Module -1

Concept and definition

ENTREPRENEUR A person who sets up a business or businesses, taking on financial risks in the hope of profit. An entrepreneur is an individual who creates a new business, bearing most of the risks and enjoying most of the rewards. The entrepreneur is commonly seen as an innovator, a source of new ideas, goods, services, and business/or procedures. Entrepreneur- is a person who runs the enterprise. The word entrepreneur has derived from French word “entreprendre” which means to undertake. The American Heritage dictionary has defined entrepreneur as “a person who organize, operate and assume risk for a business venture.” French Tradition regard an entrepreneur as a person translating profitable idea into a productive activity. Karl Marx- regarded entrepreneurs a social parasite.

Entrepreneurship- it refers to the function performed by entrepreneur. It is a process involving various action to be undertake to establish an enterprise. *Schumpeter suggested that entrepreneurs—not just companies—were responsible for the creation of new things in the search of profit.*

- Enterprise- Business
- Entrepreneur- Person
- Entrepreneurship- Process

What is the definition of MSME

Union Ministry of Micro, Small and Medium Enterprises (M/o MSMEs) has issued Gazette notification to pave way for implementation of the upward revision in the definition and criteria of MSMEs in the country. The new definition and criterion will come into effect from 1st July, 2020.

After 14 years since the MSME Development Act came into existence in 2006, a revision in MSME definition was announced in the Atmnirbhar Bharat package on 13th May, 2020. As per this announcement, the definition of Micro manufacturing and services units was increased to Rs. 1 Crore of investment and Rs. 5 Crore of turnover. The limit of small unit was increased to Rs. 10 Crore of investment and Rs 50 Crore of turnover. Similarly, the limit of medium unit was increased to Rs. 20 Crore of investment and Rs. 100 Crore of turnover. The Government of India on 01.06.2020 decided for further upward revision of the MSME Definition. For medium Enterprises, now it will be Rs. 50 Crore of investment and Rs. 250 Crore of turnover. The existing criterion of definition of MSMEs is based on the MSMED Act, 2006. It was different for manufacturing and services units. It was also very low in terms of financial limits. Since then, the economy has undergone significant changes. After the package announced on 13th May, 2020, there were several representations saying that the announced revision is still not in line with market and price conditions and hence it should be further revised upwardly. Keeping in mind these representations, Prime Minister decided to further increase the limit for medium Units. This has been done in order to be realistic with time and to establish an objective system of classification and to provide ease of doing business. Also, a new composite formula of classification for manufacturing and service units has been notified. Now, there will be no difference between manufacturing and service sectors. Also, a new criterion of turnover is added.

Ministry officials said that the new definition will pave way for strengthening and growth of the MSMEs. Particularly, the provision of excluding the exports from counting of turnover will encourage the MSMEs to export more and more without fearing to loose the benefits of a MSME unit. This is expected to exponentially add to exports from the country leading to more growth and economic activity and creation of jobs. Detailed Guidelines and Clarifications as regards the classification in pursuance of the changed definition are being issued separately by the MSME Ministry. Ministry of MSME has reiterated that it has put in place a very strong handholding mechanism for MSMEs and new entrepreneurs in the name of Champions which was recently launched by the Prime Minister. Interested Enterprises/People can take benefit of this mechanism and can also put their queries or complaints. The same will be attended to with utmost promptness.

Characteristics of entrepreneurs

People may lack the personality and skills necessary for successful entrepreneurship. There are some general characteristics and skills that many successful entrepreneurs have:

Problem-solving: Entrepreneurs often start their businesses after identifying a problem and then coming up with a way to address it. Entrepreneurs are also able to figure out how to solve problems that will occur during the development of the business.

Innovation: Entrepreneurs are innovators, and are often engaged continuously in the process of conceiving new products and services, renewing and improving current offerings, and developing new business processes.

Risk-taking: Entrepreneurs are not risk-averse. They are willing to risk their time, money and even their reputation to get the business started and take their products or services to market. Entrepreneurs are also willing to take risks even after they establish a business, developing new products and approaches that can grow their businesses.

Contrariness: Entrepreneurs are often people who are eager to question why and how things are being done – even if these processes are clearly "industry-standard." This doesn't mean an entrepreneur should ignore industry best practices, but the entrepreneur is also willing to challenge these practices if she believes that there is a better way to do them.

Persistence: Entrepreneurs are persistent. They aren't easily discouraged and are willing to work through discouragement and challenges. Entrepreneurs are willing to attend trade shows, meet with bankers, call on clients and do what it takes to get the business started, and then to make it successful.

Leadership: Successful entrepreneurs are strong leaders. Leadership is an essential entrepreneurial skill, as the entrepreneur will need to be able to cultivate trust and support from the people who join his business as managers and workers. Many new businesses are cash-poor and experience significant challenges – but a good leader can inspire loyalty in workers who may not yet be receiving high wages, as well as in employees who are facing roadblocks in their efforts to build the company.

FUNCTIONS OF ENTREPRENEUR

The following points highlight the top five functions of an entrepreneur. The functions are:

• Decision Making
• Management Control
• Division of Income
• Risk-Taking and Uncertainty-Bearing
• Innovation.

1. Decision Making: The primary task of an entrepreneur is to decide the policy of production. An entrepreneur is to determine what to produce, how much to produce, how to produce, where to produce, how to sell and so forth. Moreover, he is to decide the scale of production and the proportion in which he combines the different factors he employs. In brief, he is to make vital business decisions relating to the purchase of productive factors and to the sale of the finished goods or services.

2. Management Control: Earlier writers used to consider the management control one of the chief functions of the entrepreneur. Management and control of the business are conducted by the entrepreneur himself. So, the latter must possess a high degree of management ability to select the right type of persons to work with him. But, the importance of this function has declined, as business nowadays is managed more and more by paid man-agers.

3. Division of Income: The next major function of the entrepreneur is to make necessary arrangement for the division of total income among the different factors of production employed by him. Even if there is a loss in the business, he is to pay rent, interest, wages and other contractual incomes out of the realised sale proceeds.
4. Risk-Taking and Uncertainty-Bearing: Risk-taking is perhaps the most important function of an entrepreneur. Modern production is very risky as an entrepreneur is required to produce goods or services in anticipation of their future demand. Broadly, there are two kinds of risk which he has to face. Firstly, there are some risks, such as risks of fire, loss of goods in transit, theft, etc., which can be insured against. These are known as measurable and insurable risks. Secondly, some risks, however, cannot be insured against because their probability cannot be calculated accurately. These constitute what is called uncertainty (e.g., competitive risk, technical risk, etc.). The entrepreneur undertakes both these risks in production.
5. Innovation: Another distinguishing function of the entrepreneur, as emphasised by Schumpeter, is to make frequent inventions — invention of new products, new techniques and discovering new markets — to improve his competitive position, and to increase earnings.

COMPARISON BETWEEN ENTREPRENEUR VS MANAGER

Parameters	Entrepreneur	Manager
Meaning	An entrepreneur is a person who builds a new organisation by gathering data (i.e. land, labour and capital) for manufacturing purposes.	By the term 'manager' we mean a person who gets the things done through his assistants, with the purpose of achieving business goals efficiently.
Focuses on	Setting up a business	Running the daily operations
Status in organisation	Owner	Employee
Kind of benefit applicable	Profit earned from running business	Salary earned from managing daily business operations

. **DIFFERENCES BETWEEN ENTREPRENEUR AND ENTREPRENEURSHIP**

Entrepreneur	Entrepreneurship
Person	Process
Organizer	organization
Innovator	Innovation
Risk bearer	Risk bearing
Motivator	Motivating
Creator	Creating
Visualize	Vision
Leader	Leadership
Imitator	Imitation

DIFFERENCES BETWEEN ENTREPRENEUR AND INTREPRENEUR

Entrepreneur	Intrepreneur
An entrepreneur is the owner of his enterprise	An intrepreneur is not owner.
He raises finance through various sources.	He does not own responsibility to raise capital.
He is chief of organization	He is a key player of the organization.
He may or may not be educated and skilled	He is a educated and skilled.
He bears full risks of his business.	He does not bear full risk.

Types of Entrepreneurs
A- Based on functional characteristics
1- Innovative entrepreneurs-
- An innovating entrepreneur is one who introduces new goods/ services, inaugurates new method of production, discovers new market and reorganizes the enterprise.
- Such entrepreneur can work only when a certain level of development is already achieved and people look forward to change and improvement.

2- Imitative Entrepreneurs-
- Such Entrepreneurs do not innovate themselves, but imitate techniques and technology innovated by others.
- Such group are characterized to adopted successful innovations by successful entrepreneurs.

3- Fabian entrepreneur-
- Such entrepreneurs display great caution and skepticism in experimenting with any change in their enterprise.
- They change only when there is an imminent threat to existence of their enterprise.

4- Drone entrepreneur-
- Characterized by a refusal to adopt opportunities to make changes in production formulae even at the cost of severely reduced returns relative to other like produces.
- Even prepared to suffer the loss of business.

B- Based on types of entrepreneurial business
1- Manufacturing
- A business actually produces the products that can be sold using resources and supplies, e.g., textile, chemical etc.

2- Wholesaling
An entrepreneur with such a business sells products to the middle man.
3- Retailing- an entrepreneurs with such a business sell products directly to the people who use or consumer them.
C- Classification in the basis of ownership
1- Private enterprise- when an enterprise is owned and control by individual.
2- Public enterprise -when the enterprise is undertaken by the state or central government.
3- Joint enterprise- when a private entrepreneur and the government jointly run a business enterprise.
D- on the basis of the scale of enterprise.

Revised Classification applicable w.e.f 1st July 2020

Composite Criteria: Investment in Plant & Machinery/equipment and Annual Turnover

CLASSIFICATION	MICRO	SMALL	MEDIUM
Manufacturing Enterprises and Enterprises rendering Services	Investment in Plant and Machinery or Equipment: Not more than Rs.1 crore and Annual Turnover ; not more than Rs. 5 crore	Investment in Plant and Machinery or Equipment: Not more than Rs.10 crore and Annual Turnover ; not more than Rs. 50 crore	Investment in Plant and Machinery or Equipment: Not more than Rs.50 crore and Annual Turnover ; not more than Rs. 250 crore

E-Based on Gender

- 1- Men entrepreneurs – when business entreprises are owned, managed and controlled by men, these are called men entrepreneurs.

2- Women entrepreneurs- when the enterprise owned and controlled by a woman or women having a minimum financial interest of 51% of the capital and giving at least 51% of employment generated in the enterprises to women.

Reasons to Become an Entrepreneur

Entrepreneurial efforts are like biological experiments in nature: Many variations are tried, but only a small percentage of those go on to thrive. You, however, have an advantage over nature. As an entrepreneur, you can set up your experiment with forethought. Entrepreneurs work under the constraints of their environment – the political economy.

Advantages of Entrepreneurship

1. Learning to See Possibilities Everywhere
   • When you have to rely on yourself and your imagination in order to generate income, this awareness goes with the territory.
   • An entrepreneur has to develop the skill and train his or her mind to stay open and receptive to potential ideas and possibilities.
   • This doesn't mean they get involved in everything that comes their way. They must also learn the skill of discernment – which is also of tremendous value.
   • But whatever the case, being open to many possibilities gives entrepreneurs a tremendous amount of choice.
2. **Defining Your Income**
   • Who decides how much you're getting paid?
   • Chances are, there are several factors at play including your boss, your company's financial budget, the board of directors, the economy, etc.
   • These factors also determine whether you'll be staying at your job.
   • So even if you're working really hard and giving 110%, your salary might not reflect it.
   • But when you're an entrepreneur, you create the relationship between your efforts and your income.
   • Plus, the only two factors that determine and define your income are the market forces and you.

• Even though the market can be a harsh judge of your entrepreneurial skills, once you pay attention to, and understand the market's signals, following the current marketing trends, you'll be able to make informed decisions to keep your business moving in the right direction.

3. Flexibility in Your Schedule

• There are morning people and night owls and others somewhere in between.

• As an entrepreneur you can ditch the rigid schedule.

• So if you're a night owl, you can start work at 4pm. If you love the morning, maybe works starts at 4am. Take a break when the need arises. You are the master of your scheduling domain. • The power of creating your own schedule isn't just liberating, but it could be healthier too. • Entrepreneurs focus on results rather than on hours worked. And one study found that a results-based work atmosphere leads to greater mental and physical wellness.

3. **Enjoying Your Work**

• Even though, as an entrepreneur, you can create your own schedule, it doesn't necessarily mean there won't be long hours.

• But unlike those energy-draining hours spent working overtime for someone else, it will be long hours spent working toward something you love. And you will reap the rewards. 5. Learning to be in the Moment

• How much of your day at work is spent counting the hours and minutes before your lunch break or the end of the day?

• One of the great advantages of entrepreneurship is being able to abandon the predictable and monotonous schedule of a traditional office job.

• Instead, you plan and schedule your day, set regular goals and work to achieve them.

• Of course there will be unexpected situations you'll have to handle. But in learning how to handle these situations, you get the added benefit of being more present and learning how to live in the moment.

• Is It Time For You To Be Your Own Boss?

Drawbacks of Entrepreneurship

Although managing a business offers numerous benefits and bestows many opportunities, anyone planning to take a plunge into the world of entrepreneurship must be aware of its potential drawbacks. Entrepreneurship is a strict no for people who fancy the security of a fixed monthly paycheck, paid vacations, and benefit packages, among others. Some of the major disadvantages of entrepreneurship are as follows –

Risk of Loss —

Business failure can ruin an entrepreneur financially, and yes, the failure rate of small business is relatively high when compared to established businesses. Entrepreneurs should ask themselves if they are prepared to cope psychologically with the failures associated with entrepreneurship.

Uncertainty of Income — Starting and running an enterprise provides no guarantee of earning money. Many small businesses barely earn enough to give the owner adequate income. During the initial days of a start-up, a business often cannot provide an attractive salary for its owner and meet all its financial obligations. If you are willing to live on your savings, then entrepreneurship is for you.

Lower Quality of Life in Initial Stage — Long hours and hard work are needed to launch a business but this can take their toll on the life of the entrepreneur. Entrepreneurs often find their personal roles diverging and taking a backseat. Owning a business requires to make a lot of sacrifices. As a result, personal life suffers.

High Levels of Responsibility — Entrepreneurs often have to take decisions beyond the domain of their knowledge as many of them have difficulty finding advisers. When there is no one to ask, the pressure can build quickly. The realisation of making the right decisions can have an effect on some people. High Stress Levels — Starting and managing a business on one hand may seem highly rewarding but on the other, it can be extremely stressful as well. Apart from significant investments and leaving a secure monthly income, entrepreneurs constantly thrive under the stress of failure leading to financial ruin. In addition, the turbulences in the personal lives also add to the stress levels.

Long Working Hours — Start-ups often demand long working. In many start-ups, the demands of owning a business make achieving a balance between work and life difficult for entrepreneurs. It becomes a full-time commitment where there are always some things that need to be done.

Five factors will be key to entrepreneurial success: creativity, tolerance for risk, responsiveness to opportunities, leadership and the ability to take advantage of the rights afforded to you.

Creativity and Accumulation of Ideas

Do not be dissuaded by the challenge to be creative. You need not be the original wheel creator to improve upon a stone cylinder. By standing on the shoulders of giants, you can take existing ideas and make small improvements upon them. Your best ideas may come to you as you are falling asleep or while you are taking a shower. Recognize when you have a fresh idea and do not let them get away from you. Write them down! Not every idea has to be a home run. By accumulating your ideas, you will be able to dis-till the great ones from the rest and be ready to run with the best.

Risk Tolerance and Taking Advantage of Opportunity

Rewards rarely come without risk. Your ability to take advantage of an opportunity will depend, in part, on your tolerance for risk. As the founder of a start-up, investors will expect you to have a vested interest in your business. If you will not bet on your idea, why should anybody else?

If you cannot afford the risk, financially or emotionally, then you might make decisions that are too tepid to be successful. To do well, an entrepreneur needs the strong sense of self-efficacy to believe the risk will be surmountable.

Responsiveness to Opportunity

Opportunity can leave quickly. With the internet, the spread of information and ideas has led to deeper, faster competition to be the first mover. The ability to respond to the market and new business opportunities can be the difference between a successful entrepreneur and a failed business model.

To be responsive, an entrepreneur must have the flexibility of mind and resources necessary to see and take advantage of new and upcoming possibilities. Learning from your mistakes and those of others to implement change can keep businesses afloat. Calcifying rigidity, on the other hand, can turn a start-up into dust.

Leadership and Inspiring Others

It is up to the entrepreneur to marshal assets. Leaders are challenged with taking possibilities and turning them into inspiring visions for others. You will inevitably have to sell either your idea or your product to begin your entrepreneurship. It will be up to the entrepreneur to take the idea and turn it into actions and products to capitalize on the opportunity. Leadership can come in many forms, but it is nevertheless essential to entrepreneurship. You must take the lead for your ideas to come to fruition.

Intellectual Property Rights

Intellectual property laws can provide you with exclusive business rights to your ideas. If you do not protect your ideas, they may be copied – cheaply. Once an idea is in the public domain, it may no longer be possible to use that idea as a competitive advantage. Society values ideas being shared. In exchange for sharing ideas, governments provide limited monopolies that will allow you to capitalize on them for a period, making up in part for the costs you have incurred in research and development. Intellectual property professionals can aid you in seeking such rights.

ROLE OF ENTREPRENEURSHIP IN ECONOMIC DEVELOPMENT

Entrepreneurs initiate and sustain the process of economic development in the following ways:

1. Capital Formation:
   Entrepreneurs mobilize the idle savings of the public through the issues of industrial securities. Investment of public savings in industry results in productive utilization of national resources. Rate of capital formation increases which is essential for rapid economic growth. Thus, an entrepreneur is the creator of wealth.
2. Improvement in Per Capita Income:
   Entrepreneurs locate and exploit opportunities. They convert the latent and idle resources like land, labour and capital into national income and wealth in the form of goods and services. They help to increase net national product and per capita income in the country, which are important yardsticks for measuring economic growth.
3. Generation of Employment:
   Entrepreneurs generate employment both directly and indirectly. Directly, self-employment as an entrepreneur offers the best way for independent and honorable life. Indirectly, by setting up large and small scale business units they offer jobs to millions. Thus, entrepreneurship helps to reduce the unemployment problem in the country.
4. Balanced Regional Development:
   Entrepreneurs in the public and private sectors help to remove regional disparities in economic development. They set up industries in backward areas to avail various concessions and subsidies offered by the central and state governments. Public sector steel plants and private sector industries by Modis, Tatas, Birlas and others have put the hitherto unknown places on the international map.
5. Improvement in Living Standards:
   Entrepreneurs set up industries which remove scarcity of essential commodities and introduce new products. Production of goods on mass scale and manufacture of handicrafts, etc., in the small scale sector help to improve the standards of life of a common man. These offer goods at lower costs and increase variety in consumption.
6. Economic Independence:
   Entrepreneurship is essential for national self-reliance. Industrialists help to manufacture indigenous substitutes of hitherto imported products thereby reducing dependence on foreign countries. Businessmen also export goods and services on a large scale and thereby earn the scarce foreign exchange for the country. Such import substitution and export promotion help to ensure the economic independence of the country without which political independence has little meaning.
7. Backward and Forward Linkages:
   An entrepreneur initiates change which has a chain reaction. Setting up of an enterprise has several backward and forward linkages. For example- the establishment of a steel plant generates several ancillary units and expands the demand for iron ore, coal, etc. These are backward linkages. By increasing the supply of steel, the plant facilitates the growth of machine building, tube making, utensil manufacturing and such other units. Entrepreneurs create an atmosphere of enthusiasm and convey a sense of purpose. They give an organization its momentum.

Entrepreneurial behavior is critical to the long term vitality of every economy. The practice of entrepreneurship is as important to established firms as it is to new ones.

Need for entrepreneurs

The entrepreneurs are considered change agents in the process of industrial and economic development of an economy.

The need for entrepreneurs in an economy can be listed below:

1- they create immediate and large scale employment by establishing small scale industries.

2- they help reduce the concentration of economic power.

3- they promote the equitable redistribution of wealth, income and even political power in the interest of the country.

4- They encourage effective resource mobilization of capital and skill which might otherwise remain unutilized.

5- they are promoting country’s export business, i.e., an important ingredient to economic development.

Entrepreneurial Traits

- Entrepreneurial traits are an indispensible function of management.
- Entrepreneur is human being who has his dignity, self respect, values, sentiments, dream apart from economic status.
- Indeed economic betterment and social upliftment motivates a person to distinguish from others.
- the entrepreneurs has some basic value and responsibility.
- they are managing their enterprise very well and are out to make them grand success.
- It can be possible through judicious mixture of knowledge, skill and personality.
- All these are called entrepreneurial traits.
- Thee success depends upon the ability or skill of using the acquired knowledge for achieving desired results.

There are following traits required :

1. Decision making
2. Setting standard
3. Multi tasking
4. Building relationship
5. Creativity
6. Commitment
7. Mission
8. Vision
9. Team player
10. Trust
11. Passion
12. Appreciating skills

Entrepreneurial culture

- An entrepreneurial culture consists of a group of individuals who have suppressed individual interests in an effort to achieve group success because group success will advance their individual interests."

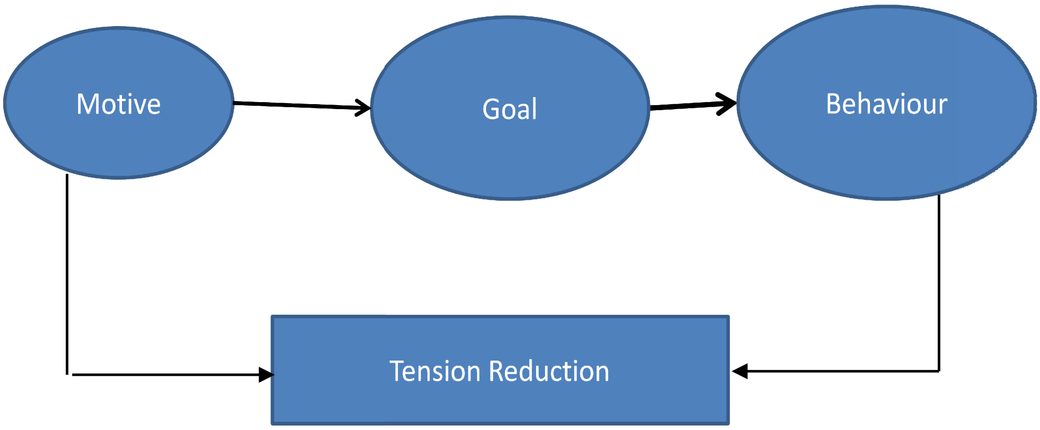
Entrepreneurial culture

- People and empowerment focused
- Value creation through innovation and change
- Attention to the basics Hands-on management
- Doing the right thing
- Freedom to grow and to fail
- Commitment and personal responsibility

- Emphasis on the future

Entrepreneurial Motivation

- The word motivation comes from the Latin word "movere"- to move.
- Motive is an inner state of our mind that moves our behaviors towards our goals.
- Motives are expressions of a person's goals or needs.
- Motive is always internal to us and is externalized via behaviour.



Theories of entrepreneurial motivation

- **Maslow's need Hierarchy theory**

Abraham Maslow's motivation theory is based on the human needs. These needs are classified into a sequential hierarchy from the lower to higher order as five need clusters as shown in the following figure:

Entrepreneurial motivating factors

Internal factors

1. Desire to do something new
2. become independent
3. Achieve what one wants to have in life.
4. Be recognized for one's contribution.
5. One's educational background.
6. One's occupational background and experience in the relevant field.

External factors

1- Government assistance and support.
2- Availability of labour and raw material.
3- Encouragement from big business houses.

Achievement motivation

- Achievement depends on how one wants to achieve the goal.
- The need for achievement plays an important role in making an entrepreneur as successful.

Features of achievement motivation

1- it is a lateral personal disposition to strive for a particular goal.
2- It's person's deep and driving desire to do something important to attain the feelings of personal accomplishment.
3- It is personal disposition to achieve something difficult and bigger.

Significance of achievement motivation

- It is an essential ingredient and hallmark of entrepreneurship development leading to industrial and economic development.
- This serves the major sources of the entrepreneurial supply.
- This is a psychological construct that keeps entrepreneurs activated towards their goals.
- Being inner drive, it is significant for the people for all walk of life be entrepreneurs, manager, leaders, social workers and so on.
- This also serves as one of the effective inventions for organizational development and national development.

How to develop achievement Motivation?

- Know yourself
- Knowing the destination stage
- Empowering stage

Entrepreneurial motivation behaviour
1- creativity
2-incubation
3- Illumination
4-Verification

Barriers to creativity

- Searching for the one right answer
- Constantly being practical
- Fear of committing mistakes and failing
- Fearing looking foolish
- Avoiding ambiguity
- Inability to incubate
- Lack of challenge and confidence
- Believing that I am not creative.

How to enhance creativity?

- Embracing diversity
- Expecting, accepting and tolerating failure
- Intensifying curiosity
- Viewing hurdles and problem as challenge
- Tolerating ambiguity
- Willing for incubation and relaxation
- Modeling creative behaviour

Entrepreneurial Personality

- Personality refers to the pattern of characteristics that distinguishes one person from another.
- It includes the person's traits, values, motives, attitudes, abilities, self-image etc.
- The word personality itself stems from the Latin word *persona*, which referred to a theatrical mask worn by performers in order to either project different roles or disguise their identities.
- Personality is a combination of qualities, emotions, behaviors that form a person a distinctive and unique character.

Personality traits for entrepreneurs

- Need for achievement
- Need for autonomy
- Locus of control
- Risk taking Self- efficiency

ENTREPRENEURSHIP DEVELOPMENT PROGRAMME

Entrepreneurial Development Programme (EDP) may be defined as a programme designed to help a person in strengthening his entrepreneurial motives and in acquiring skills and capabilities necessary for playing his entrepreneurial role effectively and efficiently. It is therefore necessary to promote his understanding of motives, motivation pattern, impact on behaviour and entrepreneurial values.

Entrepreneurship development concentrates more on growth potential and innovation. Entrepreneurship Development has gaining increasing significance in developing an economy. It is an organised and systematic development. It is a tool of industrialization and a solution to unemployment problem for any country.

ENTREPRENEURSHIP DEVELOPMENT PROGRAMME – COURSE CONTENTS AND CURRICULUM OF EDPS

The course contents of an EDP should be formulated as per the objectives of the EDPs. It should consist of the following:

1. **General Approach to Entrepreneurship:**
   The participants should be given exposure about the conceptual framework of entrepreneurship role, expectation, Entrepreneurial environment etc. Innovative behaviour related issues should be focused to enlighten the entrepreneurs about their future challenges and prospects. Besides, development agencies should try to design appropriate strategies enabling the potential entrepreneur to tackle different risk inherent in an innovation activity.
   These risks are as follows:
   (i) Technical risks – the risk of not knowing enough about the technical processes, materials etc.
   (ii) Economic Risks – the risk of market fluctuations and changes in relation to raw materials etc.
   (iii) Social Risks – the risk inherent in the development of new relationship.
   (iv) Environmental Risks – risk which result from environmental changes in the manager's work as an outcome of the new activity. Moreover, prospective entrepreneurs should be given a detailed information with regard to facilities generally provided by the government and other agencies involved in promotion of entrepreneurship.

2. Motivational Training:
   Motivational training inputs are meant for developing the motivation of potential entrepreneurs and their enterprise building skills. Besides, motivational inputs also include psychological games, tests, goal setting exercises, role play etc.
   The motivational inputs will be aimed at increasing the participants, understanding of the entrepreneurial personality and entrepreneurial behaviour and bring about through self-study, changes in self-concept, value, skills thereby leading to positive entrepreneurial behaviour.
   The major motivational inputs may be given in the beginning of the training programme on full time basis though the learning effected through them will be reinforced and used throughout the training programme. The understanding of the entrepreneurial personality and behaviour will be supplemented through interface with one or two successful as well as not so successful entrepreneurs.

3. **Developing Management Skills:**
   Prospective entrepreneurs should be given exposure in different types of management problems. It would sharpen their management skills. The management problems take different forms and the management patterns are peculiar to the situation. So, training for exposing managerial skills will be arranged in keeping the situational requirements. However, managerial aspects should include production planning, labour laws, cost analysis, financial accounting, selling arrangements, taxation laws etc.
4. Training for Project Management:
   Project inputs are required to help the potential entrepreneurs to develop their project ideas into bankable projects. They should be given acquaintance with the industrial opportunities in the area and also necessary guidance on product selection. Necessary knowledge about project feasibility, viability and implementation should also be given to the potential entrepreneurs.
   Under project preparation, technical feasibility includes selection of technology, availability of raw materials, selection of location and site, availability of plant and machinery, infrastructure facilities, roads, transport, power, manpower/personnel requirement.

   Similarly, market analysis, level of competition, capital cost, working capital requirement, estimated cost of production, projected sales volume, profitability estimates, expected rate of return, projected cash flows and break even analysis are different aspects that have to be incorporated in assessing the commercial viability of the project.

   Sufficient exposure is necessary with regard to financing of the project. Financing arrangement generally includes sources of financing, promoter's contribution, level of institutional financing, seed capital, investment subsidy etc. Prospective entrepreneurs should be instructed about the importance of timely implementation of project. They should be given proper training about scheduling of various activities, provision for effective supervision and need for avoiding delay and consequent cost escalation.

5. Structural Arrangement:
   Training inputs also aim at familiarising the participants about the proposed structural arrangement for the business or industrial unit. They should be given adequate familiarisation about government policy regarding development of industries, especially with regard to small scale industries, registration and licensing procedures,

forms of organisation like proprietary, partnership, private company and Joint Stock Company, institutional setup etc.

6. Support System:
   In most of the cases, participants are generally first generation entrepreneurs and they do not know about the government and institutional support system. Support system may also be used as motivational inputs to encourage the participants about their future prospects. They should be familiarised with the incentives/concessions available, tax-incentives, tax holiday, backward/zero industries districts concessions, soft loan scheme, special schemes for technicians etc. This should be followed by acquainting them with procedure for approaching government departments and agencies, applying for and obtaining these concessions from them.
7. Factory Visits/In-Plant Training: Practical exposure is also necessary. Depending upon their products the potential entrepreneurs may feel the need to gain more knowledge about the production process etc. by visiting some of the similar units in production. For this purpose, factory visits may have to be arranged. Similarly, entrepreneurs who select relatively sophisticated products will be expected to have a good idea of the product and the process facilities should be arranged for in-plant training or prototype development on exceptional basis.

EDP –
Phases:

• Pre-Training,
• Training
• Post-Training Phases

The entrepreneurship development programme (EDP) normally runs through three important phases followed by EDP evaluation:

1. Pre-Training Phase: This is a preparatory phase for launching the programme. It is a planning phase where all requisite arrangements are made to deliver a content based and useful EDP. This stage lays the foundation for a strong EDP that can deliver desired results.

It encompasses:

i. Identification of promising area having good commercial prospects.
ii. Selection of project faculty/course coordinator who is a visionary and has relevant experience.
iii. Arrangement of infrastructural facilities for the programme like location, availability of internet, computers, food and lodging arrangements (if participants are expected to be from different cities).
iv. Conducting industrial survey/environmental scanning for identification of good business opportunities.
iv. Designing the course contents.
v. Getting support from various agencies such as DICs, SFCs, SISI etc.
vii. Advertising and publicity of EDP to reach prospective minds. Promotional campaigns through either with the help of print or electric media, leaflets, posters, etc.
viii. Selection of participants for the training program.

2. Training Phase:
   The primary thrust of training programme is to instill motivation, skill or competency amongst the budding entrepreneurs. EDP should aim to provide both theoretical and hands-on practical knowledge to various trainees.

Training phase of EDP includes:

i. Management:

They should be taught basic principles of management and their applications in real life scenarios to realise the benefits and significance of the management functions like planning, organizing, staffing, directing, controlling and coordinating. The various techniques involved in the management process must be explained. The trainer can use case studies, management games, role- plays and simulations to polish the skills acquired by the trainees.

ii- Technical Competence:

Focus should be laid upon acquiring technical competence suitable to the area selected. Industry experts may be called upon to share their experiences. It's important for the trainees to understand the basics of technology, rate of technological change in that industry and challenges ahead. A comparative analysis of present state of technology in developed and developing nations may be relevant at this stage. Entrepreneurs can get ideas best suited to their regional environments. The program may cover as details of technology, plant and machinery, major suppliers, life span, special features of the machinery etc., raw materials and their availability, manufacturing process and human resource requirements. It's important for the entrepreneurs to understand that they should not park substantial funds in fast changing technology as obsolescence is a big risk. Field trips may also be organized.

iii-Motivation and Stress Management:

The entrepreneurial training programs are designed to elevate and sustain the motivation levels of the trainees. Stress management is an important component of EDPs as entrepreneurs have to struggle through different phases before finally getting results. They should be taught stress management techniques and should also be counseled to hold-on to their beliefs and ideas. The importance of family members need to highlighted here. Entrepreneurs are strong-willed individuals who may need family support during tough times. Family members are the ones closest to entrepreneurs. Each session in the training programme should aim at strengthening their confidence and expanding their vision. Motivation level must be raised to a greater extent because only motivated participants will survive through starting and sustaining a new venture.

3. Post Training or Follow-up Phase:

Post training support services are rendered to the participants who have successfully completed the entrepreneurship.

This phase may comprise of the following steps:

(i) Assistance in registration of the enterprise.
(ii) Loan procedures and documentation.
(iii) Facilitating infrastructure like land, plant layout, purchase of plant and machinery, power connection etc.
(iv) Securing subsidies and grants and utilizing incentives given by Centre and State government.
(iv) Management consultancy and trouble shooting.
(v) Providing up-to-date information on the industry.
(vii) Meeting with EDP organizers and participants.

Sickness In small business enterprise

Definition of Sickness

- According to RBI, a sick unit is that which has incurred a cash loss for one year and is likely to continue incurring losses for the current year as well as in the following year and the unit has an imbalance in its financial structure.
- As per the definition by the Sick Industrial Companies Act, 1985. "A sick industrial unit is an industrial company (being a company registered for not less than seven years) which has at the end of any financial year accumulated losses in that financial year and in the financial year immediately preceding it.

Types of sickness

- Potential sickness/ incipient sickness
- Weak units
- Actual sickness

Causes of sickness

<u>Internal Causes -</u> These are those factors which are within the internal control of the management. Sickness arises because of the disorder of the following concerns:

1. Planning

a. **Technical feasibility**: Inadequate technical knowledge , location disadvantage, outdated production process.

b. **Economic Viability**: High Cost of Inputs, uneconomic size of project, under estimation of financial requirements, unduly large investment in fixed assets, over-estimation of demand.

2. Implementation:

Cost over-runs resulting from delays in getting licences/sanctions etc., inadequate mobilization of finance.

3. Production

Production management: Inappropriate product mix, poor quality control, high cost of production, lack of adequate timely and adequate modernization, high wastage, poor capacity utilization.

b. **Labour management:** Excessive high wage structure, inefficient handling of labour problems, excessive manpower, lack of trained/skilled component personnel.

c. **Marketing management**: Dependence on limited number of customers, poor sales realization, defective pricing policy, weak market organization, lack of market feedback and market research, lack of knowledge of marketing techniques.

d. **Financial Management**: Poor resource management and financial planning, liberal dividend policy, application of funds for unauthorized purposes, deficiency of funds, over-trading, inadequate working capital, lack of effective collection machinery.

e. **Administrative Management**: Over centralization, lack of professionalism, lack of feedback to management (management information system), lack of adequate controls, lack of timely diversification, excessive expenditure on R&D, incompetent and dishonest management.

B. <u>External Causes:</u>

a. **Infrastructural bottlenecks** – Non-availability/irregular supply of critical raw materials or other inputs, chronic power shortage, transport bottlenecks.

b. **Finance Constraints:** Another external cause for the sickness of SSIs is lack of finance. This arises due to credit restrains policy, delay in disbursement of loan by govt., unfavorable investments, etc.

c. **Government control, policies, etc**. – Government price controls, fiscal duties, abrupt changes in Government policies, procedural delays on the part of the financial/licensing/other controlling or regulating authorities (banks, RBI, financial institutions.

d-Marketing Constraints: The sickness arrives due to liberal licensing policies, restrain of purchase by bulk purchasers, changes in global marketing scenario, excessive tax policies by govt. and market recession.

e. **Extraneous factors:** Natural calamities, political situation (domestic as well as international), war, sympathetic strike, multiplicity of labour unions.

Symptoms of sickness

The symptoms may be found at various stages of a project implementation.

a) At the implementation stage

- When the management appears to deny institutional discipline by noncompliance with certain vital condition
- Lack of commitment on the management's part for supervision on implementation of the project.
- Undue delay in project implementation
- Lack of coordination with various agencies.

b) **When the project has started operations**

- Increase in receivables and payables
- Increase in the rejection rate of the finished project
- Increase in the level of inventories
- Lack of understanding between promoters
- Irregularity in the payment of institutional loans.
- Industrial relation problem

c) **Position of cash credit account**

- Find out cash credit account position from the bankers who have extended the facilities of working capital.
- Cash credit or overdraft account have been overdrawn or frequently drawn
- Cheques drawn on such account have been returned unpaid
- Bills drawn by the company remain unpaid for long periods
- Stocks are uninsured.

Cures for SSIs' sickness

The following measures can be taken to improve the efficiency of SSIs and to prevent sickness in small scale units.

- In a market oriented economy, SSIs must put greater emphasis on pragmatic planning of their functions and discover new markets with innovative product or service.
- Success for an SSI depends upon accessibility to market information and using the same effectively in business operations. The Internet has revolutionized the world and SSIs must become net savvy especially in marketing their products.
- More thrust should be given to R&D for product innovation, quality improvement, cost reduction and so on.
- More attention must also be focused on promoting professionalism in management and providing frequent training to update entrepreneurial skills and so on.
- The infrastructure facility should be improved by the Sate to enable a smooth functioning of the SSI activities.
- The modernization of plant is of utmost importance at present among the SSIs to strengthen their competitive edge and for which the government should assist by providing adequate finance at liberal terms.

ENTREPRENEURIAL ENVIRONMENT MEANING AND ITS TYPES

Introduction

- Entrepreneurship environment refers to the various facets within which enterprises- big, medium, small and other have to operate. The environment therefore, influences the enterprise. By and large, an environment created by political, social, economic, national, legal forces, etc influences entrepreneurship.
- Entrepreneurial environment is broadly classified into six important segments, namely, (1) Political environment, (2) Economic environment, (3) Social environment, (4) Technological environment, (5) Legal environment, and (6) Cultural environment

IMPORTANCE OF BUSINESS ENVIRONMENT

There is a close and continuous interaction between the business and its environment. This interaction helps in strengthening the business firm and using its resources more effectively. As stated above, the business environment is multifaceted, uncertain, and dynamic in nature which has a far-reaching impact on the survival and growth of the business. To be more specific, proper understanding of various aspects of business environment such as social, political, legal and economic helps the business in the following ways:

(i) First Mover Advantage: Early identification of opportunities helps an enterprise to be the first to exploit them instead of losing them to competitors. For example, Maruti Udyog became the leader in the small car market because it was the first to recognize the need of small cars in India.

(ii) Identification of Threats: Identification of possible threats helps in taking corrective and improving measures to survive the competition. For instance; if an Indian firm finds that a foreign multinational is entering the Indian market, it can meet the threat by adopting measures like, by improving the quality of the product, reducing cost of the production, engaging in aggressive advertising, and so on.

(iii) Coping with Rapid Changes: All types of enterprises are facing increasingly dynamic environment. In order to effectively cope with these significant changes, firms must understand and examine the environment and develop suitable course of action.

(iv) Improving Performance: The enterprises that continuously monitor their environment and adopt suitable business practices are the ones which not only improve their present performance but also continue to succeed in the market for a longer period.

(v) Giving Direction for Growth: The interaction with the environment leads to opening up new frontiers of growth for the business firms. It enables the business to identify the areas for growth and expansion of their activities.

(vi) Meeting Competition: It helps the firms to analyse the competitors' strategies and formulate their own strategies accordingly in order to cope with the rapidly increasing competition.

(vii) Image Building: Environmental understanding helps the business organisations in improving their image by showing their sensitivity to the environment within which they are working. For example, in view of the shortage of power, many companies have set up Captive Power Plants (CPP) in their factories to meet their own requirement of power and saving to loss of energy in transmission.

(viii) Continuous Learning: Environmental analysis makes the task of managers easier in dealing with business challenges. The managers are motivated to continuously update their knowledge, understanding and skills to meet the predicted changes in realm of business.

TYPES OF BUSINESS ENVIRONMENT

There are mainly two types of business environment, internal and external. A business has absolute control in the internal environment, whereas it has no control on the external environment. It is therefore, required by businesses, to modify their internal environment on the basis of pressures from external.

INTERNAL ENVIRONMENT

The internal environment has received considerable attention by firms. Internal environment contains the owner of the business, the shareholders, the managing director, the non-managers, employees, the customers, the infrastructure of the business organization, and the culture of the organization.

It includes 6 Ms i.e. –
Man (Human Resource) –
Money (Financial Factors)
– Marketing Resources
– Machinery (Physical Assets)
– Management Structure and Nature
– Miscellaneous Factors (Research and Development, Company Image and Brand Equity, Value System, Competitive Advantage)

Usually, these factors are within the control of business. Business can make changes in these factors according to the change in the functioning of enterprise.

EXTERNAL ENVIRONMENT

The external environment of an organisation comprises of all entities that exists outside its boundaries, but have significant influence over its growth and survival. An organisation has little or no control over its external environment but needs to constantly monitor and adapt to these external changes. A proactive or reactive response leads to significantly different outcomes.

There are two types of external environment
– Micro/Operating Environment
– Macro/General Environment

MICRO ENVIRONMENT

The micro environment is also known as the task environment and operating environment because the micro environmental forces, though are external factors, still have a direct bearing on the operations of the firm. The micro environment consists of the factors in the company's immediate environment that affects the performance and working of the company. The micro environmental factors are more intimately linked with the company than the macro factors. The micro forces need not necessarily affect all the firms in a particular industry in the similar ways. Some of the micro factors may be particular to any given type of organisation.

Micro environmental factors, internal factors close to a business that have a direct impact on its strategy includes:
– Customers
– Employees
– Suppliers
– Shareholders
– Media
– Competitors

(i) Customers: Organizations survive on the basis of meeting 'customer needs and wants' and providing benefits to their customers. Failure to do so will result in a failed business strategy. This includes offering customers the best quality products at reasonable prices.

(ii) Employees: Employing the correct staff and keeping staff motivated is an essential part of an organization's strategic planning process. Training and development play a critical role in achieving a competitive edge; especially in service sector marketing. Employees have a substantial influence on the success of the enterprise. They help in executing the policies and plans of business. If this factor is not given, as much attention as it requires, it may prove to be non beneficial for the organisation as employees after customer, are the backbone of the organisation.

(iii) Suppliers: Suppliers provide businesses with the materials they need to carry out their manufacturing and production activities. A supplier's behaviour will directly impact the business it supplies. For example, if a supplier provides a poor service, this could increase timescales or lower product quality. An increase in raw material prices will affect an organization's marketing mix strategy and may even force price increases. Close supplier relationships are an effective way to remain competitive and secure quality products.

(iv) Shareholders: A shareholder is an individual that invests into company's business. They own shares of the company thereby end up owning the company itself. Therefore, they have the right to vote on decisions that affect the operations of company. This means that shareholders affect the functions of the business. The introduction of public shareholders brings new pressures as public shareholders want a return from their money invested in the company. Shareholder pressure to increase profits will affect organizational strategy. Relationships with shareholders need to be managed carefully as rapid short term increases in profit could detrimentally affect the long term success of the business, if all is distributed as dividend. On the other hand, to keep shareholder's motivation, appropriate dividends are needed to be distributed. There has to be a balance between health of the organisation and interests of shareholders.

(v) Media: Positive media attention can 'make' an organisation (or its products) and negative media attention can 'break' an are required. Organizations need to mange the media so that it helps promote the positive things about the organisation and conversely reduce the impact of a negative event on their reputation. Some organizations will even employ public relations (PR) consultants or 'gurus' to help them manage a particular event or incident. Consumer television programmes with a wide and more direct audience can also have a very powerful impact on the success of an organisation. Some business recognizes this and uses media support for building their image and reputation.

(vi) Competitors: The name of the game in marketing a product is differentiation. Can the organisation offer benefits that are better than those offered by competitors? Does the business have a unique selling point (USP)? Competitor analysis and monitoring is crucial if an organisation is to maintain or improve 10 FP-BE&E its position within the market. If a business is unaware of its competitor's activities, they will find it very difficult to 'beat' them. The market can move very quickly, whether that is a change in trading conditions, consumer behaviour or technological developments. As a business, it is important to examine competitors' responses to the changes, so that firm can maximize the benefits.

MACRO ENVIRONMENT

Macro environment is also known as general environment and remote environment. Macro factors are generally more uncontrollable than micro environment factors. When the macro factors become uncontrollable, the success of company depends upon its adaptability to the environment. This environment has a bearing on the strategies adopted by the firms and any changes in the areas of the macro environment are likely to have a far reaching impact on their operations.

The macro environment is primarily concerned with major issues and upcoming changes in the environment.

The acronym for the macro analysis is "STEEP." The five areas of interest are:

– Socio-Cultural and Demographics
– Technology
– Economic Conditions
– Ecology and Physical Environment
– Political and Legal

(i) Socio Cultural and Demographics: Societal values and lifestyles change over time, and the most important of these; directly or indirectly leave an impact on the business environment. For example, over the past generation, it has become acceptable for women to work; people are not retiring at 65; and people are more aware of the environment etc.

The changes in culture and lifestyle may come from many sources: medical (smoking, healthy eating, exercises); science (global warming, going 'green'); economic (people working longer, women in the workforce); cultural diversity (music preferences, foods, living accommodations, medicine); and technologies (biodegradable plastic) are just a few examples.

These changes will be important to the industry and to the business. The social environment of business includes social factors like customs, traditions, values, beliefs, poverty, literacy, life expectancy rate etc. The social structure and the values that a society cherishes have a considerable influence on the functioning of business firms. For example, during festive seasons, there is an increase in the demand for new clothes, sweets, fruits, flower, etc. Due to increase in literacy rate, the consumers are becoming more conscious of the quality of the products. Due to change in family composition, more nuclear families with single child concepts have come up. This increases the demand for the different types of household goods. It may be noted that the consumption patterns, the dressing and living styles of people belonging to different social structures and culture vary significantly.

Demographics refer to the size, density, distribution and growth rate of population. All these factors have a bearing on the demand for various goods and services. For example, a country where population rate is high and children constitute a large section of population, and then, there will be more demand for such products. Similarly, the demand of the people of cities and towns are different than that of people of rural areas. The high rise of population indicates the easy availability of labour. These encourage the business enterprises to use labour intensive techniques of production. Moreover, availability of skilled labour in certain areas motivates the firms to set up their units in such area. For example, the business units from America, Canada, Australia, Germany, UK, are coming to India due to easy availability of skilled manpower. Thus, a firm that keeps a watch on the changes on the demo graphic front and reads them accurately will find opportunities knocking at its doorsteps.

ii- **Technology**: Technology is understood as the systematic application of scientific or other organised knowledge to practical tasks. Technology changes fast and to keep the pace with the dynamics of business environment; organisation must be on its toes to adapt to the changed technology in their system. The business in a country is greatly influenced by the technological development. The technology adopted by the industries determines the type and quality of goods and services produced. Technological environment influences the business in terms of investment in technology, consistent application of technology and the effects of technology on markets. Technological environment include the methods, techniques and approaches adopted for production of goods and services and its distribution. The varying technological environments affect the designing of products in different countries. Technology encompasses something more than computers. Technology comes in many forms such as medical devices, new plastics, and production techniques.

iii- Economic Conditions: There is a close relationship between business and its economic environment. It obtains all inputs from economic environment and all its output is absorbed here with. The state of the economy is usually in flux. The current situation (specific to the industry) and any changes that may be forecast are important. The economy goes through a series of fluctuations associated with general booms and recessions in economic activity. In a boom nearly all business are benefited whereas recession is a case vice versa. Business is influenced by economic aspects like interest rates, wage rates etc. The survival and success of each and every business enterprise depends fully on its economic environment. The main factors that affect the economic environment are:

– Economic Conditions: The economic conditions of a country refer to a set of economic factors that have great influence on business organizations and their operations. These include gross domestic product, per capita income, markets for goods and services, availability of capital, foreign exchange reserve, growth of foreign trade, strength of capital market etc. All these help in improving the pace of economic growth.

Economic Policies: All business activities and operations are directly influenced by the economic policies framed by the government from time to time. Some of the important economic policies are:

- Industrial Policy
- Fiscal Policy Monetary Policy
- Foreign Investment Policy
- Export –Import Policy (EXIM Policy)

The government keeps on changing these policies from time to time in view of the developments taking place in the economic scenario, political expediency and the changing requirement. Every business organization has to function strictly within the policy framework and respond to the changes therein.

– Economic System: The world economy is primarily governed by three types of economic systems, viz., (i) Capitalist economy; (ii) Socialist economy; and (iii) Mixed economy. The type of economic system influences greatly the choice of business.

(iv) Ecology and Physical Environment: The ecology and physical environment plays a large part in many businesses – especially for those which carry out production and manufacturing activities. Infact, business are affected on daily basis due to enviornmental and ecological changes. For example, the impact of climate change must be considered: water and fuel costs could change dramatically, if the world warms by only a couple of degrees. The natural environment includes geographical and ecological factors that influence the business operations. These factors include the availability of natural resources,

Identification of opportunities and Converting Business Opportunities into reality

Entrepreneurial opportunities are situations that help businesses in selling products higher than the cost. Let's learn how to utilise entrepreneurial opportunities.

An entrepreneur is always aware of the changes in the market or business, reacts to them, and seizes an opportunity. An entrepreneur has a passion, determination, pressure handling ability, and is innovative. Determining a consumer's key concerns is the first stage in producing a new product for entrepreneurs.

The opportunities identified by entrepreneurs that can provide quality goods or services to society are known as **entrepreneurial opportunities.** We can say that **entrepreneurial opportunities** exist when new commodities, new sources of raw materials, new services, and more are introduced and sold for more than their cost of production.

What is an Entrepreneurial Opportunity?

The concept of a company should be unique; it should help the business to survive. Moreover, we need more than just a concept to establish a business. Most young businesses begin by identifying and clearly describing an **entrepreneurial opportunity** and then attempt to craft a strong vision after recognising the existence of the opportunity. Opportunities are perishable; they require work and must create some customer value. The point at which recognised consumer demands meet the practicality of delivering the demanded services or products are **entrepreneurial opportunities**.

What is Problem Identification?

Problem identification is a fundamental way of identifying the problem at hand so that we can comprehend the objective that we are trying to achieve or the issue we are trying to address. Problem identification allows us to go to the source of the issue, learn how it affects us or others, and develop a viable solution.

Sometimes, deep research and development can identify problems, whereas problems can be identified by chance at other times.

The process of problem identification should help in clearly stating the problem. It should also help identify the target group of people facing this problem.

Importance of Problem Identification

Problems arise from time to time, and the client expects an immediate solution. The entrepreneur solves the problem by introducing new items or services. The entrepreneur is usually the one who recognises the issues.

Learning the concept of problem identification is crucial for all entrepreneurs since without identifying a practical problem, no effective product can be produced.

Some reasons which define the importance of problem identification are as follows:

1. The entrepreneur can use problem identification to identify the market's needs and challenges and introduce new products.
2. Problem identification helps in developing creative abilities.
3. Once the problem is identified, it boosts the number of jobs created in the economy.
4. An increase in the number of jobs leads to a boost in the country's national revenue.

Entrepreneurial Opportunities/Idea Generation

Every company's idea should be established on a thorough understanding of the market and the market's requirements. Customers, or those who might desire to buy the goods or services, can be referred to as the market. The market is different in each location. When we understand the local market, we may notice several business opportunities that we may have previously overlooked.

The first step is to generate as many ideas as possible and create a list of all potential business prospects. Next, we can go through the list and select the idea(s) that seem the most practical and profitable.

What is Idea Generation?

Idea Generation can be defined as the deliberate process of generating, developing, and transmitting abstract, tangible, or visual ideas for a problem. Idea generation is based on idea fields. Idea fields are the well-structured frames of reference that guide the idea generation process. There are various methods for generating ideas, including polling local area businesses or questioning current business owners. We will look at a few different techniques that help in Idea generation.

Getting Ideas from the experience of already successful entrepreneurs:

Whenever a person needs an idea for their business, they should always look for someone who has already gone through establishing a successful business. There are always many questions in the entrepreneur's mind, and they should make sure they get their answers from successful business owners. These questions can be regarding the kind of idea that these businesses initially invested in, from where they got those ideas, how they found the profitability of the ideas, and how they developed those ideas into businesses.

Drawing from personal experiences:

Examine your list of interests, experiences, and connections. Is there anything you can learn from your prior experiences and use to start a business? Examine each of your experiences like a customer in a marketplace. Have you ever spent an entire day looking for something you could not locate in any store in your area? Consider the items and services you have always wanted that are difficult to obtain. If many people require that item or service, that can be an **entrepreneurial opportunity**.

Opportunity Screening

Opportunity screening in entrepreneurship is an essential technique. In this technique, we can utilise our business environment screening skills to develop new business concepts in our locality. Take a look at the list of local businesses in your locality that already exist.

Opportunity screening in entrepreneurship is an attempt to comprehend and analyse which of the existing markets can offer the best entry chances and whether or not those identified entrepreneurial opportunities are viable in the long run.

Consider all the resources and establishments in your area while brainstorming startup ideas. You should consider the following factors:

1. Availability of natural resources
2. Availability of talented and skilled labour
3. Import substitution
4. Trade fairs and exhibitions

Brainstorming

Brainstorming is an organised constructive interaction in which a group of people get together to develop a variety of unique business ideas to address requirements or solve some problems. They begin with a phrase or a subject and then note down everything that immediately springs to mind about that topic, even if it seems irrelevant or strange.

Good ideas might emerge from concepts that may seem strange at first. Brainstorming is most effective when done in a group. Even after establishing a successful business, most big companies generate business ideas for intrapreneurial and entrepreneurial opportunities through brainstorming.

Legal formalities in setting up of SSIs business laws

- A strong entrepreneur is the most vital aspect of every successful project.
- In order to set up a small-scale industry, a suitable project has to be decided upon.
- This involves selecting a product or service and a location for the unit.
- An entrepreneur has to prepare a business plan.
- Depending on the type of project, location, investment involved and so on.
- The entrepreneur has to proceed to take further steps in establishing the unit.

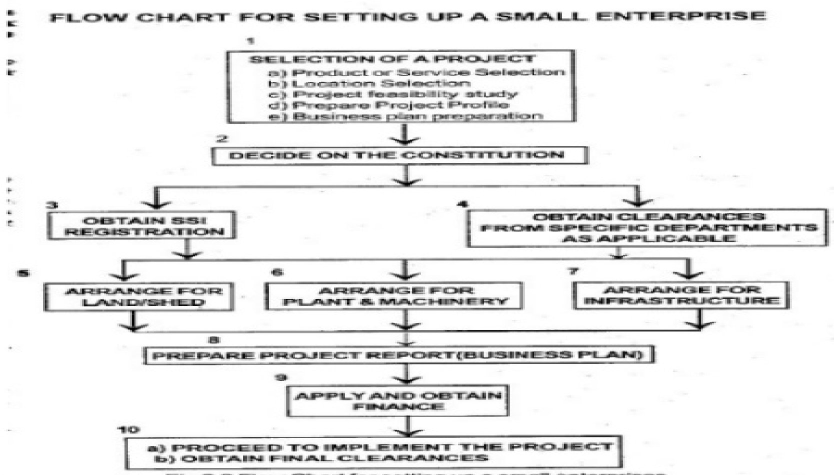


Fig 6.2 Flow Chart for setting up a small enterprises

a) Product or service selection
- Background and experience of the entrepreneur
- Availability of technology and know- how for the project
- Marketability of the product/service.
- Investment capacity.
- Availability of plant and machinery.
- Availability of raw materials.
- Availability of proper infrastructure facilities.

b) Location selection

- Proximity of market
- Availability of raw materials
- Availability of transportation and communication facilities
- Availability of incentives
- Government policy
- Availability of suitable infrastructure facilities
- Convenience for the promoter.

c) Project Feasibility study
- Market Analysis
- Technical analysis
- Financial analysis
- Economic analysis
- Ecological analysis

d) Business plan preparation
- A business plan is a document where you plan your business to have an organized and effective response to a situation which may arise in future.
- A workable business plan has the following feature:

1. Determines where the company needs to go
2. Formulates responses to contingencies
3. Keeps the business on track to reach its planned goals.

e) Project profile
- A project profile gives a bird's eye view of the proposed project.

- This may be used for obtaining the Provisional Registration Certificate (PRC) from the District Industries Centre and for making, applying for Industrial Areas Development Board for land or state small Industries Development Corporation for shed and other infrastructure.

2- Decide on the constitution

To start an industry, the promoter have to decide on the constitution of the unit. There are four major alternative.

A- Sole proprietorship
B- Partnership
C- Limited company
D- Cooperative
E- Franchise

3- Registration

A-Obtain SSI Registration
B- Provisional Registration Certificate
C-Registration Formalities
D-Permanent registration certificate
E- Registration Formalities
F- Benefits of registration

4-Clearances from specific department

- Several clearances are required from different authorities depending on the type of industry and the location of the unit.

A. Agricultural land conversion
B. Factories Act
C. Pollution Control Board clearances
D. Electronics industries registration

5- Arrange for land/ shed

- For any industrial project, a suitable industrial site or a ready industrial shed is required.
- The promoters of the unit could consider taking an industrial site and constructing a shed as per their requirement.

Application formalities

- Copy of provisional Registration certificate (PRC)
- Detailed project report
- Certified copies in support of educational qualification, experience and other categories as may be applicable.
- Applicable earnest money deposit.

6- Arrange for plant and machinery

- The project could be purchased from recognized manufacturers/ dealers.
- The plant and machinery could be taken on a hire purchase scheme operated by the National Small Industries Corporation (NSIC).
- This is a government of India corporation.

Direct purchase –

- The entrepreneur has to select and buy the required plant and machinery from recognized and approved manufacturers or dealers. Banks and State Financial Corporations maintain a list of approved machinery suppliers.
- The entrepreneur is advise to refer to such a list before deciding on the suppliers. Raw materials-
- It must be bought from reputed dealers and agencies only and before ordering prices must be compared and 3 to 4 quotations invited.
- It is necessary to check whether the price is inclusive or exclusive of transportations cost.
- While receiving the delivery, quality and quantity of the material must be checked.

7- Arrange for infrastructure

- The main infrastructure facilities required for a SSI units are land or shed for the project, power connection, water supply and telephone facility.
- Single window Agencies (SWAs)are set up at district level for the benefit of small-scale industries.
- It provides clearances for various infrastructure and other facilities for the micro and small scale industries.

Single window Agencies (SWAs) provides following assistance :

- ❑ Grants of land in industrial areas and allotment of sheds in the industrial estates for all micro and small scale units.
- ❑ Grant of power upto the limit prescribed by the State government.
- ❑ To review and recommend sanction of term loans and working capital loans by the State Financial Corporation and commercial banks within the district for the new and existing micro and small scale industries.
- ❑ Grant and disbursement of all incentives and concessions for micro and small scale industries.

8- Prepare project report

- The report is useful to the entrepreneur for planning and implementing the project.
- It is essential for obtaining finance and other clearances for the project.
- The project repost gives a detailed insight of the project and indicated the techno-economic viability of the project.

The project repost is generally prepared to cover the following 7 broad segments :

- Executive summery
- Existing company details
- Operational details of the existing company
- Project details
- The company vis-avis related industry
- Conclusion
- Annexure

Prepare project report Format

- Below is the sequence of standard format which should be followed while preparing new business project report:

1- Background of the business

2-Customer's profile

3-Long and short term Corporate Objectives

  - To perform a viability assessment of the proposed new business ideas in terms of marketability, technical feasibility, financing and authorities
  - To be able to prepare a relevant business plan
  - To recognize fundamental startup issues

4- Market Analysis

- Brief discussion on the type of market, chief influencers, players, etc
- Market description
- Reasons for starting business in a particular market
- Target clients
- Advantages of the services offered by the new business
- Market consumption patterns
- Past and existing supply location
- Production prospects and limitations
- Exports and Imports
- Price structure
- Flexibility of demand
- Client behavior, purposes, intentions, impetus, approaches, inclinations and needs
- Supply network and marketing rules formulated by the government
- Government and technical limitations imposed on the promotion of the product

5- Financial Assessment
- Investment expenditure and value of the entire project
- Methods of investment
- Anticipated productivity
- Money flows of the project report
- Investment value evaluated in context of different points of merit
- Estimated financial ranking

Marketing Assessment
- Product
- Price
- Place
- Promotion

7- Operational Plan
- Business models
- Production of goods and services

8- Financial Plan

9- Management Structure

10- Business structure (Ownership, staff, etc)

11- SWOT Analysis
- Significant Success aspects depending on Strengths, Weaknesses, Opportunities and Threats to be faced by the firm in future

12-Appendices
- Break-Even Assessment
- Profit and Loss Synopsis
- Fund Flow Summary

9- Apply and obtain Finance

There are following sources of funds:
- Share capital
- Deposits
- Debentures
- Short term borrowings
- Long term loans
- Working capital

Arranging Finance

- Can taking the help of a CA or the concerned officials in the Entrepreneurship Development Institutions to work out the total financial cost of your project.
- Decide the form in which you are going to raise the capital- equity finance, debt finance, loans or a combination of these.
- Financial assistance in India for SSI units are available from a Varity of institutions like:

➢ Small industries Development Bank of India
➢ National small Industry Corporation
➢ Small Industry Development Corporations of various states
➢ Commercial/ Cooperative Banks
➢ District Industry Centre
➢ In addition large term loans are available from all financial institution.

10- Implement the project and obtain final clearances

- Payment of Income tax- ITO of the area concerned
- Registration of partnership deed- Inspector General of area concerned
- Power connection- designated officer of State Electricity Board
- Employee strength exceeding 10 with power connection or 20 without power- Chief Inspector of Factories

Governmental setup in promoting small industries
Introduction

- The industries which are organized on a small scale and produce goods with the help of small machines, hire labour and power are called as SSI
- Scale industry is defined as a unit in which investment in original value of plant and machinery should not exceed Rs- 1.5 cr.

Govt. Policies for SSI
Reservation for manufacturing

- Industrial policy resolution 1948
- Industrial policy resolution 1956
- Industrial policy resolution 1977
- Industrial policy resolution 1980
- Industrial policy resolution 1990
- Industrial policy resolution 1991

Reservation for manufacturing
The reservation policy has 2 objectives:

- Ensure increased production of consumer goods in the small scale sector.
- Expand employment opportunities through setting up of small scale industries.

Industrial policy resolution 1948

- The government stressed the role of SSIs for balanced industrial growth.
- It was stated that SSIs are particularly suited for the utilization of local resources and creation of employment opportunities.

Industrial policy resolution 1956

- It stated that besides continuing the policy support to cottage, village and small industries by differential taxation or direct- subsidies, the aim of state policy would be that the development of this sector is integrated with that of large scale industry.

Industrial policy resolution 1977

- It emphasize that whatever can be produced by SSIs must only be so produced.
- The main trust of policy was effective promotion of cottage, village and small industries widely dispersed in rural areas and small towns.

This thinking specified the following things:-

1- 504 items were reserved for exclusive production in the small scale industries.
2- 2-The concept of District Industries centers was introduced so that in each district a single agency could meet all the requirements of SSIs under one roof.
3- 3- Technological up gradation was emphasized in traditional sector.
4- 4- Special marketing arrangements through the provisional of services, such as product standardization, quality control, marketing survey were laid down.

Industrial policy resolution 1980

- Investment limit was raised for micro, small and ancillary units to Rs- 2 lacs, Rs- 20 lacs and Rs- 25 lacs respectively.
- Reservation of items and marketing support for small industries was to continue.
- Availability of credit to growing SSI units was continued.
- Agricultural base was to strengthen by providing preferential treatment to agro based industries.
- Stress was reiterated to upgrade technology to improve competitiveness.
- Special emphasis was laid on training of women and youth under entrepreneurial development progemmed.
- Activities of Khadi and Village industries commission and Khadi and village industries board were to expand.

Industrial policy resolution 1990

- It raised the investment ceiling in plant and machinery for SSI.
- It created central investment subsidy for this sector in rural and backward areas. Also assistance was granted to women entrepreneurs base.
- Reservation of items to be produced by SSIs was increased to 836.
- Small industries development Bank India was established to ensure adequate flow of credit to SSIs.

Industrial policy resolution 1991

- SSIs were exempted from licensing for all articles of manufacture.
- The investment limit for micro enterprise was raised to Rs- 5 lacs irrespective location.
- Equity participation by other industrial undertaking was permitted up to a limit 24% of shareholding in SSIs.
- Factoring services were to launch to solve problem of delayed payment to SSIs.
- Priority was accorded to small and micro units in allocation of indigenous and raw materials.
- Marketing promotion of product was emphasized through cooperatives, public institution and other marketing agencies and corporations.

What is an Industrial Undertaking?

According to section 3 (d) of the Industries (Development and Regulation) Act, 1951, ‘industrial undertaking’ means any undertaking pertaining to a scheduled industry carried on in one or more factories by any person or authority including government. In this article, we provide an overview of the concepts of small scale industrial undertaking, ancillary industrial undertaking and control of one industrial undertaking by any other industrial undertaking.

Small Scale Industrial Undertaking

- A small scale industrial undertaking is defined as related to which the investment in fixed assets in plant and machinery whether they are held on ownership terms on lease or according to terms of hire purchase is not in excess of Rs. 10 million.

	Manufacturing sector	Service sector
Micro	Not exceed Rs- 25 lakhs	Does not exceed 10 lakhs rupees
Small	More than 25 lakhs rupees but does not exceed 5 cr. rupees	More than 10 lakhs rupees but does not exceed 2 cr. rupees
Medium	More than 5 cr. rupees but not exceed 10 cr. rupees	More than 2 cr rupees but not exceed 5 cr. Rupees.

Start up Meaning

- The government of India has announced 'Startup India' initiative for creating a conducive environment. The various Ministries of the Government of India have initiated a number of activities for the purpose.
- The Ministry of Commerce of Industry (Department of industrial Policy and promotion) an entity will be identified as a startup:
- Till up to 5 years from the date of incorporation.
- If its turnover doesn't exceed 25 cr. In the last 5 financial years.
- It is working towards innovation, development, deployment and commercialization of new products, processes or services driven by technology or intellectual property.

Accounting for small business

Accounting for small businesses is done by keeping a complete record of all the income and expenses and accurately extracting financial information from business transactions. This is a necessary chore that helps small business owners track and manage their money effectively – especially during the early stages. Besides keeping you cognizant about your business' past and present performance, small business accounting also helps in generating invoices and completing payroll.

Working Capital Management

Working capital management is also one of the important parts of the financial management. It is concerned with short-term finance of the business concern which is a closely related trade between profitability and liquidity. Efficient working capital management leads to improve the operating performance of the business concern and it helps to meet the short- term liquidity. Hence, study of working capital management is not only an important part of financial management but also are overall management of the business concern.

Working capital is described as the capital which is not fixed but the more common uses of the working capital is to consider it as the difference between the book value of current assets and current liabilities.

Meaning

Working Capital is a part of the capital which is needed for meeting day to day requirement of the business concern. For example, payment to creditors, salary paid to workers, purchase of raw materials etc., normally it consists of recurring in nature. It can be easily converted into cash. Hence, it is also known as short-term capital.

Definitions:

According to the definition of **Mead, Baker and Malott,** "Working Capital means Current Assets".

According to the definition of **J.S.Mill,** "The sum of the current asset is the working capital of a business".

According to the definition of **Weston and Brigham,** "Working Capital refers to a firm's investment in short-term assets, cash, short-term securities, accounts receivables and inventories".

Concept of Working Capital

Working capital can be classified or understood with the help of the following two important concepts.

A. Gross Working Capital

Gross Working Capital is the general concept which determines the working capital concept. Thus, the gross working capital is the capital invested in total current assets of the business concern.

Gross Working Capital = Current Assets

Gross Working Capital is simply called as the total current assets of the concern.

B. Net Working Capital

et Working Capital is the specific concept, which, considers both current assets and current liability of the concern.

Net Working Capital is the excess of current assets over the current liability of the concern during a particular period.

If the current assets exceed the current liabilities it is said to be positive working capital; it is reverse, it is said to be Negative working capital.

Net Working Capital = Current Assets – Current Liabilities

Nature of Working Capital:

The nature of working capital is as discussed below:

1. It is used for purchase of raw materials, payment of wages and expenses.
2. It changes form constantly to keep the wheels of business moving.
3. Working capital enhances liquidity, solvency, creditworthiness and reputation of the enterprise.
4. It generates the elements of cost namely: Materials, wages and expenses.
5. It enables the enterprise to avail the cash discount facilities offered by its suppliers.
6. It helps improve the morale of business executives and their efficiency reaches at the highest climax.
7. It facilitates expansion programmes of the enterprise and helps in maintaining operational efficiency of fixed assets.

Significance / Need for Working Capital:

Working capital plays a vital role in business. This capital remains blocked in raw materials, work in progress, finished products and with customers.

The needs for working capital are as given below:

1. Adequate working capital is needed to maintain a regular supply of raw materials, which in turn facilitates smoother running of production process.
2. Working capital ensures the regular and timely payment of wages and salaries, thereby improving the morale and efficiency of employees.
3. Working capital is needed for the efficient use of fixed assets.
4. In order to enhance goodwill a healthy level of working capital is needed. It is necessary to build a good reputation and to make payments to creditors in time.
5. Working capital helps avoid the possibility of under-capitalization.
6. It is needed to pick up stock of raw materials even during economic depression.
7. Working capital is needed in order to pay fair rate of dividend and interest in time, which increases the confidence of the investors in the firm.

Importance of Working Capital:

Working capital is a vital part of a business and can provide the following advantages to a business:

1. **Higher return on capital:** Firms with lower working capital will post a higher return on capital. Therefore, shareholders will benefit from a higher return for every dollar invested in the business.
2. **Improved credit profile and solvency:** The ability to meet short-term obligations is a pre- requisite to long-term solvency. And it is often a good indication of counterparty's credit risk. Adequate working capital management will allow a business to pay on time its short-term obligations. This could include payment for a purchase of raw materials, payment of salaries, and other operating expenses.
3. **Higher profitability:** According to some researchers, the management of account payables

and receivables is an important driver of small businesses' profitability.

4. **igher liquidity:** A large amount of cash can be tied up in working capital, so a company managing it efficiently could benefit from additional liquidity and be less dependent on external financing. This is especially important for smaller businesses as they typically have limited access to external funding sources. Also, small businesses often pay their bills in cash from earnings so efficient working capital management will allow a business to better allocate its resources and improve their cash management.
5. **Increased business value:** Firms with more efficient working capital management will generate more free cash flows which will result in higher business valuation and enterprise value.
6. **Favorable financing conditions:** A firm with a good relationship with its trade partners and paying its suppliers on time will benefit from favorable financing terms such as discount payments from its suppliers and banking partners.
7. **Uninterrupted production:** A firm paying its suppliers on time will also benefit from a regular flow of raw materials, ensuring that the production remains uninterrupted and clients receive their goods on time.

8. Ability to face shocks and peak demand: Efficient working capital management will help a firm to survive through a crisis or ramp up production in case of an unexpectedly large order.

Classification of Working Capital:

Working capital may be of different types as follows:

(a) **Gross Working Capital:** Gross working capital refers to the amount of funds invested in various components of current assets. It consists of raw materials, work in progress, debtors, finished goods, etc.

(b) **Net Working Capital:** The excess of current assets over current liabilities is known as Net working capital. The principal objective here is to learn the composition and magnitude of current assets required to meet current liabilities.

(c) **Positive Working Capital:** This refers to the surplus of current assets over current liabilities.

(d) **Negative Working Capital:** Negative working capital refers to the excess of current liabilities over current assets.

(e) **Permanent Working Capital:** The minimum amount of working capital which even required during the dullest season of the year is known as Permanent working capital.

(f) **Temporary or Variable Working Capital:** It represents the additional current assets required at different times during the operating year to meet additional inventory, extra cash, etc.

Components of Working Capital:

Working capital is composed of various current assets and current liabilities, which are as follows:

(A) **Current Assets:** These assets are generally realized within a short period of time, i.e. within one year.

Current assets include:

(a) Inventories or Stocks
- (i) Raw materials
- (ii) Work in progress
- (iii) Consumable Stores
- (iv) Finished goods

(b) Sundry Debtors
(c) Bills Receivable
(d) Pre-payments
(e) Short-term Investments
(f) Accrued Income and
(g) Cash and Bank Balances

(B) **Current Liabilities:** Current liabilities are those which are generally paid in the ordinary course of business within a short period of time, i.e. one year.

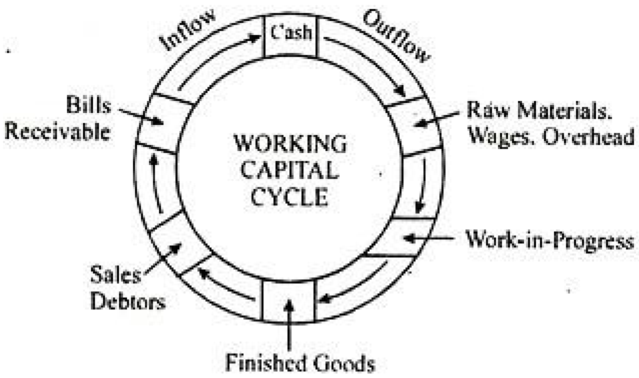
Current liabilities include:

(a) Sundry Creditors
(b) Bills Payable

(c) Accrued Expenses
(d) Bank Overdrafts
(e) Bank Loans (short-term)
(f) Proposed Dividends
(g) Short-term Loans
(h) Tax Payments Due

Operating Cycle Approach / Working Capital Cycle

Every business organisation needs adequate working capital because the conversion of cash into finished goods to debtors and back to cash is not instantaneous. It takes some time. For example, in a manufacturing firm, cash is used to purchase raw materials. They are not consumed immediately. They remain some time in stores in order to ensure smooth production and to protect the firm against the risk of non-availability of raw materials in future. Then they are issued from stores to production centre for conversion. This conversion also generally takes some time. When certain expenses such as wages and overheads are incurred on it, it gets itself converted into semi-finished goods or work-in-progress and, finally, into finished goods. These finished goods will have to be stored for some time before sale. Next, finished goods are sold to customers which may take the form of cash or receivables/debtors. Receivable/ debtors, when realised, again take the form of cash and the cycle starts again.



This can be explained with the help of the following diagram:

The continuing flow from cash to suppliers, to inventory, to accounts receivable and back into cash is called the working capital cycle or operating cycle. In other words, the term operating cycle refers to the length of time which begins with the acquisition of raw materials of a firm and ends with the final realisation of cash from debtors.

The amount of working capital depends upon the length of working capital cycle. Longer the working cycle, higher is the need of working capital to be maintained. This is because the

fund will then remain tied-up in various items of current assets for a longer period. The length of operating cycle varies from industry to industry and from business to business.

A merchandising concern will have a shorter operating cycle as it deals in finished products. On the other hand, in a service enterprise, operating cycle is shortest and involve conversion of cash into debtors and debtors into cash.

Thus, if raw materials remain in store for, say, 30 days, the conversion or processing period is 45 days, finished goods remain in store for 30 days and debts collection period is 40 days then the total of this period (i.e., 30 + 45 + 30 + 40 or 145 days) is referred to as Gross Operating Cycle. Business enterprises receive credit in the purchase of raw materials from suppliers. This payment deferral period reduces the length of working capital.

The net-working cycle period is ascertained by deducting from gross operation cycle the payment deferral period or period of credit granted by suppliers of raw materials. If period of credit given by supplier is 45 days, then Net Operating Cycle is 100 days (i.e., 145 days – 45 days). Similar conclusions can also be drawn for other elements of cost i.e., for direct wages and overheads. In the case of direct wages and overheads, the operating cycle starts with the work- in-progress or processing time as there will be no raw materials storage period.

Sources of Working Capital Finance

Working Capital requirement can be normalized from short-term and long-term sources. Each source will have both merits and limitations up to certain extract. Uses of Working Capital may be differing from stage to stage

Short-Term Sources of Working Capital:

1. Indigenous Bankers:

Private money-lenders and other country bankers used to be the only source of finance prior to the establishment of commercial banks. They used to charge very high rates of interest and exploited the customers to the largest extent possible. Now-a-days with the development of commercial banks they have lost their monopoly. But even today some business houses have to depend upon indigenous bankers for obtaining loans to meet their working capital requirements.

2. Trade Credit:

Trade credit refers to the credit extended by the suppliers of goods in the normal course of business. As present day commerce is built upon credit, the trade credit arrangement of a firm with its suppliers is an important source of short-term finance. The credit-worthiness of a firm and the confidence of its suppliers are the main basis of securing trade credit. It is mostly granted on an open account basis whereby supplier sends goods to the buyer for the payment to be received in future as per terms of the sales invoice. It may also take the form of bills payable whereby the buyer signs a bill of exchange payable on a specified future date.

When a firm delays the payment beyond the due date as per the terms of sales invoice, it is called stretching accounts payable. A firm may generate additional short-term finances by stretching accounts payable, but it may have to pay penal interest charges as well as to forgo cash discount. If a firm delays the payment frequently, it adversely affects the credit worthiness of the firm and it may not be allowed such credit facilities in future.

The main advantages of trade credit as a source of short-term finance include:

(i) It is an easy and convenient method of finance.

(ii) It is flexible as the credit increases with the growth of the firm.

(iii) It is informal and spontaneous source of finance.

However, the biggest disadvantage of this method of finance is charging of higher prices by the suppliers and loss of cash discount.

3. Installment Credit:

This is another method by which the assets are purchased and the possession of goods is taken immediately but the payment is made in installments over a pre-determined period of time. Generally, interest is charged on the unpaid price or it may be adjusted in the price. But, in any case, it provides funds for some time and is used as a source of short-term working capital by many business houses which have difficult fund position.

4. Advances:

Some business houses get advances from their customers and agents against orders and this source is a short-term source of finance for them. It is a cheap source of finance and in order to minimize their investment in working capital, some firms having long production cycle,

specially the firms manufacturing industrial products prefer to take advances from their customers.

5. Factoring or Accounts Receivable Credit:

Another method of raising short-term finance is through accounts receivable credit offered by commercial banks and factors. A commercial bank may provide finance by discounting the bills or invoices of its customers. Thus, a firm gets immediate payment for sales made on credit. A factor is a financial institution which offers services relating to management and financing of debts arising out of credit sales. Factoring is becoming popular all over the world on account of various services offered by the institutions engaged in it.

Factors render services varying from bill discounting facilities offered by commercial banks to a total takeover of administration of credit sales including maintenance of sales ledger, collection of accounts receivables, credit control and protection from bad debts, provision of finance and rendering of advisory services to their clients. Factoring may be on a recourse basis, where the risk of bad debts is borne by the client, or on a non-recourse basis, where the risk of credit is borne by the factor.

At present, factoring in India is rendered by only a few financial institutions on a recourse basis. However, the Report of the Working Group on Money Market (Vaghul Committee) constituted by the Reserve Bank of India has recommended that banks should be encouraged to set up factoring divisions to provide speedy finance to the corporate entities.

In-spite of many services offered by factoring, it suffers from certain limitations. The most critical fall outs of factoring include;

(i) The high cost of factoring as compared to other sources of short-term finance,

(ii) The perception of financial weakness about the firm availing factoring services, and

(iii) Adverse impact of tough stance taken by factor, against a defaulting buyer, upon the borrower resulting into reduced future sales.

6. Accrued Expenses:

Accrued expenses are the expenses which have been incurred but not yet due and hence not yet paid also. These simply represent a liability that a firm has to pay for the services already received by it. The most important items of accruals are wages and salaries, interest, and taxes. Wages and salaries are usually paid on monthly, fortnightly or weekly basis for the services already rendered by employees. The longer the payment-period, the greater is the amount of liability towards employees or the funds provided by them. In the same manner, accrued interest and taxes also constitute a short-term source of finance.

Taxes are paid after collection and in the intervening period serve as a good source of finance. Even income-tax is paid periodically much after the profits have been earned. Like taxes, interest is also paid periodically while the funds are used continuously by a firm. Thus, all accrued expenses can be used as a source of finance. The amount of accruals varies with the change in the level of activity of a firm. When the activity level expands, accruals also increase and hence they provide a spontaneous source of finance. Further, as no interest is payable on accrued expenses, they represent a free source of financing.

However, it must be noted that it may not be desirable or even possible to postpone these expenses for a long period. The payment period of wages and salaries is determined by provisions of law and practice in industry. Similarly, the payment dates of taxes are governed by law and delays may attract penalties. Thus, we may conclude that frequency and magnitude of accruals is beyond the control of managements. Even then, they serve as a spontaneous, interest free, limited source of short-term financing.

Deferred incomes are incomes received in advance before supplying goods or services. They represent funds received by a firm for which it has to supply goods or services in future. These funds increase the liquidity of a firm and constitute an important source of short-term finance. However, firms having great demand for its products and services, and those having good reputation in the market can demand deferred incomes.

7. Commercial Paper:

Commercial paper represents unsecured promissory notes issued by firms to raise short- term funds. It is an important money market instrument in advanced countries like U.S.A. In India, the Reserve Bank of India introduced commercial paper in the Indian money market on the recommendations of the Working Group on Money Market (Vaghul Committee). But only large companies enjoying high credit rating and sound financial health can issue commercial paper to raise short-term funds. The Reserve Bank of India has laid down a number of conditions to determine eligibility of a company for the issue of commercial paper. Only a company which is listed on the stock exchange, has a net worth of at least Rs 10 crores and a maximum permissible bank finance of Rs 25 crores can issue commercial paper not exceeding 30 per cent of its working capital limit.

The maturity period of commercial paper, in India, mostly ranges from 91 to 180 days. It is sold at a discount from its face value and redeemed at face value on its maturity. Hence, the cost of raising funds, through this source, is a function of the amount of discount and the period of maturity and no interest rate is provided by the Reserve Bank of India for this purpose.

Commercial paper is usually bought by investors including banks, insurance companies, unit trusts and firms to invest surplus funds for a short-period. A credit rating agency, called CRISIL, has been set up in India by ICICI and UTI to rate commercial papers. Commercial paper is a cheaper source of raising short-term finance as compared to the bank credit and proves to be effective even during period of tight bank credit. However, it can be used as a source of finance only by large companies enjoying high credit rating and sound financial health. Another disadvantage of commercial paper is that it cannot be redeemed before the maturity date even if the issuing firm has surplus funds to pay back.

8. Working Capital Finance by Commercial Banks:

Commercial banks are the most important source of short-term capital. The major portion of working capital loans are provided by commercial banks. They provide a wide variety of loans tailored to meet the specific requirements of a concern.

The different forms in which the banks normally provide loans and advances are as follows:

(a) Loans, (b) Cash Credits, (c) Overdrafts, (d) Purchasing and discounting of bills.

(a) **Loans:**

When a bank makes an advance in lump-sum against some security it is called a loan. Incase of a loan, a specified amount is sanctioned by the bank to the customer. The entire loan amount is paid to the borrower either in cash or by credit to his account. The borrower is required to pay interest on the entire amount of the loan from the date of the sanction.

A loan may be repayable in lump sum or installments. Interest on loans is calculated at quarterly rests and where repayments are stipulated in installments, the interest is calculated at quarterly rests on the reduced balances. Commercial banks generally provide short-term loans up to one year for meeting working capital requirements. But now-a-days term loans exceeding one year are also provided by banks. The term loans may be either medium-term or long- term loans.

(b) **Cash Credits:**

A cash credit is an arrangement by which a bank allows his customer to borrow money up to a certain limit against some tangible securities or guarantees. The customer can withdraw from his cash credit limit according to his needs and he can also deposit any surplus amount with him. The interest in case of cash credit is charged on the daily balance and not on the entire amount of the account. For these reasons, it is the most favourite mode of borrowing by industrial and commercial concerns. The Reserve Bank of India issued a directive to all scheduled commercial banks on 28th March 1970, prescribing a commitment charge which banks should levy on the unutilized portion of the credit limits.

(c) **Overdrafts:**

Overdraft means an agreement with a bank by which a current account-holder is allowed to withdraw more than the balance to his credit up to a certain limit. There are no restrictions for operation of overdraft limits. The interest is charged on daily overdrawn balances. The main difference between cash credit and overdraft is that overdraft is allowed for a short period and is a temporary accommodation whereas the cash credit is allowed for a longer period. Overdraft accounts can either be clean overdrafts, partly secured or fully secured.

(d) **Purchasing and Discounting of Bills:**

Purchasing and discounting of bills is the most important form in which a bank lends without any collateral security. Present day commerce is built upon credit. The seller draws a bill of exchange on the buyer of goods on credit. Such a bill may be either a clean bill or a documentary bill which is accompanied by documents of title to goods such as a railway receipt.

The bank purchases the bills payable on demand and credits the customer's account with the amount of bill less discount. At the maturity of the bills, bank presents the bill to its acceptor for payment. In case the bill discounted is dishonoured by non-payment, the bank recovers the full amount of the bill from the customer along with expenses in that connection. In addition to the above mentioned forms of direct finance, commercial banks help their customers in obtaining credit from their suppliers through the letter of credit arrangement.

Long-term Sources of Working Capital:

1. **Shares:** Issue of shares is the most important sources for raising the permanent or long term capital. A Co; can issue various types of shares as equity. Preference & deferred shares.
2. **Debentures:** It is an instrument issued by the company acknowledging its debt to its holder. The debenture holders are the creditors of the company. A fixed rate of interest is paid on debentures. The interest on debt, is charge against profit & loss all.
3. **Public deposits**: Public deposits are the fixed deposits accepted by a business enterprises directly from the public this source of raising short term & medium finance was very popular' in the absence of banking facilities.
4. **Ploughing Back of profits:** Which means the re- investments by concern of its surplus earnings in its business of finance & it most suitable for an established firm for its expansion, modernization & replacement etc it is the cheapest rather cost free source of finance.
5. **Loans from financial institutions:** Financial institutions such as commercial banks, LIC, Industrial Finance Corporation of India (IFC) SFC State Industrial development corporation, IDBI etc.

Marketing Management

Marketing management involves developing and implementing strategic marketing programs, processes, and activities that align with wider business objectives, while utilizing customer insights, tracking metrics, and optimizing internal processes to achieve success.

Objectives of Marketing

A company must be clear with its marketing objectives and it these objectives must fit in with the overall business objectives for formulation of proper business strategy. The objectives of marketing the company must take care are:

1. Creation of Demand: The marketing management's first objective is to create demand through various means. A conscious attempt is made to find out the preferences and tastes of the consumers by the company. Demand for the products and services are created by

informing the customers their utility. According the products and services are produced to satisfy the needs of the customers.

2. Customer Satisfaction: The first and foremost marketing manager must study the demands of customers before offering any product or services. Marketing begins and ends with the customer. Satisfaction of the customers is outcome of understanding of needs and meeting them successfully.

3. Market Share: Every business aims at increasing its market share. It is the ratio of its sales to the total sales in the economy. For instance, both Pepsi and Coke compete with each other to increase their market share. For this, they have adopted innovative strategies. These strategies can be adopted in marketing, advertising, sales promotion activities and even through innovative packaging, etc.

4. Generation of Profits: The marketing department is the only department which generates revenue for the business. Sufficient profits must be earned as a result of sale of want-satisfying products. If the firm is not earning profits, it will not be able to survive in the market. Moreover, profits are also needed for the growth and diversification of the firm.

5. Public Image: To build up the public image of a firm over a period is another objective of marketing. Goodwill of company is created over a period of time with regular emphasis on customer satisfaction through continuous improvement in product and services. The marketing department provides quality products to customers at reasonable prices and thus creates its impact on the customers.

Marketing meaning and definition

Marketing occupies an important place in the management of a small scale industry. It is a key factor in determining the success of an industrial concern. Traditionally marketing consisted of those efforts which affect transfers in ownership of goods and care for their physical distribution.

The American marketing Association defined market as 'the performance of business activities that direct the flow of goods and services from producer to consumer or user'.

Marketing Strategy

A well-prepared market analysis and competition discussions are important to the formal marketing plan. But the information on marketing strategy forms the most detailed section of the marketing plan and, in many respects, is subject to the closest scrutiny from potential investors. Such a strategy plots the course of the marketing actions that will make or break the entrepreneur's vision.

Four areas of marketing strategy that should be addressed include:

- Product decisions that will transform the basic product or service idea into a bundle of satisfaction
- Distribution activities regarding the delivery of the product to customers
- Pricing decisions that will set an acceptable exchange value on the total product or service
- Promotion activities that will communicate the necessary information to target markets

Marketing strategy of Small scale units

Marketing is always different things to different people. Some entrepreneurs view marketing as simply selling a product or service. Others see marketing as those activities directing the flow of goods and services from producer to consumer or user. In reality, small business marketing is much broader. It consists of many activities, some of which occur even before a product is produced and made ready for distribution and sale.

A comprehensive definition of small business marketing helps to convey its true scope to entrepreneurs. Small business marketing consists of those business activities that direct the creation, development, and delivery of a bundle of satisfaction from the creator to the targeted user and that satisfy the targeted user. It should be noticed that this definition emphasises the concept of a bundle of satisfaction, i.e., a core product and or service plus all its important extras. It may be helpful to view a product/service as having three levels as seen in the figure given below.

- Core product/service
    - Actual product/service
    - Augmented product/ service

The core product/service is the fundamental benefit or solution sought by customers. The actual product/service is the basic physical product/service that delivers those benefits. The augmented product/service is the basic product/ service plus extra or unsolicited benefits to the consumer that may prompt a purchase.

In the case of television, for example, the core product is entertainment and/or information (the news); the actual product is the physical television set. The augmented product might include the ability to vote on acts that appear on American Idol or the ability to watch a live sports event.

Marketing Plan After the entrepreneur's idea has been examined and judged to be a viable opportunity, whether he or she is ready to prepare the formal marketing plan. Each business venture is different; therefore, each marketing plan is unique. An entrepreneur should not feel it necessary to develop a cloned version of a plan created by someone else i.e., even the one suggested by the authors of this textbook. Nevertheless, most marketing plans should cover market analysis, the competition, and marketing strategy.

Fig. 4.3 Marketing plan and supporting marketing activities

Market Analysis

In the market analysis section of the marketing plan, the entrepreneur describes the target market. This description of potential customers is commonly called a customer profile.

Marketing research information, compiled from both secondary and primary data, can be used to construct this profile. A detailed discussion of the major benefits to customers provided by the new product or service should also be included in this section of the plan. Obviously, these benefits must be reasonable and consistent with statements in the product/service section of the plan. The review the following excerpt from the "Market Needs" section of the marketing plan of Adorable Pet Photography, a home-based business located in Atlanta, Georgia.

Competition

Frequently, entrepreneurs ignore the reality of competition for new ventures, believing that the marketplace contains no close substitutes or that their success will not attract other entrepreneurs. This is simply not realistic. Existing competitors should be studied carefully, and their key management personnel profiled. A brief discussion of competitors' overall strengths and weaknesses should be a part of the competition section of the plan. Also, related products currently being marketed or tested by competitors should be noted.

An assessment should be made of the likelihood that any of these firms will enter the entrepreneur's target market. A SWOT analysis is always a good idea. It is important that your company have a clear understanding of what it does well (strengths), what it doesn't do so well (weaknesses), available market opportunities, and threats from competitors as well as from changes in the company's operating environment (social, technological, economic, political, and other environmental variables).

Marketing Mix

A successful marketing strategy depends upon a marketing mix of all the marketing elements and resources. There are following marketing mix tools which have given below:

Product mix

1. Brand
2. Style
3. Colour
4. Design
5. Product line
6. Package

7. Warranty
8. Service

Price mix

1. Pricing strategy
2. Pricing policy
3. Basic price
4. Terms of credit
5. Discounts
6. allowances

Place mix

Distribution channels

1- wholesalers
2- retailers
3- mercantile agents

Physical distribution

1-transport

2-ware housing inventory

Promotion mix

1- personal selling
2- advertising
3- publicity
4- sales promotion

Market segmentation

Market segmentation is the process of dividing a market of potential customers into groups, or segments, based on different characteristics. The segments created are composed of consumers who will respond similarly to marketing strategies and who share traits such as similar interests, needs, or locations.

Importance Of Market Segmentation

Companies often deal with customers who belong to different age groups, have varied interests, and are motivated by different triggers.

Segmenting these potential customers into different groups –

- Makes it easier for the marketer to develop a different marketing mix for each customer segment which is more likely to bring results.
- Increases the results of the marketing efforts as each of the groups witness personalised marketing messages according to what stimulates them to do the task.

For example, a chips brand can launch a party pack for $15 in cities where teens are more likely to buy them for parties. Whereas, the same brand may launch small packs in the country-side where people don't spend a lot on chips.

Bases Of Market Segmentation

Segmenting is dividing a group into subgroups according to some set bases. These bases range from age, gender, etc. to psychographic factors like attitude, interest, values, etc.

Gender

Gender is one of the most simple yet important bases of market segmentation. The interests, needs and wants of males and females differ at many levels. Thus, marketers focus on different marketing and communication strategies for both. This type of segmentation is usually seen in the case of cosmetics, clothing, and jewellery industry, etc.

Age Group
Segmenting market according to the age group of the audience is a great strategy for personalized marketing. Most of the products in the market are not universal to be used by all the age groups. Hence, by segmenting the market according to the target age group, marketers create better marketing and communication strategies and get better conversion rates.

Income
Income decides the purchasing power of the target audience. It is also one of the key factors to decide whether to market the product as a need, want or a luxury. Marketers usually segment the market into three different groups considering their income. These are

- High Income Group
- Mid Income Group
- Low Income Group

This division also varies according to the product, its use, and the area the business is operating in.

Place
The place where the target audience lives affect the buying decision the most. A person living in the mountains will have less or no demand for ice cream than the person living in a desert.

Occupation
Occupation, just like income, influences the purchase decision of the audience. A need for an entrepreneur might be a luxury for a government sector employee. There are even many products which cater to an audience engaged in a specific occupation.

Usage
Product usage also acts as a segmenting basis. A user can be labelled as heavy, medium or light user of a product. The audience can also be segmented on the basis of their awareness of the product.

Lifestyle
Other than physical factors, marketers also segment the market on the basis of lifestyle. Lifestyle includes subsets like marital status, interests, hobbies, religion, values, and other psychographic factors which affect the decision making of an individual

Types Of Market Segmentation

Geographic Segmentation
Geographic segmentation divides the market on the basis of geography. This type of market segmentation is important for marketers as people belonging to different regions may have different requirements. For example, water might be scarce in some regions which inflates the demand for bottled water but, at the same time, it might be in abundance in other regions where the demand for the same is very less.
People belonging to different regions may have different reasons to use the same product as well. Geographic segmentation helps marketer draft personalized marketing campaigns for everyone.

Demographic Segmentation
Demographic segmentation divides the market on the basis of demographic variables like age, gender, marital status, family size, income, religion, race, occupation, nationality, etc. This is one of the most common segmentation practice among marketers. Demographic segmentation is seen almost in every industry like automobiles, beauty products, mobile phones, apparels, etc and is set on a premise that the customers' buying behaviour is hugely influenced by their demographics.

Behavioural Segmentation
The market is also segmented based on audience's behaviour, usage, preference, choices and decision making. The segments are usually divided based on their knowledge of the product and usage of the product. It is believed that the knowledge of the product and its use affect the buying decision of an individual. The audience can be segmented into –

- Those who know about the product,
- Those who don't know about the product,
- Ex-users,
- Potential users,
- Current Users,
- First time users, etc.

People can be labelled as brand loyal, brand-neutral, or competitor loyal. They can also be labelled according to their usage. For example, a sports person may prefer an energy drink as elementary (heavy user) and a not so sporty person may buy it just because he likes the taste (light/medium user).

Psychographic Segmentation
Psychographic Segmentation divides the audience on the basis of their personality, lifestyle and attitude. This segmentation process works on a premise that consumer buying behaviour can be influenced by his personality and lifestyle. Personality is the combination of characteristics that form an individual's distinctive character and includes habits, traits, attitude, temperament, etc. Lifestyle is how a person lives his life.
Personality and lifestyle influence the buying decision and habits of a person to a great extent. A person having a lavish lifestyle may consider having an air conditioner in every room as a need, whereas a person living in the same city but having a conservative lifestyle may consider it as a luxury.

Nature Of A Market Segment
A market segment needs to be **homogeneous**. There should be something common among the individuals in the segment that the marketer can capitalise on. Marketers also need to check that different segments have different distinguishing features which make them **unique.** But segmenting requires more than just similar features. Marketers must also ensure that the individuals of the segment **respond in a similar way** to the stimulus. That is, the segment must have a similar type of reaction to the marketing activities being pitched.

Product life cycle
The product life cycle is broken into four stages: introduction, growth, maturity, and decline. This concept is used by management and by marketing professionals as a factor in deciding when it is appropriate to increase advertising, reduce prices, expand to new markets, or redesign packaging.

Product Life Cycle Stages Explained

The product life cycle has 4 very clearly defined stages, each with its own characteristics that mean different things for business that are trying to manage the life cycle of their particular products.

Introduction Stage – This stage of the cycle could be the most expensive for a company launching a new product. The size of the market for the product is small, which means sales are low, although they will be increasing. On the other hand, the cost of things like research and development, consumer testing, and the marketing needed to launch the product can be very high, especially if it's a competitive sector.

Growth Stage – The growth stage is typically characterized by a strong growth in sales and profits, and because the company can start to benefit from economies of scale in production, the profit margins, as well as the overall amount of profit, will increase. This makes it possible for businesses to invest more money in the promotional activity to maximize the potential of this growth stage.

Maturity Stage – During the maturity stage, the product is established and the aim for the manufacturer is now to maintain the market share they have built up. This is probably the most competitive time for most products and businesses need to invest wisely in any marketing they undertake. They also need to consider any product modifications or improvements to the production process which might give them a competitive advantage.

Decline Stage – Eventually, the market for a product will start to shrink, and this is what's known as the decline stage. This shrinkage could be due to the market becoming saturated (i.e. all the customers who will buy the product have already purchased it), or because the consumers are switching to a different type of product. While this decline may be inevitable, it may still be possible for companies to make some profit by switching to less-expensive production methods and cheaper markets.

Organizational Support services for MSME

A number of institutions in India are engaged in export promotion activities in their respective fields. Exporters should contact them for the necessary assistance.

Export Promotion Councils (EPCs) also known as registering authorities

Commodity Boards assisting the exporters in the same manner as the Export Promotion Councils
Federation of Indian Export Organisations (FIEO) is an apex organisation coordinating and supplementing the export promotional activities of various organisations and institutions.

Indian Institute of Foreign Trade (lIFT) develops and organiscs new training programmes, research and market studies in the field of foreign trade.

Indian Institute of Packaging (lIP) for improving the standard of packaging for various benefits

Export Inspection Council (EIC) provides sound development of export trade through quality control and pre-shipment inspection

Indian Council of Arbitration promotes the use of commercial arbitration in India.

India Trade Promotion Organisation (ITPO) provides facilities concerning participation in fairs and exhibitions in India and abroad.

Chambers of Commerce & Industry helps in issuing certificate of origin and taking up specific cases of exporters to the Government.

Bureau of India Standards (BIS) is engaged in standard formulation, certification marking and laboratory testing.

Export Directorate of Development Commissioner and Small Scale Industries

Scope Shipping Standing Committee functioning in the Ministry of Commerce resolves the problems relating to quality, adequacy and cost of transportation problems faced by the exporters.

Textiles Committee carries pre-shipment inspection of textiles and market research for textile yarns, textile machines etc.

Marine Products Export Development Authority helps in the development of marine products meant for export with special reference to processing, packaging, storage and marketing etc.

India Investment Centre (IIC), advises and assists Indian businessmen for setting up of industrial or other joint ventures abroad.

Freight Investigation Bureau assists in solving problems relating to freight rates, shipping space and regular shipping facilities etc.

Indian Government Trade Representative at various important cities in foreign countries assists Indian exporters regarding promotion of Indian products to the World Market.

Foreign Govt. Trade Missions in India help in marketing Indian products to their markets.

Directorate of Drawback in the Ministry of Finance fixes drawback rates of items exported. It also formulates the procedure and documents required or claim of duty drawback.

Board of Trade in the Ministry of Commerce provides of forum for ensuring continuous dialogue with trade and industry in respect of major developments in the field of international trade.

Office of the Director General of Foreign Trade (DGFT) is responsible for execution of the import and export policies of the Government of India. It has various subordinate offices in India.

Director General of Commercial Intelligence and Statistics (DGCIS) is the primary agency for the collection, compilation and the publication of the foreign, inland and ancillary trade statistics and dissemination of various types of commercial information.

State Laison officers appointed by the State Governments develop export trade in goods produced in their States in consonance with the policies of the Central Government.

Niryat Bandhus are the nodal officers nominated by the states for export promotion work.

Air Cargo Task Force focuses attention and resolves problems faced by trade in the air freight industry.

Export Facilitation Committee set up by the Government looks into the problems of generic nature faced by the exporters and which have not been resolved as a result of their interaction with the concerned agencies in the Ministry of Commerce or other Ministries/Departments.

Pricing for MSME

In order to provide assistance and support to Micro & Small Enterprises (MSEs) for marketing their products, under the present Government Purchase and Price Preference Policy for Micro & Small Enterprises (MSEs), Government of India has been extending various facilities to the MSEs registered with National Small Industries Corporation (NSIC) under its Single Point Registration Scheme. In addition to the facilities, 358 items are also reserved for exclusive purchase from MSE sector.

Price Preference Policy

Assistance under Government Stores Purchase Programme in the form of reservation of products for exclusive purchase from small scale sector and price preference is one of the major instruments for providing marketing support to the small scale industries. The Director General of Supplies and Disposals, the Central Purchasing Organisation of Government of India provides a number of facilities to small scale industries under its

Government Stores Purchase Programmes. These include reservation of certain products for exclusive purchase from the small scale sector and price preference upto 15% in case of selected items which are produced in both large scale as well as small scale units.

The **Single Point Registration Scheme** of NSIC was launched as a Market Support Measure for the MSMEs sector. Under this Scheme, the following benefits are given to the MSMEs units which get themselves registered with the NSIC:

i. Availability of Tender sets free of cost;
ii. Exemption from payment of Earnest Money Deposit;
iii. Exemption from payment of Security Deposit;
iv. Price preference upto 15% over the lowest quotation of the large scale units (on merits).

The NSIC while registering a unit under this scheme is required to undertake capacity assessment of the applicant through the institutional set up of the MSMEs in the country. They are also required to obtain confidential report from the bankers of the manufacturers about the credit worthiness/financial standing of the same. The units registered with NSIC under this scheme are given a registration certificate indicating items for which registered and monetary limit upto which registered.

It is clarified that policy of the Price Preference of 15% is a critical benefit available to the MSMEs sector. The benefit is available to compensate them on account of non-availability of economies of scale, poor resource base, poor access to raw- material etc. as compared to the large scale sector. The policy of the Price Preference of 15% is an independent policy and is in no way linked with the price preference of 10% to the PSUs and other purchasers.

Module- III

Startup & Business Incubation

Introduction

On 16th January 2016, Prime Minister Narendra Modi launched the Start Up India Action Plan, with an aim to build a strong eco-system for nurturing innovation and Startups in the country. Three years on, India has transformed into a big startup ecosystem in the world. The government has been working towards recognising the real potential of startups operating across diverse segments. The govt's focus has been on three C's – capital, courage and connections – which Prime Minister Modi describes as the main pre-requisites for setting up a business. Due to this, there has been a significant rise in entrepreneurs, particularly from Tier-2 and Tier-3 cities. The participation of women has also increased under the Startup India programme.

Prarambh: Startup India International Summit:

- The Summit is being organized by the **Department for Promotion of Industry and Internal Trade, Ministry of Commerce and Industry.**
- The Summit marks the **fifth anniversary of the Startup India initiative**, **launched on 16 January, 2016.**
- The Summit will be the largest startup confluence organised by the Government of India since the launch of the Startup India initiative.

Startup India:

- **Startup India** is an initiative of the Government of India. The campaign was first announced by Indian Prime Minister, Narendra Modi during his speech in 15 August 2015 address from the Red Fort, in New Delhi.
- The event was inaugurated on 16 January 2016
- The action plan of this initiative is focussing on three areas:
    - Simplification and Handholding.
    - Funding Support and Incentives.
    - Industry-Academia Partnership and Incubation.
- A startup defined as an entity that is headquartered in India, which was opened less than 10 years ago, and has an annual turnover less than ₹100 crore.
- Under this initiative, the government has already launched the I-MADE program, to help Indian entrepreneurs build 10 lakh (1 million) mobile app start-ups, and the MUDRA Bank's scheme (Pradhan Mantri Mudra Yojana), an initiative which aims to provide micro-finance, low-interest rate loans to entrepreneurs from low socioeconomic backgrounds.

Various benefits under it:

- 10,000 crore startup funding pool.
- Reduction in patent registration fees.
- Improved Bankruptcy Code, to ensure a 90-day exit window.
- Freedom from inspections for first 3 years of operation.
- Freedom from Capital Gain Tax for first 3 years of operation.
- Freedom from tax for first 3 years of operation.
- Self-certification compliance.
- Created an Innovation hub, under the Atal Innovation Mission.
- To target 5 lakh schools, and involve 10 lakh children in innovation-related programmes.
- New schemes to provide IPR protection to startup firms.

- Built Startup Oasis as Rajasthan Incubation Center.

State rankings:

- The second edition of the exercise was launched in 2019 and has now been completed with active participation of 22 states and 3 Union Territories.
    - Best performer: Gujarat, Andaman & Nicobar Islands
    - Top performers: Karnataka, Kerala
    - Leader: Maharashtra, Odisha, Rajasthan, Bihar, Chandigarh
    - Aspiring leaders: Telangana, Uttarakhand, Haryana, Jharkhand, Punjab, Nagaland
    - Emerging startup ecosystems: Chhattisgarh, Himachal Pradesh, Andhra Pradesh, Tamil Nadu, Madhya Pradesh, Uttar Pradesh, Assam, Delhi, Mizoram, Sikkim.

Conclusion:

- Indian Startups are now spread across the length and breath of the entire country.
- The shift in global focus is on promoting women entrepreneurs and fostering an inclusive and innovative environment. Efforts are also being made by diverse stakeholders in the Indian startup ecosystem to elevate domestic policies in concurrence with global trends.
- The role of the state government becomes very important in developing the necessary infrastructure and support to foster the startup ecosystem. Due to the given constraints of infrastructure and supporting services, India needs to build upon low-cost and high-impact solutions.
- Although there has been an increase in angel and venture capital funding, the amount invested must be augmented. It is crucial that the ecosystem is well integrated to connect startups to fund houses and other stakeholders.
- While it is important to elucidate overarching features of the ecosystem, this report delves deeper into the role of states and India's federal structure in both building the ecosystem as well as closely monitoring futuristic measures that can aid India's growth story.

What is Startup India Scheme?

Startup India scheme is an important government scheme that was launched on 16th January 2016 with an aim to promote and support the start-ups in India by providing bank finances. It was inaugurated by the former finance minister, Arun Jaitley.

Organized by the Department for promotion of industry and internal trade, the major objective of Startup India is to discard some of the restrictive States Government policies which include:

1. License Raj
2. Land Permissions
3. Foreign Investment Proposals
4. Environmental Clearances

The Startup India scheme is based majorly on three pillars which are mentioned below:

1. Providing funding support and incentives to the various start-ups of the country.
2. To provide Industry-Academia Partnership and Incubation.
3. Simplification and Handholding.

Registration for Startup India
A person must follow the below-mentioned steps that are important for the successful registration of their business under the Startup India scheme:

1. A person should incorporate their business first either as a Private Limited Company or as a Limited Liability Partnership or as a Partnership Firm along with obtaining the certificate of Incorporation, PAN, and other required compliances.
2. A person needs to log in to the official website of Startup India where he/she has to fill all the essential details of the business in the registration form and upload the required documents.
3. A letter of recommendation, Incorporation/Registration Certificate, and a brief description of the business are some of the essential documents required for the registration purpose.
4. Since the start-ups are exempted from income tax benefits, therefore, they must be recognized by the Department of Industrial Policy and Promotion (DIPP) before availing these benefits. Also, they should be certified by the Inter-Ministerial Board (IMB) to be eligible for IPR related benefits.
5. After successful registration and verification of the documents, you will be immediately provided with a recognition number for your startup along with a certificate of recognition.

Who is eligible to apply under the Startup India scheme?
An entity is eligible to apply when:

- It is incorporated as a private limited company or partnership firm or a limited liability partnership in India
- It has less than 10 years of history i.e. less than 10 years have elapsed from the date of its incorporation/registration
- The turnover for all of the financial years, since the incorporation/ registration has been less than INR 100 crores

Startup India Benefits
After the launch of the Startup India scheme, a new program was launched by the government named the I-MADE program which focused on helping the Indian entrepreneurs in building 1 million mobile app start-ups. The government of India had also launched the Pradhan Mantri Mudra Yojana which aimed to provide financial supports to entrepreneurs from low socioeconomic backgrounds through low-interest rate loans. Some of the key benefits of Startup India are as follows:

1. To reduce the patent registration fees.
2. Improvement of the Bankruptcy Code ensuring a 90-day exit window.
3. To provide freedom from mystifying inspections and capital gain tax for the first 3 years of operation.
4. To create an innovation hub under the Atal Innovation Mission.
5. Targeting 5 lakh schools along with the involvement of 10 lakh children in innovation-related programs.
6. To develop new schemes that will provide IPR protection to startup firms.
7. To encourage entrepreneurship throughout the country.
8. To promote India as a start-up hub across the world.

Government Measures to Promote Startup Culture in the Country

1. As part of the "Make in India" initiative, the government proposes to hold one Start-Up fest at the national level annually to enable all the stakeholders of the Start-up ecosystem to come together on one platform. You can know in detail about the Make In India program on the linked page.
2. Launch of Atal Innovation Mission AIM – to promote Entrepreneurship through Self-Employment and Talent Utilization (SETU), wherein innovators would be supported and mentored to become successful entrepreneurs. It also provides a platform where innovative ideas are generated. Relevant details on Atal Innovation Mission AIM are available on the linked page.
3. Incubator set up by PPP – To ensure professional management of Government-sponsored or funded incubators, the government will create a policy and framework for setting-up of incubators across the country in public-private partnerships. The incubator shall be managed and operated by the private sector. Read more on Public-Private Partnership on the link provided here.
    - 35 new incubators in existing institutions. Funding support of 40% shall be provided by the Central Government, 40% funding by the respective State Government and 20% funding by the private sector for establishment of new incubators.
    - 35 new private sector incubators. A grant of 50% (subject to a maximum of INR 10 crore) shall be provided by Central Government for incubators established by the private sector in existing institutions.

A Startup India Seed Fund Scheme has been implemented with effect from April 1, 2021. The scheme aims to provide financial assistance to startups for proof of concept, prototype development, product trials, market entry and commercialisation.

Startup India – State Rankings

States' Startup Ranking Framework is an evolved evaluation tool aimed to strengthen the support of States and UTs to holistically build their startup ecosystems. The rankings are based on the criteria of policy, incubation hubs, seeding innovation, scaling innovation, regulatory change, procurement, communication, North-Eastern states, and hill states.

The latest edition of the States' Startup Ranking 2020 was released on September 11, 2020. UPSC aspirants can visit the linked article and get the list of top states with the best startup ecosystem.

The States' startup rankings from 2019 and 2018 have been given in the following tables for the reference of the candidates:

Startup India State Rankings 2019	
Ranks	**States**
Best performer	Gujarat, Andaman and Nicobar Islands
Top performers	Karnataka, Kerala
Leader	Maharashtra, Odisha, Rajasthan, Bihar and Chandigarh

Aspiring leaders	Telangana, Uttarakhand, Haryana, Jharkhand, Punjab
Emerging states	Chattisgarh, Himachal Pradesh, Andhra Pradesh, Tamil Nadu, Madhya Pradesh, Uttar Pradesh Assam, Delhi, Mizoram and Sikkim

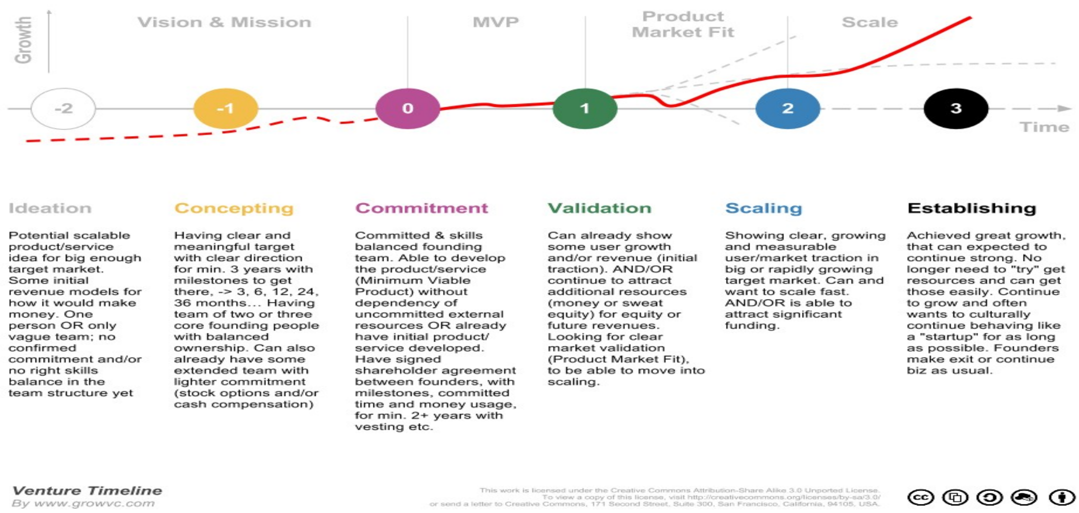
Startup India State Rankings 2018	
Ranks	**States**
Best performer	Gujarat
Top performers	Karnataka, Kerala, Odisha, and Rajasthan
Leader	Andhra Pradesh, Bihar, Chhattisgarh, Madhya Pradesh, and Telangana
Aspiring leaders	Haryana, Himachal Pradesh, Jharkhand, Uttar Pradesh, and West Bengal
Emerging states	Assam, Delhi, Goa, Jammu & Kashmir, Maharashtra, Punjab, Tamil Nadu, and Uttarakhand
Beginners	Chandigarh, Manipur, Mizoram, Nagaland, Puducherry, Sikkim, and Tripura

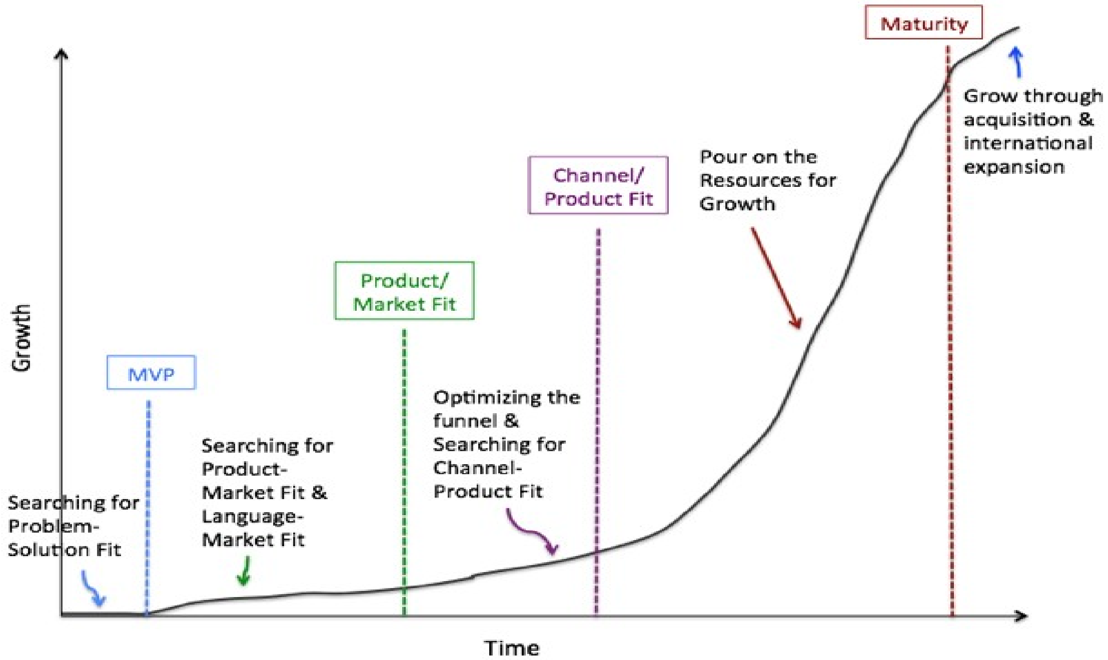
Startup development stages

People, Product And Processes

In addition to **innovation process from idea to value generating product and market proven business model**, startups also need to build a **strong and committed founding team** and **develop both of these together** into **a real growing business and organization** running processes that effectively capture the value created.

While there are many great resources and self education **tools available for product and business development,** where most important ones are captured in this framework as well. Much less resources and focus are available to understanding challenges of building a **committed team and growing a scaling organization -** especially from globally neutral perspective.





Startup Ecosystem

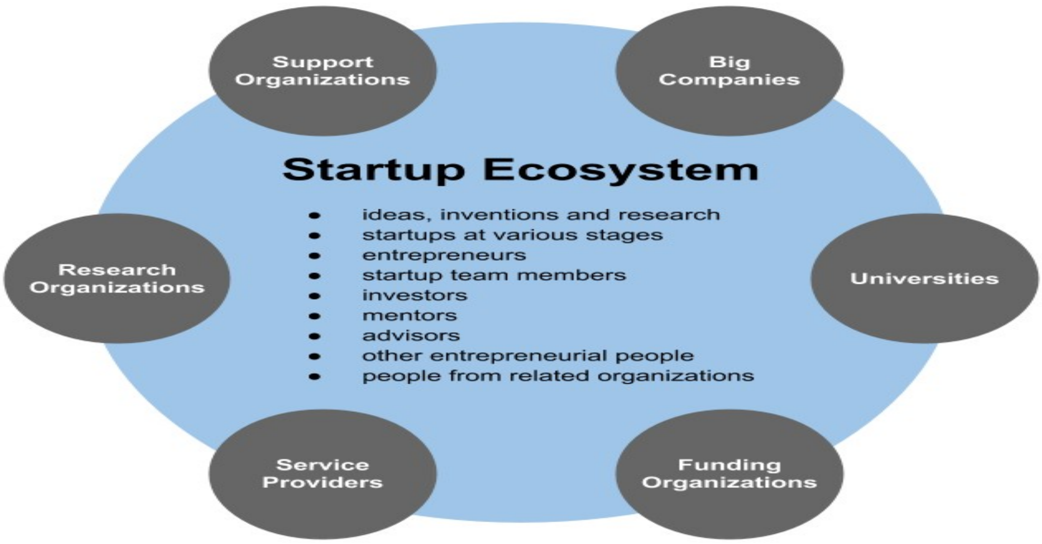
The size and maturity of the startup ecosystem is where a startup is launched and where it grows to have an effect on the volume and success of the startups. The startup ecosystem consists of the individuals (entrepreneurs, venture capitalists, angel investors, mentors, advisors); institutions and organizations (top research universities and institutes, business schools and entrepreneurship programs and centres operated by universities and colleges, non-profit entrepreneurship support organizations, government entrepreneurship programs and services, Chambers of commerce) business incubators and business accelerators and top-performing entrepreneurial firms and startups. A region with all of these elements is considered to be a "strong" startup ecosystem.

One of the most famous startup ecosystems is Silicon Valley in California, where major computer and internet firms and top universities such as Stanford University create a stimulating startup environment. Boston (where Massachusetts Institute of Technology is located) and Berlin, home of WISTA (a top research area), also have numerous creative industries, leading entrepreneurs and startup firms. Basically, attempts are being made worldwide, for example in Israel with its Silicon Wadi, in France with the Inovallée or in

Italy in Trieste with the AREA Science Park, to network basic research, universities and technology parks in order to create a startup-friendly ecosystem.

Although there are startups created in all types of businesses, and all over the world, some locations and business sectors are particularly associated with startup companies. The internet bubble of the late 1990s was associated with huge numbers of internet startup companies, some selling the technology to provide internet access, others using the internet to provide services. Most of this startup activity was located in the most well-known startup ecosystem - Silicon Valley, an area of northern California renowned for the high level of startup company activity:
The spark that set off the explosive boom of "Silicon startups" in Stanford Industrial Park was a personal dispute in 1957 between employees of Shockley Semiconductor and the company's namesake and founder, Nobel laureate and co-inventor of the transistor William Shockley... (His employees) formed Fairchild Semiconductor immediately following their departure... After several years, Fairchild gained its footing, becoming a formidable presence in this sector. Its founders began leaving to start companies based on their own latest ideas and were followed on this path by their own former leading employees... The process gained momentum and what had once begun in a Stanford's research park became a veritable startup avalanche... Thus, over the course of just 20 years, a mere eight of Shockley's former employees gave forth 65 new enterprises, which then went on to do the same...[45]

Startup advocates are also trying to build a community of tech startups in New York City with organizations like NY Tech Meet Up[46] and Built in NYC.[47] In the early 2000s, the patent assets of failed startup companies were being purchased by people known as patent trolls, who assert those patents against companies that might be infringing the technology covered by the patents.



Different stages of Financing

Startup investing is the action of making an investment in an early-stage company. Beyond founders' own contributions, some startups raise additional investment at some or several stages of their growth. Not all startups trying to raise investments are successful in their fundraising. Venture Capital is a subdivision of Private Equity wherein external investors fund small-scale startups that have high growth potential in the long run. Venture capital is the money of invention that is invested into young businesses which hold no historic background. Usually, the business of venture capital is highly risky but one can at the same time expect high returns as well.

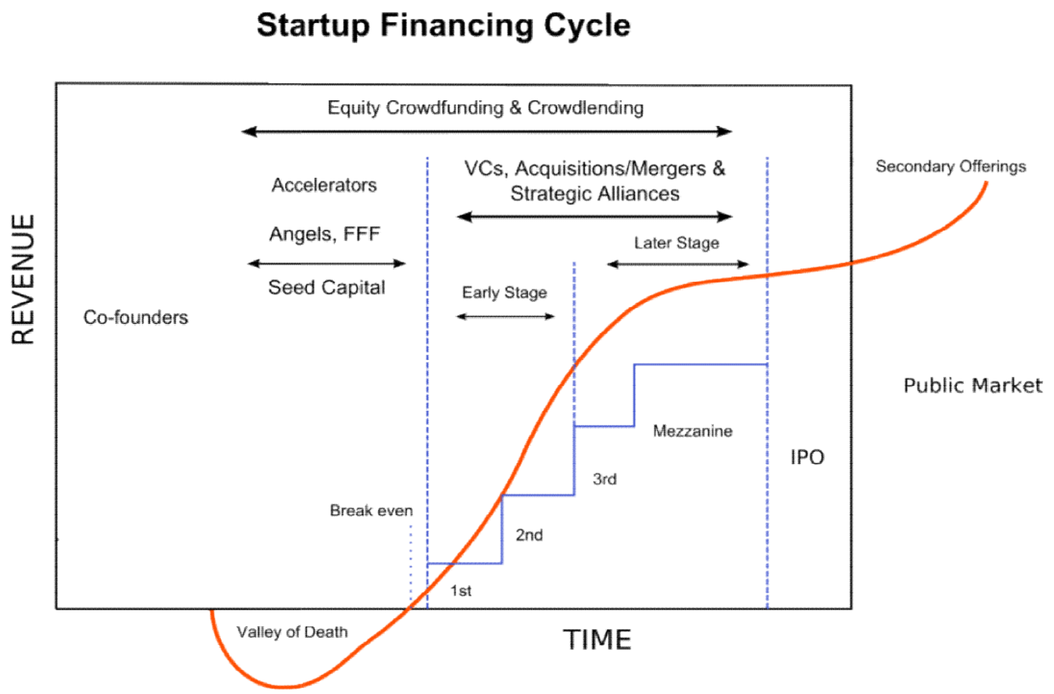
In the United States, the solicitation of funds became easier for startups as result of the JOBS Act. Prior to the advent of equity crowdfunding, a form of online investing that has been legalized in several nations, startups did not advertise themselves to the general public as investment opportunities until and unless they first obtained approval from regulators for an initial public offering (IPO) that typically involved a listing of the startup's securities on a stock exchange. Today, there are many alternative forms of IPO commonly employed by startups and startup promoters that do not include an exchange listing, so they may avoid certain regulatory compliance obligations, including mandatory periodic disclosures of financial information and factual discussion of business conditions by management that investors and potential investors routinely receive from registered public companies.

Over the last decade, Europe has developed a rapid start-up scene that has given birth to global players, including more than 70 unicorns, and has created more than two million jobs. Investment in European start-ups increased sixfold between 2010 and 2020, reaching approximately €40 billion. Europe does a poorer job of nurturing young companies because of a failure to support their development into industry leaders. Promising European start-ups then struggle to raise the necessary capital to expand and mature. They are forced to either relocate to the US's deep capital markets or sell themselves to larger rivals with more financial availability. As a result, start-ups in the United States can typically raise far more money—up to five times as much as in Europe.

Investors are generally most attracted to those new companies distinguished by their strong co-founding team, a balanced "risk/reward" profile (in which high risk due to the untested, disruptive innovations is balanced out by high potential returns) and "scalability" (the likelihood that a startup can expand its operations by serving more markets or more customers). Attractive startups generally have lower "bootstrapping" (self-funding of startups by the founders) costs, higher risk, and higher potential return on investment. Successful startups are typically more scalable than an established business, in the sense that the startup has the potential to grow rapidly with a limited investment of capital, labor or land. Timing has often been the single most important factor for biggest startup successes, while at the same time it's identified to be one of the hardest things to master by many serial entrepreneurs and investors.

Startups have several options for funding. Revenue-based financing lenders can help startup companies by providing non-dilutive growth capital in exchange for a percentage of monthly revenue. Venture capital firms and angel investors may help startup companies begin operations, exchanging seed money for an equity stake in the firm. Venture capitalists and angel investors provide financing to a range of startups (a portfolio), with the expectation that a very small number of the startups will become viable and make money. In practice though, many startups are initially funded by the founders themselves using "bootstrapping", in which loans or monetary gifts from friends and family are combined with savings and credit card debt to finance the venture. Factoring is another option, though it is not unique to startups. Other funding opportunities include various forms of crowdfunding, for example equity crowdfunding, in which the startup seeks funding from a large number of individuals, typically by pitching their idea on the Internet.

Startups can receive funding via more involved stakeholders, such as startup studios. Startup studios provide funding to support the business through a successful launch, but they also provide extensive operational support, such as HR, finance and accounting, marketing, and product development, to increase the probability of success and propel growth.



Business incubator

A **Business incubator** is an organization that helps startup companies and individual entrepreneurs to develop their businesses by providing a fullscale range of services starting with management training and office space and ending with venture capital financing. The National Business Incubation Association (NBIA) defines business incubators as a catalyst tool for either regional or national economic development. NBIA categorizes its members' incubators by the following five incubator types: academic institutions; non-profit development corporations; for-profit property development ventures; venture capital firms, and a combination of the above.

Business incubators differ from research and technology parks in their dedication to startup and early-stage companies. Research and technology parks, on the other hand, tend to be large-scale projects that house everything from corporate, government, or university labs to very small companies. Most research and technology parks do not offer business assistance services, which are the hallmark of a business incubation program. However, many research and technology parks house incubation programs.

Incubators also differ from the U.S. Small Business Administration's Small Business Development Centers (and similar business support programs) in that they serve only selected clients. Congress created the Small Business Administration in the Small Business Act of July 30, 1953. Its purpose is to "aid, counsel, assist and protect, insofar as is possible, the interests of small business concerns." In addition, the charter ensures that small businesses receive a "fair proportion" of any government contracts and sales of surplus property. SBDCs work with any small business at any stage of development, not only startup companies. Many business incubation programs partner with their local SBDC to create a "one-stop shop" for entrepreneurial support.

Within European Union countries there are different EU and state funded programs that offer support in form of consulting, mentoring, prototype creation, and other services and co-funding for them. TecHub is one of the examples for IT companies and ideas.

In India, the business incubators are promoted in a varied fashion: as technology business incubators (TBI) and as startup incubators—the first deals with technology business (mostly, consultancy and promoting technology related businesses) and the later deals with promoting startups (with more emphasis on establishing new companies, scaling the businesses, prototyping, patenting, and so forth). The mission on creating specific innovations among the young minds of researchers via. 101 specialized incubators have been boosted in various parts of India through AIM-India. For instance, AIC-IIIT Kottayam, a startup-based incubator, specializes in IoT Cloud research jointly with world class incubators from Germany, the US, Austria, and so forth.

Business incubators are institutions that support entrepreneurs in developing their businesses, especially in initial stages. These are organizations geared towards speeding up the growth and success of start-ups and early stage companies. Incubation is usually done by institutions which have experience in the business and technology world.

Incubation support includes providing technological facilities and advices, initial growth funds, network and linkages, co-working spaces, lab facilities, mentoring and advisory support. They are often a good path to capital from angel investors, government organizations, economic-development coalitions, venture capitalists and other investors.

Most of the incubators have potential capital to invest in growth startups, or have links to potential funding sources. They provide access to compliance services from professionals such as accountants and lawyers; not to mention the invaluable mentoring and networking support available at the incubation center, through the staff and other entrepreneurs at the incubator.

As early stage hand holders, incubators act as an integral part of the start-up ecosystem. They act as a catalyst for both regional as well as national economic development. There are different types of incubators: Academic institutions; Non-profit development corporations; For-profit development ventures; Venture capital firms, and combinations of the above.

Incubators vary in their strategies. Some are located in an actual physical space meant to foster networking between incubatee entrepreneurs and others in entrepreneurial space. While others operate on a virtual basis. Incubators sometimes call themselves accelerators instead, often when they are geared towards jump-starting businesses that are more developed. Also, business incubators differ from research and technology parks in their dedication towards supporting start-ups and early-stage companies. Research and technology parks tend to be large-scale projects that house organizations ranging from government institutions, corporates, university labs to very small companies. They seldom offer business assistance services, unlike business incubators. Rather, it will be good to say that business assistance services are the hallmark of business incubators.

Types of Incubation

There are a number of business incubators that have focused on particular industries or on a particular business model, earning them their own name.

- Virtual business incubator – online business incubator
    - Since the 1950s, an older incubator model required startups to set up at the incubator's site. After the dot-com bubble, the virtual model was born, allowing companies to receive advice on incubators without physically being at the shop. This new virtual business incubator model has been a major step forward for entrepreneurs, and are especially ideal for those who need the advice that an

incubator office provides but who want to maintain their own offices, warehouses, etc.

- Kitchen incubator – a business incubator focused on the food industry
  - Specialty foods are typically high value and low production. Starting a commercial kitchen from scratch is a huge investment. The average food entrepreneur has to invest a lot of money before even making their food product, therefore not making profit for quite some time. Kitchen incubators give culinary entrepreneurs the opportunity to use low-cost kitchen space where they can rent a commercial kitchen space for an hourly or monthly rate. They also help culinary entrepreneurs make a profit by aiding in packaging, marketing, and selling their food products.
- Public incubator – a business incubator focused on the public good
  - Social incubators' goal, similar to all other business incubators, is to provide social entrepreneurs with the tools they need to expand their business. While some businesses avoid their social responsibility, others such as charities need to have the ability to be more business savvy to survive.
- Seed accelerator – a business incubator focused on early startups
  - "Seed accelerators, also known as startup accelerators, are fixed-term, cohort-based programs, that include mentorship and educational components and culminate in a public pitch event or demo day." While traditional business incubators are typically government-funded, accelerators differ in that they can be either privately or publicly funded and focus on a huge variety of industries. Seed accelerators also differ from business incubators in that the application process for seed accelerators is open to anyone, and is highly competitive.
    - Corporate accelerator – a program of a larger company that acts akin to a seed accelerator
      - A specific type of seed accelerator which is often a subsidiary or program of larger corporations that act like seed accelerators, sponsored by an established for-profit corporation.
- Startup studio – a business incubator with interacting portfolio companies[*citation needed*]
- Venture builder: These are similar to a startup studio, but builds companies internally.
  - Venture-builders are also called tech studios, startup factories, or venture production studios. Unlike incubators and accelerators, venture builders do not take any applications and are a non-competitive program, but rather build companies using their own ideas and resource and assign internal teams of engineers, advisors, business developers, sales managers, etc. to develop them.
- Medical incubator: a business incubator focused on medical devices and biomaterials
  - This type of business incubator focuses on start-up advice for medical devices and biomaterials. Medical technologies are always changing and improving, and therefore this type of incubator is ideal for encouraging innovation and entrepreneurship within the medical field.

Industry sectors intentionally supported by incubation programs[15]

Technology	Creative industries	Construction
Computer software	eBusiness / eCommerce	Arts

Services/professional	Wireless technology	Aerospace
Manufacturing	Healthcare technology	Kitchen/Food
Internet	Advanced materials	Retail
Biosciences/life sciences	Defense/homeland security	Fashion
Electronics/Microelectronics	Energy/Power	Wood/forestry
Telecommunications	Environment/clean technologies	Tourism
Computer hardware	Logistics/Delivery	Manpower
Medical devices	Nanotechnology	Media

Incubation process

Unlike many business assistance programs, business incubators do not serve any and all companies. Entrepreneurs who wish to enter a business incubation program must apply for admission. Acceptance criteria vary from program to program, but in general only those with feasible business ideas and a workable business plan are admitted. It is this factor that makes it difficult to compare the success rates of incubated companies against general business survival statistics.

Although most incubators offer their clients office space and shared administrative services, the heart of a true business incubation program is the services it provides to startup companies. More than half of incubation programs surveyed by the National Business Incubation Association in 2006 reported that they also served affiliate or virtual clients. These companies do not reside in the incubator facility. Affiliate clients may be home-based businesses or early-stage companies that have their own premises but can benefit from incubator services. Virtual clients may be too remote from an incubation facility to participate on site, and so receive counseling and other assistance electronically.

The amount of time a company spends in an incubation program can vary widely depending on a number of factors, including the type of business and the entrepreneur's level of business expertise. Life science and other firms with long research and development cycles require more time in an incubation program than manufacturing or service companies that can immediately produce and bring a product or service to market. On average, incubator clients spend 33 months in a program.Many incubation programs set graduation requirements by development benchmarks, such as company revenues or staffing levels, rather than time.

1. Eligibility
2. Admission process
3. Intellectual property

4. Seed loan
5. Infrastructure
6. Common infrastructure
7. Other services
8. Periodic assessment
9. Information submission
10. Consideration
11. Tenure in BI
12. Exit
13. Conflicts of interests and confidentiality of information
14. Disclaimer
15. Agreements

Goals and sponsors

Business incubation has been identified as a means of meeting a variety of economic and socioeconomic policy needs, which may include job creation, fostering a community's entrepreneurial climate, technology commercialization, diversifying local economies, building or accelerating growth of local industry clusters, business creation and retention, encouraging minority entrepreneurship, identifying potential spin-in or spin-out business opportunities, or community revitalization.

About one-third of business incubation programs are sponsored by economic development organizations. Government entities (such as cities or counties) account for 21% of program sponsors. Another 20% are sponsored by academic institutions, including two- and four-year colleges, universities, and technical colleges. In many countries, incubation programs are funded by regional or national governments as part of an overall economic development strategy. In the United States, however, most incubation programs are independent, community-based and resourced projects. The U.S. Economic Development Administration is a frequent source of funds for developing incubation programs, but once a program is open and operational it typically receives no federal funding; few states offer centralized incubator funding. Rents and/or client fees account for 59% of incubator revenues, followed by service contracts or grants (18%) and cash operating subsidies (15%).

As part of a major effort to address the ongoing economic crisis of the US, legislation was introduced to "reconstitute Project Socrates". The updated version of Socrates supports incubators by enabling users with technology-based facts about the marketplace, competitor maneuvers, potential partners, and technology paths to achieve competitive advantage. Michael Sekora, the original creator and director of Socrates says that a key purpose of Socrates is to assist government economic planners in addressing the economic and socioeconomic issues (see above) with unprecedented speed, efficiency and agility.

Many for-profit or "private" incubation programs were launched in the late 1990s by investors and other for-profit operators seeking to hatch businesses quickly and bring in big payoffs. At the time, NBIA estimated that nearly 30% of all incubation programs were for-profit ventures. In the wake of the dot-com bust, however, many of those programs closed. In NBIA's 2002 State of the Business Incubation survey, only 16% of responding incubators were for-profit programs. By the 2006 SOI, just 6% of respondents were for-profit.

Although some incubation programs (regardless of nonprofit or for-profit status) take equity in client companies, most do not. Only 25% of incubation programs report that they take equity in some or all of their clients.

Incubator networks

Incubators often aggregate themselves into networks which are used to share good practices and new methodologies. Europe's European Business and Innovation Centre Network ("EBN") association federates more than 250 European Business and Innovation Centres (EU|BICs) throughout Europe. France has its own national network of technopoles, pre-incubators, and EU|BICs, called RETIS Innovation. This network focuses on internationalizing startups.

What is a Business Incubator?

A business incubator is an organization or program that is designed to support the development and growth of startup companies. They provide services such as management training, mentorship, co-working space, networking opportunities, access to funding, and much more. Business incubators are perceived to be the mainstay of economic development programs. They create value by combining the entrepreneurial drive of startups with the resources generally available to new ventures.

The people working for a business incubator perform intensive research before supporting or funding startups. The primary objectives of business incubators are creating employment opportunities in the local economy and commercializing technologies.

National Business Incubation Association (NBIA) defined Business Incubators as a catalyst tool to Regional and National Development.

What is Business Incubation?

Business Incubation is the name given to the process that involves supporting the development and growth of startups through the provision of various resources and services. The goal of business incubation is to help startups overcome the initial hurdles that come with starting and growing a business. There are numerous startups working on revolutionary ideas. But these ventures often need assistance. Business incubators provide this much-needed support. The goal of incubation in a nutshell is to increase the success rate of emerging startups and entities.

Types of Business Incubators

There are 4 main types of incubators prevailing in the market today. These are:

1. Corporate Incubators

Their objectives are to enhance entrepreneurial skills and to help startups keep up with other industries/competitors. Corporate incubators target internal and external projects related to the activities of the company. The most common challenge corporate incubators face is the conflict between top-level executives and committees regarding objectives and management-related decisions.

2. Local Economic Development Incubators

They work on economic development by supporting SMEs and specific groups for the overall upliftment of society. These groups include small enterprises, handicraft-related businesses, and locally-sourced companies. Governance risk, volatility in management quality, long hours of negotiation, and conflicts are often associated with such incubators.

3. Private Investors' Incubators

They assist high-potential businesses (such as technology-intensive startups) and then reap benefits by selling shares. These incubators lag in terms of quality and durability.

4. Academic Incubators

They offer new sources of finance while supporting the entrepreneurial spirit and focusing on civic responsibility. Academic incubators target external projects and the projects internal to academic institutions.

How Business Incubation Works

The process of business incubation typically involves several stages:

1. **Application:** Startups apply to a business incubator program by submitting an application and business plan. Some incubators have selective application criteria, while others may have a broader range of eligibility criteria.
2. **Screening:** The incubator reviews the application and business plan to determine if the startup is a good fit for the program. The screening process may involve an interview or presentation by the startup.
3. **Incubation:** Once accepted into the program, the startup works with the incubator to develop and execute their business plan. The incubator provides the startup with access to resources, mentorship, and other support services to help them achieve their goals.
4. **Graduation:** Once the startup has achieved its goals and is ready to operate independently, it graduates from the program. Graduation typically involves leaving the incubator's physical space and resources but may still involve ongoing mentorship and networking opportunities.

What is the Role or Function of a Business Incubator?

Incubators provide resources and services to entrepreneurs, including working space and offices, technical expertise, management mentoring, assistance in compiling an effective business plan, shared administrative services, technical support, business networking, and advice on intellectual property, sources of financing, markets, and strict admission/exit rules.

- They guide startups/ventures on how to compete with established industry players.
- Business incubators help with the basics of business.
- They provide networking activities.
- They help startups save on operating costs.
- Incubators provide marketing assistance.
- Incubators help with market research.
- They provide high-speed internet access.
- They create long-lasting jobs for new graduates, experienced mid-career personnel, and veteran executives.
- Incubators help with accounting/financial management.
- They provide access to bank loans, loan funds, and guarantee programs.
- Incubators bring credibility to the company. This helps the company receive loans and credit facilities from financial institutions.

- Incubators help with presentation skills.
- They have a strong network of influential people who can connect startups/ventures with established businesses and individuals.
- They provide access to higher education resources.
- Incubators can tap into their networks of experienced entrepreneurs and retired executives.
- They link companies with strategic partners.
- They provide access to angel investors and venture capital.
- Business incubators organize comprehensive business training programs.
- They act as advisory boards and mentors.
- They help in management team identification.
- They offer marketing and PR assistance to new companies for brand establishment.
- They help with business etiquette.
- They provide technology commercialization assistance.
- They help with regulatory compliance.
- They provide intellectual property management.
- They create jobs for mid-career personnel and veteran executives which benefits communities and drives economic growth.

Accelerators vs. Incubators

The prime difference between the incubators and accelerators is that accelerators receive financial support from an existing company. On the other hand, incubators work independently and have connections with venture capitalists, angel investors, government authorities and universities. You can also have a look at incubators vs accelerators for a better understanding of the subject. However, to make the difference easier, some most important factors are as under:

- **Duration:** Incubators work as an open-ended timeline and accelerators operate within the set time frame of 3 to 4 months.
- **Purpose:** Incubators support the entrepreneurs in starting the business, on the other hand, accelerators assist the existing business in growth and development.
- **Environment:** Well, incubators and accelerators both work to provide a collaborative and supportive environment. This is the area where both are like each other.
- **Application Process:** Incubators invest and support the local start-ups and accelerators using the traditional model for entry into their program.
- **Capital:** Accelerators provide a specific amount of capital or funding to the existing businesses, and incubators provide the funding to the start-ups, that is derived through governmental bodies and universities.

Incubator Model an success factors

Business incubation definition

A **business incubator** is a company that helps new and startup companies to develop by providing services such as management training or office space.

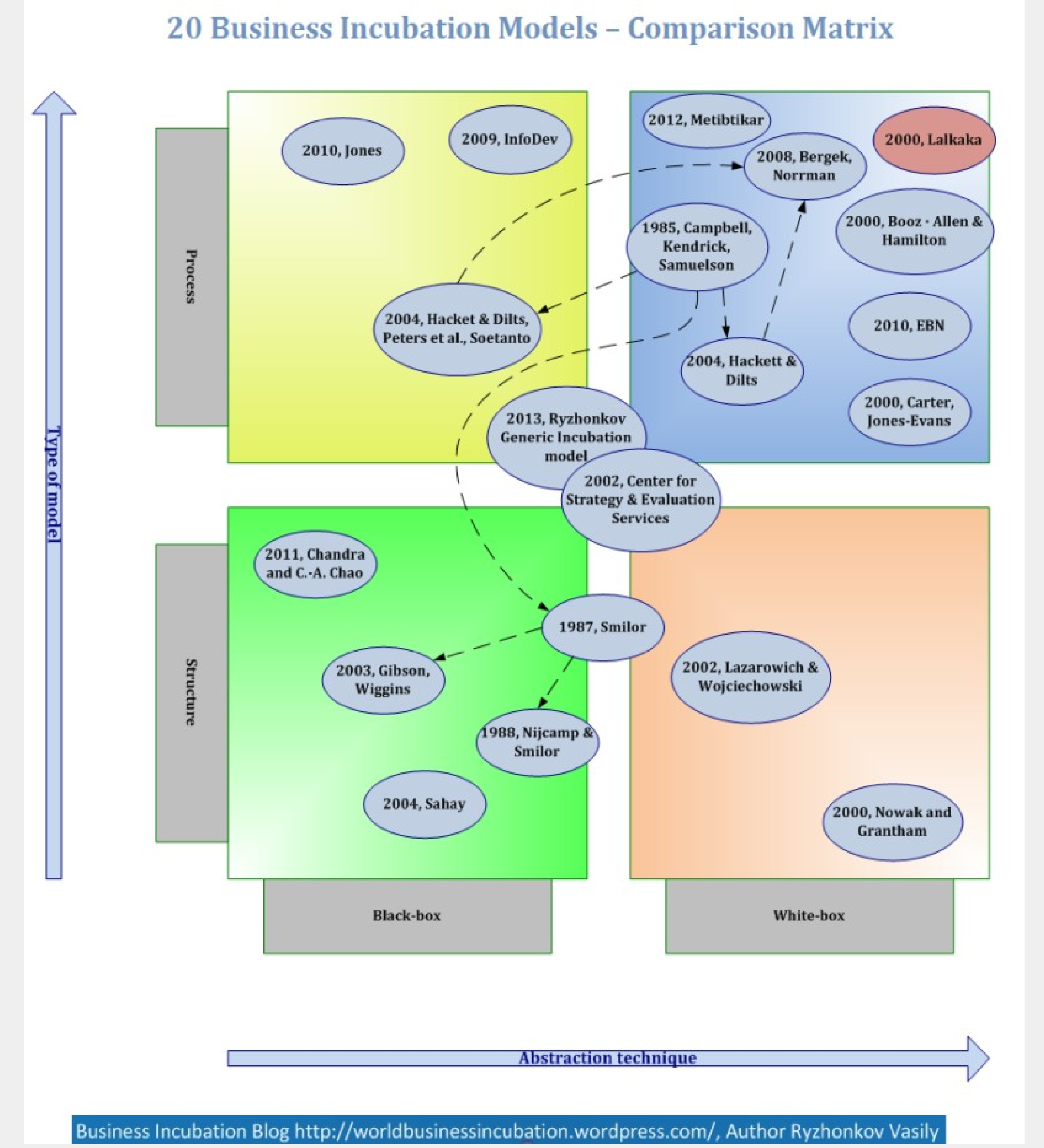
The National Business Incubation Association (NBIA) defines business incubators as a catalyst tool for either regional or national economic development. NBIA categorizes their members' incubators by the following five incubator types: academic institutions; non-profit development corporations; for-profit property development ventures; venture capital firms, and combination of the above

Incubator models and success factors

Business Incubation Models

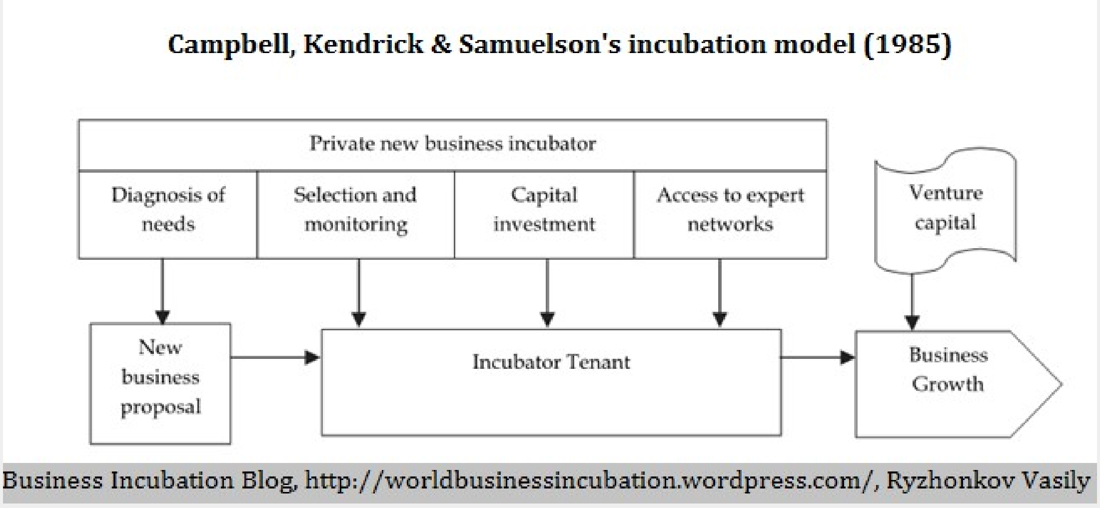
This page contains Business Incubation Models. This is a summary of post series about Business Incubation Models. The main purpose of this section is to review existing Business Incubator's Models, and assess their historical applicability, performance and efficiency for business innovation purposes. Business Incubation is a concept which involves multiple stakeholders, dozens "building blocks", various types of resources and several service categories (around 100 specific services in total). Business Incubation Models will be described below in order to better define, analyze, design, calibrate, evaluate and think about business incubation. These models have been developed by researchers, consultants and practitioners since 1985. Moreover, they created around 20 different models.

20 Business Incubation Models



20 Business Incubation Models – Comparison Matrix

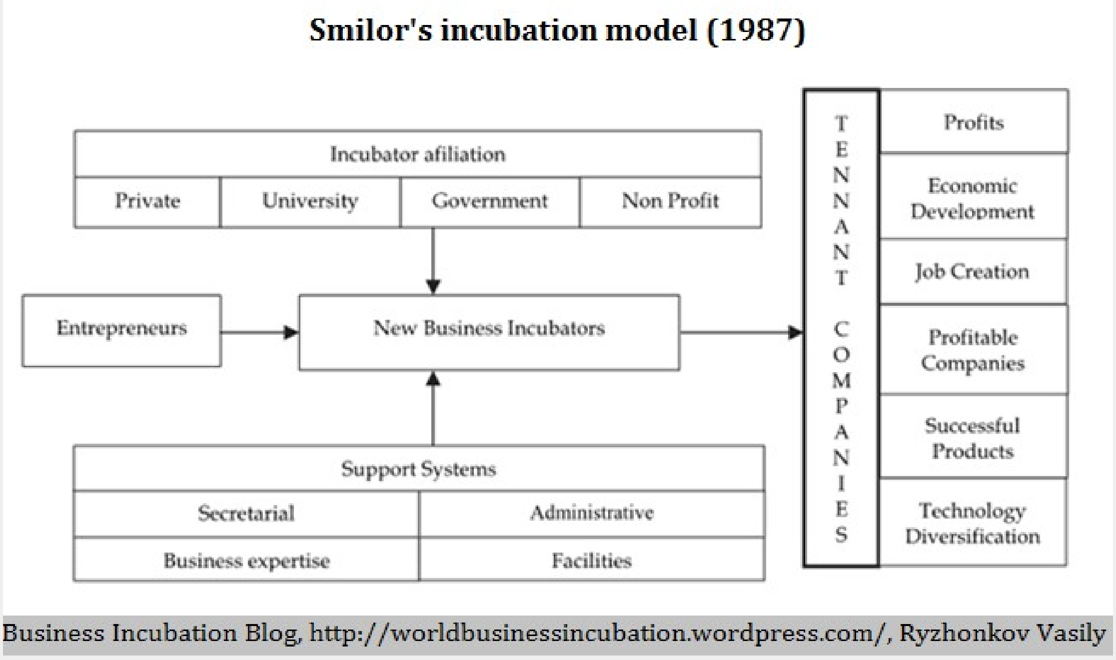
1985, Campbell, Kendrick & Samuelson, white-box, process, operations



Campbell, Kendrick & Samuelson's incubation model (1985)

The model stresses on process functions of incubator as main business development tool that can transform idea into a real business.

1987, Smilor, mixed, structure, operations

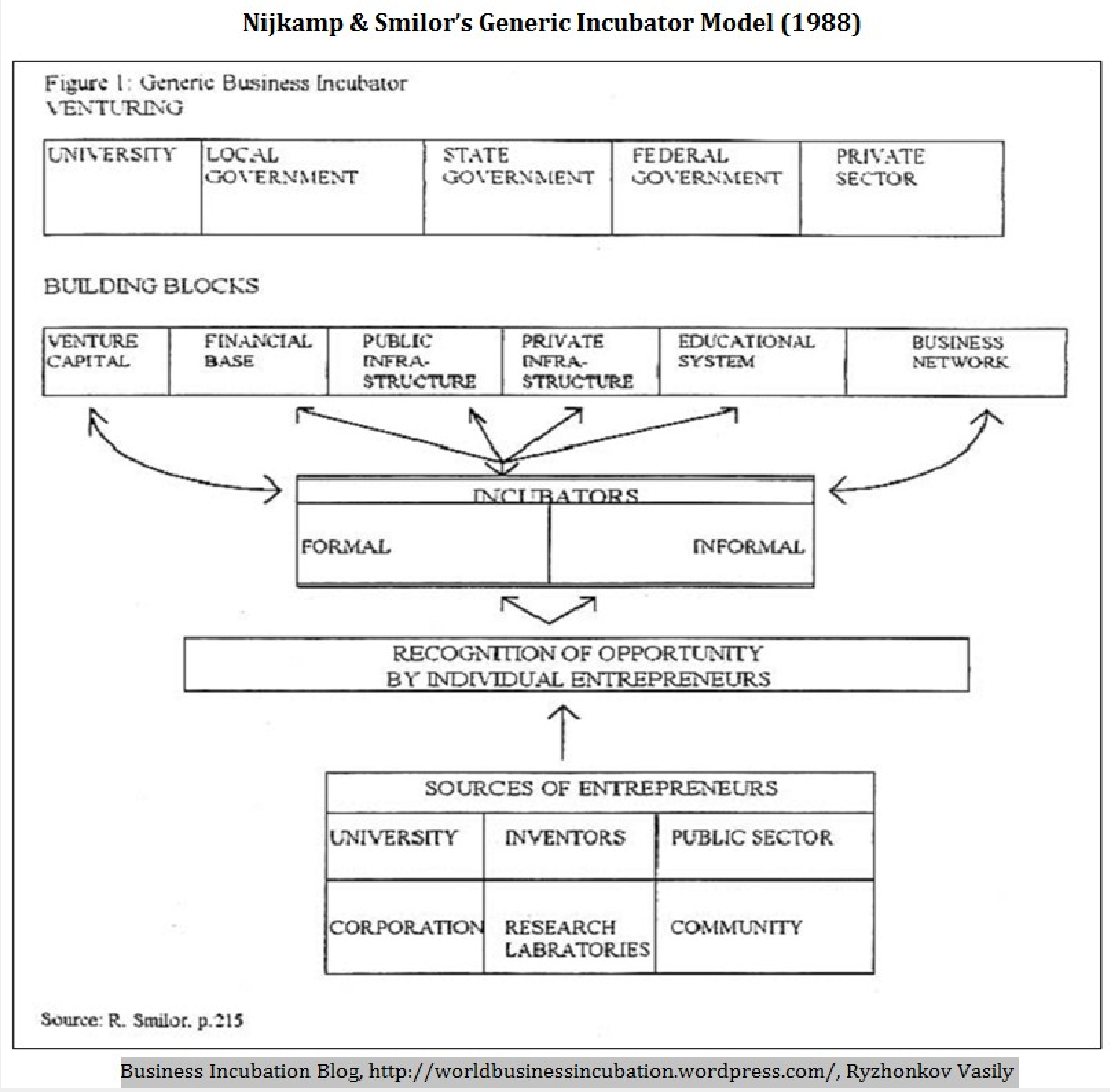


Smilor's Incubation Model (1987)

This model was developed by Smilor in 1987 by refining Campbell's model (1985). Smilor created structure model via describing main incubator affiliates, support systems and description of main outcomes of the incubation process. He considers an incubator as a transformation mechanism that assist entrepreneur in building a venture. Even though the representation of the model doesn't provide extensive information about particular services that business incubator supplies to tenants, Smilor categorizes the benefits that business incubators provide to their tenants through four dimensions:

1. Credibility development.
2. The shortening of the learning curve.
3. Faster troubleshooting.
4. Access to the network of entrepreneurs…

1988, Nijkamp & Smilor, black-box, structure model, operations

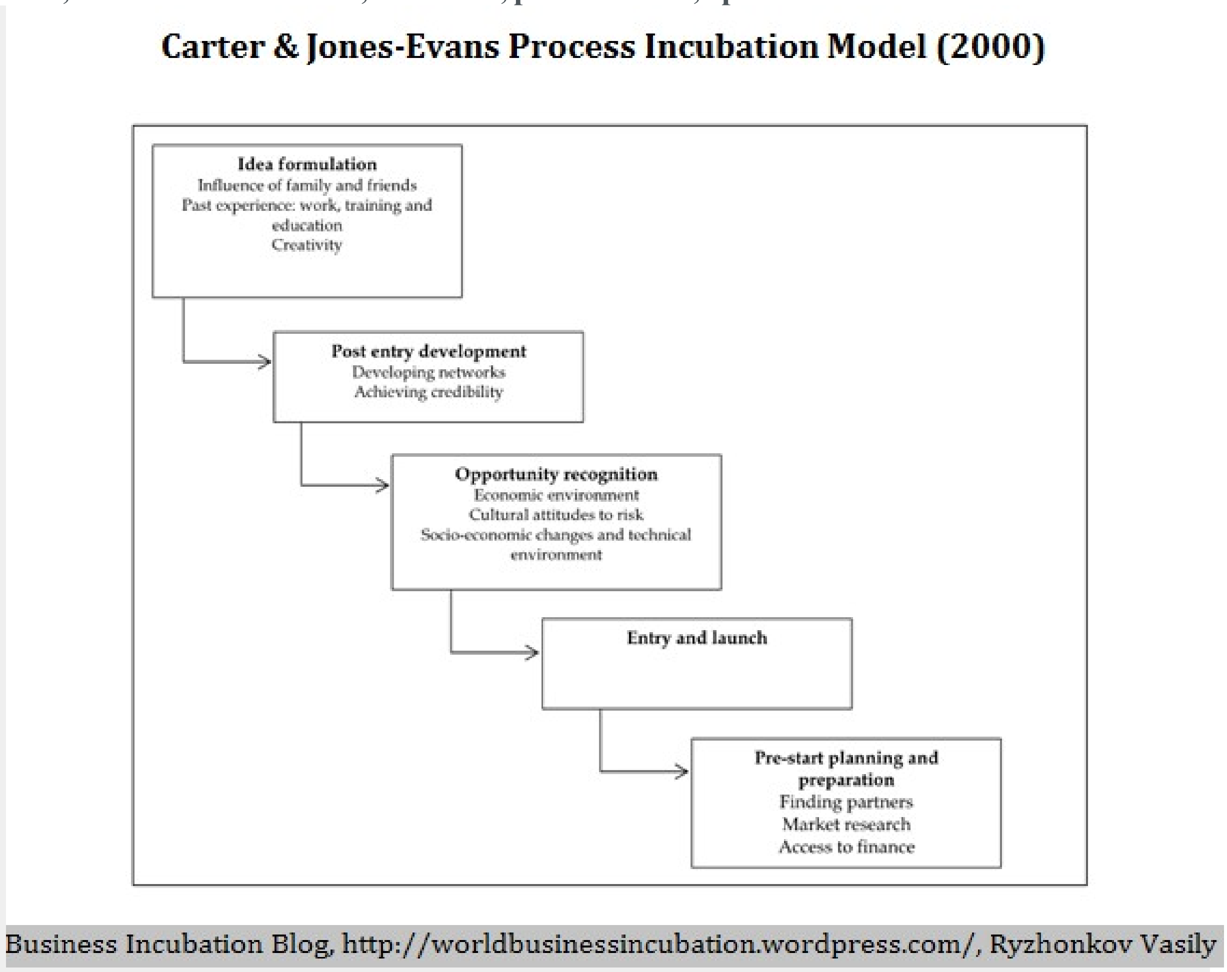


Nijkamp & Smilor's Generic Incubator Model (1988)

This model is the combination of two. Firstly, Smilor introduced his model and then it was extended by Nijkamp. Nijkamp's (1988) model is the interpretation of a generic business incubator. He argues that any business incubator acts as a mediator between entrepreneurs and community. Thus, successful implementation of the incubator requires combintation of at least these elements:

- **Sources of entrepreneurs**
- **Recognition of opportunities by entrepreneurs**
- **Demand for business incubation services…**

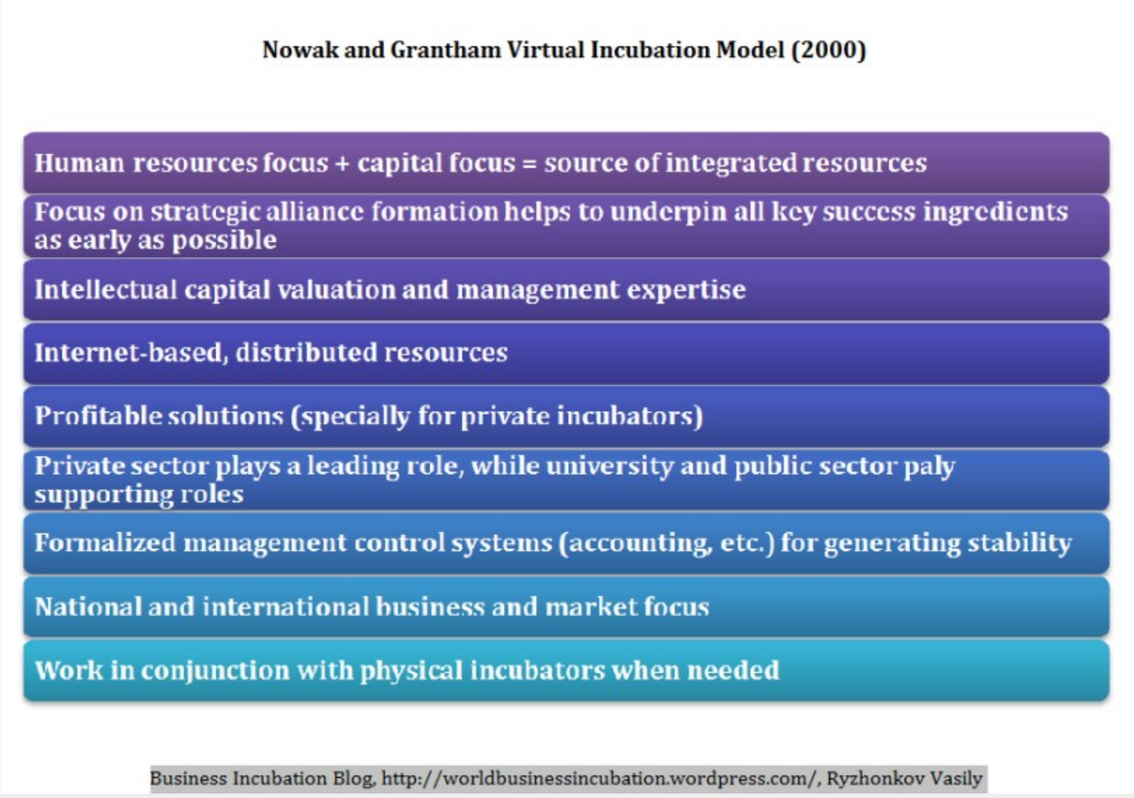
2000, Carter & Jones-Evans, white-box, process model, operations



Carter & Jones-Evans Process Incubation Model (2000)

This is a first true process model in a row. Carter & Jones-Evans (2000) proposed a typical five-step incubation process, as shown in the figure above. As it can be seen from Carter & Jones-Evans' (2000) model the process is organized and focused on the needs of the incubatee, which will be supported by the services provided by the incubators during the incubation process. The incubation process according to the Carter & Jones-Evans consists of the following stages: idea formulation, post entry development, opportunity recognition, entry and launch, pre-start planning and preparation…

2000, Nowak and Grantham, white-box, structure, operations



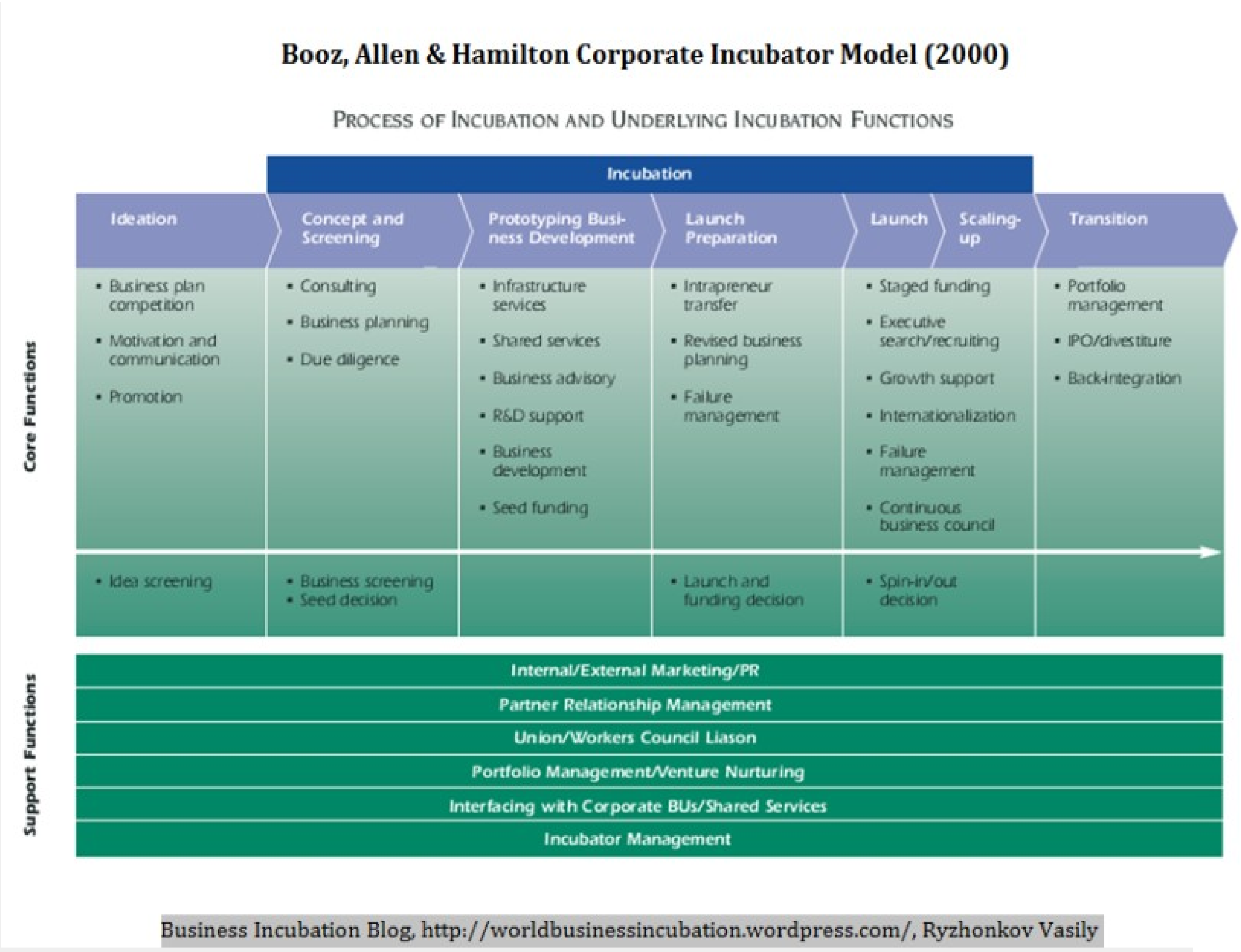
Nowak and Grantham Virtual Incubation Model (2000)

Nowak and Grantham (2000) have established their model on the following premise: *"Traditional business development entrepreneurs face a common challenge: the absence of capital, human resources, and management capabilities."* So, the new model needs to provide the small business community with a structure and mechanism to easily access:

- information on ''best practices'' for business development
- industry and management experience
- resources for international marketing, sales and distribution

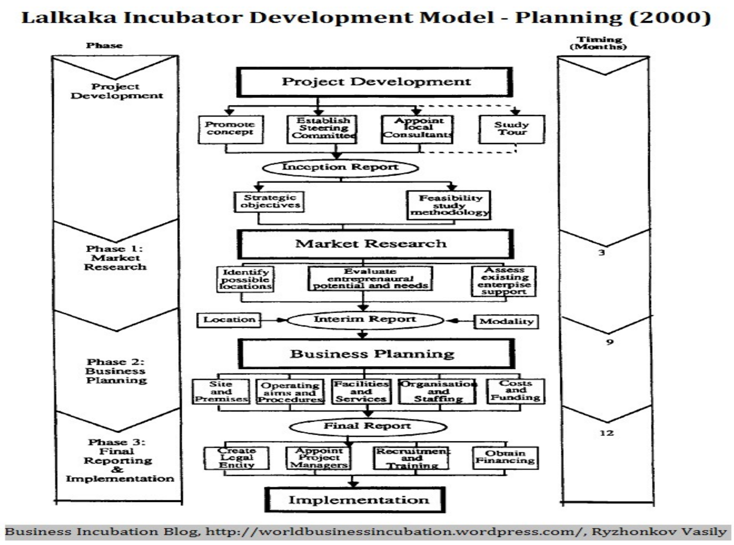
They proposed the creation of a **virtual incubation model**, based on networked innovation, which brings together, if only in a virtual sense, centers of technical and business or management excellence.

2000, Booz, Allen & Hamilton model, white-box, process, operations



Booz, Allen & Hamilton Corporate Incubator Model (2000)

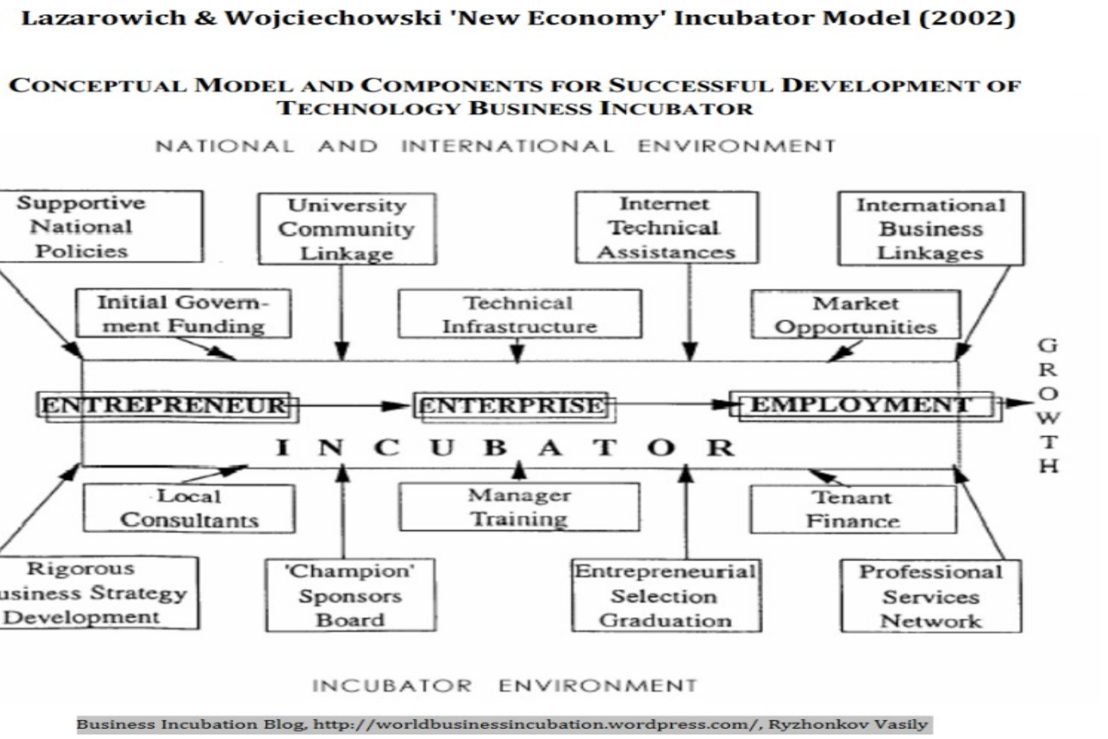
Main contribution of the model proposed by Gregor Harter, Klaus Hölbling & Steffen Leistner from Booz, Allen and Hamilton is *conceptualization of business incubation and applying it to a corporation's needs in continuous innovation*. The model describes how corporate incubator could reinforce and support innovation practices…



2002, Lazarowich & Wojciechowski 'New Economy' Incubator Model, white-box, structure, operations

Lazarowich & Wojciechowski 'New Economy' Incubator Model (2002)

The model described by Lazarowich an



d Wojciechowski[1] explains 'new economy' incubators. They are characterized by the following:

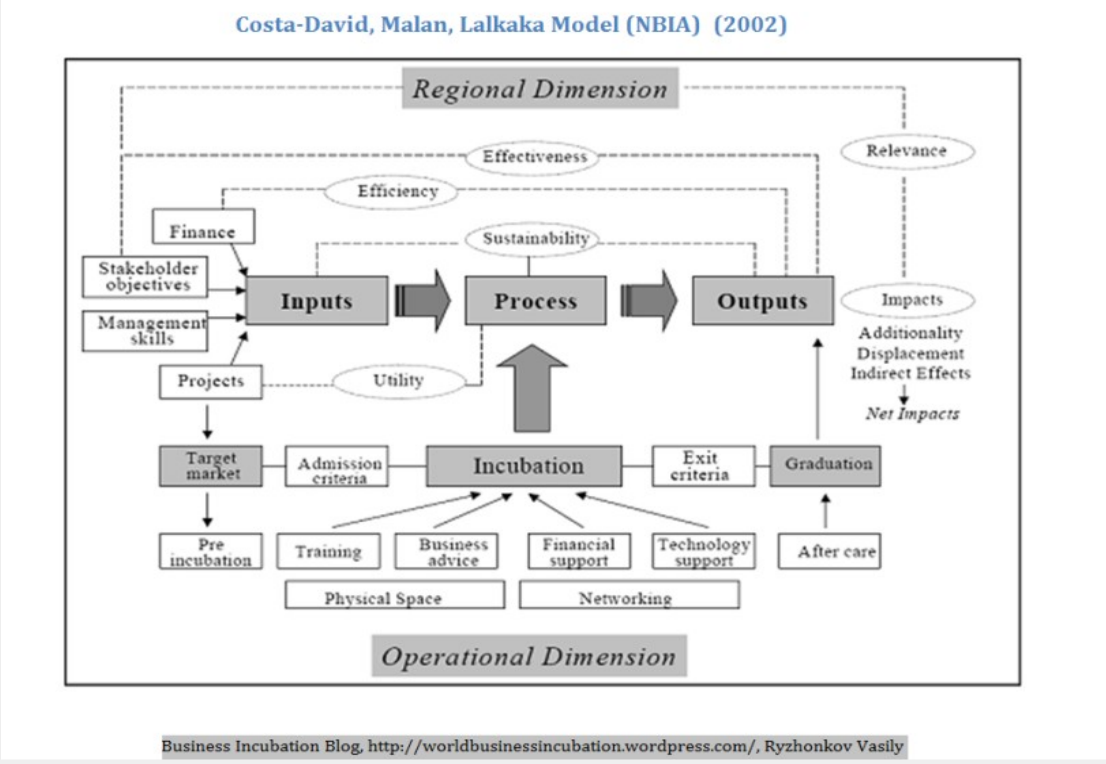
- "Business incubators are private-sector, profit-driven with the pay-back coming from investment in companies rather than from rental income.
- They tend to focus mainly on high-tech and internet-related activities and unlike 'traditional' incubators, do not have job creation as their principal.
- 'New economy' incubators often have an essentially virtual presence with financial and business services at the core of the offering unlike their 'traditional' counterparts that usually center on the provision of physical workspace."

2000, Lalkaka Incubator Development Model, white-box, process, development

Lalkaka Incubator Development Model – Planning (2000)

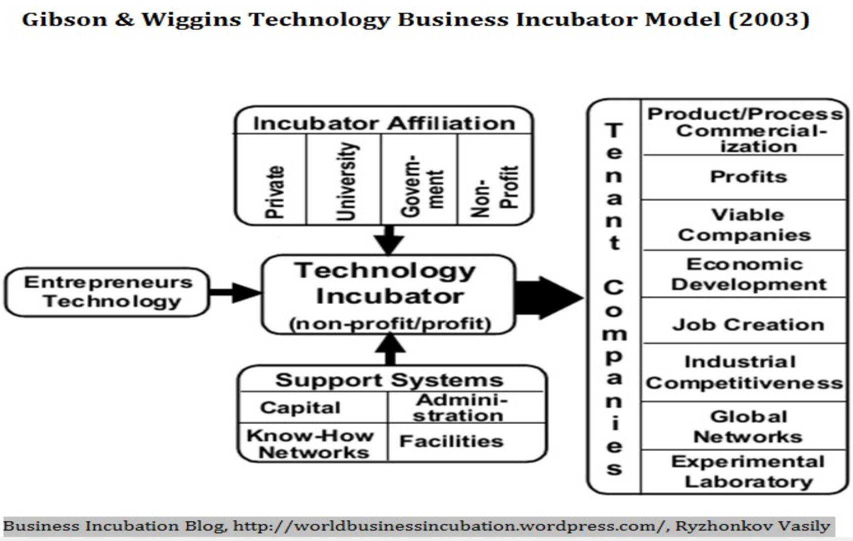
This model is **about the development of technology business incubator**. The model was presented by Mr. Lalkaka in 2000 and was intended to guide planners, educators, sponsors and management teams in exploring and establishing a successful TBI program.

2002, Costa-David, Malan, Lalkaka, NBIA, mixed, mixed, operations



Costa-David, Malan, Lalkaka Generic Incubator Model (2002)

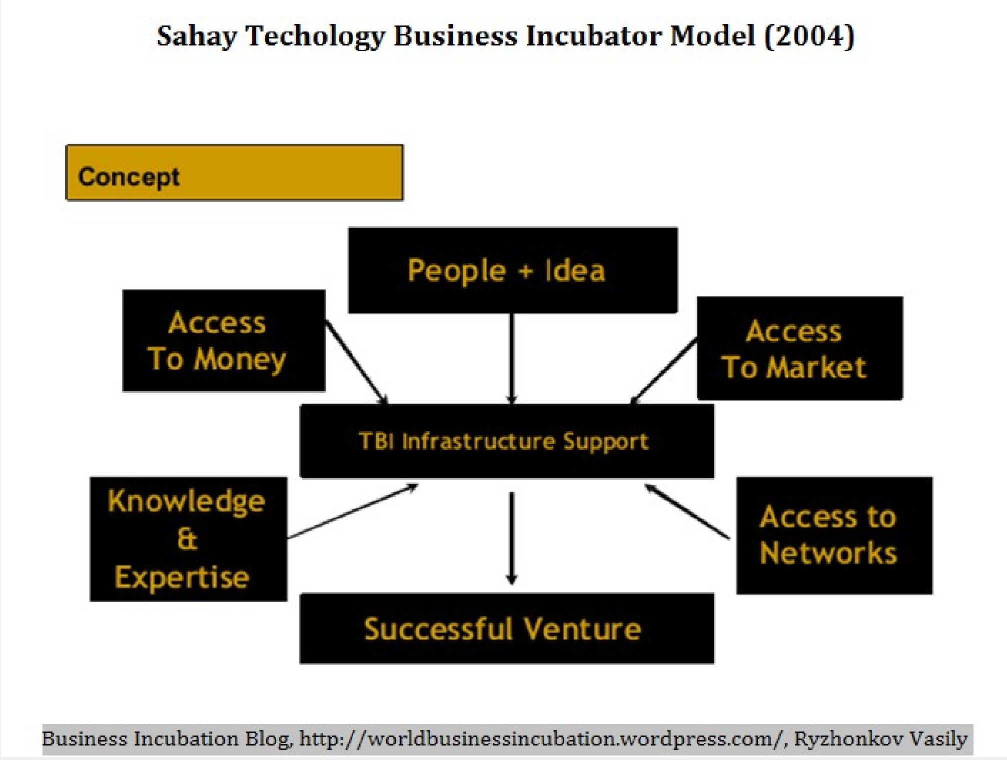
This model was presented in a 2002 EU incubator benchmarking study[1] as a general ‘model of incubation’ based on EU-wide survey data. However, it was developed by very knowledgeable authors Costa-David, Malan, Lalkaka for NBIA. Later the Center for Strategy & Evaluation Services (EU) copied this model and used proposed benchmarks that depict incubator efficiency and performance in terms of using inputs, developing and orchestrating processes and ensuring a steady upply of quality outputs.**2003, Gibson, Wiggins, black-box, structure, operations**



Gibson & Wiggins Technology Business Incubator Model (2003)

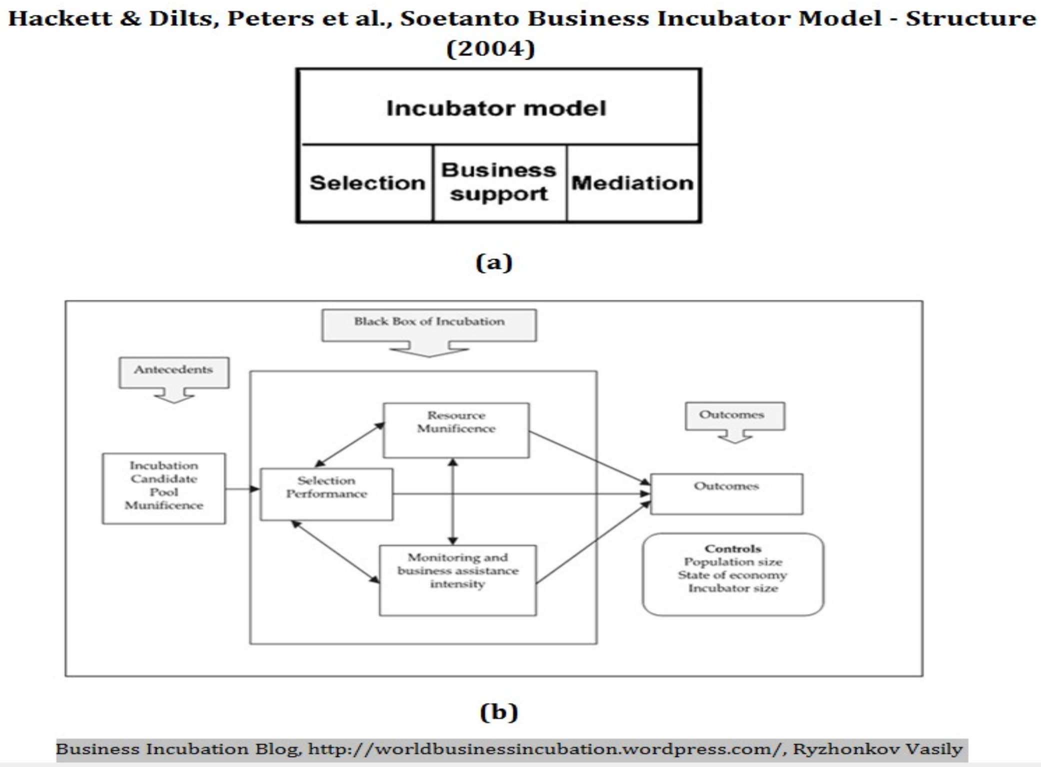
This is basically a copy-paste of a Smilor model (1987).

2004, Sahay, black-box, structure model, operations



Sahay Techology Business Incubator Model (2004)

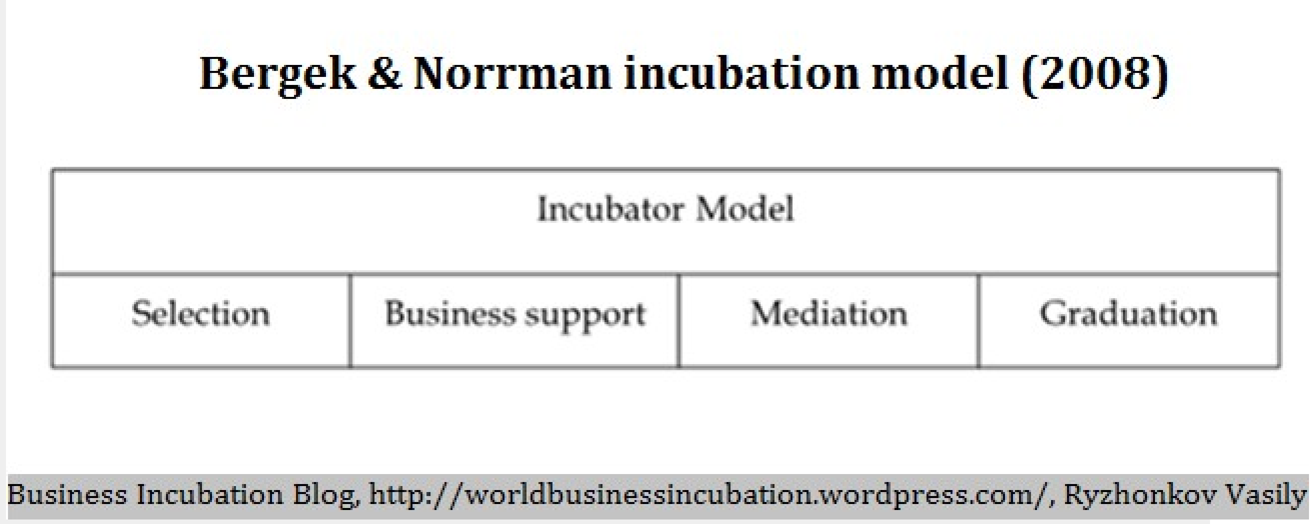
2004, Hackett & Dilts Generic Incubator model, black-box, structure, operations



Hackett & Dilts Business Incubator Model – Structure (2004)

The model is a **universal business incubation model which can be used both in public and corporate purposes.** In short, it is structured as black-box: inputs of the process, process activities, and outputs of the process. Authors also present a formula of Business Incubation Process. We think that this is the most successful representation of business incubator among all in the series.

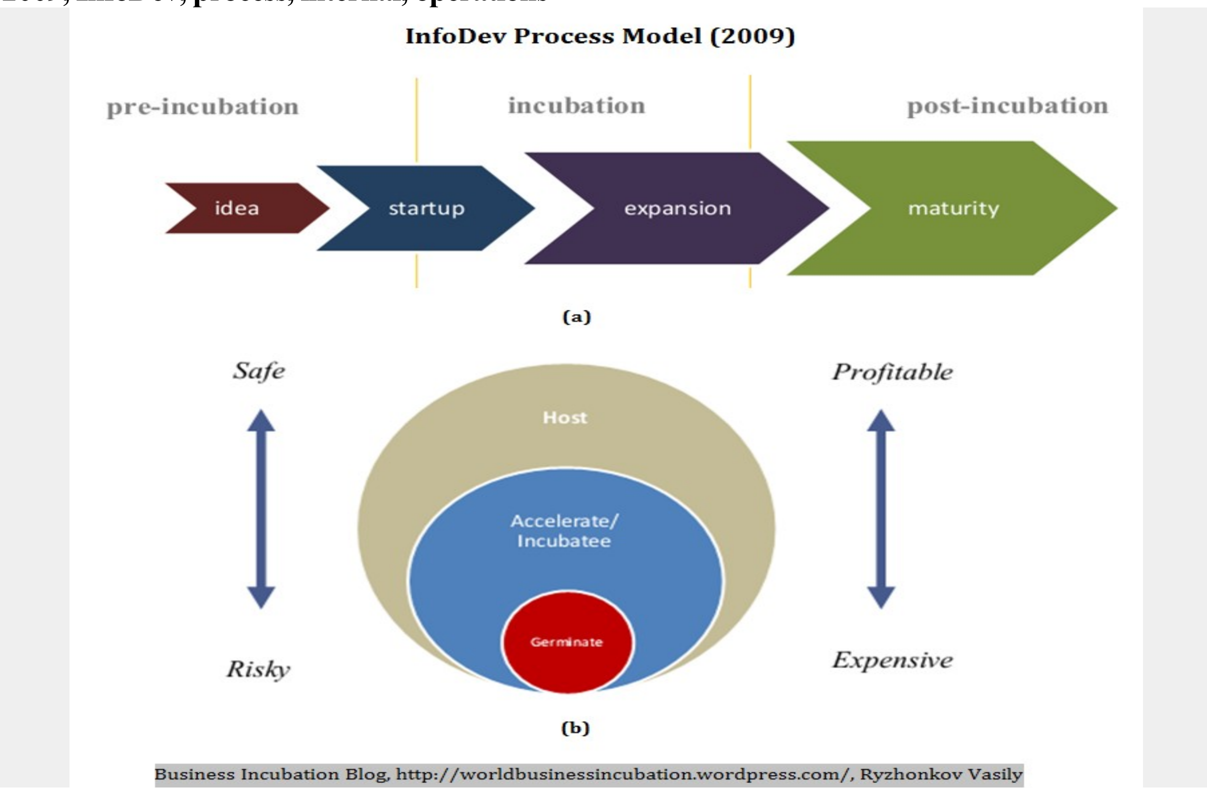
2008, Bergek & Norrman model, white-box, process, operations



Bergek & Norrman Business Incubation Model (2008)

The model of Bergek & Norrman from 2008 continues the ideas that have been developed by Hackett & Dilts (2004),Smilor in 1987 and Gibson & Wiggins (2003). On the one hand the model is centered on the results of the business incubation. On the other hand it's still process model which describes different stages of the process. So, it's easy to adapt it in the real life and build your incubator by applying this model.

2009, InfoDev, process, internal, operations



InfoDev Process Model (2009)

infoDev model is the model developed for building business incubators around the World within infoDev network. infoDev is a powerful and well-known World Bank program that "grows innovation around the world". They work in five different areas: Access to Finance, Agribusiness Entrepreneurship, Climate Technology, Mobile Innovation, Women Entrepreneurs. One of the works they do is helping entrepreneurs by bringing them business coaching, access to early-stage financing, and better entrepreneurship environments (which are often include business incubators). They have published several materials that could be valuable for those who are creating business incubators. One of the models will be described today. An interesting point about this model of Business Incubation Series is the linkage between business incubation phases and entrepreneurial life cycle.

What is a Business Incubator?

Business incubators are organizations that offer startups shared operation space. In doing so, entrepreneurs enjoy a collaborative work environment with invaluable mentoring and networking opportunities, funding support and shared equipment. In short, they offer fledgling young companies a warm, safe place to grow and prosper.

What is the Goal of a Business Incubator?

Simply put, the goal of a business incubator is help your startup succeed. Most incubators are non-profit organizations that select tenants on a non-competitive basis. They receive their funding from government or lottery grants, donations and rent you pay as a tenant. They provide both virtual and on-site tactical support if and when you need it, and they gauge success based upon the success of their tenants.

What are the Benefits of a Business Incubator?

Based on the typical offerings, the implications for a startup taking up residence at a business incubator are clear. Unrivalled access to funding, mentors, skills development programs and a collaborative work environment can make a world of difference to your success. There are less obvious benefits, though.

Unlike accelerators, incubators don't put a time stamp on their support programs. That means you aren't bullied into growing too quickly, and are free to scale and expand at your own pace. Likewise, business incubators don't ask for equity in your company in return to access for resources. That means you reap all the benefits without having to hand over a piece of your company in the process.

What are the Drawbacks of a Business Incubator?

Incubators do have a couple of drawbacks, too. Because most incubators are non-profit organizations, they generally can't offer you the sort of access to capital you might enjoy from an accelerator or wooing an angel investor.