



**MEASI INSTITUTE OF MANAGEMENT  
CHENNAI-14**

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**INNOVATION & ENTREPRENEURSHIP  
COURSE MATERIAL**



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**UNIT 1**

**OUTLINE:**

**The entrepreneur – Definition – Characteristic of successful entrepreneur – entrepreneur scene in India – Analysis of entrepreneurial growth in different communities – Case history of successful entrepreneur – Similarities and distinguish between entrepreneur and intrapreneur.**

**MEANING OF ENTREPRENEUR:**

The word “Entrepreneur” is derived from the French verb “Entreprendre” which means “To Undertake” or “To do Something”.

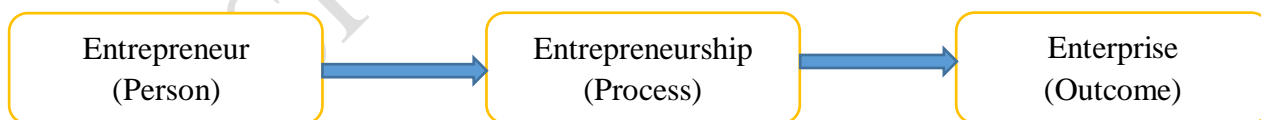
An entrepreneur is an agent who buys factor of production at certain price in order to combine them in to new product with a view to selling at uncertain price in future.

**DEFINITION OF ENTREPRENEUR:**

According to Martin Luther it is defined as “one who undertakes to organize, manage and assume the risk of running a business or enterprise.

**MEANING OF ENTREPRENEURSHIP:**

Entrepreneurship is a set of activities performed by an entrepreneur by means of various traits like leadership, decision making, innovation and managerial ability.



An enterprise is the business organization that is formed and which provides goods and services, create jobs, contribute to national income, exports and contribute to overall economic development.

**ROLE OF THE ENTREPRENEUR:**



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- Generation of new employment
- Economic development
- Transfer of technologies
- Improved allocation of resources
- Identification of the product
- Perceives opportunities for profitable investment
- Tolerance of private ownership
- Collaborative relationship
- Innovative capital formation
- Progressive management
- Increased national income
- Reduction in concentration of economic power
- Betterment in standard of living
- Promotes balanced regional development
- Promotes export trade.

**CHARACTERISTIC/ QUALITIES/ SKILLS OF AN ENTREPRENEUR:**

- Clear objectives – mission, vision, short and long term goal
- Business secrecy - quality, copyrights and technology usage
- Self-confidence – courage, aggressive, commitment
- Emotional stability – be patience, perceptiveness
- Technical knowledge – knowledge of product, market and technology
- Human relation ability – relationship with employees and management
- Communication ability – communication skills and pleasant communication
- Administrative ability – cooperativeness and responsibility
- Organizational skills – planning, directing, staffing and controlling
- Conceptual skills – problem solving, creative thinking
- Interpersonal skills – leadership, motivation and business ethics
- Practical skills – goal setting, decision making, business knowledge
- Personal skills – confidence, commitment, honesty and intelligence
- Public relation – supplier and customer relationship
- Risk bearer – risk and return analysis
- Time competence – time management.



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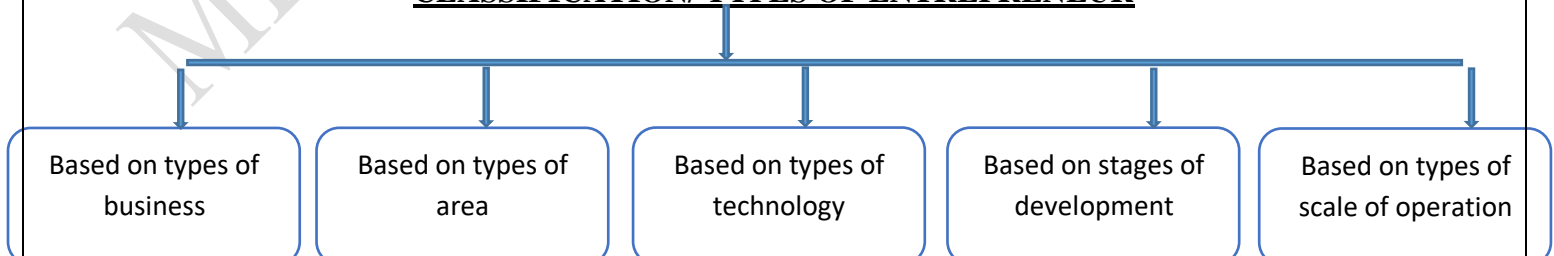
**FUNCTIONS OF ENTREPRENEUR**

- ❖ Initiation
- ❖ Watching for opportunities
- ❖ Persistence
- ❖ Information seeker
- ❖ Quality conscious
- ❖ Commitment to work
- ❖ Efficiency lover
- ❖ Proper planning
- ❖ Self confidence
- ❖ Assertiveness
- ❖ Persuasion
- ❖ Efficient monitoring
- ❖ Concern for employee

**ROLE OF ENTREPRENEUR IN ECONOMIC DEVELOPMENT**

- Capital formation
- Generation of employment
- Improvement in per capita income
- Reduces concentration of wealth
- Balanced regional development
- Resource mobilization
- Improvement in standard of living
- National self-reliance
- Harnessing natural resources
- Backward and forward linkages
- Sense of purpose

**CLASSIFICATION/ TYPES OF ENTREPRENEUR**





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• **BASED ON TYPES OF BUSINESS:**

1. Small business entrepreneur:

- ✓ They are an individual who conceives an idea for a new product and then translate their ideas in to reality.
- ✓ This individual's deal with trading and manufacturing aspects of business.
- ✓ They set up small business unit

**Example:**

- Confectionery – V. G. Siddharta (Café Coffee Day)
- Printing Press – Jain Brothers (Times of India)
- Advertising Agency – Kalanithi Maran (Sun Group)

2. Trading entrepreneur

- ✓ They are individuals who undertakes trading activities but not concerned with the manufacturing work
- ✓ This individuals deal with marketing activities.

**Example:**

- Metal products – Vijay Gupta (Usdhev International Limited)
- Online financial services – Sameer Gehlaut (India Bulls)

3. Industrial entrepreneur

- ✓ They are individuals who undertakes only manufacturing activities.
- ✓ This individuals are those who set up industrial units.

**Example:**

- Electronic products – T.P.G. Nambiar (BPL Company)
- Textile – J.K. Singhanian (Raymonds)
- Steel manufacturer – Lakshmi Mittal (Arcelor Mittal)

4. Corporate entrepreneur

- ✓ They are individuals who demonstrate innovative skills in organizing and managing corporate undertaking.



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- ✓ This type of business organization is registered under Companies Act 1956.

**Example:**

- Reliance industry – Dhirubhai Ambani
- Tata group – Jamsetji Tata

5. Agricultural entrepreneur

- ✓ They are individuals who undertake agricultural activities such as dairy, horticulture, marketing of crops and fertilizers.

**Example:**

- Dairy products – Kurein (Amul)
- Agro products – Chandramogan (Hatsun)

6. Retail entrepreneur

- ✓ They are individuals who undertake activities such as super market, shopping mall, departmental store, consumer cooperative shops, teleshopping and mail order business.

**Example:**

- Walmart – Sam Walton
- Flipkart – Binny bansal & Sachin bansal.

7. Service entrepreneur

- ✓ They are individuals who takes economic activity that does not result in ownership and this is what differentiate it from providing physical goods.

**Example:**

- Hospitality – Prathap C. Reddy (Apollo hospital)
- Catering services – Sarath Babu (Food king caters)



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• **BASED ON TYPE OF AREA**

1. Urban entrepreneur:

- ✓ They are individuals who own a business that caters to the city life or owns a business located in the city.

**Example:**

- King Fisher Airlines – Vijaya Mallya

2. Rural entrepreneur

- ✓ It can be defined as entrepreneurship emerging at village level which can take place in variety of fields such as business, industry, agriculture for economic development.

**Example:**

- Retailing – Kishore Biyani (Future Groups started near Mumbai Village)

• **BASED ON TYPE OF TECHNOLOGY**

1. Technical entrepreneur

- ✓ They are individual who established new technology venture.
- ✓ It is an risk bearing organization and management that focused on technology based business.

**Example:**

- Audio equipment – Amar Bose (Bose Corporation)
- IT Services – N.P. Narayana Murthy (Infosys)

2. Professional entrepreneur

- ✓ They are someone who starts a business grows it to self-sustainability and then sells it to someone else and then starts over with another business.

**Example:**

- ITC – Willian Henry Wills

• **BASED ON TYPES OF DEVELOPMENT**

1. **First Generation entrepreneur**



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- ✓ They are individuals who innovates, takes risk and first in family to enter business

**Example**

- Air Deccan – G.R. Gopinath
- Bharti Group – Sunil Mittal

**2. Modern entrepreneur**

- ✓ They are individuals who considers feasibility of business, which can adapt to change according to market condition.

**Example**

- Bus ticketing – Phanindra Sama (Red bus.in)
- Mobile phone application – Sanjay Kumar & Shravan Kumar (Alphabet Board)

**3. Classical entrepreneur**

- ✓ They are individuals who give more importance to maximize his economic returns than growth of the business.
- ✓ They concerned with customer needs through self-development.

**Example**

- Biopharmaceutical company – Kiran Mazumdar Shah (Biocon limited)

• **BASED ON TYPES OF SCALE OF OPERATION**

1. Small scale entrepreneur

- ✓ They are individuals where the employee are in small in numbers and does not have high volume of sales.
- ✓ It is an enterprise where the investment in plant and machinery is more than 5 lakhs with man power of 10 to 50 employees.

**Example**

- Confectionary – Manikkam Pillai (Mcrennett)

2. Large scale entrepreneur

- ✓ They are individuals who starts a business with huge of capital investment and employs large number of person with very high output.

**Example**





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➤ Aditya Birla Group – Seth Shir Narayan Birla

**STAGES IN ENTREPRENEURIAL PROCESS**

1. Discovery

- Entrepreneur generates ideas and recognizes opportunities.
- Entrepreneur study consumer needs and wants
- Entrepreneur conducts market analysis and research survey.

2. Concept Development

- Entrepreneur develop business plan
- Entrepreneur set up goals and objectives of the business
- Entrepreneur chooses business location; determine pricing strategy and distribution channel.
- Identification of patent, trade mark and copyright.

3. Resourcing

- Entrepreneur identifies and acquires resources such as finance and human resource
- Entrepreneur should know about the application and sources of funds
- Entrepreneur should identify the funding sources.

4. Actualization

- Entrepreneur operates the business and utilizes the resources to achieve its goals and objectives
- Entrepreneur prepares organization for growth
- Entrepreneur develops on E- business strategy for managing financial operation.

5. Harvesting

- Entrepreneur decides on business future growth
- Entrepreneur consider more operation in different location
- Entrepreneur provides different product and services
- Entrepreneur implements leverage buyout.

**DIFFERENCE BETWEEN ENTREPRENEUR AND INTRAPRENEUR**

<b>ENTREPRENEUR</b>	<b>INTRAPRENEUR</b>
1. He is owner of the enterprise	He is key worker/ manager of the enterprise



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2. He is a person who set up business unit with risk bearing and expectation of profit	He is a manager within the company who promotes innovative product development and marketing
3. He is independent and has opportunity to create money	He is partly independent and has ability to advance in corporate
4. He is a visualizer	He is an innovator
5. He bears full risk of business	He does not bear any risk
6. He may not be educated and skilled person	He must be educated and skilled person
7. An entrepreneur raises capital from various sources and guarantees the return to investors	An intrapreneur neither raises capital nor guarantees any returns to investors
8. He is classified as service entrepreneur, industrial entrepreneur, retail entrepreneur etc	He is classified as manufacturing intrapreneur, innovating intrapreneur, marketing intrapreneur etc.
9. He primarily focus on technology and market	He primarily focus on customer needs
10. He is promoter	He operates and develop the business
11. He deals with management	He deals with customers and suppliers
<b>12. Example:</b> Azim Pemji	<b>Example:</b> Indra Nooyi

**SIMILARITIES BETWEEN ENTREPRENEUR AND INTRAPRENEUR**

ENTREPRENEUR	INTRAPRENEUR
1. He focuses on long term results	He focus on short term results
2. He deals with people who can conceptualize with aggregate perspective strategies	He deals with people with day to day management activities
3. He focuses on strategic decision such as expansion, mergers and takeover	He focuses on operational and administrative decision.

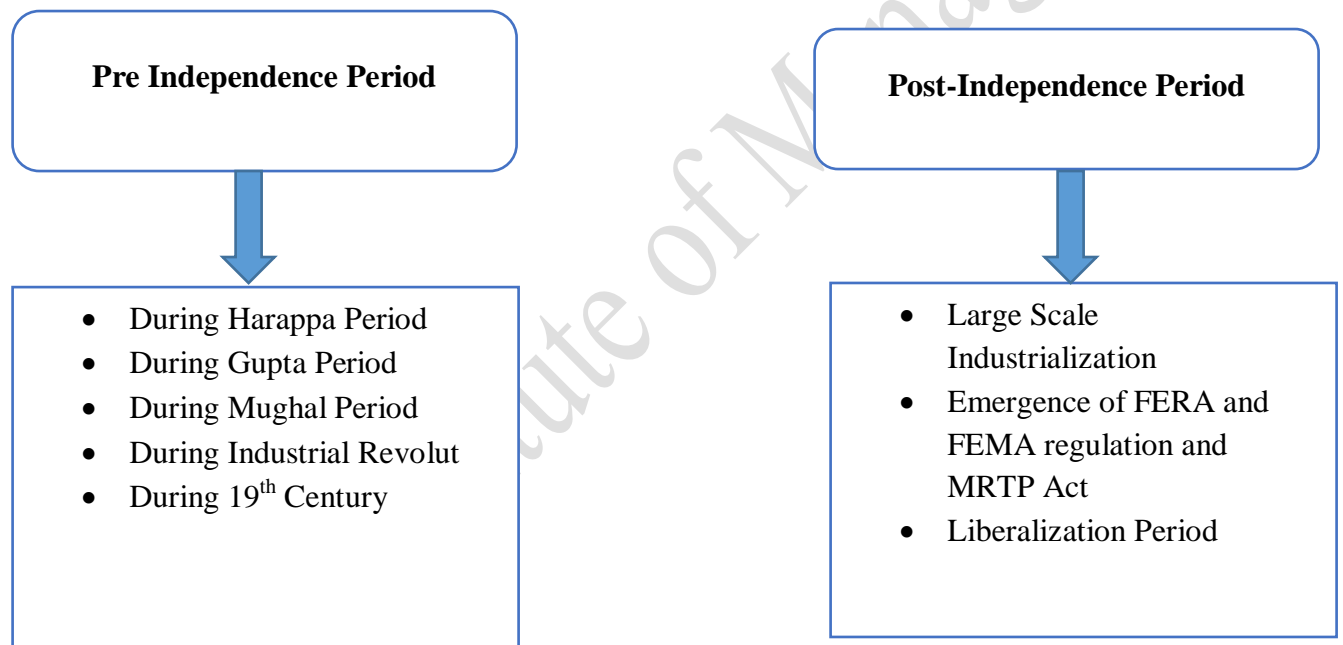


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4. He cooperate with financial institution, import policy and infrastructure constraints	He cooperates within organization for labour productivity, routing and scheduling
5. He follows sound principles of management such as social responsibility, equal opportunity, employment and ethical advertisement	He follows sound principle of management such as delegation, budgeting, accountability, reporting and information system

**HISTORY OF ENTREPRENEURSHIP IN INDIA / ENTREPRENEURIAL SCENE IN INDIA /  
ANALYSIS OF ENTREPRENEURIAL GROWTH IN DIFFERENT COMMUNITIES /  
EVOLUTION OF ENTREPRENEURS IN INDIA**



**A. PRE INDEPENDENCE PERIOD**

**1. During Harappa Period**

- The history of entrepreneurship in India started in the era of Indus valley civilization
- During Harappa period, Indian trades in pottery, seeds, ornaments with Central Asia and Iranian country



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- The Indian traders introduced re exporting such as bought silk from Chinese and sold to Central Asia and also bought horses from West Asia and sold to Chinese.
2. During Gupta Period
    - The Indian traders formed association and codification for transnational business.
  3. During Mughal Period
    - The Indian traders dominated world commerce; they used the techniques that sell the goods to Britishers above the market rate made them to sell below to the market rate.
    - During the Mughal period only insurance system, gold and silver flows in to country.
  4. During Industrial Revolution
    - Dwarkanath Tagore who formed India first joint venture with a British traders known as British Indian Association for commercial activities such as banking, insurance and shipping companies.
    - Nanabhai Davar started first cotton mill in Bombay in 1854 known as “Bombay Spinning Mill” and at the end of 18<sup>th</sup> century were 70 cotton mill in Mumbai this led to the rise of Bombay as textile manufacturing hub in India.
  5. During 19<sup>th</sup> Century
    - Indian traders were classified into 4 community such as Brahmins (Archarya), Kshtriyas (Rulers & Military), Vaishyas (Merchants & Agriculturist) and Shoodras (Assistants)
    - The industrial activity was influenced by the caste system
    - The skill for any enterprise was inherited from ancestors for textiles, iron and steel and electrical system.
    - Most of the Indian become entrepreneurs because of the outcome of innovative products and technology for the business growth.

Example:

- JRD Tata – 1909
- GRD Birla – 1919
- Jannalal Baja – 1926

**B. POST INDEPENDENCE PERIOD**

1. Large Scale Industrialization



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- Indian industry began to expand in the core sectors such as coal, crude oil, natural gas, petroleum, steel, cement etc
- Entrepreneur emerges in different industries in large scale. These entrepreneurs are wealth creator, change agent and entertainers

Example

- Azim Premji – 1945 (WIPRO)
- Dhirubhai Ambani – 1966 (Reliance)
- Narayana Murthy – 1981 (Infosys)

2. Emergence of FERA and FEMA regulation and MRTP Act

- During 1973, Foreign Exchange Regulation Act was formed by Indian Parliament by the Government of Indira Gandhi. The bill was formulated by the aim of regulating payments and foreign exchanges.
- FERA was repealed in 1998 by the government of Atal Bihari Vajpayee and replaced by the Foreign Exchange Management Act, which liberalized foreign exchange controls and restrictions on foreign investment
- MRTP Act was formed during the year 1969 and it came in to force at 1970. This act was formulated to prevent concentration of economic power in the hands of few people.

3. Liberalization Period

- In 1977, a little know entrepreneur Dhirubhai Ambani tapped the capital market and the reliance had its first IPO (Initial Public Offering)
- In 1991, liberalization kick started stock market, drew foreign investment and it gave rise to TATA, Birla and Reliance to grow.

**HISTORY OF SUCCESSFUL ENTREPRENEUR (MEN)**

**NIRMA**

The 'Nirma' success story of how an Indian Entrepreneur took on the big MNCs and rewrote the rules of business:

It was in 1969 that Dr. Karsanbhai Patel started Nirma and went on to create a whole new segment in the Indian domestic detergent market. During that time the domestic detergent market only had the premium segment and there were very few companies, mainly the MNCs , which were into this business.



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Karsanbhai Patel used to make detergent powder in the backyard of his house in Ahmadabad and then carry out door to door selling of his hand made product. He gave a money back guarantee with every pack that was sold. Karsanbhai Patel managed to offer his detergent powder for Rs. 3 per kg when the cheapest detergent at that time was Rs.13 per kg and so he was able to successfully target the middle and lower middle income segment. Sabki Pasand Nirma...

Nirma became a huge success and all this was a result of Karsanbhai Patel's entrepreneurial skills.

Karsanbhai Patel had good knowledge of chemicals and he came up with Nirma detergent which was a result of innovative combination of the important ingredients. Indigenous method was used , and also the detergent was more environment friendly.

Consumers now had a quality detergent powder, having an affordable price tag.

The process of detergent production was labour intensive and this gave employment to a large number of people. Nirma focused on cost reduction strategies to make a place for itself in the market. Nirma has always been known for offering quality products at affordable prices and thus creating good value for the consumer's money.

In the 1980s nirma moved ahead of Surf, a detergent by HLL, to capture a large market share. Later, Nirma successfully entered in the premium segment of soaps and detergents. Nirma went on to become the largest detergent and the second largest soap company in India. Nirma had more than 35% market share in the detergent segment and around 20 % market share in the toilet soap segment. The company got listed on the stock exchanges in the year 1994.

### **THE MARKETING STRATEGY OF NIRMA:**

As Nirma started to grow and the salesmen started to reach out to the retailers, who were working with multinational brands till then, did not pay attention and used to take the stock on long credits and as a special favor. As and when the salesmen would go asking for the payment either he will be shown the door or may be offered a part payment even in the condition that the total material was sold. To the insisting ones they will give the material back asking them not to show up again. This carried on for some time and there was huge accumulated credit in the market making it difficult for the Nirma to operate. This is when Karsanbhai said enough was enough and called the entire team one day and decided on a drastic step which was risky but revolutionary. Karsanbhai was realizing the power of advertising and promotions which made him take this step.



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The day after the meeting the entire team member went out in the market and collected either cash or material. Next day on retailers were shocked, competition was dazed and market was without Nirma. For full one month the media was carpet bombed with the campaign WASHING POWDER NIRMA, WASHING POWDER NIRMA, DOODH SI SAFEDI.....

Now what this did was kick start the consumer demand. People started asking for Nirma but it was not to be found. When the demand reached its peak then the Retailers started to look for Nirma. This is what Karsanbhai was waiting for.

One fine day the team was called for another meeting and Delivery vans were cleaned, material loaded and NIRMA hit the market again. Now Nirma was dictating terms. All cash on delivery, no credits and tight supply. Overnight the brand was changed and within no time gave a fantastic fight back to the leading global brands.

The best case of - Give your consumer what he wants, when he wants, where he wants and at the price he wants, selling will be done quite automatically. This is the marketing 'mantra' of Nirma.

Nirma adopted backward integration strategy for the regular supply of raw materials, 90 % of which they manufacture themselves. Nirma also gave due importance to modernization, expansion and up gradation of the production facilities. The company also made sure that it uses the latest technology and infrastructure.

As far as Corporate social responsibility (CSR) is concerned, Nirma has made some good efforts by starting Nirma Education & Research Foundation (NERF) in the year 1994 for the purpose of running various educational institutes. Nirma has also set up Nirma labs, which prepares aspiring entrepreneurs to effectively face the different business challenges. Nirma also runs Nirma Memorial Trust, Nirma Foundation and Chanasma Ruppur Gram Vikas Trust as a part of their effort as a socially responsible corporate citizen.

The company that was started in 1969 with just one man, who used to deliver his product from one house to the other, today employs around 14 thousand people and has a turnover of more than \$ 500 million. In 2004 Nirma's annual sales were as high as 800000 tonnes. According to Forbes in 2005 Karsanbhai Patel's net worth was \$ 640 million and it's going to touch the \$ 1000 million mark soon.





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**UNIT 2**

**OUTLINE:**

**Types of Innovation – Creating and identifying opportunities for innovation – The technological innovation process – Creating new technological innovation and intrapreneurship – Licensing – Patent Rights – Innovation in Indian Firms.**

**MEANING OF CREATIVITY**

It is the act of turning new and imaginative ideas in to reality.

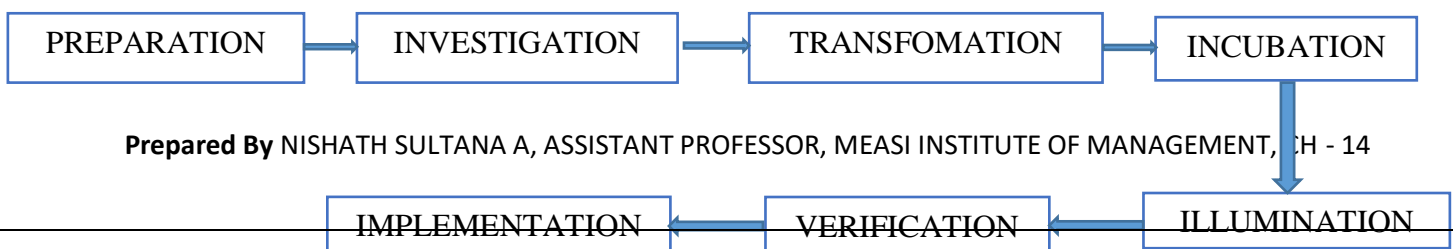
**Examples of Creativity**

- Creativity in cool drinks – Different flavor and size
- Creativity in advertisement – Different theme techniques and animation
- Creativity in technology – Mobile phone, social network, retail banking, telecommunication.
- Creativity in services – Business plan consulting service, mailing service, transportation service, food and beverage service
- Creativity in product – polo, trebor mighty mint and smint.

**NEED FOR CREATIVITY/ ROLE OF CREATIVITY IN ORGANIZATION**

- Generation of ideas for new technologies
- Generation of ideas for improvement in product / service design like simplification, standardization, reliability, product life cycle
- Generation of ideas for improvement in process design like smooth flow of material, reducing work in progress, inventories, improving quality, for improving safety.
- Generation of ideas for converting process waste in to useful by product
- Improving competitive positioning
- Increased adaptability to change
- Ability to retain right people.

**STAGES IN CREATIVITY/ CREATIVITY PHASE/ CREATIVE PROCESS**



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**STAGE 1 PREPARATION**

- ✓ Preparation of mind from creative thinking from the following
  - Formal education
  - Work experience
  - Discuss with experts
  - Brainstorming session
  - Seminars and lectures

**STAGE 2 INVESTIGATION**

- ✓ An entrepreneur take time to study the problem and what are its various components are
- ✓ It involves three forms such as
  - Investigation of fact – surface mind
  - Investigation of memory – deep mind
  - Investigation of imagination – beyond mind

**STAGE 3 TRANSFORMAION**

- ✓ Entrepreneur view the similarities and difference in the information collected with regards to the problem in different aspects.
- ✓ It will help to visualize a number of approaches to that can be used to tackle the problem.

**STAGE 4 INCUBATION**

- ✓ Entrepreneur study the problem or opportunity in different environment
- ✓ Entrepreneur give time to reflect on the information

**STAGE 5 ILLUMINATION**

- ✓ Entrepreneur screen ideas to the problem
- ✓ Entrepreneur finds an invention / discover new thing to the problem

**STAGE 6 VERIFICATION**

- ✓ In this stage the new ideas is put to test which is found was found in transformation stage.
- ✓ Entrepreneur verify the ideas found with the following techniques
  - Piloting



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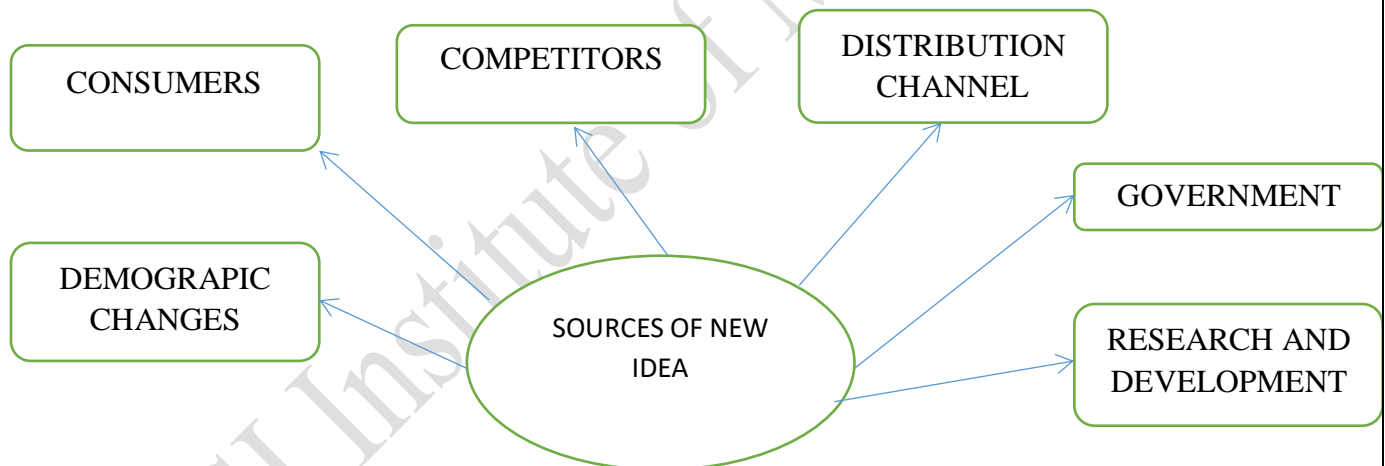
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- Test marketing
- Simulation
- Prototype building
- Various experiments

**STAGE 7 IMPLEMENTAION**

- ✓ It is the process of bringing the ideas in to reality
- ✓ In this stage the difference of opinion between entrepreneur and innovator in bringing out the new ideas is consider.

**SOURCES OF NEW IDEA (Pg No 32)**



**CONSUMERS**

- ✓ The potential consumer should be the final focus point of ideas for the entrepreneur
- ✓ The attention to inputs from potential consumer can take the form of informally monitoring potential ideas and formally arranging for consumers to have an opportunity to express their concern.

**COMPETITORS**



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- ✓ With the help of an established formal methods potential entrepreneur and intrapreneur can evaluate competitive products and services on the market which may result in new and more market appealing product and services.

### **DISTRIBUTION CHANNEL**

- ✓ Members of the distribution channel are familiar with the needs of the market and hence can prove to be excellent sources of new ideas
- ✓ They also help in marketing the offering so developed.

### **GOVERNMENT**

- ✓ Government can be sources of new product ideas in two ways
  - Firstly, the patent office files contains numerous product possibilities that can assist entrepreneur in obtaining specific product information
  - Secondly, response to government regulation can come in the form of new product ideas.

### **RESEARCH & DEVELOPMENT**

- ✓ Research and development is the largest source of new idea
- ✓ A formal and well equipped research and development enables the entrepreneur to conceive and develop successful new product ideas.

### **DEMOGRAPHIC CHANGES**

- ✓ It normally happened during the economy instability in population ups and downs
- ✓ It also focuses on industry and market changes.

### **INNOVATION AND INVENTION**

- ✓ Invention is the formulation of ideas
- ✓ Innovation is continuous up gradation of invention.
- ✓ Innovation is the Latin word “Innovationem” or “Innovare” which mean “Action”
- ✓ Innovation is the implementation of new ideas at individual, group or organizational level.

### **DIFFERENCE BETWEEN CREATIVITY AND INNOVATION**

<b>CREATIVITY</b>	<b>INNOVATION</b>
✓ It means “to Create” or “To make”	It means to “To innovare” or “To action”

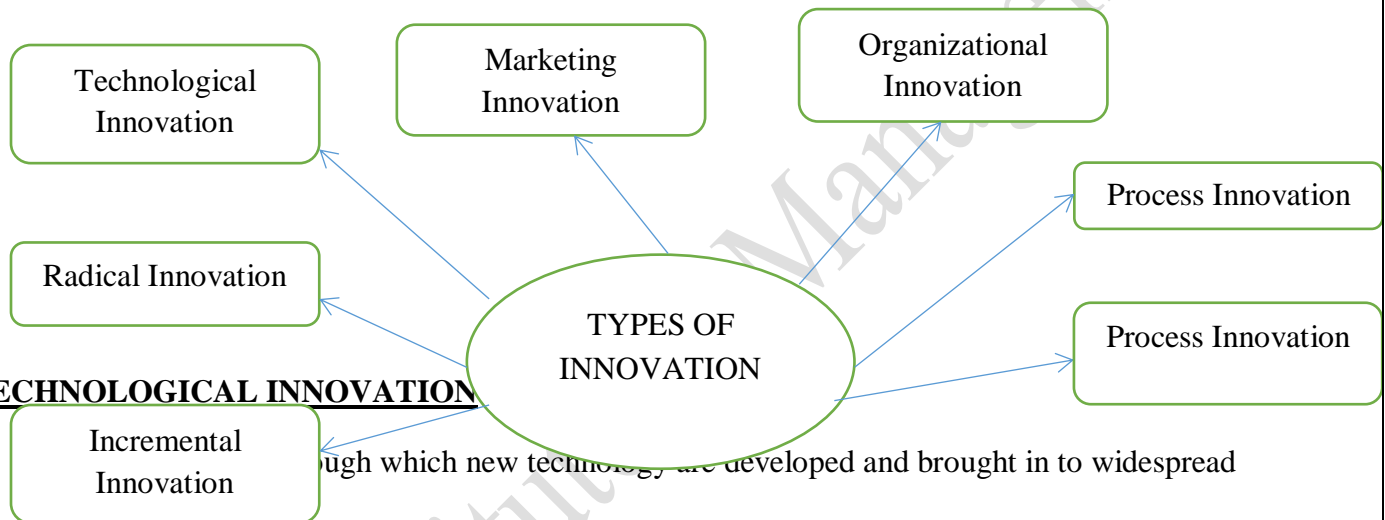


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✓ It is the production of new ideas	It is the implementation of new ideas
✓ It is generation of ideas	It is bringing ideas in to reality
✓ It is related to experience	It is related to observation
✓ It is preferred in art context	It is preferred in business context

**CLASSIFICATION / TYPES OF INNOVATION**



**TECHNOLOGICAL INNOVATION**

through which new technologies are developed and brought in to widespread

- ✓ An enterprise use technology in new ways which improves organizational goals
- ✓ There are break through invention that have wide reaching impact and influence which benefit society and business
- ✓ Example: Wifi, electric pencil sharpener, electric tooth brush, smart phone, tablets

**MARKETING INNOVATION**

- ✓ It is the implementation of a new marketing method involving significant changes in product design, packaging, product promotion and pricing
- ✓ It is a process where a product is marketed and communicated to the target group by the help of ideas and process by which were not used earlier
- ✓ Example: Dabbawalas – Food delivery network

**ORGANIZATIONAL INNOVATION**

- ✓ It involves the creation of new organization business practices and new organizational behavior
- ✓ It is the restructuring process in the company as a requirement for ISO standard in terms of mission, rewards and recognition, operation planning, cultural alignment and HR audit



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- ✓ Example: Incentive structure in organization, linkage between industry and academic research.

**PROCESS INNOVATION**

- ✓ It is the introduction of changes in product/ service delivery method
- ✓ It involves changes in existing process or adopting a entirely new process
- ✓ It is achieved through creation of new means of producing, selling and distributing an existing product/ services
- ✓ It includes significant changes in techniques, equipment or software
- ✓ Example: Online Banking, Courier service such as bar code scanners in tracking parcels.

**PRODUCT INNOVATION**

- ✓ It is the introduction of changes in their quality or product design
- ✓ It involves improvement in existing product or creating entirely new product
- ✓ This includes significant improvement in technical specification, components, material, user friendliness
- ✓ Example: Micromax- Dual Mix, Surf- Oil, Liquid and Detergent

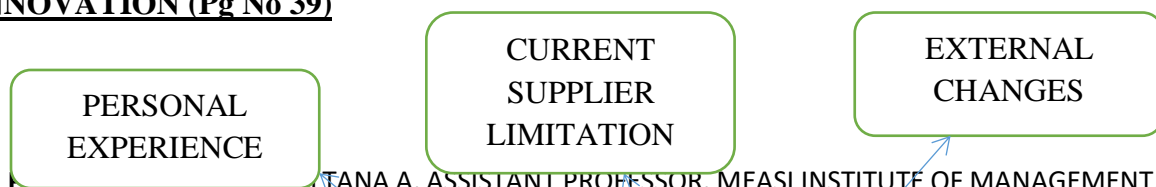
**RADICAL INNOVATION**

- ✓ It introduces new concept that significantly from past practices
- ✓ It is often defined as the commercialization of products and technologies that have strong impact on two dimension such as market and the company
- ✓ It is otherwise called as “Market Pull Innovation”
- ✓ Example: Fibre tip pen, Amazon.com

**INCREMENTAL INNOVATION**

- ✓ A series of small improvement to an existing product/ services
- ✓ It improves the existing functional capabilities of a technology by means of small scale improvements in the technology value adding attributes such as safety, cost and quality
- ✓ It concern an existing product whose performance has been upgraded
- ✓ Example: Microsoft – Windows 7 & Windows XP, Laser, Electric Light

**SOURCES & TRANSFER OF INNOVATION/ IDENTIFYING OPPORTUNITIES FOR INNOVATION (Pg No 39)**





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MARKET  
KNOWLEDGE

FINDING NEW  
WAYS TO DO  
BUSINESS

**1. PERSONAL EXPERIENCE**

- ✓ Entrepreneur identify a gap in the market based upon personal experience
- ✓ Entrepreneur finds dissatisfaction with limitation of product/ service
- ✓ Entrepreneur recognizes constraints of current offerings
- ✓ Entrepreneur combines external changes with market understanding

**2. MARKET KNOWLEDGE**

- ✓ Entrepreneur identify potential customer needs and classify them as following
  - Pain killers – solve an existing problem, challenges is to show that new solution addresses pain and is better than current solution.
  - Vitamins – it enhances current solution, in some cases providing benefits to customers were they not even aware that they needed

**3. CUURENT SUPPLIER LIMITATION**

- ✓ Current market activity can generate opportunity by:
  - Develop technologies that can be repurposed
  - Create an unfulfilled demand
  - Validate market need, technology solution, novel business model
  - Create opportunity for market disruption

**4. EXTERNAL CHANGES**

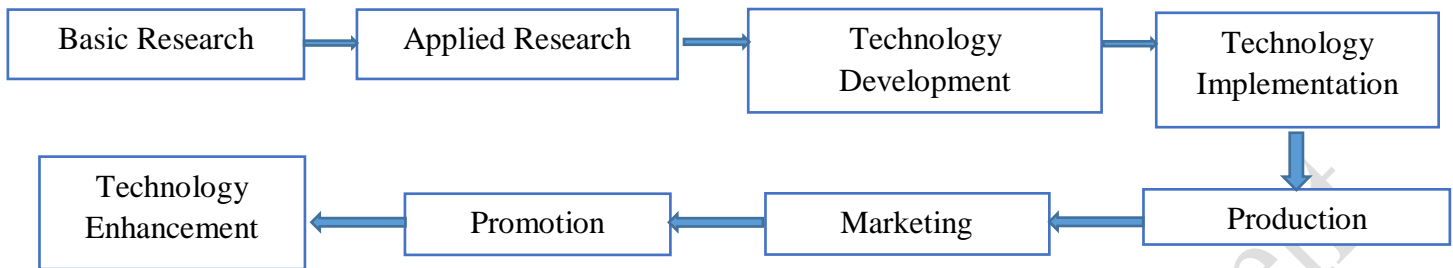
- ✓ Political, economic, social and technological changes create new business opportunities
  - Political changes – drive new level of need
  - Economic changes – modify the dynamic of the market
  - Social changes – change market characteristics
  - Technology changes – create a new level of performance

**STEPS/ STAGES IN TECHNOLOGICAL INNOVATION PROCESS**



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### **STEP 1: BASIC RESEARCH**

- ✓ It increases general understanding of the law of nature
- ✓ It generate knowledge over long period of time
- ✓ It may or may not result in specific application
- ✓ It is defined as research directed towards increase in knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific application towards process or product in mind

### **STEP 2: APPLIED RESEARCH (for Specific Problem)**

- ✓ It is directed towards solving one or more of society problems
- ✓ The applied research definition for the industry sector is modified to include research project which represent investigation direct to discovery of new scientific knowledge and have commercial objectives with respect to their product/ process

### **STEP 3: TECHNOLOGY DEVELOPMENT (Design for prototyping)**

- ✓ The human activity that converts knowledge and ideas in to physical hardware, software or service
- ✓ It is the systematic use of the knowledge/ understanding gained from research directed towards the production of useful materials, devices, methods including the design and development of prototype and processes
- ✓ It excludes quality control, routine testing and production

### **STEP 4: TECHNOLOGY IMPLEMENTATION (Design for assembly)**

- ✓ The set of activities associated with introducing a product in to the market place.
- ✓ The working out details of manufacturing, operation and maintenance.

### **STEP 5: PRODUCTION/ MANUFACTURING (Design for efficiency & quality)**





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- ✓ The set of activities associated with widespread conversion of design concept/ ideas in to product and services

**STEP 6: MARKETING (Design for acceptance and affordability)**

- ✓ The set of activities that ensures that consumers embrace the technology, promotion,, distribution strategy
- ✓ It analyses current market situation, know the competitors and opportunity

**STEP 7: PROMOTION/ PROFILERATION (Design for diffusion)**

- ✓ The strategy that ensures the widespread use of the technology and its dominance in the market place
- ✓ It depends on the method of exploiting the technology

**STEP 8: TECHNOLOGY ENHANCEMENT**

- ✓ The set of activities with maintaining a competitive edge for the technology increase the life cycle of technology
- ✓ It connects the chain emphasizes in to market.

**SEVEN PRINCIPLES OF SMALL INNOVATION (Pg No 43)**

- ✓ Free time
- ✓ Collect ideas
- ✓ Look outside
- ✓ Be customer centric
- ✓ Use all type of innovation
- ✓ Ask the right question
- ✓ Make a daily habit

**DEFINITION OF CORPORATE ENTREPRENEURSHIP**

1. A process where by an individual or a group of individuals, in association with an existing organization, create a new organization or instigates renewal or innovation within the organization.



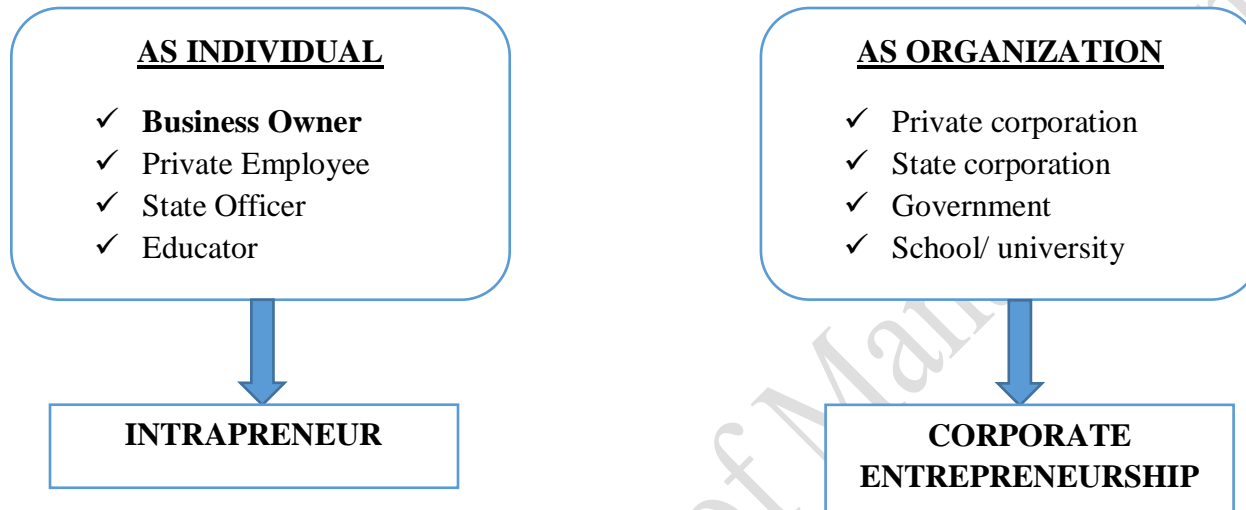


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2. It is the process that goes on inside an existing firm and that may lead to new business ventures, the development of new products, services or processes and the renewal of strategies and competitive postures

**EXAMPLE FOR CORPORATE ENTREPRENEURSHIP**



NAME OF PERSON	BEFORE	PRESENT
Narayana Murthy	Worked as chief system programmer (IIM – A) and Patni computer system	Started Infosys in 1981
Azim Premji	WIPRO deals with soaps, baby toiletries, hair care)	Changed in to Software Company
Alexandar Graham Bell	Worked as teacher in Clark School for deaf	Started bell telephone company In 1877

**OBJECTIVES OF CORPORATE ENTREPRENEURSHIP**



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- It cultivate innovation and creativity within enterprise
- The rapid growth in the number of new and sophisticated competitors
- The sense of distrust in the traditional method of corporate management
- Downsizing of major corporation
- The overall desire to improve efficiency and productivity
- A group of brightest people from organization to become small business entrepreneurs.

**FACTORS INFLUENCING CORPORATE ENTREPRENEURSHIP**

- Organization culture
- Organization structure
- Organization policies
- Compensation and incentive system
- Resource availability
- Top management support
- Risk taking and failure tolerance
- Generation of new employment
- Promote international trade

**TYPES/ MODEL OF CORPORATE ENTREPRENEURSHIP**

**A. OPPORTUNIST MODEL (Employees are accepted)**

- It performance well, only in trusting and open organizational culture that support social interaction.
- New ideas will turn to new business only if they are accepted by the top management and analyzed in a transparent manner
- Internal and external network drives selection and resource allocated.
- Example: Zimmer holding incorporation and medical device company

**B. ENABLER MODEL (Executives ideas are accepted)**

- The company provides funding and senior executives attention to new project.
- The procedure for getting funding strategic guidelines for new business development and the acceptance process are communicates to every executives
- Example: Keval Desai – Google programmer (Executive) introduced many Google products like you tube, Google map etc



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**C. ADVOCATE MODEL (Agent/ Consultant ideas are accepted)**

- The new business innovation ownership is handed to one dedicated consultant.
- Projects are expected to be funded by the operative business units
- Example: Du point company CEO “Chad Holiday” gave funds to consultant team to bring new ideas to company

**D. PRODUCER MODEL (Executives and consultant ideas are accepted)**

- The new business innovation ownership is handed to one unit i.e both executives and consultant
- It combines elements of enabler model and advocate model
- Example: Cargill incorporation, global agricultural products and service company CEO appoints David Patchen as Managing Director and Cargill venture group as Consultant to bring new ideas

**INNOVATION IN INDIAN FIRMS**

The Indian innovation system essentially consists of three sectors as

- Industry
- University
- Government

**A. INDUSTRY/ BUIDNESS**

- ✓ Business conducts research and development to develop commercial products
- ✓ Business launch innovative product
- ✓ Industry start up new firms to exploit new technology

**B. UNIVERSITIES**

- ✓ Universities undertake basic science and technology research
- ✓ Educated scientists and technologist are needed by the business and government.

**C. GOVERNEMNT**

- ✓ Government design IPR system for business and universities
- ✓ Commission science research (example: Defence)
- ✓ Subsidies research and development



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- ✓ The government set various standards for measurement like performance, safety testing and inter-operability

**GOVERNMENT- UNIVERSITY AXIS**

- The government funding of university research and government labs are main solution in modern economies
- The government finance for research is conditional on the research having more immediate application in industrial and commercial products

**GOVERNMENT- BUSINESS AXIS**

- IPR
- Tax policy
- Competition policy

**UNIVERSITY- BUSINESS AXIS**

- IPR by university
- Collaboration in research
- Spin out/ start up science park
- Formation of university incubators
- Growth of science park near university
- Personal linkages

**EXAMPLES OF INNOVATION IN INDIAN FIRMS**

**1. UNIQUE IDENTIFICATION AUTHORITY (For amassing a trove of biometric identification to activate benefits for millions of Indians.)**

The government office is using multimodal biometrics--fingerprints, iris scans, and photographs--to build the world's most ambitious identity database. The robust system can enroll the identities of a million people a day with 99.99% accuracy. It authenticates people over a mobile phone network using a one-time password or their fingerprints (illiteracy is a problem in India). In the process, it enables instant, paperless provisioning of banking services and welfare benefits to millions of Indians who lacked any identification until now. At last count, 450 million Indians had received their new IDs and used them to make 40 million cash transfers.

**2. ZIPDIAL (For dialing into the very Indian "missed call" money-saving tactic)**

ZipDial's marketing and analytics platform is fashioned out of the ingenious practice of escaping a charge by calling and hanging up to convey a pre decided message. Its unique



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business model works by providing a number for brands to publish on their marketing campaigns. So far, ZipDial has targeted 416 million callers for clients like Disney, Dove, and Coca-Cola, which can now text customers about new deals and product launches. India's largest political parties, the Congress and the BJP, have recently signed up, which means ZipDial is now headed for the mainstream. The service just launched in Sri Lanka and Bangladesh, and will soon be in Indonesia and the Philippines.

**3. INNOZ (For bringing the Internet to India's vast underconnected masses)**

Innoz's SMSGyan allows feature-phone users to access the Internet anytime and from anywhere by facilitating their web searches via text messages. The service has processed 1.3 billion queries so far and has more than 120 million active users, mostly in India. But the service is also growing in Africa, the Middle East, and other parts of Asia. Innoz was launched by a group of engineering college dropouts who came upon the idea when they weren't able to search for "How to woo girls" on their very basic phones.

**4. GOONJ (For galvanizing a behavior shift in urban India to care for those in need)**

Goonj channels excess resources from urban households to impoverished, rural, and disaster-struck areas. In exchange for clothes, furniture, household goods, and medical supplies, village and slum communities self-organize and build schools, roads, and toilet facilities. The company has thus turned used clothes and other second-hand material into currency, successfully leading more than 1,500 such projects in the past three years alone. It recently delivered thousands of tons of material to the flood struck in the Himalayas, to cyclone victims in eastern Orissa, and to victims of communal violence in central Muzaffar nagar, through a network of schools and nonprofits. In a large country, Goonj is a game-changer, teaching urban Indians when, what, and how to give.

**5. ERAM SCIENTIFIC SOLUTIONS (For improving the country's mess of a public-toilet network)**

Not long ago, Bill Gates let the world know that he was serious about building a better toilet. Eram Scientific Solutions, which makes the Gates Foundation-backed Delight public toilet system, is just proof that the man delivers on his promises. The company's toilet flushes automatically--when people enter, after they leave, and every two hours--to keep tidy, but it also saves energy with motion-sensor lights and fans. Four hundred of them have been installed across the country so far, with a reported 6,000 in the pipeline.

**6. MITRA BIOTECH (For rethinking conventional cancer drug therapies by applying data analytics)**

Though it saves lives, chemotherapy--in which enough toxins are pumped into the patient's body to kill malignant cells but spare the host--is still a risky process. Founded by Harvard and MIT researchers, Mitra Biotech's CANScript technology re-creates an artificial environment for a patient's tumor sample and tests various drugs on it directly, allowing the company to arrive at a personalized treatment in less than a week. Mitra has formed partnerships with several Indian hospitals and is eyeing a U.S. entry.



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**7. INTERVIEWSTREET (For leveling the playing ground for coders all over the world)**

Interviewstreet's disruptive platform helps screen and hire programmers through online coding test and contests, thus matching best performers from around the globe to business titans. Interviewstreet counts Facebook, Amazon, Morgan Stanley, Zynga, and Walmart among its customers, and it recently placed 40 Indian computer-science students in some of the hottest jobs in the Valley just as they were finishing up their degrees.

**8. MYDENTIST (For putting smiles on thousands of faces with a Starbucks-inspired chain of dental offices)**

MyDentist is a two-year-old dental chain based in Mumbai and Pune that has brought dimensions of the retail business to dental treatment. With 75 locations throughout the country, which will grow to 150 this year, MyDentist offers efficient care at standard, transparent rates. It's affordable to the underprivileged crowd, such as cab drivers and domestic workers, who live in slum areas: Root canal treatments cost just 2,500 rupees (\$40), and 21,000-rupee braces can be paid in 1,500-rupee (\$24) installments. The chain treats a whopping 15,000 patients each month.

**9. OLACABS (For smoothing the journey of India's growing but scrappy car rental market)**

Within a year of its launch, Olacabs has grown to become India's largest car rental brand. Its success lies in the myriad tech solutions it uses to navigate the chaos of India's urban commuter system: Its mobile app lets a user summon a cab with a single click and allows real-time tracking of the cab as it nears. Meanwhile, Olacabs' predictive algorithm helps anticipate demand at different locations and times, monitors traffic and weather conditions, and, after a customer books, accurately predicts the time of arrival. Olacabs currently aggregates 7,500 cars in India's four largest cities and achieves an explosive 25% month-over-month growth rate.

**10. CLOUDNINE (For delivering world-class services and health care to expectant mothers)**

Despite the ongoing efforts of India's government, the country still lags behind much of the world in infant and maternal mortality rates. Cloudnine, however, has managed to sustain a 0% maternal mortality rate and a 99.72% survival rate across 16,000 deliveries at its five Bangalore-based health-care facilities. The company, which recently scored \$16 million in a funding round led by Sequoia Capital, credits its all-hands approach for its success: Its hospitals contain standard pregnancy and neonatal care but also feature specialized units for fetal medicine and workshops for first-time parents.

**MEANING OF LICENSING**

It is an contractual agreement between two business entities where by the licensor (selling firm) allows the licensee (buying firm) to use its

- ✓ Technology,
- ✓ Patent,
- ✓ Trademarks,



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- ✓ Designs,
- ✓ Process,
- ✓ Copy Right and
- ✓ Technical Know How

### **DEFINITION OF LICENSING**

It is an agreement where one firm permits another to use its intellectual property for compensation such as royalty, fees or commission.

### **PARTIES INVOLVED IN LICENSE AGREEMENT**

- ✓ Licensor (Selling Firm)
- ✓ Licensee (Buying Firm)

The above parties may be as follows

- Collaboration Partners
- Financiers
- Investors
- Technical Specialist
- Sub Contractors
- Lawyers
- Consultant

### **CONTENT OF LICENCE AGREEMENT**

1. The Title
2. The parties & Contact Information
3. What is licensed related to IPR
4. Extent of Rights
5. Life of Agreement & Date of Effectiveness
6. Commercial Consideration
7. General Consideration
8. Concluding Comments, Date & Place, Signatures of Parties

### **REASON FOR LICENSING**

- Licensor can get money for an invention/ technology which is used for core competence
- Local market is too small & it lead to problem of economies of scale
- The possible high rate of obsolescence or short product life cycle





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- It avoid/ minimize political factors like
- Restriction on Imports,
- Restriction on FDI
- Requires majority Foreign Ownership

### **BENEFITS FOR LICENSORS**

- ❖ It increases brand presence at retail / distribution outlet
- ❖ It creates brand awareness to support its core products
- ❖ It generates new revenue streams, often with little involvement or additional finance or resource implication
- ❖ It helps to enter new market which were unfeasible with its own resource/ capabilities
- ❖ It supports and enhance its core values by associates with the license products/ service.

### **BENEFITS FOR LICENSEE**

- It gives credibility for moving into new market sectors through product extension
- It gains additional retail space & favour
- It appeals to new target market
- It provide added value and differentiated from competitive offerings
- It transfer the values and consumer favours towards the property to the licensed product/ service.

### **INTELLECTUAL PROPERTY RIGHT**

- It is a legal concept that confesses the right to owners and creators of the work for their intellectual creativity.
- It refers to creation of mind, inventions, symbols, image used in the commerce.

### **PATENT RIGHTS**

It is an exclusive rights provided to the owner to make, use, protect his invention and to sell his invention. The patent system was first introduced in India in the year 1856.

### **OBJECTIVES OF PATENT RIGHT**

- ✓ It protects the ideas of the inventor in the material form.
- ✓ It deals with the precise nature of rights which a person can acquire.
- ✓ It deals with the methods of transfer of those rights to others.
- ✓ It protects the inventor of the original product/ process from the unauthorized reproduction.





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- ✓ It encourages the inventor to create original process/product by rewarding them with exclusive rights for a limited period.

### **TYPES OF PATENT**

#### **TYPES OF PATENT**

##### **UTILITY PATENT**

- Drugs & Medicine
- Fiber Optics
- Computer Hardware

##### **DESIGN PATENT**

- Watch, TV
- Athletic Shoes
- Bi cycle Helmet

##### **PLANT LAYOUT**

- Hybrid Tea Roses
- Silver Queen Corn
- Better Boy Tomato

##### **NON PATENT**

- Alloys
- Optical Glass
- Agricultural Method
- Horticulture Method

##### ❖ **PRODUCT PATENT**

- ✓ It protect machines, articles of manufacturer, composition of matter
- ✓ It guards unauthorized use of new, original and ornamental design for articles of manufacturer.

##### ❖ **PROCESS PATENT**

- ✓ It protects useful chemical substances, asexually reproduced plant varieties and composition of matters.

### **DOCUMENTS REQUIRED FOR FILING PATENT APPLICATION**

- The application should be fully filled with complete specification along with prescribed fees.
- The provisional specification helps to establish the identity of the product and register the ownership of an invention in the register office.
- A complete specification should contain the title, a full description of an invention, its operation (or) use, the method by which it is to be performed.



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- Abstract of an invention.
- The information regarding listing of numbers, filing date and current status of patent application (if filed).
- Priority document
- The declaration of inventor where provisional specification is followed by complete specification
- The Power of attorney

### **REGISTRATION OF PATENT**

- The application will be verified by the Controller General of patent examiner
- The examiner will check where the invention is eligible for patenting.
- The examiner will cross check the existing list of patent holders to know whether an invention is already been registered in the office
- The examiner after the examination of the applicant communicates his objection, if any to the applicant.
- If the applicant is unable to remove the objection, then the examiner will refuse to grant patent

### **RIGHTS OF PATENT HOLDER**

- ✓ To publish the invention
- ✓ To make adaptation/ alteration of work
- ✓ To sell / transfer his right to other person
- ✓ To import/ export the whole part of the work

### **ADVANTAGES OF A PATENT**

- A patent gives you the right to stop others from copying, manufacturing, selling or importing your invention without your permission.
- A patent holder get protection for a pre-determined period, allowing to keep competitors at bay.



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- A patent holder can then utilise his invention himself.
- Alternatively, patent holder can license his patent for others to use it, or sell it, as with any asset. This can provide an important source of revenue for the business. Indeed, some businesses exist solely to collect the royalties from a patent they have licensed - perhaps in combination with a registered design and trade mark.

**DISADVANTAGE OF PATENT**

- A patent application means making certain technical information about invention **publicly available**. It might be that keeping the details of the invention **secret** will keep competitors at bay more effectively.
- Applying for a patent can be a very time-consuming and lengthy process (typically three to four years) - technology may have overtaken the invention by the time a patent is granted.
- Cost - it will cost you money whether you are successful or not - the application, searches for existing patents and a patent attorney's fees can all contribute to a reasonable outlay.
- You'll need to remember to pay your annual fee or your patent will lapse.
- You'll need to be prepared to defend your patent. Taking action against an infringer can be very expensive. On the other hand, a patent can act as a deterrent, making defence unnecessary.

**UNIT 3**

**OUTLINE:**

**Identifying for new venture – Environmental Scanning – Generation of new ideas for products and services – Seizing and screening of opportunities – Technical feasibility of products and services – Marketing feasibility: marketing methods – pricing policy – distribution channel**



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**MEANING OF PROJECT/ NEW VENTURE**

It is a work plan devised to achieve a specific objective with in a period of time.

**DEFINITION OF PROJECT**

It is an organized unit dedicated to the attainment of a goal, the successful completion of a development project on time, within budget, in conformance with pre-determined programme specification.

**PROJECT CYCLE/ STAGES/ STEPS/ PHASES IN PROJECT PROCESS or MANAGEMENT/  
NEW VENTURE**

STEP 1: Identification of Project Ideas

STEP 2: Selection of a Project

STEP 3: Feasibility Study

STEP 4: Project Report

**Step 1: Identification of project ideas / Seizing & screening of opportunities**

- The project cycle begins with the identification of project ideas that appear to represent a high priority to achieve important development objectives
- It is the first step of a new venture
- Project identification refers to the process of finding out the most appropriate project among the several available investment opportunities.
- Project identification involves the following sequence
  - Conceiving project ideas
  - Choosing right line of the business
  - Opportunity seeking
  - Decision making process

**Step 2: Selection of project**



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- After considering few project ideas, the entrepreneur may select one project ideas most suited to him
- The entrepreneur may analyze his strength and weakness as well as opportunities and threats offered by each of the project ideas.
- The entrepreneur should consider the following criteria for selecting a particular project
  - Investment size
  - Location
  - Technology
  - Plant and machinery equipment
  - Marketing

**Step 3: Feasibility study**

- Feasibility analysis is the process of determining whether a business idea is viable.
- A project feasibility analysis includes market analysis, financial analysis, technical analysis and social profitability analysis
- The study consists of three factors as
  - Market study
  - Technical study
  - Financial study

**Market Feasibility Analysis:** It is a method of screening project ideas as well as means of evaluating project feasibility in terms of market. It should consider the following areas as

- A brief market description including market area, method of transportation and channel of distribution.
- An analysis of past and present demand, determination of quantity, value of consumption identification of major consumer product and pricing policy should be done.

**Technical Feasibility Analysis:** It should cover the following areas

- Description of the product
- Description of manufacturing process
- Determination of plant size, machinery and equipment
- Design of plant layout.

**Financial Feasibility Analysis:** It is emphasis on the preparation of financial statement, so that the project may be evaluated in terms of the difference measures of commercial profitability followed by the magnitude of financing which requires the assembly of the market. It should cover the following area



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- Cost of the project
- Means of financing the project
- Projected balance sheet
- Break even analysis
- Investment appraisal method
- Working capital management
- Capital structure analysis

**Step 4: Project Report**

- A project report is prepared by an expert after detailed study and analysis of the various aspects of the project.
- The specimen of the project report is as follows
  - Section A: Information about entrepreneur and enterprise
    - ❖ Company profile
    - ❖ Product profile
    - ❖ Promoters profile
    - ❖ Business location
  - Section B: Information about the project
    - ❖ Name of the product
    - ❖ Name of the competitor
    - ❖ Market scenario
    - ❖ Marketing strategy
    - ❖ Product diversification
  - Section C: Information about proposed project
    - ❖ Production programme
    - ❖ List of machinery, equipment, raw material and labours required
    - ❖ Cost of the project
    - ❖ Project profitability analysis
  - Section D: Description of the proposed business location
  - Section E: Plant layout
  - Section F: Break even analysis
  - Section G: Supplementary details

**BENEFITS OF FEASIBILITY STUDY**

- To assess the merit of your business idea
- Determine whether there is a market for your idea



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- Whether the idea is financially viable
- Whether or not it is worth investing your time and money into the venture,
- Overall demand for new products, services, or ideas
- Characteristics of likely customers (such as demographics and buying behavior)
- Characteristics of likely competitors Benefits of Feasibility Analysis?

### **ENVIRONMENTAL SCANNING**

The process by which organization monitors their relevant environment to identify opportunities and threats affecting their business is known as “environmental scanning”

### **FACTORS DETERMINING ENVIRONMENTAL SCANNING**

- ✓ **EVENTS**: They are the inputs and specific occurrence taking place in different environmental sectors.
- ✓ **TRENDS**: They are general tendencies or the course of action along which events take place
- ✓ **ISSUES**: They are current concern that arise in response to events and trends
- ✓ **EXPECTATION**: They are the demand made by the interested groups in the light of their concern for issues.

### **TECHNIQUES USED FOR ENVIRONMENTAL SCANNING**

- **SWOT Analysis**: Strength, weakness, opportunity and threats analysis
- **PEST Analysis**: Political, economic, social and technological analysis
- **QUEST Analysis**: Quick Environmental Scanning Techniques
- **ETOP Analysis**: Environmental Threat and Opportunity Profile
- **PESTEL Analysis**: Political, Economic, Social, Technological, Environmental and Legal
- **Porter Analysis**

### **APPROACHES TO ENVIRONMENTAL SCANNING:**

The experts have suggested three approaches, which could be adopted for, sort out information for environmental scanning.

#### **1. SYSTEMATIC APPROACH:**



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Under this approach, information for environmental scanning is collected systematically. Information related to markets and customers, changes in legislation and regulations that have a direct impact on an organization's activities, government policy statements pertaining the organization's business and industry, etc, could be collected continuous updating such information is necessary not only for strategic management but also for operational activities.

**2. AD HOC APPROACH:**

Using this approach, an organization may conduct special surveys and studies to deal with specific environmental issues from time to time. Such studies may be conducted, for instance, when organization has to undertake special projects, evaluate existing strategy or devise new strategies. Changes and unforeseen developments may be investigated with regard to their impact on the organization.

**3. PROCESSED FORM APPROACH:**

For adopting this approach, the organization uses information in a processed form available from different sources both inside and outside the organization. When an organization uses information supplied by government agencies or private institutions, it uses secondary sources of data and the information is available in processed form.



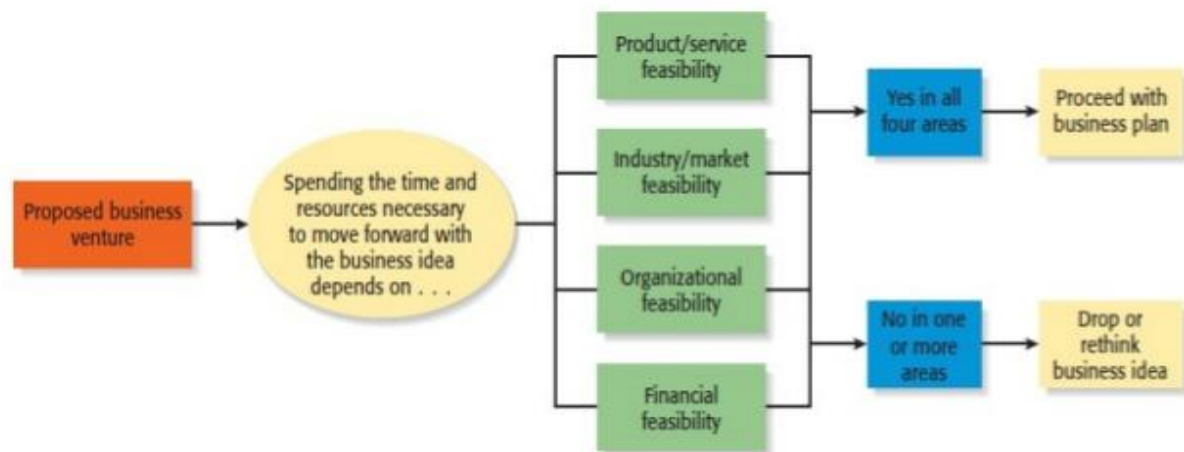


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## Feasibility Analysis

Role of feasibility analysis in developing business ideas.



3-7

### MARKET FEASIBILITY STUDY

- ✓ It is a method of screening project ideas as well as means of evaluating a project feasibility in terms of market
- ✓ The combination of marketing methods is known as “marketing mix”
- ✓ Marketing mix consists of 4 P’s
  - A. Product Policy/Mix
  - B. Price Policy/Mix
  - C. Place Policy/Mix
  - D. Promotion Policy/Mix

The following process may be adopted to assure the market opportunities of a product.

#### 1. Identifying The Market Potential



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It involves an estimation of both the current demand of the product and projection of future market trends. The prospective entrepreneur will do well to identify

- (a) Specific end users,
- (b) Major market segments, and
- (c) Potential volume of purchases within each market segment.

Some statistical yardstick may be of quite help in accomplishing this work. To illustrate, a potential manufacturer of helmets may find out the annual production of two wheelers, percentage of helmet users and proportion of demand already met

**2. Estimating Cost-volume Relationship to ascertain how various price levels may affect total sales volume**

The price must reflect the value of the product. The entrepreneur may not adopt a uniform price structure to take care of the sensitivity of the buyer to price changes. The cost-volume analysis would also facilitate the determination of appropriate economies of scales. i.e. optimum size of enterprise, which has lowest average per unit cost of production and distribution

**3. SOURCES OF MARKET INFORMATION.**

Relevant data for market analysis can be gathered from two main sources viz (a) primary sources such as interviews, mailed questionnaire, survey etc and (b) secondary sources like government agencies, trade unions, chambers of commerce etc. Whereas the former is costly, the latter may not meet the requirements of the entrepreneur.

The following kind of data matrix may be quite helpful:

- Data relating to general economic trends as revealed by various indicators such as new orders, house activity, inventories consumer spending.
- Market data relating to demand pattern, seasonal variation etc
- Pricing data i.e. range of prices for same, complementary and substitute products; base price; discount structure etc.
- Channels of distribution both wholesale and retail.
- Data relating to competitors.

To obtain this data, the entrepreneur may either conduct his own survey or approach a consultant.



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#### **4. MARKET TESTING**

It is an important method of establishing the overall feasibility of a new venture, significant market testing methods include: (a) displaying the product at trade fairs, (b) test marketing to analyze the receptivity of the product, and (c) sample sales.

A market test can provide following information.

- (a) Likely sales volume and profitability.
- (b) Sales volume at different price levels.
- (c) Soundness of chosen market strategy.
- (d) Unknown weakness that need attention

#### **MARKETING MIX**

##### **A. PRODUCT POLICY**

- Products are the goods and services that the business provides for sale to the target market. When developing a product you should consider quality, design, features, packaging, customer service and any subsequent after-sales service.
- The elements of product policy are
  - ❖ Product planning and development
  - ❖ Product line
  - ❖ Product standardization
  - ❖ Product packaging
  - ❖ Product positioning

#### **STAGES/ STEPS IN NEW PRODUCT DEVELOPMENT**

- ❖ Generation of new product ideas
- ❖ Screening of ideas
- ❖ Concept development and testing
- ❖ Business analysis
- ❖ Product development
- ❖ Test marketing
- ❖ commercialization

#### **STEP 1: GENERATION OF NEW PRODUCT IDEAS**

- ✓ Ideas may be contributed by



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- Scientist
- Professional Designers
- Sales force
- Customers
- Dealers and Top Management
- Competitors and distributors
  
- ✓ There are three types of new products
  - Innovative new product
  - Emulative new product
  - Adaptive new product

**STEP 2: SCREENING OF NEW IDEAS**

- ✓ Expanding all ideas and invention to full product concept
- ✓ Unprofitable and bad ideas are dropped
- ✓ Profitable ideas are picked for investigation and research

**STEP 3: CONCEPT DEVELOPMENT AND TESTING**

- ✓ Ideas selected are studied in detail
- ✓ It helps the company to choose the best idea from various alternatives
- ✓ Consumers are called upon to offer their comments on the precise written description.

**STEP 4: BUSINESS ANALYSIS**

- ✓ It is a combination of marketing research, cost benefit analysis and assessment of competition.
- ✓ It prove the economic prospects of new product
- ✓ It proves soundness and viability of selected product.

**STEP 5: PRODUCT DEVELOPMENT AND PROGRAMME**

- ✓ Prototype development and giving visual image to the product
- ✓ Consumer testing
- ✓ Branding, packaging and labeling

**STEP 6: TEST MARKETING**

- ✓ It helps the company to learn through trial and error



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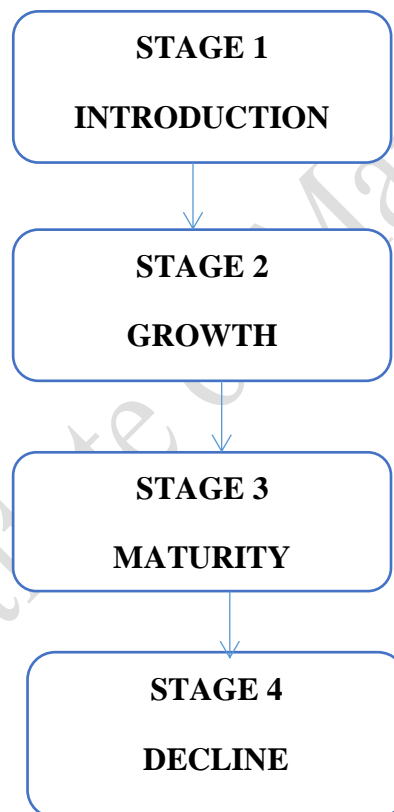
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- ✓ It gives additional value for the product improvement
- ✓ It modifies the marketing mix

**STEP 7: COMMERCIALIZATION**

- ✓ Once the test marketing is positive, the company can launch the product
- ✓ The company can advertise and promote campaign for mass distribution

**STAGES IN PRODUCT LIFE CYCLE**



**B. PRICING POLICY**

- Price concerns the amount of money that customers must pay in order to purchase a product. There are a number of considerations in relation to price including price setting, discounting, credit and cash purchases as well as credit collection.

**FACTORS AFFECTING PRICING POLICY**

- Organizational objectives



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- Marketing objectives
- Buyer's perception
- Distribution channel
- Promotion strategy
- Legal and government regulation
- Competitors
- Cost factors

**PRICING POLICY/ PRICING STRATEGY/ METHODS OF PRICING**

❖ **Cost Oriented Pricing:**

- It is otherwise called as cost plus pricing
- Price is fixed by adding a fixed percentage of profit to the cost.
- It assures that product is not sold at loss

❖ **Demand Oriented Pricing**

- Price is fixed according to the demand in the market.
- When the demand is more, the price is high and when demand is low, the price is less

❖ **Competitors Oriented Pricing**

- Many company set prices after a careful consideration of the competitive price structure.
- There cannot be rigid relation between the price of a product and firms own cost.

❖ **Prestige Pricing**

- Many customers judge the quality of a product by its price
- It is applied to luxury goods.

❖ **Geographic Pricing**

- It is used where a manufacturer serve a number of regional markets.
- Companies adopt different prices in each area without creating ill-will among customers.

❖ **Dual Pricing**

- When a manufacturer sells the same product at two or more price it is called dual pricing
- It is otherwise called as discriminating pricing



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❖ Mark up Pricing

- It is adopted by wholesalers and establishing a sale price
- Mark up is indicated as a percentage of the cost of goods sold.

❖ Sealed Bid Pricing

- Government contract are awarded through a system as “tenders”
- The minimum price quoted is accepted and the work is awarded to the party.

❖ Skimming Pricing

- It involves setting a very high price initially for a new product and reduces the prices gradually as competitors enter the market
- The investment made in the product may be quickly realized.

❖ Penetration Pricing

- It involves setting a low price initially for a new product and increases the price in the future.
- The company set low price in the beginning to reach the market immediately.

**C. PLACE POLICY**

- It is the rate through which goods move from the place of production to the place of consumption.
- The selection of distribution channel depends on the following criteria
  - ✓ Nature of market
  - ✓ Nature of products
  - ✓ Consumer buying behavior
  - ✓ Financial consideration
- The hierarchy/ types of distribution channel are as follows
  - ✓ Manufacturer-----→ Consumer  
**Example:** Milk vending, curd vending
  - ✓ Manufacturer-----→ Retailer-----→ Consumer  
**Example:** Durable articles like Television, computers
  - ✓ Manufacturer-----→ Wholesaler-----→ Consumer  
**Example:** Single use goods like plastic cups, paper plates
  - ✓ Manufacturer-----→ Wholesaler-----→Retailer -----→ Consumer  
**Example:** Consumer articles like tooth paste, soap





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- ✓ Manufacturer----→ Agent----→ Wholesaler-----→Retailer-----→ Consumer  
**Example:** Seasonal products like Christmas tree ornaments (decoration items)

- The function of distribution channel are as follows
  - ✓ Order Processing
  - ✓ Warehousing
  - ✓ Transport
  - ✓ Delivery Schedule
  - ✓ Packaging
  - ✓ Finished Stock

#### **D. PROMOTIONAL POLICY**

- It refers to the act of communicating the benefits and value of the product to the consumer.
- Tools/ Elements of promotional mix are as follows
  - ✓ Advertising – Magazines, newspaper, television, websites etc.
  - ✓ Personal Selling – Tele marketing, e-mails
  - ✓ Direct Marketing – Direct mail
  - ✓ Sales Promotion – Product samples, free products, coupons, Voucher
  - ✓ Public Relation – Giving Printed T-shirts and caps of the company name and logo etc.

#### **TECHNICAL FEASIBILITY STUDY**

It refers to the adequacy of the plant and equipment proposed to produce the required output. It covers the following aspects:

- ❖ **Product description and specification** relating to physical, mechanical and chemical properties as well as the use of the product
- ❖ **Manufacturing process** covering flow chart, alternate processes available for production and reason for choosing a particular process.
- ❖ **Plant size and production schedule**
- ❖ **Selection of machinery and equipment** including specification available source, time of delivery, terms of payment and spare parts availability
- ❖ **Plant location** considering the distance from the source of raw material and market
- ❖ **Plant layout design** including estimated cost of construction
- ❖ **Land availability** and proposed building
- ❖ **Availability of raw material** in terms of quality, quantity and cost
- ❖ **Labour requirement** estimation
- ❖ **Waste disposal method** and cost



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- ❖ **Cost of production** estimate for the product.

**UNIT 4**

**OUTLINE:**

**Benefits of business plan – Elements of business plan – Developing a business plan – Guideline for preparing a business plan – Format and presentation**

**MEANING OF BUSINESS PLAN**

A business plan is a written document that defines the goals of the business and describes how one will attain those goals.

**DEFINITION OF BUSINESS PLAN**

A written document that describes in details how a business is going to achieve its goals. It will lay out a written plan from marketing, financial and operational view point and it is prepared for an established business that is moving in a new direction.

**BENEFITS / IMPORTANCE OF BUSINESS PLAN**

- It is guide for the business
- It gives better chances for success of the business
- It makes to think about all the aspects of the business
- It is required by financial institution for securing finance
- It helps to communicate goals, objectives and ideas of the business to others
- It serves as the tools for managing the business



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- It stimulates development of new/ future business opportunities
- It increased stakeholders confidence
- It determines barriers in business

**PURPOSE OF BUSINESS PLAN**

- ✓ It explains the ideas behind the business and spells out how the product/ service will be produced and sold.
- ✓ It set specific objectives and describes how the business expects to achieve them
- ✓ It describes the background and experience of the people who will be running the business.

**REASON FOR PREPARING A BUSINESS PLAN**

- Business plan is prepared to attract investors
- Business plan is prepared to see how far the business ideas will work
- Business plan is prepared to outline each areas of the business
- Business plan is prepared to set up milestone
- Business plan is prepared to learn about the market
- Business plan is prepared to secure additional funding or loans
- Business plan is prepared to determine financial needs
- Business plan is prepared to attract top level people
- Business plan is prepared to monitor the business
- Business plan is prepared to device contingency plans

**GUIDELINE IN PREPARING BUSINESS PLAN**

- ❖ Business plan should be clear and concise
- ❖ Investors are very busy people and need a plan where they can easily find critical information
- ❖ Business plan should be focused
- ❖ It should reveal the people involved and their role
- ❖ Jargons should not be present in the business plan
- ❖ It should be realistic and objectives
- ❖ The information given should be accurate
- ❖ It should generate investors interest and build confidence
- ❖ The charts, graphs and pictures used should be simple and easily understandable.



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**TYPES OF BUSINESS PLAN**

SUMMARY  
BUSINESS PLAN

FULL BUSINESS  
PLAN

OPERATIONAL  
BUSINESS PLAN

**Summary Business plan:** 10 – 15 pages works best for new venture in the early stages of development that want to “test the investors that they are interested in their ideas or not”

**Full Business plan:** 25 – 35 pages works best for new venture who are at the point where they need funding or financing, serves as the “blue print for the company operation”

**Operational Business plan:** 40 – 100 pages. It is meant primarily for an internal audience, work best as a tool for creating a blue print for new ventures operation and providing guidance to operational managers.

**FORMAT / PRESENTATION OF BUSINESS PLAN**

1. Title Page

- The first page of the business plan will be the cover sheet. It serves as the title page of the plan.
- It should contain the following information
  - Name of the company
  - Company address
  - Company phone number
  - Logo of the company
  - Name, title, addresses, phone number of the owners
  - Month and the year in which is prepared
  - Name of the preparer

2. Table of Content

- It should contain the following information
  - List of tables
  - List of charts



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- List of pictures and images

**3. Executive Summary**

- A mini business plan in one or two pages
- It is a short overview of the entire business plan
- It should be written at the last and it will be first section to read
- It highlights the most important points of the business plan
- It must grab reader attention and induce him/ her to read further
- It should answer the following questions
  - What is the business concept?
  - How is this business model made?
  - Who are the individual starting the business?
  - How will they make money and how much?

**4. Body of the plan**

- Company Description
- Product/ Service Description
- Industry Overview
- Market Plan
- Production and Operation Plan
- Financial Plan
- Management Plan
- Organizational Plan
- Risk Analysis

**5. Appendices**

- Details of financial forecast
  - Monthly sales
  - Cash flow statement
  - Profit and loss account
- Curriculum vitae of top management/ key people of the team
- Market research data
- Management structure
- SWOT analysis
- Details of the premises
- Patent information
- List of target customers
- Price list from suppliers
- Testimonial (Qualities and characteristics of business plan)



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**ELEMENTS / COMPONENTS OF BUSINESS PLAN**

**A. Company Description**

- ✓ The main body of the business plan begins with the general description of the company.
- ✓ It should contain the following information
  - Company history
  - Mission and vision statement of the company
  - Product and services offered
  - What is the type of the business (start up, expansion or take over)
  - What is the business form (Sole proprietorship, partnership, corporation or limited liability)
  - Target customers

**B. Product / Service Description**

- ✓ It describes the product or services offered.
- ✓ It should contain the following information
  - What product or service are you selling?
  - What are the features and benefits of products or services you sell?
  - What position do you have in the market?
  - How does your a product or services differs from the competitors?
  - What makes your product unique?
  - Describes production process and requirement?
  - Estimated production cost including raw material, personnel
  - Break even volume of output

**C. Industry Analysis**

- ✓ This section begins by describing the industry thus the business will enter in terms of its size, growth rate and sales projection.
- ✓ It should contain the following information
  - Industry structure
  - Nature of participants
  - Key success factor
  - Industry trends
  - Long term prospects

**D. Market Analysis**



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- ✓ The market analysis breaks the industry in to segments to which the firm will try to appeal.
- ✓ It should contain the following information
  - Define the market
  - Segment your market
  - Project your market share
  - Position your product or service
  - Discuss pricing or promotion
  - Identifies communication sales and distribution channel
  - Consumer buying behaviour
  - Competitor analysis

**E. Marketing Plan**

- ✓ The marketing plan focuses on how the business will market and sell its product or services
- ✓ It should contain the following information
  - Overall marketing strategy
  - How will you reach your target market and motivate them to buy?
  - Who wants things you sell (Identification of target market)

**F. Operational and Production Plan**

- ✓ It explains how the business will run and how the products or services will be produced
- ✓ It should contain the following information
  - Proposed business location and reason for choosing
  - Describe required equipment and its capabilities
  - Are you going to buy or lease the property?
  - List of suppliers and terms of trade
  - Describes manufacturing process, proprietary technology and key supplier relationship

**G. Financial Plan**

- ✓ The financial plan is the most essential part of the business plan. It shows the investors time frame you have schedule to make profit
- ✓ It should contain the following information
  - Important assumption
  - Key financial indicators
  - Break even analysis
  - Pro forma profit and loss





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- Pro forma balance sheet
- Pro forma cash flow statement
- Business ratios

**H. Management Plan**

- ✓ The management team of the new venture consists of the founder or founders and a handful of key management people
- ✓ It should contain the following information
  - What is the business management experience of the management team?
  - What are the functional areas of the business
  - Who will be responsible for each functional area?
  - Who reports to whom?
  - What management resources outside the company are available?

**I. Personnel Plan**

- ✓ The success of many company depends on their ability to recruit, train and retain quality employees
- ✓ It should contain the following information
  - What are the personnel needs now and in future?
  - What skills must they have?
  - What training will you provide?
  - Are the people you need available?
  - What are they compensation?
  - What fringe benefits will you provide?

**J. Risk Analysis**

- ✓ The business conducts the SWOT analysis
- ✓ It should contain the following information
  - Evaluate weakness of the business
  - New technologies
  - Contingency plans

**REASON FOR FAILURE OF BUSINESS PLAN**

- The goals set by the entrepreneur are unreasonable
- The entrepreneur has not made total commitments to the business
- The entrepreneur has no experience in the planned business

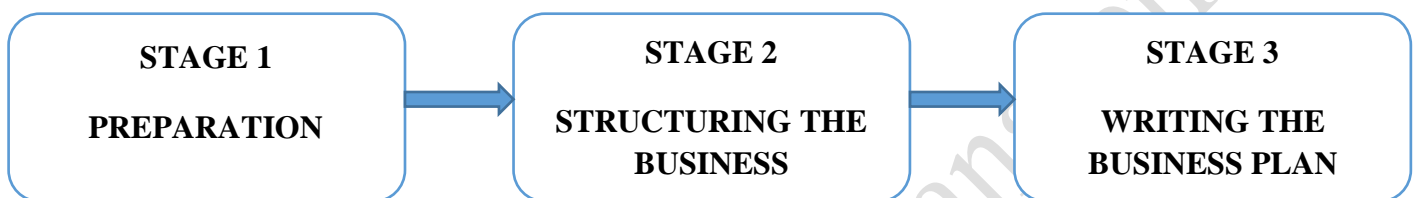


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- The entrepreneur has no sense of potential threats or weaknesses to the business
- No customer needs was established for the proposed product or services
- The entrepreneur lacks ability to operate the business
- The entrepreneur has chosen inappropriate location for the business.

### **DEVELOPING A BUSINESS PLAN**



### **STAGE 1: PREPARATION**

#### **A. ANALYZE THE POTENTIAL MARKETS FOR YOUR BUSINESS.**

Consider which segment of the local (and/or international) population will be seeking to use your products or services. This needs to be more than mere guesswork and involves doing accurate and intelligent research. Business need to analyze secondary research collected by outside observers, as well as getting primary research that you collect yourself, with your own methods and observations. Consider the following areas of inquiry:

- Is there a viable market for the product or service you want to sell?
- How old are your potential customers?
- What do they do for a living?
- Is your product or service attractive to a particular ethnic or economic population?
- Will only wealthy people be able to afford it?
- Does your ideal customer live in a certain type of neighborhood or area?

#### **B. ESTABLISHING THE SIZE OF POTENTIAL MARKET.**

It's important to be as specific as possible in regard to market your product. If you want to start a soap business, for example, you may believe that every dirty body needs your product, but you can't start with the entire world as your initial market. Even if you've developed such a universally needed item as soap, you need to identify a smaller, more targeted customer group first, such as children under eight who might like bubblegum scented bubble bath, or soap made for mechanics. From there, you can analyze demographic information more specifically:

- How many car mechanics are in need of soap in any given community?



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- How many children in the United States are currently under the age of eight?
- How much soap will they use in a month or a year?
- How many other soap manufacturers already have a share of the market?
- How big are your potential competitors?

**C. IDENTIFYING COMPANY'S INITIAL NEEDS**

What will you require to get started? Whether you want to buy an existing company with 300 employees or start your own by adding an extra phone line to your home office desk, you need to make a list of the materials you'll need. Some may be tangible, such as five hundred file folders and a large cabinet in which to store them all. Other requirements may be intangible, such as time to create a product design or to do market research on potential customers.

**D. PREPARING PRODUCT SAMPLES**

If you're going to build a better mousetrap, you may have constructed a prototype out of used toothpaste tubes and bent paperclips at home, but you'll need a sturdier, more attractive model to show potential investors. What exactly will your mousetrap look like? What materials will you need? Do you require money for research and development to improve on your original toothpaste tube and paper clip construction? Do you need to hire an engineer to draw up accurate manufacturing designs? Should you patent your invention? Will you need to investigate federal safety standards for mousetraps?

**E. RESEARCHING POSSIBLE LOCATIONS FOR BUSINESS**

Call a real estate broker and look at actual retail spaces in the neighborhood where you'd like to open your restaurant. Make a chart of the most expensive and least expensive sites by location and square footage. Then estimate how much space you require and how much money you'll need to allow for rent.

**F. DETERMINE START-UP COST.**

Make a list of all the tangible and intangible resources you need to get your business going. The total estimated price of all of these items will become your start-up cost whether you're buying highly sophisticated computers or simply installing a new telephone line on your desk. If there's any item in your estimates that seem unreasonably high, research other alternatives. But keep in mind that it's better to include every element you truly need along with a reasonable estimate of the cost of each item, so you don't run out of money or default on your loans. Be honest and conservative in your estimates, but also be optimistic.



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Don't aim for the best of everything at the beginning. You can forgo the expensive trimmings of an office of a more well-established company and stick to the basics at the beginning. Get what is affordable, works and is actually needed and don't buy frills.

**G. PUT YOURSELF IN THE SHOES OF POTENTIAL INVESTORS.**

Ask yourself, "If I were going to invest X amount of dollars into a concept or idea, or even a product, what would I want to know?" Gather as much helpful and credible information as you can. Depending on your product, you may need to search long and hard for relevant information.

Don't lose heart if you discover some, or even all, of your ideas have been adequately covered by the market. Don't ignore this reality; instead, work with it. Can you still do a better job or provide a better widget than your competitors? In many cases, it's likely that you can provide you know the market well and how to add value in ways your competitors are not doing. In other cases, it may be a case of focusing more narrowly or more broadly than your competitors are doing.

**H. IDENTIFY POTENTIAL INVESTORS**

Banks and other funding sources don't lend money because people with interesting business ideas are nice. They follow specific guidelines, such as the Risk Management Association (R.M.A) database, which are designed to ensure that they will make money by investing in or lending to your business. Lenders will typically look to the company's Capital, Capacity, Collateral, Conditions, and Character or what is known as the 5C's of lending when underwriting a loan. You'll need to have covered all these bases well before seeking funding.

**STAGE 2 STRUCTURING THE BUSINESS**

**1. DEFINE YOUR COMPANY**

A business plan won't be useful until you're certain what your company exists for. What will you accomplish for others? What products and services will you produce or provide? Write down all the specific needs your company will satisfy. Potential investors need to know that your business will be meaningful and marketable to people who can use your product or service. So concentrate on the external needs your company will meet.

What will your product or service enable people to do better, more cheaply, more safely, or more efficiently? Will your restaurant make people's palates delirious with new taste sensations? Will your new mousetrap help people capture mice without feeling sick to their



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stomachs? Will your new bubblegum scented bubble bath revolutionize the way children agree to take nightly baths?

**2. CHOOSE A WINNING STRATEGY**

Once you've established the competitive advantage your business offers, you will be able to select the best strategy to reach your goal. How will you distinguish your product or service from others? Although there are millions of types of businesses, there are actually only a few basic strategies that can be applied to make any enterprise successful. The first step in selecting an effective strategy is to identify a competitive advantage for your product or service.

Your competitive advantage may include designing special features not found in rival products. It may entail superior service characteristics such as speedier delivery, a lower price, or more attentive sales people—these are never to be sniffed at as possible winning ways, as many companies grow complacent and can be overtaken by giving customers experiences that are better than the average expectations. Even where your product or service is already well established, perhaps you're establishing an image or brand of exceptional quality or reputation.

**3. DESIGN YOUR COMPANY.**

Consider how will you hire and organize your workforce. By the time you've reached this stage of thinking about your potential business concept, you'll probably have a good idea of the number of people you'll need and the skills they'll require to get your enterprise up and running.

Keep in mind that your initial plans will undoubtedly change as your business grows. You may need to hire more managers to supervise your expanding staff or to set up new departments to meet new customer demands. Projected growth and expansion for your company should be mentioned in your business plan, but it's not the primary focus. For now, you want to secure help in getting started and convince your funding sources that you will become profitable.

**4. CONSIDER THE PRACTICAL ISSUES OF RUNNING A BUSINESS.**

Think about your role as leader or boss of the business. As you think about hiring personnel and organizing your workforce, you must also confront your desire and ability to be a good boss. Decide how you will handle your employees' entitlements. For example, salaries and wages, their insurance and retirement benefits, as well as analyzing the extent of your knowledge of tax related issues.



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Investors will want to know if you're capable of running the business. Do you need to bring in experienced managers right away? Will you keep some of the existing employees or hire all new people? And where do you find these potential employees?

Funding sources will also want to know if any of your partners expect to work alongside you or if their obligations are only financial. Your plan will need to specify the key management jobs and roles. Positions such as president, vice presidents, chief financial officer, and managers of departments will need to be defined along with stating who reports to whom.

**5. DECIDE ON A MARKETING PLAN.**

One of the most common flaws in plans is the entrepreneur's failure to describe exactly how customers will be reached and how products will be presented to them. Potential investors, staff, and partners won't be convinced that your idea can succeed until you've established well-researched and effective methods of contacting your customers—and the assurance that once you've reached them, you can convince them to buy your product or service.

Consider how you will reach your customers. What will you say to persuade and convince customers that your product or service is better value, more timely, more useful, etc. to the consumer than the rival product or service? If it currently has no rival, how will you properly explain the purpose of and the consumer's need for the product?

What advertising and promotional efforts will you employ? For example, two for the price of one specials or free coupons inside those same kid-oriented cereal boxes? Where can you locate lists of the greatest concentrations of children under the age of eight or whatever group constitutes your market?

**6. BUILD A DYNAMIC SALES EFFORT.**

The word "sales" covers all the issues related to making contact with your actual customers once you've established how to reach them through your marketing campaign. In a nutshell, this part of your business plan is about how you will attract customers or clients for your product or services.

What will your basic sales philosophy be? Building long-term relationships with a few major clients or developing a clientele of many short-term customers?

**STAGE 3 WRITING THE BUSINESS PLAN**

**A. ORGANIZE ALL THE RELEVANT INFORMATION ABOUT BUSINESS.**





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Begin creating section headings and putting the appropriate information under the appropriate headings.<sup>[2]</sup> Effectively separating your business' unique approach to each of these headings will organize your plan in a way investors find useful:

- **Title Page and Table of Contents**
- **Executive Summary**, in which you summarize your vision for the company
- **General Company Description**, in which you provide an overview of your company and the service it provides to its market
- **Products and Services**, in which you describe, in detail, your unique product or service
- **Marketing Plan**, in which you describe how you'll bring your product to its consumers
- **Operational Plan**, in which you describe how the business will be operated on a day-to-day basis
- **Management and Organization**, in which you describe the structure of your organization and the philosophy that governs it
- **Financial Plan**, in which you illustrate your working model for finances and your need from investors

## **2. WRITE THE EXECUTIVE SUMMARY LAST.**

The executive summary is basically your big appeal to investors, or really anyone who reads your business plan, that should summarize and articulate what it is that's great about your business model and product. It should be less about the nitty-gritty details of operations and more about your grand vision for the company and where it is headed.

## **3. GATHER ALL THE INFORMATION TOGETHER AND PREPARE MULTIPLE DRAFTS.**

You've done all of the hard work researching, deciding what your business is about, targeting it accurately and selling it. It's time to put the business plan together and articulate all your thinking, research, and hard work into a comprehensive description of your structure and service.

At first, do not worry about capitalization, punctuation, and grammar. All you need to worry about is putting your ideas down on paper. Once you have a general form, you can spend time proofreading your plan and correcting mistakes. Have someone else read over it for you and take heed of their comments.

## **4. SELL YOURSELF AND YOUR BUSINESS.**

The idea of the business plan is to present yourself in the best light. The talents, experience and enthusiasm you bring to your enterprise are unique. They provide some of the most compelling reasons for others to finance your concept. Keep in mind that investors invest in people more than ideas. Even if your potential business has many competitors or is not on the cutting edge of an industry, the qualifications and commitment you demonstrate in your plan can convince others to proffer their support.





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Your resume will be included in the separate appendix of exhibits at the end of the plan, so this is not the place to list every job you've ever had or the fact that you were an art history major in college. But don't overlook the impact of some part of your background that might even seem unrelated to your new venture. Focus on group experiences, leadership opportunities, and successes at all levels.

**5. PRESENT AND EXPLAIN YOUR FINANCIAL DATA.**

How will you convince others to invest in your endeavor? By having clear, transparent and realistic financial information that shows you know what you're talking about and that you're not hiding anything.

The accuracy of your financial figures and projections is absolutely critical in convincing investors, loan sources, and partners that your business concept is worthy of support. The data must also be scrupulously honest and extremely clear.

Since banks and many other funding sources will compare your projections to industry averages in the R.M.A data, in the United States you can use the R.M.A figures to test your projections before the bank does.

**UNIT-5**

**OUTLINE:**

**Capital structure and working capital management – Financial appraisal of new project – Roles of banks – Credit appraisal by banks – Institutional Finance to SSI – Incentives – Institutional arrangement and encouragement of entrepreneurship.**

**FINANCIAL APPRAISAL OF NEW PROJECT/ FINANCIAL FEASIBILITY STUDY**

1. It emphasizes on the preparation of the financial statement so that a project may be evaluated in terms of the different measures of commercial profitability followed by magnitude of finance which requires the assembly of the market.
2. The purpose of financial appraisal of a project is to ensure its initiation of financial condition for the sound implementation and efficient operation.
3. The financial appraisal of a project evaluates the capacity of revenue producing investment from the entrepreneur point of view.



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4. Financial feasibility study comprises of scrutiny of the following areas to appraise the financial viability of the project.
- ✓ Cost of the project
  - ✓ Means of financing the project
  - ✓ Cash flow statement
  - ✓ Balance sheet projection
  - ✓ Break even analysis
  - ✓ Investment appraisal method
  - ✓ Working capital management
  - ✓ Capital structure analysis

**A. COST OF THE PROJECT**

- Cost of land
- Development site
- Cost of building
- Plant, machinery and cost of installation
- Technical know-how fees
- Preliminary and contingency expenses
- Engineering and consultancy fees

**B. MEANS OF FINANCING THE PROJECT**

- Own funds
- Share capital
- Debentures
- Term loans and long term borrowings
- Public deposit
- Bank loan
- Government subsidies(loan)

**C. CASH FLOWS STATEMENT**

It deals with analysis of cash inflow and cash outflow of a project

**D. BALANCE SHEET PROJECTION**

Project balance sheet reflects the financial position of the concern in the future year. From this one can find out the effect of operation on the assets, liabilities and capital of the organization.



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- Common size statement
- Comparative statement analysis

**E. BREAK EVENT ANALYSIS**

It will help an entrepreneur to find out the minimum production required, so as to meet all the liabilities without incurring a loss. The BEP signifies 'No profit no loss' level of operation.

**F. INVESTMENT APPRAISAL METHOD**

An entrepreneur when he starts a project, invests his own or borrowed money in the project after identifying the cost of the project and expected revenues. An entrepreneur evaluates the desirability of investment in the project by any one of the following methods.

- Payback period method
- Average rate of return method
- Net present value method
- Internal rate of return method
- Profitability index

**G. WORKING CAPITAL MANAGEMENT**

It is the process of analyzing the capital required for the day to day activity of the business.

**H. CAPITAL STRUCTURE**

The combination of debt financing and equity financing is called capital structure.

**WORKING CAPITAL MANAGEMENT**

1. It represents the amount of capital required for the day to day activities of the business.
2. The capital required for purchase of raw material, for meeting regular expenditure like salary, wages, rent and advertising.
3. It denotes the excess of amount of current assets over the value of current liabilities.

**TYPES/PRINCIPLES/CONCEPT OF WORKING CAPITAL**

**A. GROSS WORKING CAPITAL**



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- It refers to total investment in current assets such as marketable securities, BR, debtors, cash in hand
- CA is assets which can be converted is to cash very easily within a period of one year. It is otherwise called as working capital

**B. NET WORKING CAPITAL**

- It is difference between CA and CL
- When CA exceeds CL it is called positive net working capital
- When CL exceeds CA, then it is called negative working capital

**C. PERMANENT WORKING CAPITAL**

- It represents the CA required on a containing basis over the entire year
- The certain CA which are retained by the firm on a permanent basis
- It is called as “Core current assets”

**D. TEMPORARY WORKING CAPITAL**

- It is part of working capital which keeps on fluctuating from time to time on the basis of business activities
- It is otherwise called variable working capital  
Example: Additional inventory is required to support additional turnover/sales during boom period

**NEED/OBEJECTIVE OF WORKING CAPITAL**

- ✓ To maximize shareholder wealth
- ✓ Better performance of the company
- ✓ Maximization of profit
- ✓ Increase the sales turnover
- ✓ Time reduction for lag payment
- ✓ To increase the owner fund
- ✓ To create need for working capital
- ✓ To control cost factor such as raw material, labour and overhead
- ✓ To stand and shine in organization goals
- ✓ To increase the number of customers
- ✓ To concrete peak sales

**FACTORS AFFECTING/ FACTORS DETERMINING OF WORKING CAPITAL REQUIREMENT:**

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Main factors affecting the working capital are as follows:

**(1) Nature of Business:**

The requirement of working capital depends on the nature of business. The nature of business is usually of two types: Manufacturing Business and Trading Business. In the case of manufacturing business it takes a lot of time in converting raw material into finished goods. Therefore, capital remains invested for a long time in raw material, semi-finished goods and the stocking of the finished goods.

Consequently, more working capital is required. On the contrary, in case of trading business the goods are sold immediately after purchasing or sometimes the sale is affected even before the purchase itself. Therefore, very little working capital is required. Moreover, in case of service businesses, the working capital is almost nil since there is nothing in stock.

**(2) Scale of Operations:**

There is a direct link between the working capital and the scale of operations. In other words, more working capital is required in case of big organizations while less working capital is needed in case of small organizations.

**(3) Business Cycle:**

The need for the working capital is affected by various stages of the business cycle. During the boom period, the demand of a product increases and sales also increase. Therefore, more working capital is needed. On the contrary, during the period of depression, the demand declines and it affects both the production and sales of goods. Therefore, in such a situation less working capital is required.

**4) Seasonal Factors:**



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Some goods are demanded throughout the year while others have seasonal demand. Goods which have uniform demand the whole year their production and sale are continuous. Consequently, such enterprises need little working capital.

On the other hand, some goods have seasonal demand but the same are produced almost the whole year so that their supply is available readily when demanded.

Such enterprises have to maintain large stocks of raw material and finished products and so they need large amount of working capital for this purpose. Woolen mills are a good example of it.

**(5) Production Cycle:**

Production cycle means the time involved in converting raw material into finished product. The longer this period, the more will be the time for which the capital remains blocked in raw material and semi-manufactured products.

Thus, more working capital will be needed. On the contrary, where period of production cycle is little, less working capital will be needed.

**(6) Credit Allowed:**

Those enterprises which sell goods on cash payment basis need little working capital but those who provide credit facilities to the customers need more working capital.

**(7) Credit Availed:**

If raw material and other inputs are easily available on credit, less working capital is needed. On the contrary, if these things are not available on credit then to make cash payment quickly large amount of working capital will be needed.

**(8) Operating Efficiency:**



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Operating efficiency means efficiently completing the various business operations. Operating efficiency of every organization happens to be different.

Some such examples are: (i) converting raw material into finished goods at the earliest, (ii) selling the finished goods quickly, and (iii) quickly getting payments from the debtors. A company which has a better operating efficiency has to invest less in stock and the debtors.

Therefore, it requires less working capital, while the case is different in respect of companies with less operating efficiency.

**(9) Availability of Raw Material:**

Availability of raw material also influences the amount of working capital. If the enterprise makes use of such raw material which is available easily throughout the year, then less working capital will be required, because there will be no need to stock it in large quantity.

On the contrary, if the enterprise makes use of such raw material which is available only in some particular months of the year whereas for continuous production it is needed all the year round, then large quantity of it will be stocked. Under the circumstances, more working capital will be required.

**(10) Growth Prospects:**

Growth means the development of the scale of business operations (production, sales, etc.). The organizations which have sufficient possibilities of growth require more working capital, while the case is different in respect of companies with less growth prospects.

**(11) Level of Competition:**

High level of competition increases the need for more working capital. In order to face competition, more stock is required for quick delivery and credit facility for a long period has to be made available.

**(12) Inflation:**





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Inflation means rise in prices. In such a situation more capital is required than before in order to maintain the previous scale of production and sales. Therefore, with the increasing rate of inflation, there is a corresponding increase in the working capital.

**TECHNIQUES/ METHODS OF ESTIMATING WORKING CAPITAL REQUIREMENT:**

- ✓ Balance sheet method
- ✓ Regression analysis method
- ✓ Percentage of sales method
- ✓ Cash cycle/ cash forecasting/ conventional method
- ✓ Operating cycle method

**A. BALANCE SHEET METHOD :**

- It is determined with the help of two years balance sheets
- The CA and CL are considered for calculating working capital

**B. REGRESSION ANALYSIS METHOD :**

- It is determined with the application of statistical formula
- The projection of working capital is made based on the previous year sales and working capital

**C. PERCENTAGE OF SALES METHOD :**

- It is calculated on the basis of certain percentage as against forecast sales
- On the basis of past experience between sales and working capital requirements, a ratio can be determined for estimating the working capital requirement in future

**D. CONVENTIONAL METHOD :**

- It is determined on the basis of closing cash balance
- The cash inflows and outflows are matched with each other

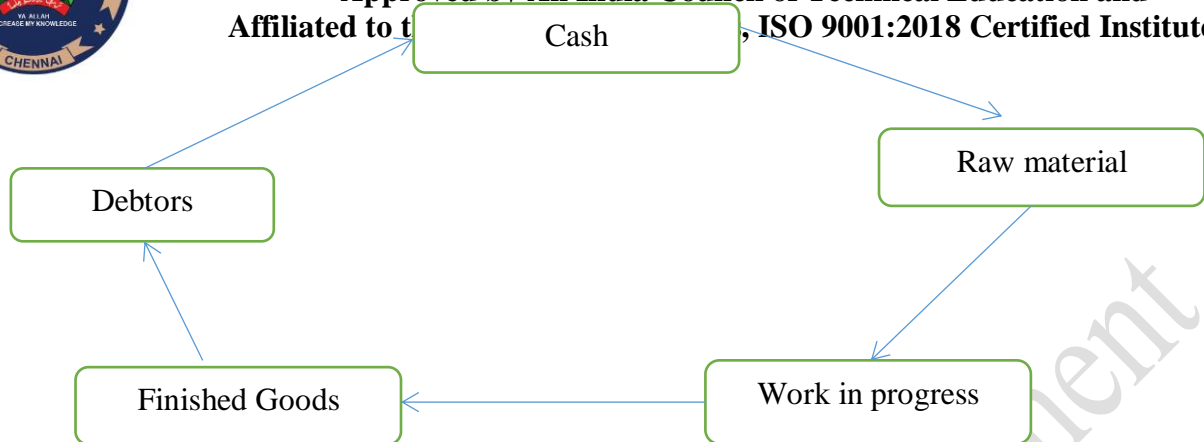
**E. OPERATING CYCLE METHOD :**

- The time gap between the sales and their conversion into cash is termed as operating cycle of the business



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**F. CAPITAL STRUCTURE :**

- It represents the mix of different sources of long terms funds such as equity, preference and debt
- The combination of debt financing and equity financing is called as capital structure
- The pattern of capital structure :
  - ✓ Issuing only equity shares
  - ✓ Issuing equity and preference shares
  - ✓ Issuing equity and debentures
  - ✓ Issuing equity, preference and debentures

**FACTORS AFFECTING/ INFLUENCING/ DETERMINANTS OF CAPITAL STRUCTURE:**

**INTERNAL FACTORS**

- Cost of capital
- Risk
- Dilution of value
- Acceptability
- T
- Future flexibility

**EXTERNAL FACTORS**

- Level of business a
- Interest rate
- Availability of

**GENERAL FACTORS**

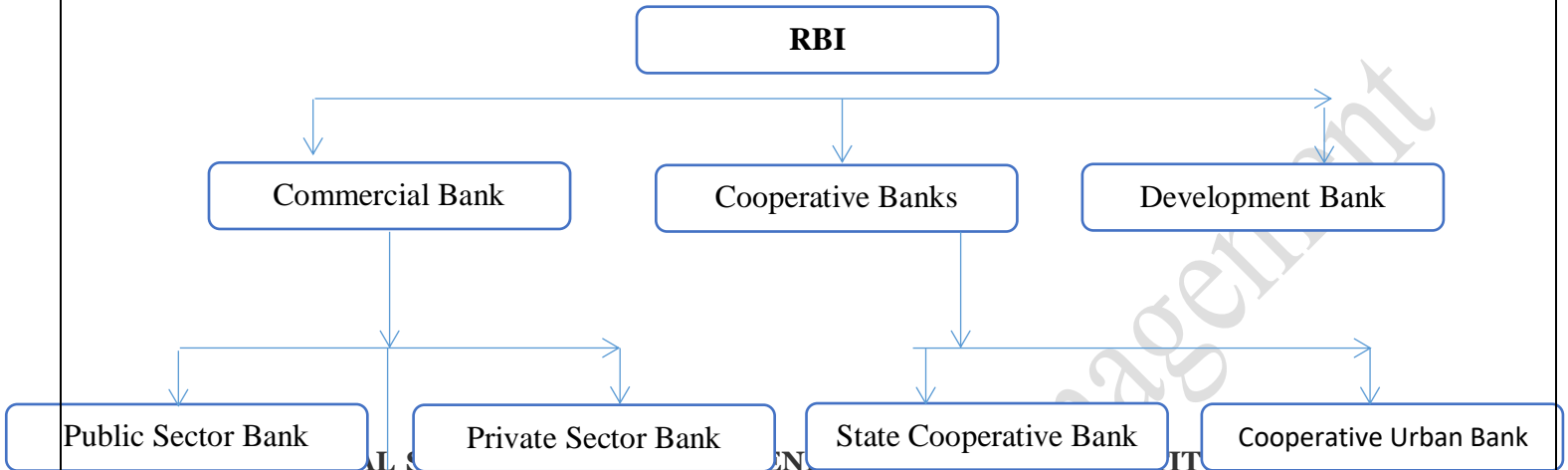
- Size of business
- Growth of firms
- Age of firms
- Corporate tax
- Government
- Trading on equity
- Legal requirement
- Period of finance
- Market condition



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**ROLE OF BANKS AND CREDIT APPRAISAL BY BANKS**



**ENTREPRENEURSHIP**

A number of support institutions set up by central and state governments help the entrepreneurial activities. The activities cover a wide range of services like financing, technical guidance, equipment support, training, marketing and providing subsidy and grants. The following institutions are available for providing the above mentioned benefits.

Foreign Bank

- FINANCIAL INSTITUTION**
- IDBI
  - SIDBI
  - NSIC
  - SFC
  - SIDC
  - KVIC
  - IFCI
  - SSIC
  - RRB
  - Cooperative banks and gramins bank

- INSTITUTION FOR TECHNICAL GUIDANCE**
- SIDO
  - DICs
  - SSIDCs
  - NSTEDB
  - NPC
  - NIESBUD
  - TCOs
  - SISIs
  - IDCO
  - APICOI

- TRAINING INSTITUTE**
- NABARD
  - NISIET
  - EDII
  - IIE
  - SISI
  - CAPART
  - DIC

**1. INDUSTRIAL DEVELOPMENT BANK OF INDIA (IDBI)**



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**Industrial development bank of India:** is an Indian financial service company headquartered Mumbai, India. RBI categorised IDBI as an "other public sector bank". It was established in 1964 by an Act of Parliament to provide credit and other facilities for the development of the fledgling Indian industry. It is currently 10th largest development bank in the world in terms of reach with 1514 ATMs, 923 branches including one overseas branch at DIFC, Dubai and 621 centers including two overseas centres at Singapore & Beijing. Some of the institutions built by IDBI are the Securities and Exchange Board of India (SEBI), National Stock Exchange of India (NSE), the National Securities Depository Limited (NSDL), the Stock Holding Corporation of India Limited (SHCIL), the Credit Analysis & Research Ltd, the Exim Bank (India)(Exim Bank), the Small Industries Development Bank of India(SIDBI), the Entrepreneurship Development Institute of India, and IDBI BANK, which is owned by the Indian Government. IDBI Bank is on a par with nationalized banks and the SBI Group as far as government ownership is concerned. It is one among the 26 commercial banks owned by the Government of India. The Bank has an aggregate balance sheet size of Rs. 2,53,378 crore as on March 31, 2011. IDBI Bank's operations during the financial year ended March 31.

### **Role of IDBI**

In order to increase its customer base, the Industrial Development Bank of India offers a number of customized and innovative banking services. The services are meant to offer cent percent satisfaction to the customers. Some of the well known services offered by the bank are:

**Wholesale Banking services:** The wholesale banking services form a major part of the banking services of the bank. The services that are offered under the wholesale division are:

Cash Management

- Transactional services
- Finance of working capital
- Agro based business transactions
- Trade services

The wholesale banking services are an important source of income in a number of infrastructure projects such as power, transport, telecom, railways, roadways, and logistics and so on.

**Retail Banking Services:** The Industrial Development Bank of India is also a leader in the retail banking services. The Net Interest Income amounted to around ` 2166 Crores while the Net Profit amounted to around ` 187 Crores. The main objective of the retail services is to provide high quality financial products to the target market to give that one-stop-solution to the banking needs. The retail products offered by the bank include:



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- Housing loans
- Personal loans
- Securities loans
- Mortgage loans
- Educational loans
- Merchant establishment overdrafts
- Holiday travel plans
- Commercial property loans

**Single window scheme:**

**Purpose:** To provide both term loan for fixed assets and loan for working capital through a single agency. The total working capital requirement of such units inclusive of all fund based facilities are to be taken into account for determining the working capital facility eligible for refinance.

**Eligible Borrowers**

Entrepreneurs setting up new projects in MSE / tiny sector, new promoters acquiring unencumbered fixed assets of existing MSE concerns from PLIs and also existing well run units undertaking modernisation / technology up gradation and potentially viable sick units undertaking rehabilitation scheme

**Norms**

Scheme operated through SFCs / twin function IDCs / scheduled commercial banks / eligible state co-operative banks / scheduled urban co-operative banks  
Loan Limit - Not to exceed Rs.200.00 lakh.

**2. SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (SIDBI)**

**Small scale industries development of India:** The SIDBI was established in 1990 as the apex refinance bank. The SIDBI is operating different programmes and schemes through 5 Regional Offices and 33 Branch Offices. The financial assistance of SIDBI to the small scale sector is channelized through the two routes – direct and indirect.

1. Indirect assistance

a) SIDBI's financial assistance to small sector is primarily channelized through the existing credit delivery system, which consists of state level institutions, rural and commercial banks.

b) SIDBI provides refinance to and discounts bills of Primarily Lending Institutions (PLI).



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c) The assistance is available for

- ✓ Marketing of SSI product
- ✓ Setting up of new ventures
- ✓ Availability of working capital
- ✓ Expansion
- ✓ Modernization
- ✓ Human resource development
- ✓ Diversification of existing units for all activities

2. Direct assistance

a) The loans are available for new ventures, diversification technology up gradation, modernization and expansion of well-run small scale enterprises. Assistance is also available for private sector.

b) Small scale sector is eligible for maximum debt-equity ratio of 3:1

c) Foreign currency loan for import of equipment are also available to export oriented small scale enterprises.

d) SIDBI also provide venture capital assistance to the entrepreneurs for their innovative ventures if they have a sound management team, long term competitive advantage and a potential for above average profitability leading to attractive return on investment.

New Initiatives of SIDBI

a) Two Subsidiaries viz. SIDBI Venture Capital Limited and SIDBI Trustee Company Limited formed to oversee Venture Capital.

b) Technology Bureau for Small Enterprise formed to oversee Technology Transfer, Match making Services, Finance Syndication and facilitating Joint Ventures.

c) SIDBI Foundation for Micro Credit has been launched to provide financial assistance to the poor and to meet emerging needs of the micro finance sector especially in rural areas.

**3. NATIONAL SMALL INDUSTRIES CORPORATION LTD (NSIC)**

- ✓ Established in 1955 by GOI with the main objectives to promote, aid and foster the growth of SSIs in the country



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- ✓ Over four decades of transition and growth in the SSI sector, NSIC has provided strength through a progressive attitude of modernization, up gradation of technology, quality consciousness, strengthening linkages with large and medium-scale enterprise and boosting exports of products from small enterprises

- **Main services provided by NSIC are:**

- ✓ Machinery and Equipment (Hire Purchase / Lease scheme)
- ✓ Financial Assistance Scheme
- ✓ Assistance for Procurement of Raw Material
- ✓ Government Store Purchase Program
- ✓ Technology Transfer Centre (TTC)
- ✓ Marketing Assistance

### **NATIONAL SMALL INDUSTRIES CORPORATION (NSIC)**

The National Small Industries Corporation (NSIC), an enterprise under the union ministry of industries was set up in 1955 in New Delhi to promote aid and facilitate the growth of small scale industries in the country. NSIC offers a package of assistance for the benefit of small-scale enterprises.

1. Single point registration: Registration under this scheme for participating in government and public sector undertaking tenders.
2. Information service: NSIC continuously gets updated with the latest specific information on business leads, technology and policy issues.
3. Raw material assistance: NSIC fulfils raw material requirements of small-scale industries and provides raw material on convenient and flexible terms.
4. Meeting credit needs of SSI: NSIC facilitate sanctions of term loan and working capital credit limit of small enterprise from banks.
5. Performance and credit rating: NSIC gives credit rating by international agencies subsidized for small enterprises up to 75% to get better credit terms from banks and export orders from foreign buyers.

#### **Learning Objectives:**

- ✓ To introduce the functions and activities of various Central and State Government agencies supporting small-scale industries.
- ✓ Discuss the functions of DIC.
- ✓ Present the activities and focused consultancy areas of TECSOK.





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- ✓ Discuss the functions of KIADB.
- ✓ Present the activities and loan schemes of KSFC.
- ✓ Marketing assistance programme: NSIC participates in government tenders on behalf of small enterprises to procure orders for them

#### **4. STATE FINANCIAL CORPORATIONS (SFCs)**

**State Financial Corporation's (SFCs) :** Main objectives are to finance and promote small and medium enterprises in their respective states for achieving balanced regional growth, catalyze investment, generate employment and widen ownership base of industry. Financial assistance is provided by way of term loans, direct subscription to equity/debentures, guarantees, discounting of bills of exchange and seed capital assistance. SFCs operate a number of schemes of refinance of IDBI and SIDBI and also extend equity type assistance. SFCs have tailor-made schemes for artisans and special target groups such as SC/ST, women, ex-servicemen, physically challenged and also provide financial assistance for small road transport operators, hotels, tourism-related activities, hospitals and so on. Under Single Window Scheme of SIDBI, SFCs have also been extending working capital along with term loans to mitigate the difficulties faced by SSIs in obtaining working capital limits on time.

#### **5. STATE INDUSTRIAL DEVELOPMENT CORPORATIONS (SIDCS)**

**State Industrial Development / Investment Corporation (SIDC/SIIC) :** Set up under the Companies Act, 1956, as wholly owned undertakings of the State governments, act as catalysts in respective states. SIDC helps in developing land providing developed plots together with facilities like roads, power, water supply, drainage and other amenities. They also extend assistance to small-scale sector by way of term loans, subscription to equity and promotional services. 11 out of 28 SIDCs in the country also function as SFCs and are termed as Twin-function IDCs.

#### **6. SMALL SCALE INDUSTRIES BOARD (SSIB)**

The government of India constituted a board, namely, Small Scale Industries Board(SSIB) in 1954 to advice on development of small scale industries in the country. The SSIB is also known as central small industries board. The range of development working small scale industries involves several departments / ministries and several organs of the central/state governments. Hence, to facilitate co-ordination and inter-institutional linkages, the small scale industries board has been constituted. It is an apex advisory body constituted to render advice to the government on all issues pertaining to the development of small-scale industries. The industries minister of the government of India is the chairman of the SSIB. The SSIB comprises of 50 members including state industry minister, some members of parliament, and secretaries of various departments of government of India, financial institutions, public sector undertakings, industry associations and eminent experts in the field.



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**7. KHADI AND VILLAGE INDUSTRIES COMMISSION (KVIC)**

- ✓ Statutory body created by an act of Parliament
- ✓ It is charged with planning, promotion, organization and implementation of the program for the development of Khadi and other village industries in the rural areas in coordination with other agencies engaged in rural development
- ✓ KVIC's functions also comprise building up a reserve of raw materials and implements for supply to producers, creation of common service facilities for processing of raw materials and provision of marketing of KVIC products
- ✓ KVIC is entrusted with the task of providing financial assistance to institutions or persons engaged in the development and operation of Khadi and village industries and guide them through supply of designs, prototypes and other technical information

**8. INDUSTRIAL FINANCE CORPORATION OF INDIA (IFCI)**

**9. STATE SMALL INDUSTRIES CORPORATION (SSIC)**

**10. REGIONAL RURAL BANKS (RRBS)**

**11. COOPERATIVE BANKS AND GRAMIN BANKS**

**B. INSTITUTIONS FOR TECHNICAL GUIDANCE:**

**1. SMALL INDUSTRIES DEVELOPMENT ORGANISATION (SIDO)**

SIDO is created for development of various small scale units in different areas. SIDO is a subordinate office of department of SSI and ARI. It is a nodal agency for identifying the needs of SSI units coordinating and monitoring the policies and programmes for promotion of the small industries. It undertakes various programmes of training, consultancy, evaluation for needs of SSI and development of industrial estates. All these functions are taken care with 27 offices, 31 SISI (Small Industries Service Institute) 31 extension centres of SISI and 7 centres related to production and process development.

The activities of SIDO are divided into three categories as follows:

- ✓ **Coordination activities of SIDO:**
  - To coordinate various programmes and policies of various state governments pertaining to small industries.



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- To maintain relation with central industry ministry, planning commission, state level industries ministry and financial institutions.
- Implement and coordinate in the development of industrial estates.
- Industrial development activities of SIDO:
- Develop import substitutions for components and products based on the data available for various volumes-wise and value-wise imports.
- To give essential support and guidance for the development of ancillary units.
- To provide guidance to SSI units in terms of costing market competition and to encourage them to participate in the government stores and purchase tenders.
- To recommend the central government for reserving certain items to
- Produce at SSI level only.
- ✓ **Management activities of SIDO:**
- To provide training, development and consultancy services to SSI to develop their competitive strength.
- To provide marketing assistance to various SSI units. To assist SSI units in selection of plant and machinery, location, layout design and appropriate process.

To help them get updated in various information related to the small-scale industries activities.

## **2. DISTRICT INDUSTRIES CENTRES (DICS)**

**District Industries Centers (DICs) :** In order to extend promotion of small-scale and cottage industries beyond big cities and state capitals to district headquarters, DIC program was initiated in May, 1978, as a centrally sponsored scheme. DIC was established with the aim of generating greater employment opportunities especially in rural and backward areas in the country. At present DICs operate under respective State budgetary provisions. DICs extend services of the following nature – (i) economic investigation of local resources (ii) supply of machinery and equipment (iii) provision of raw materials (iv) arrangement of credit facilities (v) marketing (vi) quality inputs (vii) consultancy.

## **3. STATE SMALL INDUSTRIES DEVELOPMENT CORPORATIONS (SSIDCS)**

**State Small Industrial Development Corporations (SSIDC) :** Established under Companies Act, 1956, as State government undertaking, caters to small, tiny and village industries in respective states. Being operationally flexible undertakes the activities like (i) procure and distribution of scarce raw materials, (ii) supply of machinery to SSI units on hire-purchase basis, (iii) product marketing assistance, (iv) construction of industrial estates, allied infrastructure facilities and their maintenance (v) extending seed capital assistance on behalf of State government and (vi) providing management assistance to production units.



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**4. NATIONAL SCIENCE AND TECHNOLOGY ENTREPRENEURSHIP  
DEVELOPMENT BOARD (NSTEDB)**

- Established in 1982 by GOI, is an institutional mechanism to help promote knowledge-driven and technology-intensive enterprises
- Major objectives are: -
- ✓ promote and develop high-end entrepreneurship for S&T manpower as well as self-employment by utilizing S&T infrastructure and by using S&T methods facilitate and conduct various informational services relating to promotion of entrepreneurship

network agencies of support system, academic institutions and R&D organizations to foster self-employment using S&T with special focus on backward areas - act as a policy advisory body with regard to entrepreneurship

**5. NATIONAL PRODUCTIVITY COUNCIL (NPC)**

- ✓ Autonomous institution functioning under the overall supervision of the Ministry of Industry, GOI
- ✓ Primary objective is to act as a catalyst in enhancing the productivity of all sectors of the economy, including industry and agriculture
- ✓ Administered by a tripartite Governing Council (GC) which has equal representation from the government, industry and trade unions
- ✓ Active in the field of consultancy and training and has a number of specialized divisions to provide tailor-made solutions to agriculture and industry. These divisions, manned by trained consultants, deal with issues related to industrial engineering, plant engineering, energy management, HRD, informal sector, agriculture and so on
- ✓ NPC is a member of the Asian Productivity Organization (APO), Tokyo, an umbrella body of all productivity councils in Asian region
- ✓ To channelize expertise of NPC to small-scale and informal sector, SIDBI has tied-up with NPC for enhancing technology in small units



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**6. NATIONAL INSTITUTE FOR ENTREPRENEURSHIP AND SMALL BUSINESS DEVELOPMENT (NIESBUD)**

- ✓ NIESBUD is an autonomous body under the administrative control of the Office of the DC(SSI)
- ✓ NIESBUD established in 1983 by the Ministry of Industry, GOI, as an apex body for coordinating and overseeing the activities of various institutions/agencies engaged in Entrepreneurship Development particularly in the area of small industry and business
- ✓ The policy, direction and guidance to the institute is provided by its Governing Council whose chairman is the Minister of SSI.
- ✓ Besides conducting national and international training programs, the institute undertakes research studies, consultancy assignments, development of training aids, etc.

**7. TECHNICAL CONSULTANCY ORGANISATIONS (TCOS)**

**8. SMALL INDUSTRIES SERVICE INSTITUTES (SISIS)**

**9. INDUSTRIAL DEVELOPMENT CORPORATION (IDCO)**

**10. AGRICULTURAL PROMOTION AND INVESTMENT CORPORATION OF ORISSA LIMITED (APICOI)**

**C. TRAINING INSTITUTIONS:**

**1. NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT (NABARD)**

**National Bank for Agriculture and Rural Development (NABARD)** is an apex development bank in [India](#) having headquarters based in [Mumbai \(Maharashtra\)](#) and other branches are all over the country. It was established on 12 July 1982 by a special act by the parliament and its main focus was to uplift rural India by increasing the credit flow for elevation of agriculture & rural non farm sector and completed its 25 years on 12 July 2007 It has been accredited with "matters concerning policy, planning and operations in the field of credit for [agriculture](#) and other economic activities in rural areas in India". RBI sold its stake in NABARD to the Government of India, which now holds 99% stake.



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### **Role**

NABARD is the apex institution in the country which looks after the development of the cottage industry, small industry and village industry, and other rural industries. NABARD also reaches out to allied economies and supports and promotes integrated development. And to help NABARD discharge its duty, it has been given certain roles as follows:

1. Serves as an apex financing agency for the institutions providing investment and production credit for promoting the various developmental activities in rural areas
2. Takes measures towards institution building for improving absorptive capacity of the credit delivery system, including monitoring.
3. Co-ordinates the rural financing activities of all institutions engaged in developmental work at the field level and maintains liaison with [Government of India](#), State Governments, [Reserve Bank of India](#) (RBI) and other national level institutions concerned with policy formulation
4. Undertakes monitoring and evaluation of projects refinanced by it.
5. NABARD refinances the financial institutions which finances the rural sector.
6. The institutions which help the rural economy, NABARD helps develop.
7. NABARD also keeps a check on its client institutes.
8. It regulates the institution which provides financial help to the rural economy.
9. It provides training facilities to the institutions working the field of rural upliftment.
10. It regulates the cooperative banks and the RRB's.

NABARD's refinance is available to State Co-operative Agriculture and Rural Development Banks (SCARDBs), State Co-operative Banks (SCBs), Regional Rural Banks (RRBs), Commercial Banks (CBs) and other financial institutions approved by RBI. While the ultimate beneficiaries of investment credit can be individuals, partnership concerns, companies, State-owned corporations or co-operative societies, production credit is generally given to individuals. NABARD has its head office at Mumbai, India.

NABARD operates throughout the country through its 28 Regional Offices and one Sub-office, located in the capitals of all the states/union territories. Each Regional Office [RO] has a Chief General Manager [CGMs] as its head, and the Head office has several Top executives like the Executive Directors[ED], Managing Directors[MD], and the Chairperson. It has 336 District Offices across the country, one Sub-office at Port Blair and one special cell at Srinagar. It also has 6 training establishments.





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NABARD is also known for its 'SHG Bank Linkage Programme' which encourages India's banks to lend to self-help groups (SHGs). Because SHGs are composed mainly of poor women, this has evolved into an important Indian tool for microfinance. As of March 2006 2.2 million SHGs representing 33 million members had to been linked to credit through this programme.

NABARD also has a portfolio of Natural Resource Management Programmes involving diverse fields like Watershed Development, Tribal Development and Farm Innovation through dedicated funds set up for the purpose

**2. NATIONAL INSTITUTE FOR SMALL INDUSTRY EXTENSION AND TRAINING (NISIET)**

- ✓ Set up in early 1950s, NISIET acts an important resource and information centre for small units and undertakes research and consultancy for small industry development
- ✓ An autonomous arm of the Ministry of Small Scale Industries, the institute achieves its objectives through training, consultancy, research and education, to extension and information services
- ✓ In 1984, UNIDO has recognized NISIET as an institute of meritorious performance under its Centre of Excellence Scheme to extend aid.

**3. ENTREPRENEURSHIP DEVELOPMENT INSTITUTE OF INDIA**

The Entrepreneurship Development Institute of India (EDI), an autonomous and not-for-profit Institute, set up in 1983, is sponsored by apex financial institutions - the IDBI Bank Ltd., IFCI Ltd., ICICI Bank Ltd. and State Bank of India (SBI). The Government of Gujarat pledged twenty-three acres of land on which stands the majestic and sprawling EDI campus.

To pursue its mission further, EDI has helped set up twelve state-level exclusive entrepreneurship development centres and institutes. One of the most satisfying achievements, however, was taking entrepreneurship to a large number of schools, colleges, science and technology institutions and management schools in several states by including entrepreneurship inputs in their curricula. In view of EDI's expertise in Entrepreneurship, the University Grants Commission appointed the EDI as an expert agency to develop curriculum on Entrepreneurship.

Objectives:

- ✓ Augment the supply of trained entrepreneurs through training
- ✓ Generate multiplier effect on opportunities for self employment

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- ✓ Improve managerial capabilities of small scale industries
- ✓ Contribute to dispersal of business ownership and thus expand social base of the Indian entrepreneurial class
- ✓ Contribute to the creation and dissemination of new knowledge and insight into entrepreneurial theory and practice through research.
- ✓ The Augment supply of trainers motivators for entrepreneurship and development
- ✓ Participate in institutional
- ✓ Promote micro enterprise at rural level
- ✓ Inculcate the spirit of entrepreneurship among youth.

#### **4. INDIAN INSTITUTE OF ENTREPRENEURSHIP**

The erstwhile **Ministry of Industry** set up the **Indian Institute of Entrepreneurship** in the year 1994 in the city of **Guwahati** in the north eastern state of Assam. The national institute is an autonomous body functioning on its own in developing the skills in entrepreneurship. The institute operates under the management committee, which is headed by the chairman who is also the secretary to the **Ministry of Small Scale Industries** of the government of India. The objective of the institute is to develop the skills and train the entrepreneur. The institute also designs strategies that are propitious to the various target groups. Documentation for formulation of policy is also a part of the activity of the institute. The research-based institute organizes seminars and conducts discussions to promote and exchange the views of the different groups that lead to improvement through interaction. The institute also publishes literature for development of the entrepreneur and his industry. The small-scale industries sector has benefited from the research and training programs undertaken by the **Indian Institute of Entrepreneurship** in Guwahati. The institute helps in planning and organizing the promotion of this sector of the economy

#### **5. SMALL INDUSTRIES SERVICE INSTITUTE (SISI)**

#### **6. COUNCIL FOR ADVANCEMENT OF PEOPLES ACTION AND RURAL TECHNOLOGY (CAPART)**

#### **7. DISTRICT INDUSTRIES CENTRE (DIC)**

### **SMALL-SCALE INDUSTRIES:**



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These are the industrial undertakings having fixed investment in plant and machinery, whether held on ownership basis or lease basis or hire purchase basis not exceeding Rs. 1 crore.

**ANCILLARY INDUSTRIES:**

These are industrial undertakings having fixed investment in plant and machinery not exceeding Rs. 1 crore engaged in or proposed to engage in,

(a) The manufacture of parts, components, sub-assemblies, tooling or intermediaries, or

(b) The rendering of services supplying 30 percent of their production or services as the case may be, to other units for production of other articles.

**TINY UNITS:**

These refer to undertakings having fixed investment in plant and machinery not exceeding Rs. 23 lakhs. These also include undertakings providing services such as laundry, Xeroxing, repairs and maintenance of customer equipment and machinery, hatching and poultry etc. Located in towns with population less than 50,000.

**SMALL-SCALE SERVICE ESTABLISHMENTS:**

These mean enterprises engaged in personal or household services in rural areas and town with population not exceeding 50000 and having fixed investment in plant and machinery not exceeding Rs. 25 lakhs.

**HOUSEHOLD INDUSTRIES:**

These cover artisans skilled craftsman and technicians who can work in their own houses if their work requires less than 300 square feet space, less than 1 Kw power, less than 5 workers and no pollution is caused. Handicrafts, toys, dolls, small plastic and paper products electronic and electrical gadgets are some examples of these industries.

**CHARACTERISTICS OF SMALL-SCALE INDUSTRIES:**

**(i) Ownership:**

Ownership of small scale unit is with one individual in sole-proprietorship or it can be with a few individuals in partnership.

**(ii) Management and control:**

A small-scale unit is normally a one man show and even in case of partnership the activities are mainly carried out by the active partner and the rest are generally sleeping partners. These units are



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managed in a personalised fashion. The owner is activity involved in all the decisions concerning business.

**(iii) Area of operation:**

The area of operation of small units is generally localised catering to the local or regional demand. The overall resources at the disposal of small scale units are limited and as a result of this, it is forced to confine its activities to the local level.

**(iv) Technology:**

Small industries are fairly labour intensive with comparatively smaller capital investment than the larger units. Therefore, these units are more suited for economics where capital is scarce and there is abundant supply of labour.

**(v) Gestation period:**

Gestation period is that period after which teething problems are over and return on investment starts. Gestation period of small scale unit is less as compared to large scale unit.

**(vi) Flexibility:**

Small scale units as compared to large scale units are more change susceptible and highly reactive and responsive to socio-economic conditions. They are more flexible to adopt changes like new method of production, introduction of new products etc.

**(vii) Resources:**

Small scale units use local or indigenous resources and as such can be located anywhere subject to the availability of these resources like labour and raw materials.

**(viii) Dispersal of units:**

Small scale units use local resources and can be dispersed over a wide territory. The development of small scale units in rural and backward areas promotes more balanced regional development and can prevent the influx of job seekers from rural areas to cities.

***OBJECTIVES OF SMALL SCALE INDUSTRIES:***

The objectives of small scale industries are:

1. To create more employment opportunities with less investment.



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2. To remove economic backwardness of rural and less developed regions of the economy.
3. To reduce regional imbalances.
4. To mobilise and ensure optimum utilisation of unexploited resources of the country.
5. To improve standard of living of people.
6. To ensure equitable distribution of income and wealth.
7. To solve unemployment problem.
8. To attain self-reliance.
9. To adopt latest technology aimed at producing better quality products at lower costs.

**DRAWBACKS IN SSI**

Small scale industries play a vital role in the economic development of our country. This sector can stimulate economic activity and is entrusted with the responsibility of realising various objectives generation of more employment opportunities with less investment, reducing regional imbalances etc. Small scale industries are not in a position to play their role effectively due to various constraints. The various constraints, the various problems faced by small scale industries are as under:

***(1) FINANCE:***

Finance is one of the most important problem confronting small scale industries Finance is the life blood of an organization and no organisation can function properly in the absence of adequate funds. The scarcity of capital and inadequate availability of credit facilities are the major causes of this problem.

Firstly, adequate funds are not available and secondly, entrepreneurs due to weak economic base, have lower credit worthiness. Neither they are having their own resources nor are others



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prepared to lend them. Entrepreneurs are forced to borrow money from money lenders at exorbitant rate of interest and this upsets all their calculations.

After nationalization, banks have started financing this sector. These enterprises are still struggling with the problem of inadequate availability of high cost funds. These enterprises are promoting various social objectives and in order to facilitate then working adequate credit on easier terms and conditions must be provided to them.

**(2) RAW MATERIAL:**

Small scale industries normally tap local sources for meeting raw material requirements. These units have to face numerous problems like availability of inadequate quantity, poor quality and even supply of raw material is not on regular basis. All these factors adversely affect the functioning of these units.

Large scale units, because of more resources, normally corner whatever raw material that is available in the open market. Small scale units are thus forced to purchase the same raw material from the open market at very high prices. It will lead to increase in the cost of production thereby making their functioning unviable.

**(3) IDLE CAPACITY:**

There is under utilisation of installed capacity to the extent of 40 to 50 percent in case of small scale industries. Various causes of this under-utilisation are shortage of raw material problem associated with funds and even availability of power. Small scale units are not fully equipped to overcome all these problems as is the case with the rivals in the large scale sector.

**(4) TECHNOLOGY:**

Small scale entrepreneurs are not fully exposed to the latest technology. Moreover, they lack requisite resources to update or modernise their plant and machinery. Due to obsolete methods of



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production, they are confronted with the problems of less production in inferior quality and that too at higher cost. They are in no position to compete with their better equipped rivals operating modern large scale units.

**(5) *MARKETING:***

These small scale units are also exposed to marketing problems. They are not in a position to get first-hand information about the market i.e. about the competition, taste, liking, disliking of the consumers and prevalent fashion.

With the result they are not in a position to upgrade their products keeping in mind market requirements. They are producing less of inferior quality and that too at higher costs. Therefore, in competition with better equipped large scale units they are placed in a relatively disadvantageous position.

In order to safeguard the interests of small scale enterprises the Government of India has reserved certain items for exclusive production in the small scale sector. Various government agencies like Trade Fair Authority of India, State Trading Corporation and the National Small Industries Corporation are extending helping hand to small scale sector in selling its products both in the domestic and export markets.

**(6) *INFRASTRUCTURE:***

Infrastructure aspects adversely affect the functioning of small scale units. There is inadequate availability of transportation, communication, power and other facilities in the backward areas. Entrepreneurs are faced with the problem of getting power connections and even when they are lucky enough to get these they are exposed to unscheduled long power cuts.



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Inadequate and inappropriate transportation and communication network will make the working of various units all the more difficult. All these factors are going to adversely affect the quantity, quality and production schedule of the enterprises operating in these areas. Thus their operations will become uneconomical and unviable.

**(7) UNDER UTILISATION OF CAPACITY:**

Most of the small-scale units are working below full potentials or there is gross underutilization of capacities. Large scale units are working for 24 hours a day i.e. in three shifts of 8 hours each and are thus making best possible use of their machinery and equipments.

On the other hand small scale units are making only 40 to 50 percent use of their installed capacities. Various reasons attributed to this gross under- utilisation of capacities are problems of finance, raw material, power and underdeveloped markets for their products.

**(8) PROJECT PLANNING:**

Another important problem faced by small scale entrepreneurs is poor project planning. These entrepreneurs do not attach much significance to viability studies i.e. both technical and economical and plunge into entrepreneurial activity out of mere enthusiasm and excitement.

They do not bother to study the demand aspect, marketing problems, and sources of raw materials and even availability of proper infrastructure before starting their enterprises. Project feasibility analysis covering all these aspects in addition to technical and financial viability of the projects, is not at all given due weight-age.

Inexperienced and incomplete documents which invariably results in delays in completing promotional formalities. Small entrepreneurs often submit unrealistic feasibility reports and incompetent entrepreneurs do not fully understand project details.





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Moreover, due to limited financial resources they cannot afford to avail services of project consultants. This result is poor project planning and execution. There is both time interests of these small scale enterprises.

**(9) SKILLED MANPOWER:**

A small scale unit located in a remote backward area may not have problem with respect to unskilled workers, but skilled workers are not available there. The reason is Firstly, skilled workers may be reluctant to work in these areas and secondly, the enterprise may not afford to pay the wages and other facilities demanded by these workers.

Besides non-availability entrepreneurs are confronted with various other problems like absenteeism, high labour turnover indiscipline, strike etc. These labour related problems result in lower productivity, deterioration of quality, increase in wastages, and rise in other overhead costs and finally adverse impact on the profitability of these small scale units.

**(10) MANAGERIAL:**

Managerial inadequacies pose another serious problem for small scale units. Modern business demands vision, knowledge, skill, aptitude and whole hearted devotion. Competence of the entrepreneur is vital for the success of any venture. An entrepreneur is a pivot around whom the entire enterprise revolves.

Many small scale units have turned sick due to lack of managerial competence on the part of entrepreneurs. An entrepreneur who is required to undergo training and counseling for developing his managerial skills will add to the problems of entrepreneurs.

The small scale entrepreneurs have to encounter numerous problems relating to overdependence on institutional agencies for funds and consultancy services, lack of credit-worthiness,



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education, training, lower profitability and host of marketing and other problems. The Government of India has initiated various schemes aimed at improving the overall functioning of these units.

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