



CHAPTER III:

PROJECT IDENTIFICATION

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GENERATION AND SCREENING OF PROJECT IDEAS

- ❖ The search for promising project ideas is the first step towards establishing a successful project
- ❖ Identification of meaningful project idea requires imagination, Sensitivity to environmental changes and assessment of what a firm or organization can do
- ❖ To Stimulate the flow of project Ideas the following are helpful

□SWOT Analysis

Represents a conscious, deliberate and systematic effort by an organization to identify opportunities that can be profitably exploited by it. This analysis facilitates the generation of new ideas

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□ Clear Articulation of Objectives

- Firm objectives can be of one or more of the following
 - ✓ Cost reduction
 - ✓ Productivity improvement
 - ✓ Increase in capacity utilization
 - ✓ Improvement in contribution margin
 - ✓ Expansion in to promising areas
- A clear articulation and prioritization of objectives in channelling of employees and helps them to think more imaginatively

□ Foster a Conducive Climate

- Conducive organizational climate is essential to help tap the potential, creativity and entrepreneurial urge of employees

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In general, the sources of project ideas can be broadly classified into macro and micro level.

I. Macro-level

- 1. National policies, strategies, sectoral, sub – sectoral or regional plans**
- 2. General surveys like resource potential surveys, regional studies, statistical publications, which indicate directly or indirectly investment opportunities.**
- 3. Constraints on the development process due to shortage of essential infrastructure facilities.**
- 4. Unusual events such as, droughts, floods, earth – quakes, hostilities, etc**
- 5. From multilateral or bilateral development agencies and as a result of regional or international agreements in which the country participate.**

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Micro Level

1. The identification of unsatisfied demand or needs
2. The need to remove shortages in essential materials, services or facilities that constrain development efforts;
3. The initiative of private or public enterprises in response to incentives provided by the government;
4. The necessity to complement or expand investments previously undertaken;
5. The suggestions of financial institutions and development agencies;
6. Study of new Technological Development.

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In addition, Project identification needs to address the following issue

1. Monitoring the environment

- ☐ **Economic Sector**
- ☐ **Governmental Sector**
- ☐ **Technological Sector**
- ☐ **Socio-Demographic Sector**
- ☐ **Competition Sector**
- ☐ **Supplier Sector**

2. Corporate appraisal (self assessment)

- ☐ **Marketing and Distribution**
- ☐ **Production and Operations**
- ☐ **Research and Development**
- ☐ **Corporate Resources and Personnel**
- ☐ **Finance and Accounting**

3. Preliminary screening

- ☐ **Compatibility with the Promoter**
- ☐ **Consistency with the Government Priorities**
- ☐ **Availability of Inputs**
- ☐ **Adequacy of Market**
- ☐ **Reasonableness of Cost**
- ☐ **Acceptability of Risk Level.**

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MONITORING THE ENVIRONMENT

- ❑ **Proper environmental assessment provides a company the opportunity to understand the competitive climate and help generate ideas for investment**
- ❑ **Key sectors that need to be assessed are discussed below**

Economic Sector

State of the Economy and Overall Rate of Growth

Growth Rate of Primary, Secondary and Tertiary Sectors

Cyclical Fluctuations

Linkage with the World Economy

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MONITORING THE ENVIRONMENT

- ◆ **Governmental Sector**
 - **Industrial Policy**
 - **Government Programmes & Projects**
 - **Tax policy**
 - **Subsidies, Incentives and Concessions**
 - **Import & Export Policies**
 - **Lending Conditions of Financial Institutions and Commercial Banks**
- ◆ **Technological Sector**
 - **Availability of Technologies**
 - **Accessibility of the available technology**
 - **Access to Technical Know-How, Foreign as well as Indigenous**

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MONITORING THE ENVIRONMENT

- ◆ **Socio-Demographic Sector**
 - ◆ **Population Size**
 - ◆ **Income Distribution**
 - ◆ **Educational Profile**
 - ◆ **Attitudes Towards Consumption and Investment**
- ◆ **Competition Sector**
 - **Number of Firms in the Industry and the Market Share of the Top Few**
 - **Degree of Homogeneity and Differentiation Among Products**
 - **The nature of entry**
 - **Comparison with Substitutes in Terms of Quality, Price, Appeal and Functional Performance**
- ◆ **Supplier Sector**
 - **Availability and Cost of Raw Materials and Sub-Assemblies**
 - **Availability and Cost of Energy**
 - **Availability and Cost of Money**
 - **Availability and cost of labor**

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CORPORATE APPRAISAL

- ❑ **A realistic appraisal of corporate strengths and weaknesses is essential for identifying investment opportunities**
- ❑ **The broad areas of corporate appraisal and important elements to be considered under each are discussed below**

Marketing and Distribution

- ❑ **Market Image and Market Share**
- ❑ **Distribution Network**
- ❑ **Customer Loyalty**
- ❑ **Marketing and Distribution Cost**

Production and Operations

- ❑ **Condition and Capacity of Plant and Machinery**
- ❑ **Availability of Raw Materials, Sub-Assemblies and Power**
- ❑ **Locational Advantage and Cost Structure**

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CORPORATE APPRAISAL

Research and Development

- ☐ **Research Capabilities of Firm**
- ☐ **Track Record of New Development**
- ☐ **Laboratories and Testing Facilities**
- ☐ **Co-ordination Between Research and Operations**

Corporate Resources and Personnel

- ☐ **Clout with Governmental and Regulatory Agencies**
- ☐ **Dynamism of Top Management**
- ☐ **Competence and Commitment of Employees**
- ☐ **State of Industrial Relations**

Finance and Accounting

- ☐ **Financial Leverage and Borrowing Capacity**
- ☐ **Cost of Capital**
- ☐ **Tax Situation**
- ☐ **Relations with Shareholders and Creditors**
- ☐ **Accounting and Control System**

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PRELIMINARY SCREENING

- By using the tools suggested so far, it is possible to develop a long list of project ideas
- Preliminary screening is, therefore, required to identify most promising project ideas from those not.
- The following are considered as a tool for achieving this purpose.
 1. **Compatibility with the Promoter**
 - Idea must be compatible with the Personality, interest, and resource of the Promoter
 - A real opportunity has the following characteristic
 - It fits the personality of the Promoter
 - Acceptable to the firm's owner and Accessible to Him
 - It offers him the Prospect of Rapid Growth and High Return on the Invested Capital

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PRELIMINARY SCREENING

2. Consistency with the Government Priorities

- Projects would only be feasible when consistent with the national goals and government regulations**
- Questions to be raised in this regard are:**
 - Is the Project Consistent with the National Goals and Priorities?**
 - Are there any Environmental Effects Contrary to Governmental Regulations?**
 - Can Foreign Exchange Requirements of the Project be Easily Accommodated?**
 - Will there be Any Difficulty in Obtaining the License of the Project?**

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PRELIMINARY SCREENING

3. Availability of Inputs

- The resources and inputs required for the project must be reasonably assured
- To verify this the following questions need to be raised
 - Are the Capital Requirements of the Project within Manageable Limits?
 - Can Technical Know-How Required for the Project be Obtained?
 - Are the Raw Material Required for the Project Available Domestically at a Reasonable Cost? If the Raw Materials Have to Be Imported, Will there be Problems?
 - Is the Power Supply for **the Project Reasonably Obtainable**

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PRELIMINARY SCREENING

4. Adequacy of Market

- **The size of the present market must offer the prospects of adequate sales volume, potential growth and return on investment.**
- **To judge this following factors need to be examined:-**
 - **Total Present Domestic Market**
 - **Competitors and Their Market Share**
 - **Export Markets**
 - **Sales and Distribution System**
 - **Projected Increase in Consumption**
 - **Barriers to the Entry of New Units**
 - **Patent Protection**

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PRELIMINARY SCREENING

5. Reasonableness of Cost

- **The cost structure of the project must be reasonable to ensure profitability**
- **The following factors need to be analyzed:-**
 - **Cost of Material Inputs**
 - **Labour Costs**
 - **Factory Overheads**
 - **General Administrative Expenses**
 - **Selling and Distribution Cost**
 - **Service Cost**

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PRELIMINARY SCREENING

6. Acceptability of Risk Level

- The desirability of a project is critically dependent on the its risk characteristics
- To address this concern the following factors be considered
 - Vulnerability of Business Cycles
 - Technological Changes
 - Competition from Substitutes
 - Competition from Imports
 - Governmental Control Over Price and Distribution

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Project rating matrix

- Is a tool for screening large project ideas
- Steps involved are:
 - ✓ Identify factors relevant for project rating
 - ✓ Assign weights to each factor
 - ✓ Rate the project proposal on various factors using an appropriate rating scale
 - ✓ Multiply the factor rating with the factor weight
 - ✓ Add all the factor scores to get the over all project rating index

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Rating matrix Example

		Rating					
		VG	G	A	P	VP	Factor
Factors	Factor Weight	5	4	3	2	1	Score
Input availability	0.25			X			0.75
Technical knowhow	0.1		X				0.4
Reasonableness of costs	0.05		X				0.2
Adequacy of market	0.15	X					0.75
Complementary relationship with other products	0.05		X				0.2
Stability	0.1		X				0.4
Dependence on firm's strength	0.2	X					1
Consistent y with Gov't priorities	0.1			X			0.3
			Rating Index				4