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## ME FOR IT INDUSTRY (17CS51)

### Syllabus Module-3

**Entrepreneur** – meaning of entrepreneur, characteristics of entrepreneurs, classification and types of entrepreneurs, various stages in entrepreneurial process, role of entrepreneurs in economic development, entrepreneurship in India and barriers to entrepreneurship. **Identification of business opportunities**, market feasibility study, technical feasibility study, financial feasibility study and social feasibility study.

- **Entrepreneurship** - The activity of setting up a business or businesses, taking on financial risks in the hope of profit. **Example** starting of new businesses.
- **Venture** is a business enterprise (Organization, firm, company etc...) involving risk in expectation of gain.
- **Entrepreneur** – The term entrepreneur is derived from **French word called Entrependre**, which means **undertake**.

- “An **entrepreneur** is defined as a person who **innovates, organizes, operates and take the risk** of a new business venture”

- This definition has four components

- i. **Innovates** – come up with a new concept, product or service.
- ii. **Organizes** – initiates or start a new business venture.
- iii. **Operates** – runs a new business venture and work hard for its sustain and grow.
- iv. **Take the risk** – takes the responsibility of the outcome of the business venture.

- Hence an entrepreneur can be defined as **a person who tries to create something new, organizes production and undertakes risks and handles economic uncertainty involved in enterprise.**

- **According to Peter F. Drucker** “An entrepreneur as one who always searches for change, responds to it and exploits it as an opportunity.”

- **Innovation is the basic tool of entrepreneurs**, the means by which they exploit change as an opportunity for a different business or service.

- **According to E.E.Hagen** “An entrepreneur is an economic man who tries to maximize his profits by innovation, involve problem solving and gets satisfaction from using his capabilities on attacking problems”.

- **According to Max Weber** “Entrepreneurs are a product of particular social condition in which they are brought up and it is the society which shapes individuals as entrepreneurs”.

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➤ **Characteristics of an Entrepreneur**

**- Some of the basic characteristics of an Entrepreneur are**

1. Mental ability
2. Clear objective
3. Business secrecy
4. Human relations ability
5. Communication ability
6. Technical knowledge
7. Information gathering
8. Concern for quality work
9. Planner, Thinker, Worker
10. Building product image

**- Some key characteristics of a successful entrepreneur are**

1. Motivator
2. Self-confidence
3. Long term involvement
4. High level energy
5. Persistent problem solver
6. Initiative
7. Goal setter
8. Moderate risk taker

• **Mental ability**

- Mental ability consists of intelligence and creative thinking.

- An entrepreneur must be reasonably intelligent and should have creative thinking and must engage in analysis of various problem and situations in order to deal with them.

• **Clear objective**

- An entrepreneur should have clear objective as nature of the goods to be produced and what sort of activities to be taken.

- Successful entrepreneur makes profit from his products.

- **Business secrecy**

- An entrepreneur must guard business secrets.
- Leakage of business secrets to a trade competitors is a serious matter which should be carefully guarded
- An entrepreneur should make a proper selection of his assistants.

- **Human relations ability**

- The most important characteristics of an entrepreneur are emotional stability, personal relations and consideration of people.
- An entrepreneur must maintain good relationship with his customers, Suppliers, creditors and employees to improve the business and makes good profit.

- **Communication ability**

- Communication ability is the ability to communicate effectively.
- Correct information should exchange between sender and receiver.
- An entrepreneur who effectively communicate with his customers, suppliers and employees are more successful than others.

- **Technical knowledge**

- An entrepreneur must have a reasonable technical knowledge to deal with latest technological aspects.

- **Information gathering**

- Consult experts for business and technical advice. Seeks information of client or supplier's needs. Personally undertakes market research and make use of personal contacts or information networks to obtain useful information.

- **Concern for quality work**

- An entrepreneur desire to produce or sell a better quality product or service. Compares his performance with others.

- **Planner, Thinker, Worker**

- Various inter-related jobs are synchronized according to plan and think effectively and work harder to achieve the set goal.

- **Building product image**

- Concerned about the image of his products among consumers and does everything possible to establish a good name for his products in the market.

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**Some key characteristics of a successful entrepreneur are**

- **Motivator**

- An entrepreneur must build a team, keep motivated and provide an environment for individual growth and career development.

- **Self-confidence**

- An entrepreneurs must have belief in themselves and ability to achieve goal.

- **Long term involvement**

- An entrepreneurs must engage in business with a time horizon.

- **High level energy**

- Success of an entrepreneurs demands the ability to work long hours for sustained period of time.

- **Persistent problem solver**

- An entrepreneur must have an intense desire to complete a task or solve a problem , repeated steps or innovative steps are used to solve a problem.

- **Initiative**

- Does things before asked. Takes initiative to establish a business to new area, or initiative to develop a new product or service.

- **Goal setter**

- An entrepreneur must set a challenging but realistic goal.

- **Moderate risk taker**

- An entrepreneur must be a moderate risk taker and learn from any failures.

- **Classification and types of entrepreneurs**

- Today various types of Entrepreneurs are found engaged in different types of activities, **not only in industrial activities but also in agriculture and commercial activities.**

- Today we can recognize Entrepreneur in **Industry, Service and Business** sectors which are technically called as **ISB sectors.**

- Classifications of Entrepreneurs & different types of Entrepreneur in each classification are enumerated below:

- **Classification of Entrepreneurs based on “Functional Characteristics” (Clearance Danhof’s ):**

- i. Innovative Entrepreneur.
- ii. Imitative or Adoptive Entrepreneur.

iii. Fabian Entrepreneur.

iv. Drone Entrepreneur.

#### i). Innovative Entrepreneur

- Such an Entrepreneur introduces **New Goods / Products / Services or New Methods of Production or discovers New Markets.**
- They **look for opportunities** for introduction of new ideas, new technology, discovering of new markets and creating new organizations.
- Such Entrepreneur can work only when **certain level of development is already achieved** and people look forward to change and improve.
- Such Entrepreneur are very much helpful for their country because they brings a transformation in life style.

#### ii). Imitative or Adoptive Entrepreneur.

- Such entrepreneurs **imitate the existing entrepreneur** and set their enterprise in the same manner.
- Instead of innovation, may just adopt the technology and methods innovated by others.
- Such types of entrepreneur are **particularly suitable for under-developed countries** for imitating the new combination of production already available in developed countries.

#### iii). Fabian Entrepreneur.

- They **display great caution** in experimenting with any change in their Enterprise.
- They adopt changes only when it becomes **perfectly clear.**

#### iv). Drone Entrepreneur.

- Such entrepreneurs are **conservative or orthodox in outlook.**
- They always feel **comfortable with their old fashioned technology** of production even though technologies have changed.
- They never like to get rid of their traditional business, traditional machineries and traditional system of business even at the cost of reduced returns.

#### ➤ Classification of Entrepreneurs based on the “Scale of Enterprise” (operation)

- Small scale entrepreneur
- Medium scale entrepreneur
- Large scale entrepreneur

#### i. Small scale entrepreneur

- These entrepreneurs **do not possess the necessary talents and resources** to initiate large-scale production and to introduce revolutionary technological changes

## ii. Medium scale entrepreneur

- These entrepreneurs' **possess the necessary talents at minimum level and minimum resources** to initiate large-scale production and to introduce revolutionary technological changes

## iii. Large scale entrepreneur

- They **possess the necessary financial and other resources** to initiate and introduce new technological changes. They possess talent and research and development facilities.

### ➤ Classification of Entrepreneurs based on “Business”

- i. Business Entrepreneur
- ii. Trading Entrepreneur
- iii. Industrial Entrepreneur
- iv. Corporate Entrepreneur
- v. Agricultural Entrepreneur
- vi. Retail Entrepreneur
- vii. Service Entrepreneur

### i. Business Entrepreneur

- Business entrepreneurs are individuals who conceive an idea for a new product or service and then create a business to convert their idea into reality.

- They **deals with production, marketing and sales.**

- They may set up a big establishment or small business.

- They may call small business entrepreneurs when found in small business units such as printing press, advertising agencies, readymade garments etc.

### ii. Trading Entrepreneur

- Trading entrepreneur is one **who undertakes trading activities and is not concerned with manufacturing work.**

- Who's only **aim is trading.**

- He is engaged in domestic and overseas trade.

### iii. Industrial Entrepreneur

- Industrial entrepreneur is essentially a **manufacturer who identifies a potential needs of customer** and design a product or service to meet the marketing needs.

- He is product oriented man likes to innovate new product.

- He has the ability to convert economic resources and technology into a profitable business venture.

#### iv. Corporate Entrepreneur

- A corporate entrepreneur is an **individual who plans, develops and manages a corporate body**.
- He demonstrate his **innovative skills in organizing and managing corporate** undertakings.
- A corporate undertaking is a form of business organisation which includes such as, A trust registered under trust act, A company registered under company act etc.

#### v. Agricultural Entrepreneur

- Agricultural Entrepreneur are those, who **undertake agricultural activities** as raising and marketing of crops, fertilizers and other types of agricultural products.
- They are motivated to raise agriculture through applications of technologies.

#### vi. Retail Entrepreneur

- Retail Entrepreneur is one who's involves in retail business.
- Not bother about production and marketing, concentrates only on retail business.

#### vii. Service Entrepreneur

- Service Entrepreneurs are those who provide service for a product
- They are not bothered about manufacturing, Marketing and Sales.
- Concerned only about providing quality service.

### ➤ Classification of Entrepreneurs based on “Technology”

- Technical entrepreneur
- Non-Technical entrepreneur
- Professional entrepreneur

#### i. Technical entrepreneur

- A technical entrepreneur is compared to a **craftsman (tradesman)**.
- He develops improved quality of goods because of his craftsmanship (skills).
- He concentrates more on production than marketing
- He **uses his innovative capabilities** for production of goods and rendering quality service.
- The greatest strength of technical entrepreneur is his **skill in production technique**.

## ii. Non-Technical entrepreneur

- Non-Technical entrepreneurs are those who are **not concerned with technical aspects of product.**
- They concern with **developing alternative marketing and distribution strategies** to promote their business.

## iii. Professional entrepreneur

- Professional entrepreneur is a person who is **interested in establishing a business but does not have interest in managing or operating it** once it is established.
- A Professional entrepreneur **sells out running business** and starts new business.
- Such a entrepreneur is **dynamic** he utilize his new ideas to develop alternative projects.

### ➤ Classification of entrepreneurs based on “Motivation”

- Pure entrepreneur
- Induced entrepreneur
- Motivated entrepreneur
- Spontaneous entrepreneur

#### i. Pure entrepreneur

- Pure entrepreneur is an individual who is motivated by **psychological and economic rewards.**
- He undertakes entrepreneurial activities for his **self-satisfaction in work or for status.**

#### ii. Induced entrepreneur

- Induced entrepreneur is one who is induced to start business due to policy measure of government that provides **Assistance, Incentives, Concessions** and **necessary facilities** to start a new business.
- Most of the induced entrepreneur enters into a business due to financial, technical and several other facilities provided by them by state government

#### iii. Motivated entrepreneur

- New entrepreneur are motivated by the **desire for self-fulfilment.**
- They enters into a business and starts selling a products, **if the product is reach to a saleable stage**, the entrepreneur is further motivated by rewards in terms of profit.

#### iv. Spontaneous entrepreneur

- These entrepreneur starts their business by **natural talents.**
- They are persons with **initiative, boldness and confidence** in their ability which motivates them to undertake entrepreneurial activity.
- Such entrepreneur has a strong confidence in their **inborn ability.**



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➤ **Classification of Entrepreneurs based on “Growth”**

- i. Growth entrepreneur
- ii. Super-Growth entrepreneur

**i. Growth entrepreneur**

- Growth entrepreneurs are those who have achieved a growth in their business to a **sustainable stage**.

**ii. Super-Growth entrepreneur**

- Super-Growth entrepreneur are those who have shown **enormous growth** in their business.
- The growth performance is **measured through profit**.

➤ **Classification of Entrepreneurs based on “Stages of development”**

- i. First Generation entrepreneur
- ii. Modern entrepreneur
- iii. Classical entrepreneur

**i. First Generation entrepreneur**

- First Generation entrepreneur is one who starts a new business by **innovative skills**.
- He is essentially an **innovator** who make use different technologies to produce a product or service.

**ii. Modern entrepreneur**

- Modern entrepreneur is one who undertake those business which go well along with the **changing demands in the market**.
- They selects a business which suits the **current needs**.

**iii. Classical entrepreneur**

- A Classical entrepreneur is one who is concerned with the **customers and marketing needs** through the development of a self-supporting business.

➤ **Classification of Entrepreneurs based on “Area”**

- i. Urban entrepreneur
- ii. Rural entrepreneur

➤ **Classification of Entrepreneurs based on “Gender”**

- i. Men entrepreneur
- ii. Women entrepreneur

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➤ **Classification of Entrepreneurs based on “Age”**

- i. Young entrepreneur
- ii. Old entrepreneur
- iii. Middle aged entrepreneur

➤ **Others or unclassified entrepreneurs**

- i. Skilled entrepreneur
- ii. Non-skilled entrepreneur
- iii. Modern entrepreneur
- iv. Traditional entrepreneur
- v. Inherited entrepreneur
- vi. Forced entrepreneur
- vii. National entrepreneur
- viii. International entrepreneur
- ix. Bureaucratic entrepreneur
- x. Immigrant entrepreneur

➤ **Various stages in entrepreneurial process**

- The process of starting a new business is the main theme of entrepreneurial process. **This process has five important stages:**

1. Identification of an opportunity
2. Evaluation of the opportunity
3. Preparation of the business plan
4. Determination and organizing the resources
5. Management of the enterprise

**1. Identification of an opportunity**

- The first step in the entrepreneurial process is the identification of opportunity.
- This may be from own idea or from external sources like consumers or business associates or members of distribution system or independent technical organization or consultants etc.
- Consumers are the best source of idea for a new business who spells out the need of product or service.

- Due to the close contact with the end user, member of distribution system also see the products needs and can identify the new business opportunity.
- Some government organizations and R & D centres also provide an ideas for new business.

## 2. Evaluation of the opportunity

- The opportunity identified by using either input from consumers or business associates or members of distribution system or through technical people must be carefully screened and evaluated.
- This evaluation stage is the most critical element in entrepreneurial process. Through which an entrepreneur can predict whether the Product or service provides sufficient return on investment?
- The evaluation process involves looking at the length of an opportunity, its real and derived values, its risks and returns.
- The **length of an opportunity** and the **market size** are two main aspects for deciding the market risk and gain.
- **SWOT** (Strength, Weakness, Opportunities, and Threats) analysis is one of the useful analysis.
- Strength and weakness are internal factors and related to the organization.
- Opportunities and threats are external factors and related to the environment and competition.
- The risks reflect the market, competition, technology and amount invested.
- The opportunity must finally fit the personal skills and goals of an entrepreneur. It also involves detailed feasibility analysis - Product/Service feasibility, Market feasibility, financial feasibility, Social feasibility
- **An overall opportunity assessment plan is prepared to evaluate the opportunity includes:**
  - Description of product or service
  - Agreement of opportunity
  - Assessment of the entrepreneur and his team
  - Resources needed
  - Amount and source of capital needed
  - Rewards and profit expected.

## 3. Preparation of the business plan

- To achieve the proposed business opportunity, a well-defined business plan need to be developed.
- This is a tedious and time consuming activity of the entrepreneurial process.

**The business plan should contain the following**

- Title of the projects, table of contents and executive summary
- Description of business and industry.
- Technology plan
- Financial plan
- Organization plan.
- Production and operation plan
- Market and distribution plan
- Summary of plan

-A good business plan is very essential to develop the opportunity and determine the resources received, pooling up the resources for successful managing of the proposed business.

**4. Determination and organizing the resources**

- This process begins the assessment of present resources.
- Enough care should be taken not to underestimate the amount and nature of resources required.
- The risk involved with insufficient or incorrect resources should be calculated.
- Organizing the required resources at appropriate time is another important aspects entrepreneurial process.
- Alternative sources of supply, process of manufacture etc. are to be planned.

**5. Management of the enterprise**

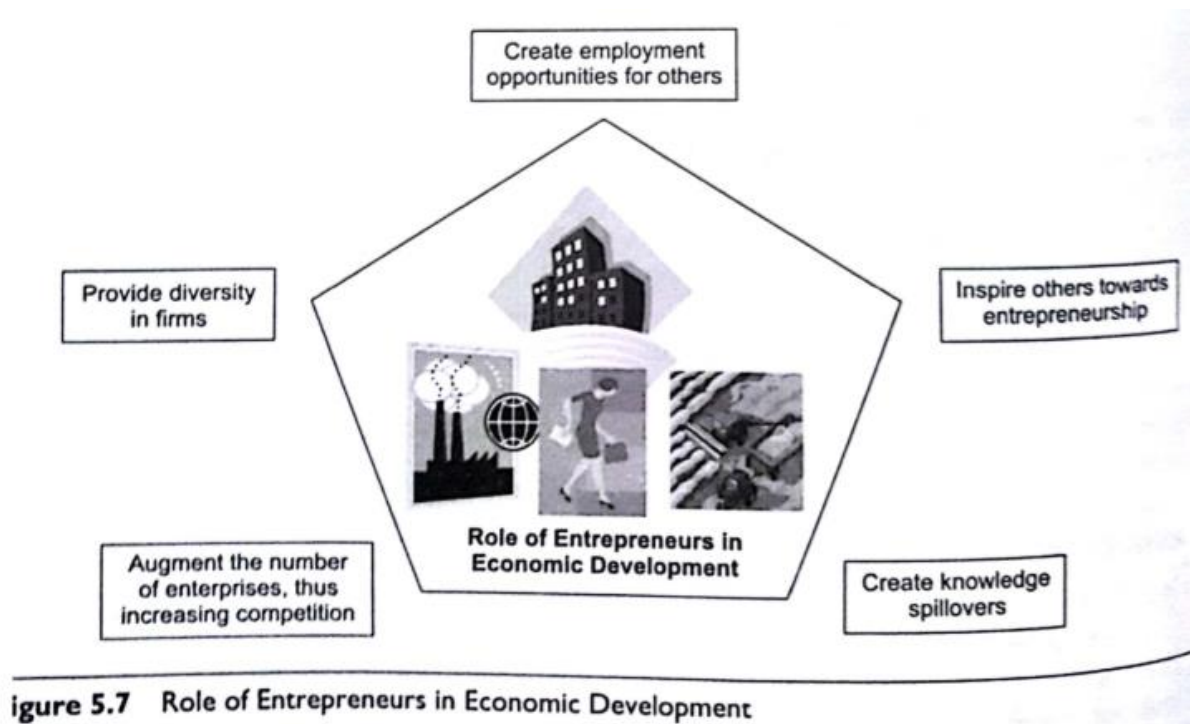
- After resources are acquired, the entrepreneurs must use them to implement the business plan. The operational problems of the growing enterprise must be examined regularly.
- This calls for a management with all functions like planning, organizing, staffing, directing, controlling.

### ➤ Role of entrepreneurs in economic development

1. Create employment opportunities
2. Inspire others towards entrepreneurship
3. Create knowledge spillovers (Spreading)
4. Augment (increase) the number of enterprises
5. Provide diversity in firms

-Entrepreneurs play an important role in the economic development of a region. From the fall of Rome (AD 476) to the eighteenth century, there was no increase in per capita generation in the West.

- With the advent of entrepreneurship per capita income increases exponentially by 20 percent in the 1700s, 200 percent in the 1800s, 740 percent in the 1900s.



#### 1. Create employment opportunities

-By creating a new venture, entrepreneurs generate employment opportunities for others.

- Unemployment is a major issue, educated youth often are unable to get the job. Thus, entrepreneurs do a **Yeomans service**, by not only employing themselves into their entrepreneurial ventures, but also by employing others.

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## 2. Inspire others towards entrepreneurship

- The team created by entrepreneur for his new venture often provide the opportunity for the employees-cum-teammates to have a first-hand experience of getting involved in an entrepreneurship.
- This often leads for these employees to become entrepreneurs themselves after being inspired by their early experience for working for an entrepreneur.
- Thus this process helps in forming the chain of entrepreneurial activity which directly contributes to the health of an economy.

## 3. Create knowledge spillovers

- When a scientist, an engineer, or a knowledge worker (economic agent) leaves an organization to create a new firm, knowledge acquired by them in the organization gets spilled over to the new firm.
- Hence, entrepreneurship serves as a mechanism by which knowledge spreads to a new firm in which it is commercialized.
- Naturally the new firm gets benefited by the experience and knowledge gained by the founder in his previous organization.
- Thus, knowledge spillovers are an important mechanism to drive the economic growth.

## 4. Augment the number of enterprises

- When new firms are created by entrepreneurs, the number of enterprises based upon new ideas/concepts/products in a region (say, a city, state, or country) increases.
- Not only increase in the number of firms, also enhance the competition for new ideas, greater competition across firms also facilitates the entry of new firms.

## 5. Provide diversity in firms

- Entrepreneurial activity in a region often results into creation of a verity of firms in a region.
- These firms operate into diverse activities, this diverse activities helps in economic development and growth in all sectors.

### ➤ Entrepreneurship in India

- The evolution of entrepreneurship is the efforts of great people and professionals.
- It started to be as **family business around 1850's** with the starting of **cotton mill in Bombay (Mumbai)**.
- From then on entrepreneurship had grown in all the directions from cotton mill to manufacture, Service, electronic goods, health care, information technology, education, transport, space technology , imports and exports etc.

**Past Business :** In the past business community involved in trade and commerce. This community is known as **“Banias” or “Vaisyas”**

#### **The following steps are related to entrepreneurship in past**

1. Manufacture and supply of products was based on demand. The traders used to book orders from the required people and get them from the producers.
2. All the members of the family were involved in the business from planning to manufacture stage and finally selling them.
3. The industrial activity was controlled by the cast system, **For example**, weavers used to weave cloths, gold smiths used to make ornaments, farmers used to produce food products etc.
4. The skill of any enterprise was inherited from ancestors
5. The trade activity was dependant on caste system.

#### **Present Business :**

- There is tremendous growth of industries and service over last 50-60 years.
- In the area of banking, automobiles, software development, petrochemicals, cement, steel, communication etc. are some of the major modern entrepreneurship where lot of innovation had taken place.

#### **Some of the highly talented entrepreneurs of India are**

- R.J.D. Tata, Aditya Birla, Narayana Murthy, Dhirubai Ambani, Azim Premji, Wadia, Hindujas, Kasanbai Patel.
- Before 1940's the India business was almost dominated by British companies, Except for some well established companies like Tata steel, Birla group, Wadias etc. It was very difficult to compete with British goods.
- After Second World War (1945) more business opportunities were projected like cement, steel, and infrastructures.
- Indian industry began to expand in the core sector only after independence (1947).

### ➤ Barriers to entrepreneurship

-The entrepreneurship could not be taken up due to several reasons.

#### - **The following are some of the barriers of entrepreneurship**

1. Lack of capital
2. Lack of technical knowledge
3. Tax burden
4. Non availability of raw materials and resources
5. Government rules and regulations
6. No idea about technology
7. Unstable and Unpredictable markets
8. Globalisation and Entry of foreign goods
9. Risk
10. Corruption and Unfair competition

### ➤ Identification of business opportunities

- Business opportunities can be obtained from external sources like consumers or business associates or members of distribution system or independent technical organization or financial institutions or through consultants or from various magazines, trade journals, relatives and friends etc.

- Choosing of best business opportunity from the information collected requires technical skills. An entrepreneur has to identify and select the most rewarding opportunity from the available ones.

For this one has to evaluate the following areas and **understand the gap between demand and supply.**

1. Study of government rules and regulations regarding the different business opportunities.
2. Extensive and in-depth study of promising investment opportunity.
3. SWOT analysis of the business opportunities.
4. Market Feasibility study.
5. Technical feasibility study.
6. Financial feasibility study and
7. Social feasibility study.



**-Two major characteristics of business opportunity are:** Good and wide market scope and an attractive, acceptable and reliable return on investment.

#### **Different sources of business ideas**

1. **Unfulfilled demand** - An Unfulfilled demand will open doors to new product or business.
2. **Own idea** - Once own creative idea can result in a business opportunity.
3. **Social and economic trends** - Social and economic trends necessitate demand for new products.
4. **Magazines/journals/Research publications** - Magazines/journals/Research publications form a major role of ideas.
5. **Government** - Government also identifies and proposes ideas and give support for business opportunities.
6. **Emerging new technology** - Commercial exploitation and imported technologies are best source for ideas.
7. **Changes in consumer needs** - The needs of consumers change giving rise to requirement of new business opportunities.
8. **Trade fairs/Exhibitions** - Trade fairs and technical exhibitions also offer wide scope for business opportunities.

#### ➤ **Feasibility study**

- Feasibility study is the initial design stage of any project, which brings together the elements of knowledge that indicate if a project is possible or not.

- It's an analysis used in measuring the ability and likelihood to complete a project successfully. And to determine positive and negative outcomes of a project before investing a considerable amount of time and money into it.

#### **Different feasibility studies are**

1. Market Feasibility study.
2. Technical feasibility study.
3. Financial feasibility study and
4. Social feasibility study.

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## 1. Market Feasibility study

-Market feasibility study will assess whether the product has good market or not.

### i. Nature of the market

- A market is a social structure that brings together a buyer and a seller to agree a price to exchange goods or services.
- The chief function of a market is to adjust prices to accommodate fluctuations in supply and demand in order to achieve efficiency.

### ii. Cost of production

- It is essential to study and control the cost of production.
- Cost of production decides the selling price of product.

### iii. Selling price and profit

- Selling price plays a vital role in profit.
- It is the market value or agreed exchange value between buyer and seller.
- Profit is a financial gain, especially the difference between the amount earned and the amount spend in buying, operating or producing something.

### iv. Demand

- Present demand and future demand of product.
- Demand is an economic principle referring to a consumer's desire and willingness to pay a price for a specific item or service. Market demand is the total of what everybody in the market wants.

### iv. Market Share

- Estimated market share is to be made, comparison is to be made with similar kind of products.
- Market share analysis indicates how well a business is doing in the marketplace compared to its competitors

### v. Target market

- Study is made with regard to the target market and market segmentation.
- Target market refers to a specific and well-defined consumer segment within the business's serviceable market

## 1. Technical feasibility study

- A technical feasibility study is an excellent tool for both troubleshooting and long-term planning.
- It can serve as a flowchart of how your products and services evolve and move through your business to physically reach your market.

### i. Location of the project

- The data regarding the location of project is very important. It may be located in rural, urban or semi-urban areas.

### ii. Construction of factory, building and its size

- The construction details, the nature/type of building and its size for the project are to be analysed.

### iii. Availability of raw materials

- The study of availability of raw materials, sources of supply, alternate sources, its quality and Specifications cost etc., are to be studied.

### iv. Selection of Machinery

- The selection of machinery required to produce the intended product is to be carried out.
- The specifications, cost, sources of supply, technology evaluation of various makes of the machine, their capacity of production etc. need to study.

### v. Utilities

- The detailed about availability of utilities like water, gas, electricity, petrol, diesel etc. are to be study.

### vi. Production Capacity

- Establishment production capacity and utilization of production capacity are analysed.
- Production Capacity is the volume of products or services that can be produced by an enterprise using current resources.

### vii. Staff requirement

- Study and analysis of requirement of workers, technical staff and officers etc. is to be made.

### viii. Technical viability

(Viability - ability to survive or live successfully)

- The technical viability of the opportunity is to be studied.
- Consumers buy products for the benefits they get, not for the technology underlying the product.

## 2. Financial feasibility study

- Financial feasibility is the most important aspect of a business opportunity.
- It is a function of **revenues and costs**.
- If the cost of a particular project is more than revenue or return, then the project is not financially feasible.

**Some of the aspects involved in financial feasibility study are**

### **i. Total cost of project**

-It is very essential to study the total cost of the project. This includes fixed capital, working capital and interest factor.

### **ii. Sources of capital**

The main sources of capital to be made. If capital is borrowed then interest burden is to be studied in details.

### **iii. Subsidiary sources for additional finance**

-After studying main sources of capital, subsidiary sources of capital to be identified and studied. Like finance from other organisations, subsidiary from governments etc.

### **iv. Financing for future development of business**

-Finance requirement for future development of business need to be studied. Working capital requirement for at least three months running of an enterprise to be estimated.

### **v. Break Even Analysis (BEA)**

- BEA is to be carried out to see at what level of production/sales will make the organisation no loss/no profit situation. BEA is very useful to identify the level of production that makes profit.
- The break-even analysis lets you determine what you need to sell, monthly or annually, to cover your costs of doing business and to break-even point.

### **vi. Estimation of cash and fund flow**

- It is very essential to make a study of estimation of cash and fund flow in the business.
- Estimate the cash flows received from the project. Projects may not have cash flow in the beginning. In this case cash flows are zero. Estimate cash flows on a monthly basis and then total for the year.
- Calculate how long the project will be able to generate cash flows without another investment or injection of capital.

### **vii. Return on investment (ROI)**

- ROI, is the gain or projected gain of an investment often expressed as a percentage of the investment cost.

- ROI is to be calculated to see the amount of return on investment for the investors/shareholders and how much they get.

**ROI can be calculated as**

Return on investment (ROI) = ((gain from investment – cost of investment) / cost of investment) \* 100

**viii. Proposed balance sheet**

- Proposed balance sheet is to made showing liabilities (include loans payable, bonds payable, interest payable, wages payable, and income taxes payable) and assets, interest burden and profit expected.

**ix. Cost of labour and technology**

- Identify the costs associated with the project. These are the costs associated with the project from labour, to inventory, to equipment and utilities.
- The cost of employees (Salaries, Incentives etc.) is to be estimated and studied. If technology is not available then it has to be purchased from any R & D institution or by way of foreign collaboration.

**3. Social feasibility study**

- Social feasibility Study is important in social environment.
- Social feasibility is one of the feasibility study where the acceptance of the people is considered regarding the product or new business to be launched.

**i. Location**

- The location of project should not have any objection from the neighbours.

**ii. Social problem**

- The enterprise should not create any nuisance to the public

**iii. Pollution**

- There should not be any sort of noise or other pollution which is object by society. Suitable measures are taken for controlling pollution.

**iv. Other problems**

- Any other problems related to people or to the society need to be studied.