



## Module on Enterprise Promotion

Uttaranchal Parvatiya Aajeevika Sanvedhan Company



2010  
1st January

# SESSION PLAN

SESSION PLAN - Livelihoods Enhancement through Enterprise Promotion							
#	9:30 – 11:00 Hrs		11:15 - 12:45 Hrs	12:45 – 13:30 Hrs		14:30 - 16:00 Hrs	16:15 – 17:45 Hrs
Day 1	Session 1	Tea Break	Session 2	Session 3	Lunch Break	Session 4	Session 5
	Baseline; Introduction; Goal setting		Understanding current enterprise promotion process	Ideas of Enterprises		Field Interactions with Enterprises - Checklist of simple questions	Review of Field Interactions
Day 2	Session 6		Session 7	Session 8		Session 9	Session 10
	Introduction to Business Planning		Business Planning Lakshmi Tea Shop	Business Planning Lakshmi Tea Shop		Business Planning Lakshmi Tea Shop	Business Planning Lakshmi Tea shop
Day 3	Session 11		Session 12	Session 13		Session 14	Session 15
	Preparation of Business Plan - Over view		Strategic planning	Financial Planning		Financial Planning	Financial Planning
Day 4	Session 16		Session 17	Session 18		Session 19	Session 20
	Review and Marketing Plan		HR and CB Plan	Activity Planning for the Enterprise Development		Activity Planning for the Enterprise Development	Government Schemes for Enterprises and Bank Proposals
Day 5	Session 21		Session 22	Session 23		Session 24	Session 25
	Business Facilitation skills		Presentation of model business plans by the participants	Presentation of model business plans by the participants		Review of the sessions	End-Line, feedback and winding

# SESSION 1

## PROCESS AND ENTERPRISE INTERVENTION DEVELOPMENT

### **Learning Objective:**

To help the participants familiarize with the enterprise intervention process and understand the sequence of steps involved in planning and implementation.

### **Duration:**

One session of 1 hour 30 minutes

### **Methods:**

Interactive Presentations and Small Group Exercises

### **Facilitation Tips:**

The facilitator should be able to present the case studies of few enterprise intervention processes they have observed and learnt about. The preparation of case studies will help them in better understanding of the entire session.

Finally to consolidate the learnings', the facilitator may make a presentation of the process and ask the participants to go through the reading material.

### **Exercise:**

Group exercise on developing the enterprise intervention process for any chosen livelihoods.

### **Expected Minimum Learning:**

The participants should be able to appreciate the various steps in the intervention process and also understand certain key steps, which will have determining role in the success of the project.

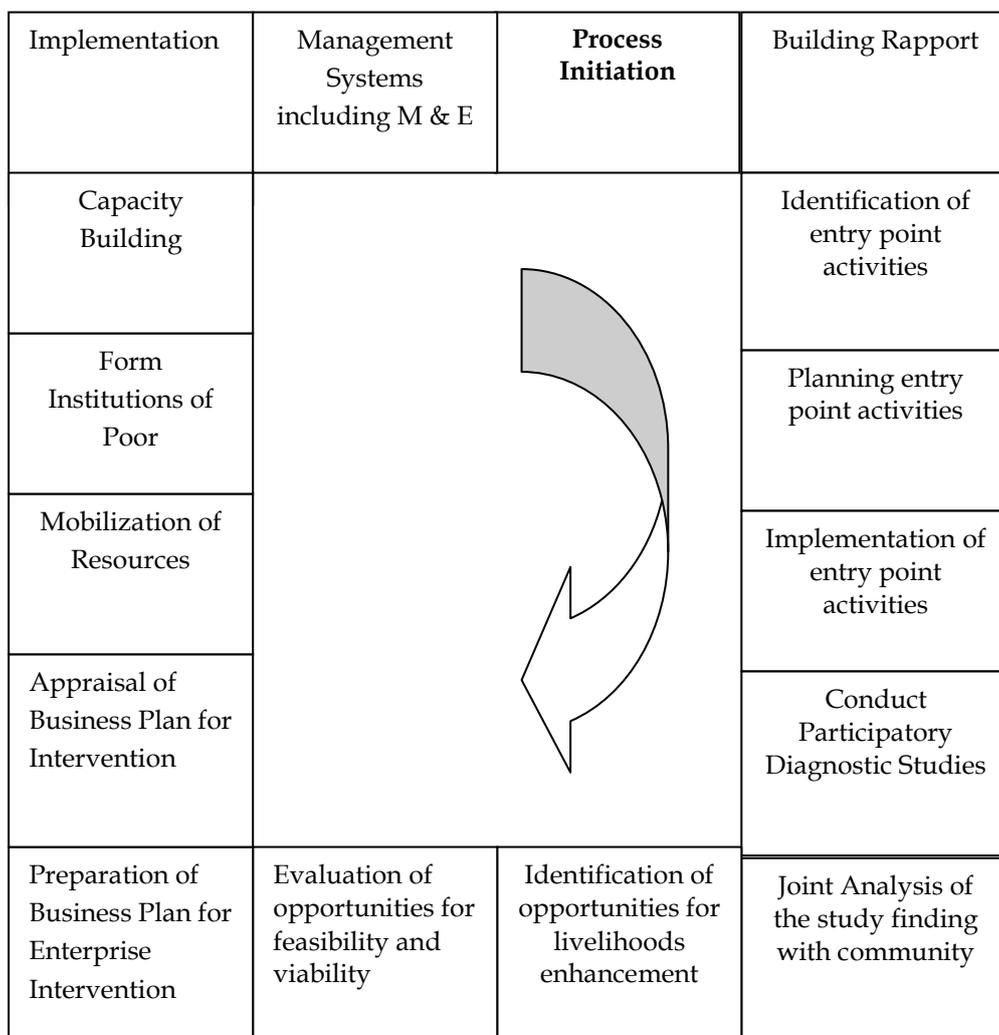
### **Reading Material**

Chapter-1: Processes and Enterprise Intervention Development

# CHAPTER -1

## PROCESSES AND ENTERPRISE INTERVENTION DEVELOPMENT

The livelihood intervention process is contextual and may follow different routes based on the need, readiness of the community and the capacity of the intervening organization. Though the steps mentioned below are in detail, the process followed may be more elaborate or shorter. But they will broadly follow the steps of – 1) Knowing the community and its needs, 2) Discussions and Analysis with the community on the potential activities/livelihoods to be explored, 3) Analysis of the options, 4) Piloting the opportunities and 5) Scaling-up. The livelihoods intervention process can be depicted through the following cycle:



1. **Process Initiation and Building Rapport:** The process of promoting enterprise starts with understanding the geographic context, socio-cultural issues, poverty levels and the broad understanding of the need of the community. Building connections with the community through interacting with key stakeholders and other institutions working in the area will give firsthand information and act as a caution from reinventing the wheel. The objective should be to cover the entire village/potential project area and interact with various groups. As this is the first step, any mistake in interacting with the community may induce long-term biasness and thus impede the intervention. Another note of caution is to avoid looking at issues with pre-conceived notions.
2. **Identification, planning and implementing entry point activities:** The entry point activities should be such that it is non-controversial and has a scope to easily involve people. Even non-monetary activities like mobilizing the community to work on their common property resources, helping spread awareness about new government initiatives or informally help in improving the existing interventions will help in building trust and lay foundation for future activities.
3. **Conduct Participatory Diagnostic Study:** This is a crucial step in understanding the dynamics in the village, socio-political and economic conditions and the overall areas of improvement. Through the enterprise analysis tools, mapping the local conditions, existing enterprises, product and services that come in and go out, are undertaken. Understanding different portfolio in the area/household is also important. The study is termed participatory as it involves the community too. Instead of collecting information like a census officer, the emphasis should be placed on empowering local people to assume an active role in analysing problems and drawing-up plans and the organization acting as a “facilitator”. This enables them to assume responsibility in implementing the interventions.
4. **Joint analysis and identification of opportunities:** Once the diagnostic study is completed, it has to be presented to the community for analysis and exploring opportunities. Not all groups will come forward due to social, economic and cultural constraints. Involvement of all the villagers – men, women, rich and poor is crucial during discussions. If any of the groups are missed or absent during this phase, mainstreaming them in the intervention at a later stage becomes difficult.

5. **Evaluating the options:** In the first phase, few potential ideas that have fair chance of success and have demonstrative affect, have to be identified. The criteria for selecting the enterprise have been mentioned in the preceding chapters. Working on enhancing the existing enterprise and which are not resource-intensive and where market linkages can be easily established should be taken-up. Apart from this, financial, economic and environmental feasibility tests have to be undertaken. Stakeholder analysis is also a part of evaluation. Also understanding the organizational capacity to provide support in different interventions has to be assessed.

6. **Preparation of the business plan:** Based on the opportunities identified, business plan has to be prepared by the promoting organization for the opportunities identified. Community with the help of the promoting organization has to prepare individual business plan for the activity to be improved or for the new activity to be taken up by them. This plan includes details about– the opportunities, target group, implementation arrangements, systems, evaluation of the opportunities, impact assessment and time frame. The business plan is more specific and is related to one single activity containing information about – production, marketing, financial, enterprise model and processes.

7. **Appraisal of business plans:** Many organizations have worked on promoting enterprises without performing suitable appraisal of the business ideas that were generated. Hence, the target group was left with production and no foreseeable market existed, thus the production base became shaky. Thus suitable appraisal of the business plans in terms of the following factors have to be undertaken:

- Resource intensity – whether external funds at huge scale is required
- Market proximity
- Additional support required
- Infrastructure investment
- Number of people involved
- Profitability
- Impact on the environment
- Equity issues
- Risks

**Pointers**

- How will the proposed opportunity meet the needs of the household?
- How well does it match the resources and skills available to the household?
- How will it fit into the daily and seasonal rhythms of the household?
- Will it increase the household's income and assets?
- Will it reduce or enhance the risks faced by the household?
- What assurances can be put in place to mitigate risks?
- Will the activity require organizing poor households in groups?
- How capable is the household in participating in such organization?

(Ref: Rebuilding Sustainable Livelihoods, Workshop by Action Aid International)

Then rate the potential livelihood option on the scale of 1 to 5 using the following dimensions. 5 – Highly Favourable, 4 – Favourable, 3 – Medium, 2 – Unfavourable, 1- Very Unfavourable

Activity	Suitability for poor in the area	Employment generation ability of the activity	Favourable Demand Conditions	Favourable Factor Conditions	Competence of the organization	Total

(Ref: Rebuilding Sustainable Livelihoods, Workshop by Action Aid International)

8. **Mobilization and Development of resources:** The resources should be mix of community contribution and external contribution. Interventions that involve local resources and where the community contribution is more, have a greater chance of becoming self-reliant. The financial resources should be a mix of grant and loans. The non-financial resources like human resources, contribution in kind by the community and partnership have to be carefully mobilized without community becoming dependent on the promoting organization.

9. **Institutions of the poor:** Suitable institutional form holds the intervention together. Promoting social form of organization for economic activities can make the

whole project unviable. Promoting a society for marketing weavers' will lead to divergence in the larger objective of the institution and the members. Many of the organizations have failed to understand this fact and keep promoting SHGs and societies for economic activities. Cooperatives, sole proprietorship, partnership, companies are some of the suitable forms for economic interventions.

10. **Capacity Building:** Capacitating the community and the staff in technical aspects about the activity, marketing and institutional management along with changing the attitude will give them varied skills to run the institution and the business.
11. **Implementation:** Community needs support in implementing one complete business cycle. During the course of implementation many new issues, challenges and losses may crop up. The process of implementation and flexibility to adjust to dynamic situations are important.
12. **Monitoring and feedback:** Periodic monitoring of the steps has to be undertaken to incorporate the changes required. Milestones have to be defined to measure the periodic progress and deviations. Monitoring also serves as source of feedback. Monitoring and evaluation systems have to be developed at the business level and at the promoting organization level.

The social, cultural and gender aspects have to be taken care while devising and implementing the intervention. All the stakeholders have to be involved and informed during the whole process. Many of the interventions fail, not in the print but in the implementation because either the wrong people were involved or important stakeholders were ignored. Hence, there should be caution in

- Identifying the stakeholders
- Involving the stakeholders
- Keeping the processes away from the local politics and power play
- Women, disabled, poorest households are many time ignored, which may become a critical failing of the project
- Benefit distribution – equity

- Impact
- Systems

### **The “Livelihoods Approach”**

- It builds on people's strengths rather than their needs
- It brings all relevant aspects of people's lives and livelihoods into development planning, implementation and evaluation
- It unites different sectors behind a common theme
- It takes into account how development decisions affect distinct groups of people – men, women, rich, poor, vulnerable
- It emphasizes the importance of understanding the links between policy decisions and household level activities
- It draws in relevant partners whether state, civil, private, local, national and international

***(Ref: Rebuilding Sustainable Livelihoods, Workshop by Action Aid International)***

### **POINTS TO PONDER**

- What are the factors that facilitate withdrawal from the intervention?
- What are the challenging issues in the process adopted by your organization?
- What are different monitoring and evaluation tools available currently?
- What is log-frame?

## Session 2

### Assessment of Chosen Activity

#### **Why this Session?**

First generation entrepreneurs, while taking up an entrepreneurial venture face the following big questions:

- i. Whether the activity chosen is feasible?
- ii. From where do I get the business ideas?
- iii. How do I go about it?
- iv. Will I be successful?

Any enterprise has to start from an idea. This basis for the business is called the **Business Idea** (BI). Starting an Enterprise based on a business idea is often an irreversible process. The entrepreneur becomes wedded to the enterprise committing most of the resources and his/her quality time.

The entrepreneur is at cross roads at this phase of business idea selection. Selection of business idea can make or mar the entrepreneurial career. Proper selection leads the entrepreneur to the path of success and enhances his esteem and respect in the eyes of people who more often will be watching the entrepreneur. In addition, it saves valuable money, time and effort.

Persons undergoing this training under ALC India should choose an activity and submit their business plan for that particular project. However, it is necessary for them to understand the scientific method so that they can evaluate their choice and if necessary change the project. This will enable them to take up the activity with confidence.

#### **Session Objectives:**

At the end of the session, the participants will be able;

1. To explain how to generate business ideas.
2. To apply the selection criteria to evaluate the selected business ideas.
3. To describe the steps involved in assessing the business opportunity.

**Duration**

One sessions of 1 hour and 30 minutes

**Method of Delivery**

Brainstorming, Group discussion

**Tips to the Trainer**

The trainer need not be a source of business idea. He has to only trigger the process and help the participants to verify correctness of their chosen activity.

**Process****Step 1**

Begin the session by asking the participants how they have chosen the proposed entrepreneurial activity and why that particular activity. Note the responses on the flip chart/board.

**Step 2**

Ask them whether they are confident of pursuing the chosen activity profitably and have firm conviction in the activity and note the responses. Inform them that there is a scientific method to choose the activity. Explain the need for generating business ideas and tools and techniques for the same.

**Step 3**

Divide the participants into convenient groups consisting of 4 to 8 members, give some samples. Allow discussion for about 10 minutes to generate maximum number of business ideas and ask the participants to enlist the ideas generated.

**Step 4**

Ask the group to present the business ideas generated.

**Step 5**

Classify and sort out the opportunities into various sectors e.g. Agriculture, Industries, Services and Business.

**Step 6**

Ask the participants what they understand by business opportunity. Note the responses and explain what a business opportunity is.

**Step 7**

Subject the short listed ideas to macro screening and micro screening and explain about the process for selection of a business opportunity.

**Step 8**

Ask the participants to verify the feasibility of their chosen activity - Allow them to engage in the exercise for half an hour.

**Step 9**

Ask the individual participants about their final opinion of the chosen activity after evaluation of the business idea.

**Step 10**

Close the session by summing up the learning.

# READING MATERIAL

## ASSESSMENT OF CHOSEN ACTIVITY

### 1. THE BUSINESS IDEA

A good business idea is essential for starting a successful venture and for staying competitive afterwards. Good business ideas, however, do not usually just appear. Rather, they result from hard work, effort and often creativity on the part of the entrepreneur.

Business idea essentially arises from some kind of opportunity in the market, i.e., the need or want for any product or service that the entrepreneur can identify. A business idea is the response of a person(s) or organization to solving an identified problem or to meeting perceived needs in the environment (markets, community, etc.)

The Business idea

- ✚ Will enable the entrepreneur to utilize his skills
- ✚ Will enable the use of locally available raw materials to make a product
- ✚ Will enable the use of any special techniques the entrepreneur knows, or some
- ✚ specific machines he has come across
- ✚ Will help the entrepreneur to make a product which has a demand, but not freely available in the market.
- ✚ Will enable the entrepreneur to solve a current problem existing in the market.

#### **Who should generate the business ideas?**

Let the entrepreneurs own their own business idea. Let them generate their own ideas. They can do it. Ownership of the idea gives them lot of drive, enthusiasm, passion, energy and motivation to translate the idea into profit.

#### **Generating Ideas for expansion / diversification**

Among the potential entrepreneurs, some may already have thought of some

product or service which they could provide, while others may not have. One of the first things that the facilitator needs to do is to find out if the potential entrepreneur has thought of the business idea. If not, the facilitator has to assist him in coming up with different ideas and finally deciding on one of them. The first action, therefore, is to generate ideas for products or business. Initially the entrepreneur may find it difficult, without any context, to come up with ideas. However, there are a number of ways by which one can come up with many business ideas. The entrepreneur should use as many sources as possible for scanning business ideas from the environment.

## **2. SOURCES AND TOOLS FOR GENERATING BUSINESS IDEAS**

- a) **Creativity** - Using creative talents of an individual
- b) **Research techniques** - Simple observation of the surroundings and enlisting of opportunities.
- c) **Brainstorming** - Individually or in a group of friends / family members to generate large number of ideas.

## **3. SAMPLE WAYS OF GENERATING IDEA**

- a) Natural resources - Forest, Agriculture, Marine, Minerals, Animals, Sun, Wind etc.
- b) Existing / anticipated industry - Similar activities, ancillary activity
- c) Demand / Market driven opportunity - IT sector
- d) Service sector opportunity - Service sector activities
- e) Creative efforts - There are a number of ways to generate business ideas.

They are listed here with some examples.

1. **Solving people's problems:** Someone's problem can be an opportunity. Listening to a housewife wishing for a supply of filtered water direct from the faucet can give a business idea for a new kind of water filter.
2. **Combining two or more functions:** Different products with different functions can be combined for consumers. People need wrist watches to know the time. They also need calendars to see the date. This gave rise to the idea of

producing wristwatches with calendars.

3. **Concretising new ideas for doing things:** People purchase pizzas from shops but some prefer that the product be brought fresh to their doorsteps. This gives the idea of selling pizza through mobile vans or pizzas can be ordered by telephone and deliveries are made to customers within minutes.
4. **Improving the product/service:** Milk which is usually supplied in bottles can be packed in sachet or tetra packs.
5. **Extending somebody else's successful idea to other settings:** The successful introduction of new product/service ideas in one country can be repeated to catch growing markets in other places (e.g., introduction of electric mosquito repellent).
6. **Adding new value to an old product:** Ball point pens with printed names of customers may be used as publicity material.
7. **Doing market research:** Determining demand-supply gap through market research gives new ideas for products and services.
8. **Commercialising hobbies:** A hobby such as collecting flowers may give rise to a business idea of dried flowers as art objects. Cooking can lead to a catering/bakery business, decorating in an interior design service.
9. **Building on skills:** Skills very often give ideas of skill-based enterprises. If you have typing skills, why not start a typing school?
10. **Turning waste materials into something useful:** Availability of waste paper can give rise to an enterprise making paper-made toys.
11. **Bringing ideas home from holidays/visits:** Difficulties faced in arranging accommodations during holidays may give rise to an idea of starting a travel agency and providing those facilities in a package.

12. **Brainstorming:** A group of persons sit together and generate as many business ideas as possible. One idea leads to another idea that appear to be crazy may prove to be future boon.
13. **Checking published lists:** Several publications list down business opportunities. Scanning such lists can give some business ideas.
14. **Talking and listening to people:** By being a keen listener, one can find out what people need or what new suggestions they have to offer for setting up new ventures.
15. **Day dreaming and fantasizing:** They may be funny but can be very useful for generating business ideas. Varieties of video games started from them.
16. **Recognizing additional function for things:** An attractive glass bottle which functions as wine container can be sold afterwards as a decorative piece.
17. **Thinking of other product uses with changes in size and shape:** Take the case of a square plastic paperweight. Reduction in size gives an idea for a dice; whereas an increase in size may lead to the idea of plastic stool for one's drawing room.
18. **Commercialising inventions:** Inventions in the laboratories may be commercialised.
19. **Examining the yellow page directory:** The yellow pages describe products and services, which can be repeated or substituted in other locations. Listed products can also be combined under one venture.
20. **Changing fashion into lifestyle:** Changes in fashion require new products and services - short hairstyles of ladies lead in the need for more ladies hair salons.
21. **Note clustering of business:** Certain areas are famous for industry/business clusters. More business ideas can be used due to the availability of skills and customers in that area.

22. **Offering multiple uses in one product:** Certain uses are conveniently combined in new products, e.g., nail cutter with bottle opener in a key ring.
23. **New packaging:** Some products can generate several ideas by suitable modifying packaging as demanded by the occasion. For example, roasted peanuts can be packed in polythene packs for a party, paper cones for the sports ground and aluminium foil for aero planes.
24. **Capitalizing on local specialties:** Certain local sights, costumes and products have unique features which tourists like to take home as souvenirs. These things can often be reproduced or processed. Examples would be a model of India's Taj Mahal or tea from Sri Lanka.
25. **Emerging needs for services:** Consumers, producers and the general public seek quick information of all types--commercial, industrial, entertainment and transport. This provides opportunity to start an "Ask me" services business using modern telecommunications.

By using any one or many of the enumerated ways, you can generate plenty of ideas for your enterprise. List them all against the various needs of customers you are aiming for.

### **Summary**

- a) A business idea is a prerequisite for a successful business venture. Good business ideas, however, do not usually just appear. Rather, they result from effort and often creativity on the part of the entrepreneur.
- b) Finding a good idea is the first step in transforming the entrepreneur's desire and creativity into a business opportunity.
- c) There are several sources of good ideas. To be successful in generating or finding on, however, the entrepreneur needs to keep his/her mind and eyes open and be alert to opportunities.
- d) An idea, however good, is only a tool at the end of the day. It needs to be developed and transformed into a viable business opportunity.

#### 4. ANALYSING AND ASSESSING BUSINESS OPPORTUNITIES

- a) The recognition of a business opportunity coupled with the ability to respond effectively is the basis for starting and maintaining successful venture. This involves not only generating idea or identifying opportunities but also screening and evaluating them to determine the most viable, attractive propositions to be selected.
- b) A business opportunity may be defined simply as an attractive investment idea or proposition that provides the possibility of a return for the person taking the risk. Such opportunities are presented by customer requirements and lead to the provision of a product or service which creates or adds value for its buyer or end-user.
- c) A good idea is not necessarily a good business opportunity. Consider, for example, that over 80 per cent of all new products fail. It is important, therefore, that all ideas and opportunities are well screened and assessed.
- d) Identifying and assessing business opportunities are not an easy task. Yet it is necessary to minimize the risk of failure. It involves, in essence, determining risks and rewards/returns.

##### Characteristics of a good business opportunity

To be good, a business opportunity must fulfil, or be capable of meeting, the following criteria:

- a) **Real demand:** i.e., respond to unsatisfied needs or requirements of customers who have the ability to purchase and who are willing to exercise that choice.
- b) **Return on investment:** i.e., provide durable, timely and acceptable returns or rewards for the risk and effort required.
- c) **Competitive:** i.e., be equal to or better - from the viewpoint of the customer - than other available products or services.
- d) **Meet objectives:** i.e., meet the goals and aspirations of the person or organization taking the risk.
- e) **Available resources and skills:** i.e., be within the reach of the entrepreneur in terms of resource, competency, legal requirements etc.

Ideas and opportunities need to be screened and assessed for viability once they have been identified or generated. This is not an easy task and yet at the same time it is so important. It can make the difference between success and failure, between making a fortune and losing everything you had. Whilst the exercise does not guarantee success - but then nothing in this world does, except Divine intervention - it certainly helps in minimizing the risk and thus the odds for failure. Identifying and assessing business opportunities involves, in essence, determining risks and rewards/returns reflecting the following factors:

- a) **Industry and market:** Is there a market for the idea? Are there any customers people with money who are able and willing to buy the product or service? Can you provide what they need or want? How many are they?
- b) **Length of the 'window of opportunity':** Can you create or seize the opportunity whilst it lasts.
- c) **Personal goals and competencies of the entrepreneur:** Do you really want to venture into the business? Do you have what it takes? Are you motivated enough?
- d) **Management team:** Who else will be involved with you in the business? Do they have the experience, know-how, contacts or other desirable attributes required?
- e) **Competition:** Who are the competitors? Do you have something desirable by customers that they do not have? Can you produce or market at lower costs, for example?
- f) **Capital, technology and other resource requirements:** How much capital, or for that matter technology or other resources, are required? Do you have them or could you get them?
- g) **Environment:** Are the political, economic, geographical, legal, regulatory contexts conducive? Will the business do any damage to the physical environment?

### **Step 1 - Classification and Sorting:**

There are many ways of classifying a list of business ideas. The simplest way is to classify ideas in terms of personal familiarity (e.g., very, moderate, or absolutely not familiar) with the business. Another way is to classify ideas by sectors, namely:

-  Trade
-  Service Industry
-  Agriculture and Allied activities

The **trade sector** emphasizes the importance of buying products for resale and hence requires buying and selling ability on the part of entrepreneur. They must also be able to calculate gross margins.

The **service sector** is often dominated in small business. Builders, contractors, repair operations service station owners, and the like all provide important services to the community. Service industries are generally labour-intensive. Therefore the critical factor to consider is the ability to use the time efficiently and effectively.

The **industry** may also be labour-intensive but it is more likely to be capital-intensive. Some manufacturing activities can rely heavily on skilled labourers, whereas other factories rely heavily on efficient machineries. The critical factors are likely to be the capital that you can invest in the plant and equipment, plus your own and your staff's technical know-how.

### **Step 2 - Macro Screening:**

At this stage, the entrepreneur will examine the classified listing to come up with a shortlist of about twenty most workable ideas. This is where the things they have learnt about themselves will be useful. Essentially, the criteria they will use for judging each idea re-answers to the question what would they like to do and which business ideas will they be competent to do?

**Personal Preference:** One can start with personal preferences for short-listing their

ideas. Based on their vision, qualities and resources, some ideas will have natural attraction for them. Some enjoy mechanical activities, others are for artistic ones. Some enjoy travelling, other just want to sit in one place. Note which of the ideas appeal the most, moderately, and least of all. Let the entrepreneur consider most appealing business ideas, which they will be able to live with day after day. Drop those opportunities which fall under 'least preferred' out of the list.

**Capacity to invest:** Next to preference, let them apply their investment capacity for further short-listing the remaining opportunities. Investment capacity includes both their own capital or equity and the amount of money they can borrow from lenders. Drop opportunities whose capital requirement is absolutely beyond their investment capacity (own and/or borrowed capital).

**Familiarity or exposure to needed technology:** The entrepreneurs may have had some exposure, experience or training with the technology needed for some of the ideas. If so, let them use this as a factor for choosing the business idea.

### **Step 3 - Micro Screening:**

Having matched the ideas with their preference, capacity and capability, the entrepreneurs need to weigh each opportunity with respect to availability of certain inputs to make it viable. These inputs include:

- ✚ Availability of raw materials
- ✚ Availability of buyers or customers (the market)
- ✚ Availability of needed technology
- ✚ Availability of skills
- ✚ Availability of government support

It is also helpful to examine business ideas in view of policy guidelines issued by governments. Since governments want small ventures to succeed rather than fail, the guidelines they issue often have great bearing on the feasibility of business ideas. Let the entrepreneur rate each of the idea in their macro screen short listing using this

five-point scale:

- 5- Excellent
- 4 - Satisfactory
- 3 - Average
- 2 - Unsatisfactory
- 1 - Very poor

In the end, they should have obtained total scores ranging from 5 to 25 for each of the business ideas. Note any factor, which might be critical for success in that business. See Chart 1 to get an idea of how your rating sheet might look like.

### VI. Verifying the Choice

Encourage the entrepreneurs to go out into the market and try to get a few more facts about the business ideas. Let them try to identify the critical factors that might affect success or failure of a business in that line. Classify these factors into those that they can control, and those, which are beyond their ability to control (such as government regulations, weather, and so on).

They should be able to identify the following:

- What are the Strengths (S) and Weaknesses (W) of this business idea? These will point out factors that are within their means of controlling, such as their own competencies, capitalization, or location.
- What are the opportunities (O) and Threats (T) in this business idea? These will point out factors that are not within their power to control.

Chart 1						
MICROSCREEN RESULTS						
Shortlist of Ideas	Availability of Raw Material (1-5)	Availability of Market (1-5)	Availability of Technology (1-5)	Availability of Skills (1-5)	Government Policy (1-5)	Critical Success Factor
1						
2						
3						
4						

Rating Scale: 5 - Excellent, 4 - Satisfactory, 3 - Average, 2 - Poor, 1 - Very Poor

## Session 3

# IMPORTANCE OF MARKET SURVEY

### **Why this Session?**

Once a prospective entrepreneur identifies a business opportunity and chooses an activity, the next step is to assess the viability of the particular activity. He has to decide not only the activity but also the location and scale of activity which he has to undertake which generates him good business and ultimately profit. Markets are increasingly dynamic and competitive. Experience in promoting first generation entrepreneurs suggest that most of them are facing problem in setting up and running the enterprise mainly because of reasons of lack of knowledge about the market and consumer needs, low quality product or competition in the market. If the entrepreneur conducts the market survey to confirm the demand for the product or service, it is possible to minimize the risk and increase the probability of success. This activity involves -

1. Class room session on why and how to conduct market survey?
2. Actual conduct of market survey by field visit
3. Analysis and processing of the data collected from the market survey
4. Evaluation of the viability of the project

### **Session Objectives:**

At the end of the session, the participants will be able to

1. Explain the need for market survey.
2. Develop the method to collect and use the information generated
3. Develop an effective survey plan for the selected activity

### **Duration**

Two session of 1 hour 30 Minutes

### **Method of Delivery**

Lecture and Group discussion

## **Process**

### **Step 1**

Start the discussion with an introduction to the market survey. Explain the objectives of the market survey and define market survey. Ask the questions like what happens to the entrepreneurs when they start their business without conducting market survey. Put the answers on the flipchart/board. Ask the participants "what do you need to do to overcome these problems?" Note down the responses on the board.

### **Step 2**

Explain the participants how they can develop a systematic procedure for conducting a market survey. Discuss 5 point processes for conducting a market survey for the participants to understand.

### **Step 3**

Ask the participants where they will go to collect the required information and note their responses. Explain the sources of data (Primary and secondary).

### **Step 4**

Question the participants as to what they would like to survey in relation to the market and demand for their own product or service

### **Step 5**

Divide the participants into groups of four or five. Distribute the handout of market survey questionnaire and give each group the following tasks:

- i. Decide what information they should collect in respect to a chosen activity.
- ii. Revise the hand out "questionnaire for market survey" based on their specific need and redesign the questions.
- iii. Identify the likely sources of information (either primary or secondary) in specific terms for every question in the questionnaire.

Emphasize that the market survey should result in a report with some key marketing recommendations. Groups should amend the questionnaire to obtain the required information.

### **Step 6**

Ask the participants how they had worked together in groups:

- i. Did you prepare revised list of questions? Were there any additions or deletions if so why?
- ii. Do you think the list of questions should be considered before starting an enterprise? Why?
- iii. Can the information - which you intend to collect be transferred into or market survey report with specific marketing recommendation?

# ANNEXURE 1

## Questionnaire for Market survey (Handout)

### A. Consumers/ Customers

- ✚ What is your age/ sex/ profession/ place of living (Urban/Rural) etc.?
- ✚ What is your annual consumption and requirement?
- ✚ Where is your present source of supply?
- ✚ What is your loyalty to brand (Make) and preferences?
- ✚ Are you satisfied or dissatisfied with the present product & supply?
- ✚ What are your purchasing criteria? What purchasing power you have?
- ✚ What is the consumption pattern?
- ✚ What are the changes expected in future consumption pattern?
- ✚ What is the size of an average order? Specifications? Time frequency?

### B. Suppliers (Traders)

- ✚ Range of products you are supplying?
- ✚ What are the general business terms, commissions etc.?
- ✚ In case of a new customer, what are the business terms?
- ✚ What are the normal levels of stocks maintained? Are there any specific problems in stocking goods?
- ✚ What are the future predictions on business conditions?

### C. Manufacturers and Competitors

- ✚ What are your range of products, installed capacity and selling price?
- ✚ What is your normal terms of business, like payment terms, price etc.?
- ✚ What are the salient features of your enterprise such as technical skills, finance, other resources etc.?
- ✚ What are your strengths and weaknesses?
- ✚ Where do you market and what types of customers buy your products?

### D. Information on Raw Materials

- ✚ Who are the major manufacturers/ suppliers of raw materials?
- ✚ How much time is required to get raw material after placing the order?

- ✚ What are the terms of supply? (Tax structure, price, packing, payment terms etc.)
- ✚ What will be the cost of transportation?
- ✚ What is the standard or minimum order quantity?
- ✚ Is raw material freely available? Is there any quota system?
- ✚ Will any government decision or policy affect the availability or price of the material?

#### **E. Information on Machinery and Equipment**

- ✚ Who are the manufacturers or suppliers?
- ✚ What are their capacity, specifications and brands available in the market?
- ✚ What is the price of a standard Machine?
  
- ✚ What is the electrical equipment like motors, starters, switches etc. required?
- ✚ What are the guarantees or warranties of performance given by manufacturers?
- ✚ Is the supplier or manufacturer reputed and reliable?
- ✚ What is the normal repair or maintenance cost per year?
- ✚ What are the spares or parts frequently required?
- ✚ What are the quality standards and maximum output (Production) a particular machine gives?
- ✚ Does the supplier train the staff to acquire skills necessary to operate the machinery?

# READING MATERIAL

## MARKET SURVEY

Market survey or research may be defined as an objective and systematic collection, recording, analysis and interpretation of existing or potential markets, marketing strategies, tactics and interaction between markets, marketing methods and currently available products or services. Market survey is a scientific tool available to assess the viability of the project by collecting information from the following sources:

- The users - i.e. the customers
- The whole supplier of such products or the raw material provider.
- The competitor, who is already in the similar activity.

By collecting information in a structured format and analysing the data the entrepreneur will be able to assess the viability of the activity. Hence this activity of market survey.

The following six basic questions can give information about buyers or potential buyers:

- ✚ What do they buy? (Which product or service)
- ✚ Why do they buy? (The reason for buying)
- ✚ Who does the buying? (Young, old, men or women etc.)
- ✚ How do they buy? (In bulk or units, cash or credit) How much do they buy? (Quantity, frequency etc.)
- ✚ Where do they buy? (Shop/ agents/ mail order/ direct etc.)

The objective of the survey should be to enable the entrepreneur to answer questions like:

- ✚ What is the size of market? And anticipated size of market for my product
- ✚ What is the pattern of demand?

- ✚ What is the market structure?
- ✚ What are the buying habits and motives of customers? What will be my strong points in marketing my product?
- ✚ What are the future trends?

While conducting a market survey, it may not always be necessary to contact people directly. Information may exist in the form of reports, published materials or documents.

Therefore, data may be collected from two sources:

- i. Primary data sources
- ii. Secondary data sources

Primary data will be collected directly from the manufacturers, suppliers or customers and secondary data will be collected from reports and other published books which already exists.

Designing a suitable questionnaire for market survey is essential to collect the required data and questions may be designed based on:

Existence of competitors, their products and market strategies

- ✚ Information on all types of customers
- ✚ Information on competing products and producers
- ✚ Attitude of existing and potential customers

### **Process of conducting a market survey**

There is a 5 point systematic process involved in carrying out market survey.

1. Defining the objectives and the specific information to be obtained:

- Identifying sources for obtaining information.
- Assessing the time and cost involved in the study.
- Working out the methodology and action plan

2. Selecting a sample size by determining whom to contact and when.

3. Preparing questionnaires for the survey interviews.
4. Collecting data and analysing the information obtained.
5. Preparing a report based on data analysed.

### **Precautions for Effectiveness of Market Survey**

- ✚ Do not be prejudiced
- ✚ Do not be impatient or argumentative
- ✚ Do not reveal privileged information collected to others
- ✚ Try not to write notes while discussing. Make notes immediately after the interview
- ✚ Make adequate preparations before the interview in sequencing the questions to be asked.
- ✚ Approach competitors as potential customer and not as competitors
- ✚ Thank the people whom you have approached for the interview

# Session4

## BUSINESS PLAN ASSESSMENT

### **Why this Session?**

For an entrepreneur, after evaluating and finalizing the entrepreneurial activity he/she has to prepare a systematic plan for implementation of the project. A business plan is often demanded by the supporting organizations while extending financial assistance. Generally the first generation entrepreneurs are carried away by the appearance of a business activity and think that investment of money is sufficient to earn profit. However, systematic planning with concrete information and knowledge about the proposed enterprise is very much essential. A well prepared business plan and a thorough knowledge about the project to the entrepreneur impresses the bankers and enhances their confidence in the entrepreneur.

### **Session Objectives**

At the end of the session, the participants will be able;

1. To ascertain initial viability of a business proposal.
2. To conduct feasibility study for setting up an enterprise.
3. To enlist the technical, financial, marketing and commercial aspects of business.
4. To make corrections/ additions/ modification to the business plan for the proposed activity.

### **Duration**

Five sessions of 1 hour 30 minutes for class room inputs, hands-on-experience and evaluation by the trainer.

### **Method of Delivery**

Lecture, group discussion, visual display

# Process

## **Step 1**

Ask the participants what a business plan is and whether they have prepared their business plan while applying for loan under PMRY scheme. Note down their responses. Most of them must have purchased a readymade project report and applied.

## **Step 2**

Choose a person in the group whom you feel has a concrete business knowledge and go on eliciting detailed information about the project, keeping in mind the columns in the project report format. Go on recording the details on the board/flip chart in the order of business plan report. After completion, inform that this is nothing but a project report or business plan. Show the recordings on flip chart/board.

## **Step 3**

Explain what a business plan is, why it is require and relate it to the requirements of the entrepreneur.

## **Step 4**

Distribute the business plan pro-forma (Annexure) to remove the fear of complicated financial calculations.

## **Step 5**

Point out that market survey report is an integral part of this business plan and the information collected during the market survey need to be analysed and utilized for business plan preparation.

## **Step 6**

Go through the Performa point by point and explain what information is required to be filled up.

**Step 7**

Highlight advantages of business plan preparation and clarify the doubts raised by them.

**Step 8**

Ask the participants to prepare a business plan for their proposed activity in the format given to them. Help them by clarifying their doubts.

**Step 9**

Scrutinize all the business plan reports and point out the mistakes if any and guide them for correction.

# ANNEXURE I

## BUSINESS PLAN ASSESSMENT

### I. General Information

- 1 Enterprise activity? (Income-Generation/Economic Activity)
- 2 Name of the Entrepreneur
- 3 Sex
- 4 Date of Birth
- 5 Education
- 6 Training
- 7 Experience
- 8 Address of residence
9. Any other information about the person

### II. Project Information

1. Type of Organization

- Sole Proprietorship
- Partnership
- Co-operative
- Company – Private & Public

2. Existing/proposed location and address

3. Available/required land, building and other infrastructure facility (Road, water, electricity, transportation, storage, work space etc.)

4. Product/Service details

No.	Item to be Made/Sold/Service provided and process	Qty./Month	Sales/Month
1			
2			

3			
---	--	--	--

5. Machinery and equipment required

No.	Machinery/ Equipment	Price + Taxes + Freight	No.'s Required	Total Value
1				
2				
3				

6. Raw materials required and their cost (Working Capital)?

No.	Item	Annual requirement	
		Quantity Monthly/Annually	Total Value Monthly/Annually
1			
2			
3			

7. Who are or who will be the customers?

8. Why will they buy the firm's products/services?

9. Who are the competitors?

10. How will you promote, distribute and sell your products/services?

11. What is the pricing?

12. Estimated quantities and periodicity of sales. (daily/monthly)

13. What are the costs (monthly) towards Working Capital?

a. Raw material

b. Product/manufacturing cost

c. Administrative cost

d. Selling cost -----

Total -----

14. What is the forecast of total monthly sales?
15. What are the daily estimates for cash inflows and out flows of the business?
16. Whether loan is needed? If yes,
- For how much?
  - From whom?
  - How and when will it be repaid?
  - What security can you offer?

17. Financial statement
- Cost of project
  - Capital cost of project
  - Working capital requirement
  - Any other (specify) -----
- (A) Total -----

- | 18. Sources of funds | Fixed Assets | Working Capital |
|----------------------|--------------|-----------------|
| - Loan               |              |                 |
| - Grant/subsidy      |              |                 |
| - Own investment     |              |                 |
| - Any other-----     |              |                 |
| <b>Total -----</b>   |              |                 |

19. Profitability

S. No	Profitability	Monthly	Annually
1	Sales (monthly & yearly)		
2	Your total costs (take from point 13 - monthly & yearly)		
3	Interest on loan		
4	Other expenses		
5	Gross profit [A - (B + C + D)]		

20. A) What is the break-even point (units)?

B) What is the break-even point (sales value)?

21. What is your planned return on investment?

22. What is the planned payback period of the project?

## READING MATERIAL

### **BUSINESS PLAN ASSESSMENT**

A business plan is a concrete plan of action developed to implement the basic business idea of an entrepreneur. It contains specification of the product proposed to be manufactured / service to be rendered / trade to be carried out, method adopted, the marketing plan as well as strategy for selling along with details of physical facilities, management, organization and the finance required for converting a business idea into a technically and commercially viable project.

### **Why Business Plan?**

A business plan enables an entrepreneur to know about the kind of resources required, amount of investment needed for the enterprise, the technology and process involved. This is also required to assess the available resources and mobilize from other sources and plan the activities. It also helps to know whether the project is profitable enough to venture into.

### **Advantages**

1. Business plan is a comprehensive report providing all the information related to the business activity.
2. Serves as a guideline for the operation of the business.
3. Helps to plan the strategy.
4. Instils confidence and develops ability in the entrepreneur.
5. Establishes link of confidence between entrepreneur and financial institution.

6. Helps as a medium to bridge communication gap.

7. Helps as a guide for periodic monitoring.

Contents of A Business Plan		
S. No.	Particulars	Detailed Information
1	General Background Information	Name, address, age/date of birth, education, technical knowledge and experience, training Capability of the entrepreneur
2	Details of proposed enterprise	
i	<i>Product details and production program</i>	Location of enterprise, Nature of the product/service, Process of production and technology, scale of production
ii	<i>Machinery and equipment required</i>	Manufacturer/suppliers, technical, advisors, price, installation capacity, ancillary equipment, erection and installation process
iii	<i>Raw material</i>	Requirement, quantity, value, source, seasonality and storage
iv	<i>Infrastructure and utilities required</i>	Land and building, power, water, oil, fuel - Requirement and supply position, value and storage facility
3	Market	Place of demand and market, Transportation facility, Customer base, competitors and, marketing strategy, Demand for the product, expected, sales turnover, Promotion strategy
4	Cost of project and means of finance	Investment requirement for setting of the enterprise
i	<i>Fixed Capital</i>	Fixed assets which are basic facilities/required such as land, building, machineries, equipment, furniture etc.
ii	<i>Working Capital</i>	Quantity and value of stock of raw materials/ semi-finished goods, finished goods, production, administrative and marketing costs such as fuel, salary, transportation, rent, interest etc. required for one cycle of production
iii	<i>Sources of fund</i>	Own, family, friends, relatives, financial institutions, percentage share of own funds, requirement and funds from financial institutions (Specific Banks)

5	Profitability	Estimation of the profitability based on the sales/service of projections planned for repayment schedule for loan
---	---------------	---

### Highlights

- The cost estimate must be as realistic as possible for all the expenses namely manufacturing, selling and administration.
- The estimated returns also to be on realistic basis.
- The overall profitability of the project should be calculated on the basis of the expected cost and revenues.
- Projected profits has to be calculated taking into account
  - Interest on loans
  - Depreciation on assets
  - Rate of return on investments in plant and machinery etc.

# CASE STUDY

## Lakshmi's teashop

*A case study by Ms. Shashi Rajagopalan*

Meet Lakshmi. She came to Rajapuram village when she got married. Her husband Ramesh owns 2 acres of land. Lakshmi helps Ramesh on the farm. She also goes to work on other people's farms. She has three children. It is not easy to earn a living, especially in a year of low rainfall. A new nursing home has been set up in Rajapuram. People from the surrounding villages like the treatment there. The nursing home is quite busy. Lakshmi feels that she could set up a small teashop next to the nursing home. The patients, and the families of the patients, would be happy for such a service. Ramesh, too, thinks this is a good idea. They both discuss it. If you were Lakshmi, would be your major concerns before you set up such a business?

Use the blank space provided below to note down your concerns if you were to set up a teashop in your village.

Let us now turn to what Lakshmi thought about before she decided to set up her teashop.

### **Size of business**

Lakshmi and Ramesh first speak to Rajamma, the helper at the nursing home. They ask her roughly how many patients come each day to the nursing home, and how many persons accompany them. They then ask Rajamma how many patients, on average, stayed overnight in the nursing home. They also want to know how many people come from the same village and how many come from neighbouring villages. Both Lakshmi and Ramesh feel that many people will be glad to have a teashop near the nursing home. However, they know that not everyone can afford tea. They also feel that not every visitor to the nursing home will want a cup of tea. Lakshmi agrees that people from neighbouring villages were more likely to want tea. She feels that the accompanying family members of patients admitted to the nursing home would

want tea. Ramesh and Lakshmi both feel that, on average, 75 cups of tea could be sold each day.

### **Shop timings**

Lakshmi feels that it would be a waste of her time to sit the whole day at the teashop. She has so many other jobs to do at home and in the farm. She finds out that the doctor comes every day at 11 am in the morning, and at 5pm in the evening. Patients come in large numbers around these hours Lakshmi, therefore, feels that she would like to keep the teashop open from 10am till 1pm, and from 4 pm till 6 pm, every day. However, Wednesdays are market days in the village. Ramesh feels that on market days in the village. Ramesh feels that on market days, the shop should be open from 10am right through till 6 pm. Lakshmi, too agrees that this would be a sensible thing to do.

### **Location of the teashop**

Lakshmi speaks to the Sarpanch and other elders about her desire to set up the teashop. They advise her to set up a small hut near the nursing home. Narasaiah owns a small vacant plot near the nursing home. Lakshmi and Ramesh meet Narasaiah. He is willing to let Lakshmi sets up a small temporary hut there. He asks Lakshmi to pay him Rs 1000 every month as rent. Lakshmi and Ramesh are very excited about the plot. They are, however, worried about the rent. They say they will think about it, and come home.

### **Cost of setting up teashop**

Lakshmi wants to build a small hut on Narasaiah's plot, to set up her teashop. She needs to buy one or two benches, so that people have place to sit if they want to. Lakshmi needs to buy a stove, a kettle, a pan for boiling milk, some glasses to serve tea in, a pot for keeping drinking water, and containers for keeping tea leaves and sugar. She may also need a table for the stove and the containers. Lakshmi knows that she has to spend on these items even before she can make and sell her first cup of tea. Of these items, most are such that they do not have a resale value. Yet, without these things, she cannot make or hope to sell tea near the nursing home.

Lakshmi and Ramesh work out the costs of setting up the teashop, and their list is given below. Look at it, and see whether you would like to make any changes in the items or the costs.

Remember, these are only the costs of setting up, not of running, the teashop. We will come to the running costs later

S. No.	ITEM	Rs
1	Thatch, nails, bamboo, matting, rope for hut	1500
2	Stove	200
3	Kettle, frying pan, milk pan, drinking water Pot, containers, spoons, etc.	300
4	Glasses	100
5	Table	200
6	Benches	200
TOTAL INITIAL INVESTMENT		2500

### Cost of running the teashop

Lakshmi knows that apart from the Rs 100 each month for the plot, and this amount of Rs 2500, she also needs money to run the shop each day. She feels that some of the expenses will have to be met on a daily basis. Some will be met on weekly or monthly basis.

Lakshmi and Ramesh do not own any cows. They will need to buy milk every day. Once a month, perhaps, they will need to buy kerosene for the stove, tea, sugar, some biscuits, and other items, from Peddapalli village, 5 kms away. There will be costs on the bus fares, too, because some items can be bought only in Peddapalli. Ramesh feels that they should make a list of all such costs.

The list they prepare of costs for running the shop for one month is given below. Have they forgotten anything? Are their estimates reasonable? See if you would like to suggest any improvements.

Ramesh and Lakshmi feel that the teashop is worth opening only if they can sell more than 1500 cups of tea each month. They also realise that for every cup they sell over and above 1500 cups, the net gain will significantly increase.

What will Lakshmi's net gain be from selling 1500 cups of tea each month? Use the space provided below to do your calculations. Then check your answer with those of your friends.

It does seem very important doesn't it, for Lakshmi to be able to make a good guess of how many cups of tea she can sell each day? Most small and big businesses are like this. Below a certain amount of sale, they run into losses. At a particular quantity of sale, they break even- that is, they cover all their costs. Above that level, they earn profits. These profits can rise quite significantly for small increases in sales, as in Lakshmi's case.

### **What if**

Lakshmi now begins to feel that she should think more carefully about all that could go wrong with her tea business, before she makes up her mind.

Read each of the questions given below, which seem to be bothering her. Think of what you would do if u were in Lakshmi's position. Discuss with your friends and you will be surprised at the number of ways to deal with each of these.

- ✚ What if her children want to have some biscuits every time they come to the shop?
- ✚ What if the summer months of April and May, the milk spoils on some days?
- ✚ What if, in the months of July and August, the rains keep people indoors?
- ✚ What if the rains are so heavy, that she has to repair the roof of the hut?
- ✚ What if the cost of tea leaves goes up? What if the cost of kerosene goes up?
- ✚ What if her stove needs repair?
- ✚ Where should she leave the benches, the utensils, the stove each night?

✚ What if on some day, there is an unexpected number of visitors to her teashop?

These were some of the questions that Lakshmi thought of. Are there any more questions that you would like to add? Any more that you would like to discuss with your friends?

Well, Lakshmi and Ramesh feel that they can manage all these problems. They decide that it is worth their while setting up the teashop.

### **Where will the money come from?**

Lakshmi now needs Rs 2500 for the initial investment on the hut, the utensils, the stove, and the furniture. She needs Rs1200 for the first month's working expenses- for tea leaves, sugar, rent, and so on. Of the committed costs of Rs 1100, she needs at least Rs 100 to pay as advance rent for the plot.

Lakshmi is confident that her thrift cooperative will help her. She has been a good member for 6 years now. Her own savings in the cooperative are regular, as are her loan repayments. She now has Rs 1100 saved as thrift in her cooperative.

Her cooperative lets her borrow 3 times of her savings. That is, she can borrow up to Rs3300. She needs Rs 3800 in all. She wonders how to manage with Rs 500 less than she has. Would you like to look at the two lists she first made, to see whether she can manage with Rs 500 less?

Use the space provided below to make your notes on how you feel Lakshmi can manage with Rs 400 less than she needs to set the shop, and run it for one month. Later, we will see what Lakshmi's ideas were.

Lakshmi's solution for the managing the shortfall of Rs 500 follows.

	<b>Particulars</b>	<b>Rs</b>
1	Lakshmi will not buy any biscuits the first month. This way, her initial expenses will reduce by	90
2	She requests the milkman to take only a weekly advance, instead of a monthly advance, for the first month. She, therefore, needs to give him only Rs 90 to start with. This way, her initial expenses which would have been Rs 360 for the milk advance, will reduce by	270
3	She does not expect any repairs at the start. Therefore, at the time of starting, her initial financial need will further reduce by	40
4	She will need to pay local tax, either at the end of the month, or once a year. This again reduces her requirement by	20
5	Her thrift cooperative will expect interest on her total loan only at the end of the first month. This further reduces her requirement by	70
6	TOTAL REDUCTION IN REQUIREMENT	490

Of the Rs 500 shortfall, Lakshmi feels she can easily make up for Rs 490. Finding the remaining Rs 10 should not be such a problem for her, should it?

### **A dream comes true**

Lakshmi tells Ramesh that she would very much like to set up the teashop, Ramesh knows that he will miss her on the farm. She was a very good farmer. All the same, Ramesh also knows that the teashop will give the family income throughout the year.

After all, on the farm, you sow your crop and then wait for months for the income. He suggests that at the very next meeting of the thrift cooperative, Lakshmi should take the loan needed to set up the shop. Lakshmi applies for a loan. All her friends tease her and say that she is now going to become a businesswoman. Lakshmi laughs with them. She is very happy. She is a little afraid, but she feels she is doing the right thing. The thrift cooperative considers her loan application. Her request for a Rs 3300 loan is approved. After fulfilling all the conditions, Lakshmi takes the loan amount, and goes home. Ramesh and Lakshmi work hard, and within 10 days of getting the loan, the teashop is ready. They invite the Sarpanch, the doctor and other friends for the puja. Lakshmi is all smiles. So are Ramesh and the children. Their dream of a more regular and steady income now seems to be in sight.

### **Cash flows**

Lakshmi now comes in every day to her teashop. She makes good tea. The people who drop in like the tea. Soon the doctor starts asking her to send tea over when visitors come to see him. The local farmers cooperative, too, asks her to send tea for their visitors. Each day, she gets Rs 105 more from sales. There are school fees to be paid for the children. There is fertiliser to be bought for the farm, and clothes to be bought for the family. The family is very happy. They think they can buy whatever they need when they need it. Lakshmi, however, does not feel the same. She knows that she has to be careful. She can only spend from the net income for her family. She has to make sure that she does not ever spend from money needed for the shop. In fact if her business does well, she may have to expand it. She might start making idlis in the morning for those going work on farms early in the morning. This will mean that she will need to spend more money on the shop. Also, she knows that she and Ramesh have no savings for their old age.

### **Cash Management**

Lakshmi makes a rough calculation of how much she can afford to spend on the family from her daily sales. From sales she gets at the least Rs105. The 70 cups of tea cost her roughly Rs 35 to make. Those 35 rupees will be needed again to buy more tealeaves, kerosene, and so on. The committed cost per month was Rs 1100. This committed cost, however, included Rs 900 which she would have earned as a farm labourer. Lakshmi reduces this amount and notes that she has to set aside Rs 200 per month towards committed costs. This means that she has set aside Rs7 per day

towards these costs. Her thrift cooperative expects her to pay monthly instalments of Rs 150 along with interest. That is, each day she will need to set aside Rs 5 towards this. She also saves Rs30 each month as thrift with her cooperative For this she has to keep Re1 aside each day. She then decides that every day she will save Rs 5 additionally for old age, and another Rs 5 for expanding her business at a later date.

Let us see what she now has left for the family.

Particulars	Rs
Set aside to buy tea, sugar, milk, kerosene, etc. =	35
Set aside for committed costs =	7
Set aside for loan instalment =	5
Set aside for thrift =	1
Set aside for old age savings =	5
Set aside for business expansion =	5
Total to be set aside each day =	58
Receive from sales each day =	105
Therefore, amount which can be sent on family each day =	47

With this calculation, Lakshmi puts into a little piggy bank Rs 68 every day for all these other needs. The rest, she puts in the little cash box at home from which the family spends.

On most days this amount is much more than Rs 47. She is able to sell as much as 100 cups of tea on several days.

From the amount that she puts into the cash box, the farm labourer who has taken her place is paid Rs 30 for the day. This means that the family still has to at least Rs 17 additionally, each day, for their expenses.

### **Bad business**

Ramesh and the children tease her saying that she is stingy, She laughs and says that when we are all older, all of you will be glad that I was so strict with the money.

Ramesh says he was only teasing her. He tells the children of Yadaiah who had set up a small bangle shop in the village. He had taken a loan from the moneylender, to start his business. He was very happy to see so much money coming in each day from the sales. Yadaiah's wife and daughters tried out new bangles all the time. Some broke. Some looked old when Yadaiah later tried to sell them .the lost money on all these. He and his family spent on clothes, on the house, on relatives, on festivals. Soon he ran out of money. He could not buy first set of bangles were sold out. These business was of course wound up. The moneylender was annoyed. He took away the small piece of land they owned, since Yadaiah could not repay the loan.

### **What about you**

# SESSION 5

## STRATEGIC PLANNING

### Understanding Mission and Vision Statements

#### **Learning Objective:**

The main objectives of the session is

1. To understand mission, its dimensions and it's overall purpose in the organisation
2. To understand vision, its dimensions and it's overall purpose in the organisation.
3. To understand the inter linkages between organisation's mission and vision and individual's mission and vision

#### **Duration:**

One session of 1 hour 30 minutes

#### **Methods:**

Group Discussions, Exercises.

#### **Minimum Learning:**

Participants should be able to understand mission and vision, their dimensions and overall purpose in the organization

#### **Reading Material**

Chapter-1: Mission and Vision

# Chapter 5

## Mission and Vision

### **Mission:**

A mission statement is an organization's vision translated into written form. It makes concrete the leader's view of the **direction** and **purpose** of the organization. For many corporate leaders it is a vital element in any attempt to motivate employees and to give them a sense of priorities.

A mission statement should be a **short** and **concise** statement of goals and priorities. In turn, goals are specific objectives that relate to specific time periods and are stated in terms of facts. The primary goal of any business is to increase stakeholder value. While, the most important stakeholders in a business are shareholders who own the business, employees who work for the business and clients or customers who purchase products and/or services from the business, in **organisations working with the poor, the most important stakeholders are the poor and primary goal is to improve their lives.**

### **Three main benefits are attributed to mission statements:**

- **They help companies to focus their strategy by defining some boundaries within which to operate:** Federal Express, for example, has said it is “dedicated to maximizing financial returns by providing totally reliable, competitively superior, global air-ground transportation of high priority goods and documents that require rapid, time-certain delivery”.
- **They define the dimensions along which an organization's performance is to be measured and judged:** The most common candidate (not surprisingly) is profit. DuPont, for example, said that it considered itself successful “only if we return to our shareholders a long-term financial reward comparable to the better performing large industrial companies”. Corporations often acknowledge their responsibility to other stakeholders as well, mentioning their attitude to employees (“to treat them with respect, promote teamwork, and encourage personal freedom and growth”—Dow Chemical)

- **They suggest standards for individual ethical behaviour:** The adherence to mission by individuals in an organization ensures that there is standardized ethical behaviour by all. They help individuals to understand the permissible limits of behaviour.

The challenge is to write a mission statement in few short, pithy paragraphs that will be memorable to all those who have an interest in the company. It is too easy for a mission statement to become a bland idealistic blur, as in this (anonymous but real) example: "The mission of X is to maximize the company value by providing total quality services, empowering customer-oriented employees and growing through expansion, acquisition and new technology." Such jargon is not likely to fire imaginations struggling to establish an entirely new market.

Many companies buttress their mission statements with a catchy slogan, something that acts as a quick and easy guide to what the company is really about. The best of these can be taken at several different levels and suit many purposes—for example, Harley-Davidson's "It's not the destination, it's the journey"; Nike's "Just do it"; and IKEA's "To create a better everyday life for the people we aim to serve".

#### **Mission Statement should include these components:**

- Customer/Marketing
- Product or Service
- Geographic Domain
- Technology
- Concern For Survival
- Company Philosophy
- Self (Business) Concept
- Public Image

#### **Examples of Mission statements**

- **The Canadian Co-operative Association** – "To provide leadership to promote, develop and unite co-operatives and credit unions for the benefit of people in Canada and around the world."

- **Technoserve** – “To help entrepreneur men and women of poor areas of developing world to build businesses that create income, opportunity and economic growth for their families, their communities and their countries.”
- **Mulukanoor Dairy, Andhra Pradesh** – “Our mission is to improve overall quality of life of dairy producers and consumers by running a sustainable self-sufficient and managed women cooperative union setting an example for the collective action and rural women capacity.”
- **ITC Echoupal-** “To enhance the wealth generating capability of the enterprise in a globalizing environment, delivering superior and sustainable stakeholder value.”
- **Aditya Birla Group-** “To deliver superior value to our customers, shareholders, employees and society at large.”
- **Apple** – “To bring the best personal computing products and support to students, educators, designers, scientists, engineers, business persons and consumers in over 140 countries around the world.”

Some companies' statements have an almost missionary zeal. One of the most extraordinary was that once drawn up by *Marks and Spencer, a British retailer*. Its mission, it said, was:

“The subversion of the class structure of 19th century England by making available to the working and lower-middle classes, upper-class quality at prices the working and lower-middle classes could well afford.

## Writing a Mission Statement

Writing a mission statement is no easy task. While only a short paragraph is needed, the content and word choice make the statement extremely complex. The mission statement should be written in a clear, concise manner free of jargons. The statement should define where the company is now and where it plans to be in the future. Most companies are constantly evolving and should consider revising their mission statement to reflect their new achievements/goals every five to seven years.

Before beginning to write the statement, choose an area with little or no distractions for maximum concentration. Leave a time block of about two hours to complete the task. Keep handy any information on the business compiled to that point so that it is easily accessible when hitting a writing block. Do some research beforehand of the mission statements of other successful companies (easily found on most corporate websites) to define the tone and message they project.

There should be two or three other employees/members of management participating in this exercise as well. It is important to seek the opinions of others and their view of the company. If this is an individual business, seek the help of trusted individuals with knowledge of the business to assist in drafting a mission statement.

Begin by brainstorming and answering a few questions about the business to **determine what content is most important to include. Don't focus on the actual wording** as much as just writing the ideas.

1. Why is this business important to you? Discuss how the idea came about and what the drive to keep it going is.
2. What is the purpose of this business? Describe what needs the business will meet both externally and internally.
3. Who is the target market and why would they be interested in this product/service? Define the customer and their specific needs relating to the business.
4. What distinguishes this company from the competition? List the advantages of choosing this company over the others.
5. **What are the company's ideals? Describe what values will be projected** internally and externally.

After answering these questions thoroughly, there should be enough material to begin formulating several drafts. Concentrate more on content than word choice at this point (words can always be changed later). Start with your company name and **describe what it provides to whom (i.e. Kumar's Graphics provides innovative and effective graphic design services to non-profit organizations)**. Starting with this basic statement makes it simple to build on other important aspects such as the **company's values and what separates it from the competitors. Include information** on where the company is now and where it intends to be in the future. Try to eliminate any jargon or statements that cannot be proven (i.e. We provide the best graphic service in the world). Keep the statement as concise as possible while still communicating the important information. Some companies have a statement of one sentence, some a paragraph and some have separate statements for internal and external purposes. Choose what works best for the particular company.

Decide on one or two drafts that best reflect the company. Compare these drafts with the other statements drafted from other employees/individuals. Make changes as necessary and be sure to provide a draft back to the others for feedback before finalizing.

Once the mission statement is complete, make sure to share it internally and externally. Creating a better understanding of the business through the mission statement creates a successful (and profitable) atmosphere.

## **Vision**

A strategic vision is a view of an organization's future direction and business makeup. It is a guiding concept for what the organization is trying to do and to become. A vision statement is a powerful picture of what the organization's business can and should be a decade from now.

**While Mission focuses on the purpose of the organization, Vision is all about direction for the future**

**A well-worded strategic vision statement has real value:**

1. It crystallizes own views about firm long-term direction and future.
2. It guides managerial decision making.

3. It conveys an organizational purpose that arouses employee buy-in and commitment.
4. It provides a beacon, lower-level managers can use, to form departmental missions, set departmental objectives, and craft strategies.
5. It helps an organization prepare for the future.
6. It focuses energy for greater effectiveness
7. It raises the standard of excellence
8. It establishes meaning for today
9. It gives hope for the future
10. It brings unity to community
11. It provides a sense of continuity
12. It raises commitment level
13. It brings positive change

**The key Questions Vision tries to address are:**

- What will our business look like in 3 to 5 years from now?
- What new things do we intend to pursue?
- What future customer needs do we want to satisfy?

**Criteria for Evaluation of a Vision Statement:**

1. Future casting

- Does our vision statement provide a powerful picture of what our organisation will look like in 3 to 5 years from now?
- Is your vision statement a picture of your organisation's future?

2. Audacious

- Does our vision statement represents a dream that is beyond what we think is possible?
- Does it represent the mountaintop of where the organisation is headed?

3. Motivating

- Does our vision statement clarify the direction in which our organization needs to move?
- Does it clarify the future direction the organisation is headed?
- Does it clarify the customer focus our organisation should have?

- Does it clarify the market position our organisation should try to occupy?
- Does it clarify the business activities our organisation it to pursue?
- Does it clarify the capabilities our organisation plans to develop?

#### 4. Purpose-Driven

- Does our vision statement give employees a larger sense of purpose?
- Is our vision statement worded in such a way that our employees see themselves as “building a cathedral” rather than “laying stones.”

#### 5. Inspiring

- Is our vision statement worded in engaging language that inspires and engages people?
- Does it create a vivid image in people's heads that provokes emotion and excitement?
- Does it create enthusiasm and pose a challenge that inspires and engages people in the organisation?

#### 6. Capitalizes on Unique Competencies

- Does our vision statement build on our organisation's core competencies?
- Does it build on our organisation history, customer base, strengths, and unique capabilities, resources and assets?

### **Creating a Vision**

The four steps of visioning:

1. Visual awakening - draw an as-is picture and see where you need to change
2. Visual exploration - look at alternatives - customers, products, services, etc.
3. Visual Strategy Fair - draw a “to-be” based on field insights, get feedback from a wide audience, build the best “to-be”
4. Visual Communication - Show before and after, support those projects that close the gap to your new strategy.

#### **Some examples of Vision are:**

- “We will put a man on the moon before the end of the decade.” (President John F. Kennedy)

- Infosys's vision statement is 'We will be a globally respected corporation that provides best-of-breed end-to-end business solutions, leveraging technology, delivered by best-in-class people'
- Intel – “Getting to a billion connected computers worldwide, millions of servers, and trillions of dollars of e-commerce.”

The Vision Statement is worded in **engaging language that reaches out and grabs people.**

It creates a vivid image in people's heads that provokes emotion and excitement. It creates enthusiasm and poses a challenge that inspires and engages people in the organization.

Exercise:

Visualize walking into a room three years from now and shaking hands with yourself and give answer to the following questions:

- Who are you?
- What is your life like?
- What is your business like?

**Write down what you saw. Don't let yourself wake up in three years and say, 'I'm three years older, and I just happened to get here.' Clarify your vision so that you can grow into it.**

### **Communicating the Mission and Strategic Vision**

- A well-articulated strategic vision creates enthusiasm. Managers need to communicate the mission and vision in words that induce employee buy-in, build pride, and create a strong sense of organizational purpose.
- Find it everywhere. When the mission and vision statement are created, make them visible! Post it on the conference wall; place it on promotional materials, even on the packaging of products.

- Presented and repeated. They have to be presented over and over as a worthy organizational challenge, one capable of benefiting customers in a valuable and meaningful way.

### **Vision Casting**

Communication of a vision is the difficult process of inspiring others to see the future reality which you see and are committed to make happen. Vision will help people focus their energies so that real need can be met. When communicating a vision remember the following:

- Clearly articulate the vision of your organization.
- Be enthusiastic toward vision and the benefits.
- Repeatedly share the vision in various ways, in order to be effective.
- Carefully plan how you will get your constituency to become committed to the vision. The people who will help you implement your vision must embrace the vision.
- Beginning to pursue the vision draws people's attention and commitment to the vision. There is a snowball effect which begins to happen as people begin to catch on to the vision.

### **REFERENCES:**

1. <http://mystrategicplan.com/resources/your-strategic-planning-process-checklist/>

# SESSION 6

## FINANCIAL PLANNING

### Costing & Profit Planning/ Breakeven Analysis

#### Objectives

1. To make participants identify, account and control various costs
2. To assess sensitivity between costs and profit and make profit planning

#### Methodology

Interactive session and Group exercise

#### Time:

Three session of 1.5 hrs each.

#### Facilitation Tip

The session has to be dealt with examples and class exercises.

#### Introduction

One common drawback in most enterprises is that they are not cost consciousness. One most important aspect of any business is to identify all costs involved in the business and estimate them. Then only there will be proper estimate of business profitability.

This session address following key questions.

1. What are different kinds of costs in a business, how to identify and estimate them?
2. How costs have to be kept at minimum possible level
3. What is the minimum level of business required for an enterprise to cover all its costs and make profit

It is of common knowledge that any business involves some costs and these costs are one single most important determining factor for profit. In fact, costs are one side of the coin, the other side being returns of any business.

So, following functions with regard to costs are very crucial for any entrepreneur.

- Identifying various costs
- Ascertaining these costs
- Assessing the sensitivity between costs and profit and
- Controlling costs

To explore further into this subject, let's start by looking at different elements of costs.

### The Elements of Cost

Take an example of a cement bricks manufacturing enterprise and different costs involved in this enterprise are as follows.

Equipment	Machinery
Building	Cement
Wages	Clay
Salaries	Labour
Interest on loan	Transport
Moulds	Taxes

We can notice that all these costs comprises of mainly three elements of **Material**, **Labour** and **Other expenses**. These three elements again comprises of direct and indirect costs. All these are shown below.

Costs	Material	Labour	Others
Direct	Cement	Wages	Machinery Transport
Indirect	Clay	Salaries	Building Equipment Interest on loan Taxes

The indirect costs of material, labour and others are referred as **overheads**.

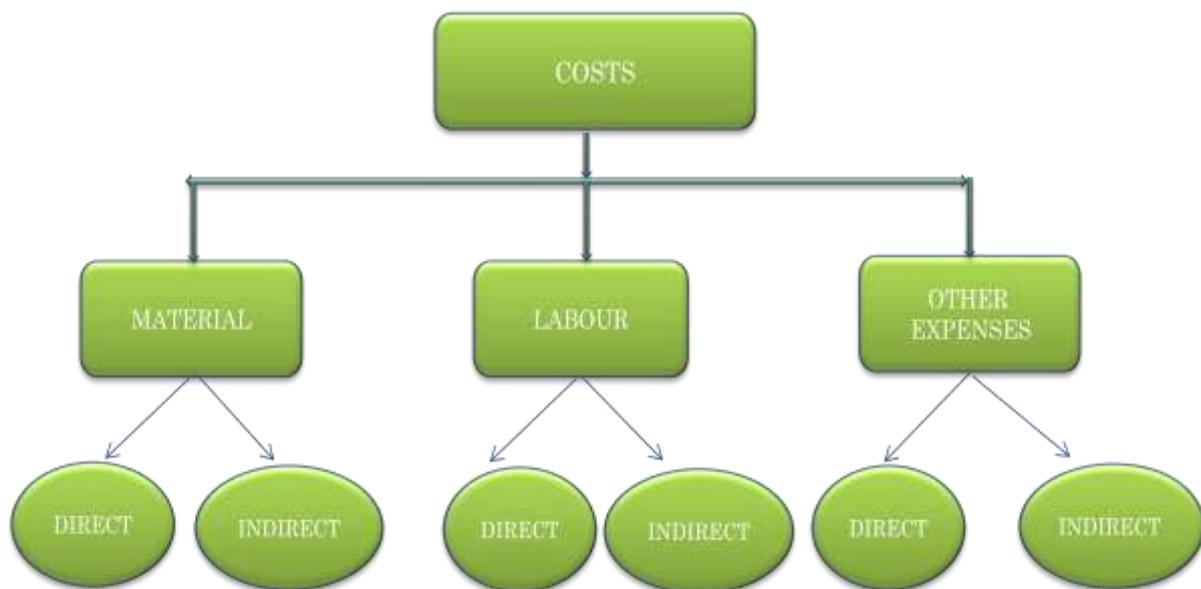


Figure: The elements of costs

### Classification of costs

So as to know different types of costs in a business, consider the following example of a woman selling tomatoes in a market.

#### Example: A woman selling tomatoes

Daily operations		
Daily Sales*	Rs.	Rs.
20 kg tomatoes @ Rs. 5.00 per kg		100
Daily Expenses		
Cost of tomatoes: 24 kg @Rs. 2.00 per kg.	48	
Transport**	12	
Market fee***	10	
Total expenses		70
Profit		30

\* Assume 4 kg wastage per day

\*\* Transport – Rs. 12 bus fare from her village to market

\*\*\* Market Fee – Rs. 10 per day (fixed)

In this example, even if she is making a profit of Rs. 30, can it really worth profit that she is expecting? If she is able to earn a wage of Rs. 30 a day by doing some agricultural labor back at her village, then the profit of Rs. 30 is not worth for her.

That too, selling tomatoes in a market outside her village incurs other indirect costs like

- ✚ market fee
- ✚ time
- ✚ being away from village
- ✚ risks (like damage of tomatoes, no demand on a particular day, rains etc.)
- ✚ foregone wages back in village
- ✚ dealing with market authorities
- ✚ the costs of food, tea etc. in market etc.

Let's assume these indirect costs amount to Rs.20. In that case, what can be expected profit for her by this activity? Let us assume Rs. 50 a day. So what she has to do to achieve a profit of at least Rs. 50 a day?

- ✚ Reducing costs?
- ✚ Reducing wastage?
- ✚ Selling more tomatoes?

So as to help her in answering these, let's go further with following steps.

To start with, let's look at different costs she is incurring for the activity and calculate the total cost incurred per kg of tomatoes sold (since profitability can be had from those tomatoes which are sold only).

Cost per kg of tomatoes =  $70/20 = \text{Rs.}3.50$

If the indirect cost of Rs. 20 is included, then cost of per kg tomatoes is as follows.

Cost per kg of tomatoes (including indirect cost of Rs.20)= $70+20/20 = \text{Rs.}4.50$

If she could sell only 10 kgs tomatoes, then what will be the cost per kg?

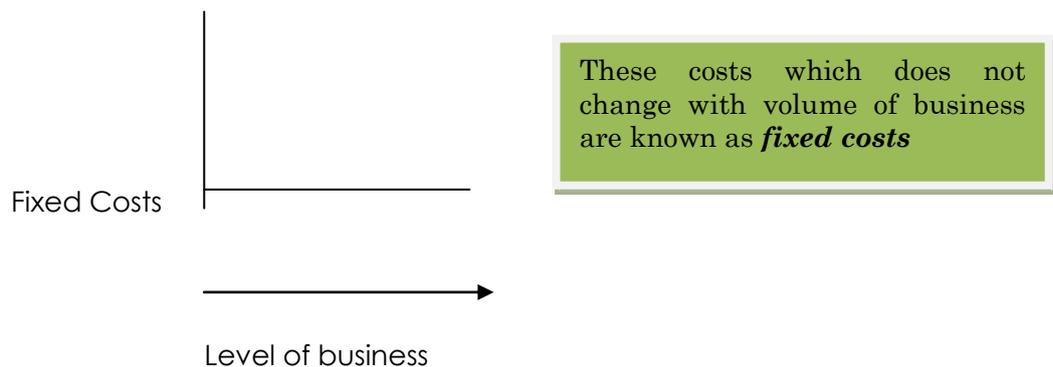
The total cost in this case is not Rs.90, but is Rs.66, the break-up of which is Rs.12 – transport, Rs.10 – market fee, Rs.20 – indirect costs, Rs.24 (Rs.2 per kg of tomatoes; assume 2 kgs wastage) – cost of tomatoes.

So, per kg cost =  $66/10 = \text{Rs.}6.60$

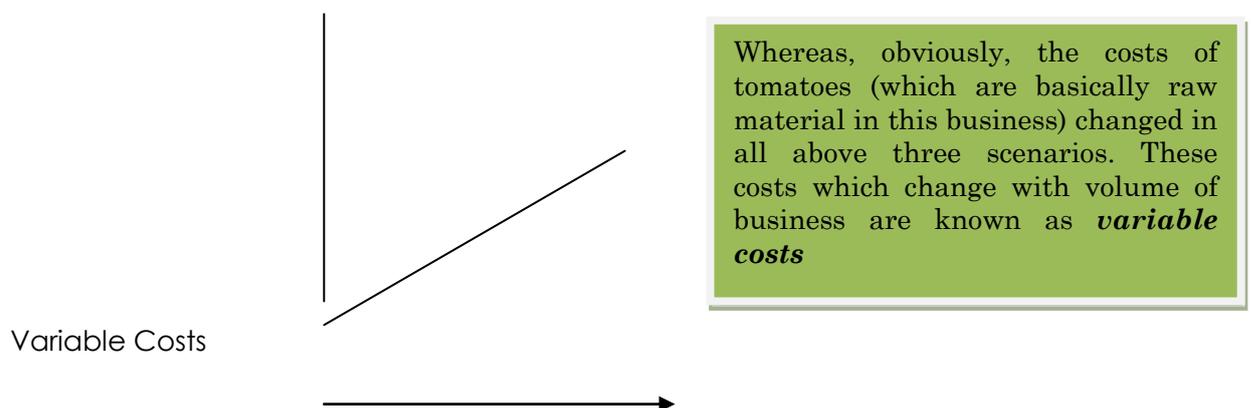
Suppose, she could sell 30 tomatoes (assume no wastage in this case), then what is the cost per kg? It is  $102/30 = \text{Rs.}3.40$ . The cost of tomatoes being Rs. 60.

So, now think what is mainly determining the cost of tomatoes per kg? *This is nothing but the cost of tomatoes itself.*

Of the above different costs, which costs are not changing in all three scenarios (20 kgs sale, 10 kgs sale, 30 kgs sale)? Obviously these are Transport, Market fee and Indirect costs. That means these costs are not changing with volume of business i.e. sales (at least in short term and in particular volume of business).



**Figure:** Fixed Costs



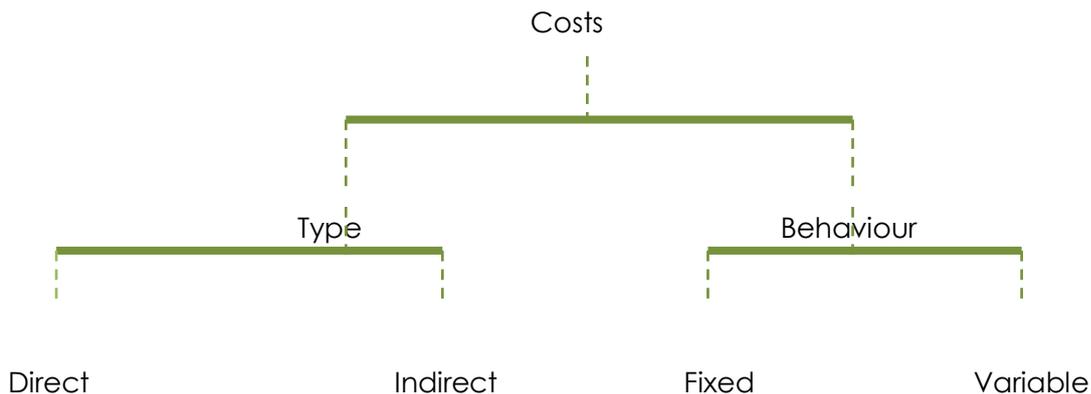
Level of business

**Figure:** Variable Costs

Direct costs are those that are related to an activity or object directly and traceable easily.

Indirect costs are those that are related to an activity or object indirectly and cannot be traced easily.

Discuss whether the costs of transport, market fee and indirect costs in above example do not change even after one year or for a business of beyond 100 kgs?



**Figure:** The classification of costs

### Further Ideas

No cost item is inherently of one type – either fixed, variable, direct or indirect. Their type is determined by the activity, the context, time etc. What are fixed costs at some point of time and in some context may be variable at another point of time and context and same way with direct and indirect costs.

Whether a cost is variable or fixed depends on the time span considered in making decision. In fact, in the long run, all costs are variable!

*Tip:* Even if total costs per unit is considered for working out of the minimum level of business to make profits, generally while thinking of unit or average cost, consider variable costs only and as far as fixed costs are concerned, consider them as total costs only rather than unit costs.

Apart from above types of costs, there is one type called sunk costs. These are historical or past costs which have been incurred in the past.

For example, a computer is bought for a super bazaar for Rs.40,000 expecting that this will make the billing operations easy. But in view of no proper knowledge of its operation and some repairs to it, the computer was just kept aside without any use. In this case, the Rs.40,000 cannot be considered for business purpose as it is sunk cost.

**Exercise 1:** Following is the general listing of different cost items in a business. Put tick in the relevant boxes.

S. No.	Cost Item	Fixed Cost	Variable Cost
1	Raw material		
2	Insurance		
3	Wages		
4	Salaries		
5	Rent		
6	Maintenance & Repair		
7	Marketing expenses		
8	Machinery		
9	Building		
10	Transport		

**Exercise 2:** Take the example of a freshwater aquaculture, list out all costs in the activity and categorize them into various costs

	Direct costs	Indirect costs
Fixed costs		

Variable costs		

**Exercise 3:**

Ask the participants to divide into different groups, each group take one enterprise of their interest and attempt following tasks.

1. Identify and list various costs involved in the enterprise
2. Categorise these costs into various types of costs

Costs behave in different ways in different contexts. Identifying different costs of a business and understanding their behaviour is an important skill that any entrepreneur need to have. In any business, not only direct costs but also indirect costs exist which should be taken into account.

The illustration of a woman selling tomatoes indicate that for many important decisions of cost determination and control, not only Total Costs are to be considered but also working out of Unit Costs is also important.

**Cost Control**

Since costs are the most important determinant of profit in any enterprise, cost control assumes utmost importance of profit maximizing. Following are important methods for cost control.

**Cost Control Method I: Standard Costing**

In this method,

- ✚ costs of different items are predetermined as a yardstick
- ✚ and the actual costs are compared against this
- ✚ see the variance if any and
- ✚ take corrective action.



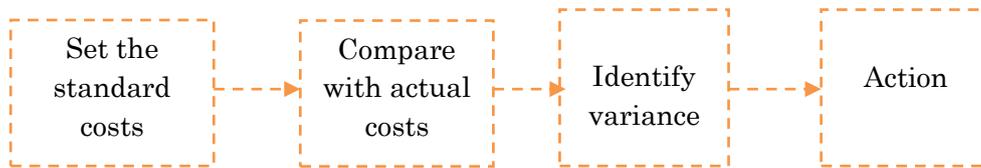


Figure: Cost control using standard costing

### **Cost Control Method II: Historical Costing**

This method is similar to standard costing method except that in this method, historical costs i.e. costs from past experience are taken as yardstick to compare the actual costs and take corrective measures.

### **Cost Control Method III: Budgetary Control**

In this method, first budgets for different activities are prepared. Then the actual performance is compared with budget, variance is corrected.



Figure: Budgetary control

## **Breakeven Analysis**

### **Purpose**

The particular learning objectives of this session are to enable participants address the questions like

- What is the minimum level of business to make profit
- How much business has to be done to reach a target profit level
- What are the effect of changes in costs and volume on profit

Ultimately it should help in deciding *the most profitable combination of costs and volume for a business.*

Maximizing profit is the first and most commonly agreed purpose of any enterprise. So it is very important that any entrepreneur need to make profit planning for his/her business in so meticulous manner to maximize profit. It can be noted that profit is highly correlated with costs and volume of the business. *The entire profit planning of a business is associated with this cost-volume-profit interrelationship.* This particular session presents breakeven analysis, an important tool of cost-volume-profit analysis.

So as to discuss these concepts, let's continue with the example of a woman selling tomatoes in session cost structure.

#### **EXAMPLE: A woman selling tomatoes**

We can recall from the session that in this case, anyway some costs are fixed and variable costs incur for every unit of business. That means *profit do not start coming right from first unit sold but it comes only after fixed costs are covered* (even if it appears that this is profit, it is actually not since she will be left with nothing after making payments).

So as to achieve the expected profit early in the business, the fixed costs are to be covered first and as early as possible. That means we need to calculate the number of kg of tomatoes she would have to sell in order to cover the fixed costs and earn a profit of Rs. 50 per day.

From the first example where she sell 20 kgs, we can know that out of the selling price of Rs. 5.00 per kg of tomatoes, Rs. 2.00 is the cost of tomatoes (i.e. variable cost) and the remaining Rs. 3.00 is what is contributed to cover fixed cost. This Rs. 3.00 that is contributed by each unit sold towards fixed cost is called as **contribution**.

$$\text{Contribution per unit} = \text{selling price per unit} - \text{variable cost per unit}$$

$$\text{Total contribution} = \text{contribution per unit} * \text{units sold}$$

So what is the number of units of tomatoes to be sold to cover total fixed cost of Rs.22? Obviously 7 (rounded off) (22/3.00).

This means 7 kgs is the level at which all fixed costs are covered. This 7 kgs of business is what is called as **breakeven** i.e. the point where she makes no profit, no loss.

So, following formula can be derived from above to calculate breakeven units.

$$\text{Breakeven point in units} = \text{Fixed costs} / \text{contribution per unit}$$

### Class Demonstration:

Following tables are constructed for three scenarios.

Scenario 1: Selling 7 kgs of tomatoes		
<b>Sales</b>	Rs.	Rs.
7 kg tomatoes @ Rs. 5.00 per kg.		35.00
<b>Daily Expenses</b>		
Cost of tomatoes: 7 kg @ Rs. 2.00 per kg.	14	
Transport	12	
Market fee	10	
Total expenses		36 (round off to 35)
Profit		0

Scenario 2: Selling 25 kgs of tomatoes		
Sales	Rs.	Rs.
25 kg tomatoes @ Rs. 5.00 per kg.		125.00
Daily Expenses		
Cost of tomatoes: 25 kg @Rs. 2.00 per kg.	50	
Transport	12	
Market fee	10	
Total expenses		72.00
Profit		53.00

Scenario3: Selling 5 kgs of tomatoes		
Sales	Rs.	Rs.
5 kg tomatoes @ Rs. 5.00 per kg.		25.00
<b>Daily Expenses</b>		
Cost of tomatoes: 5 kg @Rs. 2.00 per kg.	10	
Transport	12	
Market fee	10	
Total expenses	24	32.00
Loss		7.00

This illustration takes us to the following finding.

7 kgs – break even (no profit; no loss)

Below 7 kgs – loss

Above 7 kgs - profit

So 7 are the minimum number of kgs that the woman has to sell per day to start making profits.

The breakeven point can be indicated in terms of value also. In above example, the breakeven value is Rs.35.00 of sale revenue.

The breakeven can be expressed in a chart also like following chart for the tomato business.

### Margin of Safety

The sale beyond 7 units is basically margin of safety since it directly results in profit. So a business is more profitable if it has large margin of safety. In fact at 25 kg of sale, she can even cover the indirect expense of Rs.20 and reach desired profit of Rs.50.

Since margin of safety indicate the level of business beyond breakeven, any business effort should be to widen this margin as far as possible so as to maximize profits and see that in whatever condition, the business don't get dropped to lowest margin.

### Capacity Utilization

In the above example, if the woman has capacity (in the sense not incurring further fixed costs) to bring at a time 50 kgs of tomatoes, then what she has to do to maximize the profit? Obviously using entire capacity i.e. 50 kgs of tomatoes.

Breakeven can be expressed in terms of percent of capacity also. In case of tomatoes, it is 14% (7 kgs of 50 kgs).

### **Exercise: Dairy Activity by a Mandal Samakhya**

A Mandal Samakhya plans to take up dairy activity by a cooperative covering some villages of the mandal. The plan is to set up a 2000 lts bulk milk cooling unit in the mandal headquarter.

A survey of dairy potential in the mandal was done covering aspects like population of milch animals, number of dairy farmers, milk production etc. Following are main findings of the study.

- a. Of 30 villages in the mandal, 10 villages have the potential of dairy
- b. The total milk available for sale in the 10 villages is 2000 litres a day
- c. The total milk available for sale from members of the Samakhya – 1500 litres a day
- d. The total number of members who can supply this 1500 lts – 100
- e. The maximum capacity that can be utilized in one year – 2,00,000 litres.

Different Costs (for one year period):

1. Milk cooling unit – Rs. 10 lakhs
2. Building – Rs. 50,000
3. Automatic fat testing unit - Rs. 50,000
4. Cans – Rs. 1000 per can; 50 cans
5. Salaries – Rs. 1,20,000 per year
6. Milk procurement price – Rs. 8 per litre
7. Milk cooling cost – Rs. 1 per litre
8. Sale price of milk – Rs. 15 per litre
9. Transportation cost – Rs. 1.00 per litre

After studying the above case, attempt following questions. Make other relevant assumptions if required.

1. Calculate the breakeven point both in terms of number of liters and value
2. Indicate the percent capacity utilization at which the business breakeven
3. Calculate the minimum number of days in which the business breakeven
4. What is the level of milk procurement to achieve a profit of Rs. 1,30,000 per year?
5. Calculate the profitability at three levels of capacity utilization – 60%, 70% and 80%
6. It makes no business sense to install a capacity higher than the potential. Substantiate.

### **Which members to be focused?**

Let us assume that following is the breakup of 100 members in the above example in terms of quantity of milk they supply.

Particulars	I	II	III
No. Of members	10	30	60
Volume of milk (lt/day)	500	300	200

Then which segment of members has to be mobilized first so as to achieve breakeven quickly and make as much profits as possible with little effort?

Clearly, it is I category farmers followed by second and then third.

This is general distribution in many fields. Generally, there will be one category of people who are few but vital in terms of business, another category who are many but not so vital. In between present the average category. Business prudence is to put efforts accordingly only. So how soon the business breakeven depends on the intensity of mobilization of highly prospective members.

#### ***Illustration***

A village level society which is into the business of supplying fertilizers to farmers where as in case of dairy, to what extent farmers supply milk is key in achieving breakeven, in case of village society, the extent to which farmers take the fertilizer is key in achieving breakeven for the society.

### **Conclusion**

It is common that enterprises incur some fixed costs. Since fixed costs, as the name suggests, locks up some capital, covering of these are crucial to earn profit. Costs and total volume of business are two key factors, which have sensitive influence on profits. So identifying this sensitivity i.e. percent change in profit by a change in volume or costs is an important consideration in profit planning.

Identifying fixed and variable costs and breakeven level of a business and planning the business accordingly are very crucial for any entrepreneur.

And also any activity should strive to cover the fixed costs as soon as possible so that the sale revenue after that directly adds to profit. In a business, how much capacity to be established should be meticulously planned taking into consideration the potential (of both availability of raw material and market) and risks (tradeoff between costs and returns).

After this decision, all possible ways and means should be explored to maximize the utilization of the capacity so as to see that unnecessarily capital is not locked idly and no interest and other cost are incurred.

# SESSION 7

## CAPACITY BUILDING

### Strategies for Capacity Building

-  Exposure Visits
-  Handholding Support
-  Workshops

### Capacity Building Programs for the enterprise

S. No	Types of Training	Description	Duration (in days)
1	Enterprise Promotion training	a) Feasibility and Viability analysis b) Enterprise Plan preparation	5
2	Soft Skills Development	a) Personality Development b) Leadership Skills c) Conflict and Time Management	3
3	Roles and responsibilities (Management)	a) Awareness on roles and responsibilities, b) Execution (meetings, audits, periodic review of business activities)	3
4	Awareness on legal aspects	Governance structure, laws and legal compliances	2
5	Training of staff selection	Basis for staff selection, recruitment process	1
6	Book keeping	Creation and maintenance of records and books	2
7	Marketing	Demand Supply gap, Opportunity Analysis, Competitors, Pricing, Brand Management	1
8	Technical Trainings	How to use different equipment for processing and second level value addition.	5
<b>Total</b>			<b>22</b>

# SESSION 8

## MARKETING PLAN

### **Objectives**

1. To make participants understand different marketing strategies.

### **Methodology**

Interactive session and Group exercise

### **Time:**

One session of 1.5 hrs.

### **Facilitation Tip**

The session has to be dealt with examples and class exercises.

# READING MATERIAL

## PURPOSE OF A MARKETING PLAN

The purpose of a Marketing Plan is to:-

- Define the Market
- Refine the Production Plan to market requirements
- Develop a marketing strategy
- Minimize risk

### **Defining the Market and Commodities-**

- **Market demand and prices** - An assessment based on published market information , discussions with local extension staff, farmers, dealers and buyers of the commodity of the likely demand and prices on offer during the year and during any period of seasonal shortfall.
- **Market Requirement** - Varieties, size, grading, packaging, maturity demanded by the buyers in the particular market.
- **Yield /Price Assumptions** - How much commodity will be available? How much premium grade? Second grade? Losses? If the commodity / crop is aimed to be produced for a particular period e.g. for a low supply period, while the price assumptions (expectation) may be higher some reassessment of yield and cost of production assumptions in the gross margin analysis or partial budgets is usually necessary.
- **Marketing Returns and Costs** - Calculate expected income and costs in marketing.

**For Example: For developing a marketing strategy for a particular crop, we need to go through the following steps:**

#### **I. Refining the production plan**

- a. **Crop timing** There should be an accurate assessment as to when the crop will be ready for harvest.
- What factors may advance or delay harvest? (rain, dry weather?)
  - Can the harvest be progressive? e.g. some root crops or
  - Can harvest be delayed? e.g. paper mulberry or
  - Can harvest be advanced? e.g. by selective watering, use of different planting cycle or varieties? Is there a cost to this? How will this added cost affect returns?
- b. **Post-Harvest handling-Quality Grading Packaging and Presentation**
- What are the quality, grading and packaging requirements of the specific target market?
  - How will grading and packing be done? What are the costs?
  - Packaging – Can local materials be used? Are new/unused packs (cartons, bags) required? Costs?
  - Is there a market for the second grades? At what price? Is this worthwhile doing including given the possible impact on trading reputation and does this cover costs?
- c. **Transport and Storage**
- How will commodity be moved to the target market? Costs per kg?
  - Storage. Will cold storage or other storage be required? Where / Costs per kg?

## II. Developing a Marketing Strategy

- a. **Farmer marketing or use of an agent or a merchant /dealer?**
- **Time involved**- family or group member availability
  - **Cost** –Cost of space rental in a market e.g. Almora Market Rs. 50 per hour or Rs. 200 per day
  - **Quantities** – If there are larger quantities to be sold, are sale are to be made to a market elsewhere e.g. inter-island or other urban area or export , then usually sales are best made through an agent or merchant. It is usually only when farmers have developed expertise in more sophisticated marketing or have sufficient volume either by themselves or in co-operation with others, that direct marketing to other markets is profitable.

## b. One market or Various Markets?

- **One market:** All production/grades sold to one target market

- **Marketing Risk** The marketing risk "with all the eggs in one basket" is that opportunities for better returns elsewhere may be missed. This risk has to be assessed against the financial security of secured /assured sales

- **Various markets? Some of the questions are:-**Different grades sold to different markets? Prices expected? Range of different buyers needs to be met e.g. different supermarkets, hotels, restaurants. Are these clearly understood? Is there different quality presentation in each market? Timing requirements e.g. weekly daily deliveries. Can these be met If the local market is considered not able to absorb all the production from the area under crop then in some situations progressive harvesting ,if possible,( e.g. root crops)or sales out of the area may be required to ensure that the local market is not flooded. While this is unlikely with present areas to be planted, any significant expansion of areas may require provision in budgets for transport and sale or for prices in the budget to be based on what merchant / dealers are prepared to offer. In some situations local prices on offer may require investigation of sales to the capital or to dealers.

### - Marketing risks -

- Risk of not being able to sell all production can be reduced by using various target markets
- Risk of increased costs and reduced returns with greater time spent on product preparation selling delivery and other marketing ,
- Risk of reduced prices from negotiating for sale of smaller quantities

# DEVELOPING A MARKETING PLAN

**A PRACTICAL EXERCISE:** Develop a Marketing Plan for your farm or your group's farm under the following headings (or similar headings of your choice.) Each group should have a Marketing Plan covering each **enterprise** based on their own study of the local market.

## 1. COMMODITIES

- Quantities-Different times or varieties; Progressive harvesting ; Progressive plantings
- Timing of production Seasonal shortfall period how much of total production?
- Varieties
- Quality required—grading etc.

## 2. POST HARVEST HANDLING

- Washing trimming cleaning etc.-
- Grading—marketable yield?
- Packaging
- Transport
- Storage

## 3. MARKETS

- Where?
- How much to whom at what times?
- When?
- How? Contract? Letter of agreement?

## 4. PROMOTION

- Building your reputation. How?

## 5. EXPECTED PRICES AND RETURNS

- Prices for different quality or grades?
- Prices for different times of the year?
- Prices for different markets?
- Returns are Price/s multiplied by marketable yield

## **6. MARKETING COSTS**

- Post-harvest costs (washing, trimming, grading, labour costs?)
- Transport
- Storage
- Fees

## **7. MARKETING STRATEGY**

- One market or various markets?
- Direct sales?
- Use of agents or merchants
- Timing of production and sales.
- Competitors?
- Co-operation with other producers in the market?

## **9. RISK STRATEGY**

- What are the marketing risks?
- How can these be removed or minimized?
- What are the essential parts of my/our risk management strategy

## **10. IMPACT ON FARM BUSINESS PLAN**

- What changes have to be made to my Production Plan as a result of my Marketing Plan. What to grow? How to grow? Harvesting techniques etc.? Post-harvest handling?
- How will this impact on my gross margin calculation?
- Impact on cash flow?
- Impact on farm budget?
- Organisation— What changes in farm management, group organisation or accounting procedures will be necessary as a result of my Marketing Plan. Should our group work with other groups? Doing what?

# Session 9

## RESOURCE MOBILIZATION AND SUPPORT SYSTEM

### **Why this Session?**

An entrepreneur has to mobilize resources for establishing and running the enterprise. A first generation entrepreneur needs support from various agencies to mobilize resources for putting his plan into action. An entrepreneur has to understand the role of different agencies acting as support systems so that he/she can approach right organization for the right work. This not only reduces the time lag, but also accelerates the pace of enterprise establishment. This session deals with providing such necessary information to the entrepreneur.

### **Session Objectives**

At the end of the session, the participants will be able;

1. To list out the names of organizations / institutions and their location which offer financial and non-financial support for enterprise establishment.
2. To enlist various schemes and services with details provided by various support organizations for enterprise development.

### **Duration**

One session of 1 hour 30 minutes.

### **Method of Delivery**

Lecture, interaction and group exercises.



# Process

## **Step 1**

Begin the session by asking the participants, what are the resources needed for them to establish their venture. List out the responses.

## **Step 2**

Ask them where and how they will be able to mobilize the requirement and what type of assistance they need. Take lead from them and introduce the topic.

## **Step 3**

Emphasize the need for knowing different information sources to facilitate enterprise creation.

## **Step 4**

Display various information needed and their sources.

## **Step 5**

Discuss in detail various schemes and services available with the support agencies.

## **Step 6**

Invite the officials from representative organizations like District Industries Centre (DIC), Banks, KVIC, DRDA etc. and arrange an interface with the participants. Let these officials explain procedures involved in availing facilities. Let them answer the queries raised by the participants.

## **Step 7**

Give phone number, addresses of support organizations, if requested.

## **Step 8**

Clarify the doubts, if any and conclude the session by emphasizing the need for approaching the organizations.



# READING MATERIAL

## RESOURCE MOBILIZATION AND SUPPORT SYSTEM

### A. Institutional supporting system for promotion of enterprises

Central and State Governments have given priority for enterprise creation for economic development and employment generation. Through policy initiatives, the governments have established various promotional agencies to facilitate a potential entrepreneur to initiate and establish the enterprise with information, knowledge and confidence. These agencies provide right from information on various aspects to incentives, infrastructure, support for finance and marketing, technology transfer, training etc.

Apart from government agencies, a good number of non-government organizations are also actively involved in facilitating enterprise promotion. Financial institutions and banks have come out with their own schemes for lending to enterprises - micro, small as well as big. These agencies provide two types of services viz. Financial and non-financial. A list of such major agencies is given below:

S. No.	Type of Assistance	Source
1	Selection of service, business or industry	Small Industries Service Institute (SISI), District Industries Centre (DIC)
2	Factory Accommodation / Registration	Directorate of Industries (DI)
3	Machinery	SISI, National Small Industries Corporation (NSIC), State Small Industries Development Corporation (SSIDC)
4	Raw Material	Directorate of Industries (DI), District Supply and Marketing Society (DSMS)
5	Finance	Commercial Banks / Financial Institutions
6	Technical Know How	SISI, NSIC, NRDC, DIC
7	Marketing	SISI, NSIC, SSIDC, DSMS, KVIC

8	Incentives/Benefits	DIC, SSIDC, SISI
9	Insurance	General Insurance Corporations like UIIC, NIC, NIAC, OIC
10	Consulting Services	State technical consulting organizations,

## **B. Non-financial support system**

### **I. NATIONAL LEVEL**

#### **a. Small Industries Development Organization (SIDO):**

It acts as a policy formulating, coordinating and monitoring agency. Provides a comprehensive range of industrial extension services including technical, managerial, economic and marketing assistance through Small Industries Service Institutes (SISIs) and their branches/ Regional Testing Centres, Product and Process Development Centres etc.

#### **b. The National Small Industries Corporation Ltd. (NSIC):**

Provides following support:

- ✚ Supply of indigenous and imported machinery on hire purchase basis - Supply and distribution of indigenous and imported raw materials.
- ✚ Marketing assistance - domestic and export
- ✚ Development of prototypes of machinery, equipment and other facilities.
- ✚ Registration of units for participation in the purchase programme of the Central and State Governments.
- ✚ Providing incentives for women entrepreneurs and SSI units in North Eastern States.
- ✚ Enlisting competent SSI units and facilitating their participation in Government stores.
- ✚ Common facilities for testing, training for skill development etc.

#### **c. National Research Development Corporation (NRDC)**

Provides new and latest project ideas/ technologies.

#### **d. Khadi & Village Industries Commission (KVIC)**

Provides training and finance at concessional rates to village artisans belonging to socially and economically backward sections of the rural population. It also helps in:

- ✚ Transfer of technology.

- ✚ Providing infrastructure and marketing support to KVIs.

KVIC has a network of KVI Boards and training centres at the state and district levels.

### **e. Rural Development & Self-Employment Training Institute (RUDSETI)**

The Institute established in 1982, through its 20 branches throughout India conducts more than 50 types of training programmes, which are of short duration, ranging from 1

to 8 weeks. The programmes are classified under the following categories:

#### I. For First Generation Entrepreneurs

- Agricultural EDPs
- Process EDPs
- Product EDPs
- General EDPs

#### II. For Established Entrepreneurs

- Skill Up-gradation programmes for enhancing the skills
- Growth Programmes for expansion, diversification and growth in business

#### III. Rural Development Training Programmes

#### IV. Technology Transfer Programmes

#### V. Human Resources Development Programmes

The cutting edge of RUDSETI training is the post-training follow-up to sustain motivation level and overcome teething problems of new entrepreneurs.

### **g. Other Institutions:**

Like RUDSETI, PMRY beneficiaries may find the following institutions helpful for providing training, know-how and other information:

- National Institute of Small Industry & Extension Training (NISIT) at Hyderabad.
- Entrepreneurship Development Institute of India (EDII) at Ahmedabad.
- Integrated Training Centre at Nilokheri in Haryana.
- Self-employment training institutions promoted by Banks.

- v) National Institute for Entrepreneurship and Small Business Development (NIESBUD)

## II. STATE LEVEL

### a. Directorate of Industries (DI) :

- ✚ With a network of District Industries Centres (DICs) at district level, it helps in providing: Registration of small scale units
- ✚ Raw materials quota.
- ✚ Financial assistance under the State Aid to industries. Infrastructure for establishing industries.
- ✚ Marketing support and technological guidance.

### b. Industrial and Technical Consultancy Organisations (TCO)

- ✚ Technical consultancy services to small and medium scale enterprises.
- ✚ Provides assistance for formulation of project report. Training and technology transfer.

### c. Centres for Entrepreneurship Development (CEDs):

Many states have set up centres/institutes to provide training in entrepreneurship/self-employment to set up small industry, small business and micro-enterprises. PMRY beneficiaries can avail of training, information, guidance and other facilities from these organizations like CEDAP, CEDOK, CEDMAP, MCED etc.

- ✚ State Small Industries Development Corporation (SSIDC)
- ✚ State Industrial Development Corporation (SIDC)
- ✚ State Agro Industries Corporation (AIC)
- ✚ Electronic Development Corporation
- ✚ Khadi Village Industries Board (KVIB)

## III. DISTRICT LEVEL

**a. District Industries Centre (DIC) :**At the district level, the District Industries Centre

(DIC) is the nodal agency for PMRY beneficiaries. They generate applications and select the beneficiaries through a Task Force, assistance for preparation of project report and filling up of forms, provide loans and subsidy through local Banks and general guidance for setting up of micro enterprises.

**b. District Rural Development Agencies (DRDA/ ZP) etc.** Provide forward and backward linkages. Introduced their schemes for promotion of income generation activities among the marginalized groups.

**C. Financial support system:** Term-Lending Institutions

**a. Small Industries Development Bank of India (SIDBI):**

SIDBI is an apex Bank providing loans to SSIs through State Financial Corporations (SFCs) and commercial Banks. The loans given by SFCs and commercial Banks are refinanced by SIDBI. Through promotional schemes, SIDBI provide funding assistance for training, infrastructure and marketing support of small and medium enterprises through other agencies/NGOs.

**b. Industrial Development Bank of India (IDBI):**

IDBI coordinates the activities of institutions engaged in financing, promoting/developing industry; has schemes such as: Direct Assistance; Soft Loan Scheme; Refinance Industrial Loans; Automatic Refinance; Rediscounting of Bills and Seed Capital Assistance.

**c. National Bank for Agriculture and Rural Development (NABARD):**

NABARD supports non-farm sector, village and tiny sector industries located in rural areas through refinancing.

**d. Commercial Banks:**

Commercial Banks including RRBs and Co-operative Banks provides term finance and working capital advances. These are classified under cash credit, overdrafts, demand loans, bills purchased/discounted/advance against trade debts.

**e. State Financial Corporations (SFCs):**

SFCs provides long and medium term loans for acquisition of fixed assets of small and medium industries.

**g. Khadi and Village Industries Commission (KVIC):**

KVIC offers finance at concessional rates to village artisans who belong to socially, economically backward sections, both for plant and machinery and working capital. It also provides credit for Khadi and village industries.

**h. National Small Industries Corporation Limited (NSIC):**

NSIC provides financial support by way of :

- ✚ Procurement and supply of indigenous and imported raw materials in case the units face difficulty in lifting raw materials in bulk
- ✚ Supply of indigenous and imported machinery on hire purchase and lease basis
- ✚ Discounting of bills.

**i. Credit Guarantee Trust of India (CGTI)**

Established under the aegis of SIDBI, it has introduced schemes to guarantee the credit assistance given to small and medium enterprises by commercial banks, RRBs and all other financial institutions.

# SESSION 10

## BANKING

### **Why this Session?**

One of the important requirements to start a self-employment venture is money. Financial institutions like commercial Banks which provide necessary finance, play a crucial role in the field of self-employment and enterprise development.

After Bank nationalization, banks have accepted social responsibilities and are working for the betterment of downtrodden people in the society. Financial assistance is being provided to agriculture and allied activities, rural artisans, SSI, education and exports which are classified as priority sectors.

Small entrepreneurs and unemployed youth often complain of non-cooperation by bankers and delay in credit supply. This is mainly due to lack of detailed information on the Bank's financial assistance. Thus it is essential to understand the details of the principles, practice and procedures of Bank finance. This will help the unemployed youth to approach the Banker positively and convince him about his project. Banks play the role of a partner in the progress of a successful entrepreneur.

### **Session Objectives**

At the end of the session, the participants will be able:

- a) To define and describe the basic functions of a commercial Bank.
- b) To enumerate various deposit schemes and other services offered by the Bank.
- c) To explain types of advances - priority sector, non-priority sector, term loan and working capital facilities.
- d) To explain the importance of maintaining continuous rapport with the banker.
- e) To analyse the importance of proper utilization and repayment of loan and demerits of default.
- f) To explain the lending norms such as loan amount, margin, subsidy, rate of

interest, charging of interest, security release and repayment schedule.

g) To enlist the merits of adopting good banking practices.

### **Duration**

One session of 1 hour 30 minutes

### **Method of Delivery**

Group discussion, lecture and role play

### **Process**

#### **Step 1**

Ask the participants what they know about a Bank and what are their perception about the Bank. Ask one or two people to share their experience with the Bank. (good as well as bad) .Note down significant reactions on the Board/Flip chart.

#### **Step 2**

Draw from the experience shared by the participants and ask them "will it not be useful for you to know about Banking in detail". Explain the definition of a Bank, salient features, deposit, schemes and credit facilities available.

#### **Step 4**

Call two entrepreneurs, one of whom has taken bank loan, utilized it properly, repaying it promptly and doing well in the business. Another person may be one who has not repaid the loan properly as a result not able to get further loan from the bank for expansion in the business. Request them to narrate their experience and their message to the participants.

#### **Step 5**

Conduct a role play wherein one participant acts as a Bank Manager and another person as customer approaching the Bank for loan. Facilitate the role play and guide the participants how to convince a Bank Manager about his project.

# READING MATERIAL

## BANKING

Banks are financial institutions primarily accepting the deposits from the public and lending to customers. Banks also provide a lot of other financial related services. Banks play a crucial role in the economic development of a country. Providing credit support to entrepreneurs is one of the major priority activity of the Banks.

### I. IMPORTANT DEPOSIT SCHEMES OF BANKS

Deposit schemes are broadly classified into Short term and Term Deposits.

#### A. Short Term or Demand Deposits:

i) Savings Deposit Account: One can deposit one's savings into this account. The account can be opened with very low initial deposit, with or without the cheque book facility. A minimum balance has to be maintained in the account. Deposits in this account earn interest, at a certain rate fixed by the RBI. Introduction from a known account holder is necessary to open this account. Proof of residence, latest photograph and permanent account number (PAN), if any, of the person are required for opening the SB account. This account is not meant for business operations. Account can be opened in single or joint names with various operational facilities. Nomination facility is available.

ii) Current Account: The account can be opened similar to Savings Bank Account with initial deposit. It is meant mainly for business transactions. There are no restrictions on number of operations, unlike Savings Bank Account. Cheque book facility is available. No interest is paid on the deposits in this account.

**B. Term Deposits:** Deposits can be made from 15 days onwards up to 120 months or 10 years and different rate of interest are offered depending upon the duration of the deposit. Interest can be obtained in lump sum upon maturity along with the principle or can be availed on monthly / quarterly / half yearly basis. The deposits can be made in single or joint names. Nomination facility is available.

The depositors can avail loan up to 75% of the amount deposited in case of need.

More interest is given to the amount deposited in these accounts than that of the Savings Bank Account. Term Deposits are given different attractive names in different Banks.

**C. Cumulative or Recurring Deposit:** A fixed sum can be deposited every month up to a specified period. The money to be deposited and the period once specified initially cannot be changed later on. Penalty is levied on default of payment or credit of instalment. The account can be opened in single or joint names. Nomination facilities are available as also loan facilities up to 75% of amount deposited in case of need. This deposit account is more convenient to the persons with fixed income or salaried class.

**D. Pigmy / Daily Deposit:** Even a small amount can be deposited on daily, weekly basis for a fixed term of years. An agent appointed by the Bank will come to the door of the depositor to collect the sum. Fixed interest is paid. Nomination and 75% loan facilities are also available. This account is meant for businessmen and daily earners.

## II. LOANS AND ADVANCES

Banks extend various types of loan facilities to different activities and purposes.

**1. Priority sector advances** - As per the stipulated guidelines, Banks are extending up to certain percent of their total advances to priority sector comprising of the following activities which are considered for promotion by the State.

- ✚ Agriculture and allied activities
- ✚ Small scale industries
- ✚ Retail trade and small business
- ✚ Small Road and water transport operators
- ✚ Professionals and self employed
- ✚ Education
- ✚ Housing
- ✚ Self-help groups
- ✚ Village and cottage industries, rural artisans

Government sponsored schemes like PMRY, SGSY, SJSRY and other poverty alleviation/income generation schemes of Central and State Governments also

come under priority sector advances.

## 2. Non priority advances:

- + Advances against deposits
- + Gold or silver loans
- + Import / export finance
- + Consumer durable advances
- + Vehicles
- + Wholesale trades
- + Big industrial advances
- + Consumption/personal loans

## Nature of Advances

Depending upon the duration of facilities the above loans can be classified as:

- 1) Short-term loans - Repayable within 36 months
- 2) Medium-term loans - Repayable from 3 to 7 years
- 3) Long-term loans - Above 7 years

Short-term finance could be either in the forms of loans or cash credit.

Depending upon the security offered, these loans can be further classified into :

- 1) Clean loans - where there is no security
- 2) Secured loans- where tangible or intangible security is provided

Security will be either pledged, hypothecated or mortgaged.

## 3. Purpose for which loan can be used:

The bank finance can be utilized for acquisition of fixed assets including land and building and working capital requirement in case of loans to enterprises. In case, loans to individuals for consumption or other purposes, the loan amount can be utilized for the particular purpose for which it is given.

- + Purchase of machinery
- + Purchase of equipment Purchase / lease of land

- ✚ Construction / purchase of factory building/shed Purchase / construction /lease of shop premises
- ✚ Purchase of raw materials
- ✚ Stock of semi-finished goods and stock in process
- ✚ Stock of finished goods
- ✚ Meet trade debts
- ✚ Acquire tools, dies, stores, patterns, types etc.
- ✚ Purchase of furniture and fixtures

Legitimate expenses incurred for carrying out day to day business activities like production, marketing, trading, distribution, transportation, salaries and wages, rent etc. can also be financed provided tangible assets like raw materials, goods in process, finished goods are available as security.

#### **4. Quantum of Loan**

Banks will lend to meet the short fall of a project cost after the promoter's contribution. Normally Banks expect 10 per cent to 50 per cent as promoter's contribution (Margin) depending upon the purpose and scheme.

#### **5. Interest**

Banks charge interest on the loans given. The rate of interest varies depending upon the scheme, purpose and category of advance.

#### **6. Security**

To safeguard the financial stake and ensure financial discipline on the part of the borrower, Banks insist for tangible and intangible security for the loan advanced:

- ✚ Tangible security will be in the form of deposits, fixed assets, land, building, property etc.
- ✚ Intangible security will be in the form of a guarantor to the loan.

#### **7. Assessment of requirement and decision to grant loans by Banks**

The following are the important factors considered;

- ✚ Background of the applicant - should not be a defaulter to any Bank

- ✚ Previous transactions must be satisfactory
- ✚ Knowledge about the project - complete information and details about the proposed activity on the part of the entrepreneur.
- ✚ Technical and Managerial skills to run the proposed activity.
- ✚ Viability of the project - the activity should generate sufficient income to the borrower to enable him to repay the loan and make his own profit.
- ✚ Documents - documents relating to the security offered and about the proposed activity like project report, invoices, clearance certificate etc.
- ✚ Security towards loan - as per the norm of the Bank.

### **8. Other important facilities to the entrepreneurs**

- ✚ Banks also provide bills of exchange facility which enables the entrepreneurs to send/receive bonds against bills of exchange/goods.
- ✚ Letter of credit for advance payment to the suppliers.
- ✚ Bank Guarantee/deferred payment guarantee to the suppliers/creditors on behalf of the customers.
- ✚ Facilities for discount of cheques and bills and collection of bills and cheques.

### **Good Banking Practices**

TRUST is the key factor on which entire banking transactions operate. Banks are the custodians of public money. Hence, there is a need to properly utilize the resource borrowed from the Bank.

#### **Tips to a customer to make the Bank a partner in your business**

1. Do not approach Bank only when loan is required. Keep in regular contact with nearby Bank branch and open your Savings Bank Account.
2. Deposit your money with the Bank. Also advise your friends and relatives to deposit their excess money with the Bank branch.
3. While seeking financial assistance, call on the Bank directly. Do not go through the middle men.
4. Never begin your talk directly about loan. Identify yourself; explain your background, your venture, demand and scope for it in the area. Give detailed information. Try to get the Banker to visit your place before asking for a loan.
5. Prepare project feasibility report and hand over a copy of it while discussing your project. Have complete information in your fingertips.

6. Always substantiate your estimates with quotations and other proofs.
7. Be confident and express confidence through your conduct and talks.
8. During discussions and interview, give correct information.
9. Obtain a list of essential papers and documents required and submit them all in one set.
10. Do not confront a Banker while discussing. Give the Banker a chance to explain their point of view and then drive your point home.
11. Note down the information when you take a loan:
  - a) Loan amount sanctioned.
  - b) Disbursement schedule.
  - c) Rate of interest charged.
  - d) Insurance premium, due date and name of the company.
  - e) Repayment period and schedule.
  - f) Instalment amount.
12. Inform the Bank as soon as you launch your project.
13. When faced with difficulty and not being able to keep up repayment schedule, call on the Bank in person. Explain and write a letter seeking extension of time or rescheduling of repayment schedule.
14. When you start earning, make it a point to repay the loan amount as per the instalments granted.
15. When income starts trickling in, try to save money with the Bank. Do not think of saving in lump sum only. Small savings over a period of time give attractive returns in times of your need.
16. Do not view relationship with Bank in a shorter perspective. As your venture develops, you may need more assistance from the Bank. Let the Bank be your friend, philosopher and guide.
17. Produce your assets at regular intervals for inspection.
18. Submit information, accounts, and audit report to Bank at periodical intervals.
19. Never lend your ears to mis-propaganda against the Bank.
20. Remember that it is your Bank and you have a right as well as responsibility.

### **Loans under PMRY scheme by the Bank**

Banks play a major role in implementation of PMRY scheme. PMRY loans are sanctioned and disbursed by different Bank Branches. As per the procedure after sanctioning of loans by banks the beneficiaries undergo EDP training. DIC and Task

Force Committee recommend the eligible cases to banks. It is the bank which finally decides to whom the loan is to be sanctioned and how much amount is to be sanctioned depending upon technical feasibility and economic viability of the project. While sanctioning the proposal the banks take into account the following aspects.

### **1. The Borrower**

The bank considers the Character, Creditworthiness and Capacity of the borrower, so as to ensure that the money goes into safe hands. The borrower should utilize the loan for the specified purpose and establish the unit. He should not be a defaulter of any financial institution. Previous transactions must be satisfactory. He should have knowledge about the project including complete information and details about the proposed activity. He must possess technical and managerial skill to run the proposed activity

### **2. Technical Feasibility of Project**

The Proposal should be technically feasible. It means the proposed project is technically fit to be executed. The availability of raw material, machinery and technique etc. is to be ensured. In the given conditions the project should work. The demand of the product is sufficient.

### **3. Economic Viability**

The proposal should be economically viable i.e. it generates ample funds so that the borrower can run his unit smoothly. Profits created should be adequate to meet the routine expenses of borrower, to pay interest and loan instalments of bank and the balance amount of profit is sufficient to meet his family's urgent obligations.

### **4. Loan Amount**

Depending on the project cost and its feasibility the amount of loan is decided keeping the margin money at 20 per cent which includes the subsidy amount. Loans will be considered up to 80 per cent of the project cost. Loan is given for meeting both term loan and working capital.

### **5. Disbursement**

The loan amount sanctioned is disbursed by the banks in 2-3 instalments depending upon the nature of activity. The borrower submits the quotations/rate list from the

suppliers/dealers from whom he wants to purchase the items like Furniture, Machinery, Raw Material, Stock etc. The bank disburses the amount through cheque or D/D directly to the suppliers. The borrowers shall deposit the Bills/Original vouchers to the bank after purchase of these items.

Before the disbursement the borrower is required to submit following documents with the banks.

- + Copy of Rent/Lease Deed of Shop/Premises
- + Pass Book of Saving Bank a/c/Current a/c
- + Quotation for purchase of items like furniture, Machinery, Raw Material.
- + No dues certificate from different banks or an affidavit towards Non-defaulter of any financial institutions.
- + A training certificate from authorized agency for EDP training
- + Security papers as per norms

## **6. Interest**

On PMRY loans Interest is charged at Prime Lending Rate of Bank. The interest is calculated every month on daily balances. The interest is calculated on reducing balance basis. It will not remain same every month. As the balance amount reduces, the amount of interest will also be less. The interest amount is to be repaid by borrower as and when it is charged to the account.

## **7. Repayment**

Loan amount is to be repaid in monthly instalments in 3 to 5 years depending upon the nature of activities. First instalment shall start after Repayment Holiday of 6 months to 1 year. If the instalments are not paid in time, it will attract penal interest and will cause other losses to the borrower.

## **8. Adjustment of Subsidy**

The subsidy amount is to be kept in separate account by the banks. Balance outstanding in the loan amount is not to be reduced by subsidy amount. This amount remains in separate a/c till the repayment of loan instalments is regularly made by the borrower and the balance reduces to the extent of subsidy amount. The subsidy amount can be adjusted in the loan a/c at that point of time after a minimum lock-in-period of 3 years. However the interest is neither charged nor paid on the subsidy amount.

## SESSION 11: BUSINESS FACILITATION SKILLS

### Promotion of enterprises:

This is the first step in any intervention related to collectives. Promotion of enterprise itself initiates the process of business cycle and in this process the enterprise and the business promoters have specific role to play. The promoters usually acts as a facilitator and the enterprise members themselves carry out many tasks so that they own the entire process. The steps of promotion of enterprise and the roles of business promoters and enterprise are depicted clearly in the following table:

Stage in the enterprise promotion	Role of the Business Promoter	Role of the Enterprise
1. Introductory meeting with the village people regarding the concept of self-help, cooperation etc.	Plays a facilitator role in all the village meetings and will not instruct or tell villagers to do anything	People should come together on their own and should feel that the entire process is owned by them and not dictated by any others
2. Conducting the feasibility study	Feasibility study can be conducted by promoters but major involvement will be in the report preparation and presentation of report.	Majority of the information required for feasibility study is to be obtained with the help of the promoters so that they own the process.
3. Presentation of feasibility study report in front of people and getting their feedback on various issues. If the need of further detailed study arises then it also should be carried out.	They have to motivate people to work together for their individual and common benefits.	People must know about enterprise before they can decide to form such institution.
4. Exposure visit of the promoters to nearby similar working enterprise and then presentation of their feedback in front of the members.	Measures must be taken and funds must be made available to disseminate information on the possibilities and mechanics of enterprise formation	They have to know their rights and obligations and understand the rules governing enterprises. (law, regulations, by-laws and standing orders).

### Feasibility studies and Business Planning:

There are various studies need to be conducted as a part of business planning process and the business planning itself is a separate exercise that has to be carried out with community members. So the steps in this entire planning and the roles of business promoters and enterprise in this process are depicted in the following table.

Stage in the enterprise development	Role of the business promoter	Role of the enterprise
<b>Studies and Business Planning</b>		
<b>Secondary research</b>	Secondary research of the field area to get an idea about the physical, social, agricultural, cultural and other aspects.	Consultations with district officials can be taken up.
<b>Feasibility study</b>	Preparation questionnaires to get the information regarding various aspects of feasibility.	Collection of information with the help of questionnaires to the extent possible
<b>Estimating Business Potential</b>	Collection of information regarding Production Potential & Marketable Surplus, Local Market Potential, Technological Feasibility	Giving information regarding Human Resource Potential, Institutional Capacity to undertake the business intervention
<b>Preparation of business plan</b>	Presentation of all the data and report from the survey in understandable and crispy manner and acting as a facilitator in the preparation of business plan.	Preparation of business plan with the help of business promoters who help them in doing so by posing various questions, giving examples etc. This process will help them in owning the plan.
<b>Preparation of Intervention and activity plan</b>	Acts as a facilitator and provides any technical help or information that is required	Makes the list of various activities to be carried out and the ways to do so in order to make the business plan viable and work for them.

### Resource Mobilization:

There are various resources that need to be mobilized for the running of enterprise. They are:

1. Human resource – Staff, technical persons, Committee members etc.
2. Financial resource – Fixed and working capital requirements
3. Natural resource - Land, water and others
4. Physical resource – Plant, Machinery, building and others

The following table depicts the role of business promoters and enterprise in the mobilization of various resources separately as mentioned above:

Stage in the enterprise development	Role of the business promoter	Role of the enterprise
<b>Resource Mobilization</b>		
<b>Human resource</b>	Technical staff or resource persons required should be provided by business promoters	Committee members are to be elected by enterprise to look after the operational and strategic aspects of enterprise.
	Provide assistance in the recruitment of proper staff to the enterprise.	Staff like accountant, field workers, manager etc. should be recruited by enterprise i.e. committee members with assistance from business promoters.
<b>Financial resource</b>	Arrangements for any grants or loan requirement for fixed capital	Should contribute towards working or fixed capital in the form of share capital, member deposits, savings etc.
	Train the enterprise regarding the various sources of availability of finance and the ways to approach them.	Actively involve in raising the required finances for the enterprise.
<b>Natural resource</b>	Assist enterprise members in the ways of acquiring natural resources like land, water etc.	Should be ready to convince village heads or other government departments to donate required land for office building etc.
		Should actively involve in getting water connections or water ponds from respective departments or government if required.
<b>Physical resource</b>	Should provide required capital in the form of grant or loan for the construction of plant and building, for purchase of required machinery etc.	Should be ready to recover the capital involved in acquiring physical resources as early as possible through their business interventions.