

UNIT – 5

PREPARATION OF PROJECT

Introduction :

An Entrepreneur , before he sets up an enterprise, wants to satisfy himself that : it is a Profitable Proposition. He wants to gather *critical information* & take decisions pertaining to various facets (Aspects) – *Technical Arrangement, Plant & Machinery, Market, Financial Arrangement, Location, Statutory Clearances, in order that the tasks of establishing the project, & to some extent managing it later, becomes easy.*

A project report is an outcome of an exercise meant to check the viability of an enterprise & analyze & firm up its essential parameters. There are various phrases in vogue to refer to project report document.

They are :

- a) ***Business Plan.***
- b) ***Feasibility Report.***
- c) ***Techno Economic Feasibility Report.***
- d) ***Viability Report.***

Meaning of Project :

The very foundation of an enterprise is the Project. Hence, the Success or Failure of an enterprise largely depends upon the Project. In Simple Words, a Project is an Idea or a Plan that is *intended* to be carried out. The dictionary meaning of Project is that it is a Scheme of something intended to be done ; a Proposal for an Undertaking, design, speculative imagination etc.

Two Important aspects have to be borne in mind , Viz., A scheme & speculative imagination. That is, innovative & vision form an integral aspect of a Project Planning & these are also the basic characteristics of an entrepreneur. i.e., Entrepreneur is always innovative & has a Vision.

Several Economists & Bankers have defined a Project in different ways. Let us also examine a few other definitions of “Project.”

Definition 1 : The **Smallest Unit of Investment Activity** to be considered in the case of Programming.

Definition 2 : The **World Bank** has defined Project as an **approval for a capital investment** to develop facilities to **provide Goods & Services**.

Definition 3 : A Project is an **appraisal for Investment** with the definite aim of producing a **flow of Output over a specified period of time**.

Definition 4 :

A Project is defined as the whole complex of activities involved in using resources to gain benefits.

Definition 5 :

A Project can be defined as a Scientifically evolved work plan devised to achieve a specific objective within a specified period of time etc etc.

After examining all the above definitions of a Project, *it is important to note that while projects can differ in their size, nature, objectives, time duration & complexity , yet they have the following Three Attributes :*

- 1) A Course of Action.
- 2) Specific Objective.
- 3) Defined Time perspective (period).

So, we can say that every Project has a starting point , an end point with specific objectives.

Characteristics of a Project :

Every Project has Four Basic Characteristics :

- 1) Investment Pattern.
- 2) Benefits or Gains.
- 3) Time Limit &
- 4) Location.

In Short, “ The Project is an **Economic Activity** with well **defined objectives** & having a **specific beginning & end.**” It should be agreeable to Planning, Financing & Implementation as a Unit *where **both Costs & Returns are measurable***. A well planned Project includes a Correct Consideration of Alternatives , identification of Key Issues, Compactness, enforceability etc. It should be **Neat, Clear Cut & Specific.**

From the *Point of View of Resource Allocation*, a Project can be considered as a proposal involving Capital Investment for the purpose of developing facilities to provide Goods & Services.

The Goods or Services which the Project seeks to provide differ widely. *Examples* are given below :

- a) A Project may provide the establishment of a Modern Cast Iron Foundry to manufacture castings for automobile industries.
- b) A Project may involve establishing an Information Technology Company to develop Software Packages for Exports & so on & so forth.

Whatever the nature of the Project, a Project will involve allocation & consumption of resources, on the one hand & generation of resources, goods & services on the other.

Project Classification :

They are classified on the following basis : (*Major Classifications*) :

- 1) Quantifiable & Non Quantifiable Projects.
- 2) Sectoral Projects.
- 3) Techno – Economic Projects.

1) Quantifiable & Non Quantifiable Projects :

Projects for which a plausible **Quantitative Assessment of *benefits*** can be made are called as “Quantifiable Projects”. Egs of this category are projects concerned with **Industrial Development, Power Generation, Mineral Development** etc.

On the Other Hand, “Non Quantifiable Projects” are those in which a plausible **quantitative assessment of *benefits*** cannot be made. Egs of Non Quantifiable Projects are projects involving Health, Education, & defense.

2) Sectoral Projects :

The Planning Commission of India has accepted Sectoral Base as the Criterion for Classification of Projects. According to this Classification, Projects may be classified as :

- a) Agriculture & Allied Sector.
- b) Irrigation & Power Sector.
- c) Industry & Mining Sector.
- d) Transport & Communication Sector.
- e) Social Services Sector.
- f) Miscellaneous Sector.

This System of Classification has been found useful in Resource Allocation, especially at Macro Level.

3) **Techno – Economic Projects** :

Projects are also classified on the basis of their Techno – Economic Characteristics.

Three Main Groups of Classification in this Category are given below.

(i) **Factor Intensity – Oriented Classification** :

On the basis of this Classification, *Projects may be classified as Capital Intensive or Labor Intensive or Power Intensive* depending upon Large Scale Investment in Plant & Machinery or Human Resources or High Power Input is involved.

(ii) **Causation – Oriented Classification** :

In this Category, Projects may be classified as Demand Based or Raw Material Based Projects. The very existence of demand for certain goods or services makes the Project demand based & the availability of certain Raw materials , Skills or other Inputs makes the Project Raw Material Based.

(iii) **Magnitude – Oriented Classification** :

Here, the Classification of Projects is based on the Size of the Capital involved in the Projects. Depending on the Total Project Investment, may be Projects may be classified as Large Scale, Medium Scale & Small Scale Projects .

It is to be noted that, **Techno – Economic Characteristics** based Classification is facilitating the process of feasibility appraisal.

Project Identification :

Identification of a single or multiple project ideas is crucial for the purpose of converting the Entrepreneurial urge into a recognizable form. Identification of viable projects or search for Project ideas is a beginning – an *Ice Breaker*. It is the first & most important step in the actual entrepreneurial journey. *Well begun is half done*. So, the success or failure of an enterprise is built , to an extent on a suitable Project Identification & Selection.

Therefore, establishing yourself as a successful entrepreneur depends to a great extent upon choosing a ***Good Project or Idea***. That idea must not only be good for the Market but also be good for the Project & good for the Entrepreneur. ***Most important, the idea should give satisfying results.***

As an Entrepreneur, when you are searching for an **idea suitable for your commitment**, background & experience, do not pursue **one idea at a time**. Develop **five or even more project ideas in parallel until one emerges so appropriate**, that it begins to dominate your thoughts.

Choosing an idea is *quite difficult* & the Entrepreneur has to weigh objectively his intrinsic capabilities in finalizing an idea.

The *Project Ideas can be discovered from various internal & external sources. These may include :*

- a) Knowledge of Potential Customer Needs.
- b) Watching Emerging Trends in Demand for certain Products / Services & their market size & potential.
- c) Scope for producing substitute products which is economical & having better features.

- d) Going thro various Professional Magazines / Journals catering to specific interests like Computers, Electronics & Telecommunication, Mech, Electrical, Metalurgical, Chemicals, Drugs etc. etc.
- e) Success Stories of Known Entrepreneurs or friends or relatives.
- f) Visiting National & International Trade Fairs & Exhibitions displaying New Products & Services.
- g) Meeting Technical / Industrial Consultants.
- h) New Product(s) introduced by other enterprises etc etc....

All of these Sources put together may give a few Ideas about the possible projects to be examined as the Final Project. This Process of identifying Project Ideas is referred to as “*Opportunity Scanning & Identification.*”

After going thro the above process, assume that you have been able to get Seven Project Ideas as a result of the above analysis.

From the Seven Project Ideas you have in mind, finally you have to decide & choose the One Most Appropriate & Potential Project idea going thro the *following Selection Process* :

Project Selection:

After deciding on a few Project ideas, the Entrepreneur has to **finally** select, One Project Idea most suited depending on the **following criteria**. A tool **generally used for this purpose** is called as **“SWOT”** Analysis is done. The Intending Entrepreneur analyses his **Strengths & Weaknesses**, as well as **Opportunities / Competitive Advantages & Threats / Challenges** offered by each of the Project Ideas. On the basis of this Analysis, the Most Suitable Project Idea is finally **selected to convert it into an Enterprise**. This Process is also called as a **“Zeroing In Process.”**

A few Important Criteria are given below :

1) Investment Size :

This is a very important criterion to decide success or failure of the Project. The Entrepreneur should assess the Economical Size of the Plant & the Total Investment reqd & should assess his Financial Capability to pool in at least about 25 % of the Investment required for the Project. Entrepreneur therefore, ***should select only such Projects which are within his financial resources.*** You cannot establish an Enterprise only on borrowed funds & this may lead to severe financial problems in the Initial Stages of the Project Implementation itself.

2) Location :

Location chosen should have Good Infrastructural Facilities like Good Approach Road , Transportation Facilities, Communication Facilities, Availability of Power, Water & reqd Labor. Also, Location chosen should have good proximity to the Raw Materials as well as to the Market. Entrepreneurs should also examine the Concessions & Incentives offered for a Particular Location as per the Govt Industrial Policy.

It is also advisable to select a location nearer to bigger cities or Industrially Forward Areas rather than setting up an Enterprise in Remote rural or Backward Areas just for the sake of getting better or higher incentives offered by the Govt.

3) **Technology** :

The Project chosen should not be for a Product which requires sophisticated technology, necessitating Foreign Technical Collaboration. It is better to go in for a Product with a proven technology that is **Indigenously** available & where the Entrepreneur himself is well versed with the reqd technology.

4) *Plant & Machineries* :

When deciding on a Project, the Entrepreneur should assess the availability of **High Quality Plant & Machineries** *indigenously*. As far as possible, a New First Project by the Entrepreneur should not be planned on Imported Plant & Machineries because of the problems & **delays invariably** associated with Imports.

This may lead to **Cost Escalation of the Project**, & may affect the implementation schedule of the Project. One should remember that one should not compromise on the Quality of the Equipment even if there are little expensive in the beginning , as they will pay back in the Long Run due to uninterrupted working. Cheap Poor Quality equipment leads to frequent breakdowns.

5) Marketing :

The Success of any Enterprise finally depends on Marketing Capability of ones Goods / Products / Services. It is not advisable to get into a Project *particularly the first*, which would mean survival amidst Cut Throat Competition involving Direct Selling to a large number of Ultimate Customers. One should go in for Products with a Limited Number (say 10 or 15) of established Industrial Customers.

This also means that there is a *Time Interval involved in between Projects Identification & Final Projects Selection*.

Project Report :

Dictionary meaning of Project is a Scheme or a Design , a Proposal of something intended or devised. An Entrepreneur after finalizing & selecting a particular Project for setting up of his enterprise wants to satisfy himself that this is a profitable proposal. He wants to gather Critical Information & take decisions pertaining to various facets (issues) like Technical Arrangement, Arrangement of Financial Resources, Plant & Machinery , Market, Location, Statutory Clearances in order that his task becomes easy.

In fact, the Project Report is a Business Plan, this is an Outcome of an exercise meant to check the viability of an Enterprise & analyze & firm up its essential parameters. In other words, Project Report or Business Plan is a Written Document of what an Entrepreneur proposes to take up & his course of action to establish his Enterprise. The Project Report serves like a **Road Map** to reach the Destination determined by the Entrepreneur. Thus, a Project Report can best be defined as a well evolved course of action devised to **achieve the Specified Objectives within a specified period of time.**

Need & Significance of a Project Report :

An Objective without a Plan is a Dream. The Preparation of a Project Report is of great significance for the Entrepreneur as well as the other Stake Holders in his business.

There is a variety of purposes which a Project Report or a Business Plan will fulfill. Hence, its need in Modern Business. These purposes are as follows :

- ✓ Its helps an Entrepreneur judge the viability & profitability of a given enterprise proposal. If it reveals a proposal to be unviable, the Entrepreneur *will avoid a grave error of investing in an Unsound Venture.*
- ✓ It is the basis for a Development Bank to sanction Long Term Financial Assistance & a Commercial Bank to provide Working Capital Assistance.
- ✓ It aids the process of firming up Technical Arrangement , Choosing a Location, Selecting Plant & Machinery, Determining Man Power , & Utility needs etc etc.. reqd for Project Implementation.
- ✓ It generates a Knowledge Base for the Entrepreneur concerning such diverse facets as Structure of Enterprise – Industry, Market, Raw Material supply & Technology etc.
- ✓ It educates the Entrepreneur regarding the Degree of Risk underlying the Enterprise Proposal.
- ✓ *It brings into sharp focus the Key Performance Determinants in the chosen line of Business* & thus makes the Entrepreneur realize the need to pay special attention to such determinants.

An Entrepreneur, thanks to his initial enthusiasm, often fails to notice the blind spots in his proposal. The biggest advantage of a BP is that it enables him to look at the proposal in a dispassionate , objective light & encourages him to search for solutions with reference to the pitfalls in his proposal.

Finally, once the Project is implemented & is commissioned , BP serves as a tool to educate the Entrepreneur by pointing out the assumptions which proved to be true & those which were too Optimistic or too Pessimistic. Where, the Entrepreneur embark on another Project which could be Diversification or Expansion, the lessons he learnt from the previous one help him to be more realistic & hence successful in his new BP.

Contents of a Project Report :

A Project Report needs to be done / prepared with great care & consideration. The Important Contents of a Good Project Report are given below :

a) **General Information** :

Information on Product Profile & Product Details.

b) **Promoter(s)** :

His / Her / Their Educational Qualification , Work Experience , Project related experience, special achievements.

c) **Location** :

Exact proposed location of the Project, lease or freehold, locational advantages.

d) **Land & Building :**

Land areas, built up area, type of construction, cost of construction, detailed plan & cost estimate along with Plant layout.

e) **Plant & Machinery :**

Details of Machinery reqd , Capacity, Suppliers, Cost, Various Alternatives Available, Cost of other Miscellaneous Assets.

f) **Production Process :**

Description of Production Process , Process Chart, Technical Know How, Technology Alternatives Available, Production Programme etc.

g) **Utilities :**

Water , Power, Steam, Compressed Air Requirements, Fuel, Coal / Oil etc., Cost Estimates, Sources of Utilities.

h) **Transport & Communication :**

Mode, its associated Costs.

i) **Raw Material :**

List of Raw Materials reqd by Quality & Quantity , Sources of Procurement, Cost of Raw Materials, Tie Up Arrangements, if any , for Procurement of Raw Materials, Alternative Raw Materials , if any.

j) **Man Power** :

The Requirement such as Skilled, Semi Skilled, & Un Skilled (Helpers), Places of Manpower Availability, requirement of Training & its Cost.

k) **Products** :

Product Mix, Product Standard, Estimated Production & Sales Figures, Alternative Product Substitutes , if any.

l) **Market** :

End – Users of Products, Distribution of Market as Local, National, International, Trade Practices, Sales Promotion devices etc..

m) **Requirement of Working Capital :**

Working Capital Reqd , Sources of Working Capital, need for Collateral Security, Nature & extent of Credit facilities offered & available.

n) **Requirement of Funds :**

Break up of Total Project Cost in terms of Costs of Land, Building, Plant & Machinery, Misc. Fixed Assets, Preliminary & Pre -Operative Expenses, Contingencies & Margin Money for Working Capital, Financial Arrangements for meeting the Cost of Setting up of the Project.

o) **Cost of Production & Profitability of first five years, Break Even Analysis, Schedule of Implementation** etc etc...

Formulation of a Detailed Project Report *(Business Plan – BP)* :

Once a *Potential Entrepreneur* has made a tentative decision of exploiting a specific opportunity , he will be advised to prepare a *Detailed Project Report (DPR)*. A thoughtfully prepared Project Report is an important tool as it helps him in anticipating & solving problems.

It has been experienced that in preparing DPR , the *Entrepreneur* is forced to consider several *Financial & Implementation Problems* well in advance, giving him enough time to solve or prepare for them.

1) **For whom is the Project Report :**

This is meant for the Entrepreneur himself. This is an essential document to procure assistance from Financial Institutions & to fulfill other formalities for the successful implementation of the Project.

2) **Who prepares the Project Report :**

Many a time, the Entrepreneurs feel that he could relieve himself of the botheration of preparing a Project Report by engaging a Consultant.