UNIT II

STARTING THE NEW VENTURE

INTRODUCTION

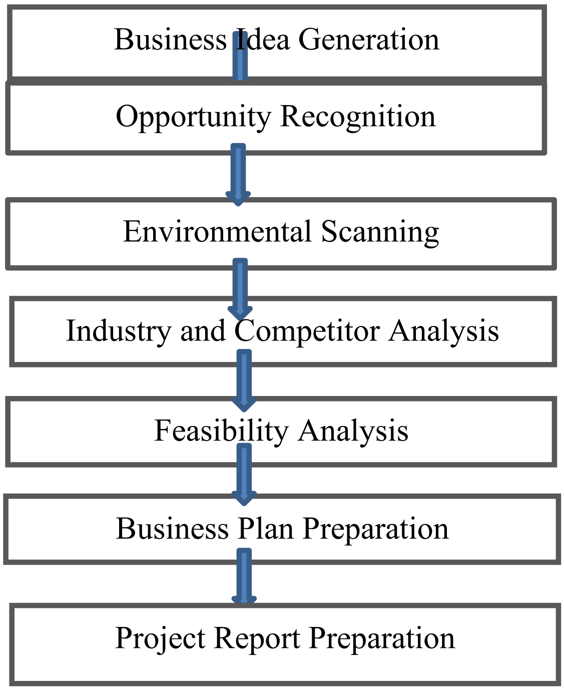
The formation of new commercial businesses, establishment of new –social businesses, and other organizations are all referred to as **'Entrepreneurial Venture'** or '**new venture**' or **'new enterprise'**.

By starting a new venture, entrepreneurs are able to fulfil their dreams and objectives. The start-up of a new venture is considered as the first stage of the business cycle, where a business is first assed and then formed.

An entrepreneurial venture always aims to create new values, innovative products, services, creative marketing strategies and different methods to deliver products or services.

Steps involved in New Venture Start-up:

Entrepreneurship is considered as the spirit of an enterprise. Therefore, the process by which an entrepreneur forms a new venture is known as an **entrepreneurial function.** However, this process is based upon the personal skills and competencies of the entrepreneur. There are different steps involved in this process, which are as follows:



Step 1: Business Idea Generation:

This is the most important function of an entrepreneur. The ideas that provide value for the customer, profit for the entrepreneur and benefit for society and can be transformed into products of services are called **business ideas.**

Idea is generated through vision. Idea generation is a critical skill in entrepreneurship and involves insight, observation, experience, education, training etc. It involves lot of creativity on the part of entrepreneur and generally arises from an opportunity in the market. The various sources of information for business ideas can be personal experience, observing markets, prospective consumers, developments in other nations, government organizations and trade fairs & exhibitions. This can be done through environmental scanning and market survey.

Step 2: Opportunity Recognition:

This is the second step in setting up of a business unit. Entrepreneur is an opportunity seeker. Opportunities do not come suddenly. The entrepreneur must show alertness to grab opportunities when they come. The opportunities must be carefully scrutinized and evaluated. The process of identifying opportunity involves identifying the needs and wants of the customers, scanning the environment, understanding the competitor's policy etc.

To identify the right business opportunity, an entrepreneur needs to consider the following:

- Identify Market Inefficiencies
- Remove Key Hassles
- Customers Desire to Experience Something New
- Pick a Growing Sector/Industry
- Product Differentiation
- Cash Flow Considerations
- Listen to your potential clients and past leads. When you're targeting potential customers listen to their needs, wants, challenges and frustrations with your industry
- Listen to your customers.
- Look at your competitors.
- Look at industry trends and insights

Step 3: Environmental Scanning:

It is the process of identifying the possible opportunities or threats in the external as well as internal business environment. It also helps an entrepreneur to anticipate and utilise the acquired information in the most effective manner.

Step 4: Industry and Competitor Analysis:

After the environmental scanning, an entrepreneur should perform industrial and competitor analysis. This analysis highlights an industry's potential and capabilities. This analysis provides in-depth knowledge about the processing of the industry.

Step 5: Feasibility Analysis:

After the selection of a worthy idea, an entrepreneur undertakes various researches relating to market selection, competition, location, machinery and equipment's, capital, customer preferences etc. to test the feasibility of the project.

A feasibility study is an evaluation of a proposed project. It is the study of the project to find out whether the project is profitable or not. In other words, feasibility study involves an examination of the operations.

The objective of financial analysis is to ascertain whether the proposed project will be financially viable or not. Feasibility study is a detailed investigation of the proposed project to determine whether the project is financially, economically and technically viable or not

Feasibility study is conducted in the following areas:

- **Market/ commercial Feasibility**: It involves study of market situation, current market, anticipated future market, competition, potential buyers, etc.
- **Technical Feasibility**: This study involves study of technological aspects related to the business, like location of the business, layout, infrastructure, plant and equipment, effluent treatment and discharge, foreign collaboration, transportation, resource availability etc.
- **Financial Feasibility**: Financial feasibility denotes the financial aspects of the business. This study helps to understand requirement of start-up capital, sources of capital, returns on investment, etc. It helps to assess the financial health of the business.

- **Socio- economic Feasibility**: This study is important to determine the extent to which the project is meeting its social economic objectives of development. It involves social cost-benefit analysis for testing national profitability. It helps to know the contribution of the project towards employment generation, income distribution, foreign exchange savings, development of backward regions, etc.
- **Preparation of Feasibility Report**: Feasibility report is the final conclusion drawn about the business after conducting the feasibility study. The feasibility report includes the confirmation of the proposed project. It gives the detail about technical, economic and financial, environmental, socio-cultural and operational aspects of the project.

Step 6: Business Plan Preparation:

A business plan is a "written document describing the nature of the business, the sales and marketing strategy, and the financial background, and containing a projected profit and loss statement." It serves as the blueprint for how you will operate your business. It is an effective means of defining your goals and the steps needed to reach them. It serves the following purposes:

Step 7: Project Report Preparation:

Finally, the entrepreneur should focus on preparing a project report. It is a roadmap for future business processes and involves financial decisions, challenges, risks and other problems faced during the start-up of a new venture. It acts as a guide for future uncertainties and will help in wise decision making.

Problems in setting up of a New Venture:

1. **Lack of legal knowledge**: The entrepreneur should have adequate legal knowledge to handle legal affairs efficiently. Lack of legal knowledge on the part of entrepreneurs may affect smooth conduct of business. He/ She should have knowledge regarding Factories Act, Wages & Salaries Act, and Workers Compensation Act etc.
2. **Lack of experience**: An entrepreneur should have enough experience to manage the business efficiently. Lack of adequate experience may create major problems and adversely affect the experience. The major hurdles that the new entrepreneurs face are the availability of resources to carry out such a business. The most important is the allocation of funds that comes in the form of money to research and development.
3. **Lack of finance**: Finance is the life blood of every business. To start up a new venture requires adequate capital. It is required to meet business expenses like purchase of raw material, payment of wages and salaries; payment of interest on loans etc. Lack of finance can create hurdles in setting up of a business unit.
4. **Lack of technology**: Technology is never constant, it keeps on changing. Sophisticated technology helps in increasing the production capacity and quality of the products. Lack of suitable technology can hamper the reputation of the firm. Adoption of suitable technology can prove beneficial to the business success and vice versa.
5. **Problem of human resource**: Organisation is made up of people and people make an organisation. A firm requires skilled, qualified and talented employees. Lack of competent staff is another major issue for a business unit.

6. **Problem of data**: Entrepreneurship is based on research work. The Entrepreneur need to conduct a survey for gathering information regarding market condition, competition, technology, consumer etc. the data collected may not be accurate and precise. At times it is incorrect and out dated. This hampers the survival of a business.
7. **Problem of marketing:** The Entrepreneur should have marketing knowledge. This helps to face cut-throat competition in all sectors. Lack of marketing efforts and knowledge with respect to product, pricing, distribution and promotion hampers the Entrepreneurial growth.

Benefits of Starting New Venture:

⇒ Family Employment
⇒ Independence
⇒ Financial and Employment Opportunities
⇒ Job Security
⇒ Inspiration for Future Generation
⇒ Society Development

GENERATING BUSINESS IDEAS

Idea generation techniques are activities and approaches that can help people process and analyse their thoughts in order to think of new inventions, solutions or designs. These techniques are beneficial for individual and teams to generate new designs or make progress on projects.

Sources for Getting Business Ideas:

Over a period of time, you may end up recording a number of good business ideas that we come across while going about our day- to-day life. You can then evaluate these ideas and when the time is ripe, these ideas can be taken further.

➢ **Past Work Experience:**

If you have been working somewhere for the past few years, you have obviously been doing something right to still be on the payroll. During this time, you have gained experience in your field and been professionally exposed to various other fields. You have developed contacts both within your company and also elsewhere in the industry. You have picked up skills and may also have received training in a specialized subject. Now, figure out what have you learned in all those years and how does that help you to choose a good business to start. Analyse what did you do within the company and will you be get paid to apply the same skills and know-how independently outside the company.

➢ **Consumers:**

The potential consumer should be the final focal point of ideas for the entrepreneurs. The attention to inputs from potential consumers can take the form of informally monitoring potential ideas or needs or formally arranging for consumers to have an opportunity to express their concerns. Care needs to be taken to ensure that the new idea or the needs represents a large enough market to support a new venture.

➢ **Existing Companies:**

With the help of an established formal methods potential entrepreneurs and intrapreneurs can evaluate competitive products & services on the market which may result in new and more market appealing products and services.

- **Distribution channels:**

  Members of the distribution channels are familiar with the needs of the market and hence can prove to be excellent sources of new ideas. Not only do the channel members help in finding out unmet or partially met demands leading to new products and services, they also help in marketing the offerings so developed.

- **Government:**

  It can be a source of new product ideas in two ways firstly, the patent office files contain numerous product possibilities that can assist entrepreneurs in obtaining specific product information, and secondly, response to government regulations can come in the form of new product ideas.

- **Research & development:**

  Entrepreneur's own R&D is the largest source of new idea. A formal and well-equipped research and development department enables the entrepreneur to conceive and develop successful new product ideas.

Methods/Techniques of Generating Ideas:

Idea generation techniques can be helpful in many problem-solving, product development or innovation-based work processes. Idea generation techniques are activities and approaches that can help people process and analyse their thoughts in order to think of new inventions, solutions or designs. We can use these techniques in both individual and group settings.

- **S.W.O.T. analysis**

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

- **Brainstorming**

This process involves engendering a huge number of solutions for a specific problem (idea) with emphasis being on the number of ideas. In the course of brainstorming, there is no assessment of ideas. So, people can speak out their ideas freely without fear of criticism. Even bizarre/strange ideas are accepted with open hands. In fact, the crazier the idea, the better. Taming down is easier than thinking up.

- **Brain-writing**

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

- **Role-storming**

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

- **Five whys**

This method often begins with a real or hypothetical problem that you could address with your team. You would ask them why a problem happens or is happening. After the initial round of responses and forming an answer, a facilitator asks again and again until the fifth time. The reason for asking the same question five times is to find deeper answers, as the first response is typically shallower.

- **Six thinking hats**

We can use this technique with groups of at least six people. Each participant represents a "thinking hat," or different thought focuses, such as benefits, emotions, facts, ideas, judgment and planning. With these mind-sets, each person addresses the topic or problem from that standpoint.

- **S.C.A.M.P.E.R.**

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

- **Wishing**

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

- **Zero draft**

Writers often use zero drafting as a variation of free-writing. Starting with a topic, you'd write everything you know about it, what you want or need to know and why the topic is important. You could then add other ideas that come to mind while writing. This method can also be beneficial for those with writer's block in order to develop thoughts freely, but with a few prompts to guide them.

- **Mind-mapping**

Mind-mapping is a graphical technique for imagining connections between various pieces of information or ideas. Each fact or idea is written down and then connected by curves or lines to its minor or major (previous or following) fact or idea, thus building a web of relationships.

Opportunity recognition is a process wherein individuals and organizations actively seek out, as well as perceive, opportunities for new products and services. It could be likened to a constant state of brainstorming, where businesses are always on the lookout for ways to innovate or improve.

Opportunity recognition is actually a process that's found in the way that individuals and businesses with an entrepreneurial mind-set approach new business ventures or ideas. In many ways, it is a constant brainstorming in which individuals look for "new and improved ways" of addressing problems. It could be a brand new business idea or even new products or services that fulfil customers' needs and expectations.

For long-term viability and success, a company needs some ability to recognize opportunities. Industries usually evolve based on societal changes, customer preference changes or technological advances. The most innovative company leaders who seize opportunities stay ahead of the competition in delivering progressive solutions to customers. Steve Jobs recognized the tremendous opportunity to make **Apple** a cutting-edge innovator in mobile technology. **Amazon.com** founder Jeff Bezos similarly recognized the power of online book sales long before traditional book sellers. He continued to seize opportunities for product diversification after making a big splash with books.

Factors That Impact Opportunity Recognition:

A group of researchers from universities in Sweden and Finland conducted a comprehensive literature review of entrepreneurial opportunity recognition research. They used bibliographic analysis and synthesis of previous contributions to identify six prominent factors that influence opportunity recognition. These factors are: **prior knowledge, social capital, cognition and personality, environmental conditions, alertness, and systematic search**

- **Prior knowledge**

Basically, we acquire prior knowledge through education and accumulated experience. But our prior knowledge also affects how we attend to, interpret, and organize new information. Lack of certain knowledge and skills can hinder the ability to recognize opportunity.

- **Social capital**

Social capital refers to our personal relationships and networks. Social capital gives us access to information and resources that might otherwise be scarce. Social capital makes it possible to for us to use human capital and mobilize resources when needed to respond to opportunity.

- **Cognition and personality**

A great deal of research pertaining to opportunity recognition has focused on individual characteristics. Some of the attributes that are most often discussed include creativity, self-efficacy, risk tolerance, need for achievement, need for independence, and locus of control.

People who are willing to take risks are better prepared to see the big picture of the opportunities around them. People who aren’t afraid of failure – and are therefore not surprised by success – tend to embrace new ventures

❖ **Environment**

Broad economic, social, political, geographic, and cultural factors can have an effect on opportunity identification. So, can rapid technological changes. But environmental conditions have both positive and negative effects on opportunity recognition. Changes in environmental conditions are often the catalyst that spurs people to action. But environments that suppress innovation can have a chilling effect on opportunity recognition and entrepreneurship.

❖ **Alertness**

Economist Israel Kirzner defined entrepreneurial alertness in two ways: the ability to notice opportunities that have been previously overlooked, and as a motivated tendency to visualize the future.

In the case of entrepreneurs, the act of noticing typically involves identifying novel solutions to current customer or market needs, while the act of visualizing usually involves imagining products and services that do not currently exist.

❖ **Systematic search**

Systematic search refers to opportunity discovery as a result of actively looking for it within a known information domain. This type of search activity helps us gather valuable information that fits our prior knowledge. It has been proposed that by engaging in a constrained, systematic search of select information channels, entrepreneurs can maximize their opportunity discovery effort.

Opportunity recognition Process:

Opportunity recognition is a key component of the start-up creation process. Bygrave and Hofer (1991) state that it is an essential characteristic of entrepreneurs to perceive an opportunity.

In his research, Baron (2006) assesses the process of pattern recognition of the individual to identify new business opportunities. He suggests that opportunity recognition is based on the entrepreneur's cognitive framework which is acquired through experience. This cognitive framework allows the individual to perceive connections between seemingly unrelated events and trends in the external world. Baron (2006) calls this process "connecting the dots".

In this regard, opportunity recognition is based on three important factors:

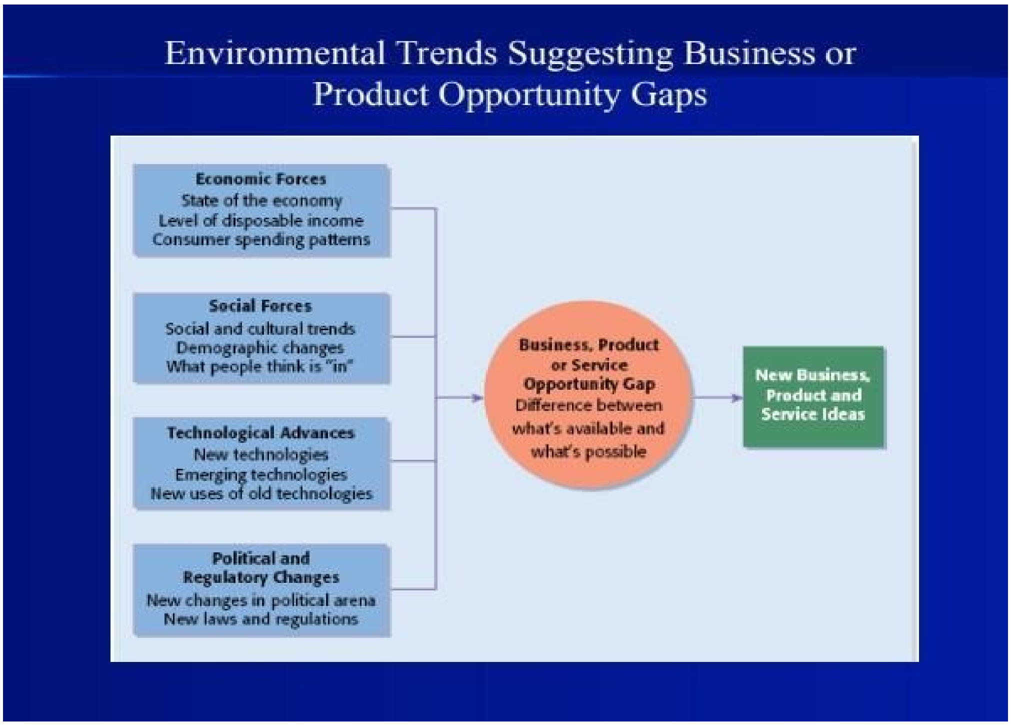
1) The active search for an opportunity,
2) The alertness to perceive an opportunity and
3) Prior knowledge of and experience in an industry.

This pattern recognition proceeds on the basis of either exemplar models or prototypes or both. Exemplar models involve the comparison of a newly encountered stimulus with examples of concepts which are already present in memory. Prototypes include the comparison of new trends or events with existing prototypes (defined as the idealized representation of a typical member of a certain category).

This process of opportunity recognition is repetitive, since entrepreneurs might not recognize all the aspects of an opportunity but rather perceive some and proceed with those. Through the acquisition of knowledge and experience entrepreneurs can learn to be more successful in recognizing patterns and connecting the dots of developments in the external environment.

Ways to Identify An Opportunity:

1.First Approach: OBSERVING TRENDS



⇒ Trend 1: Economic Forces

- Economic Forces
  - Economic forces affect consumers' level of disposable income.
  - When studying how economic forces affect opportunities, it is important to evaluate who has money to spend and who is trying to cut costs.
    - An increase in the number of women in the workforce and their related increase in disposable income is largely responsible for the number of boutique clothing stores targeting professional women that have opened in the past several years.
    - Many large firms are trying to cut costs. Entrepreneurs have taken advantage of this trend by starting firms that help other firms control costs.

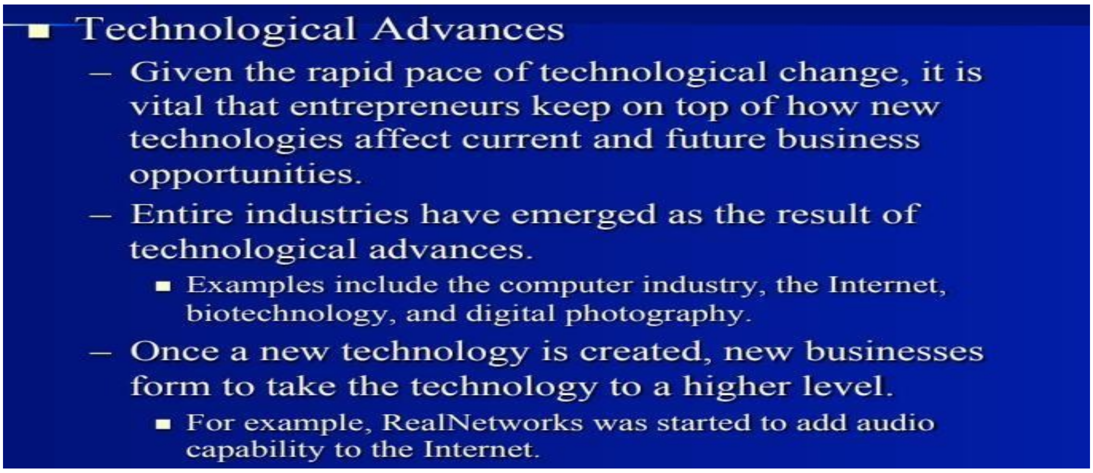
⇒ Trend 2: Social Forces

- Social Forces
  - Changes in social trends provide openings for new businesses on an ongoing basis.
  - The continual proliferation of fast-food restaurants, for example, isn't happening because people love fast food. It is happening because people are busy, and have disposable income.
  - Similarly, the Sony Walkman was developed not because consumers wanted smaller radios but because people wanted to listen to music while on the go.

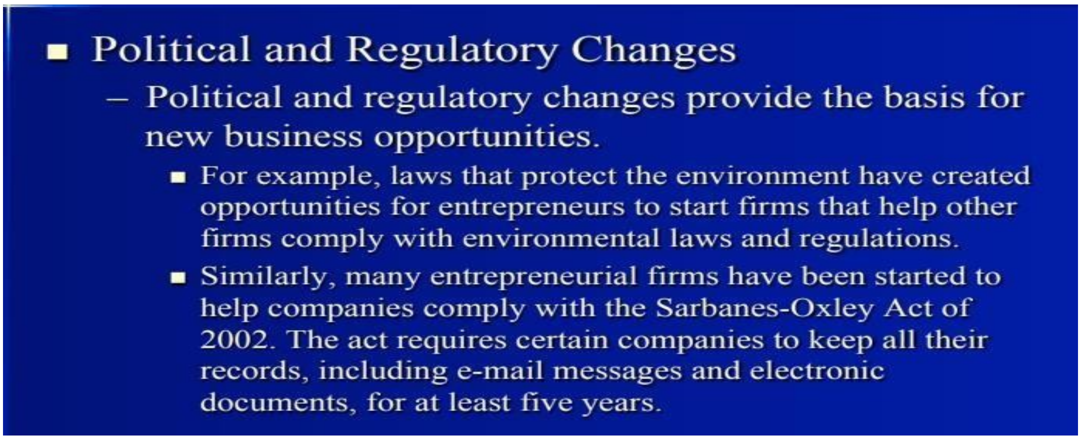
Examples of Social Forces That Allow For New Business Opportunities

Family and work patterns.
- The aging of the population.
- The increasing diversity in the workplace.
- The globalization of industry.
- The increasing focus on health care and fitness.
- The proliferation of computers and the Internet.
- The increase in the number of cell phone users.
- New forms of entertainment.

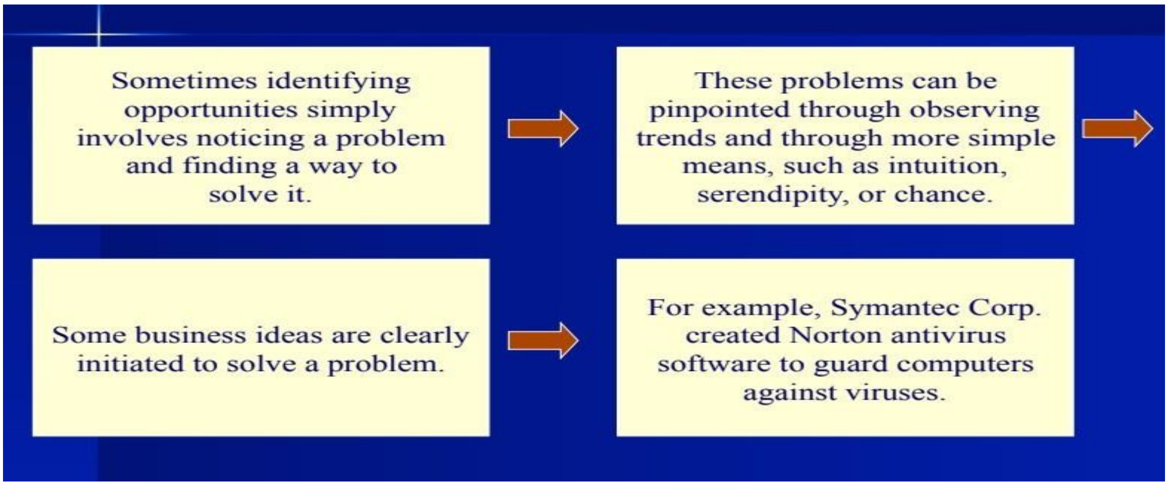
⇒ Trend 3: Technological Advances



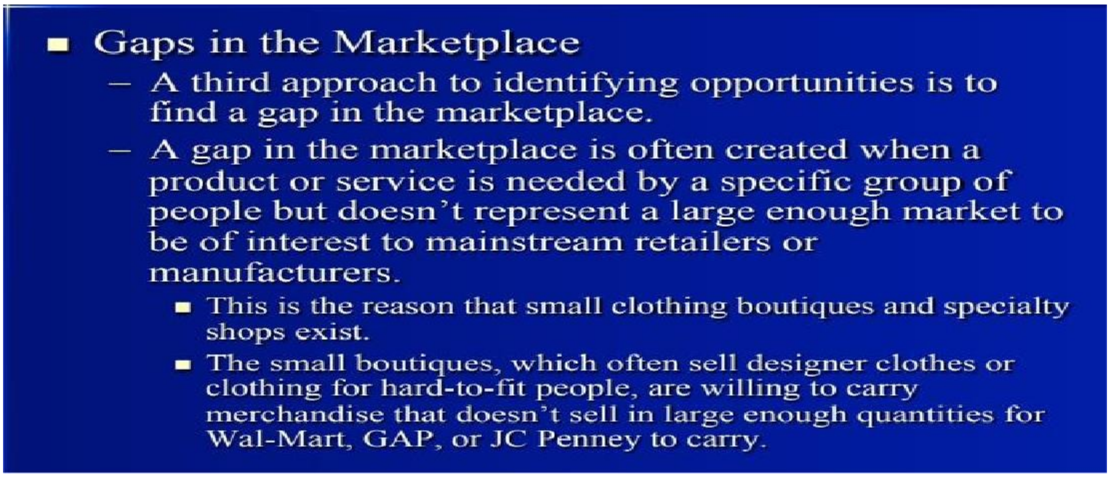
⇒ Trend 4: Political and Regulatory Changes



2.Second Approach: SOLVING A PROBLEM



3.Third Approach: FINDING GAPS IN THE MARKET PLACE



Business Opportunities in India:

- Infrastructure Sector
- Healthcare Sector
- Logistics Sector
- Retail Sector
- Entertainment Sector
- Manufacturing Sector
- Agriculture Sector

ENVIRONMENTAL SCANNING

Environmental Scanning:

Environmental Scanning is an important business tool in any entrepreneurship. When an entrepreneur is coming up with new ideas, plans or innovation of any kind he must first understand if the environment is suitable for this. It helps him develop his creative ideas into actual products that can be offered in the market. So scanning the environment will help him gauge the acceptance of the product, and the opportunities and threats he may face.

Environmental scanning meaning is the gathering of information from organizations internal and external environments, and careful monitoring of these environments to identify future threats and opportunities. It is the analyses of all factors that may affect the future of the organization.

Importance of Environmental Scanning:

1] SWOT Analysis

As we saw previously in the environmental scanning meaning, it is a complex process. The close study of the internal and external environment of an organization will reveal some very valuable information, i.e. the strengths, weaknesses, opportunities, and threats of a company. Let us take a brief look.

Strength: After analysis of the internal environment of a company, we will be able to identify the strengths that give the company a competitive advantage. The entrepreneur can use this information to maximise these strengths and earn more profits.

Weakness: Study of the internal environment also point out the weaknesses of the company. For the growth and stability of the company, these identified weaknesses must be corrected without delay.

Opportunity: Analysis of the external environment helps with the identification of possible opportunities. The entrepreneur can prepare to capitalize on these.

Threats: Analysis of the external environment will also help in the identification of any business threats from competitors or any other factors. The company can come up with a strategy to diffuse such threats or minimize its impact.

2] Best Use of Resources

Environmental scanning helps us conduct a thorough analysis and hence leads to the optimum utilization of resources for the business. Whether it is capital resources, human resources or other factors of production, their best use and utilization is very important for any business. Environmental scanning will help us avoid any wastages and allow for the most effective and economical use of these resources.

3] Survival and Growth of the Business

It is a very competitive world and for any business to survive and thrive it is a difficult task. But if the business employs all the techniques of environmental scanning it can gain a significant advantage. It will allow the firm to prepare for future threats and opportunities while at the same time eliminating their weaknesses and improving on their strengths.

4] Planning for Long Term

A business must have a plan for both short term and long term. The planning of long-term objectives can only occur after proper analysis and environmental scanning meaning. This will help the entrepreneur plan the necessary business strategy.

5] Helps in Decision Making

Decision making is the choice of the best alternative done by management. Environmental scanning allows the firm to make the best decision keeping in mind the success and growth of the business. They point out all the threats and weaknesses. And they also identify the strengths of the firm.

INDUSTRY AND COMPETITOR ANALYSIS:

Industry analysis is a market assessment tool used by businesses and analysts to understand the competitive dynamics of an industry. It helps them get a sense of what is happening in an industry, e.g., demand-supply statistics, degree of competition within the industry, state of competition of the industry with other emerging industries, future prospects of the industry taking into account technological changes, credit system within the industry, and the influence of external factors on the industry.

Industry analysis, for an entrepreneur or a company, is a method that helps to understand a company's position relative to other participants in the industry. It helps them to identify both the opportunities and threats coming their way and gives them a strong idea of the present and future scenario of the industry. The key to surviving in this ever-changing business environment is to understand the differences between yourself and your competitors in the industry and use it to your full advantage.

Types of industry analysis

There are three commonly used and important methods of performing industry analysis. The three methods are:

i)Competitive Forces Model (Porter's 5 Forces)

ii)Broad Factors Analysis (PEST Analysis)

iii)SWOT Analysis

#1 Competitive Forces Model (Porter's 5 Forces)

One of the most famous models ever developed for industry analysis, famously known as Porter's 5 Forces, was introduced by Michael Porter in his 1980 book "Competitive Strategy: Techniques for Analysing Industries and Competitors."

According to Porter, analysis of the five forces gives an accurate impression of the industry and makes analysis easier. In our Corporate & Business Strategy course, we cover these five forces and an additional force — power of complementary good/service providers.

1. Intensity of industry rivalry

The number of participants in the industry and their respective market shares are a direct representation of the competitiveness of the industry. These are directly affected by all the factors mentioned above. Lack of differentiation in products tends to add to the intensity of competition. High exit costs such as high fixed assets, government restrictions, labour unions, etc. also make the competitors fight the battle a little harder.

2. Threat of potential entrants

This indicates the ease with which new firms can enter the market of a particular industry. If it is easy to enter an industry, companies face the constant risk of new competitors. If the entry is difficult, whichever company enjoys little competitive advantage reaps the benefits for a longer period. Also, under difficult entry circumstances, companies face a constant set of competitors.

3. Bargaining power of suppliers

This refers to the bargaining power of suppliers. If the industry relies on a small number of suppliers, they enjoy a considerable amount of bargaining power. This can particularly affect small businesses because it directly influences the quality and the price of the final product.

4. Bargaining power of buyers

The complete opposite happens when the bargaining power lies with the customers. If consumers/buyers enjoy market power, they are in a position to negotiate lower prices, better quality, or additional services and discounts. This is the case in an industry with more competitors but with a single buyer constituting a large share of the industry's sales.

5. Threat of substitute goods/services

The industry is always competing with another industry producing a similar substitute product. Hence, all firms in an industry have potential competitors from other industries. This takes a toll on their profitability because they are unable to charge exorbitant prices. Substitutes can take two forms – products with the same function/quality but lesser price, or products of the same price but of better quality or providing more utility.

#2 Broad Factors Analysis (PEST Analysis)

Broad Factors Analysis, also commonly called the PEST Analysis stands for Political, Economic, Social and Technological. PEST analysis is a useful framework for analyzing the external environment.

To use PEST as a form of industry analysis, an analyst will analyze each of the 4 components of the model. These components include:

1. Political

Political factors that impact an industry include specific policies and regulations related to things like taxes, environmental regulation, tariffs, trade policies, labour laws, ease of doing business, and overall political stability.

2. Economic

The economic forces that have an impact include inflation, exchange rates (FX), interest rates, GDP growth rates, conditions in the capital markets (ability to access capital), etc.

3. Social

The social impact on an industry refers to trends among people and includes things such as population growth, demographics (age, gender, etc.), and trends in behaviour such as health, fashion, and social movements.

4. Technological

The technological aspect of PEST analysis incorporates factors such as advancements and developments that change the way a business operates and the ways in which people live their lives (e.g., the advent of the internet).

#3 SWOT Analysis:

SWOT Analysis stands for Strengths, Weaknesses, Opportunities, and Threats. It can be a great way of summarizing various industry forces and determining their implications for the business in question.

1. Internal

Internal factors that already exist and have contributed to the current position and may continue to exist.

2. External

External factors are usually contingent events. Assess their importance based on the likelihood of them happening and their potential impact on the company. Also, consider whether management has the intention and ability to take advantage of the opportunity/avoid the threat.

Importance of Industry Analysis:

Industry analysis, as a form of market assessment, is crucial because it helps a business understand market conditions. It helps them forecast demand and supply and, consequently, financial returns from the business. It indicates the competitiveness of the industry and costs associated with entering and exiting the industry. It is very important when planning a small business. Analysis helps to identify which stage an industry is currently in; whether it is still growing and there is scope to reap benefits or has reached its saturation point.

With a very detailed study of the industry, entrepreneurs can get a stronghold on the operations of the industry and may discover untapped opportunities. It is also important to understand that industry analysis is somewhat subjective and does not always guarantee success. It may happen that incorrect interpretation of data leads entrepreneurs to a wrong path or into making wrong decisions. Hence, it becomes important to collect data carefully.

FEASIBILITY ANALYSIS:

A feasibility study/analysis is designed to reveal whether a project/plan is feasible. It is an assessment of the practicality of a proposed project/plan. Feasibility study is part of the initial design stage of any project/plan. It is conducted in order to objectively uncover the strengths and weaknesses of a proposed project or an existing business. It can help to identify and assess the opportunities and threats present in the natural environment, the resources required for the project, and the prospects for success.

Importance of a Feasible Study Report

- It offers technical and legal clearance and is an affirmation of the project’s viability and practical feasibility.
- Decisions on budget and investment strategies by stakeholders are made based on the report.
- The template of a well-made FSR report assists in creating solutions for project Analysis.
- It bridges the efficiency of the project with a fixed budget.
- It alleviates risk factors by forecasting associated risks and evaluating effective strategies to tackle them.

- It also helps the management create an efficient team to carry out the project and recruit or train specialists.

Steps in a Feasibility Study

Conducting a feasibility study involves the following steps:

1. Conduct preliminary analyses.
2. Prepare a projected income statement. What are the possible revenues that the project can generate?
3. Conduct a market survey. Does the project create a good or service that is in demand in the market? What price are consumers willing to pay for the good or service?
4. Plan the organizational structure of the new project. What are the staffing requirements? How many workers are needed? What other resources are needed?
5. Prepare an opening day balance of projected expenses and revenue
6. Review and analyse the points of vulnerability that are internal to the project and that can be controlled or eliminated.
7. Decide whether to go on with the plan/project.

Advantages of Conducting Feasibility Study

- Feasibility analysis helps project managers to investigate the advantages and disadvantages of undertaking a venture before investing.
- It prevents a company from entering into a venture that may not be profitable.
- The feasibility study helps the companies develop new business development strategies; know the potential threats & risks, competitors, and the required resources to diversify the business.
- Feasibility studies provide marketing strategies that help convince the stakeholders and banks to invest in a particular project.
- They help us understand whether or not there is an actual demand for a proposed product or service in the market. It is true for both internal ventures as well as consumer offerings.
- It helps the company to understand if they have the required human resources.
- The study supports the project managers to determine if the proposed venture or service has already saturated the market. It also helps identify legal hassles like patent issues, trademarks, and other intellectual property rights issues.
- The greatest benefit of feasibility analysis is that it proposes a reasonable and logical schedule or timeline for a project. It helps the project managers to pace the project and set an attainable deadline.

Contents of a Feasibility Report

A feasibility report should include the following sections:

1. Executive Summary
2. Description of the Product/Service
3. Technology Considerations
4. Product/ Service Marketplace
5. Identification of the Specific Market
6. Marketing Strategy
7. Organizational Structure
8. Schedule
9. Financial Projections

Types of Feasibility Study:

1. Technical feasibility:

- Technical: Hardware and software
- Existing or new technology
- Manpower
- Site analysis
- Transportation

2. Financial feasibility:

- Initial investment
- Resources to procure capital: Banks, investors, venture capitalists
- Return on investment

3. Market feasibility:

- Type of industry
- Prevailing market
- Future market growth
- Competitors and potential customers

- Projection of sales

4. Organizational feasibility

- The organizational structure of the business
- Legal structure of the business or the specific project
- Management team's competency, professional skills, and experience

#Feasibility Study Example*: Expansion of a Clothing store*

Let's take a feasibility study example of a clothing store to understand the feasibility analysis:

A clothing store is interested in expanding its place and conducts a feasibility analysis to determine if the expansion is profitable or not.

⇒ **The feasibility study will investigate a lot of factors:**

- Analysing the labour cost – the process of expansion involves a lot of workforce and its associated expenses.
- Analysing the material cost – the construction of a clothing store requires plenty of building materials. Therefore, we will examine the charges for resourcing and transporting the same.
- Analysing the change in revenue – this is a vital step that determines if the project is economically feasible or not. It includes several days required to complete construction, cost of same, and the number of days for which the store might be closed during the process — all of which will be analysed and accounted for.
- We will take a look at the amount of inconvenience it might cause to the patrons. The inconvenience caused to the staff is also noted.
- Other important information like the patronage of the store, public's liking, and opinion about the expansion will also be taken into account.
- We will also record the feedback and suggestions of partners (in case the store is owned by more than one person) and what they feel about the expansion.

BUSINESS PLAN PREPARATION:

A good business plan guides you through each stage of starting and managing your business. You'll use your business plan as a roadmap for how to structure, run, and grow your new business. It's a way to think through the key elements of your business.

Business plans can help you get funding or bring on new business partners. Investors want to feel confident they'll see a return on their investment. Your business plan is the tool you'll use to convince people that working with you — or investing in your company — is a smart choice.

Most business plans fall into one of two common categories i)Traditional

ii) Lean start-up

i)Traditional business plan format:

Traditional business plans use some combination of these nine sections. This type of plan is very detailed, takes more time to write, and is comprehensive. Lenders and investors commonly request this plan.

a) Executive summary

b) Company description

c) Market analysis

d) Organization and management

e) Service or product line

f) Marketing and sales

g) Funding request

h) Financial projections

i) Appendix

ii) Lean start-up format:

Lean start-up formats are charts that use only a handful of elements to describe your company's value proposition, infrastructure, customers, and finances. They're useful for visualizing tradeoffs and fundamental facts about your company. This type of plan is high-level focus, fast to write, and contains key elements only. Some lenders and investors may ask for more information.

a) Key partnerships

Note the other businesses or services you'll work with to run your business. Think about suppliers, manufacturers, subcontractors, and similar strategic partners.

b) Key activities

List the ways your business will gain a competitive advantage. Highlight things like selling direct to consumers, or using technology to tap into the sharing economy.

c) Key resources

List any resource you'll leverage to create value for your customer. Your most important assets could include staff, capital, or intellectual property. Don't forget to leverage business resources that might be available to women, veterans, Native Americans, and HUBZone businesses.

d) Value proposition

Make a clear and compelling statement about the unique value your company brings to the market.

e) Customer relationships

Describe how customers will interact with your business. Is it automated or personal? In person or online? Think through the customer experience from start to finish.

f) Customer segments

Be specific when you name your target market. Your business won't be for everybody, so it's important to have a clear sense of whom your business will serve.

g) Channels

List the most important ways you'll talk to your customers. Most businesses use a mix of channels and optimize them over time.

h) Cost structure

Will your company focus on reducing cost or maximizing value? Define your strategy, then list the most significant costs you'll face pursuing it.

i) Revenue streams

Explain how your company will actually make money. Some examples are direct sales, membership's fees, and selling advertising space. If your company has multiple revenue streams, list them all.

BUSINESS PLAN FORMAT

I. Table of Contents:

II. Executive Summary: Describe the highlights of the plan.

III. Description of Business:

A. Describe the institution's business and any special market niche, including the products, market, services, and non-traditional activities.

B. If in a holding company structure discusses the operations of the organization, including a brief detail of the organizational structure and interaction between the institution and its affiliates.

C. Describe the extent, if any, that there are or will be transactions with affiliated entities or persons. Include terms.

D. Discuss the legal form and stock ownership of the institution and any investment in subsidiaries or service corporations.

E. For an operating company, describe the present financial condition and current resources, such as office network, staff, and customer base. Specifically discuss the strengths and weaknesses.

F. Describe the proposed location, office quarters, and any branch structure.

G. Discuss any growth or expansion plans, including additional branches, other offices, mergers, or acquisitions.

IV. Marketing Plan:

A marketing plan should provide in detail factual support that the institution has reasonable prospects to achieve the revenue projections, customer volume, and key marketing and income targets. The analysis should be based on the most current data available, and the sources of information should be referenced. This section should contain an in-depth discussion of the major planning assumptions for the market analysis, economic, and competitive components used to develop the plans, objectives, and the basis for the assumptions.

A. Product Strategy

1) List and describe the general terms of the planned products and services, including activities of any subsidiaries. Discuss any plans to engage in any subprime or speculative lending, including plans to originate loans with high loan-to-value ratios.

2) Discuss how the institution will offer products and services over the three years, indicating any variation in the different market areas or distribution channels, and include the time frame for the introduction and the anticipated cost associated with each.

3) Describe the institution's plans to engage in any secondary market/mortgage banking activity, including loan participations. Discuss plans to use forward take-out commitments or engage in loan securitization. Describe any plans to engage in hedging activity to mitigate the risks of this activity. Also, discuss plans to retain recourse and servicing.

4) Describe the primary sources of loans and deposits and the major methods to solicit them. If using brokers or agents provide full details of the nature and extent of all such activities, including sources, amounts, fees, and any intended tie-in of compensatory arrangements with the broker or agent.

5) Describe any arrangements with e-commerce businesses (for example, links to another's Web site to shop, order, or purchase goods and/or services online).

B. Market Analysis

1) Describe the intended target market and the geographical market area(s).

2) Describe the demographics of the target market population (for example, age, education, and occupation).

3) For a federal savings association filing, discuss in detail any current and/or proposed actions to accomplish the institution's commitment to promote home financing.

C. Economic Component

1) Describe the economic forecast for the three years of the plan. The plan should cover the most likely scenario and discuss possible economic downturns.

2) Indicate any national, regional, or local economic factors that may affect the operations of the institution. Include an analysis of any anticipated changes in the market, the factors influencing those changes, and the effect they will have on the institution.

3) Describe the current economic characteristics of the proposed market(s), for example, size, income, and industry and housing patterns.

4) Based on the economic characteristics described previously, discuss the economic factors that influence the products and services to be offered. A more in-depth discussion is warranted when different types of services are identified for different market areas in the Description of Business section.

D. Competitive Analysis

1) Compare and contrast the institution's product strategy with its principal competitors in the target market(s). Include expected results in terms of relative strength, market share, and pricing.

2) Discuss the overall marketing/advertising strategy, including approaches to reach target market through the marketing of brand, products, and services. Outline the specific medium that will be used, including timing and level of advertising efforts.

3) Discuss potential competition in the target market(s).

V. Management Plan: — Directors and Officers

A. Provide the number of organizers and/or directors. Provide a list of board committees and a brief explanation of the responsibilities of each committee.

B. Describe the organizational structure and provide an organizational chart, indicating the number of officers and employees. Describe the duties and responsibilities of the senior executive officers. Describe any management committees that are or will be established.

C. Discuss the institution's plans to address management succession, including any management training program or other available resources.

VI. Records, Systems, and Controls:

A. Describe the institution's current and/or proposed accounting and internal control systems, indicating any use of electronic processing systems.

B. Describe management's proposed internal audit function. The description should set forth the independence of the department and the scope and frequency of audits. Discuss the experience and education of the audit staff. If external auditors will be used for internal audits, provide similar information for the external auditors.

C. Describe the compliance management programs, addressing independence, scope, frequency, and staff qualifications. Discuss how the institution will respond to consumer complaints.

D. State plans for an annual audit by independent public accountants.

E. Discuss the functions that will be outsourced and what the institution will do in-house.

VII. Financial Management Plan:

A. Capital and Earnings

1) Discuss the capital goals and the means to achieve them.

2) Discuss the earnings goals in terms of return on assets, net interest margin, or other profitability measurements, and summarize the strategies to achieve those goals.

3) Discuss the plan for raising capital and for financing growth, with particular emphasis on conformance with regulatory capital requirements.

4) Discuss the adequacy of the proposed capital structure relative to internal and external risks, planned operational and financial assumptions, including technology, branching, and projected organization and operating expenses. Present a thorough justification to support the proposed capital, including any off-balance-sheet activities contemplated.

5) Describe the debt service requirements for any debt that will be issued at the holding company level to capitalize the institution.

6) Discuss the use of options, warrants, and/or other benefits associated with the institution's capital.

7) Summarize the dividend policy.

B. Liquidity and Funds Management

1) Discuss how the institution will identify and measure liquidity risk.

2) Discuss the institution's plan to monitor and control its liquidity risk, including funding sources (deposits, borrowings, securitizations). Include holding company support, if any.

3) Describe any plans to borrow funds from any financial institutions or other sources, including the amount, composition, interest rate, maturity, purpose, and collateral.

4) Discuss the type of investment securities the institution plans to purchase.

C. Sensitivity to Market Risk

1) Discuss the institution's objectives, strategies, and risk tolerance for interest rate risk.

2) Discuss how the institution will identify and measure interest rate risk.

3) Discuss the institution's asset and liability portfolio in terms of sensitivity to interest rate changes and the impact of earnings and capital and net portfolio value. Discuss the risk limits to control interest rate risk.

4) Describe any plans to use hedging activities (for example, futures, options, interest rate swaps, or other derivative instruments).

D. Credit Risk

1) Discuss how the institution will identify and measure credit risk.

2) Describe the loan review program, addressing independence, scope, frequency, and staff qualifications.

3) Describe the methodology used to determine the allowance for loan and lease losses.

VIII. Monitoring and Revising the Plan:

A. Describe how the board of directors will monitor adherence to the business plan.

B. Describe how the board of directors will adjust and amend the plan to accommodate significant or material economic changes.

IX. Alternative Business Strategy (Optional unless your regulator requires)

An alternative business strategy details how an institution will operate under scenarios in which market conditions differ significantly from those projected in this business plan. This alternative business strategy should be realistic about the business risks and incorporate sound management of such risks. This alternative strategy should consider potential adverse scenarios relating to the asset or liability mixes, interest rates, operating expenses, marketing costs, and growth rates. This discussion should include realistic plans for how the bank would access additional capital, if needed, in the future and, if applicable, contingency funding plans that address strategies for managing potential liquidity fluctuations. This plan also should discuss any financial safeguards to offset unexpected costs and remain well capitalized. Periodically, the institution should update this section, especially as the institution becomes more complex and as industry conditions change.

X. Financial Projections:

A. Provide financial information for opening day pro forma and quarterly projections for the three years of operations. Also provide annual totals for the Income Statement. The line items in the financial statements should be consistent with the Consolidated Reports of Condition and Income so that projected items may be compared conveniently with actual performance. The following reports should be used:

Projected Balance Sheet (Schedule RC or SC)

Projected Income Statement (Schedule RI or SO)

Regulatory Capital Schedule (Schedule RI-A or CCR)

The financial statements should be presented in two ways:

(1) Showing the dollar amounts, and

(2) As a percentage of total assets.

1) Describe in detail all of the assumptions used to prepare the projected statements, including the assumed interest rate scenario for each interest earning asset and interest costing liability over the term of the business plan. Also present a thorough justification to support proposed capital, including any branch expansion and off-balance-sheet activities contemplated.

2) Provide the basis for the assumptions used for noninterest income and noninterest expense. Indicate the amount of lease expense, capital improvements, and furniture, fixtures, and equipment, including systems and equipment upgrades.

3) Describe the assumptions for the start-up costs, volumes, expected returns, and expected time frame to introduce each new product and service.

B. Discuss how the institution used marketing studies or surveys to support the institution's projected growth.

C. Discuss the level of marketing expenses necessary to achieve the projected market share for both loan and deposit products. Assumptions should be consistent with those experienced by other institutions in the target market. Explain any significant variances between the assumptions in the target market.

D. Provide a sensitivity analysis of the financial projections. A sensitivity analysis provides a realistic stress test of the major underlying assumptions used in the business plan and the resultant financial projections. For example, adjust the financials to reflect the effects of adverse changes in the interest rate environment, changes in the asset/liability mix, higher than expected operating expenses, marketing costs, and/or growth rates.

PREPARING PROJECT REPORT

Meaning of Project Report

A Project Report is a document which provides details on the overall picture of the proposed business. The project report gives an account of the project proposal to ascertain the prospects of the proposed plan/activity.

Project Report is a written document relating to any investment. It contains data on the basis of which the project has been appraised and found feasible. It consists of information on

⇒ Economic,
⇒ Technical,
⇒ Financial,
⇒ Managerial and
⇒ Production aspects.

It enables the entrepreneur to know the inputs and helps him to obtain loans from banks or financial Institutions. The project report contains detailed information about

- Land and buildings required,
- Manufacturing Capacity per annum,
- Manufacturing Process,
- Machinery & equipment along with their prices and specifications,
- Requirements of raw materials,
- Requirements of Power & Water,
- Manpower needs,

- Marketing Cost of the project,
- Production,
- Financial analyses and economic viability of the project

Contents of a Project Report

Following are the contents of a project report:

1. General Information

A project report must provide information about the details of the industry to which the project belongs to. It must give information about the past experience, present status, problems and future prospects of the industry. It must give information about the product to be manufactured and the reasons for selecting the product if the proposed business is a manufacturing unit. It must spell out the demand for the product in the local, national and the global market. It should clearly identify the alternatives of business and should clarify the reasons for starting the business.

2. Executive Summary

A project report must state the objectives of the business and the methods through which the business can attain success. The overall picture of the business with regard to capital, operations, methods of functioning and execution of the business must be stated in the project report. It must mention the assumptions and the risks generally involved in the business.

3. Organization Summary

The project report should indicate the organization structure and pattern proposed for the unit. It must state whether the ownership is based on sole proprietorship, partnership or joint stock company. It must provide information about the bio data of the promoters including financial soundness. The name, address, age qualification and experience of the proprietors or promoters of the proposed business must be stated in the project report.

4. Project Description

A brief description of the project must be stated and must give details about the following:

- Location of the site,
- Raw material requirements,
- Target of production,
- Area required for the work shed,
- Power requirements,
- Fuel requirements,
- Water requirements,
- Employment requirements of skilled and unskilled labour,

- Technology selected for the project,
- Production process,
- Projected production volumes, unit prices,
- Pollution treatment plants required.

If the business is service oriented, then it must state the type of services rendered to customers. It should state the method of providing service to customers in detail.

5. Marketing Plan

The project report must clearly state the total expected demand for the product. It must state the price at which the product can be sold in the market. It must also mention the strategies to be employed to capture the market. If any, after sale service is provided that must also be stated in the project. It must describe the mode of distribution of the product from the production unit to the market. Project report must state the following:

- Type of customers,
- Target markets,
- Nature of market,
- Market segmentation,
- Future prospects of the market,
- Sales objectives,
- Marketing Cost of the project,
- Market share of proposed venture,
- Demand for the product in the local, national and the global market,
- It must indicate potential users of products and distribution channels to be used for distributing the product.

6. Capital Structure and operating cost

The project report must describe the total capital requirements of the project. It must state the source of finance; it must also indicate the extent of owner's funds and borrowed funds. Working capital requirements must be stated and the source of supply should also be indicated in the project. Estimate of total project cost, must be broken down into land, construction of buildings and civil works, plant and machinery, miscellaneous fixed assets, preliminary and preoperative expenses and working capital. Proposed financial structure of venture must indicate the expected sources and terms of equity and debt financing. This section must also spell out the operating cost.

7. Management Plan

The project report should state the following:

a. Business experience of the promoters of the business,

b. Details about the management team,

c. Duties and responsibilities of team members,

d. Current personnel needs of the organization,

e. Methods of managing the business,

f. Plans for hiring and training personnel,

g. Programmes and policies of the management

8. Financial Aspects

In order to judge the profitability of the business a projected profit and loss account and balance sheet must be presented in the project report. It must show the estimated sales revenue, cost of production, gross profit and net profit likely to be earned by the proposed unit. In addition to the above, a projected balance sheet, cash flow statement and funds flow statement must be prepared every year and at least for a period of 3 to 5 years. The income statement and cash flow projections should include a three-year summary, detail by month for the first year, and detail by quarter for the second and third years. Break-even point and rate of return on investment must be stated in the project report. The accounting system and the inventory control system will be used is generally addressed in this section of the project report. The project report must state whether the business is financially and economically viable.

PROJECT SUBMISSION/PRESENTATION

This is a very important step as it leads to successful delivery of information to external agencies and financial and non-financial institutions. There is always a limited amount of time available and there is a lot of information to be processed, so the project submission and the presentation should be crisp and to the point.

For a suitable submission review, the entrepreneur should ensure that the reason for bringing out the report, terms of references, expectation of project report, target audience of the report etc. are known and drafted very carefully. In order to maximize the effectiveness of the project submission maximum reader insight and minimum reader effort should be emphasized upon. In the presentation the speaker should demonstrate familiarity with the project emphasizing on the project goals, project submissions, and flow charts to maximize the impact on the audience. Project presentation should also include the benefits (social and economic) which could be derived from it for the region.

PROJECT APPRAISAL

Project appraisal is examined prima facie that whether the project is acceptable under certain rules which could be the experience and background of the applicant, the potential demand of the product, whether the project is meeting the governmental requirements and status etc.

1. Appraisal from External Agencies: Financial Agencies

The financial external agencies appraising the project, their point in contention is to look for credit appraisal. In this before a credit facility is provided to the entrepreneur, the proposal is checked rigorously. It involves in-depth study of all the feasibility aspects studied earlier viz., financial, technical, commercial, managerial etc. Generally, in order to sanction an amount it is prudent for the banks and other financial institutions to assess the data provided by the entrepreneur in an unbiased manner. This assessment can be further by financial institutions by outsourcing the data gathering exercise to independent agencies because the borrowers could tamper or favourably place the data to suit their needs.

Loan appraisal by financial institutions and banks require careful scrutiny of the highest level. Loan appraisal signifies the capability of the borrower to repay the principal loan amount and the interest thereof in the period specified.

2. Appraisal from External Agencies: Non-Financial Agencies

Project appraisal done by non-financial agencies could require a checks and balances on all the aspects of feasibility testing which is carried out by the entrepreneur in the first step. It may involve a detailed estimation and research on the way of production of the product in offing, proposed way of marketing the final product after the launch etc. Project appraisal by non-financial institutions may also involve examining in a systematic manner proper i.e. effective and efficient utilization of resources which could result into best results and ultimately ensuring product viability.

AREAS OF PROJECT APPRAISAL

1. Market/Marketing Appraisal: In marketing appraisal the emphasis is on ascertaining the demand projections of the business under perusal. The examination of whether the demand projections are in tune with the ground reality is done. Further, the adequacy of the marketing infrastructure is assessed by evaluate the distribution network, transport facilitates, stock levels, promotional efforts etc. The key marketing managerial personnel are also judged for their level of competency and skills required to get the job done.

2. Technical Appraisal: In this the focus is on the technical aspects. It is basically an appraisal of the technical feasibility ascertained by the entrepreneur. In this the overall appraisal of the technology and the manufacturing process, location decisions, decisions related to plant and machinery, and also the raw materials and other inputs is done.

3. Managerial Appraisal:

• Promoter’s resourcefulness check

• Credibility of the plan project

⇒ Assessment of the organizational structure
⇒ Estimated cost of the project

• Commitment of the promoters towards the work

Managerial Competence

In managerial competence appraisal the focus is on evaluating the level of competence of the people at the helm of affairs. The question is whether the management has the insight and ability to pull off a project. The emphasis is on the determination of the ability of the project to implement and carry on the business in a manner desired.

4. Ecological Analysis: Ecological analysis is a part of project appraisal and nowadays it has assumed specific importance. With the glaring problems like global warming, and climate change the attention is in those industries viz., pharmaceuticals, chemicals, leather processing etc. which do have an adverse impact on the environment. Also those industries that have a known history of creating detrimental effects on the environment are asked to correspond to mandatory norms and devise new techniques of production.

III.VARIOUS SOURCES OF FINANCING

VARIOUS SOURCES OF FINANCING

There are many sources of funding available for entrepreneurs.