

**1. Explain McClelland's motivational needs theory in relation to motivation of an Entrepreneur.** [MODEL QUESTION]

**Answer:**

In his **acquired-needs theory**, David McClelland proposed that an individual's specific needs are acquired over time and are shaped by one's life experiences. Most of these needs can be classed as either **achievement, affiliation, or power**. A person's motivation and effectiveness in certain job functions are influenced by these three needs. McClelland's theory sometimes is referred to as the **three needs theory** or as the **learned needs theory**.

**Need for Achievement (nAch):** People with a high need for achievement (nAch) seek to excel and thus tend to avoid both low-risk and high-risk situations. Achievers avoid low-risk situations because the easily attained success is not a genuine achievement. In high-risk projects, achievers see the outcome as one of chance rather than one's own effort. High nAch individuals prefer work that has a moderate probability of success, ideally a 50% chance. Achievers need regular feedback in order to monitor the progress of their achievements. They prefer either to work alone or with other high achievers.

**Need for Affiliation (nAff):** Those with a high need for affiliation (nAff) need harmonious relationships with other people and need to feel accepted by other people. They tend to conform to the norms of their work group. High nAff individuals prefer work that provides significant personal interaction. They perform well in customer service and client interaction situations.

**Need for Power (nPow):** A person's need for power (nPow) can be one of two types - personal and institutional. Those who need personal power want to direct others, and this need often is perceived as undesirable. Persons who need institutional power (also known as social power) want to organize the efforts of others to further the goals of the organization. Managers with a high need for institutional power tend to be more effective than those with a high need for personal power.

**McClelland identified 2 characteristics of entrepreneurship:**

- (1) Doing things in a new and better way
- (2) Decision making under uncertainty

He stressed that:

- People with high achievement orientation (need to succeed) were more likely to become entrepreneurs
- Such people are not influenced primarily by money or external incentives
- They consider profit to be a measure of success and competency

He emphasized that 'nAch' to be responsible for entrepreneurial development. He also stressed that it is a need that can be learned through suitable training, for example, in enterprise development programmes.

**ENTREPRENEURIAL TRAITS****Multiple Choice Type Questions**

**1. Entrepreneurs who take business as an integral part of their life is called** [MODEL QUESTION]

- a) Challengers
- c) Lifetimers

- b) Solo operators
- d) Drone entrepreneurs

**Answer: (c)**

**2. Entrepreneurs emerging from within the confines of organization are called** [MODEL QUESTION]

- a) Inventors
- c) Manager

- b) Organizers
- d) Entrepreneurs

**Answer: (d)**

**3. A person who pursues an innovation but does so from within the security of this organizational position is called** [MODEL QUESTION]

- a) Entrepreneur
- b) Innovator

- c) Intrapreneur
- d) None of these

**Answer: (c)**

**4. Which of the following is not a characteristics of a successful entrepreneur?** [MODEL QUESTION]

- a) Able to take calculate risk
- b) Respond positively to challenges
- c) Self-confident and optimistic
- d) Takes no initiatives

**Answer: (d)**

**5. Which type of entrepreneur need not take any risk involved in business?** [MODEL QUESTION]

- a) Intrapreneurs
- b) Technical entrepreneurs

- c) Spontaneous entrepreneurs
- d) Women entrepreneurs

**Answer: (a)**

**6. The most important function of an entrepreneur is** [MODEL QUESTION]

- a) Managerial Function
- b) Decision-making Function
- c) Risk Assumption Function
- d) Function of Innovation

**Answer: (c)**

**7. Entrepreneurs who work with caution are** [MODEL QUESTION]

- a) imitative
- b) Fabian
- c) drone
- d) none of these

**Answer: (b)**

**8. Characteristic of an entrepreneur is being** [MODEL QUESTION]

- a) pessimist
- b) dependent
- c) innovative
- d) all of these

**Answer: (c)**

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9. Among these which is not a type of entrepreneur according to the type of business?  
 a) business entrepreneur      b) agricultural entrepreneur  
 c) corporate entrepreneur      d) social entrepreneur

Answer: (d)

10. Entrepreneur who take business as an integral part of life is called  
 [MODEL QUESTION]  
 a) challengers      b) solo operators      c) life timers      d) drone entrepreneurs

Answer: (c)

11. Which of the following is NOT a characteristic of a successful entrepreneur?  
 [MODEL QUESTION]  
 a) High need for achievement      b) Internal locus of control  
 c) Running after extra money      d) High tolerance to ambiguity

Answer: (c)

12. Originality of an entrepreneur does not imply  
 a) innovativeness      b) creativity      c) perseverance      d) resourcefulness

Answer: (c)

13. 5 Ms does not include  
 a) Man      b) Money      c) Machine      d) Manipulation

Answer: (d)

## Short Answer Type Questions

1. Mention the entrepreneurial qualities and competencies. [MODEL QUESTION]

Answer:

### *Entrepreneurial Qualities and Competencies*

The following qualities and competencies are required to be possessed by an entrepreneur.

1. **Must have vision:** Vision is a guiding purpose which propels an entrepreneur forward. Entrepreneurs' vision serves as a beacon and nothing can stand in the way.
2. **Must have creative talent:** An entrepreneur must have creative talent of thinking and intention to create new and newer things into existence.
3. **Must have innovativeness:** An entrepreneur must have the innovative quality of successful implementation of creative ideas.
4. **Must have self-confidence:** Self-confidence closely relates to self-esteem. An entrepreneur who is not self-confident does not feel good about himself would not be able to meet a challenge.
5. **Must have decisiveness:** An entrepreneur must have his intuitive powers and be able to make accurate predictions and take right decisions at right time and right place.
6. **Must have high energy level:** A successful entrepreneur even in very difficult situation can call on their energy for making things happen.

7. **Must have to be a risk-taker:** An entrepreneur must have to assume risk under uncertainty.
8. **Must have strong personality:** An entrepreneur must possess sound personality that characterize and determine his/her unique patterns of adjustment in his/her relationships with others and his/her environment and which make the entrepreneur different from others.
9. **Must have managerial qualities:** An entrepreneur must have some managerial qualities like organizer, director, motivator, controller, decision maker etc.
10. **Must have high level of motivation:** Motivation is a dynamic force setting an entrepreneur into motion and action.

## State in brief the various types of Entrepreneurs.

Answer:

Depending on the nature, characteristics and functions performed by the entrepreneurs, they may be grouped as under:

1. **Innovating Entrepreneurs:** Innovating entrepreneurs are those, who generally are aggressive in experimenting and then implementing the unconventional methods and innovated into the production process.
2. **Fabian Entrepreneurs:** Fabian entrepreneurs are those whose dealings are based on customs, religion, tradition and past practices of their predecessors.
3. **Imitating Entrepreneurs:** They are persons who imitate the innovations of the innovating entrepreneurs and subsequently implement the successful innovations in their own enterprise by adopting suitable changes made by the innovating entrepreneurs.
4. **Private entrepreneurs:** They are self employed persons who find opportunities for making markets, building and plants etc.
5. **Revolutionary Entrepreneurs:** They are the persons who have the means to achieve non profit objectives.
6. **Political Entrepreneurs:** They are political people who provide advancement through election to a governing office and exercise judgement before and after their election to that office.
7. **Drone Entrepreneurs:** They are very inert as well as traditional people who refuse to adopt any new change in their manufacturing process and struggle only to exist but not to grow.
8. **N-Entrepreneurs:** They are the persons who are engaged in the activities necessary to carry on any venture where the markets are not well established.
9. **Routine Entrepreneurs:** Such entrepreneurs remain engaged in carrying on and co-ordinating any going concern which operates in well established markets.
10. **Criminal Entrepreneurs:** They are the persons who form entrepreneurship illegally for searching opportunities for theft, extortion and racketeering, etc.

ENTREPRENEURSHIP

**Long Answer Type Questions****1. State the general characteristics of the Entrepreneurs in common.****[MODEL QUESTION]****Answer:**

To be successful, an entrepreneur should have the following characteristics:

- (1) **Need to achieve:** Entrepreneurs are achievement-oriented. A strong inner desire to achieve higher goals continuously forces them towards action.
- (2) **Independence:** Most entrepreneurs start a venture on their own because they dislike working for others. They prefer to be their own boss and want to be responsible for their own decisions.
- (3) **Risk-bearing:** Entrepreneurs have to take decisions under uncertainty and thus they are willing to take risks, but they never gamble with the results. They undertake ventures with calculated risks, high enough to be exciting, but with a fairly reasonable chance to win. Thus, they learn to manage risks.
- (4) **Locus of control:** They believe in internal locus of control, i.e., an entrepreneur believes the outcome of an event to be within his personal control, not beyond. They believe in their own ability to control consequences of their endeavour by influencing their socio-economic environment rather than leave everything to luck. They strongly believe that they can govern and shape their own destiny.
- (5) **Perseverance:** It is the quality of sticking to a job one decides to undertake. Once committed to a specific goal and course of action, entrepreneurs become absorbed in it. They work diligently, solving any problems that come their way, until the whole project is successfully implemented.
- (6) **Positive self-concept:** Entrepreneurs have an optimistic frame of mind. It drives them towards achieving their mission against all odds.
- (7) **Ability to find and explore opportunities:** Entrepreneurs are always alert to opportunities. They are innovative and can even convert problems into viable opportunities.
- (8) **Hope of success:** Entrepreneurs set their goals and follow them with a hope of success rather than a fear of failure.
- (9) **Flexibility:** Most entrepreneurs can evaluate a situation and change their course of action if the situation demands. An open mind without rigidity helps them to take rational decisions.
- (10) **Analytical ability:** Entrepreneurs can evaluate the pros and cons of events, situations and the business environment, and tend to take rational decisions after analyzing a problem from all perspectives, without being affected by emotional considerations. They tend to consult experts rather than friends, if they need help. They prefer to base their decisions on data or hard facts.
- (11) **Sense of efficacy:** Entrepreneurs are action oriented, more problem-solvers rather than problem-avoiders. They tend to use resources optimally to achieve their goals.
- (12) **Openness to feedback and learning from experience:** Successful entrepreneurs like to have immediate feedback of their performance so as to be able to modify

strategies and tactics if necessary. They are never afraid of or discouraged by negative feedback from the environment. Indeed, they welcome it, and treat it as an opportunity to immerse themselves more sincerely into solving the problem.

- (13) **Confronting uncertainty:** Entrepreneurs are die-hard optimistic people, even while facing extremely difficult situations.
- (14) **Interpersonal skills:** They are almost always comfortable while dealing with people. They have to interact / negotiate with a wide variety of stakeholders to achieve their goals.
- (15) **Need to influence others:** Entrepreneurs must be managers too. They have to convince suppliers of capital and other resources, manpower, partners, and customers about the merits of goals.
- (16) **Stress takers:** Entrepreneurs are capable for working for long hours and solving different complexities simultaneously. This often impacts their personal lives.
- (17) **Time orientation:** They perform their tasks in a time-bound manner. They set milestones / deadlines and work religiously towards achieving them.
- (18) **Innovators:** Entrepreneurs use their innovative skills to create new products / services, new methods of production / service delivery, creating new markets, reorganizing the enterprise, and so on.
- (19) **Business communication skill:** This is a basic skill to be able to run a business smoothly and interact with stakeholders, which most entrepreneurs possess in plenty.
- (20) **Future orientation:** Ability to think ahead is another essential skill. Farsightedness makes entrepreneurs alert to changing conditions and able to take measures for survival accordingly.
- (21) **Leadership:** The ability to exert interpersonal influence through communication towards achievement of goals is another essential trait possessed by most entrepreneurs.
- (22) **Business Planning:** Being adept in planning helps entrepreneurs allocate resources wisely and solve problems easily.
- (23) **Decision making:** It is another fundamental skill of an entrepreneur. It implies choosing a particular course of action among several alternatives.
- (24) **Ability to mobilize resources:** Entrepreneurs have to mobilize 6Ms, i.e., Man, Money, Material, Machinery, Market and Method effectively to realize their goals.
- (25) **Self-confidence:** To accomplish tasks efficiently and effectively, they must be able to take decisions on their own in uncertain, risky situations, and must be able to stick to it confidently even if there are initial setbacks.

**[MODEL QUESTION]****2. State the functions of an Entrepreneur.****Answer:**

An entrepreneur is an opportunity seeker. He is also the organizer and coordinator of the agents of production. He has to execute many functions while establishing an enterprise. He not only perceives the business opportunities but also mobilizes the resources like

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5Ms – man, money, machine, materials and methods. Some of the major functions of an entrepreneur are:

**(1) Identifying entrepreneurial opportunity** – There are many opportunities in the world of business. These are based on human needs like food, fashion, education, etc., which are constantly changing. These opportunities are not realized by common man, but an entrepreneur senses the opportunities faster than others do. An entrepreneur therefore, has to keep his eyes and ears open and require imagination, creativity and innovativeness, for the following:

- Idea generation** – This is possible through vision, insight, observation, experience, education, training and exposure of the entrepreneur. Idea generation includes product selection and project identification. Ideas can be generated through environmental scanning and market survey. An entrepreneur must generate as many ideas as possible for selecting the best business opportunities which can subsequently be pursued as a commercially viable business venture.
- Determination of objectives / goals:** This should be spelt out clearly so as to avoid any confusion regarding the nature and type of business.

**(2) Turning ideas into action** – An entrepreneur should be capable of turning his ideas into reality. He collects information regarding the ideas, products, practices to suit the demand in the market. Further steps are taken to achieve the goals in the light of the information collected:

- Feasibility study** – The entrepreneur conducts market research studies to assess the market feasibility of the proposed product or services. He anticipates problems and assesses quantity, quality, cost and sources of inputs required to run the enterprise. Such a blue print of all the activities is termed as a ‘business plan’ or a ‘project report’.
- Implementation of the Project** – If the project is found to be feasible, the business plan is accepted and the implementation phase begins:

**(i) Resourcing** – The entrepreneur needs various resources in terms of money, machine, material, and men to running the enterprise successfully. An essential function of an entrepreneur is to ensure the availability of all these resources through:

- Raising of funds
- Procurement of machinery
- Procurement of raw materials
- Recruitment of manpower

**(ii) Setting up of the Enterprise** – For setting up an enterprise the entrepreneur may need to fulfill some legal formalities. He also tries to find out a suitable location, design the premises, install machinery, organize manpower and do many other things.

**(iii) Managing the enterprise** – One of the important functions of an entrepreneur is to run the enterprise. He has to manage men, material, and finance, and organize production of goods and services. He has to market

each product and service, after ensuring appropriate returns (profits) of the investment. Only a properly managed organization yields desired results.

**(3) Growth and Development** – Once the enterprise achieves its desired results, the entrepreneur has to explore another higher goal for its proper growth and development. The entrepreneur is not satisfied only with achieving a set goal but constantly strives for achieving excellence.

Thus, the functions of an entrepreneur can broadly be summarized as:

- ❖ Innovation
- ❖ Risk bearing
- ❖ Organization and management

# PROJECT FEASIBILITY ANALYSIS

## Multiple Choice Type Questions

1. Technical/operational feasibility analysis collects data on which of the following [MODEL QUESTION] parameters?

- a) Material availability
- b) Plant capacity
- c) Material requirement planning
- d) All of these

Answer: (d)

2. Project cost reduction can be achieved through the following [MODEL QUESTION] approach/technique:

- a) Value engineering
- b) Line-of-balance
- c) Feasibility study
- d) All of these

Answer: (a)

3. Which of these instruments is used for financial appraisal of a project? [MODEL QUESTION]

- a) Current ratio
- b) Acid-test ratio
- c) DCF
- d) Debtor-period

Answer: (c)

4. A capital investment is one that [MODEL QUESTION]

- a) Has the prospect of long-term benefits
- b) Has the prospect of short-term benefits
- c) Is only undertaken by large corporations
- d) Applies only to investment in fixed assets

Answer: (d)

5. In estimating "after-tax incremental operating cash flows" for a project, one should include all of the following except [MODEL QUESTION]

- a) Sunk costs
- b) Opportunity costs
- c) Effects of inflation
- d) None of these

Answer: (d)

6. A profitability index of 0.85 for a project means that [MODEL QUESTION]

- a) The present value of benefits is 85% greater than the project's costs
- b) The project's NPV is greater than zero
- c) The project returns 85 cents in present value for each current dollar invested
- d) The payback period is less than one year

Answer: (a)

7. "Cost Plus Profit" type of contract is often made when [MODEL QUESTION]

- a) Estimation of the work cannot be done precisely
- b) Estimation of the work can be done precisely
- c) Maximization of profit is the objective
- d) Minimization of cost is the objective

Answer: (a)

8. Why should an entrepreneur do a feasibility study for starting a new venture? [MODEL QUESTION]
- a) To see if there are possible barriers to success
  - b) To identify possible sources of funds
  - c) To estimate the expected sales
  - d) To explore potential customers

Answer: (a)

## Short Answer Type Questions

1. Describe the procedure associated with getting "Term Loan" from financial institutions. [MODEL QUESTION]

Answer:

The FIs have been created to provide long-term finance to projects. The finance may be obtained in the form of equity or debt or both. The lending decision of the FI's depends upon the following:

- The promoter shall prove that the project has the capacity to repay loan and interest from its own earnings.
- The value of security offered against the loan
- The integrity and willingness of the borrower to repay back the loan.

### **Covenants Attached to Lending**

- Co-lateral security offered by the promoter for the loan
- The project promoter should send periodic report about the project
- The project sponsors should use the fund for the intended specific purposes
- The project sponsors should maintain all the assets in good condition.

The project promoter should furnish a personal guarantee.

2. What do you mean by a Techno-Economic Feasibility Study? [MODEL QUESTION]

Answer:

- The feasibility study of a project refers to the detailed, through and complete analysis of the project.
- A project is evaluated in terms of its feasibility.
- Feasibility of a project is studied from the view points of its (a) Techno Feasibility (b) Economic Feasibility and (c) Commercial Feasibility.

### **Feasibility in terms of technological feasibility**

- Technological Feasibility of a project means judging the technical and engineering aspects of a project.
- It indicates the analysis of the implementation of the technical knowledge, techniques and its effectiveness in the project.
- It considers the process of production and the use of technology in the functioning of the project.

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- While studying the technical feasibility of a project an overall design of the plant and machinery to be used and how effectively those can be utilised in the project is to be considered carefully.
- While studying the technical feasibility of a project, the location of the project, size of the project, infrastructural facilities of the project are also considered.

### **Feasibility study in terms of Economic feasibility**

- **Economic Feasibility** study is made to judge the economic viability of the project.  
 → Economic feasibility study reveals whether any project is able to meet the burden of serving debt and investors are satisfied with the expected returns.

### **3. State the contents of the feasibility report for a project. [MODEL QUESTION]**

#### **Answer:**

No two feasibility studies have identical components. However, there are certain critical aspects that must be present in a good feasibility report.

#### **These aspects include:**

The nature of the business, Management, Teams, Financial and Economic Analysis and Marketing plan. In other words, the major areas covered by a **feasibility study** can be divided into nine major areas namely:

1. Introduction
2. Description of the business
3. Market consideration – A preliminary Evaluation
4. Management Team
5. Technical Specifications and Production plan
6. Marketing Plans
7. Examination of the critical risks and problems
8. Financial and Economic plans
9. Evaluation and conclusion

### **4. What is project appraisal? Explain the various aspects covered in it. [MODEL QUESTION]**

#### **Answer:**

**Project appraisal** is the structured process of assessing the viability of a project or proposal. It involves calculating the feasibility of the project before committing resources to it. It is a tool that companies use for choosing the best project that would help them to attain their goal. Project appraisal often involves making comparison between various options and this is done by making use of any decision technique or economic appraisal technique. It is a systematic and comprehensive review of the economic, environmental, financial, social, technical and other such aspects of a project to determine if it will meet its objectives.

Project appraisal is a tool which is also used by companies to review the projects completed by it. This is done to know the effect of each project on the company. This

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means that the project appraisal is done to know, how much the company has invested on the project and in return how much it is gaining from it.

### **Process of project appraisal**

The process of project appraisal consists of five steps:

- Initial Assessment
- Defining problem and long-list
- Consulting and short-list
- Developing options
- Evaluate alternatives
- Comparing and selecting project

The process of appraisal generally starts from the initial phase of the project. If the appraisal process starts from an early stage, then the company will be in a better position to decide how capital should be spent in the project and also it will help them to make the decision of not spending too much or stopping a project that is not economically viable.

### **Types of project appraisal**

- Technical appraisal
- Project appraisal
- Commercial and marketing appraisal
- Financial/economic appraisal
- organisational or management appraisal
  - Cost-benefit analysis
- Economic appraisal
  - Cost-effectiveness analysis
  - Scoring and weighting

Appraisal of projects can be done by many ways, but the most common of them are financial and economic appraisal.

In case of financial project appraisal, the company reviews the cost of the project and the expected revenues that will be generated by the project. This type of appraisal helps the company to prevent overspending on a project. It also helps in finding certain areas where alterations can be done for generating higher revenues.

Under economic appraisal, the company mainly focuses on the total benefit of the project and less on the costs spent on the project. Other than these two types of appraisal, there are also other types of project appraisal which include technical appraisal, management or organizational appraisal and marketing and commercial appraisal.

### **5. Mention the various sources of finance to promote entrepreneurial activities. [MODEL QUESTION]**

#### **Answer:**

#### **Internal sources of financing:**

- (1) Owners own investment such as equity
- (2) Deposits and loans given by the owner
- (3) Personal loan from provident fund, life insurance policy, etc.

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- (4) In case of running enterprise, funds can be raised through retention of profits  
 (5) Ploughing back of profits into one's own enterprise

**External sources of financing:**

- (1) Borrowings from friends and relatives
- (2) Borrowings from the commercial banks for working capital
- (3) Term loans from development financing institutions like IDBI, SIDBI, IFCI Ltd., ICICI Ltd., etc.
- (4) Hire-purchase or leasing facilities from national small industries corporations, state small industries development corporations, etc.
- (5) Seed capital loan from the financial institutions or the government
- (6) Credit facilities provided by different financial institutions as well as commercial banks

**Long Answer Type Questions**

- a) I propose to make an initial investment of Rs. 12,000,000 for a particular project A. After 4 years, I expect to have an inflow of Rs. 7,500,000 every year for 3 years. There is another alternative proposal B for investment. The same initial investment will fetch me Rs. 22,000,000 at the end of 6 years. Assuming a discounting factor of 10%, use the NPV method to decide which proposal is better.  
 b) What are usually the contents of a feasibility study report of a project?

**[MODEL QUESTION]****Answer:**

a)

Cash flow statement of 'A'

Year	Inflow	Outflow
1.	–	12,000,000
2.	–	–
3.	–	–
4.	–	–
5.	7,500,000	–
6.	7,500,000	–
7.	7,500,000	–

Cash flow statement of 'B'

year	Inflow	Outflow
1.	–	12,000,000
2.	–	–
3.	–	–
4.	–	–
5.	–	–
6.	–	–
7.	22,000,000	–

NVP = present value of future cash inflow – present value of cash outflow

$$NPV = \left[ \frac{I}{(1+r)^2} + \frac{I}{(1+r)^3} + \cdots + \frac{I}{(1+r)^n} \right] - I_0 = I \left[ \frac{1}{(1+r)^2} + \frac{1}{(1+r)^3} + \cdots + \frac{1}{(1+r)^n} \right] - I_0$$

In case of project 'A'

$$NPV = 7,500,000 \left[ \frac{1}{(1.1)^5} + \frac{1}{(1.1)^6} + \frac{1}{(1.1)^7} \right] - I_0$$

$\because r = 0.1$  (Rate of discount)  
 $= [7,50,000(0.6209 + 0.5645 + 0.5132)] - I_0$

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$$\begin{aligned} &= 7,500,000 \times 1.6986 - 12,000,000 = 12,739,500 - 12,000,000 = \text{Rs. } 7,39,500/- \\ \text{In case of project 'B'} \\ NPV &= 22,000,000 \times \frac{1}{(1.1)^7} - I_0 \\ &= 22,000,000 \times 0.5132 - 12,000,000 \\ &= 11,290,400 - 12,000,000 = (-)7,00,600/- \end{aligned}$$

Hence project 'A' is better proposal since its NPV is positive (Rs. 7,39,500/-). NPV of project 'B' is negative.

**b) Project Feasibility Studies constitute the followings**

The first step towards this is projects identification and formulation. This depends upon the business environment in the country. The following issues in particular will enable an investor to identify the project:

1. **Governments' Role:** In planned protected economy the Government was promoter and regulator of industry and trade. In open market economy, the demand for a product depends upon Government policy. Today the thrust areas of the Government of India (GOI) are as follows:

Electronics, Leather, Automobile Industry, Drugs & Pharmaceuticals, Non-Conventional Energy Sources, Pollution Control Equipment, Food Processing, Sports Goods, Health Care, Cost effective building materials etc. On the other hand because of sudden demand of steel and continuous upward prices of steel in the world market, demands for steel have come up.

2. Fiscal Policy of the GOI.
3. Monetary policy that influences money supply, credit policy, inflation and cost of money.
4. Other regulatory measures of GOI like industrial licensing policy, control over capital issues, MRTP, FERA, control over prices etc.

After analysis of the above constituting business environment, the second step is identification of the project. This requires analysis of the followings:

1. Performance of existing industries. Present market (home market & export market), profitability, break-even volume of product, price trend, demand pattern, availability of technology etc.
2. **Availability of raw materials:** Availability of raw materials from within the country or from abroad. Present price trend and demand pattern.
3. Availability of skilled labour.
4. Import/Export statistics
5. Price trend.
6. Primary and secondary data.
7. Research Laboratories.
8. Consumption abroad.
9. Identification of unfulfilled psychological needs.
10. Plan outlay and Government guidelines.

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11. Analysis of social & economic trends.
12. Feasibility of rehabilitation of sick units.

### **Project Preparation**

After identification of a project that *prima-facie* appears to be worthwhile, the promoter would need further analysis as below:

- a) Pre-feasibility study
- b) Functional study
- c) Feasibility study
- d) Preparation of detailed project report (DPR)

### **Pre-Feasibility Study**

This study should examine the followings:

- a) The market potential for the selected products/services, the competitors in the field and their market share, market forecast, trading practices, Government controls etc.
- b) The present technology, available technology and source, availability of plants and machineries
- c) Plant location
- d) Plant capacity
- e) Manpower requirement in terms of supervisors, engineers, skilled and unskilled labour
- f) The investment required, ROI, means of financing, cost of production and commercial profitability.

The pre-feasibility study usually selects all major parameters like location of the project, the product(s), production capacity, raw materials and other inputs.

### **Functional Study**

This includes –

- a) Market study
- b) Raw materials/input study
- c) Project location study
- d) Plant size study
- e) Equipment selection study

### **Feasibility Studies**

Before making final decision to take up a project, the technical, economic, financial and commercial justification is a matter of necessity.

### **Technical Feasibility**

- a) If the proposed/adopted technology is latest?
- b) What is the rate of technological obsolesces?
- c) Is the technology proven?
- d) Is the technology available indigenously?
- e) Is the technology imported? If so is it available freely?

### **Economic Viability**

- a) If the community stands to gain from this project?
- b) Will it give adequate ROI?
- c) Will the output of the project meet the scarce needs of the society?
- d) Will the project be able to use raw materials and other inputs?

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### **Commercial Feasibility**

- a) A systematic market survey report particularly if the product is new for the society.
- b) The likely sales estimates should be well above the capacity of plant proposed.
- c) If the proposed product has got competitors, then the competitive edge that can be gained in terms of quality, price and consumer acceptability etc. are to be studied.

### **Financial Feasibility**

- a) Source of finance and its availability
- b) Cost of debt fund.
- c) Cost of procuring of capital
- d) Cost of servicing debts and equity
- e) Anticipated profits.

### **Detailed Project Report (DPR)**

This will contain the detail information as below:

1. General information about the project
2. Back round & experience of the project promoters
3. Details and working results of industrial concerns already owned/promoted by the owners
4. Details of the proposed project
  - Plant capacity
  - Manufacturing process
  - Technical know how/tie up
  - Management team for the project
  - Details of land, buildings, plants and machines
  - Details of infrastructural facilities like power, water, transport etc.
  - Raw materials requirement/availability
  - Effluent treatment & discharge arrangement
  - Labour requirement/availability
5. Schedule of implementation of the project
6. Project cost
7. Means of financing the project
8. Working capital requirement/arrangement made
9. Marketing and selling arrangements
10. Profitability and cash flow estimates

11. Mode of repayment of term loan
12. Govt. approval, local bodies consent and statutory approvals
13. Details of co-lateral securities that can be offered to banks/FIs

### Tax Incentives and Project Investment Decision

1. Incentives from fiscal policy
  - Depreciation
  - Tax holiday
  - Investment Allowance
  - Amortization of preliminary expenses
2. Incentives from Monetary Policy
  - Interest rate concession
  - Repayment moratorium
  - Participation in Risk Capital
  - Reduced security margin
  - Refinancing facilities
3. Incentives from commercial policy
  - Octroi exemption
  - Subsidized rate for electric power
  - Capital investment subsidy
  - Sales tax incentives for new industry.

**2. You are the financial manager of Hindustan Extrusion Products Limited (HEPL). HEPL is planning to set up an extrusion plant at Indore. Your project staff has developed the following cash flow forecast for the extrusion plant project.**

- Cash flow Forecast for HEPL's Extrusion Plant

	Year 0	(Rs. In millions) Years 1-10
Investment	(250)	
Sales		200
Variable costs (60% of sales)		120
Fixed costs		20
Depreciation		25
Pre-tax profit		35
Taxes		10
Profit after Taxes		25
Cash flow from operations		50
Net Cash flow		50

- The firm uses a 13% discount rate for this type of investment.
- What is the NPV of the project?

[MODEL QUESTION]

**Answer:**

Calculations for arriving at the NPV of the project, after using 13% discount rate for the above type of investment are as follows:

1.  $\frac{1}{1.13} = 0.8849$
2.  $\frac{0.8849}{1.13} = 0.7831$
3.  $\frac{0.7831}{1.13} = 0.6930$
4.  $\frac{0.6930}{1.13} = 0.6132$
5.  $\frac{0.6132}{1.13} = 0.5426$

$$NCF \times PV_{(13,10)} = PV \text{ of CF}$$

$$\begin{aligned} \text{Therefore, } NPV &= PV \text{ of CFAT} - PV \text{ of cash outflow} \\ &= 50 \times PV/FA_{(13,10)} - PV \text{ of cash outflow} \\ &= 50 \times 5.426 - 250 \text{ (Investment)} \\ &= 271.3 - 250 = 21.3 \end{aligned}$$

**3. A company has an investment opportunity costing Rs. 40,000. The following expected Net Cash Flow (after tax before depreciation) is as follows.**

Year	1	2	3	4	5	6	7	8	9	10
CF	7000	7000	7000	7000	7000	8000	10000	15000	10000	4000

Assuming 10% as cost of capital: determine:

- i) Payback period
- ii) NPV at 10%
- iii) Profitability Index at 10% discounting factor
- iv) IRR by 10% and 15%

[MODEL QUESTION]

**Answer:**

Statement to calculate Pay Bank Period, NPV etc.

Rank	NCF	D.F 10%	DCF 10%	D.F 15%	DCF 15%
	(40,000)	1.00	(40,000)	1.00	(40,000)
1	7,000	0.91	6,370	0.87	6,090
2	7,000	0.83	5,810	0.76	5,320
3	7,000	0.75	5,250	0.65	4,550
4	7,000	0.68	4,760	0.57	3,990
5	7,000	0.62	4,340	0.50	3,500
6	8,000	0.56	4,480	0.43	3,446
7	10,000	0.51	5,100	0.37	3,700
8	15,000	0.47	7,050	0.33	4,950
9	10,000	0.42	4,200	0.28	2,800
10	4000	0.38	1,520	0.25	1,000
			48,610		39,346
	82,000			8,610	(654)
	NPV				

$$PCB(CF) = \frac{\text{Net Investment}}{\text{NCF per year}} = \frac{40,000}{8,200} = 4.87 \text{ years} = 5 \text{ years.}$$

$$= \frac{40,000}{4,861} = 8.22 \text{ years. (At discounting)}$$

$$P.I = \frac{PV \text{ at NCF}}{\text{Initial outlay}} = \frac{48,610}{40,000} = 1.21, 1.22$$

$$IRR 10\% + \frac{5\%}{9.264} \times 8,610 = 10\% + 4.65 = 14.65\%$$

**4. "Sensitivity analysis proves the flexibility of the project". Discuss.**  
[MODEL QUESTION]

**Answer:**

- A sensitivity analysis is a technique used to determine how different values of an independent variable impact a particular dependent variable under a given set of assumptions.
- In a sensitivity analysis, only the unfavourable changes are accounted for to consider the impact of these changes on the probability of the project.
- The sensitivity analysis helps in identifying the key variables that are major influences in the cost and benefits of the project.

**5. Major Ltd. manufactures a single product X whose selling price is Rs. 40 per unit and the variable cost is Rs. 16 p.u. If the Fixed Costs for this year are Rs. 4,80,000 and the annual sales are at 50% margin of safety, calculate the rate of net return on sales, assuming an income tax level of 40%. For the next year, it is proposed to add another product line Y whose selling price would be Rs. 50 per unit and the variable cost Rs. 10 per unit. The total fixed costs are estimated at Rs. 6,66,600. The sales mix of X:Y would be 7:3. At what level of sales next year, would the co. break even? Give separately for both x and Y the break even sales in rupees and quantities.**  
[MODEL QUESTION]

**Answer:**

i) Return on sales for product X

$$p/v \text{ ratio} = \frac{S - V}{S} \times 100 = \frac{24}{40} \times 100 = 60\%$$

$$B - E \text{ sales} = \frac{F.C}{\text{Contribution per unit}} = \frac{480,100}{24} = 20,000$$

Margin of safety = Total sales - B - E sales

$$\frac{1}{2} \text{ Total sales} = \text{Total sales} - 20,000$$

$$\text{Total sales} = 40,000$$

$$\text{Profit after tax} = [(40,000 \times 40) - 640,000 - 480,000] \times 0.6 \\ = 2,88,000$$

$$\text{Return on sales} = \frac{288,000}{1600,000} \times 100 = 18\%$$

**ii) Product mix  $\times \Delta y$  (7:3)**

	X	Y
Less: Variable cost / unit	40	50
Contribution / unit	16	10
	24	40

Weighted Average contribution / unit

$$= [RS24 \times 70\%] + [40 \times 30\%] = 16.80 + 12 = 28.80$$

$$\text{Overall Breakeven point} = \frac{F.C}{\text{Contribution/unit}} = \frac{666600}{28.80} = 23144 \text{ (unit)}$$

$$i) B - E \text{ Point } (X) = 23144 \times \frac{70}{100} = 16200$$

$$ii) B - E \text{ Point } (Y) = 23144 \times \frac{30}{100} = 6944$$

$$(i) + (ii) = 23144 \text{ (unit).}$$

$$B - E \text{ Point (amt)} X = 16200 \times 40 = 648000$$

$$B - E \text{ Point (amt)} Y = 6944 \times 50 = 347200$$

**6. "An important aspect of measuring the profitability of an organization is ROI." Explain.**  
[MODEL QUESTION]

**Answer:**

**ROI (Return on Investment)**

- The return on investment (R.O.I) devise is one of the most useful tools and techniques of control for evaluating the relative as also the absolute success of an organization or any of its particular branch or division.
- Through this technique, the ratio of earnings of an organization to investment on capital may be determined.
- The return on investment implies as percentage of profit earned on capital employed.
- Return on investment acts as a yardstick to know how much an organization or any of its division or unit earns profit on the basis of the capital employed.
- Management may consider that profit before interest and tax expressed as a percentage of total assets is a useful measure of performance.
- ROI refers to a performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments.
- ROI measures the amount of returns on an investment relative to the investment's cost.
- To calculate ROI, the benefit (or return) of an investment is divided by the cost of the investment and the result is expressed as a percentage or a ratio.

$$\text{The return on investment formula} \\ \text{ROI} = \frac{(\text{Gain for investment} - \text{Cost of investment})}{\text{Cost of investment}}$$

- Because ROI is measured as a percentage, it can be easily compared with returns from other investments, allowing one to measure a variety of types of investments against one another.
- Thus, it is true that ROI is an important aspect of measuring the probability of an organisation.

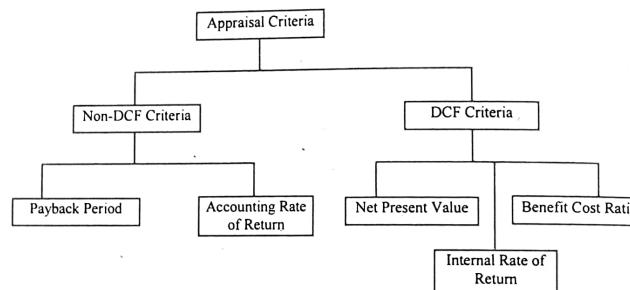
### 7. State the Different methods of Project Appraisal.

#### [MODEL QUESTION]

Answer:

#### Project Appraisal Criteria

The investment appraisal criteria, is classified into two broad categories—non-discounting criteria and discounting criteria.



#### Payback Period Method

This is one of the widely recognized and simple methods of evaluating investment proposals. Payback period is defined, as the length of the time required to recover the original investment on the project, through cash flow earned. The cash inflow includes operating profit, less income tax payable, plus depreciation.

#### Average Rate of Return (ARR) Method (or Accounting Rate of Return Method)

The average rate of return is also called the accounting rate of return.

$$\text{Average rate of return} = \frac{\text{(Profit after tax)}}{\text{(Book value of investment)}}$$

Profit after tax is the average annual post tax benefit over the life of the project. Unlike pay back period method, under ARR method, the entire life of the project is taken into account.

#### Net Present Value (NPV)

This method is one of the discounted cash flow techniques and it recognizes the time value of money.

$$\left( \text{Net present value of cash flow} \right) = \left( \text{Present value of all future Cash inflows over the life of the project} \right) - \left( \text{Present value of Cash outflow} \right)$$

The present value of future cash inflows is arrived at by discounting the future cash inflows at an interest rate equal to the cost of capital. Symbolically it can be expressed as

$$NPV = \left[ CF_1 / (1+r)^1 + CF_2 / (1+r)^2 + CF_3 / (1+r)^3 + \dots + CF_n / (1+r)^n \right] - CF_0$$

where,  $CF_1, CF_2, \dots$  are future cash inflows occurring at the end of the first year, second year, ...etc;  $n$  = life of the project in years,  $r$  = discount rate (cost capital); and  $CF_0$  = Present cash out flow.

If,  $NPV = 0$ , it indicates that the present cash outflow and the present value of future cash inflows are equal.

If,  $NPV < 0$ , it indicates that the present value of future cash inflows is less than the present cash outflow.

If  $NPV > 0$ , it indicates that the present value of future cash inflows is more than the present cash outflow.

#### Internal rate of Return (IRR) Method

The internal rate of return of a project is the discount rate that makes the net present value equal to zero. In other words, the internal rate of return is that rate of discount, which would equate the present value of cash out flows (investments on the project), to the present value of cash inflows (benefits over the life of the project).

In the calculation of net present value of a project, the discount rate (cost of capital) is assumed and the net present value is calculated by discounting future cash inflows at the assumed discount rate. In the calculation of internal rate of return from a project, the net present value is set equal to zero and the corresponding discount rate is determined, the discount rate at which the net present value is zero is the internal rate of return.

$$0 = \left[ CF_1 / (1+r) + CF_2 / (1+r)^1 + CF_3 / (1+r)^2 + CF_4 / (1+r)^3 + \dots + CF_n / (1+r)^n \right] - CF_0$$

$$= \sum_{t=0}^n CF_t / (1+r)^t$$

where,  $CF_t$  = cash flow at the end of year  $t$ ,  $r$  = discount rate, and  $n$  = life of the project.

#### Comparison between NPV Method and IRR Method

Both NPV method and IRR Method appear to be the same structurally. Prima facie, it appears that if two projects were compared using NPV method and IRR method, both the methods would rank the projects in the same order. Though in most cases the decision based on either of the methods would be similar, there are certain instances wherein ranking by the two methods may differ from each other. Though it sounds not logical, the following illustration will clear the apprehensions.

#### Benefit – cost Ratio Method

This is only another version of Net Present Value method. Under this method, the benefits from the project (i.e. cash inflows) are reduced to their present value at a

specified rate of discount (cost of capital) and this figure is divided by the present value of the cost of the project (i.e. cash out flows).

$$\text{Benefit - Cost Ratio (BCR)} = \frac{\text{Present Value of Cash in - flows}}{\text{Present Value of Cash out-flows}}$$

$$\text{or, } \text{Benefit - Cost Ratio (BCR)} = \text{PVB}/I$$

Where, PVB = present value of benefits, and I = initial investment  
 Net benefit – cost ratio (NBCR) – (PVB – I) / I = BCR – I

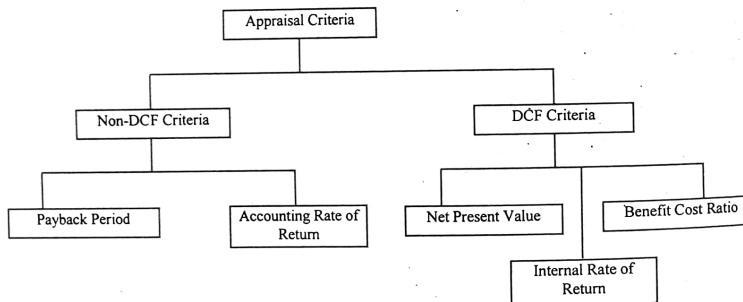
When BCR	or NBCR	Rule is
>1	> 0	Accept
=1	= 0	Indifferent
<1	< 0	Reject

#### 8. Discuss advantage and disadvantage of DCF criteria for project appraisal.

##### [MODEL QUESTION]

##### Answer:

The investment appraisal criteria, is classified into two broad categories—non-discounting criteria and discounting criteria.



##### • Net Present Value (NPV)

##### *Advantages*

- It takes into account the time value of money
- It considers the cash flow stream in its entirety
- It squares neatly with the financial objective of maximization of wealth of stockholders.

##### *Disadvantages*

- It is expressed as an absolute number, it is not readily intelligible to decision makers who are wanted to think in relative terms (like rate of return or profitability index).

#### Internal rate of Return (IRR) Method

##### *Advantages*

- It takes into account the time value of money
- It considers the cash flow stream in its entirety
- It makes sense to businessmen who are wanted to think in terms of rate of return and find an absolute quantity.

##### *Disadvantages*

The internal rate of return may not be uniquely defined. If the cash flow stream of a project has more than one change in sign, there is a possibility that there are multiple rates of return.

The internal rate of return figure cannot distinguish between lending and borrowing and hence a high internal rate of return need not necessarily be a desirable feature. The internal rate of return criterion can be misleading when choosing between mutually exclusive projects that have substantially different outlays.

#### • Benefit-cost Ratio Method

##### *Advantages*

The proponents of benefit cost ratio argue that since this criterion measures net present value per rupee of outlay, it can discriminate between large and small investments and hence is preferable to the net present value criterion.

##### *Disadvantages*

- i) Under unconstrained conditions, the benefit – cost ratio criteria will accept and reject the same project as the net present value criterion
- ii) When the capital budget is limited in the current period, the benefit ratio criterion may rank projects correctly in the order decreasing efficient use of capital. When cash outflows occur beyond the current period, the benefit cost ratio criterion is unsuitable as a selection criterion.

# CREATIVITY AND INNOVATION

## Multiple Choice Type Questions

- 1. Invention is**
- a) conceiving new ideas
  - b) transforming an idea into application
  - c) analytical ability
  - d) all of these
- Answer:** (a)
- [MODEL QUESTION]**
- 2. Innovation results in**
- a) New knowledge
  - b) New products, service or processes
  - c) Low level of commitment
  - d) Low quality products
- Answer:** (b)
- [MODEL QUESTION]**
- 3. The transformation of an idea into useful applications which results in new product, services or processes is called**
- a) Incubation
  - b) Innovation
  - c) Idea Germination
  - d) Illumination
- Answer:** (b)
- [MODEL QUESTION]**
- 4. According to Schumpeter an entrepreneur is**
- a) a manager
  - b) a reformer
  - c) an innovator
  - d) a businessman
- Answer:** (c)
- [MODEL QUESTION]**
- 5. The incubation stage in creative process refers to**
- a) conscious search for knowledge
  - b) subconscious assimilation of information
  - c) recognition as being feasible
  - d) test to prove idea has value
- Answer:** (b)
- [MODEL QUESTION]**
- 6. Who is not an inventor?**
- a) Frederick
  - b) Alexander Fleming
  - c) Willie Carrier
  - d) Sourav Ganguli
- Answer:** (d)
- [MODEL QUESTION]**
- 7. Which of the following shows the process of creating something new?**
- a) Business model
  - b) Innovation
  - c) Modelling
  - d) Creative flexibility
- Answer:** (b)
- [MODEL QUESTION]**
- 8. Analytical processing of information and idea generation relates to**
- a) Human Relations skill
  - b) Technical skill
  - c) Conceptual skill
  - d) None of these
- Answer:** (c)
- [MODEL QUESTION]**

## Short Answer Type Questions

ENTREPRENEURSHIP

### 1. Define the term creativity.

**Answer:** Concept of Creativity

[MODEL QUESTION]

- Creativity is an essential ingredient of organisational growth. Organizations, without creativity, would be stale, non-dynamic and as a result, their employees would stagnate.
- Creative and bold decisions have contributed significantly to the areas of product improvement in inventing a new use for an existing product as well as inventing a new product or service.
- Creativity may result from activity that is unconventional or divergent from main stream.
- Creativity is more than novelty. Something new or different is creative and it makes a valuable contribution.
- In simple words, creativity refers to the ability to bring something new into existence.
- Creativity is the ability to formulate unique approaches to problem solving and decision making.
- In defining creativity, Wallach and Kogan describes creativity as the inner process within the psychodynamics reflected through the novelty of thoughts which is used to determine new mode of adaptation with the problem-solving situations with the aim of accomplishing predetermined goal.

### 2. What are the techniques of creativity enhancement?

[MODEL QUESTION]

**Answer:**

#### Techniques of creativity enhancement

The following techniques may enhance creativity.

- **Brainstorming**
  - Brainstorming is an important technique for stimulating imaginative and novel ideas.
  - This takes place in a class room setting, generating ideas in the form of free association.
  - This free association with unrestricted thinking helps to generate novel idea and a unique solution could be reached.
- **Synectics**
  - Synectics refer to the generation of new ideas or using old ideas in a new way from unsuspecting angles.
  - This approach of creativity enhancement assists in generating such ideas.

**3. Define the Three-component model of creativity with a diagram.****[MODEL QUESTION]****Answer:****Three-component model of creativity**

- The componential theory of creativity / three-component model of creativity assumes that all human beings with normal capacities are able to produce at least moderately creative work in some domain, some of the time, and the work environment can influence both the level and the frequency of creative behaviour.
- The three-component model of creativity includes three major components of individual or small group creativity, each of which is necessary for creativity in any given domain. These components are **expertise**, creative **thinking/skills** and task **motivation**.
- The componential theory of creativity suggests that creativity is most likely to occur when people's skills overlap with their strongest intrinsic interests.

**Explanation of the three-components****• Expertise**

→ Expertise is the foundation of all creative work and this component includes memory for factual knowledge, technical proficiency and special talents in the target domain.

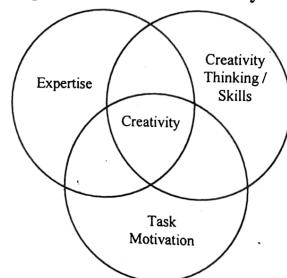
**• Creative thinking/skills**

→ This component assumes that a person has some incentive to perform an activity and the performance will be technically good or acceptable, if the requisite expertise is present.

**• Intrinsic Task motivation**

→ This component will determine what the person concerned will actually do.

→ Here, motivation can be driven by deep interest and involvement in the target work or by curiosity, or enjoyment or personal sense of challenge (intrinsic). Again, it may be to achieve a promised reward or meeting a deadline or winning a competition (Extrinsic). However, intrinsic motivation is more conducive to creativity than any extrinsic motivation.

**Diagram showing three-component model of creativity****4. Distinguish between Creativity and Innovation.****Answer:****Creativity**

- Creativity implies the ability
- Creativity is the pre-requisite to innovation
- Creativity induce invention
- Creativity may be viewed as new insight which indicates better ways of dealing with reality.
- Creativity may be treated as the cause.

**ENTREPRENEURSHIP****[MODEL QUESTION]****Innovation**

- Innovation implies activity
- Innovation is the transformation of creative ideas into useful application
- Innovation induces new and newer products or service, new technologies new markets and new sources of supply with the re-organisation of the existing system. Innovation depends on the creativity which is the ability of a person
- Innovation is the radical, discontinuous change and creativity is the ability to devise and implement such changes.
- Innovation may be treated as the effect.

**5. Define the term Innovation.****[MODEL QUESTION]****Answer:****Meaning of innovation**

- Innovation** refers to the process of converting a creative into a useful product.
- Innovation may be defined as the successful implementation of creative ideas within an organisation.
- In defining innovation P.F Drucker states that innovation is the means by which new and newer products and technologies are invented.
- To conclude, innovation is the process of doing new things in a newer way with the help of new and newer technology.

**Long Answer Type Questions**

1. "Entrepreneurial Ideas evolve through a creative process by which creative people germinate ideas, nurture them and develop them successfully". – Justify the statement.

**[MODEL QUESTION]****Answer:**

The creative process generally follows the following broad outlines:

**1. Idea germination**

- The first stage in the creative process is the idea-germination.
- This stage is the sowing stage of the process.

**2. Preparation**

- Preparation, in the form of education, training and research, is an essential foundation to build creativity.
- Preparation requires a hard and concentrated look at the problem at hand and its various parameters in order to develop a break-through solution.
- It is the creative thinker who continues to look for a different and unique solution.

**3. Incubation**

- Incubation refers to a time of thought and reflection to allow ideas time to grow without intentional effort.
- Incubation is a period when the conscious attention is turned away from the current problem at hand.
- Creative people may initiate different methods to provide incubation period.
- Incubation time may take a day or even a long period.
- It is experienced unconscious mind of the creative person is able to handle the problem issue from new angles or into new combinations.

**4. Persistence**

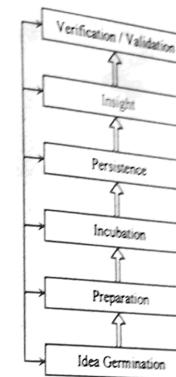
- At this state, the decision maker's frame of reference or the problem could be redefined persistently for generating new and different conclusions.
- Highly committed people remain persistently involved in the area of issue under consideration and remain highly committed to their ideas.

**5. Insight**

- This stage is actual point of break-through achieved as a result of preparation, incubation and persistent involvement.
- Insight is the tentative outcome of the persistent efforts and thinking to the problem under study.
- At this stage, the creative person believes that he has found a unique solution to the problem in question.

**6. Verification/Validation**

- As, a scientist verifies his/her hypothesis through critical analysis or through laboratory procedure, similarly, the insight or the new idea has to be tested to make sure that the said idea is feasible and valid.
- Verification stage is the development stage of refining knowledge into application.

**Diagram showing the creative process****2. a) What is Diffusion of Innovation?**

b) State the factors affecting diffusion of innovation.

[MODEL QUESTION]

**Answer:****a) Diffusion of innovation**

- The diffusion/consumer adaptational process was developed by E.M. Rogers.
- The diffusion or adaptation process is similar to that of product life cycle (PLC).
- The diffusion process looks at what is happening in the market, that is, buyer behaviour.
- The life cycle concept derives its logical base from the diffusion process.
- Adoption and diffusion of any new product (innovation) slowly develops because of resistance and the time taken for communication of the innovation.
- When early adopters follow the lead given by innovations, adoption process gains momentum and grows rapidly. The peak point arrives when most of the potential buyers have tried the new product.

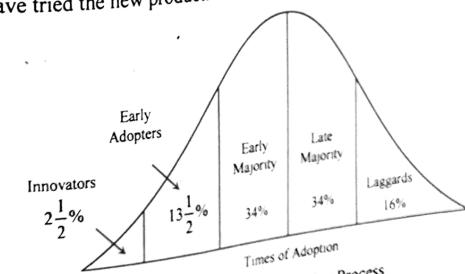


Fig: The Diffusion Process

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### b) Factors affecting diffusion of innovation:

The factors affecting diffusion of innovation are stated as under:

- **Relative advantage of the new product:** The greater the perceived relative advantage of the new product in relation to the existing one, the sooner the new product will be adopted.
- **Compatibility:** If the new product/innovation fits the values and experiences of potential consumers, the sooner the new product will be adopted.
- **Complexity of the product:** If the innovation is complex and difficult to understand or use, the adaptation is taken a longer time.
- **Divisibility:** If the new product/innovation may be tried or used with an option to buy, the adaptation will not take a longer time.
- **Communicability:** If the results of using the new product/innovation can be obtained, observed from verified sources or described to others through demonstration, in such a case, the adaptation will be sooner.

### 3. Discuss the diffusion/Adaption process.

#### [MODEL QUESTION]

**Answer:**

##### **Diffusion/Adaptation process:**

- Diffusion/Adaptation process refers to the mental process through which an individual passes from first learning about an innovation to final adaptation.
- An adoption process is a process bringing about a change in buyer's attitudes and perception. **Adaptation process covers the following steps:**

##### 1. Awareness:

- The consumer becomes aware of the new product, but lacks information as to usefulness, qualities, performance, etc of the new product/innovation.

##### 2. Interest:

- Being aware of the innovation, the consumer demands more information about the new product its utility, its performance and so on. He actively seeks the desired information from sales-persons, opinion leaders, peers and friends etc.

##### 3. Evaluation:

- The consumer tries to reason through pros and cons the value of the new product to him and the extent to which it is good for him.
- At this stage, the customer conducts a mental trial of the new product.

##### 4. Trial:

- The consumer tries the new product on a small scale experiment to improve his/her estimate of its value

##### 5. Adaptation

- The consumer, now, decides to adopt the new idea or product for continued use.

### 4. What do you mean by Technological Innovation?

#### [MODEL QUESTION]

**Answer:**

- Technological innovation means the development of tangible products or processes that result from technological development.

## ENTREPRENEURSHIP

- According to Twiss (1986) – there are **Seven conditions** that are required for the success of the technological innovation. These are:
  - An outstanding person in an executive position to support strategic decisions that encourage creativity and innovation development.
  - An operational person is to carry out the essential tasks of converting knowledge into a commercial application.
  - A clear need for the application by sufficient potential consumers to warrant the commitment of resources to the innovation.
  - The relation of the product, process or service as useful innovation providing value to the society.
  - Co-operation among the crucial players and among diversified functions in an organisation, all of whom, together must bring the idea to fruition.
  - Co-operation and support from external agencies who can influence the success of an innovation including government agencies, investors, suppliers and creditors, and
  - Availability of the resources and the supporting technology to succeed in the endeavor.

# UNDERSTANDING THE MARKET AND RESOURCE MOBILIZATION

## Multiple Choice Type Questions

1. The test-marketing stage: [MODEL QUESTION]

- a) is an extension of the screening stage
- b) ensures that the product will not fare
- c) should come immediately after business analysis
- d) is a sample launching of the entire marketing mix

Answer: (d)

2. The Forces of marketing concept is [MODEL QUESTION]

- a) Target market
- b) Customer needs
- c) Products
- d) Customer satisfaction

Answer: (d)

3. One of the important characteristics of service is [MODEL QUESTION]

- a) Tangibility
- b) Homogeneity
- c) Non-perishability
- d) Intangibility

Answer: (d)

4. Product development comes [MODEL QUESTION]

- a) after market testing
- b) before concept development
- c) before business analysis
- d) after concept development

Answer: (d)

## Short Answer Type Questions

1. What do you mean by the term Market Research? [MODEL QUESTION]

Answer:

- Market Research is only a part of the marketing research and covers only a few aspects of marketing.
- Market Research is appropriate for describing research into markets – their size, geographical distribution, incomes and so on. Market research fails to cover the ideas of research into the effects of marketing efforts on markets for which the term marketing research is more appropriate.

2. What do you mean by the term Marketing Research? [MODEL QUESTION]

Answer:

- Marketing Research includes investigation of market segments, channel relationship, pricing policies, effectiveness of sales people and advertisements, product differentiation and so on.

- Marketing Research is not restricted to any type of marketing problem, but applies to any field of marketing activities.
- 3. State the aims, objectives and purposes of Marketing Research.

**Answer:** [MODEL QUESTION]

The aims/objectives/purposes of marketing research are summarized as under:

- The **basic purpose** of marketing research is to facilitate the decision – making process, in response to every marketing problem and situation.
- The **second purpose** of marketing research is that if helps to reduce the risk associated with the process of decision making – like uncertainty about the expected outcome of the decision and uncertainty about future.
- The **third purpose** of marketing research is that it helps the organizations in discovering opportunities which can be profitably exploited. These opportunities may exist in the form of untapped customer needs or wants not catered to by the existing organisation.
- The **fourth purpose** of marketing research is that it helps to indicate the distribution methods best suited to the product and the market.

4. State the functions of Marketing Research. [MODEL QUESTION]

Answer:

The functions of marketing research are summarized as under:

- Marketing research helps the firm in knowing the market, fitting a product to the market and finally selling the product to the market.
- Marketing research acts as an intelligent and intelligible guide to
  - the production of marketable goods,
  - the distribution of marketable goods,
  - the size, nature and organisation of the sales, and
  - the demand creation activities.
- Marketing research acts as balancing wheel of the marketing system which harmonizes the supply demand factors.

5. What do you mean by the term 'Testing' in the context of marketing? [MODEL QUESTION]

Answer:

There are various tests conducted at various levels in order to ascertain the product acceptability.

- The activities undertaken so far are based on certain information collected.
- These commercial experiments are necessary to verify earlier business judgements.
- Thus the object of this stage is basically to assess whether the product meets the technical and commercial objectives envisaged in the original proposal.
- There are three types of tests usually conducted:
  - i) Concept testing
  - ii) Product testing, and
  - iii) Test marketing.

## [MODEL QUESTION]

**6. State in brief the objective of Test marketing.****Answer:**

The objectives of test marketing are:

- To evaluate a complete marketing plan including advertising, distribution, sales and pricing, etc.
- To determine media mix, sales channels, etc.; and
- To forecast sales volume.

**7. What do you mean by market sensing?**

## [MODEL QUESTION]

**Answer:**

- Market sensing is a research technique that seeks to understand consumer sentiment and the emotions that drive consumer behavior and decisions.
- By understanding social contexts, underlying principles, values, and other external market factors influencing their behavior it can enable more powerful marketing strategies.

**Long Answer Type Questions****1. Discuss the steps/stages of Marketing Research Process.**

## [MODEL QUESTION]

**Answer:****Steps / Stages of Marketing Research Process**

- The first and foremost step to be taken by a researcher is to locate, recognize and define the problem area which will be taken up for solution.
- It is correctly said that “**a problem well defined is half-solved.**” Clear, precise and to the point statement of the problem itself provides clues for the solution.
- Since problem definition is the first stage, useful information generated is likely to be unstructured, qualitative, tentative and exploratory. Depending on the results generated at this stage, the researcher would decide to extend the scope of research or stop it here.

**1. Developing the Research Plan / Research Design**

- If the researcher is able to state the problem correctly and precisely, he should be able to spell out the precise objectives for the research.
- In this stage, the researcher should prepare the research design which will spell out how the researcher is going to achieve the stated research objectives
- The data collection methods, the specific research instrument and the sampling plan that the researcher will use for collecting data and the corresponding cost are the elements that constitute the research design.

**2. Collection of data**

- In this stage, the researcher should proceed with the task of collection of information/data necessary for the problem solution from various sources.
- A research may require both **primary data** and **secondary data**.
- **Primary data** refers to data collected by the researcher from original sources.

- It can be collected from customers, retailers, distributors, manufacturers or other information sources.
- Primary data may be collected through any of the three methods: **observation, survey and experimentation.**
- In the observation method, the researcher may use a camera, tape recorder or tally sheet in which the number of times an event occurs is recorded. The researcher must ensure that the instrument is appropriate to the occasion and is reliable.
- In the **Survey Method**, the most commonly instrument is the **questionnaire, survey**. which should be tested on a limited scale and this is technically known as a **pilot survey**.
- After preparing the questionnaire, the researcher is to identify the source of information, which is also called **population**. The researcher would select a small group known as **sample**.
- Having decided to use a sample, the researcher is to draw up the sampling plan. There are four aspects of sampling plan.
  - **Sampling unit:** Who is to be surveyed?
  - **Sample size:** How many are to be surveyed?
  - **Sampling Procedure:** How are they to be selected?
  - **Sampling Media:** How are they to be reached?

**3. Field Work**

- This is the stage where the research design has to be converted from the planning stage to that of implementation. There are two stages in field work – (i) **Planning and (ii) Supervision**

**(i) Planning Stage**

- How many people will be assigned to the field?
- What will be their geographical areas of coverage?
- How many days will be required, and
- What is the pattern to be used for choosing sample units, etc?

**(ii) Supervision Stage**

- Making random checks to ensure that the data collected is genuine and
- Guiding team members

**4. Report presentation and implementation**

- At this stage, the researcher would summarize the plan in a written proposal. With this report, the following details should be given
  - Objectives and Methodology in which the research objective are stated and details of the sampling plan are described.
  - Summary of the conclusions and recommendations in which the main finding of the research are highlighted.
  - Detailed findings and observations in which the data which has collected is presented in a form which is easily comprehensible.
  - Questionnaire and supporting instruments are to be presented in the last section.

**2. State the application areas of Marketing Research.**

**Answer:**

**Application areas of Marketing Research**

The application areas of marketing research are summarized as under:

**1. Sales and Market Analysis**

- Done for determination of market potential
- Done for determination of market share
- Done for forecasting sales
- Done for designing market segmentation
- Done for test marketing
- Done for studying channels of distribution
- Done for determining market characteristics, etc.

**2. Product Research**

- Done for evaluation of new product ideas
- Done for testing new product acceptance.
- Done for change in product formulation.
- Done for testing product positioning.

**3. Pricing Research**

- Done for estimating the demand level at different prices

**4. Advertising research**

- Done for audience measurement for advertisements appearing in different media.
- Done for determination of the most cost-effective media plan.
- Done for copy testing
- Done for determining advertisement effectiveness.

**5. Consumer behaviour research**

- Done for determining the customers of the product.
- Done for finding out the location of the customers.
- Done for determining the motivation levels of the consumers.
- Done for determining the buying behaviour pattern and sequence of purchase decision, and
- Done for evaluating the post purchase satisfaction level of the customers, etc.