



SUGGESTED SCHEDULE FOR FACULTY DEVELOPMENT PROGRAMME



WEEK I

DAY	SESSION-I 10.00-11.30	SESSION-II 11.45-01.15	SESSION-III 14.15-15.30	SESSION-IV 15.45-17.00
I	Introduction to the Programme & Participants' expectations	Micro lab for behaviour stimulation	Entrepreneurship & Economic Development	Charms of Becoming an Entrepreneur
II	Role of Support agencies in entrepreneurship Development - DIC	Role of Support agencies in entrepreneurship Development - Banks	Entrepreneurship in Education, emerging trends & Role of DST in promoting Entrepreneurship	Curriculum Development for Promoting Entrepreneurship amongst S&T target groups
III	Business Opportunity identification and Guidance		Market Survey: Need & Importance	Market Survey: Tools and Techniques
IV	Entrepreneurs selection: tools and techniques	Competencies of successful entrepreneurs	R&D Institutions: Technologies for commercialization	
V	Entrepreneurial Motivation Training		Entrepreneurial Motivation Training	
VI	Factory Visit and Interface with a successful entrepreneurs			

WEEK II				
I	Skills required to be an effective ED Trainer-Motivator	Promoting Entrepreneurship: Role, Task & Challenges	Planning a small business and Sources of Information	
II	How to prepare Business Plan		Business Plan: Cost of Project and Means of finance	Sources of Funds: Venture Capital
III	Inputs on: Environmental/Pollution control/ Energy saving / Non-conventional energy sources etc.		Marketing Management in Small Business	
IV	Need & Importance of Financial Management in SSI		Break Even Point	Working Capital Assessment & Management in SSI
V	Creativity & Problem Solving	Importance of IPR, Patent registrations in SSI	Need and importance of effective business communication	How to develop proposals and explore funding support for Entrepreneurship Development activities
VI	Curriculum Development : Group Presentation		Feedback, and Action plan Presentation	Valedictory function

**FACULTY DEVELOPMENT PROGRAMME
SUGGESTED READING / REFERENCE MATERIAL**

***PART I: READINGS IN
ENTREPRENEURSHIP EDUCATION***

**Compiled by:
S.B. SAREEN**



**Entrepreneurship Development Institute of India
Ahmedabad**

C O N T E N T

Sr. No.

Paper (To access the particular paper, click on it)

1. Promotion of Entrepreneurial Culture in Professional Colleges: Apprenticeship an option? : **K. G. Chandrika**
2. The Role of Universities in Developing Countries to Support the Creation of High-Tech Start Ups: The Case of Monterrey, Mexico. : **Myrna Flores**
3. Introducing Entrepreneurship in Curriculum : **K. Parthasarathy**
4. Entrepreneurship Education in India: Need for Policy Interventions : **Tattwamasi Paltasingh**
5. The Scope of Academic Institutions in Spawning New-Age Technologies for Building Entrepreneurial Society : **H.C.Shiva Prasad, N.Yagnesh Sharma and B. Gopal Krishna**
6. Entrepreneurship Education : **Rupal R. Patel**
7. Entrepreneurship Research in Indian Universities : **Ganapathi Batthini And Jayanta Kumar Tripathy**
8. Does Education Matter in Entrepreneurship Development? : **V. Murugesan and C. Thangamuthu**
9. Entrepreneurship Education; A Conceptual Base, Approach and Methodology : **M. M. P. Akhouri and S. P. Mishra**
10. EduPreneurship : **Rajiv Hajirnis**
11. Promotion of Knowledge Based Enterprises through Institutions of Higher Learning – A Concept Note : **Neeraj Sharma**
12. Entrepreneurship Education and Training : **R. Venkatapathy**
13. Entrepreneurship in IT : **Anurag Jain**
14. Approaches to Entrepreneurship Development: A Trend Analysis : **Dinesh Awasthi**
15. Aspects of Cognitive Competence and Managing Behaviour : **J.P. Das and Sasi Misra**
16. Resourcefulness: A proximal Conceptualization of Entrepreneurial Behaviour : **Sasi Misra and E. Sendil Kumar**
17. University Based Entrepreneurship Programmes as vehicles for State-Level Economic Development: A case Study : **Ian A. Miners and John E. Young**
18. Teachers and Socio-educational Entrepreneurship: Competence as a Consequence : **Vijaya Sherry Chand and Geeta Amin-Choudhury**

PART II:
A Manual for Conducting
Entrepreneurship Development Programme

By:

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CHAPTER 1

ENTREPRENEURSHIP DEVELOPMENT PROGRAMMES: AN OVERVIEW OF THE CONCEPT AND SEQUENCE OF MAJOR EVENTS

Objective

The major objective of this chapter is to apprise the organizers of Entrepreneurship Development Programmes (EDPs) of the major tasks and their sequence in the programme, so that they can prioritize their activities and conduct the EDPs.

1.0 The Beginning

The root of the EDPs lies in the pioneering initiative jointly taken by the Gujarat Industrial Investment Corporation (GIIC) and other State agencies in Gujarat. A three-month training programme, known as Entrepreneurship Development Programme (EDP), was evolved in 1970 to foster new entrepreneurs, who had latent entrepreneurial potential. It laid emphasis on:

- (i) setting up a small venture;
- (ii) managing it; and
- (iii) making profits out of it.

The initial programmes were oriented towards business knowledge and skills. Later, behavioural inputs (e.g. Achievement Motivation Training – AMT) were added to the regular EDP training package.

2.0 Entrepreneurship Development Programmes: The Key Features

EDPs also serve one or more of the following objectives:

- (i) Accelerated industrial development by increasing the supply of entrepreneurs;
- (ii) Industrial development of rural and less developed areas where local entrepreneurship is not readily available and entrepreneurs from nearby cities and towns do not get easily attracted;
- (iii) Enlarging the small and medium enterprise sectors, which offer better potential for employment generation and wider dispersal of industrial ownership.

2.1 Target Group

EDPs are addressed to all those who possess potential enterprise (even latent) and are willing to take up the challenges of an entrepreneurial career, irrespective of their caste, community, religion, family background, sex, education, experience, etc. Persons in the age group of 18-35 years are preferred for the training. Though there is no pre-condition for a minimum level of education for selection to an EDP, the ability to at least read and write is preferred, except for those EDPs which are technical and are specifically meant for trainees with a technical background. Preference is given to candidates belonging to the scheduled castes, scheduled tribes, women, and minorities to widen the base of entrepreneurial supply.

3.0 The General Programme Package

The comprehensive training package of the EDP is based on the conceptual understanding of the process of entrepreneurship development. An entrepreneur passes through different stages during the process of setting up his/her venture. The entrepreneur development package emerged from the felt needs of potential entrepreneurs and the gaps that held them back from becoming entrepreneurs. The task of developing entrepreneurs comprises of:

- (a) identifying and selecting those who can be developed into entrepreneurs;
- (b) developing their entrepreneurial capabilities;
- (c) ensuring that each potential entrepreneur has a viable project;
- (d) equipping them with basic managerial understanding; and
- (e) helping them to secure financial, infrastructural and related assistance to expedite the launch of an industrial venture.

The key to success lies in undertaking each of the above tasks in an integrated and coherent manner, backed by requisite training expertise, organisational arrangements and financial support to the entrepreneurs.

3.1 Developmental Inputs

The inputs aim to develop the selected potential entrepreneurs into well-rounded competent entrepreneurs. The programme design in terms of inputs and their focus could be as follows:

The EDP Inputs and Their Focus

Focus	Objectives (Needs)	Training Inputs
Entrepreneur	Motivation and Behavioural Inputs	Reinforcement of Entrepreneurial Traits
Enterprise Establishment	Facilitation of decision-making process to set up a new venture	Business Opportunity Guidance, Information, Project Planning Inputs and Technical Inputs
Enterprise Management	Successful and profitable operation of an enterprise	Managerial Inputs

The unique feature of this package and the key to its success lies in the process of developing a potential entrepreneur (an HRD function) with project formulation (enterprise creation) and project management (enterprise performance) tasks that are integrated and comprehensive, and not *ad hoc* and piecemeal. The outcome is confidence, competence development, and a responsible entrepreneur.

To fulfill the basic objectives of developing the entrepreneurs and adequately providing the package of inputs described in this section, the EDI approach suggests one month of class-room and field-based inputs (about 180 hours) followed by two to six weeks of technical, hands-on training. Flexibility in duration and input structure is possible depending on the target group characteristics, project size and local environment.

4.0 The Three-Phase Programme Implementation

The EDPs are implemented in three phases, viz.

- (i) Pre-training Phase;
- (ii) Training Phase; and
- (iii) Post-programme Follow-up Phase.

The following process is adopted to implement the programmes (for details see Annexure I).

4.1 Pre-Training Activities

The objectives of the pre-promotional activities are to make an entry into the location to understand the people, their socio-economic conditions, their values, their attitudes and belief, their hopes and aspirations, their fears and frustrations, and so on.

4.1.1 Promotional Activities

The promotion of the programme needs the adoption of a multi-pronged strategy. Garnering necessary support from all the stakeholders, besides reaching out to potential trainees, is the key objective of the activities undertaken during this phase. Besides personal contacts, the major modes of programme promotion are: advertising in newspapers, distribution of handbills, announcement by drum-beating, contacting youth clubs (if any), seeking support of the opinion leaders, etc. Another activity during this phase, crucial to the success of the programme, is the identification of viable business opportunities that can be promoted among the trainee-entrepreneurs. Adequate care is taken to see that the opportunities have the potential to preferably utilise local resources, can be carried out within the existing infrastructural constraints, are eco-friendly, and do not lead to further environmental degradation.

4.1.2 Selection of Trainees

Potential entrepreneurs between 18 to 35 years of age are usually considered for selection. Special consideration is given to the disadvantaged groups like scheduled castes, scheduled tribes, women, and minorities. Applicants are called for a personal interview after screening the applications and administering a written test to assess their entrepreneurial tendencies. Usually, the General Enterprising Tendency Test is used for the written test and a modified version of the Focused Behavioural Event Interview (FBEI) Technique is used for the technical interview. FBEI helps interviewers to bring out a candidate's entrepreneurial competencies and traits. Those possessing a 'developable' level of entrepreneurial traits are selected.

Between the choices of taking as many as are willing, and selecting those who have the potential for development, EDI advocates a firm and clear policy in favour of the qualitative rather than quantitative criteria. Normally, 25 to 30 candidates are selected for one EDP. The selection phase takes about one week. The selection is followed by the second phase, i.e. Training Phase.

4.2 Training Phase

The EDI model of four weeks' full-day programme (180 hours), excluding technical training, is fairly well accepted. The key inputs, to take care of the felt needs of potential entrepreneurs (trainees), include:

- behavioral inputs,
- information inputs,
- business opportunity identification and guidance,
- formulation of preliminary business plan and market survey,
- business plan preparation,
- managerial inputs,
- marketing skills,
- soft skill development,
- legal system-related inputs, and
- technical orientation/training and skill development.

The class-room training of 4 weeks is followed by technical training ranging between one and six weeks. Pre-training activities take about 6-8 weeks and the follow-up may take another 6-8 months. The duration of the entire programme could be about a year or so, depending upon the place, the target group, the season, etc.

4.3 Post-programme Follow-up Phase

The objective of an EDP is not only to strengthen entrepreneurial characteristics, but also to help the trainees launch their ventures. Project implementation starts after the formal training. At this stage, the trainees need guidance and support from the trainer for lining up necessary infrastructural facilities and other aspects of project implementation. Besides counselling support, the trainer may have to act as a trouble-shooter wherever the trainees encounter insurmountable problems in clearing certain statutory procedures/formalities, securing finance and facilities. The other objectives of the Follow-up Phase are to collect data and monitor the progress of the trainees. Each group of entrepreneurs is looked after by an entrepreneur-trainer-motivator, both during and after an EDP. He/she is responsible for organizing the post-training support, which involves follow-up on loan applications, facilitating infrastructure such as land and/or factory shed, and trouble-shooting. His/her counselling in times of problems, resourcefulness and liaison skills, expedite project implementation. The post-training follow-up usually stretches up to 6-8 months, and in some cases, even up to one year. Frequent interactions between trainer-motivators and trained entrepreneurs could continue for several years.

At the end of the training programme, the trainer-motivator prepares the post-programme report (immediately after the first follow-up meeting). Subsequently, he/she submits periodical progress reports to the sponsors. Lastly, the organisation submits the final report, along with the audited statements of expenditure, to the sponsors.

4.4 Administration of EDP

As per the EDI approach, a trained trainer-motivator is assigned one EDP on a full-time basis. He/she acts as a coordinator and is responsible for execution and performance. In-house and external experts and practitioners support him/her. Normally, a trainer-motivator can successfully conduct two EDPs in a year. However, it is observed that to generate more resources, some organizations force the trainers to conduct even 5-6 EDPs. This should be avoided. Otherwise, the results in terms of the trainees' starting their ventures will be disappointing and will lead to sheer waste of resources.

ANNEXURE I

Sequencing of EDP Activities: An Outline

1. Identifying and profiling the area
2. Liaison with Government agencies
3. Identification of opportunities
4. Promotional campaign – handbills, meetings, and drum-beating
5. Selection of potential entrepreneurs (Trainees)
6. Unfreezing
7. Class-room training
8. Interaction with an entrepreneur from local area
9. Exposure to industry, agriculture and market through field visits
10. Technical training
11. Business Plan preparation
12. Submission of loan applications to bank
13. Follow-up phase (May last up to two years)
14. Preparation and submission of the Documentation Report to the sponsors and own organisation for record
15. Submission of the final reports and audited statements of accounts to the sponsors and closing the programme after final documentation.

CHAPTER 2

ENTREPRENEURSHIP DEVELOPMENT PROGRAMME: TRAINING INPUT STRUCTURE AND SEQUENCING

Objective

The major objective of this chapter is to help the users develop and finalise their training schedule for an EDP. A broad framework is being presented here; the users are advised to recast it, depending upon the needs of the group. This chapter provides a generic input structure of EDPs.

1.0 The Premises

The EDPs are based on the following premises that:

- (i) There is a potential enterprise and the desire to do better;
- (ii) The inherent potential/desire will respond if viable opportunities are shown to them;
- (iii) There are enough such opportunities that may be identified and tapped; and
- (iv) A well-conceived development-cum-counselling approach can develop the latent entrepreneurial potential of the poor and motivate them to set up enterprises to exploit the opportunities.

Therefore, the promotion of small and micro enterprises (SMEs) requires a different approach, as entrepreneurship is scarce among the youth with the non-business background. One may restrict promoting the sector to only business families. However, it would be limiting the supply that is already quite inadequate. The training package to promote SMEs is discussed in the following paragraphs.

1.0 Inputs Structure

The inputs related to knowledge, skills and motivation, with a definite plan for an enterprise, are imparted during the EDP to develop the selected potential entrepreneurs into well-rounded, competent entrepreneurs. (See Annexure I for input and sequencing details). The key inputs are:

1.1 Behavioural Inputs

Behavioural inputs, better known as Achievement Motivation Training (AMT), are imparted to the trainees to:

- (a) increase their need for achievement;
- (b) help them to set realistic goals; and
- (c) increase their self-awareness.

1.2 Information Inputs

Information inputs help the trainees know the tasks involved in setting up an enterprise and the facilities available in the State. They are also made aware of the various formalities/procedures for setting up a venture, the role of various regulatory agencies, promotional schemes, etc. Trainees are also told about the various information sources they can tap to facilitate business opportunity identification.

1.3 Business Opportunity Guidance (BOG)

This input helps the trainees understand the opportunity structure and environment in relation to the 'self'. The BOG helps potential entrepreneurs internalise the process of opportunity identification. The input leads the trainees to develop various options of possible businesses they may want to pursue, and assess their viability with respect to their own strengths and weaknesses.

1.4 Formulation of Preliminary Business Plan (PBP) and Market Survey

This exercise helps the trainees to make a preliminary assessment of the viability of business opportunities identified through BOG. The document answers three critical questions, viz., 'can it be economically produced?', 'could it be sold?', 'can it become a profitable venture?' If the answers are less than satisfactory, trainees can examine other business ideas without significant loss of time and effort. Answering the questions does not involve an elaborate feasibility study.

The formulation of a preliminary business plan is linked to market survey. The trainees are provided with basic guidelines for conducting a quick market survey that helps them to understand the market for the product identified by them.

1.5 Business Plan Preparation (BPP)

This input enables the trainee to finalize his/her business plan to seek credit support from commercial banks and other financial institutions. Such a plan also acts as a road map for implementing the project idea. The inputs, as in the case of a preliminary business plan, are both class-room based as well as field based. Trainees are expected to finalize the plans during or soon after the completion of technical training. However, experience indicates that a few trainees finalize their plans before the training is over and a few take much longer to complete this activity.

1.6 Managerial Inputs

Studies indicate that one of the major reasons for India's industrial sickness is the lack of managerial skills among entrepreneurs. Therefore, a basic understanding of managerial functions is developed among the trainees. The objective of

providing management inputs is not to develop expertise in various functional areas of management, but to sensitise the participants to the complex nature of interdependence among various management functions. The inputs cover planning, budgeting and control functions, and also the intricacies of man management, cash management, and market management.

1.7 Marketing Skills

This input enables the trainees to adopt an appropriate approach to marketing activities. Given the nature of the industry, they need to be apprised of the market uncertainties and their management in terms of market segmentation, product positioning, market mix, and overall strategic choices in marketing.

1.8 Soft Skill Development

It is now well established that what distinguishes a top performer from an average performer is a set of soft skills that need to be understood and developed. Accordingly, inputs on developing problem-solving skills, creativity, interpersonal and communication skills, negotiation skills, etc. are imparted through role plays, simulation exercises, case studies, and experiential learning techniques.

1.9 Legal System Related Inputs

Inputs related to legal aspects are also provided to trainees to make them aware of the rules and regulations for running a small industrial undertaking. Major inputs pertain to the Factory Act, labour laws, environment-related issues, and other statutory requirements.

1.10 Technical Orientation and Skill Development

The trainees are placed in a running SME for some time to meet their individual learning needs. It is important that they are kept in units almost of the same size, as the trainees may run after a year or two of launching their ventures. This input provides the trainees an exposure to the operational aspects of functioning of an SME. They not only get exposed to production management and Good Manufacturing Practices (GMP), but also pick up the tricks of the trade.

2.0 Content Analysis of the Training Inputs

The actual training starts with two days of behavioural inputs for unfreezing. Conditions are created to encourage the trainees to speak out and participate. An atmosphere of healthy trust and mutual respect thus gets created and is sustained throughout the programme. The unfreezing inputs are followed by experience sharing by a self-made local entrepreneur.

Thereafter, the group is exposed to entrepreneurial culture through visits to a few enterprises, followed by information inputs and opportunity guidance. Officials from various support agencies (e.g. banks, District Industries Centres) are invited to provide information on procedures and formalities involved in the setting up of

an enterprise. Here the pace of input delivery is slowed down and enough time is provided to the trainees for assimilation of information and decision making process.

The trainees are sent for the market survey after OG and basic training in market survey techniques. They compile data on the sources of machinery, raw material, technical process, competitors, potential market, etc., from various places. At the end of market survey all the trainees prepare a market survey report. This is followed by the preparation of a Preliminary Project Report. At this stage, the trainees and bankers are brought together on one platform to jointly assess the strengths and weaknesses, feasibility and viability, scope and limitations of the projects vis-a-vis the trainees' own resources. This leads to concretization of their business plans.

The trainees are then provided with managerial inputs mainly consisting of accounts and bookkeeping, marketing, legal requirements, government rules and regulations, etc. Subsequently, they are sent for technical exposure-cum-training in their selected product lines. However, the timing of such placement depends upon the convenience of the people who agree to impart technical training.

After the technical training, the trainees are fully equipped to give finishing touches to their business plans, which could be acceptable to banks for financing. The class-room training lasts for four weeks, followed by the technical training phase lasting, on an average, for six weeks.

ANNEXURE I

CURRICULUM FOR EDPs

Day	Sessions	Input Specifics
DAY 1	SESSION I	Inauguration and Introduction to the Programme
	SESSION II	Getting to Know Each Other and Creating a Learning Environment
	SESSION III	Who is an Entrepreneur?
	SESSION IV	Experience Sharing with Local Successful Entrepreneur
DAY 2	SESSION I	Support Institutions for Promotion of MSMEs
	SESSION II	
	SESSION III	Soft Skills for Launching and Managing an Enterprise
	SESSION IV	Interpersonal Communication for Effective Performance
DAY 3	SESSION I	Persuasion and Use of Influence Strategy
	SESSION II	Creativity and Problem Solving
	SESSION III	
	SESSION IV	Interaction with DIC

DAY 4	SESSION I	Interaction with Lending Institution
	SESSION II	Interaction with KVIC/KVIB
	SESSION III	Interaction with Appropriate Support Institutions (DRDA/NSIC/EPC, etc)
	SESSION IV	Impact of Policy on Enterprises establishment
DAY 5	SESSION I	Brief on Field/Factory Visit
	SESSION II	Field/ Factory Visit
	SESSION III	
	SESSION IV	
DAY 6	SESSION I	Discussion on Field/Factory Visit
	SESSION II	Area Assessment Survey: Modes – Class-room Inputs
	SESSION III	
	SESSION IV	Methodology of Opportunity Identification and Profiling Business Ideas – Class-room inputs
DAY 7	SESSION I	
	SESSION II	
	SESSION III	
	SESSION IV	
DAY 8	SESSION I	Field Visits for Area Assessment and Business Opportunity Identification
	SESSION II	
	SESSION III	
	SESSION IV	
DAY 9	SESSION I	
	SESSION II	
	SESSION III	
	SESSION IV	
DAY 10	SESSION I	Linking Business Opportunities with the Entrepreneur
	SESSION II	Business Plan: An Introduction
	SESSION III	Profiling Various Actors and an Analysis of Industries Sector in Target Markets
	SESSION IV	
DAY 11	SESSION I	Strategic Position and Marketing of an Enterprise as to Develop and Maintain Sustainable Competitive Advantage (Demand Analysis, Identifying and Collecting Necessary Information through Market Survey);
	SESSION II	
	SESSION III	
	SESSION IV	
DAY 12	SESSION I	Field Work and Data Collection for Market Analysis
	SESSION II	
	SESSION III	
	SESSION IV	
DAY 13	SESSION I	
	SESSION II	
	SESSION III	
	SESSION IV	

DAY 14	SESSION I	Discussion on Market Survey and Report Preparation
	SESSION II	
	SESSION III	
	SESSION IV	
DAY 15	SESSION I	Developing Entrepreneurial Competencies
	SESSION II	
	SESSION III	
	SESSION IV	
DAY 16	SESSION I	Developing Entrepreneurial Competencies
	SESSION II	
	SESSION III	
	SESSION IV	
DAY 17	SESSION I	Technical Analysis of a Project (Critical Technical Issues in Project and Product Selection: Technology Assessment, Production Programme and Plant Capacity; Estimation of Manpower Requirement, Selection and Layout, Pollution Control and Waste Disposal; Quality and Legal Compliance)
	SESSION II	
	SESSION III	
	SESSION IV	
DAY 18	SESSION I	Cost-Output-Profit Relationship in an Enterprise
	SESSION II	
	SESSION III	
	SESSION IV	
DAY 19	SESSION I	Financials of a Project Report
	SESSION II	
	SESSION III	
	SESSION IV	
DAY 20	SESSION I	
	SESSION II	
	SESSION III	
	SESSION IV	
DAY 21	SESSION I	Formulation of a Business Plan and Investment Appraisal Techniques
	SESSION II	
	SESSION III	
	SESSION IV	
DAY 22	SESSION I	Goal-Oriented Project Planning (GOPP) and Understanding Total Quality Management
	SESSION II	
	SESSION III	
	SESSION IV	
Day 23	SESSION I	Goal-Oriented Project Planning (GOPP) and Understanding Total Quality Management
	SESSION II	
	SESSION III	
	SESSION IV	

DAY 24	SESSION I	Project Activity Planning and Implementation
	SESSION II	Domestic/International Marketing
	SESSION III	
	SESSION IV	
DAY 25	SESSION I	Applied Management in Business
	SESSION II	
	SESSION III	
	SESSION IV	
DAY 26	SESSION I	
	SESSION II	
	SESSION III	Legal Requirements (Factories Act, EPF, Labour Laws, FPO, etc.)
	SESSION IV	Managing Business Crisis
DAY 27	SESSION I	Negotiation and Networking
	SESSION II	Delegating of Authority and Work Effort
	SESSION III	Leadership Modes
	SESSION IV	Efficiency Orientation as a Trait and Systematic Planning
DAY 28	SESSION I	Interfacing with Lending Institutions for Business Plan Appraisal
	SESSION II	
	SESSION III	Action Plan for Participants
	SESSION IV	Valedictory and Feedback from Participants

[EACH SESSION IS OF ONE HOUR AND FIFTEEN MINUTES]

CHAPTER 3

CENTRE SELECTION, PROGRAMME TIE-UPS AND PUBLICITY CAMPAIGN FOR EDP

Objective

The major objectives of this chapter are to provide guidelines to the trainers for selecting an appropriate location for the EDP, making suitable programme tie-ups such as infrastructure arrangement, networking with the support system, guest faculty identification and promoting the programme in the target area. Suggestive formats for programme promotion material and a model application form are also provided in this chapter.

1.0 Centre Feasibility Study

1.1 The success of an Entrepreneurship Development Programme (EDP) depends on a number of factors. The selection of the centre/location, from where the activity is to be initiated, plays a very important role in the entire process. A wrong selection of the centre at the very initial stage of the programme would definitely affect the subsequent efforts and programme results. It is, therefore, important that proper attention is paid to this particular aspect of the EDP. For example, an EDP may not produce the desired results if the local population has a negative attitude towards entrepreneurship or support from local institutions is missing. To avoid this, a trainer should design the promotional work in a manner that suits the local circumstances and motivates the institutions to support the EDP activity.

While surveying the locations for centre selection, the trainer should know:

- The local circumstances under which he/she has to operate.
- About the local people, their preferences, likings/disliking, culture, etc.
- About the local institutions and the kind of support he/she will get from them.
- About the local resources available, based on which viable business opportunities may be identified for trainees.

The centre selection calls for a systematic approach, keeping in view the overall objectives of the training programme. The final selection should be done after examining the relevant information collected from various centres. An *ad hoc* approach to selecting an EDP centre should be avoided as it may affect the programme.

1.2 Factors to be Considered for Centre Selection

On the basis of field experience, the following seven broad categories have been identified, which should be considered while selecting an EDP centre.

- i) Scope for industries
- ii) Government policies applicable to the area (e.g. backward area incentives)
- iii) Institutional policy and support
- iv) Infrastructure development
- v) Attitude of the local people
- vi) Political factors
- vii) Residual factors

All these factors may not be present in one particular centre. However, the presence of at least some of these factors is essential. The seven factors, stated above, are discussed in detail hereafter.

1.2.1 Scope for Industrial Activity

This may be divided into the following three categories:

- a) Scope for development of new industry
 - b) Scope for development of ancillaries
 - c) Scope for development of a specific sub-sector of the industry
- (a) Scope for Promoting New Units

A trainer has to examine the scope for development of industries in the area, by analysing the availability of local resources and the markets. Availability of local resources based on agriculture, forests, mines or the sea, provides a better opportunity to start industrial activities in an area. For example, an area may have a large quantity of tomatoes. They can be processed and converted into saleable products of different varieties, like tomato puree, tomato ketchup, etc. It is always better that the EDP centre, instead of being isolated, is located near a commercial and industrial centre so that a natural surrounding is available to the entrepreneurs.

- (b) Scope for Development of Ancillary Industries

The existence of any large industrial unit, in and around the area, may provide the scope for setting up of small-scale industries as ancillaries. Under such situations, the initial market linkage provides stability to the unit operations and the small entrepreneurs get time to search for new markets. However, one should be careful not to

depend entirely upon one buyer or the mother unit as it can be detrimental in the long run.

(c) **Scope for Development of a Specific Industry**

Certain centres provide good scope for development of a specific kind of industry due to the availability of major raw material or special skills required. For example, coastal areas provide good scope for seafood processing, which is a sub-sector of the food processing industry. If a centre has been selected primarily because of this consideration, the designing of the training inputs becomes easier because of the homogenous nature of the group of trainees as well as of the product.

1.2.2 Government Policy on Industry

Sometimes Government policy plays an important role in the process of centre selection. An area may be declared as industrially backward or an industrial growth centre and it enjoys incentives like capital subsidy and other benefits. In such a case, entrepreneurs generally get attracted to the subsidised facilities. However, one should proceed with caution and take care to study the availability of infrastructure facilities, etc.

1.2.3 Institutional Policy and Support

The policies of institutions like the State Financial Corporation, banks, the Khadi Board, etc. should also be given due weightage while selecting an EDP centre. Sometimes special area benefits are announced by state financial corporations for a particular location and in that case finance to trained entrepreneurs is easily available on easier terms and conditions. But, care should be taken while seeking support from regional institutions as their policies vary from region to region. The EDP should ensure the involvement of these institutions from the beginning, to the maximum extent possible, because the trainees will deal with these same institutions while setting up their enterprises.

1.2.4 Infrastructure Development

Industrial land, sheds, electricity, water, and communication facilities are the basic needs for any kind of industry. The availability of all these should be carefully examined while selecting a centre. The projects may be delayed and trainees may feel frustrated in the absence of any one of these basic needs. A trainer has to collect all basic data regarding infrastructure facilities available in the area and accordingly plan a strategy for the EDP.

1.2.5 Attitude of Local People

This is an important factor in the selection of an EDP centre. The response of the local leadership to this new activity is important. It is always better to try and take local opinion leaders and businessmen into confidence. They are found to be helpful by doing small favours to the trainees during the programmes.

1.2.6 Political Factors

At times a centre may have to be selected because it is the constituency of an important political leader. This is a double-edged sword. While it may help the EDP conducting agency get easy access to resources to succeed, it may lead to various frustrations due to political interference (even in selecting the candidates). Experience indicates that it would be best to avoid such locations. But, if imposed, one should avoid being perceived to be very close to one faction or another at the local level.

1.2.7 Residual Factors

Certain factors, other than those listed above, sometimes play an important role in the process of centre selection. Success of a programme in one area may make people from nearby areas demand a similar programme in their area as well. Also, at times people from the same centre insist on a second programme. It may be cost-effective to repeat the programme at the same location. But it should be done only, and only, if it has that kind of potential.

1.3 Sources of Information

A trainer spends about a month on location to study various factors in order to assess the suitability of the centre for the EDP by gathering information about the area, the local people, local institutions, resources available, etc. The trainer has to seek information from the following sources:

Information	Source of Information
District Action Plan	District Industries Centre
Special Survey Reports	Technical Consultancy Organisation
Area Statistics	Taluka/District Statistical Department
Khadi & Village Board Reports	Khadi & Village Industries Board
Census Reports	District Development Office
Lead Banks Reports	Lead Bank Office

The selection of the centre is finalized after a thorough study of all the literature available, and on the basis of a primary survey data collected by the trainer.

Such an exercise helps the trainer not only in preparing an inventory of information about the area but also to conduct the training programme smoothly.

(See Annexure I for suggestive format to prepare the centre feasibility report).

2.0 Identification of Training Infrastructure

Preparation for seating arrangement, teaching-aids, training material, and stationery for the participants, etc. should be completed before starting the class-room training. While tips for identification of proper infrastructure are given in the earlier chapter, guidelines are provided here for necessary preparations for smooth running of class-room sessions. The best possible training facilities, available at the centre, should be arranged. A simple seating arrangement, flexible if necessary, must be provided. The class-room setting should facilitate the training methodology which is a combination of lectures, group discussion, simulation exercises, role-plays, etc. Effective learning can be facilitated through simple arrangements, provided the requirements are kept in mind while planning. It is the trainer's responsibility to ensure that the class-room setting provides a friendly environment and facilitates two-way communication during sessions.

Several action-oriented exercises are conducted during the training. It is, therefore, necessary that free space is available or can be made available by rearranging the seating arrangement. At times, small groups of participants have to sit and discuss; at other times a semi-circle arrangement may be needed. The idea is that the setting should be flexible enough to accommodate changes. Healthy interactions among the participants and the speaker are possible only if proper planning is done to suit the requirements, within the given resources.

Teaching equipment should be arranged before the start of the class-room training. It is not essential that sophisticated teaching-aids such as OHP, slide projector, etc. be made available. But, bare minimum equipment such as writing board (blackboard/whiteboard), chalk (or marker pens) and a duster should be arranged for, and made available.

The required number of sets of reading material and stationery items such as a writing pad, pen/pencil, a few sheets of paper, etc. must be kept ready. Also, sufficient copies of the programme schedule should be kept ready for distribution among the trainees.

The class-room training will also have the participation of guest speakers from support institutions, existing entrepreneurs, practicing professionals, etc. Guidelines for selection of guest faculty are provided in the earlier chapter. The trainer must prepare a list of guest faculty members along with session details (day & time) before sending the request for their participation.

3.0 Identification of Guest Faculty

As the trainer of an EDP does not specialise in all the topics covered, and also keeping in view the needs of the training programme, the involvement of guest faculty/subject experts becomes essential. It is the responsibility of the trainer to plan for various sessions and select appropriate external experts to impart inputs. Inviting a guest speaker from the support system often serves the dual purpose of imparting knowledge and building relations with them, which in turn facilitates support to the trainees while launching their projects. Experience sharing by real-life practitioners and the participation of the support system personnel as guest speaker helps to build the participants' confidence in an entrepreneurial career. The trainer may exercise option of inviting a local expert, or an outstation expert, or a subject specialist from other organisations. The guest faculty should be selected keeping in view the level of the target group, its educational background, the medium of instruction, etc. It is advisable to have a guest speaker with the knowledge of a specialised training like EDP, and not necessarily the head of an organisation.

4.0 Organizing Publicity Campaign

The publicity campaign for the EDP is organized with the following objectives:

- To creating awareness among the people about the programme and to facilitate potential entrepreneurs to join the programme, and
- To establishing credibility of the organisation and create a conducive environment for the programme.

The promotional work also ensures local support, which facilitates smooth running of the training programme. In addition, the promotional work enables the trainer to prepare project ideas, based on information collected during the centre feasibility exercise. Support of the local institutions may be ensured during this period by involving them in the process. It is advisable that local institution(s) be persuaded to co-sponsor the programme, which makes them feel that this is their own programme. The institution may be attracted if it is given publicity through the material used to promote the programme. The best institution to involve would be the local branch of a bank, as it would serve as a motivating factor for the financial support to start the enterprises. Other institutions may also feel confident and come forward to extend their support. All this may make the EDP an organized intervention.

4.1 The Strategy

The promotional strategy should be worked out keeping in view the location and the target group. EDP promotion demands a flexible and personal approach. The trainer must be clear that not all habitants of the EDP target area aspire to become entrepreneurs, and at the same time, may not have the potential to

succeed in an entrepreneurial career. So, the promotional efforts must be targeted towards those who may be interested in pursuing an entrepreneurship career. As it is evident that the EDP can cater only to a small group of potential entrepreneurs at one time, it will be advisable to utilise the resources for those who have a high degree of interest, commitment and potential for a successful entrepreneurial career. Accordingly, the most suitable tools must be used to promote the programme.

4.2 Tools and Techniques

There are a variety of promotional methods available to generate widespread awareness and interest in the activity among the target youth. However, a need-based and appropriate combination of the promotional strategies may be taken up to promote the programme, keeping in view the location and the target group. Some of the widely used promotional tools are:

- i) Press Advertisement & Press Notes
- ii) Handbills & Brochures
- iii) Posters & Banners
- iv) Public Meetings
- v) Cinema Slides
- vi) Personal Contact or Door-to-Door Contact
- vii) Audio-Visual Presentations
- viii) Other Channels

4.3 Initiating Selection Process of Trainees for EDP

One of the major objectives of the promotional campaign is to attract potential entrepreneurs in large numbers to the programme. The trainer needs to design a simple application form for distribution among potential trainees approaching him/her for inquiry about the training programme and who show their interest in it. It is advisable that the trainer himself/herself should interact with the interested persons at the time of distributing application forms. The application form may be priced (Re. 1 to Rs. 5) to ensure that only the most interested persons buy it. The potential trainees should be guided properly regarding submission of completed application forms.

Once the last date for receiving the completed application forms is over, the next job for the trainer is to scrutinize them. The rejection at this stage may not be more than 10 per cent. The next step will be the constitution of an Interview Committee for selecting and finalising the place, date and time of the selection test. The potential trainees are then called for a written test and/or Focused Behavioural Event Interview (FBEI), depending upon the nature of the target group. (For details see next chapter).

Finally, the shortlisted candidates are called to appear before the Selection Committee for a personal interview. The trainer must decide the date and place of the personal interview in consultation with the committee members and provide them in advance the background information about the candidates.

ANNEXURE I

Format for Centre Feasibility Study Report

- **General Information**
 - Background
 - Centre at a glance
 - Population
 - People
- **Infrastructure**
 - (A) Industrial Infrastructure: Telecommunications, Transport (roads, railways, ports, etc.), Power, Skilled Manpower, Training Facilities, Cold Storage, Financial Infrastructure;
 - (B) Social Infrastructure: Schools and Colleges, Hospitals, Passenger Transport, Entertainment and Recreation.
- **Natural Resource**
 - Agricultural, Forest, Fishery, Livestock, Fruits and Vegetables, etc.
- **Reasons for Industrial Backwardness**
- **Incentives for S.S.I.**
- **Information on Past EDPs (if any)**
- **Conclusion and Inference of the Study**

CHAPTER 4

ORGANIZING INAUGURAL AND VALEDICTORY FUNCTIONS

Objective

The major objective of this chapter is to provide a blueprint for organizing the inaugural and valedictory functions. It provides step-by-step guidelines for organizing these functions. Successfully organized, these functions go a long way in establishing the credibility of the programme and the EDP organizing agency. If the trainers follow the guidelines meticulously, the EDP would be well begun.

1.0 Introduction

The inaugural and valedictory functions of the Entrepreneurship Development Programmes (EDPs) are a major exercise in public relations. While the inauguration goes a long way in establishing a good relationship with the people who could be useful in organizing the programme, the valedictory function helps to further cement ties with the people who may be very useful in helping the trainees start their ventures.

2.0 Deciding on the Chief Guest: A Critical Choice

The first step to organizing both these functions is to make a right choice of the chief guest. The chief guest should be an influential person whose presence itself will give credibility to the effort. The best person to inaugurate the programme could be a local opinion leader who preferably is apolitical and widely respected in the area. The District Magistrate/Collector may be the next best choice. A senior bank official (maybe, Regional Manager or the Chief General Manager) of the lead bank of the area may also be a good choice, if he/she can be made to commit support of the bank for credit on merit. Another option is the top official of the sponsoring agency available at the State level like the Chief General Manager of NABARD or SIDBI. If these dignitaries are not available, the organizers may think of the next senior officers in the hierarchy. However, the trainer-motivators are free to decide upon the persons who could inaugurate the programme or come for the valedictory function. In other words, an attempt should be made to invite someone who would help in making the programme a success. The trainers may also think of inviting two senior officials, preferably one of them from the banking sector, and request one to be the chief guest and the other to preside over the function. Fix an appointment with the proposed chief guest and do not forget to carry a request letter for inviting him/her. The letter must give a brief background of the programme and its objectives, besides a few lines about your organisation. If the person concerned agrees, collect his/her Curriculum Vitae (C.V.) which will be required to introduce him/her at the function. Inquire if the chief guest needs transport or an escort to reach the venue. If yes, arrange accordingly.

3.0 Prepare a List of Invitees

While you are finalizing the chief guest and the date for the function, you should also keep preparing the list of invitees to the function. Ensure that you do not omit any important person while finalizing the list. Sometimes such omissions may cost you dearly. Your list of invitees must include all the important leaders, irrespective of their political affiliations, all the local heads of government departments, bank officials, block development officials, officials from the District Industries Centre, KVIB/KVIC officials, important businessmen, NGOs, youth leaders and, last but not the least, the people from the media (representatives of various newspapers, radio, Doordarshan, depending upon their availability). Plan well in advance to save you the last-minute rush.

4.0 Finalizing the Date and Venue of the Functions

The dates of the function should not coincide with any major festival or an important local event. The date will also have to be decided in consultation with the chief guest, depending upon his/her availability. The venue should be, to the extent possible, a non-controversial place. Religious places should be avoided as far as possible. The best venue would be the place of the training programme itself. The venue preferably should be a hall, which will help avoid unnecessary expenditure on tents, canopy, etc. It will also help in avoiding unforeseen problems arising out of the vagaries of nature such as rain. Moreover, before finalizing the venue, you must keep in mind the expected number of guests and accordingly fix the venue. Ensure that the venue can accommodate all the guests you plan to invite.

5.0 Finalizing and Printing Invitation Cards and Inviting the Guests

After finalizing the chief guest, the date and venue, finalize the invitation card and arrange to get it printed at least a week before the date of the function so that you have enough time to distribute them. This will also give sufficient time to the invitees to plan their schedule for attending the function. Also give the matter for the banner to a painter for writing it on the banner cloth. Sometimes you may not have enough time for getting the invitation cards printed. Under such circumstances, make good use of computer facilities and write personal invitation letters to your invitees mentioning specifically the date, time, venue, and a brief on the chief guest of the function.

6.0 Arrangements for Inaugural/Valedictory Functions

6.1 Seating Arrangement

Once these tasks are over, prepare a blueprint for the seating arrangement, especially that on the dais. Decide on the length or size of the dais table according to the number of guests likely to occupy the dais. It is preferable to have an odd number of seats on the dais so that your chief guest is seated in the middle, with the presiding dignitary seated next to him/her. If you are going to make announcements during the function, keep place for yourself at the extreme left or right, depending upon the location of the mike, so that you do not disturb

the guests every time you get up to make an announcement. If you plan to sit next to the chief guest, arrange for two to three table mikes. In any case, arrange for at least one table mike, as sometimes the chief guest may like to speak from his seat itself. Also keep glasses with water or water bottles at the desk for the dignitaries.

Depending upon the number of guests expected, arrange for at least ten more chairs (if you plan to have chairs). Otherwise, arrange for at least one more carpet than what you think will be required. Some places are conservative about women. In that case, reserve a few seats or some separate space for women. *Have a separate enclosure for the print and electronic media people.*

6.2 Arrangements for Mike, Lights, Fans and a Photographer

According to the layout of the inaugural venue, make proper lighting arrangements. Ensure that you have arranged for a standby generator, given the situation of power supply in most parts of the country. There should be adequate light on the dais so that you or the dignitaries can comfortably read the text, if needed. It will also help the photographers to take good pictures. The lighting arrangements should also be adequate at the place where the media people are sitting. If you have invited Doordarshan to cover the events, have at least two extra power socket points (one on each side) for camera connections. If you are organizing any of the events during summer, ensure that you have arranged for adequate number of electric fans, unless you can manage an air-conditioned auditorium (which may not be desirable, given the costs). Also, ensure that the light and mike contractor or an electrician is present throughout the function to take care of any probable fault. Request the photographer to be present at least 30 minutes before the commencement of the programme, and guide him/her on the important aspects to be covered.

6.3 Arrangements for Flowers and Bouquets

Arrange for bouquets according to the number of VIP guests you plan to invite on the dais. Keep at least one extra bouquet for exigencies. Decorate the table with three or four small flower vases. You may arrange for a few bouquets to be given to the chief guest upon his/her arrival itself. However, this is optional and not necessary most of the time. You may also arrange for a few garlands instead of bouquets, if it is the local culture and the convention is to garland the key guests as a gesture of welcome. If you have a custom of starting the programmes with the lighting of a lamp, make necessary arrangements for it, and place the guests appropriately for performing the ritual. Do not forget to place a matchbox and a candle along with the lamp. Decide on the trainees who will present the bouquets. Instruct the nominated trainees to get up and present bouquets to the guests as and when their names are announced.

6.4 Arrangements for Light Refreshment

After the formal proceedings of the function it is customary to offer some light refreshments to the guests. Finalize the menu and the caterer at least three to four days in advance, so that your caterer can serve quality items. Remember, it is more a matter of quality than quantity that matters. Your menu should be simple but elegant. Refreshments should be served in proper, neat and clean crockery. As far as possible, keep the menu uniform for all the guests, including the chief guest. It will give a good feeling to all the guests that they have not been discriminated vis-à-vis the VIPs.

6.5 Preparation of the Programme Schedule

This is the time for you to finalize your programme schedule, i.e., the sequence of the ceremony. Of course, sometimes people give the programme schedule at the back of the invitation itself. However, a more conventional approach is to prepare a programme schedule and place its copies on the table with other material. The schedule should specify the sequence of events to be performed during the function. (A dummy of the programme schedule is given as Annexure I for ready reference).

6.6 Finalizing Names of Persons to Offer Bouquets to the Guests of Honour

Since you will have more than one dignitary on the dais, you should finalize the persons you would like to request to offer bouquets or garlands to the guests of honour. Ensure the presence of the trainees selected for the purpose and brief them on the procedure of the event and the task they are supposed to perform when their names are called out. They should preferably be from among the Rural Entrepreneurship Development Programme (REDP) trainees selected for the programme. Persons from your organisation may also perform the task.

6.7 Notes for the Function

During the function you will need to perform the task of (i) welcoming the guests, (ii) introducing the programme and your organisation, (iii) introducing the chief guest and the presiding dignitary, (iv) proposing a vote of thanks at the end of the function, and (v) preparing a brief for the media. You should be ready with a write-up on each component before the start of the function.

6.8 Your Role During the Proceedings

Your role starts with welcoming the guests and leading them to their seats. You may take the help of the trainees in this activity. However, you should personally be present to receive the chief guest, the president, and a few other VIPs. The function will start with your welcome address. While welcoming the gathering,

address the guests of honour on the dais, and a few important persons present at the function, including the media (in general). In case, someone senior from your organisation is going to welcome the guests, invite him/her to do so. After the welcome, give a brief about the programme.

The person who will welcome the guests should also introduce the chief guest and the president of the function on the basis of their C.V.'s collected in advance. Request the identified persons to offer bouquets to or garland the guests of honour, beginning with the chief guest. After the welcome address, invite the chief guest to light the lamp and deliver the inaugural/valedictory address. Follow this by a request to the president of the ceremony to deliver the presidential address.

The presidential address will be followed by your vote of thanks. Thank all the persons on the dais, the guests, persons who have supported you in organizing the programme, especially the ceremony, and the representatives of the media. Invite all the guests to the hall to have light refreshments with you. You may also arrange for a group photo of the participants with the chief guest and other VIPs.

Another important task to accomplish is to give a write-up on your organisation and the programme to the media persons before they leave. Be present to see off the chief guest and other dignitaries. Also prepare a brief note on the proceedings of the ceremony and send it to the newspapers, sponsors and collaborators on the next day. (A checklist of the activities is detailed in Annexure II).

ANNEXURE I

Entrepreneurship Development Programme (Name of the Organisation) Inaugural Function

Date:
Venue:

Time:

Programme Schedule

1. Welcome Address:
2. About the Programme:
3. Lighting of the Ceremonial Lamp by the Chief Guest
& Inaugural Address:
4. Presidential Address:
5. Vote of Thanks:

[Invite all the guests and trainees to light refreshment].

Entrepreneurship Development Programme Name of the Organisation Valedictory Function

Date:
Venue:

Time:

Programme Schedule

1. Welcome Address:
2. About the Programme and Feedback by the Trainees
3. Feedback by the Trainees:
 - i.
 - ii.
4. Distribution of Certificates and Prizes
5. Valedictory Address
6. Presidential Address
7. Vote of Thanks

[Invite all the guests and trainees for light refreshment].

ANNEXURE II

Checklist of the Activities for Inaugural/Valedictory Function

A. Tasks to be accomplished at least 3-4 days before the function

1. Prepare a tentative list of potential chief guests and presiding dignitaries for the inaugural and valedictory functions.
2. Make appointments with the probable chief guest and the president.
3. Write a letter requesting the probable chief guest/president to accept the proposals.
4. Meet the concerned persons and finalize the chief guest and the president for the functions.
5. Finalize the venue for the inaugural and the valedictory functions.
6. Draft and get the invitation cards/letters printed, get the banners, etc. ready.
7. Get the certificates for the trainees printed and buy the prizes (if to be given to the trainees on their outstanding performance during the training).
8. Arrange for chairs, tables, canopy, lights, fans, microphones, ceremonial lamp, flowers, flower vases, garlands, bouquets, etc.
9. Finalize the photographer and instruct him/her.
10. Finalize the catering service and the menu for refreshments.
11. Send invitation cards/letters.
12. Get the banners, and nameplates of the dignitaries, to be seated on the dais, prepared.
13. Prepare the programme schedule and make 5-7 copies.
14. Prepare your own notes, viz. welcome speech, introduction of the chief guest and the president, on your organisation, the programme, the sponsors and collaborators, vote of thanks, etc.
15. Personally invite the media to attend the functions. Meet them with a brief note about your organisation, the programme, the chief guest and the president, and inform them of the date, time and venue of the functions.
16. Form small committees of trainees such as reception committee, logistics committee, refreshment committee, decoration committee, etc. and assign them the related tasks.
17. Reconfirm the presence of the chief guest and the president a day or two before the function.

B. Tasks to be performed one day before the function

1. Set the chairs, tables, flower vases, and canopies/tents.
2. Order bouquets or garlands.
3. Ring up or contact the important persons and the media to remind them of the function.
4. Instruct the trainees to be present at least three hours before the function begins. Also, review the arrangements with each group and take corrective action, if necessary.
5. Check that all the certificates are in order with correct names, and the prizes are properly labelled.
6. Withdraw enough cash from the bank at least a day before the function to avoid any embarrassment.

C. Tasks to be performed one to three hours before the function

1. See to it that tables and chairs are arranged as per the layout and table cover is properly spread on the dais table.
2. Get the banner placed at the proper place.
3. Keep the bouquets or garlands ready to be offered to the guests at the time of welcome.
4. Place a copy of the programme schedule, a writing pad and a pencil for each of the dignitaries to be seated on the dais.
5. Place properly the nameplates of the persons to be seated on the dais in order of the seating arrangement.
6. Put all the certificates and prizes in proper sequence on a separate table (during the valedictory).
7. Set the ceremonial lamp and place a matchbox and two candles near the lamp (before the inaugural).
8. Get the lights, fans, and microphones tested and ensure that they work. Also make sure that the person with the generator comes at least two hours earlier and sets the connections.
9. Review the catering arrangements and check the quality of food items to be served. Ensure that the crockery is presentable and decent enough to be used.
10. Place the glasses and water bottles on the dais for the dignitaries.

11. Ensure that the bouquets or garlands are received at least one hour in advance and the persons who will offer the bouquets/garlands are present to perform their assigned role.
12. Be present at the gate or the entrance to receive the chief guest, the president, and other dignitaries.

D. Tasks to be performed after the function

1. Prepare the press release and dispatch it to the media. Alternatively, post it to important dailies, latest by the next day, in which you would like the news of the functions to appear.
2. Organize the return of the articles brought on rent.
3. Pay all the parties according to agreement.
4. Send a letter of thanks to the chief guest, the president, and officials of the support system for their presence at the function. It may prove to be a good exercise in public relations and may pay rich dividends.

CHAPTER 5

POST-PROGRAMME FOLLOW-UP SUPPORT: SOME GUIDELINES AND SOME HINTS

Objective

The major objective of this chapter is to help the trainers evolve an effective follow-up strategy to enable them to set up their ventures. If properly organized, this phase may yield remarkable results in terms of start-up rate (i.e. the proportion of trainees starting their units).

1.0 Introduction

The follow-up phase starts after the completion of the formal class-room training. While the class-room inputs are closer to theory, the follow-up phase is the application phase. During this phase most of the trainees submit their loan applications, get the loan disbursed, acquire land and building, buy and install the machinery and finally start commercial production. This phase may sometimes turn out to be the most frustrating phase for a few trainees and their trainers, especially if the support system does not respond favourably. However, experience suggests that a well-planned and executed follow-up strategy may significantly reduce the failures and concomitant frustrations. While the strategy should be situation-specific, a general, step-by-step planning is described below.

Step 1: Prepare Case Histories

By the end of the class-room training, you should be ready with a file on each trainee, containing his/her strengths and weaknesses, current status, and action plan. The cover of each file should mention:

- Name of the Trainer
- Name of the Centre and Batch Number
- Programme Dates: from _____ to _____
- File Number (Trainee Number)
- Name of the Trainee
- Address of the Trainee
- Telephone Number of the Trainee

The first document in the file should be the history card/progress card of the trainee. The first two pages of the card should contain the various stages in the setting up of a venture, along with the dates of completion of the stages by the trainee. The third and the fourth pages of the card will contain the follow-up details under three heads, viz., Date, Particulars, and Remarks (for a sample of the card, see Annexure I).

As the follow-up proceeds, keep recording the details of each meeting with the trainee in the card. You should also file a copy of important correspondence made by the trainee, or by you on his/her behalf, with the support system like banks, the DIC, electricity department, water supply department, etc. Also keep a copy of the quotations and related correspondence and responses received from the agencies. It will help you in making necessary and timely interventions. Based on the cases, classify the trainees into four broad categories:

- i. *Early Birds*: Trainees who are in the advanced stage of their project implementation, such as those who have already commissioned machinery, or obtained a loan, or ordered machinery, or have tied up land and building, etc.
- ii. *Progressive*: Those who have shown adequate progress towards launching their ventures, such as those who have already been sanctioned a loan, applied for a loan, prepared a project report and completed the documentation necessary for a loan application, etc.
- iii. *Laggards*: Those who are still in the process of market survey and have yet to finalize their project/product and are still preparing their loan applications. However, they are making serious attempts to complete these stages.
- iv. *Suspects*: Those who show only casual interest in the process and hardly approach the trainer.

The trainer should concentrate more on the middle two categories than the first and the last. While the first category will hardly need any support from the trainer except for some casual advice, the outcome of the last categories may not be worth the effort. The second category will require more of counselling, while the third category will require more of motivation and guidance from the trainers. The trainer will have to be more active in helping the trainees in product identification, project report preparation, or even in market survey in case of the third category trainees. The trainees in the second category may require help in networking with support organisations for obtaining loans or tying up infrastructure, or sometimes the trainer's support in the identification and procurement of the right kind of technology and machinery. The follow-up, being more of a one-to-one action phase, may require the trainer to adopt as many strategies as the number of his/her trainees.

The trainer should also categorize cases according to the agencies where more follow-up is required. For example, cases pending with banks may form one category, while the cases waiting for their provisional registration from the DIC may form another.

Step 2: Form a Monitoring-cum-Guidance Committee

The second step should be to form a Monitoring-cum-Guidance Committee (MCGC), with the most influential and senior bureaucrat, available and willing to chair the committee, as its chairperson. The members of the committee should be the representatives of the various support agencies such as banks, DIC, DRDA, KVIC/KVIB, state financial corporation, sponsors, collaborators, a representative of the local business community, and a representative of the trainees. Such a committee will be powerful enough to take on-the-spot decisions or commit the necessary support.

Step 3: Form a Young Entrepreneurs' Club

The third step may be to convert the trainees' group into an informal club where they draw support from each other, and fight for each other's cause, if necessary. They may also represent on the MCGC.

Step 4: Calling the First Meeting of the MCGC

Having formed an MCGC and prepared the cases of each trainee, the trainer should organize its first meeting. The main agenda of the meeting should be to review the progress of the trainees, discuss the help/support required by them, and chalk out the actions to be taken by various support agencies, keeping in view the progress of each trainee. You should invite the chairperson, all the members, and the trainees to the meeting. It is advisable to split the meeting into three phases. In the first phase, brief all the members on the progress made by the trainees and the type of support they require. In the second phase, bring together the MCGC and the trainees for a face-to-face interaction, and in the third phase, take the necessary decisions to evolve an action plan and assign clear-cut responsibilities to the members, depending upon the trainees' needs. The entire process should, at the most, take about two hours the first time and a maximum of one hour for the subsequent meetings.

Along with the notice of the meeting, send an explicit agenda to the members. Also send a trainee-wise progress report in a tabular form to all the members, so that they come prepared (for tabular format, see Annexure II). It is advisable to brief the chairperson in advance so that he/she comes prepared. It will save time and expedite the decision-making. The better spelt out the agenda, the better will be the outcome.

Step 5: Recording and Circulating the Minutes of the Meeting

As a member-secretary of the MCGC, the trainer must record all the major deliberations and decisions, prepare the minutes of the meeting, and get them signed by the chairperson, preferably the same day. Soon after the trainer should circulate the minutes to all the members of the MCGC. This strategy will help the

trainer and the trainees to a great extent to iron out issues with many support agencies. It is important that major decisions are specifically written, without ambiguity, so that they can be executed quickly.

Step 6: Develop a Follow-up Action Plan on the Basis of the Meeting

Once the minutes have been circulated on to the members, the trainer should sit with the trainees and help them develop their plan of action to launch their units. The trainer should also brief the trainees regarding the major decisions taken in their respective cases and advise them on appropriate action. The trainer may also follow-up the cases of the trainees with the support agencies. Some of the more skillful trainers manage to organize some sort of camp to solve a common problem of the trainees. For example, they may convince the bank officials to earmark one day when all the trainees will submit their loan applications, and another day could be fixed when the bankers will get back to them on the problems and possible solutions in their respective cases. Such a strategy may hasten the process of venture launching.

Step 7: Frequency of the Follow-up Meetings

There is no hard and fast norm about the minimum or maximum time gap between one meeting and the other; the MCGC may be convened any time as per the needs. The normal practice is to hold the follow-up meetings every month for the first three to four months, and gradually taper them off to half-yearly meetings during the second year.

During the follow-up phase the role of the trainer-motivator should remain confined to that of an advisor or a counsellor and not an executor. There is a high risk that an overenthusiastic trainer may create a dependency syndrome among the trainees by assuming the fighter's role on their behalf. One should guard against falling prey to such temptations.

The follow-up phase should ideally continue till the last trainee launches his/her venture or decides to give up the idea. However, in practice, the follow-up could be carried out up to two years after completion of the programme. If a trainee does not start the venture within two years, he/she is unlikely to ever start the venture, exceptions apart.

Step 8: Submission of the Final Report

Upon completion of two years, the trainer should write the final report, highlighting the major achievements and emerging lessons as per the last section of the monitoring proforma, discussed in chapter 7.

ANNEXURE I

Sample History Card Of The Trainee

Card Number:

1. EDP CENTRE: _____ 2. REDP DATES: From _____ to _____
3. TARGET GROUP _____ 4. TRAINER'S NAME _____

5. Name of the Trainee _____

6. Address and Telephone No. _____

7. Date of Birth _____, Age _____ years.

8. Highest Qualifications: _____

9. Experience: _____ years in _____

10. Family income at the time of joining REDP: (Rs.) _____

=====

PERIODIC STATUS UPDATE

Sr. No.	Stage of Project Implementation	Initiated on (date)	Completed on (date)
1.	Product identification		
2.	Preliminary project report		
3.	Project finalization		
4.	Provisional registration		
5.	Quotations for machinery received		
6.	Loan application ready with DPR		
7.	Loan application submitted		
8.	Loan sanctioned		
9.	Loan documentation over		
10.	Loan partly disbursed		

Sr. No.	Stage of Project Implementation	Initiated on (date)	Completed on (date)
11.	Formalities to acquire land/building completed		
12.	Order for machinery placed		
13.	Power connection applied		
14.	Water connection applied		
15.	Power connection received		
16.	Water connection received		
17.	Possession of land/building taken		
18.	Machinery erected		
19.	Trial run of the machines done		
20.	Recruitment of workers and technical hands done		
21.	Order for raw material placed		
22.	Raw material received		
23.	Commercial production started and permanent registration No. obtained		
24.	Name and address and tel. No. of the unit		

PROJECT DETAILS

Sr. No.	Project Items	Estimated Project Cost (Rs.)	Actual Project Cost (Rs.)
1.	Total fixed capital		
2.	Preliminary & pre-operative expenses (P&POE)		
3.	Margin money for working capital		
4.	Total working capital		
5.	Project cost (1+2+3+)		
6.	Means of finance (Rs.):		
	*Promoter's contribution		
	*Term loan		
	*Working capital loan		
	* Government subsidy		
	Total (Rs.)		
7.	Employment (Nos.):		
	*Administrative/supervisory		
	*Technical/skilled workers		
	*Unskilled workers		
	Total:		
=====			

FOLLOW-UP DETAILS

Date	Particulars	Remarks
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ANNEXURE II Present Status of the Trainees

Sr. No.	Name of the Candidate	Product/ Project	Present Status	Support Required	Decisions Taken
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1.

2.

3.

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CHAPTER 6

GUIDELINES FOR DOCUMENTATION OF ENTREPRENEURSHIP DEVELOPMENT PROGRAMMES (EDPs)

Objective

The major objective of this chapter is to help the trainers prepare a documentation report on the EDPs being conducted by them. The chapter provides a sequential methodology for documentation and preparing a documentation report on the EDPs. Though the title of the chapter is Guidelines for Documentation of EDPs, it deals with preparing the documentation report of the programme.

1.0 Introduction

1.1 Why to Document?

The implementation of Entrepreneurship Development Programmes (EDPs) has many facets. During this process – from conception to implementation – a trainer-motivator acquires a variety of experiences. The knowledge thus generated should be widely shared with those who are involved in the Entrepreneurship Development Movement for (i) spreading and enriching the existing body of knowledge, and (ii) strengthening and benefiting the colleagues engaged in similar pursuits. This is possible only when the entire process of any given EDP is well documented for future reference.

2.0 What is an EDP Documentation?

The documentation report of any EDP is an exhaustive and systematic account of its total process from inception to implementation. It is different from a progress report which records the accomplishments only up to a particular stage of an EDP. In contrast the documentation report is an exhaustive account of the EDP in question, which incorporates the analysis and reflections of the trainer-motivator on various issues and situations within its ambit. In short, the progress report is a part of the documentation report and can be used as a base material for writing the latter. Therefore, a proper documentation report should be exhaustive enough to highlight all the important facets of the EDP, and yet brief enough to keep the reader's interest alive.

3.0 For Whom?

The documentation report is a useful compilation and analysis of the facts collected during the EDP process. It is useful to various target groups. For example, it is useful:

- i) to the sponsoring and implementing organisations to review and plan follow-up along with planning for future EDPs;
- ii) to other trainer-motivators who may use it as a reference material, and take lessons and warnings from the experiences of others;
- iii) to the trainer-motivator himself who can use it for an analysis and review of the programme in retrospect, with a view to gaining useful insights for the future. For, a trainer hardly gets time to do a proper in-depth analysis of the situations while conducting an EDP;
- iv) to the researchers who may use this information as an aid to their work; and
- v) as a benchmark document for comparison at some point of time in the future.

In the light of the above discussions, a need to properly document the entire process of EDPs can hardly be overstated.

4.0 When and How to prepare the Documentation Report?

The question arises: which is the most appropriate time or stage in an EDP to prepare the documentation report? The answers may be many. It may be on a daily, weekly, or monthly basis, or at the end when all the stages of a particular EDP are complete and the trainer has had enough time to think, analyse, and reflect. There may be arguments and counter-arguments on the merits and demerits of each of the periods mentioned.

Since the EDP is a continuous process, the documentation should also follow the same methodology. Here, one should not confuse between documentation and documentation report. Documentation means writing a logbook of daily activities and accomplishments, reactions and reflections, interesting anecdotes, maintaining records, files and the data sets, etc., while the documentation report implies putting the document in a systematic and analytical frame, once the programme is over.

The trainer-motivators need to be advised that the documentation report must be completed within one month of the completion of the programme or 15 days after the first follow-up meeting (which normally is held in about 15 days after the completion of the EDP).

* Without going into the merits and demerits of the arguments, one thing is strongly advised to all trainer-motivators. They must, without fail, keep a daily account of their activities and accomplishments despite digressions and fatigue.

5.0 Background Material for Writing a Documentation Report

The documentation report may be written with the help of the background material (as mentioned in Section 2.0) including the progress reports. Therefore, the total documentation report will consist of material acquired from:

- i) Daily logbook of activities or diary of the trainer-motivator;
- ii) Periodic progress reports sent to the head office or sponsors;
- iii) Files and notes containing background data, course material, faculty, field visits, minutes of the meetings, published/printed material used during the EDP, notes on discussions with various persons, etc.

Once the first follow-up is over, the trainer-motivator should settle down and write the documentation report with the help of the information mentioned in the preceding paragraph.

6.0 What to Document?

This section deals with the contents of a documentation report. For, information gathered and recorded during the implementation of the EDP has to be analyzed in a meaningful manner for future reference and research. As EDPs may conveniently be phased into three stages, viz., pre-promotional and promotional phase, training phase, and the follow-up phase; the documentation report may also be divided broadly into identical sections in the following formats.

6.1 Background or Introduction

This chapter should contain information on the background of the EDP, target groups, objectives, sponsors, etc. It should also give the genesis of the EDP under documentation. Advice about the sponsors or collaborating agencies (if any) and your own (implementing) organisation should be also given. This section should also mention the type, duration with dates, and location of the EDP.

6.2 Pre-Promotional Activities

Information on the preparation done by the trainer before launching the EDP may be highlighted in this chapter. It should also contain, in brief, basic information about the Centre – the rationale for selecting this Centre, its strengths, its weaknesses, opportunities available and major threats (SWOT Analysis). The section should give the readers a brief idea about the Centre. The base of this information – *The Centre Feasibility Study Report* – should be annexed as Annexure I to the report. Besides this, the section/chapter should also consist of a brief write-up on the possible business opportunities. Supplement this write-up by listing the identified opportunities in a tabular form and label it as Table – 1 (For the table format see Exhibit – 1 at the end of this chapter).

6.3 Promotional Activity

This chapter should contain information on two aspects of the promotional activities: the promotional campaign and the identification of potential entrepreneurs*.

6.3.1 The Promotional Campaign

This section should contain all the liaison work done by the trainer. The write-up on the liaison work may be supported and enriched by the reflections of the trainer-motivator on various situations encountered, organisations met, and persons contacted. A list of the persons contacted (who were useful for the programme) should be annexed as Annexure II, along with the names of their organisations. Information on other related activities like identification of the guest faculty, arrangement for classroom, etc., is also given in this section.

6.3.2 The Identification of Potential Entrepreneurs

This section should contain every aspect of the promotional campaign, except liaison work with the officials and other important persons, covered in the promotional campaign. This section should start with a statement citing the date and place of the initiation of this facet of the EDP. It should be followed by descriptions of the major activities, viz., public meetings, meetings with youth clubs, meeting school/college students, meetings with villagers, meetings in Panchayats / Gramsabhas, etc., and putting up posters and banners, distribution of handbills, using notice boards, making radio announcements, releasing press notes, conducting entrepreneurship awareness camps, etc.

Each method should be detailed under different sub-heads. The meeting venue, number of persons attending each type of meeting, duration of the meetings, time and date of meetings, reactions at the meetings, trainer reflections thereon, may be mentioned. In the case of use of handbills or pamphlets, a mention may be made of the major places where they were distributed/pasted. The total number of persons approached (approximately) through these methods may also be stated.

A copy of each printed material (handbill, poster, etc.) should be annexed as Annexure III. It should also contain clippings of press releases, press notes, etc. If some news items appear, do not forget to annex their clippings datewise, along with the names of the newspapers, in Annexure III. A gist of the radio talks or radio announcement (if any) and their frequency along with time and date may also be put in the same Annexure.

* Both these aspects are two sides of the same coin – i.e. the promotional campaign. The division here is for the sake of convenience.

This section should mention the response to the promotional activities in terms of:

- Number of inquiries received
- Number of application forms sold
- Number of application forms submitted, duly filled-in.

The last date of submitting the forms should also be mentioned. A copy of the application form should be annexed as Annexure IV.

A Committee of Directions (CoD) should be constituted in this phase. This section should contain the process of the constitution of the CoD. A list of the members of the Committee along with their names, designations, organisations, and addresses should be given here.

6.4 Selection of Trainee Entrepreneurs

This chapter should contain information about the total selection process, including the dates and place of selection, constitution of the selection committee, etc., and other aspects elaborated as follows:

- i) Constitution of the Selection Committee (with names of the members, their designations, and names of organisations);
- ii) Procedure adopted for the selection of candidates, including sequencing and flexibility adopted, if any; and
- iii) Number of applicants called after scrutinizing the applications, and details of the total number of applications short listed at each stage and carried forward to the next stage (depending on the selection of methodology) and the total number of candidates finally selected. This information should be given in a tabular form as in Table – 2 (See Exhibit – 2 of the chapter). Mention names and designations of the committee members present during the interview.

Profile of all the applicants, separately for selected and rejected candidates, should be given in Annexure V and VI. The format of Annexure V and VI is given in Exhibit – 3 to this chapter. This section should also have a table exhibiting an overall profile of the selected candidates. This is illustrated as Table – 3 in the format given in Exhibit – 4 to this chapter.

6.5 Inaugural Function

This chapter should contain details about the inaugural function of the EDP. Mention the date, place, time, and venue of the function. Also mention the name of the chief guest, the presiding dignitary, along with other 8-10 important persons present, and the approximate audience size. Briefly mention the main content of the inaugural address (say, in one paragraph) along with some other

highlights. All this will constitute the proceedings of the function. A copy of the invitation card should be annexed as Annexure VII. A list of the invitees may also be mentioned in the Annexure (optional). Copies of the press release or news item on the function should be annexed as Annexure VIII (along with the name of the newspaper, date, page and column). Photographs may also be enclosed in Annexure VIII (optional).

6.6 Training Programme

In this chapter, details about the training programme may be given under the following sub-heads:

- i) Information Inputs
- ii) Opportunity Guidance
- iii) Behavioural Inputs/AMT
- iv) Managerial Inputs
- v) Procedural Inputs
- vi) Field Visits/Inplant Training
- vii) Market Survey
- viii) Preliminary Project Report Preparation

Each sub-head mentioned above should briefly state the objectives, content, and methodology. For each sub-head, give a brief account of the number and duration of the sessions, background of the faculty, and feedback received. It is important that, as a trainer, you remain present in each session and subsequently reflect upon the communication and rapport between the faculty and the trainees. Separately, you should also add a few lines about your counselling the trainees outside the class-room and the issues on which the counselling was needed.

This section should contain a detailed timetable of EDP (Annexure IX), list of the guest faculty (Annexure X), list of the factories visited (Annexure XI). For the format of these Annexure, see Exhibits 5 to 7. A list (and copies) of the teaching material, if given, may also be annexed (optional).

6.7 Feedback

This section should contain the feedback given by the trainees on various aspects of the programme. It could be divided into three components: feedback on the eight course components, feedback on faculty members, and the overall EDP feedback. It should contain the views of trainees, their reactions, and the trainer's reflections. The feedback could be collected through a structured proforma (given in Exhibit 8 and 9). The data could be tabulated and analyzed in a write-up. While the feedback on the course components should be discussed along with the description of the components, the overall feedback on the EDP may be discussed separately under the sub-head 'FEEDBACK ON THE EDP'.

The feedback data on the course components may be tabulated as per the format given in Exhibit – 10 and it may be put in tabular form along with each component as Table No. 4a, 4b, 4n. Similarly, feedback data on the EDP may also be suitably tabulated and analyzed and put as Table 5a, 5b . . . 5n.

6.8 Valedictory Function

This chapter, by and large, follows the pattern of the chapter on inaugural function as discussed in Section 7 (including the Annexure). The only addition will be the presentation of the progress report on the programme, stating:

- i) Total number of trainees selected in the Programme
- ii) Total number of trainees who joined the Programme
- iii) Total number of trainees who completed the Programme
- iv) Total number of trainees who dropped out of the Programme
- v) Total number of trainees who identified and selected products
- vi) Total number of trainees who completed market survey
- vii) Total number of trainees who applied for loan
- viii) Total number of trainees sanctioned loan
- ix) Total number of trainees who started their units with loan
- x) Total number of trainees who started their units with own funds
- xi) Total number of trainees likely to start their units within next 3 months.
- xii) Total number of trainees likely to start their units in the future.

This information will be in addition to the data on the total number of applications received, the total number of candidates called for the written test and interview, the number of candidates who attended the selection test and the number of candidates finally selected. Annexure, on the lines suggested for documenting the inaugural function, may be enclosed as Annexure XII and XIII to this chapter. A copy of the certificate of successful completion of the EDP should be enclosed as Annexure XIV.

6.9 Follow-Up

Follow-up starts almost immediately – a fortnight after the valedictory function. Therefore, the process up to the first follow-up is incorporated in the documentation report. The first part of the follow-up report must consist of details on: the objectives, the agenda, the follow-up committee, the date, the place, the venue, the time, the attendance, the problems discussed, and the outcome of the first follow-up. In short, it will be like the minutes of the proceedings of the first follow-up meeting.

It should be followed by a plan for the future follow-up, its strategy, and its methodology. A detailed blueprint of the future follow-up, mentioning a time-bound action plan and the persons responsible for it should be mentioned clearly. The chapter should also contain case-by-case, brief accounts of the progress of

the trainees in setting up their units, along with a projection of where they are likely to be by the next follow-up meeting, based on the action taken in the first follow-up meeting.

In this section the trainer should highlight the problems faced by the trainees at various stages of implementation. Mention the financial and infrastructural facilities made available to them. It should help the organisations in taking some pragmatic decisions about solving the trainee problems at their level in the future. Critical areas must be identified and the concerned organisations must be cautioned about them. Annexure to the follow-up should consist of:

- i) A list of the Follow-up Committee Members, with their names, designations and organisations (Annexure XV)
- ii) A list of invitees to the follow-up meetings (Annexure XVI)
- iii) A list of persons who attended the first follow-up meeting (Annexure XVII)
- iv) Progress Report of the trainees as on the date of the first follow-up meeting in a tabular form as per the proforma given in Exhibit – 11 (Annexure XVIII).

6.10 Conclusion

In this chapter you, as a trainer-motivator, should give your frank opinion about the programme, the trainees, the centre, the support received, the support required, and any other issue you would like to highlight. You may predict future requirements of the trainees on the basis of their expectations and may help the organisation in planning a better follow-up strategy. In this section you may also advise on the feasibility of conducting another programme in that area, and comment on the problems, prospects, and issues involved. You should also caution your successors on various issues by indicating what to do or what not to do. Some trainers put it as 'an inventory of do's and don'ts' and also comment on persons to be contacted, places to stay, social groups to interact with, etc. The report should carry a cover titled 'EDP at a Glance', giving the reader a statistical bird's eye view of the accomplishments of the EDP under documentation. For the format of this cover see Exhibit – 12. For a brief outline of the documentation report, see Exhibit – 13 to this chapter which gives a layout for the complete report.

7.0 Concluding Remarks

So far, the outlines of a documentation report have been discussed which includes the first follow-up meeting. Now, a question may be asked: is this documentation complete as far as the EDP in question is concerned? Answers to this may be both 'No' and 'Yes'. 'No', because the whole process of the EDP is complete at the last follow-up meeting, while the documentation report covers only up to the first follow-up meeting; 'Yes', because the sponsoring as well as the implementing organisation wants a documentation report soon after the

programme is over, and for that matter coverage and results up to first follow-up meeting are sufficient to satisfy the queries of these organisations. That is why here the coverage has been restricted up to the first follow-up meet. However, it may not be out of place to give some hints for the subsequent documentation of the EDP conducted by the trainer. During the first follow-up meeting, you as a trainer should be ready with one separate file on each trainee, containing all the necessary information about him/her and the progress in each case. It may also contain the case history or the progress card, maintained periodically for each trainee, and detail of the problems faced by each one of them, at every stage, up to the successful launching and running of the venture.

Once a trainee launches his/her unit and starts running it successfully, you as the trainer should prepare his case history and close his file. Such case studies (histories) may be compiled and analyzed later. This process will continue till the last trainee launches his/her venture or gives up. No time-frame can be prescribed for this.

Copies of all the correspondence, loan applications, loan sanctions, other sanction letters, orders for machinery, process of procuring raw material with related correspondence, record of the discussion in each case during the follow-up meetings and its outcome, and notes on the individual trainees should be filed systematically for final documentation. All these will provide a good base material for writing the case studies as well as evaluating the EDP.

This type of documentation can provide a solid background for the trainer to evaluate the EDP and conduct research on various aspects of the process. That will be the final documentation report on the EDP.

EXHIBIT – 1

TABLE – 1

ENTREPRENEURSHIP DEVELOPMENT PROGRAMME

(Name of the Centre)

Date: From To

List of Possible Business Opportunities

Sr. No.	Possible Business Opportunity	Any Remark
1.		
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.		
10.		
.		
.		
.		
n		

EXHIBIT – 2

TABLE – 2

ENTREPRENEURSHIP DEVELOPMENT PROGRAMME

(Name of the Centre)

Date : From To

Interview Statistics At a Glance

1. Total Number of Candidates Applied
2. Total Number of Candidates Called for
Written test
3. Total Number of Candidates Appeared in
Written test
4. Total Number of Candidates Called for
Interview
5. Total Number of Candidates Appeared in
Interview
6. Total Number of Candidates Finally
Selected

Date and Time of Written Test

Place/Venue of Written Test

Duration of Written Test

Date and Time of Personal Interview

Place/Venue of Personal Interview

Number of the Interview Committee Present

EXHIBIT – 3

ANNEXURES V & VI

ENTREPRENEURSHIP DEVELOPMENT PROGRAMME

(Name of the Centre)

PROFILE OF THE SELECTED/REJECTED CANDIDATES

Date of Interview:

Place of Interview:

Sr. No.	Name & address	Age (Yrs.)	Edu. Quali.	Exper. (Yrs.)	Present Status	Product Proposed	Own Investment (Rs)	Remarks (Selected/ Rejected)
1	2	3	4	5	6	7	8	9
1.								
2.								
3								
4								
5								
6.								
.								
.								
.								
n								

EXHIBIT – 4

TABLE – 3

ENTREPRENEURSHIP DEVELOPMENT PROGRAMME

(Name of the Centre & Target Group)

PROFILE OF THE SELECTED CANDIDATE

I.	Age (in years) *	<u>No. of selected candidates & percentage</u>
	< 25 (%)
	25 – 30 (%)
	30 – 35 (%)
	35 – 40 (%)
	> 40 (%)
Total		(100)
II.	Sex	<u>No. of candidates & percentage</u>
	Male (%)
	Female (%)
Total		(100)
III.	Caste	<u>No. of candidates & percentage</u>
1	SC/ST (%)
2	OBC (%)
3	General (%)
4	Muslims(%)
5	Christians(%)
6	Others(%)
Total		(100)

IV. Educational Background No. of candidates and percentage

1.	Uneducated (%)
2.	Less than SSC (%)
3.	SSC (%)
4.	Graduate (Arts & Commerce) (%)
5.	Graduate (Science) (%)
6.	Post-Graduate (%)
7.	Engineering Degree (%)
8.	Engineering Diploma (%)
9.	MBA (%)
10.	Others (%)

Total	(100)
-------	-------

V. Present Status No. of candidates and percentage

1.	Unemployed (%)
2.	Student (%)
3.	Service (Pvt) (%)
4.	Service (Govt.) (%)
5.	Trade/Business (%)
6.	Apprentice /Trainee (%)

Total	(100)
-------	-------

VI. Working Experience (in years) No. of candidates and percentage

No Experience (%)
Less than 1 year (%)
1 - 2 (%)
2 – 3 (%)
3 – 4 (%)
4 – 5 (%)
5 – 10 (%)
More than 10 (%)

Total	(100)
-------	-------

VII.	Project proposed (at the time of selection)	<u>No. of candidates and percentage</u>
	Food and Food Products (%)
	Engineering (%)
	Chemicals (%)
	Textiles/Garments (%)
	Electrical / Electronics	. (%)
	Drugs & Pharmaceuticals (%)
	Others	. (%)
<hr/>		
	Total	(100)
<hr/>		

VIII.	Own Investment (in Rs. '000)	<u>No. of candidates and percentage or Investment Capacity</u>
	5 – 10(%)
	10 – 20(%)
	20 – 50(%)
	50 – 100(%)
	100 – 200(%)
	200 – 500(%)
	500 – 1000(%)
	1000 – 2500(%)
	2500 - 5000(%)
	More than 5000(%)
<hr/>		
	Total	(100)
<hr/>		

* Frequency and the list etc. may be modified according to the needs.

EXHIBIT – 5

ANNEXURE IX

ENTREPRENEURSHIP DEVELOPMENT PROGRAMME

(Name of the Centre)

Date : From To

TIME TABLE

Duration: Weeks (Full-time/part-time)

Commencing on: Dated Month Year

Time:

Place/Venue:

Date & Day	Time	Session/Subject	Faculty and Organisation
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EXHIBIT – 6

ANNEXURE X

ENTREPRENEURSHIP DEVELOPMENT PROGRAMME

(Name of the Centre)

Date : From To

List of Faculty Members Invited

Sr.No.	Name & Address	Designation	Organisation	Specialization
1.				
2.				
3.				
n.				

EXHIBIT – 7

ANNEXURE XI

ENTREPRENEURSHIP DEVELOPMENT PROGRAMME

(Name of the Centre)

Date : From To

List of Factories Visited

Sr.No.	Name & Address of the unit visited	Product	Date & Time
1.			
2.			
3.			
4.			
.			
.			
n.			

EXHIBIT – 8

FORMAT FOR FEEDBACK ON SPECIFIC COMPONENT OF EDP ENTREPRENEURSHIP DEVELOPMENT PROGRAMME

(Name of the Centre)

Date: From To

1. Name of the component:
2. Date:
3. Place: Name of the Trainee
.....

(Please give your frank opinion on the delivery of this component to you. It will help us. Please tick any one of the choices given as a probable answer to each question)

Q.1) How much did you gain from this component?

- | | | | | | |
|----|------------------|----|-------------------|----|-----------------|
| a) | Gained very much | b) | Gained sufficient | c) | Not gained much |
| d) | Gained nothing | e) | No comments | | |

Q.2) What is your opinion about the time devoted to this component?

- | | | | | | |
|----|------------|----|-------------|----|----------|
| a) | Very short | b) | short | c) | Adequate |
| d) | Too long | e) | No comments | | |

Q.3) Did you find the component informative?

- | | | | | | |
|----|-------------|----|---------------------|----|----|
| a) | Yes | b) | To some extent only | c) | No |
| d) | No comments | | | | |

Q.4) Did it fulfill your expectation?

- | | | | | | |
|----|-------------|----|----------------|----|----|
| a) | Yes | b) | To some extent | c) | No |
| d) | No comments | | | | |

Q.5) How has this component helped or is going to help you? Write maximum three sentences.

- 1.
- 2.
- 3.

Q.6) Indicate what you liked most in the component. No more than three sentences.

- 1.
- 2.
- 3.

Q.7) Indicate what you did not like in the component. Maximum three sentences.

- 1.
- 2.
- 3.

Q.8) Any comment on the faculty, which delivered the lectures. (Write maximum three sentences).

- 1.
- 2.
- 3.

Q.9) What are your suggestions to improve the contents of the component or make it more effective? Maximum five sentences.

- 1.
- 2.
- 3.
- 4.
- 5.

EXHIBIT – 9

ENTREPRENEURSHIP DEVELOPMENT INSTITUTE OF INDIA DIST. GANDHINAGAR

CENTRE:

DATE:

STATE:

TRAINER:

We request you to please:

- 1) Give your own opinions only
 - 2) Do not write your name
 - 3) Be frank and polite. Your opinion will be helpful to us in making our future programmes more successful.
-

PART – I

- 1) Who told you about this programme? (Tick Mark)
 - Through Advertisement
 - Through friends
 - Through Industries Department
 - Any other (Please specify)
- 2) Are you making continuous & appropriate efforts to fulfil your object for which you have joined this programme? Yes/No
- 3) How much importance you are giving to this programme in your day-to-day affairs?
- 4) Because of this training programme, is there any change in your confidence? Yes/No
It has increased/decreased
If so, it is because of
- 5) Regarding this EDP have you ever discussed anything with anybody?
With whom and what were their views?
- 6)
 - Duration of training : Short/Long/Appropriate
 - Timing : Convenient/Inconvenient
 - Planning of the whole training : Excellent/Very good/
Good/ Satisfactory/ Not
Satisfactory

EXHIBIT – 10

TABLE – 4 (a,b,c....n)
Analysis of the feed-back on various Inputs

1. <u>Information Inputs (I.I.)</u>					
<u>Questions</u>		<u>Answers (No. of Trainees)</u>			
i) Gain from the I.I. (n =)	(a) Very much Nos. %	(b) Sufficient Nos. %	(c) Not much Nos. %	(d) Nothing Nos. %	(e) No Comments Nos. %
ii) Time/Duration of I.I. (n =)	(a) Very short Nos. %	(b) Short Nos. %	(c) Adequate Nos. %	(d) Too long Nos. %	(e) No Comments Nos. %
iii) Informativeness of I.I. (n =)	(a) Yes Nos. %	(b) To some extent Nos. %	(c) No Nos. %	(d) No Comments Nos. %	
iv) Fulfilling Expectation by I.I. (n =)	(a) Yes Nos. %	(b) To some extent Nos. %	(c) No Nos. %	(d) No Comments Nos. %	
v)	List down all answers without repeating				
vi)					
vii)					
viii)					
ix)					

2. Opportunity Guidance (O.G.)

Repeat above and tabulate according to the answers

- 3. -do-
- 4. -do-
- 5. -do-
- 6. -do-
- 7. -do-
- 8. -do-

7) Out of all experts who were the best 5 experts you find? Why?

NAME

REASON

- 1. :
- 2. :
- 3. :
- 4. :
- 5. :

8) Out of all experts, whom did you not like and why?

- 1. :
- 2. :
- 3. :
- 4. :
- 5. :

9) What were your expectations from experts? (Be specific)

10) Your suggestions to improve this programme:

EXHIBIT – 11

ANNEXURE XVIII

ENTREPRENEURSHIP DEVELOPMENT PROGRAMME

(Centre)

Date: To:

Progress of the Trainees as on (date)

Name of the Trainer-Motivator

1	Serial Number
2	Name & address of the Entrepreneur
3	Name & address of the unit
4	Name of the product selected
5	Total project cost (Rs. lakhs)
6	Term Loan (Rs. lakhs)
7	Working Capital (Rs. lakhs)
8	Subsidy component (Rs. lakhs)
9	Own investment (Rs. lakhs)
10	Potential employment (Nos.)
11	Infrastructure (water/power)
12	Location (of the unit)
13	Present status of the unit
14	Remarks Need and future course of action

1.

2.

3.

4.

5.

.

.

n

EXHIBIT – 12

ENTREPRENEURSHIP DEVELOPMENT PROGRAMME

(Name of the Centre)

At a Glance

ADDRESS:

Name of the Trainer-Motivator
Designation
Organisations

- 1) Name of the Organisation /Implementing Agency
- 2) Sponsoring Organisation and address
- 3) Collaborating Organisation and address (if any)
- 4) Target Group (S&T, General, SC/ST, Women, Rural, etc.)
- 5) Duration (Part-time/Full-time)
- 6) Date of commencement
- 7) Date of completion
- 8) Number of application forms issued
- 9) Number of application forms submitted
- 10) Number of applicants called for written test
- 11) Number of applicants appeared for written test
- 12) Number of applicants called for interview
- 13) Number of applicants appeared in the interview
- 14) Number of applicants finally selected
- 15) Number of applicants joined the EDP
- 16) Number of trainees completed the EDP
- 17) Number of trainees dropped out
- 18) Number of trainees identified product
- 19) Number of trainees completed market survey
- 20) Number of trainees registered with DIC
- 21) Number of trainees prepared Project Report
- 22) Number of trainees submitted loan application
- 23) Number of trainees sanctioned loans
- 24) Number of trainees started units with own funds
- 25) Number of trainees started units with loans
- 26) Total number of trainees started their units
- 27) Total number of trainees likely to start their units
(Within 3 months
Within 6 months
within 9 months)
- 28) Date of first follow-up meeting held
- 29) Number of follow-up meetings proposed in coming 6 months

EXHIBIT – 13

LAYOUT OF THE DOCUMENTATION REPORT

CONTENTS

TITLE

ACKNOWLEDGEMENTS

EDP AT A GLANCE

Page No.

A CHAPTERS

Chapter No.

1. Introduction
2. Pre-promotional Activities
3. Promotional Activities
 - Promotional Campaign
 - Identification of the Potential Entrepreneurs
 - Outcome of the Promotional Activities
 - Potential Business Opportunities
4. Selection of the Trainee Entrepreneurs
 - Constitution of the Selection Committee
 - Selection Procedure
 - Profile of the Selected Candidates
5. Inaugural function
6. Training Programme
 - Information Input
 - Objective, content, methodology and feedback
 - Opportunity Guidance
 - Objectives, content, methodology and feedback
 - Behavioural Inputs
 - Objective, content, methodology and feedback
 - Managerial Inputs
 - Objective, content, methodology and feedback
 - Procedural Inputs
 - Objective, content, methodology and feedback

- Field Visits/ In plant Training
Objective, content, methodology and feedback
- Market Survey
Objective, content, methodology and feedback
- Preliminary Project Report
Objective, content, methodology and feedback
- Glaring cases of the Trainees
- 7) Feedback on the EDP
 - Reflections of the Trainer-Motivator
- 8) Valedictory Function
- 9) Follow-up
 - Follow-up Committee
 - First Follow-up Meeting
 - Follow-up Plan and Strategy
 - Progress of the Trainees (case by case)
 - Analysis of the Problems
- 10) Conclusion
 - Trainer-Motivators, views on the programme
 - Suggestions for other EDP in that centre (if any)
 - Invention of Do's and Don'ts

A) List of Tables

<u>Table No.</u>	<u>Title</u>	<u>Page</u>
1	List of possible business opportunities	
2	Interview statistics at a glance	
3	Profile of selected candidates	
4 (a,b,n)	Input wise analysis of the feedback	
5 (a...n)	Feedback analysis of EDP	

C) List of Annexure

<u>Annexure No.</u>	<u>Title</u>	<u>Page</u>
I	Centre Feasibility Report	
II	Persons Contacted during Promotional Activities	
III	Copies of Press Notes, Handbills,	

	Posters, gist of radio announcement
IV	Copy of the application blank
V	Individual Profile of the Selected Candidates
VI	Individual Profile of the Rejected Candidates
VII	Copy of the Invitation Card
VIII	News clippings of the Inaugural Function
IX	Time-table of the EDP
X	List and Profile of the Guest Faculty
XI	List and Address of the Factories Visited
XII	Copy of the Invitation Card for Valedictory Function
XIII	News Clippings and Photographs of the Valedictory Function
XIV	Copy of the Certificate for Successfully Completing the EDP
XV	List of the Members of the follow-up Committee
XVI	List of the Invitees in the I Follow-up Meeting
XVII	List of the Invitees Attended Follow-up Meeting
XVIII	Progress Report of the Trainees up to I Follow-up Meeting

CHAPTER 7

REPORTING TO SPONSORS AND COLLABORATORS

Objective

The major objective of this chapter is to make the trainers aware of the need of reporting to the sponsors and collaborators from time to time.

1.0 Introduction

It has been often observed that the programme implementing agencies cannot comply with the minimum reporting requirements of the funding agencies. Consequently, they become suspect in the eyes of the donors despite having done no wrong, only because they cannot supply the right kind of information at the right time. This primarily happens because most of the implementing agencies think that the job is too tedious, and therefore ignores the reporting. In fact, it is not so difficult, if you involve a system.

2.0 Submitting the Action Plan: The First Reporting

Immediately after signing the memorandum of understanding or acceptance letter, you (the NGO) will be required to submit an action plan, whatever the project. In the case of EDPs you should submit the plan to the sponsors, indicating the schedule of activities, with dates (See Annexure I for the format of the Action Plan).

3.0 Submitting the Publicity Material

After submitting the action plan, you will begin the promotional activities. The sponsors normally expect a few copies of the posters, handbills, or pamphlets, depending upon what is used to create awareness about the programme in the area. Please send two copies of the printed material to each of your sponsors and collaborators immediately after their first use.

4.0 Post-Selection Information

After the promotional campaign you organize the interviews to select the trainees for the EDP. Once the interviews are over and the trainees have been selected, you should send a brief account of the process, including the constitution of the selection committee, number of candidates appeared and selected (for the format see Annexure II). Also send details about the candidates selected for the training in a tabular form (See Annexure III for the format).

5.0 Post-Programme Report

On completion of the programme, send a post-programme report to the sponsors and the collaborators, highlighting the main features of the training. You may use the format given to you in the chapter titled 'Documentation of the EDPs'. Thereafter, send the first follow-up report three months after the completion of the programme (See Annexure IV for format).

Subsequently, send to the sponsors and the collaborators the progress reports and trainee-wise information in tabular form, as mentioned in the preceding paragraph, every six months up to two years after completion of the programme.

6.0 Final Report and Audited Statement

On completion of the two years of follow-up, send a final report to the sponsors and collaborators as per the monitoring proforma in Annexure IV. Along with the final report, also do send the claim for final payment of the grant, duly audited by a chartered accountant.

ANNEXURE I

ACTION PLAN FORMAT

Name of the Regional Co-ordinator:
Dtd.

Sr. No.	Name & Address of the NGO	Location	Date of Signing the MoU	Date of Launching Promotion Activities	Date of Selection Interview	Dates of Starting and Completion of the Training		Date of First Follow-up Meeting	Formation of Monitoring / Interview Committee
						Com-menc-ement	Comple-tion		

ANNEXURE II

ENTREPRENEURSHIP DEVELOPMENT PROGRAMME

(Name of the Centre)

Date: From To

Interview Statistics At a Glance

1. Total Number of Candidates Applied
2. Total Number of Candidates Called for
Written Test
3. Total Number of Candidates Appeared in
Written Test
4. Total Number of Candidates Called for
Interview
5. Total Number of Candidates Appeared in
Interview
6. Total Number of Candidates Finally
Selected

Date and Time of Written Test

Place/Venue of Written Test

Duration of Written Test

Date and Time of Personal Interview

Place/Venue of Personal Interview

Number of the Interview Committee Present

ANNEXURE III

PROFORMA FOR SUBMISSION OF POST-PROGRAMME INFORMATION

Location:

1. Name & Address of the NGO with Tel. No.:
2. Name of the Trainer Motivator:
3. Total candidates trained:
4. Name of the Sponsor:
5. Starting & Completion Dates of EDP:
6. Name of the Regional Co-ordinator:
7. Total Candidates started their ventures:

Sr. No.	Name & Address of the Candidate	Name & Address of the Unit	Starting Date of the Unit	Age of the Trainee	Educational Qualification	Sex M/F	SC/ST OBC/GEN	Family Income at the time of joining EDP	Nature of activity before EDP	Present Status	Present Income	Product
1.	2	3	4	5	6	7	8	9	10	11	12	13

ANNEXURE IV

PROFORMA OF PERIODICAL PROGRESS REPORT OF EDPs

*(To be completed by the Implementing Agency and furnished to
_____ (SPONSORING AGENCY) as indicated below)*

1. **SECTIONS I TO IV:** Within 3 months of the completion of each training programme (once for each batch).
2. **SECTION V:** After 6 months of the completion of training and thereafter once in six months.
3. **SECTION VI:** After the end of the second year i.e., on completion of the project report (once).

I ACTIVITY: PRE-TRAINING PREPARATIONS (OBJECTIVE)

To furnish details on the pre-promotional activities and promotional campaign.

KEY QUESTIONS:

1. What were the influencing factors for selecting the locations? Was it based on a survey of the potential of the location? Give details.
2. How was the message of the EDP spread among people? Which tools and techniques were used? How effective were they?
3. How much time did it take to promote the programme?
4. Which were the institutions (including banks) contacted/informed about the programme? How did you approach them? What were their responses?

II ACTIVITY: SELECTION OF TRAINEES (OBJECTIVE)

To furnish information on the selection process.

KEY QUESTIONS:

1. What was the composition of the selection committee?
2. What was the process of selecting the trainees? Which were the techniques used?

3. How many candidates applied, how many were called for test/interview, how many got selected and actually joined?
4. What was the basis for selection? Discuss briefly.
5. Please give a brief profile of the selected candidates in terms of age, education, sex, family income, occupational background, caste, community, work experience, etc.
6. Did you verify that the candidates selected were not eligible for bank loans for any reason? If so, how?
7. What were the motivating inputs provided to the trainees for joining the programme?

III ACTIVITY – COURSE DESIGN (OBJECTIVE)

To furnish details on training input structure and design.

KEY QUESTIONS:

1. Was the course specially designed to suit the target group or was it a standard module followed in other EDPs?
2. Which factors were taken into consideration before finalising the design of the course?
3. What was the duration of the course and the medium of instruction?
4. Please give a session wise timetable of the training programme.
5. How many candidates selected their activity:
 - before joining the training itself ?
 - during the training (specify at what stage) ?
 - after training (specify stage) ?
6. How many candidates selected the activity on their own and how many through counselling?
7. Was any market assessment (survey) done by the trainees before selection of activity? If so, give details.
8. How did the trainees prepare their project reports?

IV ACTIVITY – METHODOLOGY OF TRAINING (OBJECTIVE)

To impart training in an interesting, easy to understand, and result-oriented manner using appropriate, simple, innovative and participatory techniques.

KEY QUESTIONS:

1. Did the course have a full-time co-coordinator? How many other faculties were involved in the training?
2. What are the experiences of the faculty? Were they fully conversant with the local language?
3. Which topics were required to be handled by the guest faculty and who handled them? What was their background?
4. Did the training programme contain the following?

Number

Group Discussion
Case Studies
Role Play and Game Sessions
Audio-visual Sessions

5. How many industrial/other units were visited during the training? What were the two most important lessons learnt by the trainees from these visits?
6. How many successful entrepreneurs were invited to have experience sharing with the participants? What were the two/three most important messages received by the participants?
7. According to the evaluation of the programme, how many participants felt that the training was:
 - Interesting
 - O.K.
 - Boring
 - Useful
8. Name three most important suggestions made by the participants to improve effectiveness of the programme?
9. How many selected candidates completed the training/how many dropped out? Mention reasons for dropping out.

V ACTIVITY – POST-TRAINING (OBJECTIVE)

To ensure that:

The trained youths set up independent units, with credit support from banks and available support services from the existing developmental organisations, to produce marketable goods and services on a commercially viable basis and are able to solve the problems of production, management and linkages, and stabilize their business.

KEY QUESTIONS:

1. What is the system of contacting the trainees after the training? Individual meeting/Group meetings/any other system? Please indicate.
2. How many group meetings of the trainees were held during the period under reporting? Were the local banks/DIC officials invited to the group meetings to solve the problems of trainees?
3. How many times was each trainee contacted so far? Where and how?
4. How many did not respond to the follow-up invitation? What were the reasons?
5. What type of assistance was provided in the follow-up meetings? Give specific details with respect to previous meetings.
6. On which occasions did you have to visit bank branches, DIC, and other support organisations? Give details of such visits during the period under reporting. What was the result of these visits?
7. Of the units started, how many of them are yet to stabilize in their business and for what reasons? What type of assistance have you rendered to these units?
8. Number of units set up:
 - With bank finance
 - Own funds
 - Other sources (please specify)
 - Total
9. In respect of units set up (detail unit wise)
 - Project cost
 - Bank loan

VI ACTIVITY – DOCUMENTATION (OBJECTIVE)

The agency has to maintain and share with the sponsor a complete document of its experience in training and follow-up so as to identify changes/refinements/reforms that may be needed to make the programme more effective.

KEY QUESTIONS:

1. Whether a detailed profile of the trainee is obtained before the training and periodically updated at different stages? Please furnish 4-5 updated profiles.
2. Whether you have documented your experiences of different stages of the programmes? If so, please furnish a copy.
3. Have you identified the lessons learnt so far and thought of possible improvements? Please give details.
4. In respect of units set up:
 - Total number of units set up
 - Average project cost
 - Average bank loan
 - Average income generated
 - Average number of persons employed
5. Improvement in quality of lending: (Based upon discussion with financing banks)
 - i) What is the degree of utilisation of bank credit?
 - ii) What is the recovery performance of banks in respect of the borrowers trained by the organisation under the EDP?

CHAPTER 8

SELECTION OF POTENTIAL ENTREPRENEUR TRAINEES

Objective

The major objective of this chapter is to facilitate the trainer-motivators in selecting the right kind of trainees who have a better potential to start their ventures after the training. The techniques discussed in this chapter will help to identify the degree of latent entrepreneurial potential of a person.

1.0 Introduction

In general, two kinds of candidates apply for the EDPs. First, those who can read and write well; second those who are either illiterate or have left their studies long ago and are not used to articulating through writing. Therefore, the chapter discusses two selection methods – one for those who can read and write, and the other for those who may find it difficult to express themselves through written communication. The first tool is known as the General Enterprising Tendency Test (GET), and the other as the Modified Focused Behavioural Event Interview (MFBEI) Technique.

SECTION – I

2.0 General Enterprising Tendency Test (GET)

The GET tool was developed by Durham University Business School, to assess entrepreneurial tendencies, as a part of a cross-country research initiative. GET is a technique which measures the enterprising tendency in a person. In GET, a set of 54 statements are given to the candidates. They are required to encircle either 'agree' or 'disagree' against each of the statements. The test should take about 15 minutes. The test paper should contain the following instructions to the candidates. They should also be asked to write their names and mention the place, date, etc.

2.1 Instructions for the Candidates

- The exercise is to be completed within 15 minutes.
- There are no right or wrong answers.
- It will help us to understand you better.

On the next few pages, you will find a list of 54 statements. You are required to encircle either 'agree' or 'disagree'. If you agree to the statement, and it reflects your thinking most closely, encircle '**Agree**'. If you do not think the statement reflects your thinking or belief about yourself, encircle '**Disagree**'.

For example, take the following sentence:

'I like to read novels more than books on current political affairs.' Agree/Disagree

If you like to read novels more than books on current political affairs, encircle **Agree**

But if you like to read books on current political affairs more than novels, encircle **Disagree**.

- If, for whatever reason, you neither fully agree nor fully disagree to a particular statement, try to decide whether you agree to it more than disagree and circle the appropriate answer.
- Try to be closest to your thinking while answering. This will help us understand you and your training needs more accurately.

Start expressing your agreement or disagreement to the enclosed statements.

STATEMENT SHEET

1. I would not mind routine unchallenging work, if the pay is good.

Agree / Disagree

2. When I have to set my own targets, I set difficult rather than easy ones.

Agree / Disagree

3. I do not like to do things that are novel or unconventional.

Agree / Disagree

4. Capable people who fail to become successful have not taken chances when they have occurred.

Agree / Disagree

5. I rarely daydream.

Agree / Disagree

6. I usually defend my point of view, if someone disagrees with me.

Agree / Disagree

7. You are either naturally good at something or you are not, effort makes no difference.

Agree / Disagree

8. Sometimes people find my ideas unusual.

Agree / Disagree

9. If I had to gamble Rs. 100/-, I would rather buy a lottery ticket than play cards.

Agree / Disagree

10. I like challenges that really stretch my abilities rather than things I can do easily.

Agree / Disagree

11. I would prefer to have a reasonable income in a job that I was sure of keeping rather than in a job that I might lose if I did not perform well.

Agree / Disagree

12. I like to do things in my own way without worrying about what other people think.

Agree / Disagree

13. Many of the bad times that people experience are due to bad luck.

Agree / Disagree

14. I like to find out about things even if it means handling some problems while doing so.

Agree / Disagree

15. If I am having problems with a task, I leave it and move onto something else.

Agree / Disagree

16. When I make plans to do something, I nearly always do what I plan.

Agree / Disagree

17. I do not like sudden changes in my life.

Agree / Disagree

18. I will take risks, if the chances of success are 50/50.

Agree / Disagree

19. I think more of the present and the past than of the future.

Agree / Disagree

20. If I had a good idea for making some money, I would be willing to borrow some money to enable me to do it.

Agree / Disagree

21. When I am in a group, I am happy to let someone else take the lead.

Agree / Disagree

22. People generally get what they deserve.

Agree / Disagree

23. I do not like guessing.

Agree / Disagree

24. It is more important to do a job well than to try to please people.

Agree / Disagree

25. I will get what I want from life, if I please the people with control over me.

Agree / Disagree

26. Other people think that I ask a lot of questions.

Agree / Disagree

27. If there were a chance of failure, I would rather not do it.

Agree / Disagree

28. I get annoyed, if people are not on time.

Agree / Disagree

29. Before I make a decision, I like to have all the facts, no matter how long it takes.

Agree / Disagree

30. When tackling a task, I rarely need or want help.

Agree / Disagree

31. Success cannot come unless you are in the right place at the right time.

Agree / Disagree

32. I prefer being quite good at several things to being very good at one thing.

Agree / Disagree

33. I would rather work with a person I like, but who is not very good at the job, than work with someone I do not really like but who is very good at the job.

Agree / Disagree

34. Being successful is the result of working hard; luck has nothing to do with it.

Agree / Disagree

35. I prefer doing things in the usual way to trying out new ways.

Agree / Disagree

36. Before making an important decision, I prefer weighing up the pros and cons quickly to spending a lot of time thinking about it.

Agree / Disagree

37. I would rather work on a task as a member of a team than take responsibility for it myself.

Agree / Disagree

38. I would rather take an opportunity that may lead to even better things than have the experience that I am sure to enjoy.

Agree / Disagree

39. I do what is expected of me and follow instructions.

Agree / Disagree

40. For me, getting what I want has little to do with luck.

Agree / Disagree

41. I like to have my life organized so that it runs smoothly and as planned.

Agree / Disagree

42. When I am faced with a challenge, I think more about the results of succeeding than the effects of failing.

Agree / Disagree

43. I believe that what happens to me in life is determined mostly by other people.

Agree / Disagree

44. I can handle a lot of things at the same time.

Agree / Disagree

45. I find it difficult to ask for favours from other people.

Agree / Disagree

46. I get up early, stay late or skip meals to get special tasks done.

Agree / Disagree

47. What we are used to is usually better than what is unfamiliar.

Agree / Disagree

48. Most people think that I am stubborn.

Agree / Disagree

49. People's failures are rarely the result of their poor judgment.

Agree / Disagree

50. Sometimes I have so many ideas; I do not know which one to pick.

Agree / Disagree

51. I find it easy to relax on a holiday.

Agree / Disagree

52. I get what I want from life because I work hard to make it happen.

Agree / Disagree

53. It is harder for me to adapt to change than keep to routine.

Agree / Disagree

54. I like to start new projects that may be risky.

Agree / Disagree

Scoring of the Sheets

After 15 minutes, collect the test papers and score as per the following instructions:

- i. Take one scoring sheet for each candidate.
- ii. Circle the (A) in the box, which corresponds to the statement number, if the candidate has encircled 'Agree' against the statement,
OR
Circle the (D) if the candidate has encircled 'Disagree' against the statement.

3.0 Calculating the Scores

- 3.1 Starting with box 1 in the top right hand corner of the answer sheet and working across the sheet to the bottom, give one point for every 'D' that has been encircled in the shaded boxes on that column like this.



- 3.2 Similarly, give one point for every 'A' that has been encircled in the un shaded boxes on that column.
- 3.3 Now add up the total score in the top row and write it in the margin.
- 3.4 Do the same for the remaining eight rows scoring in the same manner as above.
- 3.5 When you have finished, transfer the scores for each row to the boxes below.

ROW 1	-----	ROW 2	-----	ROW 3	-----
ROW 4	-----	ROW 5	-----	ROW 6	-----
ROW 7	-----	ROW 8	-----	ROW 9	-----

Add the total of Row 1 and Row 6.

This will give you a score for Section 1	_____
Row 3 alone will give you a score for Section 2	_____
Add the scores in Row 5 and 8 for Section 3	_____
Add the scores in Row 2 and 9 for Section 4	_____
Add the scores in Row 4 and 7 for Section 5	_____

Grand Total _____

[RANK THE CANDIDATES ACCORDING TO THEIR TOTAL SCORES].

4.0 Assessing the Score

[This section is for your reference. As a trainer-motivator you should know as to what you are scoring a candidate for. This may be quite useful when you start personal counselling to the trainees. This profile will help you in deciding upon your counselling strategy].

Each Section assesses particular attributes. A high score in any category means that the candidate has many of the qualities, which that particular Section has been measuring. The Sections are as follows:

Section – 1 Need For Achievement

Maximum Score: 12

Average Score – 9

If he/she has scored well in this section, he/she is likely to have many, if not all, of the following qualities:

- Forward looking
- Self-sufficient
- Optimistic rather than pessimistic
- Task orientated
- Restless and energetic
- Self-confident
- Persistent and determined
- Dedication to complete a task

Section – 2 Need for Autonomy / Independence

Maximum Score: 6

Average Score – 4

The score reflects the degree of intensity of the following attributes:

- Likes doing unconventional things
- Prefers working alone
- Need to do their own things
- Need to express what they think
- Dislikes taking orders
- Likes to make up his/her own mind
- Does not bow to group pressure
- Is stubborn and determined

Section – 3 Creative Tendencies

Maximum Score: 12

Average Score – 8

The score reflects whether the candidate is:

- Imaginative and innovative
- Has a tendency to daydream
- Is versatile and curious
- Has lots of ideas
- Is intuitive and guesses well
- Enjoys new challenges
- Likes novelty and change

Section – 4 Risk Taking Tendencies

Maximum Score: 12

Average Score – 8

The score indicates moderate/calculated risk-taking behaviour of a person. It reflects whether the person:

- Acts on incomplete information
- Makes judgment when incomplete data is sufficient
- Accurately assesses his/her own capabilities
- Is neither over nor under ambitious
- Evaluates likely benefits vis-à-vis cost before taking a decision
- Sets challenging but attainable goals

Section – 5 Drive and Determination

Maximum Score: 12

Average Score – 8

If a person achieves a high score in this section, he/she tends to:

- Take advantage of opportunities
- Discount fate
- Write his/her own luck
- Be self-confident
- Believe in controlling his/her own destiny
- Equate results with efforts
- Show considerable determination

SCORING SHEET FOR *GET* TEST

Name of the Candidate:

Roll No.

46 A D	37 A D	28 A D	19 A D	10 A D	1 A D
47 A D	38 A D	29 A D	20 A D	11 A D	2 A D
48 A D	39 A D	30 A D	21 A D	12 A D	3 A D
49 A D	40 A D	31 A D	22 A D	13 A D	4 A D
50 A D	41 A D	32 A D	23 A D	14 A D	5 A D
51 A D	42 A D	33 A D	24 A D	15 A D	6 A D
52 A D	43 A D	34 A D	25 A D	16 A D	7 A D
53 A D	44 A D	35 A D	26 A D	17 A D	8 A D
54 A D	45 A D	36 A D	27 A D	18 A D	9 A D

Name and signatures of the Scorer:

Date:

SECTION – II

MODIFIED FOCUSED BEHAVIOURAL INTERVIEW TECHNIQUE

5.0 Introduction:

Modified Focussed Behavioural Event Interview Technique (MFBEI) is a modified version of Behavioural Event Interview Technique (FBEI), developed by Prof. David C. McClelland and his associates, with the involvement of EDI, for identifying entrepreneurial competencies in a person. Best way to understand a person is to be with him/her and observe his/her behaviour in different situations, over a long period of time. However, it is not feasible owing to a variety of reasons including time and resources that may be required for such an exercise. The other, more viable option could be to take a person back in his/her real life and ask him/her to narrate some incidents, which occurred in his/her life recently. When a person narrates his/her own experiences, his/her involvement and the outcome, he/she will naturally narrate his/her thoughts, feelings and actions. One could listen carefully and make reasonably good assessment of the person. Since it is interview based, focuses on his/her behaviour related to a specific event that occurred in his/her life, it is known as Focussed Behavioural Event Interview Technique (FBEI). Through this technique we try to assess the following entrepreneurial competencies:

1. **Initiative:** When a person goes beyond job requirements or the demands of the situation. He/she does things before being asked for or forced by the events; or acts to extend the business into new areas, products and services.
2. **Seeing and Acting on Opportunities:** Looks for and takes actions on opportunities; and tries to seize unusual opportunities to obtain finances, land, work space or assistance.
3. **Persistence:** Takes repeated actions to overcome obstacles that get in the way of achieving his/her goals. He/she also takes action in the face of a significant obstacle.
4. **Information Seeking:** Seeks necessary information to get clarity on the problem, and does not venture into an activity totally uninformed or as an ignorant. Does personal research to get proper information, consults experts, uses contacts or information networks to obtain useful information, asks question to get clarification and understand what is needed or wanted, etc.
5. **Concern for High Quality of Work:** He/she exhibits high concern for quality, which meets or beats exiting standards. States desire to do the best, compare his/her product or services favourably to that of others. Keeps on stressing the words like 'best' or 'better than others', etc.

6. **Commitment to Work Contract:** Places the highest priority on getting a job completed, for which he/she makes even personal sacrifice of his/her money, leisure time, etc. He/she takes full responsibility if some thing goes wrong, and does not simply shift responsibilities on others. He/she does not mind even working with others without being status conscious; in order to complete an assignment for which he/she might make a commitment. He/she continuously expresses concern for customer's satisfaction. They lead from the front.
7. **Efficiency Orientation:** Such persons find ways to do things faster and better with fewer resources, or do the same thing at a lower cost or in lesser time. They try to get most optimal utilisation of resources, avoiding any type of wastage. They use information or business techniques to achieve highest level of efficiency. They continue to keep a track of costs and try to control them whenever warranted. They always evaluate a decision in terms of cost and benefit, be it introducing new product, process or machinery or management technique.
8. **Systematic Planning:** Such persons tend to break large tasks into small tasks and take logical steps to solve them by developing step-by-step plans to solve them. They also tend to anticipate obstacles and keep contingency plans ready to meet such exigencies. They continuously evaluate alternatives and take best course of action in the face of such obstacles.
9. **Problem Solving:** They try to innovative ideas to solve problems, and switch to an alternative strategy based on innovative solutions, to reach a goal.
10. **Self-Confidence:** Such persons have strong belief in their capabilities and them selves. They express confidence in what ever they do. They mostly found to be making statements like 'I can do it with out fail,' 'Yes, I will complete it', 'I will win', So what it is difficult, I can accomplish it', etc. They usually adhere to their judgment in the face of opposition or early lack of success, and do not mind taking up the task even if it is a bit risky.
11. **Assertiveness:** They confront problems and issues directly, with others. They command from the word go, and tell others what is to be done. They reprimand and discipline those who do not perform. They know when to use stick and how.
12. **Persuasion:** They successfully persuade others to agree with what they say or want. They assert strong confidence in their own company or team or their products or services. They convince people to buy their products or services, or provide finance or other support.

13. **Use of Influencing Strategies:** They use a variety of strategies to influence others. They act to develop contacts, do strong networking, use influential people or their name to get the work done, give information very selectively and do not open their cards easily.
14. **Monitoring:** They develop systems to monitor the progress; and thus ensure that the work is completed as per the schedule, without anyway compromising with quality and standards. They personally supervise all the critical aspects of a project/assignment.
15. **Concern for Employees Welfare:** They are seen to have genuine concern for their employees, and take actions to improve their welfare. They take positive actions in response to employees' personal concerns.

INTRODUCING THE FBEI:

In order to assess their entrepreneurial competency level, the interviewees are asked to recall certain critical incidents that took place in their lives in the recent past (within the last 18 months or so, as a person is likely to remember them clearly. If the incident is very old he/she might not remember the details very clearly), and narrate the same in as much detail as possible. In the usual FBEI the following five situations are given one by one sequentially and the respondents are asked to narrate the incidents of that type:

- **SITUATION 1:** *A time when one had to work hard to persuade or convince somebody to do some thing.*
- **SITUATION 2:** *A time when one felt happy with some thing that one achieved.*
- **SITUATION 3:** *A time when one was unhappy with the way things were happening in ones life.*
- **SITUATION 4:** *A time when one felt happy with some thing that one achieved.*
- **SITUATION 5:** *A time when one played a key/important role in something.*

You may find that situations No. 2 and 4 are identical. Yes, because it has been found that people like to talk more about their successes more than their failures or hardships. They might over-blow their achievements. That is why if second time they are out to some other incident of the same variety, it is likely that the interviewers will be able to get more authentic data for coding.

It takes about 10 to 15 minutes to get the entire narration. The interviewers are not required to ask questions per say but ask question only to facilitate the candidate telling the incident in maximum possible details.

How to get started:

- (i) Once the interviewee comes in, please make him/her comfortable by creating a congenial, non-threatening and friendly environment. Exchange pleasantries, and tell him the purpose and process of the interview. You may say some thing like, “We would like to understand you and your developmental potential better, so that we may help you better in future. You will be required to narrate a few incidents, which occurred in your life recently, say within the last six-eight months or a year back or so. The incident could be related to your professional or business life or whatever incident you think was critical or very important from your point of view. You may narrate the incident in details in say 10 to 12 minutes.”
- (ii) At this stage you may give him/her the first situation and ask if he/she has understood what you said or expect. Tell him/her if necessary, “You may take a minute or two to recollect such an incident”. Once he/she appears ready, ask if he/she is ready to share the experience?
- (iii) If the answer for readiness is ‘yes’, please ask him/her to give a brief of what he/she would like to narrate? ***Get information on key parts viz. beginning, middle and end i.e. (i) when did it happen and how did he get involved in it? (ii) what happened in between? And, (iii) what was the outcome?*** (This helps the interviewer to firm up his/her probing strategy.) Once he/she narrates the incident, please repeat the same to him/her, asking if you have got it correct? (This will ensure that you and the interviewee are at the same wavelength.) If there is any communication gap, please clarify at this stage it self.
- (iv) Now you are all set to start the actual interview. Start by asking him as to “how did he/she get involved in this.” “What led to the situation?” “How did it all start?” “What were you trying to achieve?” etc.
- (v) Thereafter keep on probing him/her to get further details by asking questions like:
 - What happened next?
 - Whom did you meet next?
 - What did he/she say?
 - What were you thinking before talking to him/her or before going there? Etc.
 - Who else was/were involved?
 - What was he doing?

- When did it happen?
- What did you do then?
- What happened next?
- Did you do any thing else also in the mean while?

You need to carry on the probe like this. Please remember that your role is just to facilitate the interviewee to narrate the situation in as much details as possible. Therefore:

- ***Please do not interrupt unless absolutely necessary.***
- ***Frequent interruptions may break the flow of his/her thoughts.***
- ***Do not try to put words in his/her mouth.***
- ***Please be careful that you do not begin your conversation with any controversial issue – specially political or religious.***

- (vii) Once the narration is complete, please ask if he/she would like to add any thing further to what he/she has already told. If the respondent says that the narration is over, please thank him/her and move to the second situation.

CODING OF THE FBEI:

Coding is a method of assessing the performance of a person under various circumstances narrated by him or her. The interviewee is coded for his/her thoughts, feelings and actions of the person as reflected in the narrative. In this technique, interview and coding are done simultaneously. You have to code him/her for the competencies exhibited by him/her during his/her narration. He/she will be coded for his/her thoughts, feelings and actions as reflected in the narration. A coding format that could be used by the Interviewer is given as Annexure-I. The interviewer is required to put a tick mark (✓) against the competency exhibited by the interviewee, in the column earmarked for that situation.

A statement made by the interviewee is codable only if it conforms to a behavioural pattern of major competencies defined above. You may code a person more than once by putting more than one tick mark (✓) against a particular competency, if it is exhibited by him/her, repeatedly. However, as for as scoring is concerned, irrespective of the coding frequency of a competency, it will be counted only once under one situation.

We may understand this through some examples. For example,

- If he/she says that, “he/she knew that it is difficult, but he was sure he will be able to do it.” You may code him for **Self-confidence**, by putting a (✓), as mentioned above.

- Similarly, if he/she tells that, “I wanted to do it best, as no body else could do.” We code him/her for **Concern for high quality** by putting a (✓), as mentioned above.
- If he/she says, “First, I sat through and started thinking as to how to go about it; and decided that first I should meet so and so. Then I should apply for the tender, and so on”. We can code him for **Systematic Planning** by putting a (✓), as mentioned above.
- He/she tells that, “ I told my colleagues that they will have to do it, as it is a question of the prestige of the group.” We may code him for **Assertiveness**, by putting a (✓), as mentioned above.
- He/she tells, “I thought, I must ensure that the task should be completed in time as I have promised to my client. Therefore, I myself started working overtime and did not go to my home for three days.” We can code this statement for **Commitment to work Contract** by putting a (✓), as mentioned above.

Please note that we can code one sentence only once and that too only for one competency. Same sentence can not be coded for two competencies. For example:

He/she says, “No sooner I saw the advertisement, I checked up with the Block Development Officer about the process of the bid. I also rang up my friend to inquire with the Collector’s Office and let me know about it.” We may code him/her for **Seeing and Acting on Opportunity as also for Information Seeking**.

Here we may code his/her first sentence for Seeing and Acting on Opportunities, as it is definitionally closer to it. The second sentence could be coded for Information Seeking.

You can code sentences starting with ‘I’, e.g. I did it; I went there and asked him; I decided to do so, etc. It is not advisable to code “WE”, as you do not know who did it out of the ‘we’. Similarly, sentences with a word like “USUALLY” are not codable, like usually I go there; usually I get up early, and so on. For, he/she may be doing it usually, but might not have done it during the incident.

Conclusive statements without details are also not coded, like “Ultimately he agreed”. We are interested in the process, not in the outcome. This is only the process that gives us codable information, and not the end statements. Description of an action with out a background as what led up to that situation is also not codable. For example, if the interviewee says “He made a presentation”. It does not mean any thing unless he also tells the need for such presentation, or the situation warranting the presentation.

You also do not score for a statement made in retrospect, like, “Now, I think I should have done this or that”. For, this is not the action or thought which the interviewee exhibited during the happening of the incident.

The interviewers should also ensure that they do not ask value-loaded questions like: **Do you always speak truth?**; or ask **WHY? Why’s are absolutely banned?** Similarly one should never ask any leading question like: **So you felt very angry or so you were disappointed, Didn’t you tell them about your self?** This might lead the interviewee to say what you want him to say rather than what he/she actually wanted to say.

In all we ask for five (5) situations. In each situation, one could score at the most 15 points (one for each competency). In addition, one could score a maximum of five (5) points for one competency. It means one could score a maximum of 75 points, i.e. 15 for each of the five (5) situations. However, experiences indicate that people with high potential are seen to score on an average more than 35 points and those with low potential tend to score below 20 points. People scoring between 20 and 35 fall in a gray area.

SECTION – III

THE MODIFIED FOCUSED BEHAVIOURAL EVENT INTERVIEW (MFBEI) TECHNIQUE

While FBEI works very well if the target group has wide exposure and can conceptualise and articulate the incidents, as in the case of urban groups, the rural youths find it rather difficult to conceptualise relevant situations, because of their lack of exposure to external world and limited interactions with the market economy. Happiness or sorrows are so much inseparable part of their life that they do not find them worth articulating in terms of incidents. Question of playing the leadership role, in their view, left to local politicians or landlords who master the destiny of the poor masses in Indian rural society. Under such circumstances, it may not be very appropriate to conduct FBEI in its pure form. EDI has adapted the technique to suit the rural target groups. While the fundamentals of the FBEI remain intact, the probing strategy is significantly changed.

In the Modified Focussed Behavioural Event Interview Technique (MFBEI), instead of asking the interviewees to narrate incidents related to the five situations, the interviewers try to identify situation them selves, on the basis of the preliminary discussions with the interviewees. For this reason, it becomes all the more difficult to master the technique, unlike the FBEI. The interviewers, in this case, must thoroughly acquaint them selves with the local environment, culture, festivities, social systems, caste and class patterns and their interrelationships, customs and traditions, farming and cropping pattern, economy, political system, etc., besides mastery over the local language. Unless they are aware of these forces, it will not be possible for them to do justice with the technique and in turn with the interviewees.

THE PROCESS OF MFBEI:

Up to rapport, building the process is identical, including telling the candidates the objective of the interview. The difference starts from telling them about the method of probing. We do not tell them that they will have to recall some incident related to those five situations.

After explaining the objective of the interview, the interviewer starts with a kind of freewheeling interaction with the candidate, beginning with what is it that he/she engaged in at present? How he/she passes his/her time? Which school did he go (if the candidate had some schooling)? Who is there in the family? What is the asset base of the trainee, like land, etc.? What does his/her family do to earn livelihood? What new has happened in the income generating activities of the family? What is his/her peer-group? What do his/her friends do? Etc.

From these interactions, you should be able to pick up some threads to probe further. For example, a candidate told that he has two acres of land. We asked what he grows in his fields. He told that every year he used to grow other vegetables but this year he has grown Bitter Gourd (*KARELA*). It was a vital clue for us, as to the best of our knowledge no body grew this vegetable in that village. We further probed as to what led him to grow *KARELAS*? The answer was revealing. He told that his plot is in the outer limits of the village after which forest starts. The animals like wild cows come and destroy the crop. Therefore, he thought of growing *KARELAS*, *which taste bitter. These animals do not eat it.* We immediately scored him for problem solving. We asked from where he got the idea. He told that he was reading a book on vegetable growing and the idea struck him. We asked what he did next. He said that since he had no idea about *KARELA* growing, he went to the Block Development Officer to ask about it, who in turn advised him to assistant development Officer (Agriculture). He met the ADO (Ag.) to get information about its cultivation. We scored him on Information Seeking. The probe went on and at the end we could score him on 11 of the 15 competencies. He was the first in that Rural Entrepreneurship Development Programme (REDP), who started his Photography Studio, and is running it very successfully.

Similar was the case of an unemployed youth, who had purchased a buffalo recently. His family had a cow that hardly yielded any milk. As an unemployed, he used to while-away his time, roaming in the market of the nearby town. He observed that prices of milk had gone up substantially within a span of two to three months, as reflected in the price to a cup of tea which he had to pay for. He thought of buying a buffalo for commercial purposes. He had to struggle hard to convince his father for the same; had to use his former teacher to talk to his father, who initially refused to intervene, but on persistent request of this young man, the teacher talked to his father. He went to a Veterinary Doctor to know more about a good buffalo. Went to nearby cattle fair and bought a good buffalo after a hard bargain.

Initially, this person was not willing to talk. Had rather negative attitude towards us, thinking that we are also a part of the government machinery, and will do nothing. He thought that we will not select him as he has not bribed us, and does not know how to approach us for the same. He kept on saying that he does not do any thing. Just passes his time in the “HAAT”. But gradually, when we asked as to what are the major sources of income in his family, he counted this buffalo, and also said that he has purchased it recently. This was the thread we caught and started our probe.

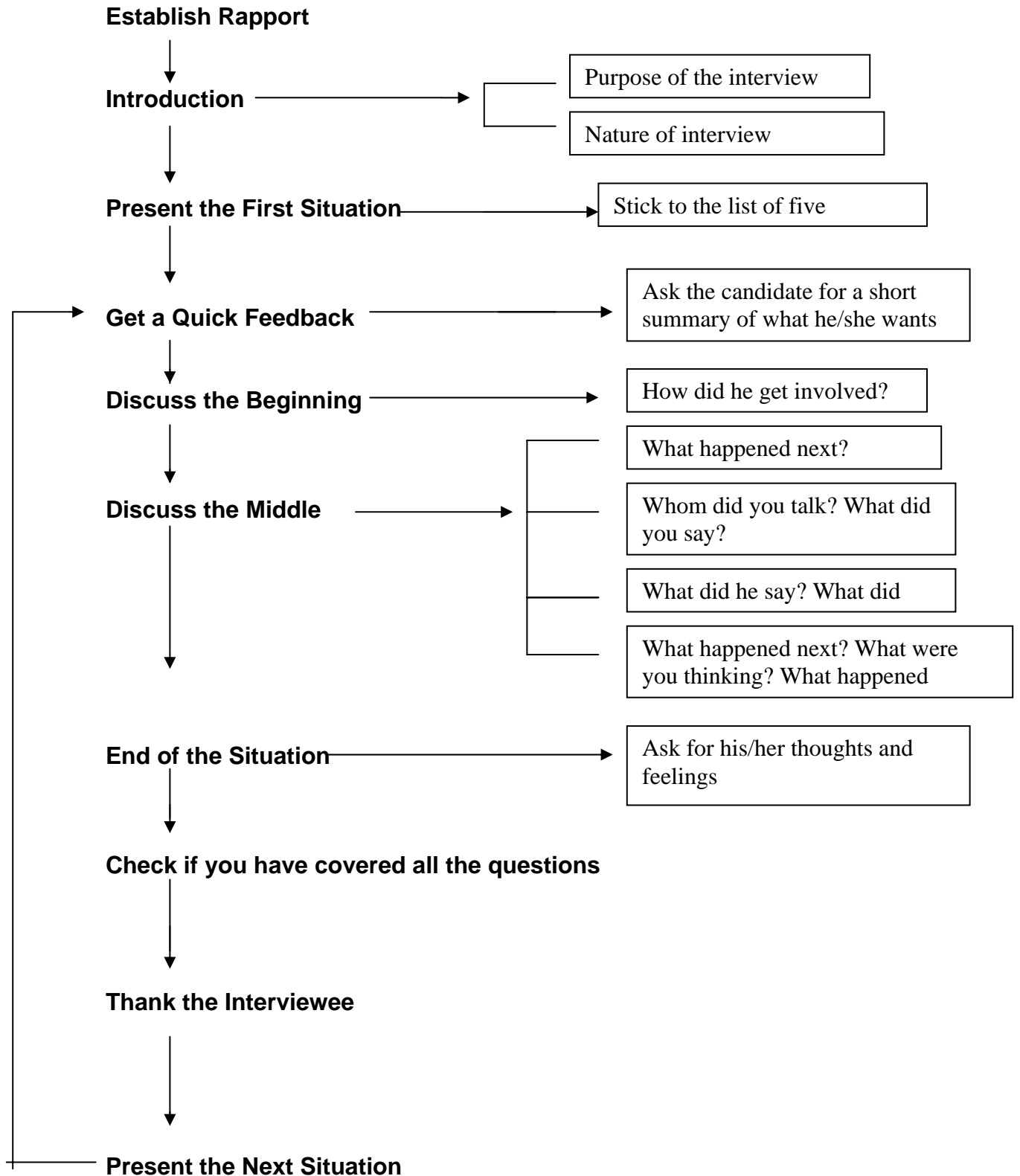
We scored him for initiative, seeing and acting on opportunities, persistence, information seeking, efficiency orientation, problem solving, persuasion, and use of influencing strategies. After the training he started his venture and is now running it profitably.

This is the type of probing strategy one could adopt while conducting MFBEI.

PROBLEM WITH THE SELECTION COMMITTEE AND THE SOLUTION:

Most of the time the sponsors insist upon constituting a selection committee, consisting of their representative and representatives of Banks, District Industries Centers, etc. One can not conduct MFBEI or for that matter even FBEI, when most of the members of the selection committee are not even aware of the technique. Their interventions could lead to quite disastrous results. Therefore, the best alternative, in the interest of the REDP and keeping in view of its success in future, is to conduct MFBEI before the final interview and use it as an alternative to written test. The MFBEI scores could also be provided to the Committee as an additional input, to facilitate their decision.

STRUCTURING THE FBEI



ANNEXURE - I
FBEI SCORE SHEET

SR. NO.	DESCRIPTION OF THE COMPETENCIES	SITUATIONS				
		1	2	3	4	5
1.	<i>Initiative:</i> Takes actions that go beyond job requirement or the demand of situation.					
2.	<i>Sees & Acts On Opportunities:</i> Looks for and takes actions on opportunities.					
3.	<i>Persistence:</i> Takes repeated actions to overcome obstacles.					
4.	<i>Information Seeking:</i> Takes actions to get necessary information.					
5.	<i>Concern For High Quality:</i> Acts or thinks to do things that ensure high quality.					
6.	<i>Commitment To Work Contract:</i> Places highest priority on completing job in time. Makes even personal sacrifice for this.					
7.	<i>Efficiency Orientation:</i> Finds ways to do things faster or with fewer resources.					
8.	<i>Systematic Planning:</i> Develops and uses logical, step-by-step plans to reach goals.					
9.	<i>Problem Solving:</i> Identifies new and potentially unique ideas to reach the goals.					
10.	<i>Self-confidence:</i> Has a strong belief in self and owns responsibility.					
11.	<i>Assertiveness:</i> Confronts problems and issues with others directly.					
12.	<i>Persuasion:</i> Successfully persuades others to do what he wants them to do.					
13.	<i>Use Of Influencing Strategy:</i> Uses calculated strategies to influence others.					
14.	<i>Monitoring:</i> Acts to ensure that client's work is done on schedule and acceptably.					
15.	<i>Concern For Others' Welfare:</i> Acts to respond to others' personal concerns.					

CHAPTER 9

INAUGURATION AND INTRODUCTION OF EDP

Objective

The objective of this chapter is to help trainers organize the inaugural ceremony and provide the trainees with a brief outline of the programme objectives, its scope and coverage.

Duration: 1 hour and 15 minutes

Advance Preparation and Material Required

The necessary preparation must be completed well in advance as per the guidelines provided in a separate chapter dealing with the inaugural function. The copies of the course curriculum should be kept ready for the trainees.

Session Guide

There may not be any formal ceremony planned by the training organisation. In such a situation, the trainer may begin with an interaction with the trainees and provide them with the details of the programme. Copies of the course curriculum along with stationery such as writing pad, pen/pencil, etc. should be distributed at this time. Session-wise details need to be provided to the trainees, including coverage of inputs and the resource persons who will take the sessions. Trainees may seek certain clarifications, which must be provided by the trainer. Tell the participants that a few guest lecturers will also be invited to the programme, besides the resource persons from the training organisation. Impress upon the trainees that the session delivery style may differ from person to person and they should try to adjust to the situation and extract the maximum from the sessions. Also, explain about the general administration during the programme, the timings, the session breaks, the arrangements for field visits, etc. Ask them to adhere to the timings so that they do not miss even a little bit of the inputs and get the maximum benefit from the programme. Tell them that they will also be engaged in running their own small businesses during the training itself. This will give them an opportunity to test their skills and knowledge before venturing into an entrepreneurial career. Announce a break of about 15 minutes before moving on to the next session.

CHAPTER 10

WHO IS AN ENTREPRENEUR?

Objective

The objective of this chapter is to provide an orientation to the participants to the profile of a successful entrepreneur and help them develop motivation towards an entrepreneurial career.

Duration: 1 hour and 15 minutes

Advance Preparation and Material Required

The trainer should carry a copy of the entrepreneurial characteristics and circulate it after the session.

Session Guide

The session will be carried out in an interactive mode instead of a lecture mode. The trainer should encourage the trainees to actively participate in the discussions. This is all the more necessary as they will be new to this type of methodology.

If you wish to start and succeed in your enterprise, you need to play different roles at different stages. Some essential qualities for entrepreneurs are:

- 1) A strong desire to win. (NEED FOR ACHIEVEMENT)

Most people dream of success, but seldom do anything to implement it. In contrast, entrepreneurs have a strong desire to continuously hit new goals and will not rest till they win.

- 2) An approach of never-say-die. (PERSEVERANCE)

Once committed to a goal and a course of action, entrepreneurs never retract. Difficulties do not deter them and they work hard till the entire project is successfully accomplished.

- 3) Entrepreneurs prefer a middle-of-the-road strategy while handling tricky situations. (MODERATE RISK TAKER)

They don't take high risks; they are not gamblers. They prefer a moderate risk to a wild gamble, high enough to be exciting and containing a reasonable winning chance.

- 4) Alert to opportunities and seizing them to their advantage. (ABILITY TO FIND AND EXPLORE OPPORTUNITY)

Entrepreneurs are innovative and can convert crisis into opportunities. But they are realistic enough to ensure that the opportunity suitably dovetails into realizing their goals.

- 5) They have a dispassionate approach to problems. (ANALYTICAL ABILITY)

Entrepreneurs will not let personal likes or dislikes come in the way of their taking a business decision based on ground realities. They seek out experts for assistance rather than friends and relatives. Their decisions are objective and not emotional or impulsive.

- 6) It is important for them to know how they are faring when they work on their goals. (USING FEEDBACK)

Entrepreneurs take immediate feedback on performance and prefer prompt and accurate data, irrespective of whether they are favourable or not. Unfavourable news spurs them into making amends to attain their goals.

- 7) Entrepreneurs do not get deterred by unfamiliar situations but interesting situations. (FACING UNCERTAINTY)

Achievement-driven people are optimistic even in unfamiliar situations. Even if they find the odds daunting, they see no reason why they can't succeed with their treasure of abilities. They march undeterred, making the best of the fine opportunities that come their way even without guidelines. They quickly come to grips with the new environment and present a picture of boldness and prudence. They apply their special insight and skill. Applying their special insight and skill, they quickly understand the environment and adjust to it.

- 8) They dislike working for others. (INDEPENDENCE)

Entrepreneurs do not like to work for others and therefore start off on their own. They wish to be their own masters and be responsible for their own decisions.

- 9) They are flexible. (FLEXIBILITY)

Successful entrepreneurs have an open mind and do not hesitate to change their decisions, if after weighing the pros and cons, find that the situation so demands.

- 10) Entrepreneurs think ahead of others and plan for the future. (PLANNER)

Most successful people set goals for themselves and plan to realize them in a time frame.

- 11) Entrepreneurs can deal with people at all levels. (INTERPERSONAL SKILLS)

An entrepreneur comes across all kinds of people. He has to make them work for him and with him to help realize his objectives. He likes working with people and has skills to deal with them.

- 12) They can influence others. (MOTIVATOR)

A successful entrepreneur can influence others and motivate them to think and act in his way.

- 13) They can work for long hours and simultaneously tackle different problems. (STRESS TAKER)

As a key figure in his enterprise, the entrepreneur has to cope with several situations simultaneously and take right decisions, even if it involves physical and emotional stress. This is possible if one has the capacity to work long hours and still keep cool.

- 14) They know themselves. (POSITIVE SELF-CONCEPT)

An achiever channelises his fantasies into worthwhile, achievable goals and sets standards for excellence. He can do this for he knows his strengths and weaknesses, as well as adopts a positive approach. He is seldom negative.

- 15) Entrepreneurs think ahead. (ORIENTATION FOR FUTURE)

They have the ability to look into the future. They won't allow the past to bother them and think only of the present and the future. "Bygones are bygones, what of now?" This is their usual response.

An individual may not have all these qualities, but most will have many. The first step for a person aspiring to become an entrepreneur is to make an inventory of his traits. This self-awareness and analysis will help him define his strengths and overcome weaknesses.

CHAPTER 11

EXPERIENCE SHARING WITH A LOCAL SUCCESSFUL ENTREPRENEUR

Objective

The objective of this chapter is to enable the trainees learn the secrets of success from a successful small entrepreneur and help them to gain motivation through interaction with a successful role model. The session also aims at creating awareness about the difficulties and precautions to be taken for a successful entrepreneurial career.

Duration: 1 hour and 15 minutes

Session Guide

The trainer, keeping in view the level of the trainees, should do a selection of entrepreneurs for an interactive session with the trainees. Preferably, an entrepreneur operating in the vicinity of the training location should be selected so that the option of taking the trainees for a factory visit could be exercised.

Welcome the guest and introduce him/her to the participants. Speak about the objectives of the interface. Thereafter, ask the guest to speak about himself/ herself and provide details of the business enterprise he or she represents. The trainer should act as a facilitator during the interaction and let the trainees interact directly with the guest entrepreneur. See that the discussion points include a profile of the entrepreneur, his/her family background, qualifications, experience, strengths, weaknesses, etc., apart from the process of enterprise launching and managerial aspects. The role of the support system and entrepreneurs' experiences must also be discussed.

It will be the responsibility of the trainer to keep track of the time allocated for discussion. The trainer must intervene whenever the discussion goes off track so that issues of interest to the group are properly addressed during the discussion. Towards the end, while thanking the guest for his/her time and views, make a request for a visit of the trainees to his/her enterprise (if the trainees want to do so). The trainer must interact with the trainees after the guest leaves the venue. This brief interaction will include matching the profile of a successful entrepreneur, discussed in the earlier session, with that of the one emerging from the interaction with the entrepreneur. Thereafter, ask the participants to identify a few common characteristics. Discuss these in brief with the trainees.

CHAPTER 12

LEGAL REQUIREMENTS

Objective

The objective of this chapter is to expose the trainees to important Acts and Provisions governing the functioning of an enterprise.

Duration: 1 hour and 15 minutes

Session Guide

Brief information on certain important Acts and Provisions is presented in this chapter. It is possible that the REDP target segment may not fall under a majority of them. It is also possible that a few more relevant Acts are in force from time to time at the State/Central level. The purpose of the session is to create awareness among the trainees regarding legal provisions governing the industrial activity so that they can take suitable action at an appropriate time. It will be advisable for the trainer to invite a subject area specialist for the session, who could be a practicing lawyer, a chartered accountant, or an officer from the concerned government department. The trainees should also be advised to further contact the competent authorities for details in respect of specific Acts/Provisions.

Any industrial activity is governed by certain legal provisions, which come into force from time to time. A few of them are given here with a brief explanation in the interest of further understanding of the trainees.

1.0 The Factories Act, 1948

Applicability

This is applicable to enterprises where the number of employees is:

- Ten or more and where power is used; or
- Twenty or more and power is not used

The enterprises covered under the Act are required to keep certain records:

- * Muster Roll
- * Workers Register
- * Overtime Register
- * Advance Register
- * Register for Fine
- * Register for Deductions

- * Register of Wages
- * Register of Accidents and Dangerous Occurrences
- * Bond Inspection Book
- * Register of Cleaning and White Washing
- * Record of Examination of Parts of Machinery

There is another Act known as Shops and Establishment Act which is applicable to shops and business undertakings employing 5 or more persons.

2.0 The Employees Provident Fund & Miscellaneous Provisions Act, 1952

The Act applies to every factory or establishment employing 20 or more employees. It, however, exempts a factory or establishment for an initial period of 3 years from commencement of business if the number of employees is more than 50 and for an initial period of 5 years if the number of employees is less than 50.

Contribution

The minimum contribution payable by the employer is 12% of the basic salary and Dearness Allowance. The employee also makes an equal contribution. The Act, however, does not specify a maximum contribution.

3.0 The Payment of Wages Act, 1936

This Act is applicable to factories and establishments, which come under the Factories Act. The Act is restricted in its application to the class of workers whose wages range up to Rs. 1,600/- per month.

4.0 The Minimum Wages Act, 1948

The employer has to pay minimum wages to employees in certain scheduled industries. The Minimum Wages Act is applicable to 44 scheduled industries.

5.0 The Indian Partnership Act, 1932

The Indian Partnership Act, which was amended in 1932, provides for rules relating to foundation of a legal partnership. It states the rights and duties of the partners among themselves and outside, and lays down rules regarding the dissolution of partnership.

6.0 Central Excise (CE)

The Central Government is empowered to levy excise on all articles manufactured in India, except alcohol, alcoholic preparations and narcotics. The liability to duty starts the moment a new commodity is manufactured. There are however, certain

exemptions granted to SSI units. However, there is no CE on fruit and vegetable products.

7.0 Sales Tax

Sales tax is levied by the State and the Centre. The tax charged by the State is called LST or local sales tax and the tax charged by the Centre is known as CST or central sales tax. The latter is charged when goods move out of the State.

8.0 The Income Tax Act, 1911

The Act governs the levy of income tax in India. It defines various terms and expressions and states the liability of a person to pay income tax. The rates and pattern of taxation, however, are changed from time to time.

9.0 The Pollution Control Act

The State Air and Water Pollution Control Board is responsible for implementing this Act. The Act is applicable to all kinds of industry.

10.0 Drugs and Cosmetics Manufacturing License

All pharmaceutical and cosmetics manufacturing units need a drugs-and-cosmetics-manufacturing License.

Towards the end of the session ask the trainees to contact the competent authority for respective provisions and get further details as per their requirement.

11.0 Important Provisions for the Food Processing Sector

In addition to the general legal requirements, there are a few legal requirements that are specific to food processing industries. A food processing enterprise has to comply with several compulsory legal requirements. Implementation of these norms with regard to Small and medium enterprises is relatively stringent, while cottage and household level units sometimes tend to compromise on such stipulations. These laws include:

11.1 Prevention of Food Adulteration Act (1954): This Act is the basic statute to protect consumers against supply of adulterated food. 'The Central Committee for Food Standards' under the Directorate General of Health Services, Ministry of Health and Family Welfare, has specified the Standards.

11.2 Milk and Milk Products Order (MMPO): This order regulates milk and milk products production in the country. The order requires no permission for units handling less than 10,000 liters of liquid milk per day or milk solids up to 500 tpa.

- 11.3 Fruit Products Order (1955):** This order regulates manufacture and distribution of all fruit and vegetables products, sweetened aerated waters, vinegar, and synthetic syrups. The license is issued by Regional Directors of MoFPI located at Mumbai, Delhi, Kolkatta, Chennai and Guwahati, based on the satisfaction of the concerned officer with regard to quality of production, sanitation and hygiene, machinery and equipment, and work area standards.
- 11.4 Standards of Weights and Measures (Packaged Commodities) Rules, 1977:** These rules lay down certain obligations for all commodities in packed form with respect to their quality declaration. The Directorate of Weights and Measures under the Ministry of Food and Civil Supplies operates these rules.
- 11.5 Export (Quality Control and Inspection) Act, 1963:** The Export Inspection Council is responsible for operation of this Act under which many exportable commodities have been notified for compulsory pre-shipment inspection unless specifically requested by the importer not to do so.
- 11.6 Voluntary Standards:** They are regulated by organisations involved with voluntary standardization and certificates systems concerning quality parameters in food. They are the Bureau of Indian Standards (BIS) and Directorate of Marketing and Inspection (DMI). The food processing industries sector as a whole involves other legislations.
- 11.7 Oils, De-oiled Meal and Edible Flour Control Order 1967 and Vegetables Products Control Order, 1976:** These orders control the production and distribution of solvent extracted oils, de-oiled meals, edible oil seed flours and hydrogenated vegetable oils (vanaspati).
- 11.8 Meat Products Control Order, 1973:** This order regulates manufacture, quality, and sale of all meat products and is operated by the Directorate of Marketing and Inspection.

CHAPTER 13

BRIEFING ON FIELD/FACTORY VISITS

Objective

The objective of this chapter is to provide guidelines to the trainees for factory visits the next day and help them to develop an inventory of questions and observations to be made during the visit.

Duration: 1 hour and 15 minutes

Session Guide

Remind the trainees of the session on 'Planning an SSI' taken up on the second day. Ask them to recollect the discussions on various aspects of an SSI unit. Tell them that we will have an opportunity to visit a few enterprises the next day and interact with the entrepreneurs. The purpose of the visit is to provide an understanding about the enterprise culture and not a training exposure to manufacturing particular items. However, during the visit, the trainees may get some idea of the manufacturing process. This point must be made clear to the trainees most of whom would be novices. Ask them to concentrate on the following:

- History of the entrepreneur and the enterprise
- Selection of the particular business proposition
- The steps taken during the launching of the enterprise and the problems encountered
- The enterprise management aspects
- Aspects related to the growth of business operations
- The present status of the business, and
- Suggestions for the new entrants.

Give the trainees a brief outline of the businesses selected for the visit. Ask them to take notes while interacting with the owner during the visit to the enterprises. Each trainee should prepare a brief report on the visit for later discussion in the class. They may also incorporate in the report their own understanding of the various aspects of the enterprises visited.

The trainees should be cautioned not to ask questions an entrepreneur may not like to answer, such as: 'How much profit are you making?' or, 'How much salary is paid to the workers and staff?', etc. Tell them that they may also use their own understanding of the business and include their conclusions in the report. They should also be told not to try and extract the above information from the workers or the other staff. Ask the trainees to make an inventory of questions well in advance and share them among the group. This will avoid repetition while interacting with the entrepreneur and save time. The trainer may also look into the inventory of questions and provide necessary guidelines to refine them. Towards the end of the session the trainees may be provided the details of the place, departure time, and time allocated for the visits to the respective enterprises.

CHAPTER 14

SOFT SKILLS FOR LAUNCHING AND MANAGING AN ENTERPRISE

Objective

The objective of this chapter is to help the trainees understand the importance of soft skills for launching and managing an enterprise, to appreciate important soft skills and to get an insight into the nature of soft skills, and the process of developing them.

Duration: 1 hour and 15 minutes

Advance Preparation and Material Required

This is an introductory overview of the soft skills. The trainer should thoroughly understand the nature of soft skills. It will help the class, if the trainer picks up some illustrations for each skill, which may be used as a supplement. You may invite a behavioural scientist for additional input and a wider perspective.

Session Guide

This chapter is very basic to the learning of soft skills. The objective of the session is to bring home to the trainees the nature and importance of soft skills for establishing and managing an enterprise. One may begin by asking the trainees the likely problems to show how these skills are relevant. The discussion can then be steered to briefly explain each of the skills and show their interrelationship. The session can be rounded up by focusing on how to develop the skills and emphasise the importance of practice in skill acquisition. The trainer should ask the trainees if any one of them is a sportsman or a singer or a painter and ask him/her as to how he/she developed this skill. The aim should be to bring out the essential components of knowledge, commitment and continual practice, and to emphasise that the same route applies to the development of soft skills.

1.0 Soft Skills

A successful entrepreneur has several skills that help him in establishing an enterprise and making it a commercial success. These entrepreneurial and business skills can be broadly categorised as hard skills and soft skills. Hard skills have quantitative orientation whereas soft skills are qualitative. Soft skills are the tools of creating, influencing, and implementing ideas and solutions.

1.1 Toolkit of Soft Skills

The inventory of soft skills is quite large and one finds the mention of several skills. The following list of soft skills is adequately representative of the soft skill set.

- Active listening
- Communication
- Negotiation
- Creative thinking
- Problem-solving
- Decision-making
- Conflict resolving
- Training/coaching/developing people
- Delegating
- Time management
- Goal setting
- Planning and scheduling
- Team building
- Focusing
- Prioritizing
- Leadership
- Networking
- Organisation building

This list should not discourage any beginner as most of the skills are inter-related. For example, active listening and communicating are closely related. So are negotiating and conflict resolving skills. Creativity, problem-solving and decision-making are again connected. So, in effect, the list may be compressed into a few groups.

(The trainer can use the biographical account of a successful entrepreneur and then relate his success to the soft skills. It has been found that the example of an entrepreneur known to most of the trainees makes a greater impact).

1.2 Importance of Skills

The importance and relevance of these skills, both to establish and manage enterprises, can be easily demonstrated.

Even after identifying a promising opportunity, one needs to gather information to evaluate the opportunity in economic terms. One needs to ask people, listen to them, and cross-check the information. Listening, communicating, and networking come into play at this stage. One needs negotiating skill to arrange funds from the lenders, to firm up orders with the contractors and the machinery suppliers.

After the unit is established, one needs a whole lot of soft skills to manage it. For example, one needs goal setting, planning, decision-making, and leadership skills. No enterprise will ever run on a smooth course all the time. There will be hiccups and problems. Therefore, one needs problem-solving skills. Sometimes a routine answer may not suffice to solve a difficult problem and one needs to use creative approaches to generate a new solution. An enterprise will not grow unless its people grow too. To grow, people need developmental interventions like training and counselling. One needs to encourage team building and organising skills to make people work together productively towards the same goal. To organize oneself, one needs time management, prioritizing conflicting demands on the entrepreneur's time, and focusing skills to concentrate on given tasks. Thus, the soft skill sets are critical for initiating the enterprise and turning it into a commercially successful venture. Without such skills, there would be waste of resources, time and efforts.

Time and again, it is saddening to see the exit of the entrepreneur after doing all the hard work of spotting an idea, developing it into a business proposition, bringing an enterprise into existence, and then selling it off for a song, because he did not possess the soft business skills necessary for creating an organisation, building a team, setting a goal, guiding the people, planning and implementing.

The inescapable conclusion, therefore, is that soft business skills are necessary for the establishment, survival and growth of an enterprise. An aspiring entrepreneur, therefore, must cultivate these soft skills and develop entrepreneurial competencies.

1.3 Nature of Soft Skills

There are some distinguishing features of the soft skills, which are:

- These skills are mainly people skills.
- These skills are interrelated and reinforcing.
- These skills are 'learnable'.
- These skills are qualitative and, therefore, not amenable to quantification. They can be described in terms of 'more or less' rather than through a number assigned to them.
- The benchmarking of soft skills has to be done not in terms of targets but through comparison with role models.

1.3.1 Some useful comments on these features

People skills are the skills which help in dealing with people. An entrepreneur is not a loner. He has to work with people. Unlike the physical inputs, the performance of human beings varies significantly. Hence the need for people skills.

As noted earlier, a number of skills are closely interrelated. For example, creativity helps in innovation and problem-solving. In the same manner,

effective communication is not possible without active listening. So proficiency in one skill improves your score in other skills. So the advantage becomes cumulative.

Fortunately, these skills are 'learnable'. This is a message of hope. If these skills were genetic, any discussion on them would be unproductive.

The qualitative dimension of skill precludes quantification. Some efforts have been made by using scales (1-10), using a set of assigned questions and assigning them some values or normative group scores. The fact, however, is that these skills are basically qualitative.

One fallout of the qualitative nature of the skills is that one cannot benchmark with a target value. The only way is to use role models or undertake situation analysis and construct 'What if' scenarios and compare them. The biographies of successful business builders and case histories of reputed business enterprises may help an aspiring entrepreneur to benchmark by trying to replicate the achievements of accepted role models.

1.4 Development of skills

The statement 'soft skills are learnable' leads to the next question: 'How does one learn them?'

The process of learning soft skills is no different than that of learning other skills. The skill acquisition process comprises of four steps. These are:

- Knowing
- Doing
- Practicing
- Improving

There are three sources of knowing and understanding skills. One can know by reading about them. One can know by listening to others about them. One can know by observing them. These are not alternative sources; the results are decidedly better if all of them are used simultaneously.

Doing is acting upon what one knows. Mere knowledge of the techniques to reduce stress does not reduce stress. One has to try out these techniques and see the impact for oneself.

Practicing is doing the same thing over and over again, till the procedure is internalised and almost becomes a habit. All those who have learnt swimming, driving or typing will appreciate the value of repeated practice.

Improving comes from recording one's actions and analysing them to do better.

In addition to this process, one needs psychological inputs of –

Confidence: ‘I will do it’;

Will or commitment: ‘To persist and not give up’;

and

Discipline: ‘Doing it regularly as per the suggested procedure’.

(The time that the trainer would spend on making the trainees understand the need of repeated practice would prove to be a very rewarding investment. One can dramatize it by showing a clip of a sports event, or playing a music disc and asking the trainees what they have learnt about sport or music. This will lead them to understand the need to practice. The trainer should then tell them that the skills they are going to discuss have to be known, understood, and practiced. This is the only way to learn soft skills).

CHAPTER 15

CREATIVITY AND PROBLEM SOLVING

Objective

The objectives of the session are to arouse creativity among the trainees and help them develop a problem-solving attitude.

Duration: 1 hour and 15 minutes

Advance Preparation and Material Required

Hand-out on problem-solving must be kept ready before the session.

Session Guide

Tell the trainees that an entrepreneur has to be creative, as s/he will experience competition both in relation to others and in relation to the standards of excellence set by the individual herself/himself. Hence the need to arouse and enhance creativity.

A lot of barriers develop due to certain pre-conceived ideas which impede the growth of creative thinking. The barriers are:

1. self-imposed
2. restricted mindset
3. compliance nature
4. running away from challenge
5. jumping to conclusion
6. fear of getting branded a fool

Tell the trainees that it needs positive thinking, an open mind, effort, insight and perception to arouse and enhance creativity, and also to remove the above barriers that block the creativity within a person. The class-room exercises to be taken up during the session will help them enhance their thinking, efforts, and provide insights to a problem from a different angle and perspective which in turn gives a creative dimension to their action.

The trainees will experience problems of different nature and magnitude at different times. In our daily life, problems come so often that we do not even notice their occurrence. This is so because our desire to solve these problems and our experience of dealing with them has equipped us with spontaneous reactions, which usually result into solutions. However, sometimes when we face an unusual or

difficult problem, we get stuck as our routine reaction fails to produce a solution. In such cases, various approaches and ways have to be tried.

An entrepreneur may face a variety of problems in the course of implementation and management of his/her small-scale enterprise. If an appropriate system, approach, and methodology is developed to solve problems, it will help the entrepreneur to manage his/her affairs smoothly and he/she would not remain under stress and tension while encountering problems.

There are various qualitative and quantitative approaches developed in management science, which help us in solving problems. The basic objective of this is to suggest a non-quantitative approach, based on common sense and experience, in dealing with small-scale entrepreneurs and their problems.

In fact, the right strategy would be to understand one's own environment, resources, capabilities, limitations, strengths and weaknesses, to design an appropriate approach to solve problems. However, the approach suggested here will help the trainees, initially to work on problems and, at a later stage, to formulate their own strategy to solve them. The following steps are suggested for developing a problem-solving attitude and problem-solving mechanism:

- Build a Problem-solving Attitude
- Recognise the Problem and its Seriousness
- Specify and Understand a Problem
- Formulate Possible Causes
- Test Possible Causes
- Develop Alternative Solutions
- Establish Objectives
- Compare Solutions

The above approach may be summarised as below:

- Create a desire to solve problems
- Recognize the problem
- Formulate the possible causes
- Specify the problem
- Test each cause
- Explain each cause with minimum number of assumptions
- Verify your explanation and determine the cause
- Establish objectives vis-à-vis the resources to be produced and resources used
- Classify the objectives into 'MUST', 'DESIRABLE' and 'CAN BE IGNORED' categories
- Generate alternative solutions
- Compare each solution in terms of positive and adverse consequences
- Choose one solution
- Make a decision to implement
- Be ready for a problem of less magnitude

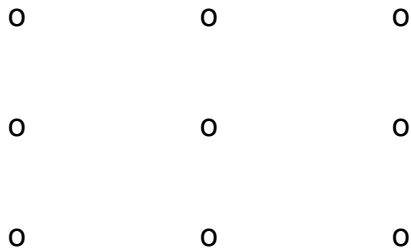
- Internalise the process
- Be creative

1.0 Be a Good Problem-Solver

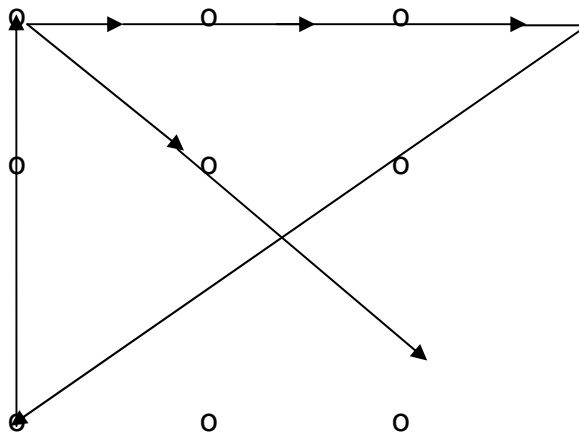
Now give the participants an opportunity to apply their creative thinking on a few practical problems given below:

Problem I

Draw nine points on the blackboard as shown below. Tell the participants to join all the nine points without lifting their pencil from the beginning to the end with the help of straight lines and not curved ones. Give them the condition that the number of lines should not exceed four and retracing is not permitted. However, the crossing of one line by another is allowed.

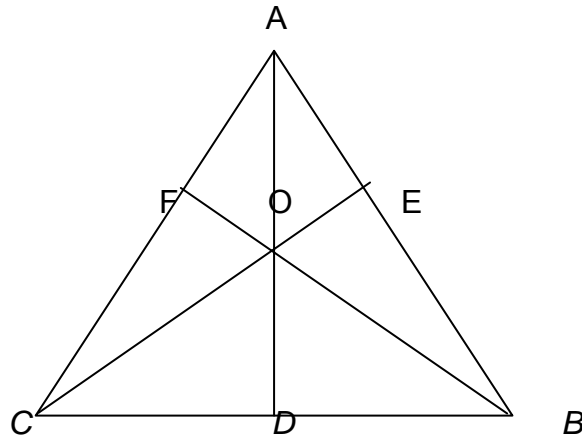


Solution



Problem II

On the blackboard draw a diagram as shown below. Instruct the participants to draw a similar diagram in their papers. Now ask them how many triangles they see in the diagram.



Solution

16 triangles in all.

$\triangle ABC$	1
$\triangle ABD$ $\triangle ACD$	2
$\triangle BCF$ $\triangle BAF$	2
$\triangle CEB$ $\triangle CEA$	2
$\triangle COD$ $\triangle BOD$	2
$\triangle BOE$ $\triangle AOE$	2
$\triangle AOF$ $\triangle COF$	2
$\triangle COB$	1
$\triangle BOA$	1
$\triangle AOC$	1

Total 16

Discuss the solutions with the participants and ask them to try and develop creative thinking and a problem-solving attitude using the learning points which emerged from today's session.

CHAPTER 16

INTERPERSONAL COMMUNICATION

Objective

The objective of this chapter is to help the trainees understand the nature, types, and importance of interpersonal communication. It will apprise them of the barriers to communication and suggest steps for effective managerial communication.

Duration: 1 hour and 15 minutes

Advance Preparation and Material Required

This section introduces one of the very important soft skills – communication. The facilitator should illustrate a few situations of miscommunication. The illustrations should cover as many types of communication as possible.

Session Guide

The facilitator can begin with an illustration of miscommunication. This can be used to explain the communication process and the adverse impact of bad communication. One can then move to the types and followed by the barriers. Here too, illustrations for each barrier would be helpful. Some time can then be spent on the guidelines. Finally, the case can be analysed as to how the message got distorted because there was lack of clarity and the contents were not appropriate for the target audience. The discussion can be rounded off with the measures taken along with guidelines in terms of content, feedback, etc.

1.0 Communication

Communication can be simply defined as the transmission/exchange of packets of information (suggestions, orders, instructions, requests, or any data) between at least two persons.

A typical communication model will thus have-

- * Sender/encoder – person who packages/encodes his message in words/pictures/symbols, etc.
- * Message – the information content
- * Transmission – sending message to the intended recipient
- * Channel – medium of transmission
- * Receiver/decoder – person who will receive and make meaning out of the message.

(The trainer at this stage should take an illustration of any simple communication and ask the participants to identify each element of communication).

It will be seen that due to distortions at any level in coding, transmission, channel, receipt, decoding and interpreting, what the receiver makes out of the message may be quite different from what the sender intended. Effective communication, therefore, is when the recipient gets the message with minimal distortion.

1.1 Features of Communication

There are two principal features of communication:

- * Communication is pervasive. It exists at all levels and in all areas of a business enterprise. This pervasiveness makes it essential that communication is efficiently done.
- * Effective communication is critical for effective business activities. For a moment consider the damage a failure to communicate or a wrongly understood instruction would do to a business process. Alwyn Dodd, therefore, rightly remarked that communication is the Number 1 problem of business.

(Here the trainer should give an illustration of failed/damaging communication to bring home the importance of communication).

1.2 Business Communication

Business communication has the following characteristics:

1. Business communication is always planned. Like any other activity of the business, communication is undertaken with forethought.
2. Business communication has a purpose. This can be providing information, giving instruction, issuing order, etc.
3. Business communication is continual. This is because as long as the business continues, one or the other activity is going on. Activity needs communication support.

(Here the trainer should describe a typical day of an entrepreneur and describe the communication that would take place while instructing workers, dealing with suppliers, customers, bankers).

1.3 Types of Communication

Communication can be categorized in several ways:

1. Verbal / Non-verbal
2. Oral / Written
3. Bilateral / Multilateral
4. Horizontal / Vertical / Multi-dimensional
5. Formal / Informal
6. Periodic / Ad hoc

Verbal communication uses words/language, non-verbal communication is done through facial expressions, gestures, body language, symbols, etc. Oral communication is spoken words. Written communication uses script. Bilateral communication is between two persons. Multilateral communication is between more than two persons. Horizontal communication is between persons at the same level in an organisation. Vertical communication is between persons at different levels in the organisation, like superiors and subordinates. Multidimensional communication involves both horizontal and vertical levels. Formal communication is official. Informal communication is personal. Periodic communication is done at a specified interval of time. Ad hoc communication is done as per exigency.

(The trainer should use the same illustrations and help participants to identify the types of communication. Trainer should emphasise that for most of the time communication is oral, and should also point out the importance of non-verbal communication by making use of non-verbal communication like gestures).

1.4 Communication Barriers

One of the questions that people ask is: why does the receiver not get the meaning as intended by the sender. This happens on account of several intervening factors, which are described as communication barriers. Some major barriers are discussed here.

One of the problems is that a word does not mean the same thing to different persons. The word 'boy' would convey different meanings to a mother and a teenage girl. This is known as a semantic barrier.

Another problem arises when the receiver has a bias against the sender or the contents of the message and, therefore, the receiver looks at the message in a different way.

Similarly, when the receiver does not trust the sender, receiver will read some hidden meaning in the message, which the sender never intended.

The receiver may be inattentive or uninterested and, therefore, does not get the intended meaning. Any teacher or parent will vouch for it.

Finally, the sender may not be clear in his mind and may send a confused signal to the receiver and the message may get distorted.

An entrepreneur must be aware of these barriers or obstructions and steer clear of them. This will save a lot of hard feelings and wasted efforts.

(The trainer should use the same illustration of failed communication that he had used while showing the importance of communication and help the participants to deepen their understanding of barriers).

1.5 Guidelines for Effective Communication

The guidelines for effective communication have been derived from empirical experience. The practice of the following rules will be helpful.

- (i) Careful planning of the contents will make the message effective. In planning the content, one should keep in mind the objective of the communication, the person to whom the message is to be communicated, and the strengths and limitations of the communication type to be used.

(Here the trainer should give a small exercise to the participants to plan a communication – say announcing a rise in the prices of products to the dealers. Trainer should ask the trainees to keep in mind the communication objective – to make the dealers accept the price rise. Hence, the importance of written communication, giving details, reasoning, and an assurance as to how their interests would be safeguarded).

- (ii) A carefully crafted message will be more effective if proper techniques are used. Varying tone of the speech, changing the pitch, use of pauses, and supportive non-verbal gestures may enhance the effectiveness of communication.
- (iii) Lack of trust or credibility can seriously distort the message. Therefore, the sender has to address this problem. Similarly, if the receiver is emotionally disturbed, sympathetic active listening may help subsequent communication.
- (iv) A good communicator will always check and get feedback on how the receiver is receiving his/her message. Feedback will help the sender to alter and modify the content or style to improve the efficacy of communication.

CHAPTER 17

PERSUASION AND USE OF INFLUENCE STRATEGY

Objective

The objective of this chapter is to introduce various influence strategies that can be used by the would-be entrepreneurs to get the desired results. The purpose is to make the trainees aware of the different ways in which they can shape the results in the desired directions.

Duration: 1 hour and 15 minutes

Advance Preparation and Material Required

This part of the learning process will need illustration of each strategy. A guest lecture by a first-generation entrepreneur, showing how to deal with others in the absence of power or clout, will be highly instructive.

Session Guide

The facilitator can begin with posing the problem of how a first-generation entrepreneur can influence others. He can then introduce the different strategies and the mode of their usage.

1.0 Importance

The effectiveness of the entrepreneur's efforts will depend upon the results of the activities within the business premises and outside. Whereas a businessman can influence the nature and direction of the efforts through the use of power, he cannot exercise power or leverage with outsiders like bankers, term-lending institutions, and suppliers. While an established businessman does have some influence by virtue of the business he gives, the new entrepreneur does not have this leverage. It is, therefore, necessary to examine the different influencing tools that can be used by a would-be entrepreneur.

(At this stage the trainer should discuss the feelings of new entrepreneurs as they have a serious handicap of not having influence. He should then give a message of hope as to how some levers of influence are available to the new entrepreneurs. This will generate interest among the participants to learn the influencing strategies).

1.1 Influencing Strategies

The following influencing strategies are available to the businessman to persuade people to act in a desired manner.

- * Business potential
- * Knowledge
- * Relationships
- * Involvement
- * Negotiating skill
- * Communication

(At this stage the trainer should ask the participants to examine which of these strategies they can use. It has been found that relationship or networking comes easily to the mind. Knowledge also is easily comprehended. The trainer should then introduce other tools like communication, negotiating skills, and skills to involve people).

It has been already mentioned that an existing enterprise may use the lever of giving or withdrawing business to influence the behaviour. A potential business may exert a similar, but less powerful, influence. It would help the entrepreneur, if he can convince others of the potential of the business. This needs three things: hard evidence supporting the potential, a credible action plan, and a convincing presentation of the competence of the entrepreneur to realise the potential. A well-drawn plan may elicit a favourable response.

Knowledge about one's business, an expertise in one or more aspects of the business works well with both outsiders and insiders. As a matter of fact, knowledge is a more effective influencing strategy. An entrepreneur will be well advised to be a continual learner if he wants to influence others. Associating an expert can help the entrepreneur get the benefit of knowledge.

Building relationship through networking is another tool of influencing. A known person is more likely to evoke a more favourable response than a rank outsider. The preceding discussion on networking has examined the ways to build up a network. Here again, associating persons with a good network can help the new entrepreneur.

Involving people in what one is doing is another way in which one can influence others to move in a desired direction. A hospital involving practicing medical professionals can get good referral patients. Involvement may be sought by giving prestige, satisfying ego, or vision sharing.

Negotiation has been long recognised as an influencing strategy. In negotiating one can use all the levers of existing or potential benefit, ego stimulation, etc. The real trick is to seek out the basis of mutual benefit and then to appeal to it.

All these strategies use communication. Therefore, while using the entire gamut of skills, a properly planned communication can be a powerful tool of influencing.

It must be stated that these strategies are not mutually exclusive. They are in effect reinforcing, leading to a cumulative effect. Therefore, one should aim at cultivating all these sources of influence and using them as per the demands of the situation.

(The trainer can then discuss how to involve an expert to increase knowledge and expand the network, as now the expert's network too will be added. While one can take the help of others in negotiating, this skill is critical and one must make an effort to develop it).

CHAPTER 18

NEGOTIATION AND NETWORKING

Objective

The objective of this chapter is to acquaint the participants with the nature and importance of the negotiating skill. It provides some guidelines that help in successful negotiation. The participants will also be introduced to the concept of networking and the approach to building a productive network.

Duration: 1 hour and 15 minutes

Advance Preparation and Material Required

It would help the facilitator to compile some illustrations of negotiation from a business activity. Separate example of negotiation with employees, suppliers, and customers – at least one example with each group – will prove handy. A guest lecture by a successful businessman, describing his experiences, may add flavour to the discussion.

Session Guide

The objective of the session is to introduce the trainees to the structuring of negotiation. After discussing the basics of negotiation, attention may be focused on working out a negotiation plan. The exercise given at the end of the chapter may be used effectively. The participants should be divided into two groups and the groups may be assigned to work out a negotiation plan on behalf of union/management and make a presentation. This will give adequate opportunity to the facilitator to intervene and reinforce the learning.

1.0 Negotiation

Negotiation is a major pervasive activity in business. One negotiates within the firm, with the employees, and outside the firm with suppliers, customers, regulators, financiers, and the community. A successful businessman is almost always a successful negotiator. It is, therefore, imperative for an aspiring entrepreneur to cultivate the negotiating skill.

Negotiation is a process of arriving at a mutually satisfying agreement/ understanding/position by different actors/parties having differing viewpoints initially. The point to note is that the parties initially have different expectations, but at the end they reach an agreed position, which satisfies all.

(The trainer can begin by describing a simple negotiating example of purchasing raw materials for a fruit-processing unit. He should bring out the different expectations of the buyer – quantity, price, quality, reliability, and the expectations of the seller – price, terms of payment, etc. The parties begin with different views on each of these issues and ultimately agree on each issue).

1.1 Characteristics

There are six distinguishing characteristics of negotiation. They are:

- * Negotiation is a complex interpersonal behaviour.
- * It is a key skill required for the success of business and is the essence of trading.
- * The skill in negotiation primarily consists in reconciling conflicting/differing expectations.
- * It is a pervasive activity in all spheres of life, making it a life-long activity.
- * Negotiation is a soft skill that can be learnt / enhanced.
- * Negotiation primarily involves communication. Some persons regard negotiation - persuasive communication - as a sub-set of communication.

(The trainer should carry on with the above example and encourage the participants to bring out each of these characteristics, for example, how all the factors – cost, quantity and quality – are important for the success of the enterprise. He should also emphasise that this skill gets sharpened as one goes on doing things over and over again).

1.2 Negotiation Objectives

It is instructive to understand as to why people negotiate. People negotiate because they feel that by engaging in talking to each other, they can arrive at a mutually satisfying/acceptable arrangement. People negotiate because they desire to reach an agreement. This requires that the parties should be prepared to be flexible in the give and take mode, and they have some common/ complementary interest.

At the end of the game, parties seek to get something, which they regard as valuable. But the gain is not the end-all of a negotiation. In business, one also aims at building a long-term relationship that will continue to yield satisfactory gains for a long period. One also aims at feeling good. What good is a negotiation, when one makes a transaction with bitter feelings?

A successful negotiation results in a win-win situation for all the parties. It successfully addresses the main concerns of both the parties. If this is not done, the agreed arrangement will not last long and will be sooner or later aborted. Finally and importantly, a good negotiation is almost an investment in building a relationship that would continue to yield returns for a long time.

(Continuing with the illustration, the trainer should bring out how the parties who have long-term view would work for all the three objectives).

1.3 Negotiation Process

An understanding of the negotiation process will be a great help in developing the negotiating skill. The negotiation process consists of six steps:

- * Preparation
- * Presentation
- * Clarification
- * Bargaining
- * Agreement
- * Closure

Making preparation for negotiation is very important. This entails in thinking through one's position. This means that one should know what one wants to get and what one is willing to offer. It will also include some assessment of the opposite party's needs, its strengths and weaknesses. Additionally, some information about the personality of other negotiators can prove to be handy.

Having prepared one's case, it should be presented in a persuasive mode. It would be productive to look for the response clues of the other party while negotiating and go on making appropriate modifications in the presentation.

After the presentation, one should be ready to respond to the queries of the other party and provide clarification or further explanations.

Once both the parties have stated their case and clarified, the bargaining would begin. Bargaining is the heart of a negotiation. The preparation made earlier will help in bargaining, since one knows in advance how far one is prepared to go. Bargaining involves playing by the ear and thinking on the feet. The process of bargaining would help parties to arrive at a mutually acceptable position concerning several aspects of the deal. Here too an advance preparation about the various aspects to be discussed would prove to be very rewarding.

Finally, one would like to wrap up the negotiation in a manner that will help future relationship and enhance the feel-good factor.

(To make the participants understand the process, the trainer should make them go through the earlier example and identify the stages of the negotiating process).

1.4 Improving Negotiating Skill

Highly successful negotiators have shared their insights which should help the trainees in improving their negotiating skill.

Remember that negotiators are people first. Keep in mind the people aspect. Take interest in people. Learn to listen. Cultivate empathy. Use symbolic gestures. Build trust. Cultivate the psychological orientation that negotiation is for mutual gain. It is not a win for some and loss for others. It is a win-win game. Focus on what you are getting than on what the other is getting. Think in terms of the side-by-side position rather than the opposing or adversary position.

Identify the mutuality of interest. Even when claims are divergent, there is always some mutuality of interest. Recognizing this will help in the negotiation. Begin with the points on which there is an agreement. Move from the easy to the difficult issues. This process improves the chances of success.

Negotiating is mainly communicating. Therefore, use all the insights for effective communication.

Adequate advance preparations go a long way in ensuring the success of negotiation. Therefore, invest in preparation.

Focus on issues. Use objective criteria. Do not take rigid positions. People who use an issue-based negotiating stance, rather than a positional stance, achieve better results.

(A role-play asking two participants to play the roles of a buyer and a seller will prove highly instructive. After the role-play the trainer can help the trainees to analyse and point out which rules they followed and on which points they missed out).

1.5 Networking

Networking aims at building rewarding relationships. These relationships can be built proactively or they may be just cumulative. Successful people have an extensive network built up assiduously. Networking gives an opening. It can be a source of vital information. It may also result in economic advantage in terms of opportunities.

1.5.1 Building up network involves several aspects

An extensive network is built up consciously. Selecting out of the casual contacts that appear to be useful may achieve this purpose. Networking has an accumulative tendency. After a time it grows by further associations. Networking has to be tended. It can be kept alive by using and offering help to others even when not requested. The sources of network may be any congregation. It may be a club, a business association, a religious meet, an activity group, etc. Remember that while human beings do like to be remembered even ordinarily, without the context of work, remembering and phoning up on birthdays and such other occasions are always appreciated. For an efficient use of a network, it is essential to organize information about the contacts and be active in maintaining them.

CHAPTER 19

DELEGATION OF AUTHORITY AND WORK EFFORT

Objective

This chapter has three objectives. First, to introduce the concept of delegation to the trainees. Secondly, to bring home to them the need for delegation and finally to apprise them of the guidelines for effective delegation.

Duration: 1 hour and 15 minutes

Advance Preparation and Material Required

The facilitator may invite a businessman who has managed growth and request him to share his experience. He may also profitably use some instances of successful delegation.

Session Guide

The facilitator should begin with the needs of growth and then explain how delegation can be useful. He can also point out other benefits of delegation. After that, he may go to the guidelines.

1.0 Delegation

One striking reality of a business is that no single person can look after all the aspects of its operations. An entrepreneur, therefore, has to internalise that he will have to work with others. His effectiveness will depend upon the level of performance of his employees. Motivation, investigation, training, all these are tools to help the entrepreneur to get the tasks performed. One of the powerful tools is people development. Developing people is like installing a dynamo that generates energy and thereby output. It has been empirically tested that man can continue to develop. Up-gradation of skill and ability is what men are capable of. It has been rightly observed: 'Man, is one instrument of production that is not subject to the law of diminishing returns.'

Of the several tools for developing people, nothing is as effective as delegation.

Delegation involves entrusting one's own tasks to one's subordinates. Delegation is not the assigning of task. It is entrusting the task that is allotted to oneself.

Delegation consists only of entrusting the task. The responsibility for the performance of the task remains with the person who has delegated. Delegation is

not abdication of responsibility. In delegation, execution of the task is delegated, not the responsibility. Delegator cannot say: 'I am not responsible. He was doing it'.

The essence of delegation is to let somebody do the task under supervision and guidance. 'One takes off the hand' and lets others do the job but 'one keeps an eye on' to see that there is no foul-up.

1.1 Importance

Delegation contributes to improved performance in several ways:

- * Delegation develops people. This means that people will be able to operate at higher level with better efficiency.
- * Delegation improves the self-image of the employees and thus contributes to job satisfaction.
- * Delegation, when successful, liberates the entrepreneur from some of his tasks. This gives him free time which he can use more productively for newer or higher-level jobs. It can also help him to devote more time to more essential tasks.
- * Delegation in itself is a powerful motivator for enhanced performance.
- * Delegation empowers the people. Empowerment leads to several benefits.
- * Delegation enables to manage growth as the necessary talents are developed within the enterprise; not only is this cheaper in terms of cost, but it works as a stimulant because people perceive the growth opportunity. This improves employee loyalty and enhances their performance.

Looking at all these benefits of delegation, several companies actively encourage their executives to delegate their tasks and provide necessary inputs for the successful practice of delegation.

Despite these benefits of delegation, there is reluctance and resistance to delegation. This is on account of fear. There is a fear that the performance may be adversely affected, at least for a short time. Greater resistance to delegation, however, is on account of perceived loss of power and influence. These fears are not well founded. Just as subordinates develop, so can the superior.

One often hears the complaint: 'I am willing to delegate, but there are no competent people whom I could trust and delegate'.

The boot mostly is on the other foot: There are no competent people because there was no delegation.

1.2 Guidelines for Effective Delegation

The following suggestions would be helpful for effective delegation:

1. Effective delegation requires clarity. One should be quite clear as to what is delegated, and what is not delegated. One should think through all the aspects of the task and then clarify which aspects are delegated. It is not enough to say what is included. What is equally important is to clarify what is not included. Such clarifications will avoid a lot of heartburns. It should also be drilled in the mind that when in doubt, get back and consult.
2. Delegation of the tasks must be preceded by extensive briefings and training. The best way to train is to let the subordinate observe how the task is performed by the superior and then explain to him what was done and why it was done in that way.
3. The delegation must also be accompanied by a clarification of performance parameters and the expected levels of performance. The employee must know how his performance is going to be evaluated.
4. Delegation will not be successful if the subordinate is left to fend for himself. He should be assured of and provided the support in case of difficulty. This support may be in terms of guidance, advice, help, and emotional needs.
5. The delegator must understand that learning new tasks takes time. The performance of the learner in the beginning is slow and halting. He must have patience and should not rush in and start working on a task. Patience and encouragement are the watchwords.
6. Since the task is delegated and the person is learning, it is necessary that initially the performance is closely monitored. As the skill of the subordinates improves, monitoring details may be reduced and, after the superior is satisfied about the competence, it may be confined to broad parameters.

CHAPTER 20

EFFICIENCY ORIENTATION AS A TRAIT

Objective

The objective of this chapter is to introduce trainees to the need for efficiency orientation. It seeks to inform the would-be entrepreneurs of the importance of this orientation and show how it may be achieved. It also sketches the role of systematic planning in developing efficiency.

Duration: 1 hour and 15 minutes

Advance Preparation and Material Required

It would help the facilitator to collect some examples of cost reduction through small process improvement as a result of employee suggestions from the shop-floor. He may also use profitably the examples of some entrepreneurs who are role models of economy.

Session Guide

The facilitator should begin with the instances of increasing costs. He should lead the discussion into how to meet these rising costs. He can then talk about productivity gains and the factors affecting it. This may be wrapped up by talking about planning.

1.0 Importance

One of the inexorable facts of business is the tendency of the costs to rise and stay put. The costs will continue to rise on account of the price rise of inputs, annual wage rise, increase in the cost of utilities, etc. Further, unless one keeps an eye on the costs, they cannot be contained. The challenge, therefore, with the businessman is to meet this cost rise.

The cost rise should not pose a problem if the prices of products can also be raised. A raise in the prices is often not possible, and if possible, not to the extent to fully compensate for the rise in costs. There is also a possibility of an adverse market reaction, if the competitors do not increase the price.

(At this stage the trainer may ask the participants to examine the nature of costs like wages, power, etc. and ask them as to how they would cope with the cost rise).

1.1 What is the Way Out?

The answer to increasing costs lies in developing efficiency orientation in the enterprise at all levels to constantly so as to search for better ways of doing things. One has to strive for continual increase in productivity, which is the result of increased efficiency.

Productivity is the ratio of output to input. The implication is that productivity will rise as you produce more units of output per unit of input. If there are substantial gains in efficiency, the firm will develop competitiveness, enabling it to offer greater rewards to stakeholders and to reduce the price. One of the leading management thinkers, Peter Drucker, has rightly remarked that continual increase in productivity is the hallmark of efficient management. It is, therefore, imperative that the would-be entrepreneurs imbibe this fact and strive to build efficiency orientation right from the initial stages of the enterprise.

(The trainer can now introduce the participants to the concept of efficiency, and show how it helps in coping with costs).

1.2 Building Efficiency Orientation

Efficiency orientation is a function of four factors:

- * Awareness at all levels
- * Managerial behaviour
- * Establishment of standards
- * Systems

A firm is as efficient in its operations as its employees are. Efficiency orientation has to be inculcated at all levels – managerial, supervisory, and worker. Unless everyone is involved, the firm cannot get the entire benefit. This awareness can be built up by training, constant communication, and reminder messages beamed appropriately at all levels. This is communication function.

However, well designed communication will fail if the action at the top is inconsistent with what is advised. People look at and imitate what the superiors do. A Managing Director switching off the light and air condition when he is not using the office creates a greater impact than a poster. The drive to reduce input costs and waste has to be visible. Symbolic action creates a favourable impact.

The establishment of standards is another important step in creating efficiency orientation. It has been time and again demonstrated that what is not measured is neither remembered nor controlled. It is, therefore, necessary that quantitative, measurable standards be established for important inputs/activities. The standards, once fixed, have to be continually raised like the exercise bar.

Fixing standards will not yield satisfactory results unless there are systems that support the adherence to and improvement of standards. A planning system incorporating the existing or improved standards, a monitoring system that will periodically measure the actual and compare it with the standards, and a

compensation system which will reward the performers and those who contribute to the improvements, will go a long way to entrench the efficiency orientation.

What, therefore, a would-be entrepreneur should remember is to get these things going right from the very inception of the enterprise.

(The trainer should discuss the factors one by one and ask for suggestions from the participants as to how they would create awareness, how they would fix standards, and how they would monitor them. For fixing standards, one can use past performance, the performance of others, industry average, etc., as benchmarks. Fixing standards and measuring them is critical).

1.3 Systematic Planning

Systematic planning has a great role to play in efficiency orientation.

Planning reflects a systematic approach to conducting of business operations. The process of planning covers a whole range of activities, deciding in advance as to what will be done, and by whom, when, and at what costs.

The planning process consists of:

- * Deciding objectives such as increasing sales/profits
- * Deciding premises/assumptions regarding matters such as raw material prices
- * Deciding quantitative targets of objectives
- * Determining the resources required, such as, men, material, and money
- * Scheduling of activities

A planning system is not complete until a reporting and monitoring system is in place.

However carefully formulated a plan may be, it can go wrong because the conditions change, mistakes are committed, etc. Therefore, a periodic measurement of the actual and comparing them with the planned targets, and taking remedial measures help one to stay on course. An entrepreneur should introduce planning of activities as per his requirements. He can go on refining the system as he goes along.

(The trainer should begin with planning activity in relation to sales, as it is easy to understand this aspect. The objective could be, to increase sales, margin, or market share, or all of these. The target could be a specific increase over the base. One could then talk of actions like more sales people, more margins to dealer, reducing price, advertising and promotion, etc. These actions have to be scheduled, expenses have to be budgeted, and the results have to be measured. The participants can also be asked to prepare a plan and their plans can be discussed to reinforce the learning).

CHAPTER 21

LEADERSHIP

Objective

The objective of this chapter is to make the trainees understand the nature and importance of leadership. It aims at making them appreciate the different styles of leadership and bring to their attention behavioural guidelines to enhance their leadership potential.

Duration: 1 hour and 15 minutes

Advance Preparation and Material Required

The facilitator should build up an inventory of leadership stories to bring home to the trainees the major issues in leadership. The major emphasis should be on the applicability and usefulness of the suggestions. The facilitator may also circulate some of the stories as supplementary readings.

Session Guide

The facilitator should begin with an explanation of the multiple roles of an entrepreneur and link them to the importance of leadership. He should then lead the trainees to discussing the various styles of leadership. He should draw attention to the contingency aspect and the need to vary the style to suit the circumstances. This should lead to the suggestive guidelines, as they are the operational part. Finally, the analysis of the case may be done to relate to the learning discussed in the chapter.

Of the several factors affecting the performance of the subordinates, leadership is considered to be very important. An effective leader enhances the performance levels. An inspiring leader will make the ordinary turn into an extraordinary performance. It can also have a beneficial influence on the empowerment of subordinates, which help in the development of people.

1.0 Meaning of Leadership

Leadership can be defined as the process of influencing and supporting others to work enthusiastically toward achieving objectives. A leader acts as a catalyst and transforms the potential of followers into actuality. It has been a common experience that people perform at sub-optimal level for most of the time. A leader lifts people from this state and motivates them to upscale their performance. A leader does not require formal authority to exercise his influence. A good metaphor is that of an

orchestra conductor who guides the players and makes them give a beautiful performance by concerted teamwork.

(The trainer could effectively use the biography of any first generation entrepreneur and gradually direct the discussion to the personality, vision and daring, etc. of the entrepreneur and the leadership).

1.1 Entrepreneur as a Leader

An entrepreneur is more than a manager. Both want to influence the performance of other people. A manager will use formal power and system to get the desired results. An entrepreneur, in the initial stages of establishing an enterprise, has got only a dream and the vision which attracts people to work with him. He will be far more effective if he acts more as a leader. All successful first-generation entrepreneurs have been competent leaders. Therefore, a would-be entrepreneur must understand the elements of leadership and enhance those skills.

(Using the same story or another, the trainer can discuss the roles of an entrepreneur as a risk-taker, manager, and then zero-in on leadership. No worthwhile business can be built without the leadership).

1.2 Nature of Leadership

The earlier discussions about the nature of leadership have not been very encouraging. These explanations of leadership focused on the qualities of a leader like personality, charisma, oratorical skills, daring, etc. that were described as born traits. So the message was, 'If you have it, rejoice, if you don't, well nothing can be done about it. 'Fortunately, the current view based on a better understanding of the leadership phenomenon, describes leadership as a set of behavioral skills that are 'learnable' and can be enhanced. True, not every one can become a great leader, but every one can certainly acquire adequate leadership skills to become a reasonably effective leader.

Not only that, we now have a battery of instruments that can be used to enhance leadership skills, such as, training, observing and imitating role models, analyzing experiences and learning from those situations to modify behavior and to enhance the effectiveness.

1.3 Leadership Explanations

Researchers have given several explanations of leadership. Each of these explanations provides some insight into the leadership phenomenon and indicates the skills needed.

The leadership explanations can be broadly categorized in three groups.

The trait approach explains leadership in terms of qualities that a leader has.

There is a behavioral explanation, which talks about the skills, actions, and roles that the leaders display. This approach is more fruitful as one can develop the skills such as communication, analyze the actions such as goals-setting and showing the path, and imitate the roles of negotiator, champion of the cause, etc.

The third category of explanations refers to the appropriateness of the fit between the situation, needs and levels of the employees, and the response of the leaders. The implication of this explanation is that a leader has to be flexible in his approach as the situations change.

1.4 Leadership Styles

A number of leadership styles have been identified. These broadly are autocratic style, consultative style, and participative style. Autocratic styles consist in ordering/instructing. The consultative style entails asking for inputs from the followers, but the final decision rests with the leader. The participative style involves the followers in the decision-making process and thus empowers them, too.

Another way to look at the leadership style is in terms of people-centered leadership and task-centered leadership. People-centered leaders are oriented towards people and display care and concern for people. Task-centered leaders are oriented towards the performance and the target.

It needs to be emphasized that a leader will have a mix of all different styles, but one of the styles will be dominant.

(At this stage the trainer can introduce the concept of different styles and demonstrate that what will work with one person may not work with another. Further, what work in one situation may not work in another situation? This is what contingency approach means. The trainer should then highlight that a skillful leader should vary his style with change in situational factors).

1.5 Suggestive Guidelines

The following guidelines will help in improving the effectiveness of leadership.

- (i) An entrepreneur will be well advised to attend to development of two major skills, those of communication and negotiation. A fuller discussion on these skills has been given in the preceding chapters. All successful leaders are good communicators and good negotiators.
- (ii) An aspiring entrepreneur has to understand that a single leadership style will not work in all situations. He has to learn to be flexible and vary his style as per the situation and the people. The autocratic style may be appropriate at

the time of initial establishment or during a crisis, but as the business grows, one needs the consultative and participative approaches. The autocratic style will work with manual workers, but with knowledge-based workers, other styles will be needed. Therefore, varying the style as per the situation, the people, the tasks, and the organisation is critical for effective leadership.

- (iii) Leadership is a continuum and is a blend of several actions. Order, instruction, persuasion, consultation, and involvement, all are useful at different times with different people and in different situations.
- (iv) Goal setting and goal selling to followers have been found very useful. Therefore, setting appropriate goals, communicating them clearly, and providing support in terms of guidance, resources, care, and rewards go a long way to improve the performance. A leader sets the goals that may be endorsed by the followers, shows that path, and provides the necessary support.
- (v) The role model of a coach is very instructive for the leader. A coach selects his team mates carefully, knows the strengths and weaknesses of each player, and assigns them tasks in accordance with his evaluation. The coach prepares guides, directs, cheers, and provides warmth to each player. So should the business leaders act?

(The trainer should use this opportunity to reinforce the idea that the basket of soft skills is more effective when used together. Negotiating, communicating, planning, goal setting, are all related to each other. The participants must be made to appreciate how a leader has to effectively communicate, negotiate with stake holders, and formulate a plan).

CHAPTER 22

DEVELOPING ENTREPRENEURIAL COMPETENCIES

Objective

The objective of this chapter is to help the trainees understand the contribution of entrepreneurial soft skills in shaping the competencies required for success in entrepreneurial ventures.

Duration: About 9 hours

Advance Preparation and Material Required

The inputs for this topic are segregated into two broad areas. One, introduction to the soft skills competency development/framework and, two, simulation exercises which bring out the competencies in the forefront. The facilitator will man oeuvre the analysis and discussion to steer the entire process and proceedings towards a clear focus on competency development. Hence, it is advantageous if the facilitator is trained and experienced, with conceptual clarity on soft skill competency assessment and development. The following props are required during the session for simulation exercises:

- 24 wooden blocks (cube) with plain surface of, say, 5 cms² each
- Blindfolds
- Glossy paper sheets of 25cm x 20cm size, with one side coloured. Approximately 100 sheets each of three colours for two separate rounds
- Data record sheet for each participant
- Blackboard

Session Guide

The objective of the topic is to help the trainees understand that they have strengths and weaknesses, which may sometimes acts as resources and sometimes as limitations, especially in the event of problem-solving. The topic will also help the trainees understand the relevance of systematic planning of soft skills to effectively influence the task outcome.

The emphasis shall be on making the trainees appreciate soft skill competencies by recognizing the existence of such competencies in them. Various situations associated with the utilisation of these competencies and the results emanating from them are to be highlighted in the course of the discussion. While emphasis will be on recognizing the soft skill competencies, methods of developing these competencies shall also be a key goal, especially through the use of simulation games.

1.0 Problem Solving – Tower Building

The exercise is organized in small groups of 5 persons. Three of them play the role of:

- a) Manager,
- b) Supervisor,
- c) Worker,

While the other two plays the role of observers.

The task will be to construct a single-column vertical tower by the **non-operative hand** under a blindfolded condition. The instructor will give the following instructions:

“We shall divide ourselves into groups of 4/5 members each. In each small group, one person shall play the role of a manager, another of a supervisor, and the third of a worker. The remaining one/two members will be observers. The worker is required to build a single-column vertical tower by using the wooden cubes provided to each group. He will be blindfolded and will work with his non-operative hand i.e. the left hand if he is a right hander or vice versa.” There is no instruction to the manager and the supervisor as to what they will do. The only limitation is that they can’t construct the tower by themselves. They are not permitted to touch the cubes. The height of the tower at the end of five minutes, one cube height less when it falls will be the indicator of the standard of performance.

In case additional information is required, one may inquire from the instructor. The game will commence only after the instruction from the instructor and stop when the tower falls or 5 minutes lapse.

The facilitator gives separate instructions to observer/s that they will not interact with any other member, and will only observe the proceedings. They are instructed to observe the entire process, i.e., encouragement given and received, guidance and direction offered and received, and differential levels of self-confidence of the worker.

Before the exercise starts, the manager, the supervisor and the worker are asked to record on separate sheets their estimation of how many blocks they expect to pile up in the given time and condition. This is done separately by all three members without any consultation. Then the individual estimates are disclosed to each other and they mutually discuss and arrive at a common target before the work starts.

Data is recorded in separate sheets by observers.

The instructor draws the attention of the participants to various implications of the data recorded and does a detailed analysis of the entire proceedings, group wise.

The facilitator raises questions and helps the participants to understand the experiences around the following issues.

- Tendency to perceive shortages (blindfolded, non-operative hand, etc.) more readily than assets and strengths (sense of touch, concentration) present in the situation;
- Tendency to miscalculate available resources to tackle the problem at hand (support from supervisor, data from facilitator on past average performances, preparation for problem solving, etc.);
- Dependence on selected resources (tunnel vision) results in loss of fresh thinking and erosion of simple problem-solving capacity, confidence, etc. which causes more dependence.

The discussion will help the participants to internalize various aspects of the problem-solving (soft skill) competency. The process provides a basis to understand the effective and optimum utilisation of available/accessible resources and their significance in task performance. The participants are also made aware of the need to 'strategize' to overcome any handicaps, both present and foreseen, with the help of existing strengths and assets.

2.0 Systematic Planning – Boat Game

The facilitator introduces the exercise by saying, "You are going to participate in an interesting exercise in which you are assuming the roles of an owner, manager and operator simultaneously. Yours will be a manufacturing enterprise. The product that you will have to manufacture is a special type of boat called shallow water boat. This is a defence item. The defence department (facilitator) shall supply the raw materials at the rate given below and on the basis of a final estimate made by you before the start of the actual manufacturing. The material is not available in the open market. The defence department shall procure the finished products at the price given below, provided it meets the following standard:

- The two outer sides are coloured
- The corners of the boat are sharp
- The double folds are not revealing.

In case of falling short on any one of the three standards, the products will be rejected. Once rejected, they can't be altered / sold in the open market. Both substandard products and the unused raw material will be a waste and a loss.

You will be given 5 minutes to manufacture the product. After 5 minutes, you are not permitted to touch the materials.

- The participants are given an information-recording sheet.

- The facilitator will explain the technique of making the boat by demonstrating each step.
- The participants are asked to record their first estimate.
- The facilitator invites participants to take a time trial. Sheets for the time trial are supplied free. The participants will try to make the boat and the facilitator will announce the time at an interval of 15 seconds for the first minute and at the interval of 5 seconds for the second minute. Beyond two minutes, the time is recorded as two minutes. Participants will be advised to answer all questions under the time trial given in the performance sheet.
- The participants will be instructed to make the final estimate, and complete the C & D parts of the performance sheet.
- The facilitator will give time for any preparation the participants want to make and then distribute the raw material as per the final estimate and announce the time of commencement. Then the facilitator will keep announcing the time at an interval of 30 seconds. At the end of 5 minutes, the work stops and the facilitator goes for purchasing.
- The participants are advised to answer questions under D, E, and F of the performance sheet and discuss their overall thinking/strategy behind their decision.

The facilitator helps to focus the discussion towards the behaviour regarding systematic planning, learning curve analysis, skill understanding, skill gradation, identifying the bottle-necks, capacity planning, manufacturing systems employed, cluster approach to buying raw material, etc. A realistic self-appraisal of the strategy, decision-making and its effect on the performance is made and the participants are called back to help them internalize the intensity of systematic planning to economic productivity and enterprise success.

After discussion, the same exercise is repeated in a second round with a slightly complicated model to improve their performance and help in the process of shaping up the soft skill competency – systematic planning.

CHAPTER 23

AREA ASSESSMENT SURVEY – MODES

Objective

The objective of this chapter is to enable the trainees to understand the methodology of conducting an area assessment survey in a given district. The methods of desk research and field survey planning and implementation, interactions with leading organisations, institutions, entrepreneurs, business houses, traders, and government departments are considered for business opportunity identification.

Duration: 2 hours and 30 minutes of class-room inputs followed by two days of field work combining field work on business opportunity identification.

Advance Preparation and Material Required

This input will require extensive advance preparation with regard to sources of information, project profiles on business opportunities, understanding the methodology of conducting area assessment surveys, and communication skills to interact in the field. The trainer should have a network with other agencies and individuals to put the trainees in contact with them at the time of actual fieldwork. A data bank regarding information on agriculture production, existing industries, market potential, and reports of leading associations, institutions and companies should be developed in the training centre. Moreover, information on technology sources, equipment suppliers, raw material traders, and consultants should be kept ready for the delivery of the session. It will be ideal if the trainer develops an inventory of potential business opportunities with *prima-facie* information.

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The intention of this input is to equip the trainees with the methodology of conducting the area assessment survey, and preparing them for doing their own opportunity identification task as a prelude to their entrepreneurial career. This is a very important input and due emphasis should be given to it, as a wrong selection will ruin the career of the entrepreneur. Trainees may be given an exercise on identifying business opportunity by desk research and field survey so that they understand the ground level situation.

The findings of the survey may be presented in the class and suggestions may be given on the improvements and difficulties faced by the trainees during field survey. An experienced entrepreneur or businessman may be called to share his/her experience and interact with the trainees. At the end of the formal input, the trainees should have developed an urge to identify an opportunity, given their own strengths and weaknesses. A trainee's profile with regard to educational qualifications, experience, networking, and family background should match with the opportunity identified.

1.0 Introduction

Area assessment surveys are very important to identify business opportunities. It is, therefore, necessary to understand very clearly the methodology of conducting area assessment surveys and deriving conclusions from the available data and information. There are various steps involved in carrying such surveys.

1.1 Desk Research

The first step is to do extensive desk research to get hold of secondary published data and information from various sources. The second step would be to carry out an extensive field survey by interacting with the agencies concerned, discussions with leading units, brainstorming with knowledgeable persons and consultants in the field, meeting with government officials of the industry and agriculture department, bank and financial institutions, appraisal officers, District Industries Centre, the forest department, important NGOs, and leading traders and businessmen in the sector.

1.2 Field Work

After formulation of the above strategy, actual field work was started to identify viable projects relevant to the district. First of all, detailed discussions were held with the District Industries Centre and data, as listed above, was collected for further field study.

General Guidelines Emerging: This discussion revealed that the main emphasis should be on identification of projects for relatively small and medium food processing industries. The main opportunities will emerge from resources like paddy, fish, groundnut, fruits and vegetables, and the consumption of food products by the local population. The industry officer of the centre provided the information on new, medium and large units coming up in the district, as well as the status of existing small and medium units. It was revealed that there exists a very good scope in fruit and vegetable processing, as the units in the district engaged in this activity were doing extremely well and also the production of fruits and vegetables is increasing day by day with new irrigation facilities and changing cropping pattern. They mentioned the example of banana-processing to make banana powder, mango pulp for export, mango powder, mango papad, pickles, canning of vegetables, ready-to-eat cooked vegetables in tins for local and export market, okra in brine, prepared vegetable products for the U.K. market such as samosa, patra, stuffed paratha, and chilly pickles. Moreover, they also sounded optimistic on the scope for dehydrated vegetables and fruit powder from fruits such as chikoo, papaya, and cherry. They were not aware of investment involved and technical matters, but further work on identified opportunities may yield this data.

The discussions also revealed that there were sick units in fruits and vegetable-processing particularly those doing IQF and dehydration. However, the reasons were not known. A list of existing small and medium food processing industries in the district was provided by the Industries Officer.

Agro-Based Opportunities: The visit to the District Agriculture Office was useful in obtaining data regarding the category wise production of various crops, fruits and vegetables, cash crops like groundnut, spices and other oil seeds. From this data, it was revealed that there is good availability of mango, chikoo, and banana during the season. Most of the production of these agro products is sold outside the district for human consumption as well as for canning purpose. There were very few units processing this valuable resource. Business opportunities like mango pulp, pickles, pulp powder, pan masala ingredient from mango kernel, chikoo powder, banana powder, banana chips, etc. can be encouraged for new and prospective entrepreneurs.

The availability of a variety of vegetables in the district offers the scope for their processing. Business opportunities like canning, dehydration, and brining can be suggested during the training programme.

In the food grain sector, the major crop is paddy. The type of paddy grown offers scope for flaked and blown rice, mini rice mill, and rice powder. Jowar is also available in good quantity. Opportunities based on this are very limited in the processing area. However, the availability of maize offers the scope for cornflakes and maize 'pauha'. Another important crop is sugarcane. The district is a leading producer of sugarcane in Gujarat. Many sugar mills are already there, including 'khandsari units'. Sugarcane can be processed by small and medium entrepreneurs to make good quality, chemical-free jaggery (gur), and sugarcane juice in bottles. Innovative opportunities like making highly concentrated sugarcane juice slurry, used as a sweetener in food processing industries, also exist. In developed countries, it is now a common practice to use concentrated juice slurry for a variety of applications, including tea, coffee, and other home preparations, apart from industrial applications in jam and jelly making, ice-cream, bakery items, confectionery and chocolate making. The advantage of using concentrated juice is that the minerals and vitamins of the juice remain intact, unlike draining out in conventional sugar making where they are discarded along with molasses.

Groundnut is produced in the district. There are oil mills but the real value addition is in making products from groundnut other than oil. Discussions with knowledgeable persons indicated that groundnut can be used profitably for the production of peanut butter, roasted and coated peanut snacks, peanut powder for food application, and defatted peanuts.

Meeting the Fisheries Officer: The discussions with the Fisheries Officer revealed that the production of fish from inland water is sizeable though most fish are sold

fresh. There is scope for value addition. Production from the sea is comparatively low in the case of Surat. The value added products such as fish sausage, cutlets, cakes, surimi, pastes, and even smoked fish have good scope to sell in the district as well as outside. Moreover, due to ample availability of fresh water from the Ukai Dam area, there is excellent scope for inland fisheries in ponds.

Ideas from Existing Entrepreneurs: About ten entrepreneurs of different product lines in food processing were contacted to understand their views on new projects which may be set-up in the district. As most entrepreneurs were in the small-scale sector and products were based on agriculture, new ideas emerged on the lines of what the Agriculture Officer had said. Some of the entrepreneurs suggested products like soya-milk and other soy products such as roasted soybean and tofu. Some of them also suggested that there is good scope for tomato ketchup, puree and powder. Jams and jellies, based on mango and other fruits, were also suggested during the discussion as there exists a good scope and most of requirements are met from outside. The entrepreneurs engaged in the dairy business found scope for making coated cheese, paneer, flavoured yoghurt and milk.

Market Need Based Opportunities: After completing the visits to existing entrepreneurs, food processing units, government and other agencies, the surveyors thought it fit to take a round of the main market of Surat. The idea was to drop in to 10-15 leading shops, selling food and related items, and discuss with traders, wholesalers and distributors. Accordingly, we interacted with the businessmen to know the products which they feel have a good scope in the district, identify the food products which are coming from quite a distance, items which are in short supply, new and innovative products introduced in the market, imported foodstuffs, and problems faced by them in procurement and distribution. During the discussions, it was found that products like various types of breads, cookies, potato wafers, soft drink concentrates, namkeens, tomato ketchup, pickles, roasted and coated peanuts, jams and jellies, cornflakes, and roasted dry fruits have a very good scope, if produced locally. The perishable items like bread are already produced in the district but they felt that there is a need to have variety and higher quality of the bread so that they can serve the unsatisfied demand and increase the sale. Flavoured milk with promotion from AMUL has a good scope due to awareness creation in urban and rural areas.

CHAPTER 24

METHODOLOGY OF OPPORTUNITY IDENTIFICATION AND PROFILING BUSINESS IDEAS

Objective

The objective of this chapter is to enable entrepreneurs to identify suitable business opportunities for their enterprise based on their capacity to invest in and manage a venture. Opportunity identification entails generation of a large number of ideas, screening them with respect to one's own profile, market potential, availability of raw materials, and technical and financial viability.

Duration: 6 hours and 15 minutes of class room inputs followed by two days of fieldwork.

Advance Preparation and Material Required

A trainer should have carried out idea generation and opportunity identification in the region. This will help the trainer understand the whole exercise and impart his understanding to the entrepreneur. The case study and examples in food processing sector, with special reference to the region, should be presented during the classroom inputs. Exercise and field survey of business opportunity identification and idea generation will have to be given to the entrepreneurs by means of personal counselling and guidance to solve the problems raised during the survey. The trainer should have developed adequate skill with regard to relevant analytical inputs prior to delivering the sessions.

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Opportunity identification and selection process may be explained with an illustration for each of the seven steps discussed later under section 2.1. The trainees may be asked to carry out the exercise on their own and report individually before the group. This will help them in understanding the methodology. A large number of case lets offered in the training material may also be discussed during the session. Outside experts may be invited to deliver inputs on generation of ideas and utilisation of natural resources. The importance of the sources of information, networking, and brainstorming may be explained as these are vital in identifying the right opportunity and collecting the supporting data. Important websites and trade fairs are mentioned as illustrations but more may be included as per the regional needs.

1.0 Background

1.1 The Key Question

Which enterprise does one set up? This is a question, which baffles many prospective entrepreneurs. At times, it even lulls some of them into inaction. Identification of a single or multiple project ideas is crucial for the purpose of converting the entrepreneurial urge into a recognisable form. Search for ideas is the beginning, an icebreaker, the first step in the actual entrepreneurial journey.

Well begun is half done. So, the success or failure of an enterprise depends to a large extent, on idea-selection.

1.2 Focus of the Chapter

How does an entrepreneur go about identifying ideas? There are numerous stories about different methods adopted by entrepreneurs for identification of a project. Chance made Ms. Pooja Nene launch a project to manufacture tomato sauce and varieties of food pastes. She met an executive in a 'star' hotel in Mumbai and found that there is need for high quality and good tasting tomato sauce, and tamarind, ginger and garlic pastes. She also learned that these products are not only coming from a long distance but also at a very high price. On the other hand we have Ms. Avani Vora who identified a large number of opportunities by meeting consultants, knowledgeable persons, visiting trade fairs, and searching the published information. She narrowed down her ideas by carrying out the market surveys herself and satisfying her criteria for final selection. There is no dearth of case histories. There is a plethora of specific business ideas. But there is precious little literature on the subject of identification process, methodology, sources of assistance, and information. This chapter is a modest effort, meant to be a blend of theory and practice. It is intended to help one think and chart out an identification work-plan for himself / herself. It does not provide neat, oversimplified answers because opportunity identification in itself is an open-ended task. It is meant to enlarge insights, aid thought-process, clarify techniques, and fine-tune the approach.

The chapter addresses the following:

- Potential entrepreneurs interested in setting up new ventures
- Entrepreneur-Trainers (ETs)
- Technical resource persons responsible for counselling trainees of Entrepreneurship Development Programmes (EDPs)
- Existing entrepreneurs interested in new business opportunities.

The needs of these groups are somewhat varied. While the chapter focuses on the common need of Business Opportunity Identification, it also deals with the special needs of selected target groups.

1.3 Use of the Chapter

There is a creative dimension to Opportunity-Identification and Selection (OIS) process. There are also problems of time and cost of undertaking a comprehensive, in-depth opportunity scanning and evaluation exercise related to investment and other resources required for the opportunity one chooses. It would, therefore, not be advisable or even possible to completely go by what is written in this chapter. In practice, one might be able to utilise parts of it for actual opportunity identification and selection (OIS) work. In the course of OIS it would be practical to go back to the chapter at regular intervals in order to improve the quality of OIS.

The chapter is divided into the following sections.

- I. Process of OIS: This section may help one understand the whole process and chart out an action plan.
- II. Idea-generation: Various approaches to idea-generation and available sources of assistance for the purpose are discussed in this section. It will help decide upon the approach, which would suit one best, stretch one's mind and helps tap potential sources of assistance.
- III. Idea-selection: This section would give insights into the techniques and dynamics of selection.
- IV. OIS in EDP context: This is an exposition of issues of practical interest to trainers and would help them better organize OIS inputs.
- V. Sources of information and assistance: This section contains information about sources for project ideas, pre-feasibility studies, and other material required for OIS.

2.0 Opportunity Identification and Selection: The Process

2.1 The Seven Step Process

An entrepreneur may select a business opportunity through a chance event or through a natural extension of his present occupation. For example, a trader in additives, may undertake production of the same. But then, everyone is not so lucky. One might belong to a class of entrepreneurs to whom opportunities do not present themselves so easily. So, one needs to understand the OIS process. The 7-step process is outlined in Exhibit 1.

This Exhibit tells about important steps in the process. It is not mandatory to always follow the sequence of steps. One may find an idea so exciting that he/she might straight away embark upon a pre-feasibility study for it; development of opportunity selection (OS) framework and generation of ideas (steps 2 & 3) may be processed

simultaneously. The purpose of the Exhibit is to highlight important landmarks on the OIS road.

Exhibit 1

OIS PROCESS	
The Steps	
Preparation of Personal Profile	Step 1
Development of OS (decision making) Framework	Step 2
Generation of Ideas	Step 3
Snap Investigation	Step 4
Evaluation in terms of OS (decision making) Framework and Shortlisting of Ideas	Step 5
Pre-feasibility Studies	Step 6
Opportunity Selection	Step 7

STEP 1: Preparation of Personal Profile: Entrepreneur is the one who has to make an enterprise idea work. He has a certain attitude towards business. So, first, write about him/her. Statement-1 provides a sample personal profile. One can change the format, if desired. It is this profile which would provide a springboard for decision-making framework.

STATEMENT-1

PERSONAL PROFILE

1. Name: Kinjal Patel
2. Education: BA
3. Work Experience: 12 months as Marketing Executive in a FMCG company, 6 months in selling of packaging machines.
4. Other Academic/Practical Interests: Export Oriented Products
5. Personality: Hard-working. Dynamic. An upper middle-class background. Parents and close relatives are either in business or professionals. Initial financial assistance and moral support assured by parents. But cannot expect support for huge marketing expenses or research and development.

- | | |
|--|---|
| 6. Objective for Establishing an Enterprise: | To earn a lot of money. He is optimistic about the fact that hard work and sacrifices will reap good benefits in the coming years. He also believes that he will become a successful entrepreneur as the FMCG sector has great potential. |
| 7. Investment Preparedness: | Own fund of Rs. 10 lakhs can be committed to business. |
| 8. Attitude to Risk-taking: | Hard earned money. Moderate risk taking attitude. |
| 9. Personal Considerations: | Wants to set it up in/around the city where he lives.

Wants to do it alone. No partnership. |

STEP 2: Development of Opportunity Selection (OS) Framework: Being open to any opportunity under the sun might mean not taking any action at all. It is imperative to develop one's own list of criteria for OIS. This will help clarify expectations and set anxieties to rest. The list is essential to ensure sufficient focus. This list of criteria would help one arrive at answers to the following questions.

(a) Investment: How much is one willing to invest? One will have to at least decide the range of one's own money one will put in and the amount to be borrowed in order to arrive at the total investment. One may not forget that putting-up a small-scale industry can mean investment from Rs. 1 lakh to 60 lakhs in machinery alone. One must understand what investment (project cost) means. Many small entrepreneurs equate project cost with cost of fixed assets. They overlook that it includes the following:

- Preliminary and Pre-operative Expenses: Expenses incurred prior to commencement of production like cost of the preparation of project report, company formation formalities, legal expenses, salaries of personnel, travel, telephone, stationery, printing, interest on loan during construction period, and trial production.
- Contingency and Escalation: Expenditure on facilities/purposes which one did not anticipate, and escalation in price.
- Working Capital Margin: A portion of working capital, that the bank will not give and which will have to be brought in by the entrepreneur.

It is essential to keep all these components in view. An entrepreneur who thinks in terms of fixed assets alone and looks for a project in the range of Rs. 15-18 lakhs

does not realise that the investment, inclusive of the above cited three components, might work out to be in the range of Rs. 22-25 lakhs.

(b) Technical Sophistication: What is the degree of technological sophistication desired? Judge how much sophistication one can cope with before answering this question. It is not enough to secure technical know-how; what is equally important is that one absorbs and adapts it to one's purpose. For a small entrepreneur who does not have any technical background or experience, such absorption is difficult if the technology is complex. In fact, it is a daunting task for such an entrepreneur to judge the soundness of a technical know-how.

(c) Managerial/Organisational Demands: How large or complicated is the managerial/organisational task? How does an entrepreneur's own education, skills, and experience match this task? All enterprises involve management. It is the amount and intricacy of managerial functions and one's capability, that needs focus. Take the example of a technician who is only a school graduate and his experience is limited to supervising workers in a small, snack food industry. He chooses to manufacture potato wafers, which involves purchase of right quality of potato, high working capital to store during lean season, and sale through a network of at least 10-15 cities. There is the danger of his capabilities falling short of the procurement, production-scheduling, and marketing demands inherent in the project.

(d) Market and Competition: What is the attitude towards market and competition? One often comes across entrepreneurs looking for 'Monopoly' business opportunities. The search is often futile because such opportunities are, in most instances, beyond the financial and technological reach of small entrepreneurs. But the expectation underscores a certain attitude to market and competition. Is the entrepreneur competition-shy or prepared to fight to secure place in a somewhat crowded market place? This question needs to be answered before scouting for specific opportunities. One must also be clear whether he/she is interested in exports or not.

(e) Sector Preference: What are sector preferences? One's educational background, work-experience, exposure to business, network of contacts, location-choice, and perceptions can affect sector or industry preferences. One might, therefore, decide, right at the outset, whether he/she would like to select an opportunity in, say, bread or confectionery industry. There prevail, from time to time, perceptions of what are called 'sunrise' industries. One might be influenced by such perceptions. One might also have an aversion to some industries. Therefore, one should state his/her preferences and aversions as clearly as one can.

(f) Government Intervention/Dependence: What is the attitude towards Government interventions/dependence? One would have a definite attitude vis-à-vis market and competition, and likewise, a temperament or skill vis-à-vis government intervention/dependence. For example, ISI number for food colours is compulsory and certain raw material, e.g. molasses, is subject to allocation by the government.

Some entrepreneurs thrive on such controls. Others are averse to it. Another form of dependence may be due to the government being the sole or the most important customer. There is a popular belief that it calls for considerable 'public relations' to sell to the government. Every entrepreneur does not have this flair. So, the attitude towards government dependence is to be defined.

(g) Implementation Time: What is the time frame for making an enterprise operational? Search for opportunity will be influenced by an answer to this question. If implementation-schedule in view is quick, ideas, which entail considerable technology searching, complicated government approvals, long schedules for machinery-delivery, will not fit in.

(h) Profitability: What are profitability expectations? Everybody looks for a profitable project but individual norms of profitability levels vary. An existing entrepreneur manufacturing food additives said that he would consider 10 per cent return on investment quite good. A trader, aspiring to be an entrepreneur, judged this to be thoroughly unacceptable.

(i) Degree of Risk and its Form: What is the acceptable degree of risk? All business opportunities entail risk but the degree varies. If it is an innovative product, the risk is high. 'Packed Spices', the cleaned and refined spices in packets, which became a runaway success could have failed. There are techniques (break even point, sensitivity analysis) of measuring risk. Risk stems from various sources – government policy, raw material supply, market and technology. Which form of risk is one confident of handling? Which form of risk one would wish to avoid at all cost?

(j) Location: Most small entrepreneurs establish projects at their place of residence. However, there are entrepreneurs who wish to migrate to their native place or some other location. One should decide (unless one has an open mind) on location before he/she begins a search for ideas.

(k) Personal Considerations: What are one's personal considerations for OIS? The range of personal considerations underlying OIS is likely to be unlimited. This is an aspect of OIS-work, which has received scant attention. In many cases, these considerations surface clearly after a project is set up. Very often, it is not possible to accommodate all personal considerations and hence one should be ready for some compromise in this regard. We are presenting an illustrative list of personal considerations:

i. **Taboos/Religious Sentiments:** Khanna was looking for an opportunity in the food processing sector. A friend suggested 'frozen-meat'. It was a taboo for Mr. Khanna; he was a vegetarian. One might similarly have some taboos/religious preferences.

ii. **Life Style:** Vijay Poddar is a successful trader in Ahmedabad. He has got a number of coveted agencies. He is a science graduate and holds an MBA degree.

But, now he has to spend time hobnobbing with local traders. They are ill educated and uncouth. There are late-night parties at which the level of conversation is pedestrian. Vijay is a man of considerable intellectual and cultural propensities. He is happy with material success, but regrets the life-style determined by his chosen vocation. He wonders whether he should have ventured into something else. His advice to a new entrepreneur is, "It is good to wish to become rich. But ask yourself – become rich, doing what?"

iii. *Relative Importance of Money:* Mehta comes from a family in the textile industry. She got bored being a mere housewife and established a restaurant, which did reasonably well. It brought her an annual income of around Rs. 8 lakhs. After two years, she decided to close it as it meant full-time hard work for her. She had to spend 15 hours a day managing it. If she was not present, the clientele and income declined. It meant she had to sacrifice her other personal interests like club visits, kitty parties, etc. She thought an annual income of Rs. 8 lakhs was not worth all the bother and the hardship, and she sold off the restaurant.

iv. *Amenability to Takeover by Children:* Amit Gupta makes bio-enzymes. There is keen competition from imported stuff. There are intense production scheduling, raw material procurement, quality problems, and process sensitivity. In the past two years, a few similar units have closed down. Gupta is able to carry on because he has, over the years, developed a firm grip over the business. His technical background, problem-solving abilities, capacity for hard work have all kept his enterprise going, and in reasonable health, while others have failed. Gupta is 50. He has a 22-year old son, a sincere young man but of average ability. Gupta has great doubts about his son being able to manage the business profitably. Gupta does not usually suffer from any exaggerated sense of self-importance. He has spent 20 years in this industry. In retrospect, he thinks he should have chosen a project, which could be easily taken over and managed by his son.

v. *Speculative Orientation:* Ajay Mittal has made a significant investment in the production of equipment for food processing industries in a rapidly developing township of Haryana. The investment in land and building is very high. Among others, this is one cause for the enterprise remaining in the red (making losses). Mittal, however, is not too unhappy. His eyes are set on potential appreciation in land/building prices. He is, in a way, not firmly committed to the project. He is making an effort. If it takes off, well and good; if it does not, he hopes to make a tidy profit from sale of land and building. This has been his calculation from the beginning. So, Mittal is an entrepreneur and speculator rolled into one. He might as well have chosen some other project. It would have made marginal difference.

These are few illustrations of personal considerations. There could be many. A rich businessman set up for his son a household appliance sale-cum-service centre. There is not much money in the business. In fact, not much money was expected. The main intention was to keep a wayward son meaningfully occupied.

One should understand his/her personal expectations clearly.

Look at Statement-2 for an illustrative understanding of OS developed by Kinjal Patel.

STATEMENT-2

OS FRAMEWORK DEVELOPED BY KINJAL PATEL

1. Gross Investment: Maximum Rs. 30 lakhs.
2. Gestation Period: Can bear a small loss in the first year. Must break even for generation of some cash profit in the second year.
3. Profitability: Should yield minimum 25 per cent return on investment from the third year onwards.
4. Market: Need not be a monopoly, but also not an overcrowded market. Avoid industrial products because there is limited scope to grow and build a national brand. Interested in steady demand consumer products. Interested in export because there is government support for it and believes that there are good opportunities there.
5. Government Restrictions: Wants a business on which Government restrictions/dependence on price, quality, distribution, raw material supply are minimal. Will not like government to be a major buyer.
6. Linkage with Economic Trend: Does not want a product or service, which is linked too much with economic upswing or downswing. For example, wants to stay away from automobile parts and textiles because these are hit quite hard by recession. However, if the idea is exciting or has potentially good financial rewards or any such considerations, a systematic and comprehensive preliminary investigation might be conducted.
7. Future Growth: This is important. Wants to stay in the business for a long time.
8. Personal Consideration: The business should use the knowledge and skills possessed by Kinjal. It should be respectable.

STEP 3: Generation or Identification of Ideas: So, one has worked out a personal profile. One's criteria for OS are also clear. Now, there is the task of hitting upon ideas – the heart of OIS process. The range and depth of ideas one picks up are determined by various factors like the nature of one's exposure to business environment, one's business acumen, vision, confidence, and scanning or scouting capability. There is also a strong creative dimension. There are no sure-fire ways of

picking up opportunities. There are, however, methods which help one stretch his/her mind, get started on an identification journey and cover the ground rapidly. There are sources of information/assistance with which one needs to familiarise oneself. We shall discuss the subject of idea-generation separately in detail because it merits special attention.

STEP 4: Snap Investigation of Ideas: An idea is not enough. One must examine its preliminary viability. Since one has to consider several opportunities at this stage, it is significant to spend time on a structured preliminary investigation.

So, what does one do? Talk to the following:

- entrepreneurs engaged in identical business
- potential customers
- knowledgeable officials in nodal agencies assisting food processing industry
- consultants
- machinery suppliers

At this stage, one must try to locate and read published material. Investigation should enable one to answer questions listed under the Statement-3. One might get tentative, if not precise, answers to some if not all questions. One should be satisfied, if one gets qualitative, even impressionistic information rather than accurate quantitative data. One should try to read what is easily accessible as well as undertake largely local fieldwork. This is the process to be followed by small entrepreneurs.

The objective here should be to arrive at a preliminary information sheet on a given idea, a sample of which is shown under Statement-4. You can have several such preliminary information sheets.

STATEMENT-3

QUESTIONS FOR SNAP INVESTIGATION OF IDEAS

1. What exactly is the product or service?
2. Its applications or uses
3. Possible scales of production or operation
4. Project cost corresponding to a given scale of production/operation
5. Market/competition
6. Unit sale price

7. Degree of technological complexity
8. Expected annual turnover
9. Expected profit margin (range)

Any other information one can collect without incurring too much expenditure.

STATEMENT-4

PRELIMINARY INFORMATION SHEET: A SAMPLE

1. Medium scale soymilk production facilities in Chennai starting from Soybean.
2. The production capacity of 200 liters per hour is based on an imported plant and equipment with proven technology. It also envisages the production of flavoured soymilk.
3. Raw material i.e. soybean is available in plenty throughout the year at reasonable price.
4. The market for soymilk is to be developed, as it is a new product for the public. It is to be promoted as health drink, and therefore, needs considerable marketing efforts.
5. The project cost will be Rs. 60 lakhs plus the cost of land. Land, depending upon the site chosen, will cost Rs. 1,000 per sq. mtr. A 2000 mtr. plot considered adequate.
6. There are a few small scale manufacturing units of soymilk in India but none in Chennai.
7. The technicians for the project will be trained at the time of commissioning of the project.
8. In two years, the market will absorb the full production of 200 litres per hour and result into annual sales of Rs. 150 lakhs. Later on products based on soymilk will be introduced in the market.
9. Profit before interest and tax, at an annual turnover of Rs. 150 lakhs, will be in the range of Rs. 30 to 35 lakhs.
10. The most important thing is to develop market and brand image before the entry of other players. The taste of soymilk will play a crucial role in consumer acceptance.

STEP 5: Evaluation in terms of OS (decision making) Framework and Short listing of Ideas: Evaluation is possible once you complete snap investigation of ideas. One can now try and assess the *prima-facie* viability of these ideas in terms of one's own OS (decision making) framework. It is not a neat, completely structured evaluation; there is room for intuitive judgement or gut feeling. Statement-5 shows how Kinjal Patel went about evaluating the four ideas he hit upon. In addition to what Statement-5 tells, the following questions need to be answered before one reaches even a tentative conclusion.

- Would one be able to learn and get a grip over this business?
- Will it pose, because of its basic character, serious problems in terms of securing term loan or working capital assistance from the financial institutions or a commercial bank? (Ask this question, if one is interested in such financial assistance).
- What are the key determinants of success and risk factors?

At this stage one can, often, ill-afford the cost of a comprehensive project-investigation. So, one must attach considerable importance to well-meaning judgement of persons, supposedly knowledgeable about the given opportunity. One should, of course, crosscheck such judgement.

STEP 6: Pre-Feasibility Studies: The exercise of pre-feasibility studies is carried out for the identified business opportunities to screen and narrow down the business ideas. Important aspects such as plant capacity, raw material availabilities, manufacturing process, technology and equipment sources, financial viability, etc. are studied in detail so that one can judge *prima-facie* the feasibility of identified business ideas. This will help identify viable opportunities.

STEP 7: Opportunity Selection: After completion of the six steps of opportunity identification, in the seventh step we do the actual selection of the opportunity from the narrowed down business ideas. One may prepare a list of opportunity selection in the order of priority keeping the six steps in mind. The final selection may also require a detailed project report preparation including market survey, technical analysis, and financial viability.

STATEMENT-5

KINJAL PATEL: EVALUATION OF BUSINESS OPPORTUNITIES

1. *Peanut Butter for Exports*

The existing manufacturers are doing reasonably well and with implementation of WTO the projected growth is also very good. It is possible to make this product with a blend of indigenous and imported equipment. However, there is a quota system in the major importing country, namely the U.S.A., and therefore there is market uncertainty. This is a major risk factor. The importance of personal contacts with importers in foreign countries renders market-entry difficult. Market-uncertainty, difficult entry, and lack of specific advantage relative to Mr. Patel's background were responsible for the idea being struck off the list in the first round itself.

2. *Dehydrated Vegetables*

This activity is supported by government agencies such as Ministry of Food Processing and National Horticulture Board. However, it is doubtful whether the project can be set up within the financial resources. The educational background of MBA (Marketing) is an advantage but market prospects are uncertain on account of highly fluctuating global market for the finished product, and raw material prices from local sources. Domestic market for dehydrated vegetables is very small due to high cost and ready availability of fresh vegetables. Hence, the product is dropped right away by Mr. Patel.

3. *Spices*

Patel thought that spice processing industry was doing well and would continue to do so. He knew the owner of a large spices processing company and was aware of the growing demand for such products. He looked into two possibilities:

1. Ground spices packed in attractive poly-pack.
2. Spice mixes (formulated masalas for special applications such as curry, tea, etc.).

Spice processing requires skills to purchase raw materials in the right season, making assessment of the future prices, variety and quality of raw spices, large inventory, and risk of price volatility. Moreover, market consists of both original and pure product with Agmark, and adulterated stuff without quality check. Besides this, keen competition, low margin, large number of players, and rampant tax evasions are other problems of this industry. Therefore, Patel thought of staying away from this opportunity too.

It is natural for an entrepreneur not to contemplate a project which his resources do not permit him to take up. Entrepreneurs are also scared of excessive competition, unless they have a distinctive advantage. In several regions of India – tomato ketchup, jams and jellies, evoke a negative response on account of prevailing intensity of competition.

Routine ideas like roasted peanuts, flaked and blown rice, flour milk, namkeen, etc. fail to enthuse many entrepreneurs and hence get eliminated. Likewise, there is a fear of unproven ideas. It is a delicate balancing act, which most entrepreneurs (who undertake a comprehensive and deliberate identification work) have to do. Avoid routine. Avoid extreme innovation.

In the case of consumer products marked by a strong degree of brand equity, the entrepreneurs are put off by heavy expenditure on product-launch/publicity at the initial stages. Many of them look upon this as a gamble or a not-so-calculated risk.

A popular basis for preliminary evaluation is unfamiliarity or intuitive discomfort with a product. There are entrepreneurs who believe that dealing with farmers is messy and so stay away from agro-processing projects.

Societal recognition is yet another cause for elimination. A business-counsellor in Rajasthan formulated a modern Piggery project. In order to gauge entrepreneurial behaviour, he decided to suggest it to any entrepreneur who sought his advice on opportunity. All entrepreneurs reacted with a sense of mild shock and disbelief. They dismissed the idea outright, without inquiring about the details.

As mentioned earlier, the purpose of preliminary evaluation is not opportunity selection. The purpose is to decide whether it is worthwhile to undertake further investigation of an opportunity or to abandon it.

Opportunity-short listing and further investigation/elimination decision are not based on preliminary project investigation alone. One's own criteria come into play. A project may be good or not so good in itself. It is a crucial component of preliminary evaluation as to how it fits into the criteria one has set up.

3.0 Generation of Ideas

3.1 Major Approaches

This is the least organized step in the OIS process. Large companies can invest in environment-scanning. They can hire sector-specialist consultants. They can buy expensive industry studies and hire corporate planners who will read and analyse these. A small-scale entrepreneur cannot afford to do this. It is after all a matter of sensing. One has to watch what is happening around him/her, and, reach out to knowledgeable sources of business opportunities, seize any chance in the course of job, travel, or meetings to generate ideas. One thinks creatively in order to hit upon

business opportunities. Remember, this is a highly individualistic process. The ability to generate ideas will depend on:

- Interest in sensing opportunities over a period of time – a sense of urgency/motivation for establishing your own enterprise
- Ability to harness sources of knowledge and information
- Vision and creativity

There are also individuals to whom opportunities present themselves. Pramod Srivastava was a Marketing Manager in a company making an ice-cream. While there, he met a dairy technologist who was looking for a partner for an ice-cream factory he wanted to set up. So, Pramod did not have to generate any ideas.

These days, literature on specific opportunities is available in plenty – good, bad, and indifferent. It is convenient, and also necessary to get such literature and read it. If one wants just a list of ideas, probably he/she will not have to pay at all. There is an excellent chance that one might find some of the ideas in such literature worthwhile. But then, this type of literature is widely circulated and it has the limitation of its having been produced for a faceless entrepreneur. Besides this, on one hand one is bewildered by the variety of ideas presented through such literature, on the other one may find it too difficult to relate the ideas to one's own location/needs. So, published literature, often does not fully meet one's requirement.

This evaluation leads us to an overview of approaches to generation of business opportunities. One may not use these approaches in isolation but along with such other aids as published literature or a chance meeting with a knowledgeable entrepreneur. One may also not use all the approaches explained in this chapter or look at all issues listed under a given approach; s/he can be selective in the use of these approaches or merge these with his/her own lateral thinking. But a clear and sharp understanding of these approaches will help to stretch one's mind and sharpen opportunity scouting skills.

There are seven approaches to generation of ideas (Exhibit 2).

Exhibit 2 **Generation of Ideas**

1. Natural Resources
2. Existing/Anticipated Industries
3. Market-Driven
4. Service Sector Scanning
5. Extension/Modification of Present Work Content
6. Creative Effort
7. Other ways

Approach-I: Natural Resources: It is logical to look for ways of converting relevant natural resources into profitable food processing enterprises. Suppose one is located in a wheat-growing area and there are bakeries which are either starved for flour or have to procure it from distant places, flour-mill could be a worthwhile idea. It would help, if the following gamut of natural resources are kept in view:

- Forest
- Horticulture
- Agriculture
- Marine or Aqua
- Animal

The knowledge of existence of a resource in itself does not bring forth an idea. It will have to be combined with technical/commercial knowledge to arrive at an idea. Sometimes, access to such knowledge is easy. Statement-6 enumerates fruit-based opportunities prepared on the basis of elementary knowledge. Sometimes, such knowledge is inadequate and/or difficult to access.

While identifying opportunities based on natural resources, it would be beneficial to pay attention to the following:

a) Exploitation Feasibility: It will help if one can judge the scope for commercial exploitation of a given resource, because there are resources which trigger ones imagination but whose exploitation is either too difficult or unviable. Jagmohan Patel in Bhavnagar district grows a large quantity of guava, lime, and pomegranate. He wanted to process these. But when he looked at certain information (Statement-7), his enthusiasm declined.

STATEMENT-6

FRUIT BASED OPPORTUNITIES

1. Preservation in Brine
2. Canning
3. Dehydration, Sun-drying
4. Block freezing
5. Individual quick freezing
6. Juice, Squash, Pulp
7. Concentrate
8. Soft Drinks
9. Paste, Puree
10. Jam
11. Pickle and Chutney
12. Candies and bars

13. Freeze drying
14. Juice concentrate

STATEMENT-7

MARKET POTENTIAL FOR PROCESSED PRODUCTS OF MAJOR FRUITS

	Domestic	Export
Pulpy Fruits		
Mango	Good	Fair
Banana (Puree)	Limited	Fair
Others		
Papaya (Pulp, Papain, Tutti-frutti)	Good	Good
Juicy Fruits		
Grapes (Wine)	Fair	Good
Seedless Grapes (Black and White) (Wine)	Limited	Good
Others		
Pomegranate (Juice)	Nil	Negligible
Lemon and Lime	Good (Pickles)	Fair
Guava	Limited	Negligible

b) Resource Quantification: How well is the resource quantified? One can set up a rice mill, if there is paddy growing in his/her area. The information which one gets from the published data may not be correct or latest. The right source will be the District Agricultural Officer. Sufficient paddy should be available to match the proposed production capacity. And this can be arrived at only after taking into consideration the paddy need by existing enterprises and also some stock for seeds.

c) Resource Specifications: Ginger is grown in many parts of India. However, ginger powder of good quality can be made only from the ginger available in Kerala as the ginger available there is not fibrous. For the production of dehydrated gooseberry, the resource available in Varnasi, U.P. is considered the most suitable, again on account of absence of fibres in it. To make good and spotless potato chips, one needs potato of a specific quality. There is a range of export-oriented peanut-based project ideas. But Indian entrepreneurs find it difficult to pursue these because the local peanut contains a level of aflatoxin unacceptable to the markets in developed countries. So, one must find out about the importance of technical specifications of a resource.

d) Resource Stability: The agricultural/horticultural output of a given resource, for a variety of reasons, varies drastically from year to year. One, therefore, needs to make a thorough, long-term assessment. There is a pineapple processing project in Bihar which has almost closed down. A struggling tomato-processing plant in Kerala is another example. In both instances, the supply of raw material has dried up. Cottonseed cultivation in parts of Gujarat is petering, thanks to the advent of castor

and mustard seeds. The cottonseed oil processing plants are underutilized. Numerous open-pan mini sugar mills closed down in India because the area where they are located no longer cultivate sugarcane. When the projects were conceived, such adverse possibilities were not visualised.

e) Critical Infrastructure for Resource Utilisation: Natural resources are often perishable, and, therefore, the importance of good roads, transport and storage facilities have been separately emphasized upon. North-eastern region grows a vast quantity of fruits. The road/transport conditions in North-east are so poor that it takes almost two days to bring the output from the growing area to a processing plant. Sometimes, in difficult weather conditions, the roads are not serviceable and it becomes altogether impossible to transport the output. This is one of the reasons why North-east has not been able to establish many fruit-based projects.

Strangely, improvements in infrastructure do not always brighten the prospects. The grape-dehydration projects in Maharashtra find the going tough because there are such efficient air-freight arrangements now that the importing countries largely want fresh and not dehydrated grapes. So one must understand the significance of infrastructure in relation to his/her own natural resource-based business idea.

f) Commodity/Trading Dimension: There are natural resources, which are traded on a large scale, for example, spices. The prices fluctuate daily and there is speculative trading. If one rests an idea on such a resource, it will certainly be difficult to insulate oneself against the speculative fallout, unless of course the idea involves tremendous value addition to the commodity, with little competition in the value-added product line.

g) Legal Dimension: There are laws pertaining to exploitation/distribution of natural resources. There may be restriction on fishing in a specified area by people other than the local fishermen. Sometimes, state governments stipulate restrictions on the movement of certain commodities, for example, oil seeds. These realities must be considered while looking for resource based ideas.

h) Other Considerations: Generation of ideas is for the purpose of identifying an opportunity and not for academic purposes. So, one has to be alive to the feasibility of resources utilisation even at the idea generation stage. Sesame seeds could be available in an area and one may contemplate setting up an oil-mill, but one should be aware that sesame seeds are also processed and exported. One may not be able to match the price offered by those who export it. Thus, existing pattern of resource utilisation should be of immediate concern.

i) From where will one pick up Resource-Based Ideas? There is no definite answer to this. Sometimes the ideas flow from one's own exposure. However, one may not be aware of opportunities based on a specific resource. The following sources might be utilised to identify opportunities based on given resources:

- Large growers or exploiters of resources
- Resource-specific technical or promotional organisations
- Relevant specialists in development banks and industry assisting organisations
- Large traders in a given resource
- Published technical/commercial literature on the subject.

Non-industrial skills or craft-skills like those required for making papad, pickles, blown and flaked rice, bakery products and so on are rich in some areas. It is logical to think of an enterprise built around traditional human skills.

Approach-2: Existing/Anticipated Industries: Existing industries in an area provide an important basis for opportunity identification. Projects under consideration are also relevant in this context. The existing industries, might give ideas about any of the following:

- launching similar project
- producing raw material for existing industry
- further processing of the output of existing industry
- providing capital goods for existing industry
- projects based on waste or by-product of existing industry
- projects for service needs of existing industry
- projects based on skills/technology

Let us understand these avenues further.

a) Similar Projects: It is easy and natural for an entrepreneur to follow suit and put up a similar project. The success of a few mango processing projects in an area might prompt a potential entrepreneur to include this opportunity in his/her own list of ideas. Sometimes a person might even be impressed and influenced by the owner's profile of the existing project. Success of a newly established pulse mill owner might inspire the potential entrepreneurs to consider setting up a pulse mill.

b) Raw Material: Possibility of supplying raw materials to existing industries in an area might also be explored, e.g., to existing ice-cream manufacturing projects.

c) Further Processing: Rice mills are generally set up around paddy producing centres. There are a large numbers of flour mills in Punjab because of the increased wheat production. So processing plants is an obvious idea.

d) Capital Goods: The scope for making machinery for existing food processing industry, though not common, also needs to be examined. If there are rice-mills coming up in an area, there is a definite prospect for the manufacturer of rice-mill plants. There are instances of manufacturers of packaging and oil-mill machinery having established operations at centres where the buyer industries are located.

e) Projects Based on Waste or By-Product: Many good projects can be identified on the basis of waste or by-product of existing industries. If we have appropriate technology to convert waste into wealth, we can identify good projects. This will also solve the problem of waste disposal. For example, molasses available from sugar mills can be converted into sugar syrup for food processing industries.

f) Service Needs of Existing/Anticipated Industries: Food processing industries need a variety of services – testing laboratory, consultancy for Good Manufacturing Practices (GMP), house-keeping, sanitation, statutory fulfillment services such as FPO, PFA, etc. One can spot services for which there is a good demand.

g) Projects Based on Skills/Technology: Business opportunities are sometimes solely based on local skill or technology developed by the entrepreneurs. The formation of clusters at various locations is mainly due to local skills available in particular sectors of industry. In food processing also there are such examples of skill-based business opportunities. The development of tapioca-based products in Salem district of Tamil Nadu or dehydration of grapes in Nasik district of Maharashtra and papad cluster in Kheda district of Gujarat are such examples.

While identifying opportunities based on the existing industry, one is advised to keep the following in view:

1) Outlook for Existing Industry of your Interest: Gauge the performance of the industry, which is likely to become a buyer. Try to learn about its future. The fact that there are numerous units of that industry does not mean that it has a good future. If there is industry-wide sickness for a particular industry or if it is generally feared that the industry would go down-hill, one must be cautious and think twice before contemplating to become a supplier to such an industry.

2) Nature of Decision-Making: It would help to grasp the nature of decision-making process in the existing industries to whom one wants to sell. The procurement decisions in government/co-operative enterprises, some observers believe are not so objective or merit based. If this is true, it means that one should not be influenced too much by the presence and the needs of such units in an area, unless one is confident to cope with the peculiarities of decision-making in such enterprises. There are multinationals and some large companies whose decision-making quite often is concentrated in a distant corporate office. One might be situated just next to a dairy unit, involved in making the raw materials it needs and still might not be getting business from it. So, it is important to have access to the corporate office, as it is the purchase manager in the corporate office who decides from whom to buy raw material, and not the factory manager, who only takes procurement decisions.

3) Motivated Feed-Back: A buyer generally tends to keep as many suppliers on hand as possible. When one discloses plans to produce a raw material or a component to an existing entrepreneur, there is a danger of such an entrepreneur or his manager exaggerating the potential requirement for the same and encouraging the supplier to enter the field for purely selfish reasons. Such motivated advice

should be guarded against. Probing, comprehensive questions such as the following might be asked:

- Who are the suppliers?
- Is there any shortage?
- What are the reasons for dissatisfaction with existing suppliers?
- How much inventory does one normally hold?
- What is the delivery time?
- What are the terms of payment?

If still in doubt, the data provided by the buyers in response to these questions might be cross-checked and present suppliers might be interviewed for this purpose. In short, one should make his/her own independent investigation, if he/she has the slightest reason to believe that the present supply position of the existing industry is satisfactory.

4) Look beyond Local Industries: The local economies are no longer closed ones. The freight and access advantages are getting strengthened by improved transport and communication facilities. So, one should not be satisfied with what the existing local industry offers. It has to be checked whether there would be non-local demand for the opportunity one is considering. This is particularly true, if the volume of production is not too small.

5) Well-entrenched Non-local Supply Industries: Competition has to be explored and identified, particularly when one chooses a local industry-linked opportunity. One may not undertake a detailed analysis of this but competitive advantage enjoyed by non-local ventures must be kept in mind.

Approach-3: Demand Driven or Market-driven Opportunities: Technological advancement, constant up-gradation of transport and communication facilities and growing globalisation together combine to make opportunity identification a market-centered process. One has to check out the market to determine whether his/her opportunity identification is based on natural resources or industrial development. Under the market-driven approach, market itself becomes the basis for opportunity identification. The following methods in this respect are popular.

a) Trade-flows: One may examine the trade-flows with reference to a region/city/village. While both inflows/outflows are relevant, we are, under this method, particularly interested in inflow. An outflow analysis would mostly provide data on industrial-development resulting from the exploitation of opportunities linked to natural resources. For instance, there is a fair quantity of outflow of rice from Haryana. It means that identifying an opportunity in rice milling would be doing what others in the region are already doing (existing industrial development). Likewise, outflow of coconuts or coconut oil from Kerala denotes a natural-resource-based opportunity.

The inflow, in contrast, highlights a (local) market-driven opportunity. An analysis of trade-flows of Kerala, for example, showed the following:

Table 1
The Trade in Important Industrial Products – Kerala

Sr. No.	Products	(Rs. In lakhs)	
		2001-02	
		Imports	Exports
1	Cashew	4342	15437
2	Marine Products	3118	10518
3	Coconut Oil	196	9599
4	Coconut	1130	67720
5	Tea	5301	11486
6	Coffee	3498	7104
7	Spices	51070	13977

One can spot feasible product categories from the column on imports and probe further.

Table 1 provides the following clues on business opportunities in Kerala.

- i) **Export of Processed Material:** Kerala is not, as is popularly believed, a raw material exporting region. A good deal of export from Kerala is final products, largely from the agricultural or marine sectors, and these require only elementary processing.
- ii) **Foreign Export Orientation:** As far as exports are concerned, Kerala's record is outstanding. Export orientation is an established feature of Kerala trade. So, there is a tradition, an environment of export. One can, therefore, think of an export-oriented, local resource processing opportunity.
- iii) **Fishery and Cashew Processing:** Marine produce and cashew processing are the major foreign export industries. However, cashew processing has declined because of wage differentials, and has moved to the neighboring state (Tamil Nadu). So, one can contemplate marine product processing.
- iv) **Coconut Products – A Major Export:** Coconut products exports – oil, cake, coir yarn, coir-products – are substantial. Oil is bought mainly by the soap industry outside Kerala. This also can be an opportunity.
- v) **Food Products – A Major Import:** Food products constitute the single most important group of imports into Kerala. Food grains, sugar, vegetables, fruits, chillies, groceries, provisions, and processed foods are noteworthy regional imports. Kerala is dependent upon the rest of India for supply of pulses and grams. Even

non-foodgrain supplies, mainly due to changes in the food-habits of the people and failure of non-cereal food production, are imported to keep pace with population growth. So, one can think of bakery products, dairy products, and other snacks.

All these product-groups, thus, seem to offer opportunities. But, one must think analytically. A common perception is that Kerala manpower is excessively unionized. In addition, minimum wage-rates in Kerala are higher than those in most other states. Gulf-employment has also affected the human resources situation and some skills are in short supply. Some skilled workers would rather wait for Gulf-jobs than accept local employment. One might, therefore, rule out labour-intensive food processing industries, e.g., papad and pickles.

In short, one can combine trade-flow information with other knowledge to discern opportunities.

One can work out a trade-flow of his/her own district or area and identify opportunities. Dearth of precise statistics should not be a constraint; one only has to focus on major imports/exports.

b) Growth Products: One has to clearly perceive and think of opportunities in growth products – products that have experienced a regular, remarkable growth in demand. These offer a ready opportunity. The examples of such products in India are:

- papads
- ground spices
- confectionery
- snack foods
- noodles
- namkeens

There are also innovative products such as:

- instant mixes
- instant tea/coffee
- peanut butter
- soymilk
- tofu
- coated peanut snacks
- wheat pauha
- fruit drinks
- mango papad
- instant fruit drinks
- flavoured yogurt

There has been a sharp rise in the demand for these and, as a result, several entrepreneurs have entered these product lines (sometimes in excess of demand).

c) Product Positioning/Differentiation: Product differentiation is becoming a key issue in market-driven opportunity identification. As the world is shrinking the traditional demand-supply-gap concept is rapidly losing its relevance except in the case of a few high-tech or scarce resource-based products. The gaps are likely to become a thing of the past. What is important is that how one is different from others in terms of product-features, applications, price, quality, and delivery-schedules. Positive answers to these would determine whether there is room for such differentiation. If there are too many undifferentiated enterprises, some are bound to die. So, certain ways, strategies and methods have to be identified to give a distinct edge to one's products. This is called 'positioning'.

There are several producers of spiced cashew nuts. The recent introduction of a 25 gram pack of spiced cashew nuts by a company means creation of an almost new opportunity. What we are suggesting is that a keen observation of the market and investment in product/venture with special features that would fulfill customer needs, not fully met till now, can give a competitive edge in the market. Thus, one must not lose sight of the concept of 'positioning' while looking for a market-driven opportunity.

d) Exports: Exports are an avenue for several opportunities. The question is how does one identify opportunities in the export market? An obvious method is 'follow others'. Export what others are exporting. Scan export statistics, analyse the trends, talk to knowledgeable persons, correspond and identify an opportunity. Spices, instant mixes, mango pulp, papad, canned vegetables, and rice are instances of the 'follow others' opportunities.

Export opportunity identification is a task which most small entrepreneurs are rather ill-equipped to undertake. The problems/remedies are as follows.

Product Positioning: It is important how one positions a product. There is an interesting case history. The Indian market was dominated by traditional ice-cream makers till a few years back. AMUL, then, came into ice-cream business. The company positioned its products as 'made from milk' only. Although the ice-cream market had already been captured by old players, and it was difficult for a newcomer to penetrate it, this positioning strategy of AMUL helped the company to establish itself in the field. Another case is of Instant Tea Mix in sachets. Some producers offer tea bags, others tea mix that needs boiling and filtering but the Instant Tea Mix recently launched in sachets is completely soluble and needs only hot water to make tea. Such differentiation in terms of product form basically serves as to illustrate the positioning decision.

e) Limitations of Indian Sources: In today's changing economic scenario, it is essential that one looks beyond India for opportunities. The available Indian sources

say as to which products are exported but they do not specify as to what is the trade scenario in the world. So, unless one scans the non-Indian sources, one may miss many opportunities.

This of course would mean efforts in terms of locating foreign sources of information, expenditure on acquiring it and eliminating from a vast number of opportunities those which may not be viable under Indian conditions. Sometimes, foreign travel might also become necessary. The trade fairs abroad are a convenient way to spot such opportunities. On the whole, these are expensive methods but worthwhile if one is interested in an export-venture. Also, internet surfing can help identify export potential if one can locate the right buyer. The list of useful web sites and trade fairs are given in Annexure 1 and 2.

f) Basis for Imports: One must also pay attention to the rationale behind a country's desire to import products. Do these countries import because they do not grow or manufacture what is imported? Do they import because of the advantage of cheap labour and thus low price? Do they import because of non-availability of raw material? Do they import because strict enforcement of pollution laws do not permit them to manufacture the products? Answers to these will help understand whether identifying an opportunity in import business has any long-term advantage.

g) Competitive Advantage, not just Potential: Generally, entrepreneurs look just at the potential of an opportunity and miss the important aspect of competitive advantage, which means how one compares with other competing countries in terms of cost of production, efficiency of infrastructure, subsidies, freight, trade channels, credibility, quality, and many such variables. Is one aware of the 'Indian competitive edge'? Does one know how sustainable is this advantage? One should try and answer these questions.

h) A Break-in Period: In the export market, the break-in period is normally long. An Indian producer-exporter of ground spices struggled for two years to get a foothold in the market abroad. Remember, one is tested on various counts before buyers trust him/her and give an order and the best price. So, one has to be prepared to lose and accept the loss initially for sometime. The export market is, in many cases, different from the domestic market and one might have to wait for sometime before beginning to make profits.

The Government of India has declared mushroom growing as an important thrust area of export. Indian exports of mushroom are to the tune of Rs. 55 crores. The target is to raise these to Rs. 125 crores in another three years. Mr. Sanjay Tripathi is a pioneer in this field as well as the largest exporter of mushroom from India. He has been exhorting other companies to enter this field, but he suggests a two-year domestic operation before entering the export market. These two years are the learning period.

i) 100 Per cent Export: We notice many 100 per cent Export-Oriented Units (EOUs) in food processing being set up in the country. There are existing units which intend to export their total production. There are others which undertake to do so and get their units registered for this purpose. The performance of many EOUs is not satisfactory. The 'buy-back contracts' in several cases have not worked. So, one has to be careful while looking for an EOU opportunity or relying on buy-back contracts.

j) Networking: The capacity to access know-how, tap a ready trade-contact, and mobilize finance through a network of personal contacts can prove to be a crucial advantage in the export business. A small entrepreneur cannot invest heavily in technology search. So, personal contacts, which can help set up a business, matter a great deal (see box). There already exists a network of intermediaries like technology-brokers, buy-back arrangers, and so on. One can profitably use this network. But, some of these intermediaries are guided by not-so-honest intentions, and hence there is a risk of buying obsolete technologies or entering into unworkable buy-back arrangement. One has to be careful while relying on such intermediaries.

Approach-4: Service Sector Opportunities: Service needs of an existing industry present an excellent avenue for local entrepreneurs. These are the needs for which one prefers a local arrangement. The list of needs is truly long and includes catering, supply of fruits and vegetables, food grains, vegetable oils, spices, and so on. There is a prevailing trend in the large-scale sector to avail the services of contractors rather than make own purchases for the canteen requirements. Moreover, companies give out contract for testing their raw materials, internal hygiene, cleaning and maintaining, as per statutory requirements.

Approach-5: Extension/Modification of Present Work Content: This is a popular and natural approach to opportunity identification, particularly in the context of small ventures. It assumes the following forms:

i. Skill-based Self-employment: A cook is working for a catering contractor. He leaves his job and becomes canteen contractor of a large company canteen. Similarly, a science graduate, after a short course in food processing, becomes self-employed by venturing into pickle making at home and selling it to the local restaurant.

ii. Marketing to Production: Traders, salesmen, and others engaged in selling food products or services enter into production or adopt the role of service-providers. The process is based on confidence in one's marketing skills.

iii. Managing or Working in a Similar Enterprise: First-hand knowledge is the springboard from which many enterprise ideas emerge. Work experience in a small scale enterprise is not always necessary for launching a similar enterprise. The growth of small food processing industries in Karnataka owes a lot to 'CFTRI' – a national laboratory for technological research in food processing at Mysore – because many chemists and scientists who had worked there and acquired technical exposure and knowledge, were emboldened to set up their own ventures.

Approach-6: Creative Effort: While some measure of creativity underlines all opportunity identification work, we are going to discuss here the opportunity identification based on a pronouncedly creative effort. There are numerous ways in which one can use his/her creativity and imagination for opportunity identification. It is difficult to enumerate all these ways because creativity, by its sheer definition, defies set patterns. It cannot be explained. However, the following are some patterns of creative opportunity identification:

i. Development of Problem-Solving Products/Services: A widely experienced problem of people could lead one to arrive at a creative idea. 'Aqua guard' – the water purification system – is a creative product as it provided a solution to the problem of unsafe drinking water (though limited to middle or upper class due to its cost). Likewise, domestic flour-mill is a good problem-solving idea. Needless to say these are new products built around problems and concerns which nobody tried to solve before, or tried but failed.

ii. Exploitation of New Technology or Material to Meet a Widely Felt Need: One may watch a new technology or material in action, or learn about it and draw upon his/her power of observation and imagination to exploit such technology/material to meet an unsatisfied need. The vending machine technology has been in the West for quite sometime. Tea/Coffee and soft drinks are now dispensed through these machines in India too. A company is now launching vending machine stations to sell Masala Dosa – a popular Indian snack.

iii. Technical Extension of an Established Product Concept: The creativity here expresses itself in technical or managerial terms. A product concept gets established. Opportunity is created through an extension of the concept. The roasted and salted peanuts, and almonds and cashew nuts in vacuum pack brought in a new product concept which got established in India in the late 1980s. A company came out with a variety of nuts such as, spiced, sugarcoated, fried, etc. The 'soda maker' is an extension of marketing soda in bottles. This is not only convenient but also works out cheaper for consumers.

iv. Creating a Demand Implicit in Emerging Life-Style: With the expanding base of the middle/upper class, there is also a growth in the opportunity for life style products/services. A 'club' was once meant for the elite. Now, there are present day versions of recreation clubs, membership of which is avidly sought by the not-so-educated and not-so-sophisticated in a bid to identify themselves with the educated/sophisticated sections of society. The time-sharing holiday resort schemes are sold, as the concept of vacationing or holidaying gains popularity. Pubs are opening and proliferating in metropolitan cities.

v. Technical Work: This can culminate into an opportunity. We are not referring to technical work which is an end in itself. A person may perceive a problem, or need, and undertake technical work himself or through others to solve the problem or fulfill

the need. Soymilk had problem of shelf life. This was the main reason for restricted market penetration. However, one scientist in this field developed the process of sterilising soymilk in glass bottle and extended the shelf life from two weeks to six months. It is a creative method of generating a business opportunity through technical work.

vi. Introducing Products/Services Alien to a Region/Country: A number of products/services are in vogue in developed countries in the West. One can spot those which are relevant to Indian conditions. The creative input here lies in looking around, observing, and relating a given idea to these conditions. The concept of fast-food restaurants, microbiological test kits for food products, peanut butter, flavoured yoghurt, egg powder, canned vegetables, canned fish, meat analog of Soya bean – all these have come to India from abroad. It is an endless list.

vii. Value-addition through Technical or Managerial Innovation: Value-addition to an existing product is so decisive that it becomes an opportunity in itself. The value of pan masala went up sharply when it was packed in a sachet.

viii. Group Entrepreneurship: This normally entails organisational creativity. One has to organize a group, devise production methods, set up collective decision-making systems, and identify a viable product/service, which the group would produce. The idea might stem from a single leader, but the essential ingredient is group action. Annapurna food-service, Lijjat papad, Anand Dairy Model, and Self Employed Women's Association (SEWA) bank are examples of such creative, group-level opportunity identification.

ix. Vision: One should have a vision, should be able to look ahead into the future, should have the patience to work on an idea, and make it work. Whether it is the soft drink concentrate founded by Rasna in the early '70s or 'Narula Restaurant' established by Narula's, the vision-content is evident. It need not be limited to large enterprises and big industrialists. 'Rasna' was launched on a tiny scale by a chemist. What it really meant was a vision about the potential of low cost soft drink in India.

Approach-7: Other Considerations: There are persons who utilise a variety of other methods as a basis for identification. For example, there are entrepreneurs who consider exemption from excise duty (value-added tax) as an advantage. Small-scale industries enjoy such exemptions, and so have advantage vis-à-vis large-scale volume industries.

4.0 Final Selection

So far we have looked into the process of opportunity identification and evaluation. The million-dollar question now is: How does one decide on the opportunity to be exploited? One may have to choose one project from a pool of multiple opportunities, which are short listed. How does one do that? Keep in mind the following basic guidelines:

4.1 Basic Guidelines

Imperfect Knowledge: First, one has to avoid an opportunity on which analysis and research are inadequate or imperfect. Frozen vegetables, one might discover, is a good project, fitting one's investment range and possessing excellent profitability potential. But if he/she does not know the size of the market or anything about the range of the competition, the case must be dropped. It would be an expensive proposition to acquire this knowledge. One must not proceed with an opportunity if knowledge on its crucial aspects is inadequate.

Comprehensive Comparison: Having investigated enough, one should make a comprehensive comparison of the opportunities. This means that for each option of an opportunity, one should ask and answer a series of questions. These questions are listed under Statement-8.

STATEMENT-8

PRODUCT/SERVICE: QUESTIONS FOR FINAL SELECTION

1. Is the product/service an established idea or an innovative one?
2. Does the project-cost match investment preparedness?
3. Is the technical know-how a critical element?
4. If yes, how easy or difficult is it to acquire the requisite know-how?
5. How easy or difficult is it to absorb the technology?
6. What is the product/service used for?
7. Who are the customers? (e.g. industry, households).
8. What are the expected geographical boundaries of the target market?

9. What is the market position in terms of size, segment, and features?
10. Is the demand year-round or seasonal?
11. How volatile is the selling price?
12. What is the degree of competition?
13. What is the basis of competition? (e.g. price, quality, service, delivery schedule).
14. Is there scope for positioning your enterprise?
15. What is the possible extent of competitive advantage/disadvantage of a new enterprise in relation to existing enterprises?
16. What is the position in terms of existing/likely substitutes?
17. What is the amount required for initial/regular sales-promotion?
18. How dependent is the project on imported inputs/export market? In what ways? Technical know-how? Machinery? Raw Material? Market?
19. Are the raw materials easily available?
20. How volatile is the raw material price?
21. Is there speculative trading in either raw material or finished goods?
22. What location does one have in mind?
23. How does one view location in terms of industrial infrastructure (water, power, effluent disposal facility), commercial amenities (e.g. telecom, bank, warehousing, goods transport), and social facilities? (e.g. housing, health, education).
24. What is the profile and size of manpower requirement? How easy or expensive is it to arrange it?
25. Is the project critically dependent on some infrastructure (e.g. international aircargo space for a perishable export item)? If so, what is the position of such infrastructure?
26. Will the lending agencies support it?
27. What is the future outlook for the sector of industry to which the project belongs?
28. Are there any cartels or other privileged groups among existing entrepreneurs, customers, raw material suppliers, or know-how suppliers?
29. How long will it take to establish the project?
30. What is the government policy in terms of the following?
 - technical standards and management (e.g. laws for food industry)
 - control over price and distribution of raw materials (e.g. molasses)
 - excise, value-added tax, sales tax, octroi
 - subsidies and financial incentives
 - credit policy (e.g. there are occasional curbs on bank credit to many agro-industry and other projects).
31. What is the incidence of competitive advantage derived from management and/or violation of government policy in relation to the project?

One will not have answers to all the questions under Statement-8. But at least for some of them one may have tentative answers or impressions. One should list these out. A comprehensive picture on available options will put one in a clearer frame of mind.

Missing the Tree for the Wood: One must guard against the danger of being influenced excessively by less relevant details. Project A and B have breakeven points of 35 per cent and 40 per cent respectively. The difference in this respect is insignificant and hence should not be a basis for decision unless the scores of both the projects match on other counts.

Key Issues

In the ultimate analysis, one should focus on the following key issues:

- How comfortable will one be technology-wise?
- How easy/difficult is the market position?
- How is the profitability?
- How risky is the project, as expressed through breakeven point and sensitivity analysis?
- What is the future of the industry to which the project belongs?
- How critical is the dependence on the government?
- Do the success determinants and risk factors match one's own capabilities?
Would one be able to learn the business and get a grip over it? Does one feel enthused about it?

One must narrow down one's choices through answers to the above questions. Personal considerations, if any, must be superimposed, and one has enough material for a final decision. One has to decide what is relevant or important to him/her. For instance, there are two projects of equal merit but one, because it involves effluents, has to be located 50 kms away from the place of residence, while the other can be located only 5 kms away. A location 50 kms away would cause personal hardships. It can be said that when one embarks upon an entrepreneurial field of activity, one should be prepared to face such hardships. But let us assume that one does not, given a choice, like to face such hardships. While deciding, however, one has to make sure that he/she is not choosing an opportunity whose basic success prospects are less than the other available ones merely because he/she wants to accommodate personal needs.

4.2 Personal Judgement or Intuition

Anil Gupta did an excellent analysis, summarised under Statement-9 and Statement-10. The information/analysis brought Gupta very close to a decision. But, the dilemma was acute. At one stage, he toyed with the idea of tossing a coin and arriving at a decision. But then, he drew on his powers of intuition, and opted for blended food colours. It is an amalgamation of logic, world-view, ability to sense things not so explicit, personal beliefs, and accumulated wisdom. Of course, it is not compulsory for one to use intuition. But if the choice is too narrow and intuitive power is too keen, one must not hesitate to draw upon it.

STATEMENT-9

A COMPARISON OF IDENTIFIED BO's

Anil Gupta is a 35-year old builder from Lucknow. After completing his B.Sc (Chemistry), he followed it up with a diploma in Business Management. Then in 1978, he joined the family business. After spending 12 years there, he decided to diversify. He wanted to invest around Rs. 15 to 20 lakhs of his own money and take a loan too. So, he started looking for a project in the range of Rs. 35-45 lakhs.

He thought about the kind of project he would like to set up. His thoughts were as follows:

- (1) The project should not be an extremely routine one. Manufacturing of papad, pickles, biscuits are examples of extremely routine projects.
- (2) It should have an excellent domestic market.
- (3) Food additives and food product industries doing well, and likely to do well, can be considered.

He then did a fair amount of scouting and arrived at the following three projects:

1. ***HPS Peanuts***

Hand Picked and Sorted (HPS) Peanuts are in great demand not only in India but also world wide. They have uniform size, quality, and grade. They are used to make peanut paste/butter, peanut snacks, and many other products.

Suggested plant capacity is 10 MT per day. The project cost is estimated to be Rs. 40 lakhs.

2. ***Blended Food Colours***

Blended Synthetic Food Colours are widely used for food preparations such as snacks, ice-creams, sharbats, soft drinks, confectionery, bakery items, etc. The basic colours and salt are blended to create required hue and colours. They are convenient to use in food preparations and cooking in restaurants and home. There are 15 manufacturers all over India and most of them are in the small-scale sector.

The suggested project capacity is 600 MT per year. The project cost is about Rs. 30 lakhs.

3. ***Instant Noodles Making***

Instant noodles are made from rice powder and spices. Its market is developed by Maggi. It has a very good growth rate and acceptance in urban areas. There is also scope for export.

The suggest capacity is 1 MT per day. The project cost is about Rs. 30 lakhs.

Gupta collected a good deal of information on these projects. He then reduced the information to the following comparative statement (Statement-10).

STATEMENT-10

THE FINAL DECISION ON BUSINESS OPPORTUNITY (BO)

- (1) Investment-wise, all the three Business Opportunities fit into the plan.
- (2) Technology wise, all three projects are easy. The differences in technical complexity are not sharp. However, if we try to rank, HPS Peanuts is the easiest while blended food colours is the most difficult one.
- (3) There is the question of market. Instant Noodles is a new concept. The market prospects are somewhat uncertain for small-scale players in the absence of heavy advertisement budget. The growth prospects for blended food colours are better than those for instant noodles. HPS peanuts have very good export potential but Indian peanuts are infamous for Aflatoxin content. This is a limiting factor for export, as the product will be rejected if Aflatoxin exceeds the prescribed limit. So, marketwise, the preference is for blended food colours, HPS peanuts, and instant noodles, in that order.
- (4) All these products are growth-oriented. However, HPS peanut prices are highly volatile as they depend on monsoon. And hence, its growth may slow down with bad monsoon. Instant noodles will require creation of brand image and expenses for market development. Both HPS and instant noodle are relatively problematic opportunities.
- (5) Government policy-wise, all are at par. However, in bad monsoon, there are restrictions on exports of peanuts. It is, therefore, risky.
- (6) The realistic estimate of capacity utilisation level (say, two years after commencement of production) is-

- HPS Peanuts	50%
- Blended Food Colours	80%
- Instant Noodles	70%

At these levels of capacity-utilisation, the sales turnover will be:

- HPS Peanuts	Rs. 280 lakhs
- Blended Food Colours	Rs. 240 lakhs
- Instant Noodles	Rs. 105 lakhs

Net profit (after paying interest) will be-

- HPS Peanuts	Rs. 9 to 10 lakhs/year
- Blended Food Colours	Rs. 12 to 15 lakhs/year
- Instant Noodles	Rs. 8 to 9 lakhs/year

Blended food colours has got the lowest breakeven point, around 30 per cent, while instant noodles has got the highest, around 50 per cent.
- (7) What should Gupta do? HPS peanuts were ruled out. Risky. Not quite profitable. So, the choice was to be made between blended food colours and instant noodles. Gupta was discouraged by marketing problems in instant noodles. He, therefore dropped it, despite excellent profitability. The network of friends/contacts among blended food colour consumers, and a feeling that he would be able to learn about blending technique quicker and more easily than instant noodles were some other reasons for the final decision.

4.3 Errors in Selection

Errors in opportunity selection are fairly common. Business involves a considerable amount of imponderability, and hence foolproof opportunity in fact does not exist. We, therefore, would like to highlight some common errors.

1. 'Me too' syndrome: There are entrepreneurs who choose a given opportunity because others have taken it up and are seen to be doing well. These entrepreneurs do not undertake their own homework but rely on the success of others. They do not realise that often there is no room for too many entrepreneurs in a particular product line. One or two residential hotels in a small city do well and six new hotels spring up. As a result, all of them suffer. Besides, it also happens that one person can handle a particular business competently while another cannot. One man's meat is another man's poison. So an army officer makes money from transport business while a wholesale trader miserably fails in it.

2. Fallacy of Numbers: Several entrepreneurs have a weakness for making income and profitability estimates. They have learned to read financial statements and understand ratios. Sometimes ROI and such other ratios for new projects are worked out by dishonest machinery suppliers or consultants or inefficient officials in an industrial promotional organisation, who put together a profile deliberately to show how impressive the profitability is. These entrepreneurs fail to recognise the fallacies of actual content and analysis on which these profitability expectations are based. They choose the project and later regret. There are hundreds of mushroom growers in the state of Gujarat, but almost all of them are doing poorly consequent upon poor yield, quality, and lack of market. These growers came to the scene on the strength of training by consultants who promised buy-back and high returns. But actually the picture is different. The growers did not realise that the growing of mushroom in a hot climate like Gujarat is not technically feasible and profitable. Moreover, market feasibility was overlooked.

3. 'Story of an Elephant' Syndrome: There are entrepreneurs who notice merely a part of the total project reality. Three years ago, there was a rush for establishing fruit/vegetable freeze drying projects in India. This was because the technology is easy to learn and the prevailing price in the international market was dramatically attractive. The entrepreneurs failed to note the extremely limited size of the world trade. Focussing attention on the positive features of an opportunity and overlooking its negative elements or underestimating negative features because of unfounded optimism causes serious selection errors.

4. Square Peg in a Round Hole: Entrepreneurs sometimes fail to relate the key determinants of success to their own capabilities. See Box F to gauge and know how a well-educated competent businessman can make an error. There is a well known builder who has diversified into hotel, restaurant and catering business. A high order of operating and day-to-day managerial efficiency is a precondition for success in the hotel/restaurant business. Inability to organize day-to-day efficient

managerial system is the major weakness of the builder. No wonder, his business has gone down.

Box F

Ramani in a Wrong Box

Ramani has a cloth trading and construction business in Ahmedabad for the last 30 years. The closing of textile mills in Ahmedabad and general recession in textile industry drove him to take over an existing medium scale enterprise engaged in growing herbal food plant and extraction near Ahmedabad. A less experienced and shy member of the family was put in charge of the unit. The unit did not do well. Why? Five star hotels, export houses, importers in Europe, U.S.A., Canada, and Japan, food and pharmaceutical companies – these are the customer industries for the herbal food products. These companies are large and have procurement systems, procedures, and professional managers to carry out the systems. One needs a definite amount of sophistication, aggressiveness, style, and public relations skill to sell to these companies. The family member in charge of the unit does not possess these qualities. Ramani does not even like the idea of hiring a person who would possess such abilities and skills.

So, the opportunity is right but the man in charge of it is wrong.

5. Undifferentiated Enterprise: A large number of small enterprises in food processing are not performing well or closing down because they are too identical. There are several similar products. The competition rests on price and the price comes down to an unprofitable level. The failure to perceive a special position as to how an enterprise will be different from the rest and build a distinctive edge into the opportunity right in the beginning is a serious error. It is not sufficient that one chooses a correct opportunity in the broadest sense of the term; it is equally important that one gives the chosen opportunity a right distinctive shape.

6. Failure to Grasp Key Elements of Success: There are entrepreneurs who do not realise what the real determinants of success are in a given project. They discover these much later. The lack of ability to judge the essence of an opportunity brings some businessmen to an ailing state.

7. Lack of Ownership: There are entrepreneurs who are not sufficiently involved in the enterprise, which they pursue. This is particularly true in case of partnerships and family owned business enterprises. One partner or family member is excited about a given opportunity, while another member only senses holes (negative points) in the idea. He either does not express his reservations or expresses them mildly and shirks the responsibility of establishing and managing. The business in such situation often fails.

8. Catch the First Bus: There are individuals who are seized by a spirit of entrepreneurship. They are in a terrible hurry to set-up their enterprise. So, they grab the first or one of the early ideas they come across. They do not have the patience to search for other ideas or properly analyse the opportunity they have selected. They do not have the emotional preparedness to wait. Such persons end up grabbing a wrong opportunity.

9. Inaccurate Information: There are many entrepreneurs who identify business ideas based on inaccurate, unreliable, or false information. A friend told Shantaram that the market for garlic paste is excellent. Shantaram set-up a unit for making garlic paste, without realising its speculative character. Kantilal gathered from a trade source that it would cost Rs. 80 lakhs to set up a two tonnes-per-day (tpd) vegetable dehydration project. He did not go into details of the project cost. Later, he found the project would cost Rs. 125 lakhs. He had already purchased land, placed order for machinery, and it was too late to step back.

10. Ahead of Times: The Vishala restaurant (with rural atmosphere and traditional food) in Ahmedabad did not do well in the first two years. A courier firm in a city where so many of them flourish now wound up ten years back. These are instances of businesses ahead of times.

11. Unwillingness to Step Back: Based on excellent export and local market conditions, one takes the decision of making tomato puree and powder, prepares a project report, and submits for loan-application which gets sanctioned. He/she give up his/her job, and makes an advance payment towards the price of land and also announces the venture to friends and relatives. At this point, the market crashes. The chances of recovery in the next one year look slim. In a quandary, he/she likes to believe that such things happen in all businesses. The fact that the market is no longer there even before his/her entry into business does not bother him/her. At the back of his/her mind, there is a fear of loss of face with those to whom the venture has been announced. Stepping back is not explored as an option. Such unwillingness to step back, at a stage where it is possible to do so, is a pitfall for many entrepreneurs.

5.0 Selected Cases

How do prospective entrepreneurs arrive at the final choice? We present the following case lets, which cover a range of entrepreneurial behaviour on the subject.

5.1 Natrajan: The Option and the Choice

Natrajan got his M.S. from a university in the U.S.A. in the late 1960s. On his return to India he worked for the State Industrial Development Corporation in Tamil Nadu for a decade. The corporation was involved in setting up many projects on a turnkey basis.

In the early 1990s, he decided to set up his own medium scale enterprise, involving an investment of a few crore of rupees. There was no dearth of ideas. There were three, which he considered in detail.

- Mango Pulp
- Oilseed Processing Complex (emphasis on cottonseed)
- Gherkins Processing

Mango pulp was ruled out though it was quite profitable, because Natrajan found it crowded with too many manufacturers/exporters. He did not feel confident about its future. Moreover, he found that the mangoes of Tamil Nadu are not as good as those of Maharashtra. They fetch less price in export.

A client of Natrajan had made a fortune in edible oil, particularly cottonseed oil business. Natrajan was quite familiar with the intricacies of the business. However, the business requires a large working capital as one has to store huge stocks. While Natrajan could raise the money to establish the project, he was not sure whether he could raise a large amount to meet the working capital requirements. He was banking on associates/banks for equity/loan, but they were not too enthusiastic about oilseed processing. They looked upon it as a routine, speculative business. This influenced Natrajan's decision-making. Natrajan realised that he would also have to spend considerably on publicity, as edible oil is a consumer product. This he felt was a risky proposal. So, he dropped the oilseed processing idea.

Gherkins processing was the third idea. Natrajan had an opportunity to travel to South Korea and had knowledge of the market there. He was familiar with the gherkins growers in Dharampuri district of Tamil Nadu. The government had also announced financial incentives for establishment of projects in this backward district. He struck a rapport with a South Korea company willing to buy-back production of processed gherkins. The innovativeness of the idea, market potential, profitability projections, support from the Korean firm – all these were points in favour of the proposal. Among Indian states, Tamil Nadu has maximum production of gherkins and, therefore, the raw material is cheap. This tilted the scales completely in favour of gherkins processing.

5.2 Final selection

D.G. Bajaj is the chairman of Bajaj Foods Ltd, Ahmedabad. Bajaj completed his B.Sc. and went for further studies to the USA. He returned back to India in the early 1970s and established a chemical project. He succeeded and flourished in the business. Twenty years after launching the first project he began looking for a new business. By this time his two sons were ready to join the business.

He conducted an extensive search and shortlisted the following ideas:

- Dehydration of Onion and Garlic

- Fruit Jelly and Jams
- Peanut Butter

He chose Peanut Butter. How did he arrive at the decision? Export oriented product, incentives from Government for EOU project, no competitors, Gujarat being the Peanut bowl of India, and profitability comparison of the three projects were important reasons.

Dehydration of onions and garlic was thought to be too commonplace as there were already 15 players. The prices of onions and garlic being highly volatile, the export market was not steady and selling prices were not remunerative. All these factors convinced him to drop the idea. Production of fruit jelly and jams was a good idea, looking at the large local and export market. But he realised that the basic raw materials like grapes, pineapple, apple, cherry, etc. are not grown in the state of Gujarat. The transportation from far off places may prove to be too costly, besides resulting in wastage.

There were two peanut butter manufacturing units in India at that point of time. But Bajaj's concept was based on a Rs. 4 crore, state-of-the-art peanut butter technology and equipment from USA. The magnitude of the problem of pollution faced by his chemical unit weighed heavily on his mind. On the other hand, peanut butter manufacturing was a pollution free operation. Water is not required at all in the process. No reaction takes place. These points attracted him. In the market place, the project would have a distinctive edge because comparable projects did not exist in the state. The quality of customers and geographical distribution of market was yet another attraction. In the new business, he would meet sophisticated importers in the countries like USA, Canada, U.K., etc. His new generation sons would be fascinated about travelling abroad frequently to develop business. He was unfamiliar with the risks in peanut butter project. But there was confidence.

What does the story of Bajaj tell us? You become sensitive to negative aspects of a business and wish to avoid these when you look for a new business. But if you are innovative or unconventional, you continue to remain so. He had the confidence in his own capability to absorb the new technology as well as to work out the project. Moreover, he had confidence that he could learn and get a grip over an unfamiliar business.

5.3 Business Opportunity Selection: A Matter of Judgement and Faith

Dr. Bhardwaj worked in a multi-national company as a marketing manager. The company was involved in selling food additives in India. He quite often visited U.K. for his company's work. During 1980s, he noticed that a large number of people of Indian origin were migrating to U.K. from Africa under British Protected Persons law. He found, during his visit to U.K., that many Indian and Bangladeshi restaurants were being opened in London. The Formulated Food Colours were in great demand

by these restaurants. So, he decided to make formulated food colours in Delhi and export to U.K. (a market-driven business opportunity approach).

Mr. Zubin in Mumbai made conventional bakery products in the backyard of his home. But the margins were low. He came in contact with an experienced technician who knew a variety of new bakery products acceptable in high-income groups. He decided to go for it and made his fortune by increasing the number of products, quality, margin, and sales volume (modification in existing opportunity approach).

Mr. Soparkar had a flourmill in Pune. He supplied wheat flour to industrial canteens in medium and large-scale companies. However, companies were finding it difficult to serve chapati during lunch hours to a large number of employees at one time. Mr. Soparkar could judge the potential for mechanised chapati making and supplying them to canteens (existing/anticipated industrial development approach).

Mr. Kinjal Patel identified Instant Tea Mix in sachet as a business opportunity. It needs only hot water to make one cup of tea as the mix contains sugar, tea, and milk. All ingredients are easily soluble in water. Tea making in offices and during travel is problematic and needs establishment. The convenient pack of Instant Tea Mix is hygienic, uniform in quality, easy to handle and can be used any time anywhere. These were the USPs (creativity or vision).

What are the lessons from the above cases in the OIS context? First, a capacity to judge the potential of a relatively new development can bring in rich dividends. Secondly, avoid copying if you have a better idea of doing the same thing in a different and better way. Learn from these if you want to hit the bull's eye (achieve success).

5.4 Clinch Event

Sometimes something happens which helps you decide. You meet prospective customers for a given product who declare support to you, and so your hesitation and doubt disappear. A woman entrepreneur wanted to make garlic, tamarind, and chilly pastes in Ahmednagar. She was worried about the technical aspects. She met a professor in an agriculture university who offered technical training in food processing. This helped her make up her mind.

There was a rural entrepreneur who wanted to make soft drink concentrates. He met a management graduate who had done considerable work on project feasibility and was willing to assume responsibility for all non-technical functions. This was the clincher (deciding factor). A clinching event may or may not occur. But its impact, if it does occur, in terms of final decision, is considerable.

CHAPTER 25

LINKING BUSINESS OPPORTUNITY WITH THE ENTREPRENEUR

Objective

The objective of this chapter is to enable entrepreneurs to select business opportunity in food processing sector keeping in view their strengths and weaknesses, and to enlighten them on the importance of choosing an appropriate opportunity based on their background, investment capability, power of technology absorption, and linkages with other industries, traders, organisation and institutions.

Duration: 1 hour and 15 minutes

Advance Preparation and Material Required

The trainer should have knowledge of how to link the opportunity to the entrepreneur on the criteria laid down in the manual. The emphasis should be on developing the entrepreneur in selection technique so that he/she can take an appropriate decision for their career. Guidance and counselling by the trainer and through a network of experts, consultants, and advisers should be provided to link the opportunity. Practical examples of linking opportunity with the entrepreneur should be given during the session. It is also advisable to have enlightened entrepreneurs for experience sharing and to provide greater clarity on the subject.

Session Guide

Ask the trainees to prepare their personal profile covering their background and experience, sector preference, investment capacity, location, technology sophistication, and their personal consideration and preferences for the project. Simultaneously, other relevant aspects such as cost of project, market competition, availability of raw materials, technology level, and key elements of success should be studied in detail. Linking of opportunity with entrepreneur may be done keeping in view the above information and data about each trainee vis-à-vis the identified opportunity. This is particularly important in the area of food and agro products and the trainees should be able to impart information on: names and/or sources for detailed enquiry, data on market potential, sector growth, institutions and organisations for networking, and reference material available on the identified opportunity.

The earlier discussions about the identification and assessment of business opportunities are more relevant and useful for working out EDPs at different centres for specific target groups. But more important and crucial pre-condition of selecting those projects is to ensure that they match the entrepreneur's skills and capabilities.

At this stage, it also becomes necessary for a trainer-motivator to counsel the trainee entrepreneur, so that the trainee does the final selection of a project, out of two or three options available, on the basis of his competencies, resources, and analysis.

The matching of the chosen opportunities with the selected batch of potential entrepreneurs is an intriguing exercise. Determining his own criteria and assessing his own behavioural traits for going ahead with a particular business opportunity is a complicated, and at times, confusing process. It is at this juncture that a trainer-motivator has to intervene and provide assistance in matching correct enterprise with the right entrepreneur. This is not difficult as the identified opportunities become the specific goals towards which all efforts and training inputs are directed.

The conceptual framework given below broadly helps the trainer understand the intricacy of the matching process so that he/she may render effective personal counselling to an entrepreneur in selecting the best business opportunity available at that point in time:

- (i) Understand all major criteria for the final selection of business opportunities by entrepreneurs and analyse their relevance in different contexts.
- (ii) Remember the stages of the cycle an entrepreneur goes through before he/she makes a final decision to select his/her venture.

1.0 Major Criteria for Accepting a Business Opportunity

An entrepreneur is a person who perceives a business opportunity and finally transforms it into a successful economic activity with an ambition to expand it. Apart from many other motivations, an important goal is profitability. But then, this is common for all entrepreneurs. What makes the study more interesting is to look out for typical motivating factors of different entrepreneurs. While all potential entrepreneurs would like to ensure profitability in their ventures, it is not easy to form an idea about an entrepreneur's motivation only on the basis of this simple fact. Some of them want to minimize risk while others look for an activity which is easily manageable. A few others may be reckless and might be prepared to wait for a long period to reap enormous gains.

Keeping in mind the various target groups and different motives of entrepreneurs, their peculiar preferences are described in Annexure I.

The process of business opportunity selection is a continuous one, requiring exploration of various fronts like, marketing, finance, infrastructural facilities, etc. till the first decision is reached. In order to facilitate and accelerate this process of decision-making, it is necessary that entrepreneurs are provided with sources of information and right contact points at the right time. In EDPs, continual counselling by a trainer to help an entrepreneur contact right persons or gather required

information smoothen the process of decision-making. Meeting with successful entrepreneurs, technical advisors, or references to authoritative data will hasten the process and help an entrepreneur make the final decision.

EDP experiences also reveal that absence of information sometimes delays the final decision considerably. There are also instances of some entrepreneurs who were forced to abandon their schemes due to this reason.

The other critical aspects of opportunity selection are:

- (i) family support,
- (ii) encouragement by friends or relatives, and
- (iii) an entrepreneur's faith in his/her judgment.

These factors deeply influence the choice of business opportunities in quite a few cases.

An EDP trainer-motivator must know the strengths and weaknesses of his trainee entrepreneurs and must play an important role to help them arrive at correct and sound decisions.

2.0 Modus-Operandi for Business Opportunity Guidance (BOG)

The BOG process, as understood today, may be described in two stages:

- (i) Pre-training preparations, and
- (ii) Business Opportunity Guidance sessions with proper approach.

2.1 Pre-training Preparations

Ideally speaking an EDP training programme should be announced in a particular centre only after identifying and preparing ready project profiles (product notes). This would yield better results. But considering the limited resources and certain operational difficulties, actual practices differ, which range from no project profile to a large number of profiles.

During the promotional stage of the training, a trainer explores the possibilities of various business opportunities, largely on the basis of local needs and resources. The process is discussed in detail in an earlier part of this manual. Simultaneously, during the search for potential entrepreneurs, the trainer also tries to get a feel of opportunities likely to appeal to the trainees.

In many cases, a list of potential feasible business opportunities is circulated to all interested prospective entrepreneurs. This attracts better local response with more persons coming forward with interest in EDP and eventually joining the programme.

On the whole, the success of a centre would largely depend upon the efforts of the trainer towards identifying opportunities in that centre.

2.2 BOG Sessions

The content and intensity of training inputs needed in an EDP package have their own importance at different stages. The inputs required for business opportunity guidance also have their own challenges and demands. Several models of EDPs have often failed to see potential entrepreneurs reach a final decision. The whole training exercise then becomes futile because it fails to achieve the objective of leading the trainee entrepreneurs to specific business enterprises they wish to set up. This aspect has been taken care of in the EDI-EDP Model, which emphasizes the selection of business opportunity at the very early stage of the programme and provides for further suitable guidance in this regard during the course of the programme.

This not only gives clarity to the entrepreneur on his/her goal but also helps him/her to make better use of the training programme.

In a training programme, there are different groups of participants with varying expectations. In order to try and satisfy individual demands of a heterogeneous group and to deal with each of them individually, the preferred practice is to classify them into three categories as shown in Annexure II. The treatment expectations and training input requirements for each of the three classes are given in the same Annexure.

On the basis of the above classification, the trainer discusses, with individual trainees, their preferences and helps them in collecting maximum information about the type, class, level of investment, size of venture, etc.

This information is then classified into several groups based on the type and nature of industry such as chemical, engineering, etc. A team of expert advisers and counsellors are then selected on the basis of these groups, and the training methodology adopted involves individual personal counselling and discussions by the team of experts. The basic approach is to find out how feasible a specific business opportunity is for the individual and which other relevant opportunities may be explored by him. Instead of merely adopting the role of an auditor, a trainer motivator helps and guides an entrepreneur in solving difficulties and hindrances in selecting a particular opportunity. The trainer, thus, plays the critical role of a sounding board for the trainees and getting the best out of experts through co-ordination and liaison. As a result of this, most entrepreneurs are left with one or two business opportunities, from which they make the final selection. Though the decision is not instant, the process enables them to gain confidence.

2.3 Trainer's Role

Apart from individual counselling which a trainer provides, it is also necessary for him/her to arrange for external assistance and support so that the entrepreneur reaches his/her final decision. External help is not just restricted to supply of information but also extends to counselling assistance. The trainer arranges visits to appropriate persons, officers, institutions, and units in the region. Various supplementary resources which could be tapped for these purposes are illustrated in Annexure III. Apart from the help from the trainer, an entrepreneur's own initiative, activity level and efforts, also play an important role at this stage. The final decision is reached only after the entrepreneur conducts his market survey and is fully convinced about the feasibility of the project. The BOG component takes the first two weeks of an EDP. The formal class-room sessions may go on for two or a maximum of four weeks, but the supporting sessions that supply all relevant information and impart personal counselling continue for considerably long time.

3.0 Concluding Remarks

Only carefully implemented BOG training-cum-counselling sessions can lay a strong foundation for the success of an EDP. However, well planned and sound the rest of the training programme may be, success will not be there unless business opportunity guidance work is carried out effectively at the initial stage. One cannot build upon a foundation, which is not strong enough to take the load of the eventual business venture. In other words, if the initial decision concerning the project is defective, the project may fail in actual practice or run into serious troubles.

Our approach or objective is not to force a project choice on an entrepreneur. The decision has to be his/her own, in the sense that he/she should feel responsible for it and must pursue it with commitment and conviction. This, however, is not possible unless he/she goes through the whole process at various stages intensively and personally. The trainer can only facilitate and quicken the decision-making process besides helping the entrepreneur in adopting the right direction.

Our experiences reveal that a trainer-counsellor must strike a balance between carrying out efforts for identifying business opportunities and simultaneously counselling new entrepreneurs on taking up these opportunities. However, in many cases, opportunities identified are not always taken up by entrepreneurs. This makes the trainer's role more difficult and often quite frustrating. Yet, it is the understanding of the individual needs of an entrepreneur that can help the trainer to effectively maintain a balance between the two responsibilities.

ANNEXURE I

CRITERIA FOR SELECTION OF BO BY TARGET GROUPS

Entrepreneurial Background	Technology Level	Investment Size	Returns (Profit) Expectations	MARKET PREFERENCE			REMARKS
				Local	National	Consumer V/s Industrial	
Trader	Moderate	High	High	-	National	Any	<ul style="list-style-type: none"> • Can manage technology • Good on financial assessment • Moderate to high task-taker
Technician	High	Moderate	Moderate	Local	National	Industrial	<ul style="list-style-type: none"> • Concerned about market • Low to moderate task-taker • Weak in financial background
Fresh Graduate	Low	Low	Low	Local	-	Any consumable	<ul style="list-style-type: none"> • Needs more support • Family's view important • Needs technical information
Service class (non industrial)	Low / Moderate	Low / Moderate	Low / Moderate	Local	-	Consumable	<ul style="list-style-type: none"> • Utilizes personal contacts • Moderate risk-taker
Women	Low / Moderate	Low / Moderate	Moderate	Local	National	Any	<ul style="list-style-type: none"> • Least mobility • Decision influenced by other members of the family more lead of technology
Artisan	Moderate	Very Low	Low	Local	-	Servicing or consumable	<ul style="list-style-type: none"> • Skill-based item • Local consumption • Do not need much detailed survey or information

ANNEXURE II

TARGET GROUP AND THEIR NEEDS

Group of Entrepreneur	Needs and Requirements	Approach and help in B O G
Entrepreneurs who have decided on the product line	<ul style="list-style-type: none"> • Would need specific information on machinery, process, raw materials, market etc. • Would like to know expert views to reconfirm their decision • Government rules, regulations, incentives etc. affecting their decision 	<ul style="list-style-type: none"> • Project size decision • Possibilities of getting finance sources of machinery and raw materials. • Availability of infrastructure facility • Guidance on formulation of project • Information on performance of similar units
Entrepreneurs who have decided industry preference	<ul style="list-style-type: none"> • Various product line information • Existing sources of technology / availability 	<ul style="list-style-type: none"> • Suggestion of product line • Arrangement / possibility of technical etc. • Reference to technical literature and data • Ready profiles / data on opportunities • Visits to existing entrepreneurs/units
Entrepreneurs who are undecided about product / industry	<ul style="list-style-type: none"> • Lack clarity and are confused in decision making. • Would need mainly market information • Would like to refer to many people / sources before making a decision 	<ul style="list-style-type: none"> • Decision of project size & location • Knowing one's own limitations • Knowing influence of other (family members, friends etc.) • Intensive and frequent counselling needed • Industry visits and field survey • Ready profile / reference of projects.

ANNEXURE III

SUPPLEMENTARY TRAINING RESOURCES FOR B O G

1. Expert/Faculty Members	<ul style="list-style-type: none">❖ Consultants❖ Technical entrepreneurs❖ Existing entrepreneurs❖ Traders / Salesman❖ Purchase officers and store-keepers of big companies❖ Officers of bank and financial institutions❖ Industry promotion officers
2. Institutional	<ul style="list-style-type: none">❖ Research institution / laboratories❖ Technical institutions❖ Government departments
3. Literature	<ul style="list-style-type: none">❖ Tenders of public company or government purchase❖ Statistical reports district-wise, industry-wise etc.❖ Directorate of industry❖ Project profiles / product data❖ Magazine and periodicals❖ Project report of financed unit, trainees, clients etc.❖ Government plans and budgets (state and central)

CHAPTER 26

BUSINESS PLAN: AN INTRODUCTION

Objective:

The objective of this chapter is to enable the trainees to learn the process of preparing a business plan and to develop a broad understanding of each and every component of it.

Duration: 1 hour and 15 minutes

Advance Preparation and Material Required

Copies of business/project plan format of tiny units presented as Annexure I in Chapter titled, 'The Financials of a Project Report', may be distributed to the trainees.

Session Guide

A trainer may request the trainees to go through the format and conduct an interactive session with the inventory of questions presented in the chapter. It must be emphasised that this chapter is to serve only as an introduction to inputs under this theme.

1.0 A Business Plan helps an entrepreneur in:

- Setting out plans
- Finding out the way to realise these plans
- Understanding the current situation and visualizing future prospects
- Analysing strengths and weaknesses of the business proposition.

2.0 The purpose of a Business Plan is:

- To arrange thoughts in a logical order
- To highlight resource needs and the sources to procure them
- To raise funds from a bank or other funding sources
- To demonstrate the viability of the business proposition and the potential to repay credit provided
- To simulate reality and anticipate pitfalls.

3.0 The Business Plan must provide answers to the following questions:

- What you intend to do/how and when you intend to do it?

- How much do you want to borrow?
- When will you be able to repay the loan?
- Will you be able to pay the interest?
- Could your business survive a setback in its plans?
- What security is available for lending?
- How many jobs will be created?
- Is the business proposal commercially viable?
- Will the business be profitable?
- Can the business cope with the effects of inflation?

A business plan helps an entrepreneur set out objectives, targets, benchmarks for monitoring, and also provides a framework for control.

4.0 The contents of a Business Plan must include the following in sequential order:

- **Summary of the Project/Project at a Glance**

(The purpose of the business plan, the location, resource requirements, volume of business, a brief note on market, customers and the promoter(s), and financial highlights).
- **General Information**

(About the business and promoter's qualification, training and experience relevant to the project).
- **Details of the Proposed Project**

(Requirement of fixed capital and working capital, the cost of project and means of finance).
- **Market Potential**

(A note on marketing strategy, potential customers, competition, market size and future prospects).
- **Manufacturing Process**

(Step-by-step description of the manufacturing process, plant capacity, expansion plans, quality control procedures, etc.).
- **Production Programme/Sales Revenue**

(Plant capacity, capacity utilisation, quantity produced / sold, and sales realization).

- **Cost of Manufacturing**

(Cost of raw materials, utilities, manpower, repairs and maintenance, selling and distribution expenses, administrative expenses, interest on loans availed, depreciation and any other expenses).

- **Profitability Projections**

(Sales, cost of manufacturing, tax liabilities, repayments, retained profit/loss)

A business plan may be as rigorous as an entrepreneur wants. The greater the rigour, the greater the potential for a successful start-up and sustainable operations. Unlike a business plan, a 'project report' (as used in academic parlance) may have to be customised to meet the norms and prescribed structure of a lending institution. This may vary between institutions. In this manual, the thrust is on preparing a 'business plan' though the terms business plan and project report are used interchangeably in some parts.

CHAPTER 27

SUPPORT INSTITUTIONS FOR PROMOTION OF SMEs

Objective

The objective of this chapter is to enable the trainees to understand various financial and technical support institutions for enterprises as sources of information, and to acquaint the trainees with the organisational framework of such institutions.

Duration: 1 hour and 15 minutes

Advance Preparation and Material Required

A trainer should be aware of the details and information regarding various support institutions available to the enterprises in the sector. In fact, inputs regarding such matters as business plan preparation need to be efficiently synergised with the support system. A trainer may also invite representatives from appropriate support institutions to elaborate on their support initiatives. This input will help the trainees network with appropriate institutions and agencies which, in turn, will contribute to the effective conception of a project, start-up, and management of an enterprise.

Session Guide

A trainer needs to present various initiatives, effectively linking them to business plans. While elaborating the initiatives, necessary care should be taken to ensure that they match with the trainees' profiles. For example, a group of well-aware potential exporters may not find an elaboration on the Market Development Assistance (MDA) of Ministry of Commerce and that of the DC (SSI) to be of much relevance.

There are various bodies that are regulatory in nature and there are several that facilitate conception, start-up, and management of an enterprise in the sector.

1.0 The Basic Support Institutional Framework

While information on various sources of information is presented in this chapter, potential entrepreneurs need not contact all agencies but only the relevant ones, depending on their informational needs and support. Important agencies for information on procedures and formalities include the District Industries Centres (DICs), Directorate/Commissioner of Industries, State Financial Corporations (SFCs), Technical Consultancy Organisations (TCOs), and agencies conducting Entrepreneurship Development Programmes such as state level and national level entrepreneurship development institutions and non-government organisations (NGOs).

The table below presents a brief profile on the role of these institutions:

Sr. No.	Area of Assistance	Illustration on sources of support
1	Project guidance	SISI, DIC, TCOs, SFCs
2	Registration	DIC
3	Financial assistance	DIC, Banks, SFCs
4	Technical assistance and information	DIC, TCOs, SISI, NSIC, DFRI
5	Training support	ED Inst., SISI, TCOs, DICs, NGOs
6	Infrastructural support	DIC
7	Market information	DIC, TCOs, Agriculture and Processed Food Export Development Authority (APEDA)

For a new project, government formalities need to be completed. There are various regulatory and support bodies for this purpose. For instance, though SSI registration is not compulsory, as per the recent changes in the rules, it is advisable that one should get a unit registered as a small-scale unit with the District Industries Centre (DIC) of the district in which the project (if small) is proposed to be located. In fact, this is invariably a requirement for securing institutional funds. Similarly, if one plans to locate a project in an industrial estate promoted by a Government agency, one may apply either for a built-up shed or a plot of land. Once the shed/plot is offered, one can start with other activities. In case of allotment of a plot, one can start building once the plans for it are approved. After the land allotment, one can apply for power and for water to the concerned authorities. Simultaneously, one also needs to apply for an NOC (No Objection Certificate) from the State Pollution Control Board. If an industrial unit is likely to be a pollution hazard or may discharge effluents, the Pollution Control Board will stipulate certain condition to install facilities to control either air or water pollution at the desired level. Once they are satisfied about the steps taken to curb pollution to permissible levels, they issue an NOC for starting operations.

Similarly, for a new project, one should decide on the organisational form of the business, viz. whether it will be a proprietorship, partnership, or a private limited company. The decision would largely depend on the size of operation and the degree of risk involved. In the case of a proprietorship, gains and losses in the business rest with the proprietor. In case of partnership, all the partners are responsible for gains as well as losses of the enterprise, except minor partners who are exempted from bearing the losses. In the case of a private limited company, the members are liable for gains as well as losses to the extent of their holding in the company, as a company is considered to be a separate legal entity. Having decided on the constitution of the business, one may undertake necessary formalities such as registration of partnership firm, or incorporation of a private limited company. The Registrar of Societies and Companies serve as the concerned support organisation for this purpose.

2.0 Support Institutions and their Roles

Central Food Technological Research Institute – CFTRI (www.cftri.com): The Institute provides the technologies for food processing enterprises.

National Small Industries Corporation Ltd – NSIC (www.nsicindia.com): The Corporation provides integrated technology, marketing and financial support to the small scale sector.

Small Industries Development Organisation – SIDO (www.laghu-udhyog.com): The office of the Development Commissioner (Small Scale Industries) also known as Small Industries Development Organisation (SIDO) functions as the nodal development agency for small industries.

Export Credit Guarantee Corporation of India Limited – ECGC (www.ecgcindia.com): ECGC covers the risk of exporting on credit. Being essentially an export promotion organisation, it functions under the administrative control of the Ministry of Commerce, Government of India. It provides a range of credit risk insurance covers to exporters against loss in export of goods and services. ECGC also provides information on creditworthiness/credit ratings of overseas buyers and various countries.

Credit status information agencies abroad Dun & Bradstreet – D & B (www.dnb.co.in): D & B is one of the world's leading providers of business information, enabling business-to-business commerce for the past 160 years. D&B has the largest company database available, with information on more than 66 million companies worldwide – for credit, marketing and purchasing decisions.

Businesses also use D&B's information and technology to authenticate and verify online the potential trading partners, thus increasing their trust and confidence in e-commerce transactions.

Small Industries Development Bank of India – SIDBI (www.sidbi.com): The Small Industries Development Bank of India Act, 1989 envisaged SIDBI to be 'the principal financial institution for the promotion, financing and development of industry in the small-scale sector and to co-ordinate the functions of the institutions engaged in the promotion and financing or developing industry in the small scale sector and for matters connected therewith or incidental thereto'.

India Trade Promotion Organisation – ITPO (www.indiatradepromotion.org): This is the nodal agency of the Government of India for promoting the country's external trade. ITPO, during its existence for nearly three decades, in the form of Trade Fair Authority of India and Trade Development Authority, has played a proactive role in catalysing trade, investment and technology transfer processes. Its promotional tools include organizing fairs and exhibitions in India and abroad, Buyer-Seller Meets, Contact Promotion Programmes, Product Promotion Programmes, Promotion

through Overseas Department Stores, Market Surveys and Information Dissemination.

Federation of Indian Export Organisations – FIEO (www.fieo.com): FIEO provides the content, direction and thrust to India's expanding international trade. It symbolises all the dynamism and resurgence that are the hallmark of India's open, liberal and progressively market-friendly economic and trade regime, representing the Indian export promotion effort in its entirety.

Export-Import Bank of India – EXIM Bank (www.eximbankindia.com): EXIM Bank, set up in 1982, for the purpose of financing, facilitating, and promoting foreign trade of India, is the principal financial institution in the country for co-coordinating working of institutions engaged in financing exports and imports.

Web sites of the services provided by some other support institutions are given in Annexure I

ANNEXURE I

IMPORTANT WEBSITES RELATED TO SUPPORT ORGANISATIONS

1. Useful Web Sites on Important Support Organisations: Sources of technology and marketing assistance

Coffee Board (<http://indiacoffee.org>)

Spices board of India (<http://www.indianspices.com>)

Tea Board (<http://tea.nic.in>)

Office of the Controller General of Patents, Design and Trade
(<http://patentoffice.nic.in>)

Directorate General of Foreign Trade (<http://dgft.delhi.nic.in>)

Indian Institute of Packaging (www.iip-in.com)

APEDA – Agricultural and Processed Products Export Development Authority
(<http://www.apeda.com>)

MPEDA – Marine Products Export Development Authority (<http://www.mpeda.com>)

DGFT – Director General Foreign Trade & Regional Licensing Authorities
(www.commin.nic.in)

Central Institute for Research on Goats (<http://cirg.up.nic.in>)

Central Institute of Agriculture Engineering (www.ciae.nic.in)

Central Institute of Brackish water Aquaculture (<http://www.nic.in/ciba>)

Central Institute of Fisheries Education (www.icar.org.in/cife/index.htm)

Central Marine Fisheries Research Institute (www.cmfri.com)

Central Plantation Crops Research Institute (www.cpcri.nic.in)

Directorate of Wheat Research (www.icar.org.in/dwr/dwrmain.htm)

Indian Agriculture Research Institute (www.iaripusa.org)

Indian Institute of Horticulture Research (www.kar.nic.in/ihr)

Indian Institute of Pulses Research (www.icar.org.in/iipr.htm)
Indian Institute of Soil Science (www.iiss.nic.in)
Indian Institute of Vegetable Research (www.icar.org.in/Directorate1.htm)
National Bureau of Animal Genetic Resources (www.icar.org.in/nbagr/nbagr.html)
National Bureau of Plant Genetic Resources (<http://nbpgr.delhi.nic.in>)
National Dairy Research Institute (<http://ndri.nic.in>)
National Research Centre for Cashew (<http://kar.nic.in/cashew>)
National Research Centre for Mushroom (<http://www.nrcmushroom.com>)
National Institute of Agriculture Extension Management (www.manage.gov.in)
Agmark (<http://agmarknet.nic.in>)
National Horticulture Board (www.hortibizindia.org)
Central Institute of Fisheries Nautical and Engineering Training (<http://cifnet.nic.in>)
Educational Institutes/Financial Institutions/Embassies/Universities
(www.goidirectory.nic.in)

CHAPTER 28

DISCUSSION ON MARKET SURVEY AND PROJECT REPORT PREPARATION

Objectives

The objective of this chapter is to give an opportunity to the trainees to present their market survey experiences and to share them with other trainees, and to enable the trainees to understand market potential and prepare a market plan.

Duration: 5 hours

Session Guide

After training inputs on how to conduct a market survey and subsequent to actual fieldwork, the trainees must prepare and make a presentation of their survey. During the market survey, while a lot of data is collected, trainees need to hone their skills on how to analyze the information in order to make the final selection of their products. This is to help the trainees derive maximum learning from the survey and enable them to present their findings. Trainees are expected to have data on the market potential on tentatively selected products. The trainer needs to assist them in finalising their market survey report at this stage. A trainer may invite a marketing expert from outside and brief the expert about the market survey report to be prepared and presented by the trainees. Ask each trainee to make the presentation in the classroom.

Each trainee may be given 5 to 10 minutes to make his or her presentation.

- * The trainee should present their market survey report, highlighting their market analysis.
- * After each presentation, the expert's opinion should be sought on the project's feasibility, before finalising the product.

Ask the trainees to discuss whether they need to collect any more information and, if so, help them to organise a plan of action accordingly.

CHAPTER 29

TECHNICAL ANALYSIS OF A PROJECT

Objective

The objective of this chapter is to impart the skill of technical analysis of a food processing project. The session will sharpen the knowledge and technique of analysing a project with practical tools, case lets, and cases across sub-sectors. The objective is also to minimise the technical mistakes at the time of starting the enterprise by entrepreneurs.

Duration: 7 hours and 30 minutes including practical exercises.

Advance Preparation and Material Required

A trainer should have acquired insights into technical analysis of a food processing project so that customised inputs can be given along the lines elaborated in the Manual. The learning of critical technical issues in project and product selection, technology assessment, and production programme and plant capacity are important inputs; therefore the trainer should have an in depth understanding of these issues preferably with live experience in the region. A technically qualified entrepreneur in food processing may be called for experience sharing. Common errors in technical analysis of a project should be brought to the notice of the trainees.

Session Guide

This is a technical subject and therefore competent faculty in the field should be identified who can deliver the inputs and discuss the case study on technical analysis. The trainees may find it difficult to understand the technical aspects. Therefore, exercises and case studies should be extensively used to calculate the manpower requirement, plant layout, and estimation of cost of machinery. The emphasis on importance of pollution control and consequences for the environment should be highlighted. Guidance for statutory requirement should also be provided at each stage of input. It is suggested that experience sharing with successful technical entrepreneurs and visits to some of the food processing industries may be organised with a view to understanding the inputs.

1.0 Critical Technical Issues and Product Selection

1.1 Need for Perfect Technical Information and Commercial Cross-check

Technical coefficients are an important input. There are such questions as input-output relationship between selected products, shelf life of a product and local climatic conditions – answers to which must come from technical experts. The

technical experts sometimes provide these answers subject to a set of assumptions regarding operating conditions. There are instances of such assumptions not conforming to real life conditions. A producer of apple juice in glass bottles in Himachal Pradesh may arrive at a gross overestimate of demand if his calculations are based on the market in western or southern parts of India, as technically it is not feasible to transfer apple juice in glass bottles due to breakage problems and necessity to return empty bottles.

1.2 Population Myth

Several entrepreneurs pin their hope on population. 'It is such a vast country. We have so much population', is the psychological frame of mind on which they pin their hopes for success. This is a grave error. There are not too many products, which have one-to-one relationship with population, and then there are such influences as disposable personal income. Peanut butter market is not related to population, though it is a consumable product. Peanut butter is not always acceptable to Indian consumers, as many of them may not like the taste. Besides, there is the question of magnitude of supply. If supply is excessive, even such products inevitably suffer. So it is wise not to rely too much on the population criteria.

1.3 New Products – Inadequate Knowledge

New or innovative products, in most instances, either seek to fulfill some needs or offer a substitute for prevailing products. The entrepreneurial knowledge of product-features, technical superiority, taste of a food product, or potential cost saving associated with such product is sometimes based on limited exposure/experience. There are snags around such products that are either camouflaged, or played down, or genuinely overlooked. An enterprise in Himachal Pradesh making Tofu from Soymilk was launched about three years back. It failed because of the following reasons among other things:

- Tofu was a new product for the consumers and they were not aware of its advantages, applications, and taste.
- It required lot of promotional campaigning to create awareness, a cold chain to store and market, and special packaging material.
- The product was meant for metro cities where people appreciate the health benefits and consumers like star hotels buy such products.

1.4 Technology Oriented Products

There are food products based on technology innovation. The market demand may already exist for substitute products. There has been a fantastic growth in cottonseed oil for cooking. The technology for refining crude cottonseed oil was perfected about 25 years ago. Once this oil was considered as non-edible and it was used only for soap making and other industrial applications. There are many food products for which demand may be generated through technology innovation.

1.5 Imponderables: A Fact of Life

There are imponderables, which continue to cast a shadow of uncertainty over technical viability of a product due to non-availability of agro raw materials for processing. Consider the technical limitation of developing a long-range forecast for monsoon in India. There is a range of products whose performance is linked to good monsoon (and hence farm-prosperity). While short-term weather forecasting is fairly reliable, it is a yet difficult to forecast rains over a five year period. A three-year consecutive drought, such as the one during 1985-88 in several parts of the country, is bound to undermine the capacity utilisation of such products.

2.0 Technology Assessments, Production Programme and Plant Capacity

2.1 Technology Choice: An Exclusion from the Manual

We are not analysing the question of technology choice because for small food processing projects in India, such choice virtually does not exist. If an entrepreneur wants to set up a 50 metric-tonne per day vegetable oil refinery at a cost of Rs. 3.00 crores, he can evaluate chemical vs. physical refinery technology. However, if he is setting up an oil seeds crushing enterprise, the choice is whether to buy an X brand or Y brand of expeller.

2.2 Production Programme

The production programme for a food processing unit is worked out based on several parameters – local conditions, market access, and technical considerations. The production programme is described and justified in relation to:

- Market requirement and marketing strategy – e.g. fruits and vegetables being perishable.
- Input requirements and supply programme – seasonal nature.
- Technology and economy of scale in the industry – low Break-Even (BE), cottage, small and medium scales in food processing.
- Minimum economic size and equipment constraints.
- Resource and input constraints.
- Performance of staff and labour.

2.3 Plant Capacity

We must consider the following in order to determine the plant capacity to be set up:

- (i) Project costs corresponding to various sizes and the question whether one has financial resources to meet such costs and whether one is prepared to assume the degree of risk involved with the project cost.
- (ii) The minimum economically viable size of the plant.

- (iii) The popular plant size in existing small-scale enterprises now engaged in making the food product of your choice.
- (iv) Comparative capital cost of major plant sizes, within the outer limit of the project cost one may have set for oneself, offered by machinery producers and operating income/expenditure implications of such sizes. In other words, a comparison of net financial impact of individual plant sizes.
- (v) The size of the market and outlook for its growth (the biscuit market in India is growing at a rapid pace, and a well organized promoter may soon find himself unable to cater to demand, if he chooses too small a size).
- (vi) Benefits and concession offered by the Government. The small-scale enterprises in India receive an excise duty benefit as well as an interest rate concession. There is, however, a legal ceiling on the amount of investment which an enterprise can make in plant and machinery for availing of these concessions. No wonder many plants are priced just around this ceiling. An entrepreneur may choose a plant size corresponding to such ceiling, because exceeding it will mean loss of excise/interest benefits.
- (vii) The cost of expanding plant capacity vis-à-vis that of establishing a larger sized plant. It may be far more expensive, for instance, to raise capacity from 2 MT per day to 5 MT per day than to set up a 5 MT per day plant straightaway.

2.0 Estimation of Manpower Requirement, Selection and Layout

2.1 Manpower Requirement

We need people to operate an enterprise. We need them for the following purposes:

- Production (workers)
- Supervision (technicians)
- Administration, sales and miscellaneous work (staff)

In a small food processing enterprise, it is possible that the entrepreneur attends to administration, sales, and even some amount of technical supervision. Thus, the manpower need may be limited. It is, however, important to analyse the workload and arrive at a gross estimate of manpower need.

Manufacturing operations, material handling and packing jobs involved in the production task will determine the worker-requirement. It is useful to classify the workforce requirement into three categories – skilled, semi-skilled, and unskilled. The wage-rate for each category varies. We will have to pay special attention to the hiring and retention of skilled workers.

Look into the availability of skills at a selected location and work out a plan for their recruitment. It may be, for instance, difficult for a biscuit manufacturing enterprise in Himachal Pradesh, being established at Parwanoo, to get biscuit machine operators from the local area. These may have to be brought in from Delhi or Chandigarh. In

industrially backward areas, skilled people are not easily available. So, we may have to scout for the skills in nearby towns. We have to make arrangement for getting technical and other employees as well from outside. These employees often expect good living conditions and, in the absence of such conditions, are reluctant to move in, or expect an extra compensation. Keep this in mind.

2.2 Selection of Location

Given a choice, we may like to establish our project in our present-address town or our 'hometown'. There is however the problem of stiff land price, if our present-address or hometown is a large city. Besides, we are aware that the government offers investment–subsidy and tax-concession to entrepreneurs setting up enterprises in specified areas. We are also aware that we need various physical and commercial facilities to run an enterprise. Present-address town or hometown, thus, is no longer an automatic location/choice. We need to consider a host of points while deciding upon a location.

There is, in addition, the task of choosing a site – the specific piece of land, in a given town, where the enterprise will be located. Sometimes, the location-selection and site-selection are intertwined insofar as you may drop a location for want of a good site.

How will one go about location/site selection? We recommend a two-stage procedure. For practical reasons, just a few locations are likely to merit consideration. Under the first stage, identify two or three such locations. Also identify one or two sites at each location. Under the second stage, examine each location/site in terms of a six-dimension, location/site selection checklist. Even if we have just one location/site in view, it is useful to evaluate it in terms of this checklist to make sure that we are not making a major error. The six dimensions of the checklist are:

- (i) Basic consideration (development status of the town and its location with reference to enterprise needs)
- (ii) Physical infrastructure position (power, water, etc.)
- (iii) Commercial infrastructure position (telecommunication, banking, etc.)
- (iv) Social infrastructure position (housing, health, etc.)
- (v) Financial incentives position (investment subsidy, income-tax concession, etc.)
- (vi) Site-specific considerations (land price, contours, etc.)

So, put down findings against each point in the checklist before arriving at the final judgement on any location.

2.3 Sources of Information on Location

How do we get right answers to the points in the Checklist? We try and tap the right sources of information. These sources are:

1. Industrial estate officials
2. Local authority officials
3. Revenue department officials
4. State electricity board
5. Public Works Department
6. Office-bearers of local industry association
7. Local knowledgeable persons/businessmen
8. Officials in bank/State Financial Corporation
9. Officials in District Industries Centre
10. Land-owners, residents of nearby villages, towns, local Rotarians, etc.

It is important that we visit the location, armed with the checklist and put down answers to each point. For water and soil, if it is important, get the necessary tests done. We must review the data objectively and then decide upon a location/site.

2.4 Layout Plan

- 3.0** We must work out a factory layout plan. In other words, we must decide where exactly each facility – raw material, storage, individual machines, packaging, finished goods storage, quality control unit – will be located. The space for each of these purposes must be worked out. The distance between one facility and another or one machine and another must be fixed. The flow of production process and space requirements for material handling and manpower requirement determine the layout. It calls for considerable technical knowledge. Unless you work out the layout plan, it is not possible to determine the gross built-up area for the enterprise. For food processing industries, the plan layout must satisfy the statutory requirements, such as FPO and bylaws of local authority issuing food production License. Moreover, where Hazard Analysis and Critical Control Points (HACCP) or Good Manufacturing Practices (GMP) are required, additional care is to be taken as per their rules and regulation.

4.0 Pollution Control and Waste Disposal

In the food processing industries, generation of pollutants are mainly in the cases of fruits and vegetable processing, meat and fish processing, milk and milk products manufacturing, par boiling of paddy, bread making, confectionery and chocolate production. In small and medium scale enterprises, the problem of environmental damage and pollution in air, water, and land are not very serious, as the type of waste is mostly bio-degradable. In the most cases Effluent Water can be used for irrigation or can be safely discharged into a nearby stream or river. However, it is very important to study the type of waste and the method of its treatment and disposal.

The State Pollution Control Boards have described norms, policy and procedure to treat pollutants generated by food processing industries in the country. It is statutory to obtain 'No Objection Certification' for most of the food processing industries except for those that carry out packaging and repackaging. Moreover, the State Pollution Control Boards have published the list of industries for which no clearance is required in setting up the food processing industry. This information may be obtained from a State Agency. They have prescribed the application form to obtain 'No Objection Certification'.

Most of the wastes in food processing industries are prone to microbiological activity and creating obnoxious smell, if not treated properly. In many cases it is possible to use waste and by-products of food processing for manufacturing of organic manure, cattle feed, pig food, bio-gas generation, or making of useful products such as vinegar (from citrus fruits waste). For example, the waste obtained from the processing of Bangalore Blue Grapes after extracting the juice can be used for the production of natural food colour from the skin, and the grape seeds are used in herbal medicine. On the other hand, the meat processing industry generates about 2/3 wastes and only 1/3 meat from the slaughterhouse. The waste products of meat industry are blood, hair, bones, mutton tallow, horns, hoofs, etc. These types of waste and by-products are industrially important and varieties of products are made from them. However, the cleaning and washing water needs to be properly treated and disposed off to avoid pollution of water and air.

It is necessary to make sufficient provision in the cost of the project to establish the facilities to treat and dispose of the waste from the food processing industry. Sometimes this may result in additional revenue, but more often it is an additional cost on the industry. This should be considered as part of the cost of production while working out the financial viability of the project. The entrepreneurs must be enlightened on the importance of their social responsibility and need to preserve the environment, as also the consequences of failure in this regard. Wherever, common effluent treatment facilities are available, the entrepreneur may make use of these to reduce the capital cost in secondary treatment.

The location study should determine the extent of effluent discharge and the possible manner of disposal at alternative locations. Climatic and environmental data may need to be collected to determine the impact of waste disposal on a community. This would be particularly applicable in the case of pollutants discharged into streams, rivers, and the sea.

The feasibility study should include a thorough and realistic analysis of the impact of industrial investment projects on the environment. This impact is often of crucial importance for the socio-economic, financial and technical feasibility of a project. The site and environmental impact analysis will cover the impact of the project and its alternatives (in terms of size, technology, etc.) on the surrounding area, including its population, flora and fauna. This analysis should be integrative and interdisciplinary, assessing the overall impact while taking into account the synergetic effects of interlinked systems.

CHAPTER 30

THE FINANCIALS OF A PROJECT REPORT

Objective

The objective of this chapter is to enable the trainees to understand the essentials of the financial aspects of a project report such as: project cost, means of finance, working capital assessment, estimating cost of capital, and preparing a project report with projected financial statements and profitability analysis, etc. through case illustrations for easy comprehension.

Duration of session: 16 hours and 15 minutes

Advance Preparation and Material Required

Prior to delivering inputs trainers are required to fully understand the nuances of each component in the preparation of a project report. A working capital and term loan provider may be invited to explain their norms with regard to financing different components. They may also elaborate on parameters with regard to profitability and viability analysis from their point of view. It will be ideal if the trainer develops an inventory of accepted and rejected project reports from leading financial institutions of the region. These reports may be discussed critically. A trainer has to also understand practices and norms regarding various aspects such as working capital assistance and Debt Service Coverage Ratio (DSCR) required by financial institutions with particular reference to the food processing sector.

Session Guide

Prior to progressing with the nitty-gritty of the financials of report preparation, the importance of scanning the environment in terms of other actors and enterprises needs to be re-emphasised. It should be stressed that a project report should not be considered a mere arithmetic exercise but one that gives due consideration to various factors that affect potential viability. The financial and quantitative aspects of preparation and evaluation of profitability, both from the point of view of the entrepreneur and a lender, have to be accorded due regard. The trainer needs to explain that the objective of the session is to elaborate on the financials of a business plan or a project report. However, most lending institutions have their own norms regarding the structure of a project report. The learning from various inputs of an EDP and from this chapter are, therefore, only expected to build capability in relevant analysis and preparation. The session is to orient the trainees towards the methodology and essential rigour in preparing a 'business plan' than, merely, a prescribed project report. Trainees could be given an assignment to work out a project report in groups. Group presentation of such prepared reports should be carefully evaluated by the trainer and suggestions should be offered for better analysis and preparation. A representative from a lending institution may also be

invited for this purpose. It need be repeatedly emphasised that none of the cases presented in this session or in other sessions for that matter should be considered as viable project plans in themselves. The objective of the training exercise is to build competence to independently analyse various factors and evolve and sustainably implement an appropriate business plan. A 'project report' is but a means to this end. A trainer need reiterate that, as in the case of other chapters in this Manual, names of individuals and enterprises are disguised to maintain confidentiality. Also cases need not reflect exact circumstance of any enterprise in a region as they are largely 'developed' to facilitate imbibing specific concepts.

1.0 A Scan of Actors Prior to Preparation of a Plan

Before you prepare a business plan, you must analyse various factors and related actors. This manual stresses this aspect repeatedly. This chapter analyses actors existing in a district, including other enterprises, particularly relating to institution-information-enterprise gaps and problems. The findings about raw material stocking and market issues are to be incorporated in the financials of a business plan in the context of dehydrated vegetable unit and a grain processing enterprise. Consider Patna district in Bihar, where the crops grown are vegetables, grains and grams. A study of enterprises in the region shows that the food processing sector is less developed than the agricultural sector. There are several rice and flourmills. The agricultural resources are vital raw material for such enterprises. Milling activities include paddy milling. The by-products are rice, bran and husk. Several dal mills are also there. Their main activity is green and bengal gram milling.

The State Government encourages self-help groups to set up small food processing units making pickles, spice powder, papads etc and these enterprises and others dominate the local market. Institutions/associations at local level include industry associations, District Rural Development Agency (DRDA) and financial institutions. According to Government of India's capital investment criteria, units with investment up to Rs. 1 crore in plant and machinery are small-scale units. Tiny units have investment below Rs. 25 lakhs, while cottage or household enterprises are those operating largely out of households.

1.1 Lacunae in Information and Support System Linkages

The main activity of the units here is processing of jams, pickles, papads, spices and rice and dal milling. Within similar product-mix, medium and smaller units cater to the brand and quality conscious affluent sections. Packaging quality is better and prices are higher. In the lower end, tiny and cottage units vie with each other for their market share through lower price and margins. Their market comprises low income group consumers, who buy non-branded and low priced products. Units without their own marketing outlets undertake distribution through local outlets. The State Government is encouraging Self Help Groups (SHGs) to sell their products through exhibitions. Most products have simple packing material with the manufacturer's

name on the pack. 'Unorganised' enterprises are hardly aware of food related norms.

Rice and dal mills procure raw material through commission agents. Rice millers used to sell rice to the Food Corporation of India (FCI) and in the open market through commission agents. In the processing sector, rice millers face problems like high percentage of broken and need upgraded technology. The milling and polishing of paddy require electricity. Consumption of electricity is high in this case. The reason is use of rewound and higher HP motors.

Most milling units face problems with institutional finance. Local suppliers largely meet the machine and equipment needs of the units. Also, the main weakness of enterprises here is the lack of testing facilities and access to information on advanced technology, quality and food-related norms. Few SSI units are aware of the Mysore-based CFTRI, which has excellent infrastructure to provide consultancy on technology, equipment design etc. Yet, options like value-added products or reducing 'broken' by involving agencies like CFTRI are unexplored. There is dearth of information on packaging to improve shelf life with the support of agencies like DRDA, while the latter has backed such initiatives in other regions.

1.2 Can Policy Incentives Substitute for such Gaps?

The Bihar Government offers several special fiscal concessions like sales tax relief/exemption on purchase of raw material/exemption in excise duty. Fiscal incentives include investment subsidy up to 25 % of fixed investment, subsidy between 20% and 25% on cost of installing captive power generators, subsidy on cost of preparing feasibility/project reports, subsidy on technical know-how, etc. The Bihar State Industrial Development Corporation offers equity participation in ventures.

The State Government's five-year policy, effective from 1.1.90, had, in fact decided to continue capital investment subsidy to all new units set up in all districts at a rate of 15% of the equity (maximum Rs. 1.5 million). This facility is also available for expansion programmes of existing units, provided the capacity is raised by at least 50% of the installed capacity. Additional 5% (limited to Rs. 5 lakhs) capital investment subsidy is given to units located in notified growth centers, units promoted by NRIs and cent percent export-oriented units. Additional 10% subsidy (maximum Rs. 1 million) is for investment on energy saving schemes based on energy audit reports or otherwise for small and medium units. Subsidy on power, water and such utilities is also available.

However, although incentives are important, there are other aspects also which are crucial. Be it Bihar or Assam, other critical parameters like raw material availability and their prices/quality/domestic market potential/labour availability need to be considered before structuring the project costs, means of finance and working capital requirements. On this basis, financial statements may be developed with

profitability analysis. Such structuring is presented in the form of a pulse processing enterprise in Patna in sub-section 5 of this chapter. First, two cases of grain processing units are given here to help understand how not to structure your project costs/means of finance.

2.0 Internal Factors Kill an Enterprise: Sinha Rice Mills, Patna, Bihar

Established in 1997 near Patna, the mill was engaged in dehushing paddy and rice shelling with an installed capacity of 2,400 MT paddy per annum. The target market was Patna city. A term loan was provided by the SFC and working capital by a commercial bank. But by 2001, the unit became unviable.

21. Depressed Project Cost and Working Capital Finance and hence Means of Finance: The Culprit

The enterprise was doomed since inception due to underfinance. It faced a problem in the first two years because of poor monsoon with the failure of paddy crop. The paddy prices in other regions were high, while payments were getting delayed. This resulted in a cash crunch. Then, the bank discontinued its cash credit. Written assurances by the promoter to liquidate overdrawal of CC limit in monthly instalments and application for relief were not entertained. The bankers later froze the account and the unit was strapped for working capital. As a cumulative effect of delayed payments and high input costs, the unit worked at very low capacity and incurred huge losses. With no institutional support for working capital, poor capacity utilisation contributed to the tragedy.

The enterprise closed for three months. But later, bumper harvests of paddy made purchase easier and cheaper. The promoter borrowed money from friends in the form of unsecured loans and re-started operations. The main problems were the failure of paddy crop for two years and subsequent increase in input costs. The problem seems external and not internal, but it is not. In fact, even during a 'good' year input prices fluctuate up to 200 per cent depending on the 'season' or 'non-season' timing of purchase. In his project report, the promoter simply took the average of purchase price trends of previous years. Had he taken the weighted average purchase price of the months when a price level prevails, he would have projected a purchase price and working capital double than what he had asked. It was his fault that he did not project his working capital needs and margin higher. Besides, he had also misjudged the importance of a credit strategy to push sales. In other grain milling enterprises in the region, 70% sales were on two-month credit. His was only 50%, but he had not even consider credit sale necessary while projecting working capital nor did he include the relevant margin in his report submitted to and sanctioned by the term lender and banker.

2.2. Infuse Funds as Working Capital and Focus on the Procurement front to Revive

Manufacturing facilities of the enterprise were good, while the main raw material, paddy, was available locally. But, resources and equipment do not make an enterprise. He need, in future, reinvest all surplus earnings in business as working capital to enable him to procure and stock raw material when prices are low and use it over a period of time. Sustainable management is all about taking timely decisions and procuring adequate raw material inputs.

At 60% capacity utilisation, sales of basmati, husk, rice barn etc and paddy milling could have touched Rs. 150 lakhs. At this level of operation, the enterprise could earn Rs. 20 lakhs profit by incurring Rs. 130 lakhs expenditure. These expenses also cover the liabilities on term loan and working capital. In two years, it could have earned Return on Investment (RoI) of 29%.

For a few months, the enterprise could mobilize funds from friends and relatives and regularize repayment of dues of term loan and working capital. Over two years, the surpluses generated could replace such support. The irregularity in existing term loan and interest since its disbursement can be corrected during this period. With additional doses of working capital, the unit can become viable. Offering cash discount for cash purchase and identifying alternative sources of procurement to avoid adverse input problems in the region are other options the enterprise may pursue for revival.

3.0 Ingty Dal Mills, Assam: External Factors like Bad Debts Could also Affect Performance

Ingty Dal Mills, a sole proprietary firm, was promoted by Ingty to manufacture dal, besan and flour with an installed capacity of 12 MT/day for dal, 4 MT for besan and 8 MT for flour. This capacity is based on 300 working days in one shift of 8 hours. The Department of Industries and Commerce (DIC) granted the unit permission to grind wheat in 1997. There are other Roller flour mills in the district for wheat milling. All are operational. This is the only unit engaged in processing of grams and other gram products i.e. dal and besan. The enterprise had potential for the local market and was doing well till 2000 and could repay interest and principal obligations to institutions in time. Later, payments were blocked owing to recessionary conditions and the enterprise had to be closed down due to non-recovery of receivables.

3.1 An analysis of the Enterprise's Performance: Indicators of Un-sustainability

The financial statements of the enterprise for the last two-three years showed in 2001-02 and 2002-03 that it made 'cash' losses. An analysis of the structural strength and liquidity viz. ability to meet short-term liabilities, profitability and

performance of the enterprise is revealing. (Annexure II to this chapter elaborates on definitions of various management and accounting terms and ratios).

Structural strength: The unit had promoter's fund of Rs. 10 lakhs in 2001-02. However, the accumulated losses by 2002-03 were Rs. 6.62 lakhs. Total outside liabilities had been rising because of non-payment of interest liabilities.

Liquidity: The current ratio viz. current assets over current liabilities was 0.76 in 2001-02 and it declined to 0.52 in 2002-03, showing that current assets were insufficient to meet current liabilities. Current assets largely included stock and debtors while current liabilities were creditors. Though the promoters infused Rs. 8 lakhs into the business in last three years, the liabilities of creditors remain high.

Turnover: Stock of finished goods and receivables for credit sales were high in 2001-02 and 2002-03.

Profitability: Since the unit was near Guwahati and the local market had good potential, the unit did well initially and the dues were regularly paid up to 2000. Performance deteriorated rapidly due to repayment problems from two major traders (debtors). A revival plan could have been evolved based on analysis of past performance and future projections on various parameters. Evolving cost of project and means of finance for revival was possible in the past when financial institutions were not finicky about reducing their Non-Performing Asset (NPA) portfolio. Today, most institutions prefer one-time settlement of dues. The only option for evolving, implementing and managing a sustainable project is to structure the cost of project and means of finance by properly estimating the cost of raw material procurement, working capital etc, as well as income, and deciding on the optimal means of finance through a capital structure analysis.

4.0 Financial Viability of Preparation and Analysis

Analysis of financial feasibility of a project or business plan helps study a project's potential from financial angle. It also helps understand investment requirements and its sources. Some major components of financial viability are:

- Cost of establishing a project
- Means of finance or sources contributing to project cost
- Capacity utilisation and income and expenditure estimates on an annual basis
- Profitability projections on an annual basis

Income, expenditure and profit projections are made till the period of repayment to financial institutions. An eight-year period could be ideal. Projections may be made in such a manner that capacity utilisation improves over the years. Parameters such as, selling price and cost of raw material may be changed every year. It is obviously difficult to project the direction or extent of such change. It is normally assumed that increase in costs over time will be matched with increase in selling price. And so,

they can be assumed constant over the years. The following sub-sections introduce major components of financial viability preparations and assessment.

4.1 Project Cost

Project cost comprises investment for establishing an enterprise. The significant elements of project cost are land and site development, building, machinery, other fixed assets, technical know-how expenses, preliminary and pre-operative expenses, including interest during construction period, working capital margin and contingency costs.

Certain administrative and financial expenses are incurred before production starts. These are Preliminary and Pre-operative (P&P) expenses. They include rent, interest during construction, Pollution Board License, collateral related expenses like stamp duty, trial production expenses, deposits for utilities and processing fees of financial institutions.

Contingency is a provision made for escalation of cost of equipment, for instance, in the lag between plan preparation and project implementation.

These are the key components of project cost:

1. Land and site development: Cost of land, legal charges, leveling and developing charges, fencing etc.
2. Civil works: Factory building, office, warehouse, drainage facilities, etc
3. Plant and machinery: Price of machinery/equipment and excise duty, sales tax, freight, octroi and installation costs
4. Other fixed assets: Furniture, office equipment like fax machines, vehicles, laboratory and pollution control equipment, diesel generating sets, etc.

Comparative quotations from several suppliers may be invited to convince lending institutions about cost of plant and machinery. Institutions, sometimes, specify 'acceptable' suppliers. For valuation of land and building, lender offers loan against the 'book price' as per documents and not 'market price.' A promoter should know these aspects and work closely with lending institutions.

4.2 Means of Finance

The common means of finance are term loan, subsidy or equity. State financial or industrial development corporation and even commercial banks offer term loan against project cost. Repayment terms vary with institutions and with schemes. The MoFPI offers subsidy on a proportion of the cost of fixed assets. Equity capital is promoters' contribution or money contribution by others in terms of deposits and unsecured loans. The minimum amount of promoter contribution, irrespective of such private participation, could be specified at a minimum 17.5 per cent of project costs by lending institutions.

4.3 Working Capital, Relevant Margin and its Assessment

Funds required to operate an enterprise is Working Capital. A certain minimum amount of working capital is permanently invested in business. The entrepreneur will have to contribute this fund initially. Working capital margin, which is included in the project cost, is estimated on the basis of the year when the enterprise breaks even. The estimation of this margin depends on projections of working capital needs:

- Projecting output over different years of operation
- Projecting raw material input needed and unit price of each input required to produce output and the amount of material an enterprise must carry, given first year production targets. For the latter, the 'lead' time between order placement and receipt should be considered. Enterprises in the food processing sector need to carry high raw material inventory, given the seasonality of production. Price of inputs vary drastically and enterprises need to stock up to reap advantage of favourable prices. The value of raw material, to be stocked, should be ascertained, as also that of other consumables and packing material to be stocked up.
- Projecting value of goods under production at any time. This will depend on the length of the manufacturing cycle. For such valuation, direct costs of raw material, wages and utilities should be considered. You may ignore depreciation, administrative and marketing expenses.
- Projecting the level of stock of finished goods. An enterprise producing in anticipation of demand, as do most processing enterprises, may carry substantial stock of processed/semi-processed finished goods. The quantity of such stock should be valued at cost, viz. direct and indirect, sans depreciation.
- Projecting total sales on credit in terms of duration or amount of outstanding receivables. Only production cost of sales is considered.
- Projecting the monthly wages and salary expenses, power/fuel, other utility related costs, administrative expenses, selling, repair/maintenance expenses.

The sum of components from the raw material value indicated in the second bullet point, to the last above; give the estimate of working capital requirement.

4.4 Support for Working Capital and Term Loans

To sanction a term loan, a term lender may ask the promoter to submit a sanction letter of a bank approving, in principle, a working capital facility for a project. The project appraisal pursued by a term lender is considered prior to such 'in-principle' sanction. A bank may still disagree on projections on capacity utilisation or profitability, and hence on support. Many enterprises are still-born despite receiving working capital support as they receive and accept less than requirements. SFCs and institutions like NSIC and many banks offer both term and working capital loans. They offer composite loans.

An enterprise may also secure deposits or private loans at a certain interest but a lending institution invariably insists that such private loans remain unsecured in terms of assets of the project as they will be mortgaged to the lending institution.

Agencies like NSIC also support hire purchase financing of machinery. Special assistance is also available under several schemes for women entrepreneurs. Agencies offering venture finance for risky projects with new technology also exist. For instance, there is the Technology Development and Information Company of India (TDICI), an ICICI-sponsored company in Bangalore. They remain partners in profits and losses. Conventional financial norms are not followed under this financing pattern.

4.5 Extent of Loan or Debt Financing: Norms and its Sanction and Disbursement

The extent of term loan that can qualify depends on norms of Debt-Equity ratio, minimum Promoter Contribution, policy of lending institutions about margin against specific components of project costs and the fixed asset coverage security margin for the lender.

A 2:1 debt-equity ratio may be acceptable to a lender. The term lender has a policy on contribution pegged between 15% to 22.5%. Component-wise norm policy about margin against project cost may vary over time between institutions. Land, building, machinery, equipment and other assets may be mortgaged with the term lender as security. Lenders accept no security for working capital margin or preliminary/pre-operative expenses. The promoter may have to contribute as these assets cannot be disposed off to recover dues. The term loan is pegged at 30-40% less than the value of fixed and saleable assets. While a lender may offer extra loan against a cost overrun, assuming project viability is not affected, it is not responsible for delay in receipt of subsidy.

A loan application of a lender will include standard questions about the components of a project report. There could be questions about promoter-profile and experience, financial strength, personal assets/liabilities. Your homework on the project should be thorough. Also, the loan is disbursed in stages. It is necessary to study disbursement procedures and fund-position of the lender. The term lender may need collateral security besides the mortgage of assets and may include personal residence or other personal assets. SIDBI supports term loans without collateral in certain schemes.

The structuring of a project's finances should consider the cost of capital. The cost of capital is the minimum return expected by its suppliers. The expected return depends on the degree of risk assumed by the investor. The cost of capital from different sources varies depending on risk level. In the case of a promoter's own investment, cost of capital is the opportunity cost or the rate of return foregone on an alternative project/ investment option of similar business risk.

4.6 Capacity Utilisation and Income Estimate

Sale prices may be fixed at the rate the competitor's charge. Production estimates and sale price are considered to project income. After this, expenditures are projected. Expenditures and their basis are:

- Raw material: Proportional to production quantity
- Consumables and packing materials: Depend on production quantity but not proportionately
- Power, fuel and utilities: Depend on production quantity but not proportionately
- Wages and salary: Partially related to production quantity
- Repairs and maintenance: Expense on plant, building and other assets; increase over time
- Rent, taxes and insurance: These are fixed expenses
- Administrative expenses: Fixed
- Selling expenses: Include fixed expenses as advertising and salesmen's salary as well as variable expenses like commission to dealers
- Interest on term loan: Outstanding loan due

Loan repayment plan is fixed by the term-lending agency and interest on working capital fixed by working capital provider. Interest rates depend on working capital requirement, which in turn depends on sale/production quantity and working capital margin.

There are cash and non-cash expenses. Cash expenses have to be projected annually for raw material, packing, utilities, wages/salaries, repairs/maintenance, administration, selling expenses, interest on loan, rent, etc. Income minus such cash expense is cash profit. To account profit, both cash and non-cash expenses are deducted from income. Non-cash expenses include depreciation, amortisation of P&P expenses and write-off of technical know-how expenditure. Value of fixed assets like building, machinery and office equipment depreciates every year. Depreciation in 'accounting' measures such reduction in the asset value. It also helps build a cash reserve for replacement of the existing asset later. Land's value does not depreciate and no depreciation is provided for it. Amortisation or gradual write-off of intangible assets are stipulated in income tax rules, viz. how and by how much every year. One may write off P&P and technical know-how expenditures in 10 and 6 years respectively. Contingency/escalation expenditure may be added to estimate asset cost and depreciation is provided on the resultant amount.

Depreciation can be provided by two methods, straight line (SL) and written down value (WDV) method. Depreciation rates are stipulated by law and vary according to asset and industry. The WDV method enables making substantial provisions in the initial years, thereby increasing expenditure and reducing accounting profit, and hence, income tax. The SL method may be used to prepare a projected profit statement, while the WDV may be used to estimate income-tax obligations.

4.7 Income Tax Projections

The tax burden can be estimated as follows:

- The WDV depreciation amount is subtracted from profit before tax. A percentage of preliminary and know-how related expenditure may be deducted every year as per norms to correspondingly reduce taxable profit before tax. It is also possible to carry forward losses. Losses incurred in a particular year may be offset against profit in the following years.
- Tax incentives offered for enterprises in a region or sub-sector should be incorporated and subtracted.
- Tax calculation depends on tax rate, which depends on assessee status and legal form of an enterprise's constitution. It may be a sole proprietor, a Hindu Undivided Family (HUF), a private or public limited company or a cooperative society. Tax rates vary accordingly. Tax is deducted from profit before tax (PBT) to arrive at profit after tax (PAT).

4.8 Financial viability and cash flow of an enterprise

Viability from the lender's point of view is the ability to repay the term loan. A financial ratio measures the enterprise's capacity to meet term loan and interest. Related obligation is the Debt Service Coverage Ratio (DSCR). A DSCR of 1 implies that the enterprise will earn cash to exactly meet all term loan and interest obligations. DSCR of about two is considered adequate. The higher the DSCR, the better the project.

There are various ratios like income-capital ratio, PBT to turnover ratio and Return on Investment (ROI) ratio, which reflect profitability:

- A turnover capital ratio shows annual income as against project cost. A small enterprise may earn only low levels of profit or even incur loss with slightest of adversity.
- PBT to turnover ratio indicates profitability of enterprise operations. A 0.08 ratio implies that even a small adverse movement in selling price may result in a loss
- Interest on term loan added back to PBT is the ROI. Return divided by investment gives ROI. ROI may be estimated every year.

The projects and estimates over sub-section 4.1 to 4.8 are the basis to estimate cash flow.

Risk and Sensitivity Analysis of an Enterprise

This analysis is the means to study business risk. Each level has a break-even point. The higher the break-even in terms of capacity utilisation, the greater the degree of risk. Break-even for Priya Foods is about 27.7%.

At break-even level of capacity utilisation, surplus or contribution or income minus total variable expenses equals to total fixed costs. The break-even analysis thus implies risk analysis indicating the extent of possibility to reduce expenses. Limited ability to do so implies a high break-even and risk level. Through sensitivity analysis, it is possible to study the impact of changes in the assumptions on enterprise performance and viability. The impact of adverse changes in a few variables may be studied. The risk is low if viability sustains despite significant changes in variables. In contrast, if a negligible fall in selling price reduces DSCR to an unacceptable level, it means a heavy risk. A sensitivity analysis helps isolate variables critically determining the extent of profits.

4.9 Project Cost

Project Cost Components

(I)	Land and fencing
(II)	Building
(III)	Machinery and Equipment (M & E)
*	Price inclusive of duty
*	Sales-tax @5%
*	Freight, Insurance, Octroi @ 5%
*	M & E installation related expenditure
	<i>Miscellaneous</i>
(IV)	Assets (total)
(V)	Escalation & Contingencies (10 percent of total above)
(VI)	Preliminary & Pre-operative Expenses
*	Firm-registration and trial-production
*	Interest during project implementation period (construction and installation of machinery)
(VII)	Working Capital margin

Working Capital – Estimation

- i Capacity utilisation and output: per annum.
- ii Annual raw material requirement:
- iii Desirable raw material carrying level:
- iv Value of raw material which will be kept in stock
- v Annual value of stores, consumables, packing-material
Desirable carrying level: one month
value of stores, consumables and packing material
-
- * **Goods in process:**
 - a) Manufacturing cycle:
 - b) Quantity under manufacturing cycle
 - c) Direct cost of output
 - Raw Material
 - Stores, consumables, packing
 - Wages
 - Power
 - d) Direct cost of output:
 - e) Direct cost of goods in process
-
- * **Finished goods:**
 - i) Desirable carrying level:
 - ii) Direct cost of output
 - iii) Other indirect cost (one month)
 - Administration:
 - Selling Expenses:
 - Interest on tem loan
 - Interest on working capital
 - Loan
 - iv) Total (direct + indirect) cost of output
excluding depreciation

<ul style="list-style-type: none"> * Account receivables: <ul style="list-style-type: none"> i) Cost of a month's sale ii) The cost of credit sales (50 per cent) * Wages and salaries (one month) * Electricity (one month approximated) * Administrative, selling expenses, repairs and maintenance 	
Gross working capital Requirement (approximately)	
Component	Rs.
Raw Materials	
Store, Consumables & Packing materials	
Goods in Process	
Finished goods	
Account Receivables	
Wages and salaries	
Electricity	
Administrative and Selling Expenses, Repair, and maintenance	
	Total

The working capital requirement and margin that may have to be contributed by promoters

The project cost is summarized in the following Table

Project Cost

(Rs. in '000)

Land and fencing	17
Building	200
Machinery and Equipment	536
Miscellaneous assets	10
P & P Expenses	23
Escalation & contingency	76
Working capital margin	91
Total	953

4.10 Means of Finance

Financial institutions expect promoters to contribute a minimum of 17.5% of total project cost, irrespective of extent of subsidy. Subsidy, therefore, reduces equity required to such extent and balance goes to reduce debt. For the purpose of illustration, subsidy is not considered. Hence, at 3:1 debt-equity ratio, the term loan is about Rs. 7.15 lakhs while equity contribution is Rs. 2.38 lakhs.

4.11 Capacity Utilisation and Income Estimate

A capacity utilisation and income estimate statement is in Table below:

Table Capacity Utilisation and Income Estimate

Installed capacity is 24000 kgs./year Capacity utilisation and output estimates: in this circumstance is:

i.	Year	1	2	3	4	5	6	7	8
ii	Capacity Utilisation	60%	70%	80%	80%	80%	80%	80%	80%
iii	Output	14400	16800	19200	19200	19200	19200	19200	19200

Selling Price: Rs. 110 per kg.

Income Estimates given selling price of Rs. 110 per kg. Is

(Rs. in '000)

i	Year	1	2	3	4	5	6	7	8
ii	Income	1584	1848	2112	2112	2112	2112	2112	2112

4.12 Expenditure Estimates

The expenses, raw materials, power, fuel and utilities, stores, consumables and packing material are considered proportional to production levels. The expenses also include wages and salaries. The term lender offers a moratorium period of 2 years when interest payments alone have to be made.

The estimates, the promoter needs to incorporate in the case of depreciation is given below. It is necessary to consult an updated tax manual to incorporate prevailing rates.

Table
Depreciation Rate (Indicative)

ASSET		WDV RATE	SL. RATE
1	Buildings	10%	2.3%
2	Machinery and equipment	33.33%	8.33%
3	Miscellaneous assets	10%	2.3%

Table below, proportionately allocates about Rs. 76,000 of contingency and escalation @ about 10% to various assets.

Table
Allocation of Contingency and Escalation to Various Depreciable Assets

(Rs. in '000)

Item	Value	Allocation	Value of assets for depreciation purposes
Building	200	20	220
Machinery and equipment	536	54	590
Miscellaneous assets	10	1	11

Calculation of Depreciation [WDV]

(Rs. in '000)

Item	Value	Rate [% age]		Year wise Depreciation							
				1	2	3	4	5	6	7	8
Building	220	10.00%	Dp. Val	220	198	178	160	144	130	117	105
			Depn	22	20	18	16	14	13	14	11
			W.D.V.	198	178	160	144	130	117	105	95
Machinery	550	33.33%	Dp. Val	550	367	245	163	109	73	49	38
			Depn	183	122	82	54	36	24	16	11
			W.D.V.	367	245	163	109	73	49	38	22
Equipment	40	100.00%	Dp. Val	39.6							
			Depn	39.6							
			W.D.V.	0							
Miscellaneous assets	11	10.00%	Dp. Val	11	10	9	8	7	6	5	4
			Depn	1	1	1	1	1	1	1	0
			W.D.V.	10	9	8	7	6	5	4	3

The income statement as well as an expenditure statement helps get a statement of profit before tax. To compute tax obligations, depreciation levels also need to be estimated. Depreciation rates may be changed over time. Section 32 of the Income-Tax Act lays down income-tax rates. Under the SL method, depreciation rate, is applied to the acquisition value of the asset every year. Under WDV, depreciation is computed on the written down or balance value of an asset. Further, 8.33 per cent SL method rate and 33.33 per cent WDV rate is almost the same, for instance, as both reduces the asset value to almost nil in 12 years.

While preparing income, expenditure and profit statement, the straight line (SL) method is used. Under SL method, the annual amount of depreciation remains constant and hence, it is possible to judge the impact of annual improvement in capacity utilisation on profit. For computing taxable profit, it is necessary to utilise WDV method. Profit is income less direct and indirect expenses during production. Depreciation is an amortised expense and written off. Other expenses have also to be deducted to assess profit before tax. Fixed assets entail depreciation. P&P expense requires amortisation. Such amortisation is for preliminary expenses and not pre-operative expenses such as expenses on establishment, and interest during construction. Interest during construction can be added to fixed asset value and then depreciation computed. For business plan purposes, however, P&P expenses may be amortised or deducted from profit in 10 equal annual instalments as amortisable. All preliminary and prospective expenses including interest during construction are amortized at 10% p.a. in this project.

The term-loan repayment is made over the year. In other words, repayment is not made in the beginning of the year. Therefore, half repayment amount is deducted from the outstanding term-loan at the beginning of the year and interest computed on the balance amount.

Table
Interest Burden and Loan Repayment

Term Loan : 715
Working Capital loan (First Year) : 174

I. Interest on Term Loan (Rs. in '000)

Year	1	2	3	4	5	6	7	8
Outstanding term Loan	715	715	650	520	390	260	130	Nil
Term Loan Repayment During the Year	-	65	130	130	130	130	130	Nil
Interest @ 12% p.a.	86	82	70	55	39	23	8	Nil

II. Interest on Working Capital Loan

Year	1	2	3	4	5	6	7	8
Working Capital Loan	174	203	232	232	232	232	232	232
Interest @ 17% p.a.	30	35	39	39	39	39	39	39

III. Total Interest (Term-Loan and Working Capital)

Year	1	2	3	4	5	6	7	8
Total Interest payment	116	117	109	94	78	62	47	39

Table
Expenditure Statement: The Solution

(Rs. in '000)

Year/Expenditure	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Raw Material	987.4	1093.7	1249.9	1249.9	1249.9	1249.9	1249.9	1249.9
Stores, Consumables & Packing Materials	28.8	33.6	38.4	38.4	38.4	38.4	38.4	38.4
Power	162	189	216	216	216	216	216	216
Wages and Salaries	84	96	108	116	124	132	140	146
Repairs and Maintenance	30	32	34	36	38	40	42	44
Rent, Taxes & Insurance	12	13	14	15	16	17	18	19
Dt. Admn. Expenses	24	26	28	30	32	34	36	38
Selling Exp.	36	42	48	48	48	48	48	48
Interest on Term Loan	86	82	70	55	39	23	0	0
Interest on Working Capital	30	35	39	39	39	39	39	39
Depreciation	92	52	52	52	52	52	52	52
P&P Amortization	2	2	2	2	2	2	2	2
Total (approximate)	1524	1696	1899	1897	1894	1891	1889	1894

4.13 Tax Computation for the Project

Tax computation for the project is shown in the following table.

Table
Tax Computation (Illustrative)

(Rs. in '000)

Year	1	2	3	4	5	6	7	8
Profit before tax	60	152	213	215	218	221	223	218
Excess of WDV over SL	(154)	(91)	(49)	(19)	-	(14)	(23)	(30)
Depreciation carry forward loan	(94)	(94)	(33)	-	-	-	-	-
80 HHA Deduction	-	-	(26)	(39)	(44)	(47)	(49)	(50)
80 I Deduction	-	-	(21)	(31)	(35)	(38)	(39)	(40)
Taxable Profit	(94)	(33)	(84)	(126)	(139)	(150)	(158)	(158)
Tax	-	-	(8)	(19)	(23)	(23)	(25)	(25)
Profit after tax	60	152	205	196	197	198	198	193

Table
The Solution: Profit Statement

(Rs. in '000)

Year	1	2	3	4	5	6	7	8	Total
Income	1584	1848	2112	2112	2112	2112	2112	2112	16104
Expenditure	1524	1696	1899	1897	1894	1891	1889	1894	---
Profit before tax	60	152	213	215	218	221	223	218	1520
Tax	-	-	(8)	(19)	(23)	(23)	(25)	(25)	---
Profit after tax	60	152	205	196	197	198	198	193	---
Non-cash expenditure (Depreciation and P&P amortization)	94	54	54	54	54	54	54	54	---
Cash Profit	154	206	259	250	251	252	252	247	---

4.14 Debt Service Coverage Ratio

The single most important parameter is an enterprise's ability to repay term-loan in terms of principal and interest. A financial ratio, which measures enterprise capacity to meet term-loan-cum-interest and other long-term commitments/obligations, is called Debt Service Coverage Ratio (DSCR). A DSCR of 1 means that the

enterprise will generate cash just enough to meet all the (term-loan-and-interest) obligations. The term lender prefers a project in which even if there is some slide back in projected performance, it will generate enough cash surplus to meet the dues. A DSCR of 1.7 may be considered as minimum. Higher the DSCR, better the viability.

Table
The Solution: Debt Service Coverage Ratio

(Rs. in lakhs)

Year	1	2	3	4	5	6	7	8	Total
i. Cash accrual	154	206	259	250	251	252	252	247	1624
ii. Interest on term-loan (pre-tax)	86	82	70	55	39	23	8	-	363
iii. Term-loan repayment (post tax)	-	65	130	130	130	130	130	-	715
Debt-service Coverage ratio (i+ii/ii+iii)	2.79	1.96	1.60	1.66	1.72	1.80	1.88	1.83	
Average ratio need be estimated									

Loan Repayment is Post-Tax, but interest is tax deductible. Hence all inflows/outflows be shown uniformly on pre-tax or post-tax basis.

4.15 Profitability Indicators

Table
Profitability Ratios for the Project

Year	1	2	3	4	5	6	7	8	Total
Turnover Capital Ratio	1.66	1.94	2.22	2.22	2.22	2.22	2.22	2.22	2.11
Profit before tax to Turnover	0.44	0.08	0.19	0.10	0.19	0.19	0.19	0.10	0.09

4.16 Cash Flow Statement

Cash Flow Projection for the Project is presented in the table below. There is a cash surplus every year. And, the enterprise will have a cash balance of Rs. 12, 58,800 at the end of seven years upon meeting loan-repayment and interest liability.

4.17 Risk or Break-even Analysis

The projected cash-flow statement and break-even analysis for the project is presented below.

Table
Projected Cash Flow Statement

(Rs. in '000)

Details	Constn.	1	2	3	4	5	6	7	8	9
CASH INFLOW										
Prom Cap	238	-	-	-	-	-	-	-	-	238
Term Loan	715	-	-	--	-	-	-	-	-	715
Working Cap.	-	174								
Prof. B.T.	-	60	152	213	215	218	221	223	218	
Depreciation	-	92	52	52	52	52	52	52	52	
P&p Amortn.	-	2	2	2	2	2	2	2	2	
Other										
Total	953	328	206	267	269	272	275	277	272	
CASH OUTFLOW										
Increase in Working Cap.	-	265	-	-						
Cap. Exp.	862	-	-	-	-	-	-	-	-	
Tax	-	-	-	8	19	21	23	25	25	
Repmt. of TL	-	-	65	130	130	130	130	130	130	
Dividends										
Total	862	0	65	138	149	151	153	155	25	
Surplus/Deficit	91	63	141	129	120	121	122	122	247	
Cum. Surplus	91	154	249	424	544	665	787	909	1156	

Table
The Break-even Analysis

I.	Variable cost per unit (kg) of output	(Rs.)
	Raw material consumption	65.10
	Stores, consumable and packing materials	2
	Power	11.25
	Wages and salaries (50% of total annual bill)	2.92
	Selling expenses	2.50
	Interest on working capital	2.08
	Total	85.85
II.	Fixed Cost	(Rs.)
	Wages and salaries (50% of total annual bill)	42,000
	Repairs and maintenance	30,000
	Rent, taxes and insurance	12,000
	Other administrative expense	24,000
	Interest on term loan	86,000
	Depreciation	92,000
	P&P Amortization	2,000
	Total	2,88,000
III.	Selling price per unit (kg) of output	Rs. 110
IV	Contribution per Unit (kg) of output	Rs. 24.15
	(Selling price less variable cost)	

V.	Break-even point (Unit of Output)	
	Fixed Cost (Rs.)	= 2,88,000
	Contribution per unit of output	(Rs.) 24.15
		(or) 11590 Units (kg)
VI	Break-even Point (capacity)	11,590 kgs. (48.3%)

Table
The Sensitivity Analysis

		(Rs. in '000)
Possibility No.1: Drop of 5% in selling price with costs remaining unchanged		
(i) Income under basic plan (8 years)		16104
(ii) Revised income estimate (8 years)		15299
(iii) Revised profit before tax		715
(iv) Revised tax burden (ad hoc)		45
(v) Revised profit after tax		670
(vi) Revised cash profit		1142
(vii) Revised debt service coverage ratio (same loan repayment schedule)		1.4
$\left(\begin{array}{ccc} 1142 + 363 & & 1505 \\ \hline & & \\ 715 + 363 & = & 1078 \end{array} \right)$		
Possibility No. 2: Capacity-utilisation leveling off at 70%		
(i) Income under basic plan (8 years)		16104
(ii) Revised income estimate (8 years)		14520
(iii) Revised expenditure estimate (8 years)		13454
(iv) Revised profit before tax		1066
(v) Tax burden		70
(vi) Revised profit after tax		996
(vii) Revised profit after tax		1468
(viii) Revised debt service coverage ratio		1.7
$\left(\begin{array}{ccc} 1462 + 363 & & 1825 \\ \hline & & \\ 715 + 363 & = & 1078 \end{array} \right)$		

The financial viabilities of the project therefore indicate that the project is viable. However, five per cent drop in selling price rendered the project unviable.

Table
Financial Viability of Project

i.	Installed capacity	24000 kgs. of yarn per year
ii.	Project cost	Rs. 9,53,000
iii.	Means of Finance	
	Term Loan	Rs. 7,15,000
	Promoters Capital	Rs. 2,38,000
iv.	Capacity Utilisation	
	First Year	60%
	Second year	70%
	Third year and thereafter	80%
v.	Average Annual Turnover	Rs. 20,13,000
vi.	Debt service coverage ratio	1.82
vii.	Turnover capital ratio	2.11
viii.	Profit before tax to turnover ratio	0.09
ix.	Cash balance at the end of 8 years	Rs. 12,58,000
x.	Break-even point	48.3% of installed capacity
xi.	Sensitivity Analysis findings	
	(a) 5% drop in selling price	DSCR of 1.4 project unviable
	(b) Capacity utilisation leveling off at 70%	DSCR of 1.7 project viable

5.0 Projecting Cash Flows and Statements of a Project

A farmer who had agricultural holdings near Patna decided to establish a grain (wheat) processing unit. The enterprise was registered as a private limited entity promoted by three promoters. All the promoters had experience on a backward integrated sector, viz. agriculture. The enterprise was proposed to be located at Patna.

For equipment and machinery, the cost comes to Rs. 62 lakhs. At ideal capacity utilisation about two million kilogrammes per annum of the main raw material was required.

The project cost was about Rs. 115.4 lakhs. The components included:

Elements of project cost	Amount (Rs. in lakhs)
Land and site development	3.9
Building	15
Machinery and equipment	62
Miscellaneous fixed assets	4
Preliminary expenses	3
Pre-operative expenses (including interest during construction)	11.5
Contingency margin for possible price escalation on fixed assets	7.5
Margin for working capital	8.5
Total	115.4

The state financial corporation is the term lender and a commercial bank is the working capital provider. A 'backward-area' development loan is available. It is repayable in 8 half-yearly instalments after 11 years.

Means of finance	Amount (Rs. in lakhs)
Promoter's contribution (in the form of equity shares)	40
Term loan	64
Backward area development loan	11.4
Total	115.4

5.1 Project Underpinnings

Projections on financial statements are to be evolved in the following circumstances: The time required for implementing the project is one year. The enterprise would operate for 280 days per year on a 1.5 shift basis of total 12 hours per day. The installed capacity is, therefore, 3456 tonnes per annum, and selling expenses are to be about 10 per cent of net sales. The company proposed to commence commercial production in April 2003. The expected capacity utilisation is 50 per cent in the first year, 60 per cent in the second year, and 70 per cent after that. Raw material and consumables will cost about 65 per cent of sales and the cost of power will be 4 per cent of sales. Wages and salaries are to be about Rs. 9 lakhs, Rs. 10 lakhs, and Rs. 12 lakhs for the first, second, and third operating years. After the third year this expense will increase by about 2.5 per cent every 6 months. Factory overhead expenses will be Rs. 1 lakh for the first year. This component increases at the rate of 6 per cent per year subsequently. Administration expenses will be Rs. 2 lakhs per year. The average selling price per kilogramme of finished product could be Rs. 10. This is the price at which other grain processing units in the region sell their

products. Minor fluctuations in selling price, viz. plus or minus ten per cent occurs. The term loan is to be repaid in 16 equal, half-yearly instalments, with the first instalment falling due at the end of the second operating year. The interest rate on the outstanding term loan will be 14 per cent.

The current asset requirements are expected to be as follows:

Raw materials (including consumables) stocking period	1.5 months
Work-in-progress	0.03 month
Finished goods stocking period	0.5 month
Accounts receivable (sundry debtors)	1 month

Working capital margin requirement is required at 25 per cent of current assets. The suppliers of raw material and consumable stores (inputs) normally offer credit for half a month. The depreciation rates for company law purposes are as follows:

Building	3.34 per cent
Plant and machinery	8.09 per cent
Miscellaneous fixed assets	5.15 per cent

The depreciation rates under the WDV method for income tax purposes are to be as follows:

Building	10 per cent
Plant and machinery and miscellaneous fixed assets	33.3 per cent

The preliminary expenses are to be written off in 10 equal instalments. Preliminary expenses are expected to be Rs. 3 lakhs. The interest cost on working capital is 18 per cent. The firm plans to pay dividend from the second year. The dividend rate is proposed to be 12 per cent for the second year. Thereafter, it would be enhanced by 2 per cent every alternate year. In order to prepare the profitability estimates, the projected cash flow statements, and the projected balance sheets, we need information about: interest on term loan, working capital requirement, and the depreciation schedule.

This has been developed in Table A, B, and C respectively. Compiling the information presented above, Profitability Estimates, Tax Calculation, Projected Cash Flow Estimates, and Projected Balance Sheets may be developed. Estimates in the tables below are approximate values rounded off to the first decimal.

Table
Computation of Interest on Term Loan

(Rs. in lakhs)

Year	Loan o/s at the beginning	Loan o/s at the end of the first half year	Loan o/s at the end of the second half year	Int. for the first half year	Int. for the second half year	Total int. for the term loan
1	64	64	64	4.5	4.5	9
2	64	64	60	4.5	4.5	9
3	60	56	52	4.2	4	8.1
4	52	48	44	3.6	3.4	7
5	44	40	36	3.1	2.8	5.9
6	36	32	28	2.5	2.2	4.8
7	28	24	20	2	1.7	3.6
8	20	16	12	1.4	1.1	2.5
9	12	8	4	0.8	0.6	1.4
10	4	-	-	0.3	-	0.3

Table
Working Capital Requirements

(Rs. in lakhs)

Components	Carrying period in months	Year 1	Year 2	Year 3
1.0 Raw material and consumables	1.5	14	16.7	19.7
2.0 Work-in-process	0.03	0.3	0.4	0.4
3.0 Finished goods stock	0.5	5.2	6.2	7.5
4.0 Sundry debtors (stock) accounts receivable (sundry debtors)	1	14.4	17.3	20.2
Current Assets (Summation)		33.9	40.6	47.8
Working Capital margin		8.5	10.2	12
Less Credit for inputs	0.5	4.7	5.6	6.6
Working Capital loan (Bank support)		20.7	24.8	29.2

Table
Depreciation Schedules

(Rs. in lakhs)

A. Valuation of assets for the purpose of depreciation

Asset	Basic cost	Share of pre-operative expenses	Share of contingency margin	Total cost
a. Land	3.9	0.5	0.3	4.7
b. Building	15	2	1.3	18.3

c. Plant and machinery	62	8.4	5.5	75.9
d. Miscellaneous fixed assets	4	0.5	0.4	4.9

B. Depreciation rates for Company Law Purposes (Straight Line Method)

Building (3.34%)	0.61
Plant and machinery (8.09%)	6.14
Miscellaneous fixed assets (5.15%)	0.25

Total annual depreciation	7.00

C. Depreciation Schedule for Income Tax Purposes

	I	II	III	IV	V	VI	VII	VIII	IX	X
Building (10%)	1.83	1.65	1.48	1.33	1.20	1.08	0.97	0.88	0.79	0.71
Plant and machinery and misc. fixed assets (33 1/3%)	26.93	17.95	11.97	7.98	5.32	3.55	2.36	1.58	1.05	0.70
Total	28.76	19.60	13.45	9.31	6.52	4.63	3.33	2.46	1.84	1.41

**Table
Profitability Estimates of Operations (Rounded-off)**

(Rs. in lakhs)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Installed Capacity (Tonnes per annum)	3456	3456	3456	3456	3456	3456	3456	3456	3456	3456
Production (rounded off in Tonnes/annum)	1728	2074	2419	2419	2419	2419	2419	2419	2419	2419
A. Sales Realisation	172.8	207.4	241.9	241.9	241.9	241.9	241.9	241.9	241.9	241.9
B. Cost of Production (Direct expenses)	128.7	153.6	179.5	180.1	180.7	181.4	182.2	182.9	183.8	184.6
C. Indirect Expenses										
• Administration expenses	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

• Selling expenses	17.3	20.7	24.2	24.2	24.2	24.2	24.2	24.2	24.2	24.2
D. Gross Profit Before Interest	25.8	32.1	37.2	36.6	36.0	35.3	34.5	33.8	32.9	32.1
E. Total Financial Expenses										
• Interest on term loans	9.0	9.0	8.1	7.0	5.9	4.8	3.6	2.5	1.4	0.3
• Interest on bank borrowings	3.7	4.5	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3
F. Depreciation	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
G. Operating Profit	6.1	11.6	16.8	17.3	17.8	18.2	18.6	19.0	19.2	19.5
H. Preliminary exp. written off	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
I. Profit Before Tax	5.8	11.3	16.5	17.0	17.5	17.9	18.3	18.7	18.9	19.2
J. Provision for Tax	-	-	-	1.65	4.05	4.56	4.75	5.22	5.42	5.58
K. Profit after Tax	5.80	11.30	16.50	15.35	13.45	13.34	13.55	13.48	13.48	13.62
L. Less:	-	4.8	4.8	5.6	5.6	6.4	6.4	7.2	7.2	8.0
M. Retained Profit	5.80	6.50	11.70	9.75	7.85	6.94	7.15	6.28	6.28	5.62
N. Add: Depreciation	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Preliminary expenses written off	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
O. Net Cash Accruals	13.10	13.80	19.0	17.50	15.05	14.24	14.45	13.58	13.58	12.92

Table below presents tax computation from which corresponding provision for tax is computed as presented in Table above

**Table
Tax Calculations**

(Rs. in lakhs)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
• Profit before tax	5.8	11.3	16.5	17.0	17.5	17.9	18.3	18.7	18.9	19.2
Add: depreciation for company law purposes	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
	12.8	18.3	23.5	24.0	24.5	24.9	25.3	25.7	25.0	26.2
Less: depreciation for tax purposes	28.8	19.6	13.5	9.3	6.5	4.6	3.3	2.5	1.8	1.4
	(16)	(1.3)	10.0	14.7	18.0	20.3	22.0	23.2	24.1	24.8
Less: unabsorbed depreciation of earlier years	-	-	10.0	7.3	-	-	-	-	-	-
• Gross total income	-	-	-	7.4	18.0	20.3	22	23.2	24.1	24.8
Less: deduction for 10 years for new projects from the initial year @ 25.5% of gross total income till year 4 and 25% beyond	-	-	-	1.81	4.50	5.07	5.50	5.80	6.02	6.20
• Total income	-	-	-	5.51	13.50	15.23	16.50	17.40	18.8 0	18.6 0
• Income tax @ 30 per cent of total income	-	-	-	1.65	4.05	4.56	4.75	5.22	5.42	5.58

Table
Projected Cash Flow Statements

(Rs. in lakhs)

	Implementation Period	Year 1	Year 2	Year 3	Year 4
<i>Sources of Funds</i>	40.0				
Promoters contribution					
• Profit before tax with interest added back		18.5	24.8	29.9	29.3
• Depreciation		7.0	7.0	7.0	7.0
• Preliminary expenses written off		0.3	0.3	0.3	0.3
• Increase in secured medium and long-term borrowings	64.0	-	-	-	-
• Increase in bank borrowings for working capital		20.7	4.1	4.4	-
• Increase in Investment subsidy	11.4	-	-	-	-
Total (I)	115.4	46.5	36.2	41.6	36.6

(A trainer may request participants to work out estimates from year 4 onwards and critically assess the arithmetic's and projections).

Use of Funds	Implementation period	Year 1	Year 2	Year 3	Year 4
• Capital expenditure for the project	103.9	-	-	-	-
• Working capital increase		29.2	5.8	6.2	-
• Preliminary expenditure	3.0	-	-	-	-
• Decrease in secured medium and long-term borrowings		-	4.0	8.0	8.0
• Interest on term loan		9.0	9.0	8.1	7.0
• Interest on bank borrowings for working capital		3.7	4.5	5.3	5.3
• Taxation		-	-	-	1.65
• Dividend		-	4.8	4.8	5.6
Total (II)	106.9	41.9	28.1	32.4	27.25
• Opening balance of cash in hand and at bank	0	8.5	13.1	21.2	30.4
• Net surplus/deficit (I – II)	8.5	4.6	8.1	9.2	8.2
• Closing balance of cash in hand and at bank	8.5	13.1	21.2	30.4	38.6

(A trainer may request participants to work out estimates from year 4 onwards and critically assess the arithmetics and projections).

Table
Projected Balance Sheets

(Rs. in lakhs)

	At the end of the implementation period	Year 1	Year 2	Year 3
Liabilities				
• Share Capital	40.0	40.0	40.0	40.0
• Reserves and Surplus	-	5.8	12.3	24.0
• Secured Loans				
- Term loan	64.0	64.0	60.0	52.0
- Working capital	-	20.7	24.8	29.2
• Investment subsidy	11.4	11.4	11.4	11.4
• Current Liabilities and Provisions				
- Credit received	-	4.7	5.6	6.6
Total	115.4	146.6	154.1	163.2
Assets				
• Fixed assets				
- Gross block	103.9	103.9	103.9	103.9
- (Less) accumulated depreciation	-	7.0	14.0	21.0
Net fixed assets	103.9	96.9	89.9	82.9
• Current Assets,				
- Raw materials	-	14.0	16.7	19.7
- Stock-in-progress	-	0.3	0.4	0.4
- Finished goods	-	5.2	6.2	7.5
- Sundry debtors	-	14.4	17.3	20.2
- Cash and bank balances	8.5	13.1	21.2	30.4
• Miscellaneous Expenditure (Preliminary expenses)	3.0	2.7	2.4	2.1
Total	115.4	146.6	154.1	163.2

(A trainer may request participants to work out estimates from year 4 onwards and critically assess the arithmetics and projections)

A detailed project report and projected financial statements (Annexure II) are invariably required for small and medium projects in the sector. For tiny and cottage (household) units, however, a simpler form of presentation is usually acceptable by lending institutions. Annexure I to this chapter presents a structure that may be adopted in such cases.

ANNEXURE I

Business Plan/Project Format for a Tiny or Cottage Unit

The format presented below incorporates basic requirements in terms of structure of a plan.

1.0 General Information:

Name of the Firm:
Project:
Location:
Type of Organisation: Proprietary/Partnership
Address:
Name of the Promoter/s:
Date of Birth:

1.1. Educational Qualification:

SSC or Below	Degree/Diploma	Institute	Major Subjects	Year of Passing

1.2 Special Training:

Training in	Institute	Duration	Achievement / Remark

1.3 Work Experience (Past And Present):

Organisation	Position	Nature of Work	Duration

1.4 i. Promoter's Annual Income (Last Year): Rs. _____

ii. Assets owned by the Promoter/s

Movable Rs. _____

Immovable Rs. _____

2.0 Details of the Proposed Project:

2.1 Land and building:

Sr. No.	Particulars	Area Required	Total Value	Remarks
1	Land			
2	Building			
		Total		

2.2 Machinery/Equipment:

Sr. No.	Description	Nos. Required	Rate (Rs.)	Total value (Rs.)
		Total		

2.3 Misc. Fixed Assets:

Sr. No.	Particulars	Nos. Required	Rate (Rs.)	Total value (Rs.)
		Total		

2.4 Preliminary and Pre-Operative Expenses:

Sr. No.	Particulars	Amount (Rs.)	Remarks
1	Interest during implementation		
2	Establishment expenses		
3	Start-up expenses		
4	Misc. expenses		
	Total		

2.5 Working Capital:

Sr. No.	Item	Duration	Total Value (Rs.)		
			Year-I	Year-II	Year-III
1	Raw material stock				
2	Semi-finished goods stock				
3	Finished goods stock				
4	Sales on credit				
5	Production expenses				
		Total			

2.6 Total Cost Of The Project:

Sr. No.	Particulars	Total Value (Rs.)
1	Fixed capital (Total of item nos. 2.1, 2.2, 2.3)	
2	Working capital (Total of item no. 2.5)	
3	Preliminary & pre-operative expenses (Total of item no. 2.4)	
	Total	

2.7 Means Of Finance:

Sr. No.	Particulars	Amount (Rs.)	Remarks
1	Own investment		
2	Term loan		
3	Working capital loan		
4	Any other source		
	Total		

3.0 Market Potential:

- 3.1 Present demand and supply of the product
- 3.2 Competition
- 3.3 Target clients / selected market area
- 3.4 Marketing strategy (Unique Selling Proposition and Competitive advantage)

4.0 Manufacturing Process:

- a) Technical know-how availability
- b) Step by Step description of the manufacturing process
- c) Attach process flow chart (if required)

5.0 Production Programme:

- i) No. of working days per annum _____
- ii) No. of working shifts 8 hrs per day _____
- iii) Installed capacity (annual) _____
- iv) Utilised capacity (%): _____

Year-I _____
Year-II _____
Year-III _____

Sr. No.	Item (s)	Quantity produced per year	Capacity utilisation (%)

5.1 Sales Revenue:

Year	Item (s)	Quantity sold per year	Rate per unit	Sales Realization (Rs.)
	Total			

5.2 Raw Material (Annual Requirements):

Sr. No.	Item (s)	Quantity	Rate (Rs.)	Total Value (Rs.)
	Total			

5.3 Utilities:

Sr. No.	Particulars	Annual Expenditure (Rs.)	Remarks
1	Power/Electricity		
2	Water		
3	Coal/Oil/Steam		
4	Any other item		
	Total		

5.4 Manpower (Salaries/Wages):

Sr. No.	Particulars	No.	Wages/Salaries per month (Rs.)	Annual Expenses (Rs.)
1	Skilled			
2	Semi-skilled			
3	Unskilled			
4	Office staff			
5	Any other			
	Total			

5.5 Repairs And Maintenance:

Sr. No.	Particulars	Amount (Rs.)
	Total	

5.6 Selling And Distribution Expenses:

Sr. No.	Particulars	Amount (Rs.)	Remarks
1	Publicity expenses		
2	Travelling		
3	Freight		
4	Commission		
5	Misc.		
	Total		

5.7 Administrative Expenses:

Sr. No.	Particulars	Amount (Rs.)	Remarks
1	Stationery & Printing		
2	Post/Telephone etc.		
3	Entertainment expenditure		
4	Misc.		
	Total		

5.8 Interest:

Year	Outstanding Loan Amount	Interest	Instalment	Balance

5.9 Depreciation:

Sr. No.	Type of Asset	Cost of Asset	Expected Life	Depreciation

6.0 Profitability Projections:

Sr. No.	Particulars	Amount (Rs.)				
		Year-I	Year-II	Year-III	Year-IV	Year-V
A.	Sales realisation					
B.	Cost of production					
i)	Raw materials					
ii)	Utilities					
iii)	Salaries/wages					
iv)	Repairs & maintenance					
v)	Selling & distribution expenses					
vi)	Administrative expenses					
vii)	Interest					
viii)	Rent					
ix)	Misc. expenses					
	Total					
C.	Less: Depreciation					
D.	Gross profit/loss (A–B)					
E.	Income-tax					
F.	Net profit/loss					
G.	Repayment					
H.	Retained surplus					

* In addition Debt-Equity Ratio, Debt Service Coverage Ratio, ROI, BEP and pay back period may be indicated.

ANNEXURE II

Financial Statements

Financial statements are a collection of data organized according to a logical and a consistently defined accounting procedure. The statements serve as a useful indicator of a firm's financial position.

Various financial statements: Normally at the end of the financial period for which the accounts are written, the ledger accounts are closed and balances are drawn for the purpose of preparing final accounts. The statements which are needed for final accounts are:

- 1.0 Trial Balance.
- 2.0 Profit and Loss Account.
- 3.0 Balance Sheet.

1.0 Trial Balance

The first step in the process of preparing final accounts is to prepare a Trial Balance. The main objective of Trial Balance is to determine the arithmetic accuracy of the entries made in the ledger.

The fundamental principle of double entry book keeping is that every transaction has a debit and a corresponding credit effect. It means that the total of all accounts, which have a 'Debit Balance', and the total of all those accounts, which have a 'Credit Balance', at the end of the accounting period, should tally. They should be equal; otherwise the accounts would be inaccurate. This is where the trial balance features.

While preparing the Trial Balance, the accounts that have debit balance are placed in the debit column, while the accounts which have credit balance are placed in the credit balance. The total of debit entries must tally with the total of credit entries unless some mistakes in posting, or compilation have been committed. One has to understand that the agreement of the total of debit and credit column of the trial balance ensures only arithmetical accuracy of accounting and is not conclusive evidence to prove accounting accuracy as there are some mistakes which a Trial Balance cannot detect.

Format of a Trial Balance

Trial balance of M/s _____ for the Year _____

Ledger Folio	Name of Account	Debit Amount	Credit Amount
	Total	_____	_____

1. Ledger Folio: The folio number (page number) of the ledger or its subsidiary books where a particular account is maintained is returned in this column. It helps in cross checking the accuracy of accounts.
2. Name of Accounts: The name of the account whose closing balance is being brought to the Trial Balance is recorded here.
3. Debit & Credit: The amount of debit and credit balance of the individual account is mentioned here. It may be noted that a single account at a time cannot have both debit and credit balances. An account can have any of it, either credit or debit closing balance.
4. Total: When the closing balance of all accounts from the ledger and its subsidiary books are brought to the Trial Balance, the total of accounts in debit column and credit column are met and tallied.

Some Tips:

Following tips may help to prepare a Trial Balance from a given list of balances:

1. Closing Balances of all 'asset accounts', 'revenue expenses accounts', and 'losses accounts' are always debit balances.
2. Closing balances of all 'revenue income accounts' and 'gain accounts' are always credit balances.
3. Accounts of individuals to whom the business owes money have always credit balances and accounts of individual who owe money to the business have debit balances.
4. Loans (taken) account always have credit balance.
5. 'Cash Account' has debit balance.

Mistakes:

If the total of debit and credit column of the trial balance do not agree, it means there are some mistakes in preparing the accounting books. The mistakes, traced, and rectified would tally the Trial Balance.

Mistakes that cannot be detected by Trial Balance are:

1. Errors of principle.
2. Errors of commission.
3. Errors of omission.
4. Compensating errors.

After the trial balance is tallied, necessary adjustment entries need be made for closing stocks, prepaid expenses, outstanding expenses, transfer provisions, etc.

2.0 Profit and Loss Account

The preparation of a trial balance only ensures arithmetical accuracy. From the financial accounting system, the user would like to know about the profitability and the operation of the business for a specified period and the position of the business at a given point of time.

A statement which reveals the profitability of operations of a business for the accounting period is called Profit and Loss Account (P & L Account).

Contents of P & L A/c

From all the balances mentioned in the trial balance, those accounts which are for revenue expenditure, revenue losses, revenue income, and revenue gains are taken to P & L Account. This makes it possible to learn whether the business at the end of the accounting period has generated surplus or deficit. All accounts of revenue income and gains are brought on the credit side and all the accounts of revenue expenditure and losses are brought on the debit side of the P & L account. If the total income is more than the total expenditure, the business is said to have generated surplus or profit. But if the total expenditure exceeds the total income during the accounting period, the business is supposed to have made losses. The credit balance signifies profit and on the other hand, debit balance denotes net loss of the business during the accounting period.

Format of Profit and Loss Account

Profit and Loss Account of M/s _____
For the Period _____

Debit side		Credit Side	
Particulars	Amount	Particulars	Amount
Net profit (balancing figure)		Net loss (balancing figure)	
Total		Total	

Explanation:

1. **Particulars:** Names of the following accounts are mentioned individually on the debit side of this column:

A. All accounts of revenue expenditure
B. All accounts of revenue losses
Names of the following accounts are mentioned on the credit side.
C. Sales accounts
D. Closing stock accounts (if it is adjustment entry)
E. Accounts having credit effect of adjustment entries
2. **Amount:** The respective amount of credit and debit balances of the account that are brought to the P & L Account is mentioned in these columns on debit and credit side against the name of their respective account head.

Notes:

- a) It is to be understood that P & L Account contains only 'Income and Expenditure Accounts' and not Individual, Personal, or Asset account. The accounts of 'Income and Expenditure Accounts' get closed when they are brought to P & L Account, while the balance of 'Personal/Individual Accounts' and 'Assets Accounts' get carried forward to the subsequent year.
- b) Net Profit and Net Loss: Subsequent to bringing all balances of the accounts to concerned debit and credit side, the total of their balance is made. If the total of credit side is more than the total of debit side then the business is said to have made net profit. The amount by which the total of credit side exceeds the total of debit side of P & L Account is called as 'Net Profit' generated during the accounting period. Likewise, the amount by which the total of debit side exceeds the total of credit side of the P & L Account is called as 'Net Loss' generated by the business during the year. Thus both figures of Net Profit and Net Loss are balancing figures. Adding them up with the total of debit or credit side as the case may be would make the totals of both the sides tally. But when the business generates neither profit nor loss, the total of credit side and the total of debit side of the P & L Account would tally with each other even otherwise. This is a situation where total income is equal to total expenses.

Thus, we can summarise as follows:

- (1) Total of Credit Side of P & L A/c > Total of Debit Side of P & L A/c = Profit
- (2) Total of Credit Side of P & L A/c < Total of Debit Side of P & L A/c = Loss
- (3) Total of Credit Side of P & L A/c = Total of Debit Side of P & L A/c = No profit, No loss

Net profit or net loss is the result of business operations during the accounting period. They are transferred to the balance sheet where the capital account

representing the financial involvement of the promoter is increased or decreased appropriately by the figures of net profit or net loss.

3.0 Balance Sheet

As indicated, the purpose of financial accounting is to ascertain the result of business operation during an accounting year, and to understand the financial position of a business at a particular point of time. Profit and Loss Account serves the former purpose while Balance Sheet serves the latter objective. The accounts pertaining to the groups other than Income & Expenditure, viz. 'Personal or Individual Account' and 'Assets Accounts' are brought to the balance sheet. Unlike the accounts of the group of 'Income and Expenditure Account' the accounts brought to the balance sheet are not closed. Their closing balance at the time of the balance sheet finalisation are carried forward to the subsequent accounting period. They are shown on the balance sheet only to apprise the users about the position of accounts at that time.

Balance Sheet – Format

Balance Sheet of M/s _____
As on _____

Liabilities	Amount	Assets	Amount
Capital	Fixed Assets
Reserves and Surpluses	Investments
Secured Loans (Received)	Loans and Advances (Given)
Unsecured Loans & Deposits (received)	Current Assets	
Current Liabilities	(1) Stocks	
Provisions	(2) Debtors	
		(3) Cash	
		(4) Bank Balance
		Accumulated Losses
Total	_____	Total	_____

The balance sheet provides information on what a business owns and what it owes. Whatever a business owns is termed as 'Assets' and whatever it owes is termed as 'Liabilities'. All liabilities are specified on the left hand side of the balance sheet while assets are shown on the right hand side.

Assets

Assets are classified under the following broad heads:

1. Fixed Assets: Fixed assets are of permanent nature. The total value of fixed assets at the close of the accounting period is shown on the balance sheet.
2. Current Assets: Current assets unlike fixed assets may be converted in the form of 'Cash' or 'Bank balance' short run or at least within an accounting year.

Normally following accounts are termed as 'Current Assets':

- a. Stocks: Closing stocks of raw material, work in progress, and finished goods.
 - b. Debtors: Individuals who owe to the business (as a result of business transactions) are termed as 'Debtors' or 'Accounts receivables' and are also current assets.
 - c. Cash Balance and Bank Balance: Cash lying with the business, and balance in the bank account of the business are current assets.
3. Investments: The value invested by the business in other ventures are 'Assets' of the business.
 4. Loans and Advances (given): Loans or advances made to third parties are Assets of an enterprise. These are not similar to the debtors (Current Assets) as in the case of debtors an individual becomes liable to pay to the business on account of purchase of a product of the business on credit terms.
 5. Fictitious Assets: Fictitious assets are not tangible assets but are debit balances of accounts like P & L A/c, Accumulated Losses A/c, Expenses not written off A/c, etc.

Liabilities

On the liabilities side, all 'personal' and 'individual' accounts to whom the business owes are mentioned. Liabilities can be classified in the following broad groups:

1. Capital: Money invested by the promoter is a liability. Business owes that much to the promoter.
2. Reserves and Surplus: Accumulated profit which is not withdrawn and part of profit which is reserved for some specific purpose also belong to the promoters. Business owes that much to the owner. They are, therefore, liabilities.
3. Secured Loans (received): Amount of loans taken by the business is liability for the business. These loans are secured against some assets which are offered to the institution/person who have given loans, as security or collateral.

4. Unsecured Loans and Deposits (received): These loans are also liabilities for the business. However, these loans are not secured.
5. Current liabilities: These are short-term funds taken for financing current assets. Normally, they are credits offered by the suppliers of raw materials and working capital loans given by the banks.
6. Provisions: They are liabilities for which payment provision has been made by the business from the profits, e.g. provision for tax liability.

Note: The total of 'Liabilities' side and 'Assets' side of the balance sheet must tally. If they don't, there has to be some mistake in preparing Final Accounts, which should be detected and rectified.

ANNEXURE III

Terminologies and Definitions

Accounts receivable/Sundry debtors	Money owed to an enterprise (a component of current assets).
Cost concept	Assets are valued at cost and not at market value. For example, fixed assets are valued at cost less depreciation and current assets are valued at cost or market value, whichever is lower.
Creditor	Individual or enterprise who has supplied inputs but who has not yet been paid.
Cost of sales	Cost of goods actually sold during the accounting period. It excludes the cost of goods left unsold and all overheads except manufacturing overheads. The cost of sales appears in the profit and loss account.
Current assets	Assets which are normally realized in cash or used up in operations during an accounting period of one year. Current assets include cash, debtors, inventory, and prepaid expenses.
Current ratio	Ratio of current assets divided by current liabilities and measures liquidity of an enterprise.
Debtor	Individual or enterprise who has received goods or services but has not yet paid for them.
Direct costs	Costs related to a unit of a product. For instance, direct labour, direct material, and direct services. All other costs are indirect costs or overhead expenses. Sometimes, direct costs also refer to costs related to specific overhead expenses.
Fixed assets	Assets such as land, plant and equipment acquired for long-term use in the business and not for resale. Such assets are depreciated over their working life. Fixed assets are recorded on the balance sheet at costs less depreciation, not at market value. Sometimes they are valued periodically.
Fixed liabilities	Liabilities that are long term and not to be paid within one year. Holders are creditors and receive interest.

Gross profit	Sales minus cost of sales, viz. profit before expenses on selling and administration have been subtracted.
Liquidity	<p>Availability of assets which can easily be converted into cash to pay liabilities. Liquidity is measured by the:</p> <p>* Current ratio = $\frac{\text{Current assets}}{\text{Current liabilities}}$: 1</p> <p>* Quick ratio = $\frac{\text{Quick assets}}{\text{Current liabilities}}$: 1</p>
Net profit or income	Profit for the accounting period after income tax. The net profit increases shareholders' funds but does not necessarily affect the cash balance.
Net worth	Assets less liabilities of shareholders' funds or promoters' contribution and retained surplus.
Non-operating expenses	Expenses not directly related to normal operations, e.g. loss on sale of fixed assets. Major losses are often charged to revenue reserve or even to capital reserve.
Non-operating income	Income not arising from normal operations, such as profit on sale of fixed assets.
Operating profit	Gross profit minus operating expenses in a profit and loss account statement.
Profit before tax	Operating profit less non-operating expenses plus non-operating income in the profit and loss account.
Quick assets	Cash, marketable securities, etc. Quick assets are assets which can be made liquid in the immediate future, such as, within an operating cycle.
Quick liabilities	That part of the current liabilities that is due to be paid soon or within one month for instance.
Quick ratio	Ratio of quick assets to current liabilities and is a measure of liquidity.
Ratios	Indicators of the financial health of an enterprise. Healthy ratios are developed from industry averages according to the size of the organisation. Ratios include those for: (1) liquidity or quick ratio, (2) activity or assets turnover (sales/assets), stock turnover (cost of sales/stock), etc. (3) profitability or return on investment ratio, for instance.
Revenue reserve	Retained earnings, accumulated profit available for payment of dividends. Part of promoters' contribution/share holders' funds.
Return on investment	<ul style="list-style-type: none"> return on equity = $\left\{ \frac{\text{net profit}}{\text{promoter's contribution}} \times 100 \right\}$ return on capital employed = $\left\{ \frac{\text{Profit before tax} + \text{interest on fixed liabilities} \times 100}{\text{Fixed assets} + \text{Net working capital}} \right\}$
Sources and uses of funds statements	Sources include net profit plus depreciation, new loans and new capital issued. Uses are dividends, the purchase of fixed assets, and increase in working capital.

CHAPTER 31

INVESTMENT APPRAISAL TECHNIQUES

Objective

The objective of this chapter is to help the trainees develop an understanding of appropriate investment appraisal modes that give due regard to the time value of cash inflows and outflows, and also of the speed of returns or inflows. Essential concepts and tools may be utilized for selection of a project or opportunity and its evaluation.

Duration: 2 hours and 30 minutes

Advance Preparation and Materials Required

A trainer needs to develop comparative illustrations specific to particular opportunities and enterprises in a region. Projects with varying cash flow streams, differing life-span, and different scale need to be discussed to help the trainees easily understand relevant concepts.

Session Guide

A trainer may commence discussion with an introduction to basic flaws in conventional investment appraisal prior to highlighting the benefits of utilizing discounting criteria in evaluation. The pros and cons of the Net Present Value (NPV), Internal Rate of Return (IRR) and the discounted payback period criteria may be elucidated in a comparative mode.

While projects and business plans are conventionally evaluated on the basis of return on investment or capital employed, this method does not give due regard to the time value of money or speed of returns or cash inflows. Hence, various discounting criteria may be used. Investment criteria therefore, includes: Net Present Value (NPV) and Internal Rate of Return (IRR) modes as also the discounted payback period method.

1.0 Net Present Value as an Indicator for Appraising Investment Options

The net present value or NPV of a proposed enterprise is the sum of the present values of all cash flows over the life of the enterprise.

$$NPV = \sum_{X=1}^N A_x (1+r)^{-x} - \text{Initial investment}$$

Where, A_x is cash flow at the end of year x , n is life of the project, and r is the discount rate. As an example, consider the expected cash flow of a project indicated in the Table 1 below:

Table 1
Expected cash flows of a project

	Cash flow (Rs.)
Initial investment	(8,00,000)
Cash flow in year 1	2,00,000
Cash flow in year 2	2,00,000
Cash flow in year 3	3,00,000
Cash flow in year 4	3,00,000

The cost of capital (r) for the enterprise is 10 per cent. Often, the conventional rate of interest on loan finance is considered. The net present value of the project is:

$$\begin{aligned} \text{NPV} &= -8,00,000 + \frac{200,000}{(1.10)^1} + \frac{200,000}{(1.10)^2} + \frac{300,000}{(1.10)^3} + \frac{300,000}{(1.10)^4} \\ &= -\text{Rs. } 22,594 \text{ (approx.)} \end{aligned}$$

NPV is net benefit in excess of return for business risk and time invested. A project may be accepted if NPV is positive and rejected if NPV is negative. If the NPV equals zero, it is a matter of indifference. The NPV mode assumes that annual or intermediate cash flows of the enterprise are reinvested at a rate of return equal to the cost of capital. The discount rate, nevertheless, need not remain constant over time, hence, different discount rates may be incorporated over time. The discount rate may change over time given change in interest rates, risk elements, etc. over time.

The NPV method has some lacunae in that it is computed in absolute than relative terms and does not consider the amount of investment. Similarly, comparative NPV's do not accord regard to the life of the project. Hence, when mutually exclusive projects with different lives are being considered, the NPV methodology often favours projects with longer life span.

2.0 Internal Rate of Return

The internal rate of return (IRR) of a proposed enterprise or business plan is the discount rate which makes PV of cash outflow (investment) = PV of cash inflows (returns). This discount rate makes NPV equal zero. NPV is pegged at zero and the discount rate that satisfies this condition is determined. As an illustration, consider the case of a tiny pickle making project.

Table 2

Cash inflows and outflows of a tiny pickle making project

	Cash outlay	Cash inflows		
Year		1	2	3
Cash flow	(74,000)	30,000	30,000	40,000

Where IRR is the discount rate which satisfies the equation:

$$74,000 = 30,000 (1+r)^{-1} + 30,000 (1+r)^{-2} + 40,000 (1+r)^{-3}$$

The r may be estimated by a trial and error method. Different values of r may be considered till value of future cash flows equals initial investment. Considering a discount rate of 15 per cent, the summation of cash flows approximately equals:

$$\frac{30,000}{(1.15)} + \frac{30,000}{(1.15)^2} + \frac{40,000}{(1.15)^3} = \text{Rs. } 75,072$$

This value is higher than investment of Rs. 74,000. Consider a discount rate of 16 percent:

$$\frac{30,000}{(1.16)} + \frac{30,000}{(1.16)^2} + \frac{40,000}{(1.16)^3} = \text{Rs. } 73,783$$

This value is less than 74,000. Hence, it may be concluded that the value of r lies between 15 per cent and 16 per cent. Therefore NPV at 15% equals 1,072 and NPV at 16% equals minus 217. The sum of the absolute values of the net present values is 1289. The ratio of the net present value of the lower discount rate to that of the sum equals 0.83. Add this value to the smaller discount rate of 15%. The IRR works out to approximately 15.83 per cent. A project may be accepted if the IRR is greater than the cost of capital and vice-versa.

3.0 Comparing the NPV and IRR: The Modified IRR Option

The IRR and the NPV indicates similar judgement if cash flows of a business plan or project are conventional, viz. initial cash flow (investment) is negative and further cash flows or returns are positive, and, the project is independent, viz. the option may be accepted or rejected without reference to any other option. IRR may not be employed if cash flows of a project are not conventional. One may secure multiple IRRs or no IRR may exist. While attempting to select from two mutually exclusive projects, also, the IRR is not appropriate. A project with higher investment may give a low IRR but higher NPV! Also, IRR need not be reliable as it cannot distinguish between inflow and outflow. Further, IRR is cumbersome to consider when short-term rates of interest vary from long-term interest rates. In such cases, IRR may be estimated on the incremental cash flow. An enterprise which requires smaller initial investment may be highly attractive as its IRR is relatively far more than the cost of

capital. But when the rate of return on incremental cash flow is considered the high investment option may be chosen vis-à-vis the other! Therefore, when considering two options of different investment levels, IRR is reliable if incremental cash flows are the basis. IRR may yield misleading results while comparing mutually exclusive enterprise options that have different patterns of cash flow over time. Considering IRR on incremental cash flows may be more appropriate in this case too.

As per the IRR norm a project should be accepted if its IRR is more than the opportunity cost of capital. However, if opportunity costs vary every year, IRR may have to be compared with weighted average of rates. Thus, when interest rates vary over time NPV may be considered as more convenient and appropriate.

The IRR has an advantage over the NPV mode in that even if one is not aware of or does not consider a discount rate but a project has a high IRR of say, 25% the project may be accepted as it is unlikely that the discount rate would be that much.

The modified IRR or MIRR corrects the lacunae in the conventional IRR. It may be calculated as follows: Calculate the present value of cost (PVC) associated with the project, using cost of capital (r) as the discount rate:

$$PVC = \sum_{x=0}^n \frac{\text{Cash outflow}_x}{(1+r)^x}$$

Then, calculate the terminal value of expected cash inflows:

$$\text{viz. Terminal value} = \sum_{x=0}^n \text{Cash inflow}_x (1+r)^{n-1}$$

Then, MIRR is obtained by solving the following equation:

$$\text{Present Value of Costs} = \frac{\text{Terminal Value}}{(1 + \text{MIRR})^n}$$

4.0 The Discounted Payback Period Methodology

Payback period refers to period within which initial investment is recouped. When the annual cash inflow is a constant sum, the payback period is simply the initial outlay divided by the annual cash inflow. The shorter the payback period, the more desirable an opportunity. The payback period criterion is simpler and gives due regard to projects which yield higher cash inflows in earlier years as against those that generate inflows in later years. Risk is therefore given due regard and usually cash starved tiny and smaller enterprises in the food processing sector may find this criterion more advantageous. However, this methodology fails to consider the time value of money. Also, it ignores cash flows beyond the payback period. Hence, a discounted payback period criterion may be employed. In this method, cash flows are first converted into their present values and then added to ascertain the period of time required to recover the initial investment on the enterprise.

CHAPTER 32

UNDERSTANDING TOTAL QUALITY MANAGEMENT

Objective

The objective of this chapter is to provide an orientation to the trainees on essential tools of Total Quality Management (TQM), which largely include management methods and methods for data collection and presentation.

Duration: 2 hours and 30 minutes

Advance Preparation and Materials Required

A trainer should have practical exposure to utilising various tools. S/he should have sufficient experience gained in applying relevant tools in enterprise planning, implementation, and management in the food processing sector to provide practical and customised illustrations to the trainees. Support from ISO 9000 professionals may also be sought to deliver inputs and share experience.

Session Guide

A trainer initially needs to stress upon the importance of quality management in enterprises. The trainer may then elaborate on the fundamentals and essential concepts of the methodology. The various management, data collection, and presentation modes may be then presented. Reference to practical utilisation of these methods need be offered in the context of preparation and implementation of business plan, and management of project in the food processing sector.

1.0 The Fundamentals of Total Quality Management (TQM)

Total quality management varies from other management processes given its thrust on 'continuous' improvement. TQM has its fundamental underpinnings on the following:

1. It lays emphasis on 'external' customers and consumers. It is necessary to correctly identify the real needs of clients and satisfy them on an ongoing basis.
2. It believes in securing the information necessary for quality standards, and disseminating it within an enterprise, encouraging continuous improvement.
3. TQM is not an immediate, target based initiative. It lays stress on gradual but continuous improvement in a competitive environment.

4. Employees need to be encouraged to take greater responsibility for the quality of work. Technology and systems alone will not suffice. Greater involvement will ensure greater commitment to customer satisfaction and continuous upgradation of quality.

2.0 The Concepts of the Methodology

The TQM process and framework for continuous improvement has its basis on certain concepts:

- Performance may be compared vis-à-vis customer and consumer needs and expectations. Regular monitoring of changes in this perspective needs to be done.
- It is necessary to measure the actual cost of poor quality performance. It is also necessary to measure performance so as to enhance 'internal' (employee) and 'external' (customer) satisfaction. Internal quality measurement on the production front may include areas such as rejection levels ('brokens' in the case of rice milling), cost of non-availability of raw-material due to the seasonality of supply or speculative hoarding by traders, etc. Of course, employee motivation alone will not facilitate quality management. Appropriate systems will have to be evolved to achieve this purpose.
- Business processes involve a mix of material, labour, and equipment to produce a product. An objective of TQM is to reduce variation in processes. Casualty for variation in processes needs to be removed for improving standardization and quality.
- Even in smaller enterprises, employees in the production area may not be aware of packing or marketing requirements. Teamwork reduces communication barriers and facilitates quality improvement, resolving problems across different functional areas in an enterprise.
- Prevention seeks to ensure that failures will not occur. The continual process of removing problems and failures out of the system will create a culture of continuous improvement.

While some relevant concepts and methods such as potential problem analysis, Gantt chart and PERT, etc. are elaborated in some detail in later chapters of this manual, select methods are elaborated in brief in the following sub-sections to help understand relevant options.

3.0 An Introduction to Methods and their Purpose

In the context of TQM, there are certain management methods such as acceptable quality level (AQL), benchmarking, Deming wheel, ISO 9000, Gantt charts, Just in Time, Pareto analysis, and quality circles. Further, there are modes for collecting data and their presentation such as measures of 'central tendency' and 'dispersion', geometric moving average, and statistical process control, amongst others.

Acceptable quality level (AQL) offers a sampling and inspection methodology to ensure manufacture and delivery of products of appropriate quality. Benchmarking helps enhance performance by implementing best practices. The Deming wheel helps satisfy quality requirements of customers and consumers. ISO 9000 is to establish an effective quality management system. 'Just-in-Time' offers raw materials to the production line exactly when needed so as to optimize costs related to inventory holding. Pareto analysis strives to segregate critical causes of a problem from the trivial. Quality circles are small group activities that facilitate development of employees and their performance. Elementary statistics such as the mean, median, mode, range and standard deviation are ways of summarizing large sets of data. The first three are measures of central tendency and the last two are measures of dispersion. The geometric moving average method is used to identify trends in small changes in the mean value of a process.

Process analysis enables a group to look for opportunities to improve processes. It can also be used to identify standards and measures for critical parts of processes. Statistical process control is to identify when the processes are changing over time.

Some of the methods indicated above are elaborated in the following sub-sections.

Acceptable Quality Level (AQL)

AQL is used while sampling a batch so that each item inspected is classified as acceptable or otherwise. AQL can be used for 'defective units', such as the whole product, say pickles, made from over-ripened mangoes, or for 'defects', such as defective lids or caps of a jar of pickles.

- The acceptable quality level may be 'agreed', viz. the worst quality which may be considered acceptable as the average 'per cent defectives' or 'defects per 1000 units' of a process. They may also be decided upon between 'internal' suppliers and customers. Thus, disputes get reduced.
- When an AQL has been agreed, all batches or output better than the AQL may be accepted. The levels of inspection may be stringent, viz. tightened, normal, or reduced.

AQL sets norms on acceptance and rejection of samples or batches, depending on the size of a sample and number of defects in the sample. This may be mutually agreed between customers and suppliers.

Benchmarking

Benchmarking helps identify and fill gaps in performance by establishing best practices upon comparing the processes of others. Internal benchmarking serves to compare between different functions in an enterprise. Errors are removed and process performance optimized. Competitive benchmarking compares competitors' performance on different functions. Comparative benchmarking compares across industrial sectors to establish best practices in all areas of operation. Critical success factors (CSFs) and key processes may be identified. The critical success factors in food processing enterprises may include (resources in terms of) high levels of working capital as to purchase raw material during season and stock them for months together prior to sale during off-season. Ideal sourcing and timing of purchase is yet another illustration. Standards should be set for processes and performance levels and their measurement established.

Deming Wheel

This method seeks to satisfy quality requirements of the customer by using the cycle: plan, implement, check, and accept. It is used for development in various functions, i.e. product development, manufacturing, and market study. 'Plan' is to check the causes of a problem, implement measures to solve the problem, check implementation and results, and accept better quality levels or practice as the general norm.

ISO 9000

Installing an ISO 9000 quality management system (QMS) in an enterprise involves the following steps.

1. Obtain entrepreneur commitment to the quality management approach.
2. Define the scope of the activities as well as responsibilities of those to be included in the scope of the QMS.
3. Existing systems and procedures may be audited against requirements of the standard.
4. A plan needs to be developed to write necessary and relevant procedures followed by training to enable the employees to write their own relevant procedures.
5. The procedures may be then drafted and validated.
6. A draft quality manual may be prepared and system implemented on a trial basis.
7. Internal auditors may be trained to carry out an audit of the system and its implementation. The same may be revised, thereupon, if necessary.

8. Registration or 'third-party approval' may be secured from an accredited body and the system maintained by internal audit, thereby, enhancing performance.

Standardization of processes ensures that tasks are carried out in a similar fashion regardless of who does them. This ensures consistent and standardized quality for customers.

Pareto Analysis

It is employed by a team analyzing information relating to a problem with a view to deciding the most important factors to be targeted initially in order to have a significant impact on the problem. The objective of this method is to separate the most important causes of a problem from the many trivial ones. Also, to identify the most important problems for a team to work on. The analysis is also called the 80/20 rule. This implies that 80 per cent of the problems are influenced by 20 per cent of the activities and it is important that these 20 per cent should be targeted. Inventory management in food processing enterprises may incorporate this mode to reduce costs of excessive stock piling. Pareto analysis involves:

- Tabulating activities or causes and estimating the number of times they occur and presenting them in descending order of magnitude in the table.
- The total frequencies of all causes may be estimated and percentage of total that each cause represents is calculated.
- A Pareto diagram with the vertical axis displaying the percentage and horizontal axis the activity or cause may be prepared. The cumulative curve may be drawn to display the cumulative percentage from all causes so as to analyze the same.

Quality Circles

Quality circles are small groups of between three and ten to twelve people who pursue similar function or activity. Such a group may meet together regularly for about an hour in a week, often with their own supervisors. They are then oriented to identify, analyze, and resolve problems in their own activity, and if feasible, implement solutions themselves. Pareto analysis techniques may be utilized to focus on specific issues.

Measures of Central Tendency and Dispersion

This method encompasses measures such as arithmetic mean, median, mode, range and standard deviation. These are options to summarize data and describe large volumes of data. These measures are employed to identify trends in data or compare large volumes of data and facilitate decision-making.

The mean is the simple arithmetic average of all relevant data. The summation of data is divided by the number of data considered to estimate the mean. A weighted average or mean, viz. giving proportional weights to 'sale price' and 'purchase price'

will help arrive at one measure for these in food processing enterprises that have a wide market or product-mix given seasonality in demand and supply. Weights may also be accorded to arrive at one representative sale or purchase price for inputs and output whose costs and prices vary significantly every few months. Business plan preparation, for instance, is considerably facilitated by employment of this tool.

The median is the mid-point, viz. the point above which and below which half of the data under consideration lie in. The mode is the most frequently occurring value or data. The mean, median, and mode are measures of central tendency.

The range indicates the overall spread of a data set. It is the arithmetic difference between the largest and smallest value. As an illustration the range in prices of rice may vary from Rs. 900 per quintal to Rs. 1,100 per quintal. The standard deviation is the root mean square deviation of all items considered from the mean. It is estimated by finding the difference of each item from the mean and squaring it, and finally calculating summation of all squared deviations. The sum is then divided by the number of items involved less one. The square root is then estimated.

Geometric Moving Average

This method is used to study trends in small changes in the process mean. It is employed to monitor a process to detect variation in the process mean, or when a variation has been made to process inputs to see if the process mean varies. Geometric moving average (GMA) charts can be used to monitor both data and isolate long-term trends in data. The method offers prediction on process mean at the next time period. The GMA method involves: Collecting information on aspects such as sales estimates; estimating subgroup averages by summing up data in each subgroup and dividing by the subgroup size; estimating total mean of the data by summing subgroup averages and dividing by the number of subgroups and, for each successive subgroup, calculating the statistic w_t as follows:

$w_t = r \times \bar{X}_t + (1-r) \times w_{t-1}$, where r is a constant between 0 and 1. The choice is governed by the trade-off between the need to detect an important change without false alarms. Control limits can also be calculated.

Geometric moving average charts are useful to focus on longer-term variations in processes. The technique may be employed to forecast future data on the basis of past figures.

Statistical Process Control (SPC)

Statistical process control strives to locate inter-temporal changes in processes. It is employed while monitoring a process to detect changes or see if process output changes when a change has been made on process input. Statistical process control may be employed for processes utilizing process flowchart as a basis. SPC

involves identifying the process to be studied and drawing a flowchart of the process, employing the flowchart, finalizing data to be collected, and tally charts to the collect data. Pareto analysis may be employed to remove special cause variation from the process and data may be drawn on a control chart.

Data may be *variables data*, viz. when the aspect being measured is continuously changing over a range of values. This may include turnover or time to process a shipping bill, etc. Data may also be *attributes data*, viz. when the characteristic measured has one of two values such as defective/non-defective. Random or non-assignable changes against real variation caused by changes to the process are hard to be isolated from each other. Control charts help make decisions on processes on the basis of facts than guestimates.

(The trainer may encourage participants to work out hypothetical examples to better understand application of various TQM methods in food processing enterprises).

CHAPTER 33

PROJECT ACTIVITY PLANNING AND IMPLEMENTATION

Objective

The objective of this chapter is to enable the trainees to understand the various tools of project planning such as Gantt Charting, Programme Evaluation and Review Technique (PERT) and the Critical Path Method (CPM).

Duration: 1 hour 15 minutes

Advance Preparation and Material Required

A trainer should be fully acquainted with production planning methods of PERT/CPM and Gantt Charts. The symbols and the language used for these methods, including activity, nodes, critical path, etc, should be understood fully before offering inputs.

Session Guide

To explain the present concepts of project planning along with its methods and their specific notations. To take up illustrations that would further elaborate on the application of these methods in real life situations. The cases included in this session may be used as illustrations. Consultants from project implementing agencies may also be invited to offer inputs.

A project involves a set of activities with a definite beginning and an end. Project management involves co-ordination of various activities that are interrelated, and project planning and scheduling requires technical considerations. Activities that are scheduled need to be done in a particular order after identifying preceding relationships. Project planning and implementation includes activities that result in a course of action for a project. Goals should be set for the project, resources committed, completion time be determined, and the priority of activities defined. The areas of responsibility must be identified and assigned. Similarly, time and resource requirements to implement the activities must be forecast and budgeted. Project scheduling establishes the time and sequence of the various phases of the project. In project scheduling, the activities of the project are considered and are related to one another and to the time frame.

1.0 Project Planning and Implementation Models

These are the various methods for planning projects. These include Gantt Charts, the Programme Evaluation and Review Technique (PERT) and Critical Path Method (CPM) of project scheduling.

1.1 The Gantt Charts

A Gantt Chart is a bar chart that shows the relationship of activities over time. The Table below gives the symbols used in a Gantt Chart. An open bracket indicates the scheduled start of the activity and a closing bracket indicates the scheduled completion. A heavy line indicates the currently completed portion of the activity. A caret at the top of the chart usually represents current time.

<u>Symbol</u>	<u>Meaning</u>
[Start of an activity
]	End of an activity
[—]	Actual progress of the activity
V	Point in time where the project now is.

A Gantt Chart for project scheduling which appears below is as in the second week of implementation.

Project Activity	Week 1	2	3	4
Inspection of safety requirements with regard to site, etc.	[—————]			
Installation of equipment		[—————]		
Recruitment of workers		[—————]		
Training of workers			[—]	
Pilot production run			[—————]	

1.2 Programme Evaluations and Review Technique (PERT) and Critical Path Method (CPM)

PERT/CPM is a network modelling approach that helps to address project scheduling better than with a Gantt Chart. PERT and CPM are based essentially on the same concept. PERT is based on probable estimates of activity times that resulted in a probable path through a network of activities and a probable project completion time, whereas CPM assumes constant or deterministic activity times. The notations and symbols employed in PERT include:

- * An activity or project work required to be accomplished, symbolized by an arc.
- * A 'dummy' or fictitious activity consuming no time, symbolized by a dashed arc.
- * An 'event' of an activity is beginning or ending, symbolized by a node.

- * A network is the sequence of all activities, symbolized by nodes connected by arcs.
- * A path is a portion of the network, including the first and last activities, for which each activity has a single immediate successor.
- * A critical path is a path whose activities are expected to consume the highest resources in terms of time
- * Optimistic time (t_o) is the least amount of time an activity is expected to consume.
- * Pessimistic time (t_p) is the greatest amount of time an activity is expected to require.
- * Most likely time (t_m) is the single best guess of time an activity is expected to consume.
- * Expected time (t_e) is the amount of time an activity is expected to consume. It is calculated as:

$$t_e = \frac{(t_o + 4 t_m + t_p)}{6}$$

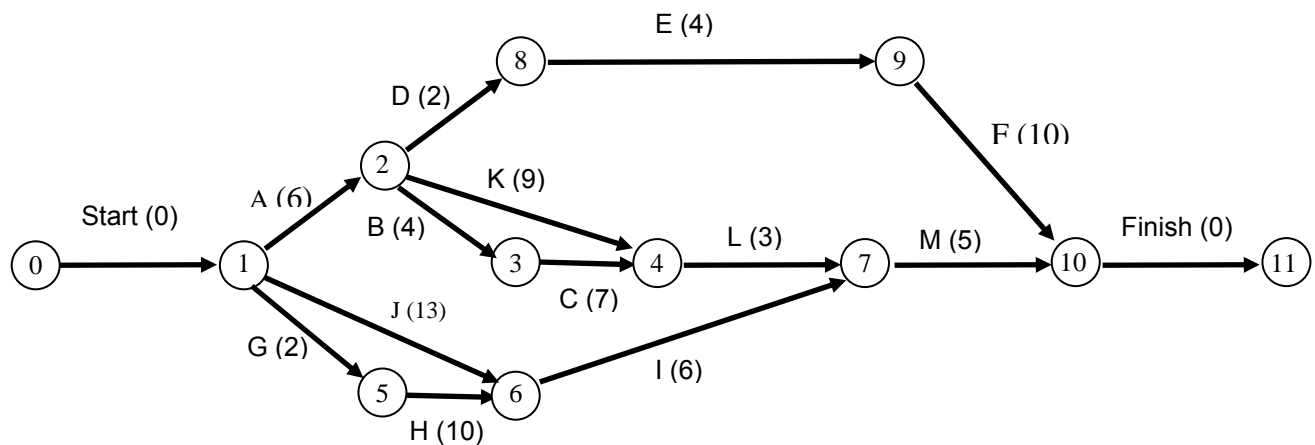
Since the critical path requires the longest time through the network, an enterprise should watch it most closely to avoid unnecessary project delays.

PERT consists of the steps given below:

1. Identify all activities in the project.
2. Identify the precedence requirements of activities.
3. Diagram the precedence requirements as a sequence of activities.
4. Estimate the time each activity will take; estimates may be acquired from past data or from experienced persons in a particular activity. Optimistic, pessimistic, and most likely times may be estimated so that the expected time may be calculated from the equation given above.
5. Calculate the critical path and other project performance criteria, creating the schedule and plan for subsequent control.
6. Re-evaluate and revise on the basis of experience.

For instance, an entrepreneur planning the launch of a new product. The Table below summarizes the proposed planning and implementation schedule:

Activity	Immediate Predecessor Activity	Time, Weeks
A. Organize sales office	-	9
B. Hire sales person	A	6
C. Train sales person	B	10.5
D. Select advertising agency	A	3
E. Plan advertising campaign	D	6
F. Conduct pilot advertising campaign	E	15
G. Design package	-	3
H. Set up packaging facilities	G	15
I. Package initial stock	H, J	9
J. Order stock from manufacturer	-	-
K. Select distributors	A	19.5
L. Sell to distributors	C, K	4.5
M. Ship stock to distributors	I, L	7.5



Critical Path is Start – A – B – C – L – M – Finish = 37.5 weeks

CHAPTER 34

DOMESTIC AND INTERNATIONAL MARKETING MANAGEMENT

Objective

The objective of this chapter is to impart a greater understanding of the basic aspects of domestic and international marketing management, with a view to exploiting options in terms of market segmentation, selling incentives, channel motivation, and costing and pricing of products.

Duration: 3 hours and 45 minutes

Advance Preparation and Material Required

A trainer should develop a frame of reference with regard to broad domestic and international market potential for different products in various sub-sectors in the food processing sector. A trainer should possess information on aspects such as trends in global trade, tariff barriers for different products in the sector in different countries, etc. Experts with experience in the field of international marketing may be invited to offer specialised inputs on prevailing export-import (EXIM) policy, documentation and incentive schemes in vogue. They may be sourced from agencies such as the Agriculture and Processed Foods Export Development Authority (APEDA) or from private consultancy organisations.

Session Guide

A trainer needs to link the inputs in this session with relevant concepts already introduced in the chapter entitled, 'Strategic Position and Marketing...'.

Present the developed case of Saravanan and Aradhana as an apt introduction to the importance of effective market analysis for successful start-up and implementation of a business. An effective project report should give due focus to relevant aspects.

The objective of the theme is to develop skills in domestic and international marketing management, particularly with reference to understanding necessary analytical tools. Hence, while offering inputs on necessary costing and pricing tools, hypothetical data secured from the trainees may be simultaneously utilized for working out different options. This will serve to help the trainees imbibe relevant concepts better. It needs to be stressed that while basic concepts with regard to market segmentation, selling incentives, channel motivation, and costing and pricing remain the same in both domestic and international marketing, the incentives and costing aspects obviously vary.

1.0 Domestic Marketing Management: Understanding Options for Selling Incentives and Channel Motivation

1.1 Deficient Product and Market Mix: Case of a 'Cottage' or Household Sector Operator

Saravanan, an entrepreneur, has a Bachelor's degree in catering technology. He worked in the hotel industry and rose to the position of catering manager in a company operating a hotel in Tamil Nadu.

With this work experience in the sector, he launched his own marketing agency in 1998-99, distributing products such as cheese balls manufactured by large Indian companies/multinationals, and jelly imported from Thailand. He had chosen his 'territory' for distribution from the point of view of locational convenience. He chose to target the upper income segments of consumers. He had invested about Rs. 2 lakhs of his own savings in the enterprise. He had to pay a security deposit of about Rs. 45,000, made payment for stock, and purchased material by means of post-dated cheques of one-week duration.

However, business was dull. His choice of territory was wrong! He should have ideally opted for a territory that largely comprised consumers of the upper income segment. Besides, he was 'cheated' by retail outlets in terms of delayed payments running into several months (as against 'promised' terms of 2 weeks credit), and also large bad debts. He had a turnover of Rs. 50,000 per month but ended with a net cash flow of only about Rs. 15,000 during a 2-year period. Ultimately, he wound up this business.

He then participated in an Entrepreneurship Development Programme (EDP) sponsored by the local District Industries Centre (DIC) and started manufacturing jams, jellies, and syrups. His education in the field of catering technology and his training in the EDP sponsored by the DIC encouraged him to try his hand in a new option, viz. manufacturing on cottage scale from his residence. He was already aware of marketing channels and channel motivation options from his earlier experience in entrepreneurship. His selection of territory, viz. market segment for the particular product-mix, in his earlier venture was wrong. Further, in that venture wholesaler and retailer margins put together were only about 12-15 per cent of the maximum retail price (MRP) in case of fast-moving products. In the case of relatively slow-moving confectionery items such as chocolate and milk bars, wholesaler's and distributor's margins put together were in the range of about 25 per cent. About 60-75 per cent of such margins were actually passed on to the retailer, or else the products did not get sold! He believed that he should have dealt in products such as Britannia biscuits with an established brand name and consumer preference. He forsook fast-moving products to slow-moving but high margin yielding products but was often left with stock unsold for months. He was short of cash to procure more products for distribution! The cycle of delayed payment and cash shortage to finance procurement killed his first attempt at business. He had not segmented his market in

his first venture before finalising his 'territory' for distribution. He had also focused on stocking and selling products offering high selling incentives and customer margins but 'forgot' the consumer's buying behaviour in terms of frequency of purchase. Hence, upon his DIC training, in his second attempt at business, he got into household processing of faster-moving products, viz. crush (grape) and synthetic syrups.

He purchased gas cylinders and consumables such as muslin cloth, etc., for about Rs. 2,500 and manufactured syrups overnight and personally marketed them among the households across Chennai. The MRP of similar MNC products was about Rs. 55 per bottle. He sold his products directly to households at 50 per cent of this price. He achieved a sales turnover of about Rs. 50,000 a month or a profit margin (after transport and salesmen costs) of about Rs. 20,000 per month between 2000 and 2002. His margin, as also his business, was in a far more stable position than when he was a distributor for other products. However, over these two years he pursued his business 'informally', viz. sans SSI or sales tax registration, for obvious reasons.

1.2 Training Contributes to 'Formal' Business Orientation and Experience to Confidence in the Market Place

By 2003, Saravanan had developed the confidence to grow and seek loans from institutions. He has now prepared a project report himself on the basis of training received from various other agencies, such as the Small Industries Service Institute (SISI). He proposes to now produce convenience products – chutneys and pickles. Inputs from EDPs and other training programmes helped him to also understand Government policy, quality compliance issues, ISI regulations, and packaging, FPO, and Agmark-related issues. Suggestions from machinery suppliers and manufacturers were also useful in conceiving his latest project. In this new project he does not intend to install advanced (and expensive) automatic equipment. Instead, he plans a net investment of about Rs. 2 lakhs in packing machines, shrink guns, and other machinery. Under the Prime Minister's Rozgar Yojana (PMRY) scheme, up to Rs. 1 lakh may be secured without any collateral for service or trading enterprises, and Rs. 2 lakhs for manufacturing enterprises. Saravanan plans to avail himself of support under this scheme and projects a turnover of Rs. 6 lakhs with an ROI of 25 per cent. Through participation in a DIC sponsored EDP, he had secured one month of classroom inputs and a month's in-plant technical training in a 'masala' manufacturing enterprise. The in-plant training orientation was of 2 weeks on production, and 2 weeks on packaging. But more than this training, it was his training in the marketing front, that he had secured during his previous businesses, that lent him confidence.

Saravanan believes that the major competitors in his new project may be small and medium scale enterprises who make 'sambhar' and 'rasam' mix and pickles. He plans to cut down on his own margins so as to give better margins to his wholesalers and retailers with a view to apply the 'push' factor to market his products. He plans to employ both retail channels and direct marketing to consumers to develop his

business. For the two different market segments of relatively 'up-market' regions in the city, he plans to sell through retailers, and in relatively low-income regions, he plans to offer his products directly through a team of five door-to-door sales persons. Channel motivation in the areas where he sells through retailers would largely be in terms of high margins for the dealer and, more importantly, for the retailers. He also plans to offer selling incentives to retailers in terms of 'lucky draws' every quarter.

1.3 Even a Banker Understands the Importance for Competence on the Marketing Front!

Aradhana, a potential woman entrepreneur, planned to venture into manufacture of products such as 'sambhar' mix, pickles, and 'masala' powders. She planned to make these products at Salem in Tamil Nadu and target the market of Tamil Nadu through distributors and retailers.

The promoter did not have adequate security to offer as collateral. Though she possessed agricultural land, it could not be used for establishing the project as SSI registration, which is necessary for securing institutional finance, cannot be obtained in such a case. She finally approached the National Small Investment Corporation (NSIC), which offers 'composite' term loans. As the manufacturing facility is to be housed at an industrial estate and land on lease basis was believed to cost the promoter up to Rs. 10,000 per month, she planned to purchase the land needed. The promoter paid the earnest money deposit (EMD) of about Rs. 20,000 to the authorities of a local industrial estate. She then approached SIDBI to avail herself of support from the Credit Guarantee Trust Scheme. SIDBI invariably supports such small projects under the scheme through the NSIC and certain other lenders. The potential lenders rejected the project report that she had prepared with the assistance of a chartered accountant. Her ignorance of market issues such as the vital need for channel motivation and selling incentives was evident! On an average, often, over 40 per cent dealer and retailer margins are offered by successful tiny and smaller enterprises in the sub-sector. Selling expenses as per her project were hardly 10 per cent of the selling price or sales realisation. There was no break-up or difference in the sale price, regardless of whether the product was sold through retailers or wholesalers, though her project report specified that both options would be pursued. Further, various sales promotion schemes offered by similar competitors seemed to have been ignored. The potential lenders rejected her project proposal on the grounds that she seemed 'blissfully' unaware of certain elementary marketing aspects of the proposed products. Lenders were, in effect, worried about her capacity to implement the project without adequate experience or even 'homework'. Aradhana Masala was registered as a sole proprietary concern but remained a non-starter. Table 1 on the projected break-even statement prepared by the enterprise indicates the low projected expense on the 'selling' front.

Table 1

Projected Break-Even Analysis – Aradhana Masalas, Salem

Sr. No.	Particulars	Amount (Rs. in lakhs)
1	SALES	19,50,000
2	VARIABLE COST	
	A. Direct expenses (including raw materials and wages)	12,54,000
	B. Electricity and power	12,000
	C. Transport of material (input and output)	14,000
	D. Fuel	4,000
	E. Interest on working capital	46,000
	F. Selling expenses	80,000
	G. Miscellaneous expenses	9,000
	Total	14,19,000
3	FIXED COST	
	A. Administrative expenses	15,000
	B. Salary	26,500
	C. Consumables	14,500
	D. Repairs and maintenance (@ 5% on equipment and machinery)	4,000
	E. Interest on term loan	1,20,000
	F. Depreciation	32,000
	Total	2,24,000

The promoter had carefully prepared other estimates of direct expenses: raw material (indicatively presented in the Table 2 below), equipment (selectively presented in the following table), and procurement schedule (indicatively presented for certain inputs, based on seasonal availability of inputs, in Table 4 in this sub-section). However, regardless of some analysis being pursued on these fronts, the market front had been neglected and her proposal was rejected. In fact, another reason for the rejection was that she had assumed simple average of prices over the previous year's market rates to estimate the selling price of the products, and not on average weighed with the number of months for which a price prevailed. The selling price would have been far lower in the latter case, affecting project viability. Further, there were anomalies in terms of 'line-misbalancing of equipment' that affected potential capacity utilisation. The procurement and manufacturing schedule indicated purchase and sale in seasons when wholesale prices were at rock-bottom levels. Many project reports suffer from such anomalies!

Table 2
Direct Expenses – Select Raw Material – Aradhana Masalas, Salem

Sr. No.	Ingredients	Quantity (Kg.)	Rate (Rs.)
1	Lemon-ripe	442	19
2	Mango-raw	435	23
3	Citrus-raw	144	23
4	Garlic	210	28
5	Tomato-raw	32	9

Table 3
Equipment and Machines – Aradhana Masalas, Salem

Sr. No.	Description	Sr. No.	Description
A	RECEIVING AND STORING	F	PRODUCTION
	Platform weighing scale (100 kg. capacity)		Wooden spatula
	Stainless steel storage cans	G	LPG
B	CLEANING		Deposit for LPG cylinder
	Plastic tubs		Sunbeam canteen burner
C	MEASURING	H	PROCESSING
	Weighing scale (stone balance)		Plastic drums (100 kg. capacity)
	Measuring jugs (plastic heart resistance)	I	SEALING AND PACKING
D	PRE –PREPARATION		Shrink sleeves drums
	Plastic server		Iron box
	Double-layered plastic strainer	J	ENVIRONMENT CONTROL
	S.S. knives		Exhaust fan
	Multipurpose pulp extractor	K	TRANSPORT
	Vegetables peeler		Tricycle
	S.S. strainer		
E	ELECTRICAL		
	Wet grinder		
	Dry grinder (mixer)		

Table 4
Procurement Schedule of Some Inputs 2001-2002 – Aradhana Masalas, Salem

Ingredients	Months												Qty (Kg.)
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	
Lemon-ripe	-	-	200	200	-	42	-	-	-	-	-	-	442
Mango-raw	200	200	-	-	-	35	-	-	-	-	-	-	435
Citrus-raw	-	-	-	-	144	-	-	-	-	-	-	-	144
Garlic	-	-	-	90	-	90	-	30	-	-	-	-	210
Tomato-raw	-	-	-	-	-	32	-	-	-	-	-	-	32

2.0 Pricing of Products

2.1 Pricing Fundamentals

The policy for pricing products should have its foundation on whether it is a consumer product or a luxury product as against a necessity, whether it is a branded or non-branded item, and whether it has seasonal or non-seasonal demand-base, etc. To elaborate, products may be essentially classified into categories, depending on various other features, for pricing: standard low value-added processed food such as ground chilly powder, or standard products such as jams and jellies, as against products customized to different market segments (viz. 'masala' powders and paste produced to suit the palate of different regions and communities in India), 'luxury' products as against necessities, and branded or non-branded products. The pricing of a consumer product often represents its value and quality. In branded processed food products, a strong brand loyalty makes prices less significant. In products like canned sardines or mackerel and other 'luxury' items, the price-demand relationship may, in fact, be positive, i.e. a higher price may encourage a greater demand. In the case of seasonal products, as most fruits and vegetables are, higher prices may be levied during off-season.

2.2 Domestic and Export Pricing

In the marketing perspective, an entrepreneur in his cost calculations may incorporate cost/price aspects and work backward from an established market price. Working backward from an established market price is called 'retrograde pricing'. The entrepreneur may consider setting a target price lower than the prevailing market price or explore whether the market will bear a higher price, or study the means to reduce production costs on various fronts to enhance profit margins at a market-determined price.

To elaborate on retrograde pricing in the context of international marketing, the market price for similar products, (less) mark-ups by customers in the importing country, (less) import tariffs in such markets, (less) freight, insurance, documentation and packing charges, (less) appropriate export overheads will indicate the net realisation in the export perspective. This realization may contribute to profit with regard to total operations of a business or at least contribute to covering the fixed overheads beyond the direct production costs and variable overheads in production for export.

With regard to pricing for international market, an exporter may also have to segment his market and use differential pricing in domestic and international markets, keeping in view the cost competitiveness in the latter segments. There are also various non-price factors that may be incorporated in pricing. Such factors may include:

- * credit terms to be offered to customers and consumers

- * marketing and sales promotion plan in terms of penetrating the market as against 'skimming' or maximising short-term profits
- * frequency of purchase and repeat purchase of a product
- * the extent of real or 'notional' differentiation with regard to products of an enterprise vis-à-vis those of competitors
- * consumer or customer 'perception' regarding quality and price.

2.3 Incorporating Incentives in Export Pricing

Incentives to export should be incorporated into pricing. Taxes or cess levied on domestic production and sale are either refunded or not levied at all on exports. For example, the excise or customs (import) duty paid on indigenous/imported raw materials and other components used in an export product is refunded in the form of customs duty drawback. Export goods are also not subject to sales tax or (earlier) even octroi duty. Import of raw material is allowed duty free under the Duty Exemption Scheme. Machinery and equipment are allowed to be imported under concessional import duty. An exporter also gets preshipment and packing credit at attractive interest rates. Such facilities effectively contribute towards cost reduction for exporters. Incentives as per Exim Policy (2003-2007) indicate various factors to be incorporated. Such incentives may, however, vary over time. These incentives include exemption of a part of income from export business under the Income Tax Act-1961. However, this incentive may be offered only for a couple of years more. The refund of Central Excise and Customs duty on export is made under the Duty Drawback Scheme. Duty-free import of raw material is allowed under various schemes.

Duty-free replenishment certificates are also issued to merchants or manufacturer-exporters for import of inputs used in the manufacturing process without payment of basic customs duty, surcharge or special additional duty. However, additional duty equivalent to excise duty is payable at the time of import. In some cases, where goods are non-dutiable, exporters are eligible for drawback of duty at the time of exports to neutralize the incidence of additional customs duty.

Under the Export Promotion Capital Goods (EPCG) Scheme, machinery and equipment may be imported. Concessional duty is levied on some items, while others are progressively made almost duty-free. An export obligation equivalent to five times the value of capital goods on a free-on-board (FOB) basis or four times of the cost insurance and freight (CIF) value of capital goods is required to be fulfilled over a period of eight years, from the date of license issued. Sub-section 5 in this chapter elaborates on various terms in export-import parlance.

Exporters not planning to go through the licensing route have an optional facility under a Duty Entitlement Passbook (DEPB) Scheme. The objective of the Scheme is to neutralise the incidence of customs duty on the import content of the product that is exported. Neutralisation is provided by the grant of duty credit against imported inputs of the export product. Replenishment licenses are also offered

against the export of certain specific items. Export-oriented units (EOUs) under the 100 per cent EOU Scheme and units located in free-trade or export processing zones are eligible for special facilities such as exemption from excise and customs duty, sale in the domestic tariff area, and sale of rejected goods/wastage, etc. The transport subsidy is also offered for export by air as well as rail.

3.0 Costing for Domestic and International Pricing

The pricing parameters indicated in the preceding sub-section need be considered regardless of the method of costing followed. Costing may, in effect, follow cost-plus, marginal costing, or value-added costing methodologies.

3.1 The Cost-Plus Method

In the cost-plus approach, prices are pegged at a level which reflects the average total cost of each unit of output plus a fixed profit margin. Consider the estimates of PQR food colours, Ahmedabad, given below. The enterprise sells 50,000 units of food colours to 'food factories' in India. The major elements of cost of the enterprise are as follows:

Table 5
Major Components of Cost of PQR Food Colours, Ahmedabad

<u>Sr. No.</u>	<u>Major elements of cost</u>	<u>Amount (in Rs.)</u>
1	Raw material cost	5,00,000
2	Labour cost	3,00,000
3	Packing charges	1,00,000
4	Transport charges	1,00,000
		10,00,000

The average cost per unit in this case amounts to Rs. 20. If the promoter wants a profit margin of 15 per cent on costs, the selling price should be Rs. 23 per unit.

3.2 Marginal Cost and Contribution-Based Pricing

Often pricing in the export business strive to maximise profit from the total operations of an enterprise than profits on a per unit basis. The realization to be considered is total contribution made by the product towards fixed cost and profit. As exports normally contribute to additional capacity utilisation, export-price needs account for only those items of cost which are specific to export processing. In marginal costing or contribution pricing only such costs are considered. Overhead costs, which are not specific to export processing, are ignored.

Nevertheless, the option of marginal costing exists only if a surplus capacity exists in the enterprise, capacity of the domestic market to bear fixed costs (and higher

prices) is not limited, and the enterprise is not totally export oriented. Even in the last case, marginal cost-based pricing may be adopted in some export markets.

Marginal costing only levies an ex-works price. Other expenses related to exports such as documentation charges, export inspection fees, etc. have to be added. The illustration below elaborates the point. **(A trainer may make the participants work out the solution to the exercise).**

Consider the cost structure (2002-03) and expected maximum domestic sale (for 2003-4) of an enterprise, Jijil Marine, in Kochi (Table 6). The enterprise has been domestic market-oriented but now plans to export seafood to Japan. The enterprise sells 2,00,000 units of seafood in the local market.

Table 6
Cost Structure and Projected Sale in the Domestic Market of Jijil Marine, Kochi

Sr. No.	Cost and turnover	Amount (in Rs.)
1	Fixed cost	18,00,000
2	Variable cost/unit	31
3	Domestic price/unit	40
4	Total capacity	2,50,000 units per annum
5	Projected domestic sale	2,00,000 units per annum

The enterprise is exploring the possibility to export the excess capacity of 20 per cent. It has an offer from an overseas buyer to buy the excess capacity of 50,000 units per year. The enterprise is considering whether to accept the export order on the basis of export incentives available and price offered by the potential client. The FOB cost per unit is Rs. 31, the FOB price offered is Rs. 33 and assume that the duty drawback, i.e. export incentive available is about 6 per cent of the FOB value. While the net profit of the enterprise in the domestic market is nil, accepting the offer even at such a low sale price could benefit the enterprise as the following analysis illustrates:

Table 7
Cost, Revenues and Profit of 'Domestic Market'-Oriented Jijil Marine, Kochi

Sr. No.	Costs, revenues and profit	Amount
1	Revenue in domestic market i.e. 2,00,000 units x Rs. 40	Rs. 80,00,000
2	Variable cost i.e. 2,00,000 x Rs. 31	Rs. 62,00,000
3	Contribution	Rs. 18,00,000
4	Fixed cost	Rs. 18,00,000
5	Domestic market profit = Contribution – Fixed cost	Break-even (no profit no loss)

If the enterprise exports (additional capacity) products, it is likely to make a profit as Table 8 highlights.

Table 8
Potential Cost, Revenues and Profit of 'International Market'-Oriented Jijil Marine, Kochi

Sr. No.	Potential cost, revenue and profit	Amount (Rs. per unit)
1	FOB price offered	33
2	Duty drawback at the rate of 6% of FOB price	1.98
3	Total export revenue per unit	34.98
4	Variable cost = FOB cost	31
5	Export contribution towards profit	3.98
6	Contribution on 50,000 units exports 50,000 x 3.98	1,99,000

As fixed costs are covered, i.e., the enterprise is operating at a break-even level in the domestic market, the enterprise may earn Rs. 182,500 by exporting 50,000 units of excess capacity. Going in for exports will prove to be ideal for the enterprise.

3.3 Value Added Costing

In this method, the value added by a manufacturer is the difference between the value of the product to the end consumer and the raw material and inputs involved in its processing or manufacturing, plus expenditure over the manufacturing process.

This principle of value added costing is, however, believed to be too simplistic and not utilized extensively. It assumes a sale price that may be inappropriate.

4.0 Promotional Measures for International Marketing – Exim Policy (2003-2007) as an Illustration

This sub-section introduces certain essential aspects of the Exim Policy (2003-7). While policy may vary every year, this sub-section is to serve as an illustration.

4.1 Central Assistance to States

As per the Exim policy, State Governments are to be given support for developing complementary and critical infrastructure such as roads connecting production centres with ports, setting up of inland container depots and container freight stations, creation of State level export promotion industrial parks/zones, augmenting common facilities in the existing zones, equity participation in infrastructure projects, etc. and other activities as notified by the Director General for Foreign Trade (DGFT).

4.2 Market Access Initiative

Financial assistance is available under the scheme to export promotion councils and industry associations for:

- * Market studies on potential importing countries
- * Setting up of common showrooms and warehousing facility in identified centres on the basis of market studies in important cities abroad
- * Participation in sales promotion campaigns through international departmental stores
- * Publicity campaigns for launching identified products in selected markets
- * Participation in international trade fairs, seminars, buyer-seller meets
- * Promotion of brands
- * Transport subsidies for select agriculture products
- * Inland freight subsidies for units located in North East, Sikkim, and Jammu & Kashmir
- * Setting up of 'business centres' in Indian missions abroad for visiting Indian exporters/businessmen.

4.3 Towns of Export Excellence

A number of towns in specific geographical locations have emerged as dynamic industrial export-oriented clusters. Some have become competitive manufacturing bases.

Such industrial towns are eligible for a number of benefits. Common service providers in these areas are entitled to the facility of the EPCG scheme and recognised associations will be able to access the funds under the Market Access Initiative Scheme for creating focused technological services. Further, such regions are to receive priority for assistance for critical infrastructure gaps from the scheme on Central Assistance to States.

4.4 Special Focus on Cottage and Handicraft Sector

The cottage sector has been targeted in terms of:

- * Being eligible for funds under the Market Access Initiative (MAI) Schemes. Websites for virtual exhibitions may be developed among other options.
- * Under the EPCG scheme, such enterprises need not maintain average level of exports as per Exim Policy.
- * Such enterprises are entitled to the benefit of export house status on achieving lower average export performance of Rs. 5 crore during the preceding three licensing years. Units in SSI/Tiny/Cottage/KVIC-B registered units and service and agri-exporters are eligible for similar benefit.

4.5 Agri Export Zones (AEZs) and Test Houses

AEZs are established with a view to promoting agricultural exports from the country and remunerative returns to the farming community in a sustained manner.

AEZs are identified by the State Governments, who may evolve a comprehensive package of services provided by all State Government agencies, State agriculture universities and all institutions and agencies of the Union Government for intensive delivery in these zones. State Governments may support provision of pre/post harvest treatment and operations, plant protection, processing, packaging, storage, and related research and development, etc. APEDA supplements efforts of State Governments for facilitating such export.

Units in AEZs are eligible for all facilities available for export of goods in terms of provisions of the respective schemes. The Central Government assists in the modernisation and upgradation of test houses and laboratories to bring them at par with international standards.

4.6 Quality Complaints and Disputes and Status Related to Export Performance

The Regional Sub-Committees on Quality Complaints (RSCQC), set up at the Regional Offices of the Directorate General of Foreign Trade (DGFT) investigate quality complaints received from foreign buyers.

The DGFT may take action against the exporter or importer if it notices or has reason to believe that an export or import has been made in a manner gravely prejudicial to the trade relations of India with any foreign country, or to the interest of other persons engaged in exports or imports, or has brought disrepute to the credit or the goods of the country.

The categorization of enterprises to achieve prescribed average export performance levels are presented in Table 9 below:

Table 9

Sr. No.	Category	Average FOB/FOR value during the preceding three licensing years (in crore Rs.)
1	Export House	15
2	Trading House	100
3	Star Trading House	500
4	Superstar Trading House	2000

Exports made on re-export basis are not considered for such recognition. The exports made by a subsidiary of a limited company are counted towards export performance of the limited company recognition. For this purpose, the company must have the majority share holding in the subsidiary company.

Status holders are eligible for several new and special facilities such as: license/certificate/permissions and customs clearances for both imports and exports on self-declaration basis, fixation of input-output norms on priority, priority finance for medium and long term capital requirement, and exemption from compulsory negotiation of documents through banks.

The status certificates expiring on 31 March, 2002 are deemed to have been extended up to the 31 March, 2004. However, further renewal shall be granted on achieving the threshold limit prescribed in the Policy.

4.7 Service Exports

'Services' include 161 tradable services covered under the General Agreement on Trade in Services where payment for such services is received in free foreign exchange.

All provisions of the Policy shall apply *mutatis-mutandis* to such export of services as they apply to goods.

In an attempt to speed up transactions, reduce physical interface and bring about transparency in various activities related to exports, electronic data interchange is encouraged – to clear applications quickly for instance.

4.8 Summary on International Marketing

Export production results in economy of scale. The cost of production may be lowered by increasing the volume of business, particularly where the domestic market is witnessing lower growth or saturation in some processed foods.

The circumstances of export, viz. direct or indirect need, also determine the basis of pricing a product. The export price depends on whether a product is directly exported by the manufacturer or producer himself or indirectly through a third party who can be a merchant exporter, a channelling agency, etc. In the case of a manufacturer-exporter, all export benefits like special import licenses and Duty Exemption Schemes are available to such an enterprise and these incentives should be incorporated into pricing. Even an indirect exporter may reap export benefits, depending on the terms of sale with the exporter. If not, pricing has to be on the lines of sales in domestic markets.

5.0 Export Costs: An Elaboration on Terms and Documentation

5.1 Export Related Expenses

Export costs include fixed costs and variable costs. Fixed costs may be largely ignored for export pricing except where the enterprise is largely dependent on exports, has no surplus capacity for exports, or the domestic market does not help meet fixed costs adequately. Variable costs may be sub-divided into: (a) direct costs, and (b) indirect or export-specific costs. Essentially, major variable costs, include:

- * Raw materials used in the product for export
- * Labour employed directly for production for export
- * Transport on carriage of goods to godowns/factory
- * Fuel and power-related costs
- * Packing, labelling and marking of goods
- * Commission paid to salesmen and agents, if any
- * Expenditure on staff for export sales and promotion
- * Expenses incurred in export market development or maintaining separate offices, perhaps overseas
- * Interest on credit obtained for export.

5.1.1 Consider some of these costs in detail

Raw Material: Raw materials and components are prime or major costs in food processing enterprises. Raw materials may be imported. Imported raw materials can either be imported directly or through local agencies, and obtained either by paying import duty or under the duty exemption scheme. The cost of imported raw materials may invariably be lower than the price at which these may be available in India. Accordingly, the cost reduction from such duty-reduced imports must be accounted for in export pricing. Special import license is offered to registered export houses, trading houses, star and super star trading houses in India, for import of raw materials in the Negative List of Import Items. Such benefits need be included into the pricing of a product for export.

Labour: The cost of labour directly employed in the manufacture/production of an export product and not indirect labour (for example, supervisory charges) should be considered in the pricing of products for export. This is if the enterprise is not largely export-oriented.

5.2 Export-Specific Costs

Certain Export-Specific Costs: These are largely export-specific indirect costs. Other variable (direct) costs that are common to export and domestic pricing need also be included. These include those on packaging or packing, labelling and

marking of goods, transportation from warehouse/factory to port, commission payable to agents (if any) employed, direct financial costs on extending credit facility and bank charges on negotiation of documents for realisation of export proceeds, internal transport costs and ocean or air freight charges, port charges and export-import duties, forwarding/shipping agents and documentation charges, consular/visa fees, supervision and pre-shipment inspection charges, etc.

5.2.1 To elaborate on some of these costs:

Export-Finance Cost: Such cost includes not only charges paid to institutions for negotiation of documents to realise payment for exports but also expenses in arranging finance for exports, even if no credit is extended to the importers. Exporters may obtain packing credit or pre-shipment credit to buy raw materials for manufacturing/producing export goods. If exporters offer credit to overseas buyers, they may arrange for post-shipment credit or term loans which results in additional cost. The cost of obtaining finance and negotiation of documents should be included in the pricing of a product for export.

Loading, Freight and Terminal Charges: Loading and unloading and terminal or wharfage charges or cargo handling charges between 'truck' and 'ship' should be included. Ocean freight rate is on the basis of weight tonne or cubic measurement tonne.

5.3 Export-Related Stowage Expenses

Special Stowage: In the case of processed food, special stowage in terms of freezer may be required. Additional costs of protective packaging may also have to be borne with. The lowest rates are charged for goods stowed on the deck of a ship as the exporter bears the risk of damage from weather, etc. When shipped by container, a higher freight rate is levied. Containers may be stowed on-deck. Hence, insurance rates are higher. Duty cost savings can be achieved by shipping on importing country vessels. Shipping enterprises may offer conference and non-conference options. Conference lines offer a regular service from one area to another area and standard rates. The non-conference ships offer a reduced rate because sailing times may be irregular.

Surcharges may vary on the basis of commodity, port, or operator. If fuel rates increase and the shippers do not wish to increase their freight rate, they issue a 'bunker's' surcharge. Further, in most ports the exporter is held responsible for the costs of loading and unloading the container.

5.4 Export-Related Documentation Charges

Certain documents have to be prepared by an exporter. Charges for preparation may be either directly paid by the exporter to the agency concerned or through his agent (CHA) where the latter prepares the document. Such charges need also be included in the pricing for export. Some such export documents are:

Commercial Invoice: It is a document issued by the exporter in the standardized format. It is usually made out for the complete realizable amount of goods as per terms. The undrawn balance is shown as a deduction from the total amount.

Consular Invoice: It is a document required mainly by countries like Kenya, Tanzania, and New Zealand. It is to be prepared in a prescribed format and signed/certified by the consul of the importing country located in the country of export. The consulate document involves charges for the document, translation charges, and fines levied by the consulate for any mistake in the documents.

Customs Invoice: These are required for countries like the USA. They have to be prepared on a special form presented by the Customs authorities of the importing country to help entry of products at a preferential rate.

Legalized/Visaed and Certified Invoice: Legalized/Visaed invoice is meant for showing the exporter's genuineness to the appropriate consulate/chamber of commerce/embassy. No prescribed form is required for this. Certified invoice is necessary when exporters are required to certify on the invoice that the goods are of a particular origin or manufactured or packed at a particular place and in accordance with a specific contract. Two types of draft are available – Sight Draft and Usance Draft. The former is required when the drawer or exporter expects immediate payment from the drawee or importer. Usance Draft is needed for credit delivery.

Packing List and Certificate of Inspection: A packing list gives itemwise details of goods contained in each parcel/shipment. A certificate of inspection is issued in aligned document form, indicating that goods have been inspected before shipment.

Mate's Receipt and Bill of Lading: A mate's receipt may be issued by the Chief of Vessel after the cargo is loaded; it contains the name of shipping line, vessel, port of loading, port of discharge, place of delivery, marks and number/numbers and kind of containers, description of goods, container status/seal number, gross weight, condition of cargo at the time of its receipt on board the vessel and shipping bill number and date. A bill of lading is a document issued by the shipping company or its agent acknowledging the receipt of goods mentioned in the bill for shipment on board to vessel and undertaking to deliver the goods to the consignee, provided the freight and other charges specified in the bill of lading have been duly paid.

Weight Note and Supplier's Quality and Inspection Certificate: A weight note is used to confirm that packages are of a stipulated weight. Certain export products may

require a quality control inspection certificate from the export inspection agency. Some food products may require a health or sanitary certificate for export (marine product, livestock, etc.).

Certificate of Origin and Manufacturer's Certificate: A certificate of origin certifies the country of origin of the goods shipped. To cover products under the GSP (generalized system of preferences), a certificate of origin may be required. The export inspection agency, the various export promotion councils, chambers of commerce or the regional offices of the Chief Controller of Imports and Exports issue a certificate of origin. In addition to a certificate of origin, a manufacturer's certificate is required for some countries to indicate that goods shipped have actually been manufactured in the country and are available.

Certificate of Chemical Analysis: This is needed to ensure quality and grade of certain items like pigments.

Certificate of Shipment: This signifies that a certain lot of goods have been shipped.

Certificate of Conditioning: This is issued by a competent office to certify compliance on aspects such as humidity factor and dry weight.

Transshipment Bill: This document is used for goods imported into a customs port/airport intended for transshipment.

Transshipment Permit: This is a permission for transshipment of goods from the vessel on which the goods are booked originally to another for export.

Shipping Order: It is issued by the Shipping (Conference) Line intimating the exporter about the reservation of space of shipment of cargo through a particular vessel from a specified port and on a specified date.

Shipment Advice: After the goods have been shipped, the exporters should send a 'shipment advice' to the importers enclosing copies of all basic documents, viz. copy of bill of lading (non-negotiable copy), invoice, packing specification, etc. When the goods are exported by air, the shipment/dispatch advice should be faxed to the importer.

Export Declaration Forms: As per Exchange Control Regulations, exporters are required to declare in prescribed forms to the prescribed authority before any export of goods from India is made. These include a GR form for export to all countries other than by post, a PR form for exports to all countries by parcel post except when made on 'Value payable' or 'cash on delivery' basis, a VP/COD form for exports to all countries by parcel post under arrangements to realize proceeds through postal channel on 'Value payable' or 'cash on delivery' basis. Also needed is a shipping bill/bill of export which is the main document required by the Customs authority for allowing shipment. Basically, shipping bills are of four types, subject to certain

conditions: export duty/cess, free of duty/cess, entitlement of duty drawback, entitlement of credit of duty under DEPB Scheme and re-export of imported goods.

The documents required for the processing of shipping bill are GR forms in duplicate for shipment to all countries; four copies of packing list giving contents, quantity, gross and net weight of each package; four copies of invoices indicating all relevant particulars such as the number of packages, quantity, unit rate, total f.o.b./c.i.f. value, correct and full description of goods, etc.; contract, L/C, purchase order of the overseas buyer; AR4 (original and duplicate) and invoice; and inspection/examination certificate. Additional export documents may be required if the shipment is valued at an amount greater than a specified minimum, if drawbacks are involved, or if a governmental subsidy is involved. Identification of the goods may also be requested by Customs. Brokers who charge for their services can prepare these forms.

Forwarding Charges: A forwarding/shipping agent or an authorised Custom House Agent (CHA) is to be retained. He charges a fee on export transaction. It must, therefore, be taken into account for the pricing of a product for export.

For shipping and customs clearance of the goods, the Customs appraiser examines that the value and quantity declared in the shipping bill is the same as in the export order/L/C, and all formalities regarding exchange control and pre-shipment quality control inspections have been completed. Following verification, all the documents, except GR (original) form, the original shipping bill and a copy of the commercial invoice are returned to the forwarding agent to be presented to the dock appraiser. The dock appraiser makes 'Let Export' endorsement on the duplicate copy of the shipping bill and hands it over to the forwarding agent. The agent then presents the documents to the preventive officer of the Customs department, who makes an endorsement 'Let Ship' on the duplicate copy of the shipping bill which is then handed over to the agent of the shipping company. The captain of the ship, aboard which the goods are loaded, then issues a 'Mate Receipt' to the shed superintendent of the port, from whom the possession of 'Mate Receipt' is taken by the forwarding agent offering payment as the port charges. Further, 'Mate Receipt' is presented to the preventive officer who records certificate of shipment on all copies of shipping bill. The forwarding agent again presents the 'Mate Receipt' to the shipping company to obtain bill of lading.

5.5 Other Export Related Charges

A number of additional charges may also have to considered:

Export Permits: Most countries have an Export Control List, and if one wishes to export goods in this category one has to receive a permit. A heavy fine may be levied if such goods are exported without the required permit. Although in most cases there is no charge for the permit itself, it does involve time which should be incorporated.

Import Permits: Often the customer will require that the exporter contact the necessary parties in his country to obtain any required import permits.

Storage Charges: Exporter is liable for the storage charges and delays.

Bank and Financing Charges: Banks can assist in the collection of money from customers. They can hold the documents until they receive payment from the customer. This service is for a fee. If goods are going into a long-term project and the customer, in order to buy, requires long-term credit, then these financing charges to extend the credit over that period of time obviously have to be added to costs.

Further, miscellaneous costs such as, phone calls, cables, telexes, stamps, fees for advice, legal services may have to be added into costs.

Documentation Fee: In addition to the forwarding fee which a CHA (Custom House Agent) collects from the exporter, there are certain charges for preparing documents: for example, for obtaining a consular invoice, certificate of origin, export visa, consignment inspection charges, etc., which the exporter is required to pay.

All costs elaborated in this sub-section need be considered when costing a product for export.

(A trainer may ask the trainees to individually write down the differences and commonalties in domestic marketing vis-à-vis international marketing as an exercise to help them imbibe learnings).

ANNEXURE I

Select Export Terms and Paralance

- | | | |
|----------------------|---|--|
| C. & F. | : | Cost and Freight |
| C. I. F. | : | Cost, Insurance, Freight. A C.I.F. contract is for the sale of goods where the sellers' duties are to ship at the port of shipment within the time named in the contract, the goods of the contract description; to procure on shipment a contract of affreightment under which the goods will be available for the benefit of the buyer; to make out an invoice of the goods; to tender to the buyer the bill of lading, the invoice and the policy of insurance. It is the duty of the buyer to take up all these documents and pay for the goods. |
| C. D. W. | : | Current Domestic Value. The price at which the supplier is prepared to supply to any purchaser for home consumption in the country of export and at the date of export, similar goods in the usual wholesale quantities. |
| C. & F.C. | : | Cost, Freight and Commission |
| C.I.F.C. | : | Cost, Insurance, Freight and Commission |
| Ex-Works | : | The price at which the supplier will supply his ex-works. It does not |

- include any charge for delivery.
- F.A.S.** : Free Alongside Ship. It includes all charges (including wharfage and portage) but not including hoisting on board.
- F.O.B.** : Free on Board. It includes cost of goods, including the cost of placing them on board a ship. Where the goods have been quoted F.O.B., it is the seller's duty to deliver the goods to the ship at the port of shipment and to pay all expenses incurred in connection therewith and to make a reasonable contract of carriage for their transport to the buyer. Delivery is completed once the goods have been put on board a ship. However, it is the duty of the seller to notify the buyer of the shipment to enable him to insure. Otherwise, the goods are at the seller's risk.
- F.O.W.** : Free on Wharf. Goods delivered to the wharf. It includes cartage to the ex- wharf but not the payment of wharfage.
- L/C** : Letter of Credit

On Consignment: Goods shipped with payment made to the shipper as the goods are sold at destination. The shipper retains ownership. (Indian foreign exchange regulations require payment within six months).

Ship's Liability: This starts when the cargo is on the inboard of ship's rails. It terminates as soon as cargo is over ship's rail on discharge. If cargo is damaged in transit from wharf to the ship's rail or vice versa, the ship will normally refuse liability.

V.F.D.: Value for duty. The value at which goods would pay duty – if '*ad valorem*'. Goods have a V.F.D. even when duty is not payable.

CHAPTER 35

MANAGING BUSINESS CRISIS – STARTING AND LIQUIDITY CRISIS

Objective

The objective of this chapter is to assist the trainees to imbibe necessary insights into anticipating and forestalling starting and liquidity crises in an enterprise. Many enterprises fail within a short period from start-up due to various internal and external factors. Some are, in effect, stillborn! This section provides a cautionary note on the start-up related issues, and on the 'cash' crisis, which is by far the greatest killer of an enterprise.

Duration: 1 hour and 15 minutes

Advance Preparation and Material Required

A trainer may develop insights into various business crises of enterprises by interacting with leading bankers such as the lead bank in a region. Such customised insights will offer a better frame of reference while offering customized inputs.

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The theme may be introduced to the trainees through the case study of a cold storage project that turned sick. The case is presented in sub-section 1 of the chapter. The internal and external factors contributing to adverse performance may be elaborated, giving cross-reference to real-life cases in the specific region where an EDP is being conducted. Inputs in sub-section 2 and 3 of the chapter may be then offered to the trainees to highlight the fact that most failed enterprises actually collapse in the first few months of the start-up. The criticality of this phase in a business needs to be emphasised.

A fruit and vegetable-processing enterprise in Jammu integrated backwards and established a cold storage to purchase and stock raw material in season. Given the necessary economic size of such a venture, the project also planned to serve as a cold storage for other processing units in the region. A study of the failure of the enterprise indicates the various crises – internal and external – that an enterprise may have to confront.

1.0 Tawi Cold Storage: Diagnosing Causality for Failure

Tawi Cold Storage is located near Jammu city. The plant had a storage capacity of a few thousand tonnes of fruits and vegetables. The unit was sanctioned a term loan in June 1998 for setting up a cold storage facility.

1.1 Working History and Analysis of Performance

The cold storage project was expected to start operations by April 1999. Loan documents were executed and disbursement of term loan started. However, there was a one-year delay in the implementation of the project due to non-disbursement of the sanctioned investment subsidy on time for the facility. The performance of the unit had also been poor in its short period of operation. An analysis of the past performance indicates a poor performance of the enterprise.

Structural Strength: The net worth consisting of promoter's funds remained constant, while accumulated losses went up. No fresh equity or funds were invested in the business. The net worth of the unit had been totally eroded by 2002-03. Accumulated losses had increased in a sustained fashion. Long-term liabilities increased by 40 per cent, representing defaults and dues to institutions. The total outside liabilities to net worth ratio also increased. This indicates a greater increase in current liabilities and dues on one hand, and erosion of the net worth on the other. The total current liabilities doubled in 3 years of operation of the enterprise!

Liquidity: The current ratio of the unit fell to 0.5 per cent. This represented a decline in cash and stock in the business. This shows that the current liability position was less than current assets and thus the firm could not pay off its current liabilities. The accounts receivable increased several fold, indicating the need for a strategy to recover receivables from debtors. The key contributors to the crisis on the liquidity front were debtors.

Assets Turnover: The current assets turnover ratio indicates that the turnover of the enterprise is not even double of the current assets of the organisation. This means the operating cycle of the business is of almost 6 months' duration, implying that the account receivable or debtors figures are increasing continuously. The turnover is hardly 20 per cent of the value of total fixed assets of the enterprise. This situation which persisted through all these years of operation represents underutilisation of the capacity of the plant and machinery in the unit.

Profitability: The enterprise has been experiencing cash losses since the first year of operation. This implies that even ignoring 'depreciation', the unit has been making a loss. Operations are virtually unsustainable.

1.2 Causes of Collapse

After analysing the past performance, it is observed that there are some deep-rooted causes of sickness rather than the apparent signals or symptoms of incipient sickness. The critical causes of collapse have been attributed to delay in project implementation and non-utilisation of created capacity.

Delay in project implementation: The project was expected to be implemented from June 1998 and supposed to start commercial production by April 1999. The

term loan was disbursed from June 1998 onwards. However, there was a delay in the implementation of the project due to delay in the receipt of the sanctioned investment subsidy. There was also an overrun on the cost of civil works, miscellaneous fixed assets, preliminary and pre-operative expenses, and margin money for working capital. The cost of the project increased by over 40 per cent! The financial institutions sanctioned an additional term loan to enable promoters to complete the project and start commercial production. However, the total delay of one year warranted increased requirement of working capital. The enterprise could not mobilize necessary funds.

Non-utilisation of created capacity: Storage of fruits, mainly apple, was contemplated, as during season the demand for storage of apples (mainly from Kashmir) is high. But the operations of the unit were mainly confined to storage on rental basis and no captive storage was carried out as originally envisaged due to problems on the cash front.

Withholding of IS: The investment subsidy for the cold storage was not received on time. This affected the financial reserves of the enterprise even before implementing the project.

Inadequate working capital: The enterprise also suffered due to poor availability of working capital. This was also the case with its already established forward integrated sister concern, processing fruits and vegetables, that too could not function at full capacity. Direct purchase and storage of fruits as a hedge against seasonal price fluctuations was not possible on account of paucity of funds. The enterprise merely collected storage charges on material stored by other enterprises in the region. Even this option could help utilize only a fraction of the installed capacity.

Analysis of the past performance and the causes of ill-health of the cold storage reveals that the demand for cold storage facilities have the potential to increase since the region has good potential for storing apples, onions, potatoes, etc. The promoter is running this unit even without utilizing full capacity. Under-utilisation is due to inadequate term loan and working capital.

2.0 Why does an Enterprise Encounter a Starting Crisis?

A starting crisis may be experienced by enterprises due to the selection of a project with which a promoter is not at all familiar, assumptions on capacity utilisation and market demand being overoptimistic, and inadequate technical assessment of the project, which leads to 'line-misbalancing' or installed equipment being of varying capacity, affecting the total potential capacity, among other things.

2.1 How to Avoid a Starting Crisis

It is possible to avoid the crisis by means of interacting with the maximum number of actors before conceiving and implementing a project.

If necessary, encourage other partners or investors to subscribe to the equity base of an enterprise.

Estimate the fixed and working capital investment realistically and make adequate provisions for escalation and contingencies.

Optimism is often about projected sales turnover of the unit. Why should a customer or consumer purchase a product made by a new project in preference to existing products offered by competitors and how long would it take to establish the product in the market? These questions are not really explored or answered by many potential entrepreneurs.

To avoid this mistake, one may let the business idea and project plan thaw for a few weeks and make projections of a range of estimates in respect of implementation schedule, costs, profit, production level, etc. Optimistic and pessimistic estimates may be considered at the upper end and lower end of the segment.

It is ideal to have a project scrutinized by bankers and consultants before embarking on a venture.

For various reasons one may not plan to approach a financial institution for funds, but an advantage of accessing investors like development banks or commercial banks is that they study a proposal thoroughly and objectively. Moreover, these development institutions do not panic when the venture faces a minor crisis. Informal sources and private sources back out on the basis of even small adverse trends against a business. A promoter should not avoid seeking institutional finance, if necessary. It is the professional way of doing business. Estimates of investment in plant and equipment, working capital, pre-operating expenses, etc. are sometimes made with less care than necessary. Adequate levels of hedging cost for contingencies should be made. Equipment should be scrutinized for the necessary specifications and performance. Does the machine need specially trained technicians and skilled labour? If yes, can one get technicians and skilled labour of the required category at an affordable cost?

Are the specifications of the equipment compatible with those of other equipment processes and raw material to be used in the business? How effective is the after-sales service? What is its cost? Identifying activities in the manufacturing process that may be outsourced is also critical.

3.0 Cash Crisis in an Enterprise

3.1 Causal Factors

A cash crisis may occur due to excessive attention to profits and sales growth rather than to cash-on-hand, overinvestment in raw material stock, and rising levels of debtors. One may extend credit to customers and if the recovery is delayed it causes cash shortage. Other reasons include an excessive investment in fixed assets by tying up funds. When an entrepreneur, on securing loan for land, building, plant and machinery, spends too much money on such assets, he is later starved of cash. It may also occur when an entrepreneur goes in for expansion without considering whether adequate cash reserves/resources exist.

An enterprise Dayanand Marines in seafood processing in Kochi had ventured into too much of speculation in the area of raw material. The enterprise experienced heavy cash loss with a fall in price. The value of stock fell by over 30 per cent. So, the enterprise had a problem of working capital. The partners rushed to their investors for more funds. But, investors did not offer surplus funds. They were worried whether they would get back the money they had already advanced. Then they tried other bankers. As they had enough orders on hand, they were confident that they would be given finance. The bankers, however, had their doubts. The problem had been underestimation of working capital, required in a food processing unit, where raw material costs are most significant and often most volatile.

A small-scale unit manufacturing pickles from vegetables located in Ahmedabad experienced working capital shortage. A considerable amount of money was invested in stocking raw material. The unit manufactured thirty varieties of products. For this it required different varieties of packing materials. As some raw materials were in short supply, seasonally, the proprietor maintained a large stock. But, he also kept a large stock of packing material though it was not necessary. His forte being marketing, he concentrated on that and the business failed. It is necessary to keep such issues in mind when launching a business.

3.2 How to Avoid a Cash Crisis

To avoid a cash crisis, it is necessary to understand the relation between profits and cash on hand. It is necessary to maintain a cash-cum-cost sheet as an efficient systems tool to monitor raw material stocks, semi-finished goods, inventory of finished goods, and outstanding recoveries. One may also prepare a cash budget for six months which can be reviewed and revised every three months. The estimated figures of income should be checked with figures of actual income. A complete cash-cum-cost statement of every operating cycle may be used as a basis to purchase raw material at a discount, and be more vigilant about giving credit. Instead of purchasing land, building and machinery, one can rent or lease the same or outsource some of the production to save on avoidable expenditure. As in the case

of starting crisis, a cash crisis can also be caused by underestimating the capital required for the project as well as faulty cash management. It would be easier to understand cash, if we divide it into two categories – ‘long-term capital’ and ‘short-term capital’. The money which one invests in fixed assets like land, building, plant and machinery, etc. is called the ‘long-term capital’. The cash that is invested in raw material, work in progress, finished goods, working expenses, and debtors is called the ‘short-term capital’. Unless the short-term capital is well managed, one will end up in a cash shortage.

ACTION PLAN AND FEEDBACK

- How do you propose to go about it?
- Support you expect from agencies like _____ (name of the training organisation) to accomplish the above task.
- Do you foresee any problems/constraints in launching your unit? Kindly elaborate.

2.0 Feedback Proforma

- How far has this programme fulfilled your expectations?
(Please tick mark (✓) the relevant percentage)
0 - 10 - 20 - 30 - 40 - 50 - 60 - 70 - 80 - 90 - 100

In your opinion, what was the best part of the programme?
- In your opinion, which were the inputs not found up to your expectation?

- Would you like to suggest any additional inputs for the programme?
- How far has this programme helped enhancing your understanding about planning, launching and managing an enterprise.
(Please tick mark (✓) the relevant percentage)

0 - 10 - 20 - 30 - 40 - 50 - 60 - 70 - 80 - 90 - 100
- What comments do you have on the programme management and programme co-ordination?
- Any other comments?

CHAPTER 37

VALEDICTORY

Objective

Organizing the valedictory function.

Duration: 1 hour and 15 minutes

Advance Preparation and Material Required

Necessary preparation must be completed in advance as per the guidelines provided in a separate chapter dealing with the valedictory function.

Duly completed and signed programme completion certificates must be kept ready for distribution among the participants.

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The trainer may organize the valedictory function as per the guidelines provided separately in chapter 4 in section 1. The trainer should present the analysis of the feedback collected from the trainees, on the programme. He/she must assure the group of improving upon the shortcomings indicated, if any, by the participants.

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