Chapter 3	Sources of Business Ideas and Test of Feasibility

3.1 Sources of Business Ideas/Project Ideas and Tests of Feasibility-Meaning

A concept that can be used to make money is called business idea. Business ideas mainly focus on a product or service. Although business idea has the potential to make money but it has no commercial value. The primary task of a dynamic entrepreneur is the generation of an idea that is new and worth for further use. Generation of a new business idea or project idea involve a lot of creativity on the part of the entrepreneur and it mainly arises from consideration by the entrepreneur with a keen and open mind of the following factors like (i)Opportunity in the market (ii)Real demand for any product or service.

3.1.1.Important points for selecting a business idea

The following important points need consideration before selecting any new business idea/project idea:

(1) Utilisation of the Technical and Professional Skills of the Entrepreneur

(2) Use of Local Raw Materials

(3) Products with good market demand.

(4) Solving market problems:

3.2.Sources of Information for Business Ideas

The starting point in any product development is the generation of business idea/project idea. For this purpose an entrepreneur can refer to potential studies conducted and prepared by different organizations like the National Council of Applied Economic Research (NCAER), financial institutions and other promotional organisations such as Confederation of Indian Industries (CII), etc. These may include the study of the following:

(1)Area Studies: It identifies the development of a potential backward area or a district.

(2)Sub-Sectoral Studies: This study identifies the opportunities in specified sectors like food processing.

(3)Resource-based Studies: This study identifies the opportunities based on utilisation of natural or industrial resources such as forest-based industries, marine-based industries, industries using rubber as the main raw material, etc.

(4)Import and Export: The study also identifies the possibilities of import and export.

(5)Pattern of Product Consumption: The study by different organizations identified the pattern of product consumption of the country.

(6)Demand Forecasting: Studies also include forecasting of demands made by Industrial Chambers such as CII, FICC1, ASSOCHAM, etc.

(7) Surveys: It also includes study relating to existing industrial establishments

3.3.Approaches to Generating Ideas

The following approaches to generate business ideas can be used by an entrepreneur while exploring the different sources of business ideas:

(i)Brainstorming.
(ii)New ways of doing old things.

(iii)Converting hobby into business.

(iv)Improving an existing product.
(v)Utilising waste material.
(vi)Intrapreneurship: The business could have an employee suggestion scheme which give rewards to employees generating innovative ideas.

3.4. Selection of Business Idea

Before selecting any particular business idea or project idea, all the project ideas are need to be screened on the basis of well defined criteria and ideas which are not promising need to be eliminated. Finally the most potential and promising idea needs to be selected considering the following facts:

(1)Compatibility of Objectives and Resources:

(2)Reasonable Assurance:
(3)Return on Investment:
(4)Environmental Factors:
(5)Comply with Rules and Regulations:

3.5.Business Opportunity

Business opportunity is the proven business idea which can be converted into a business enterprise for earning profit. So a feasible business idea is converted into business opportunity and ultimately on the basis of feasibility study it is converted into business plan.

3.6.Feasibility Study

In the complex and competitive business environment there is no guarantee for success of any business enterprise. For this reason the Business Idea or Project Idea of a startup business or growing business is to undergo considerable testing before finally being rolled out in the market as a full-fledged business.

Feasibility study means complete, thorough and detailed study of the acceptability of any project. It acts as a guideline for implementation of the project and it also highlights the various risks involved in the project and the chances of success of the project.
Before investment decision in any particular industrial project feasibility study provides a basis. In this context a project signifies production capacity at a selected location, use of inputs like materials and technology and technologies in relation to that, production costs, sales revenue and return on investment of the said project.

A feasibility study is presented in the form of a **Project Report**. This Project Report needs sanction from concerned authorities including from financial institutions. Concerned authorities evaluate the various aspects of the viability of a project on the basis of feasibility study.

3.7.Need for Feasibility Plan

The need for feasibility plan arises due to following reasons:

(i)Estimating Human and Material Resources
(ii)Identify Sources of Resources:
(iii)Understanding business related problems.
(iv)Formulating Strategies:

3.8.Types of Feasibility Study

The feasibility study should contain an analysis of the following types of feasibility plans:

(1)Technical Feasibility
(2)Commercial Feasibility
(3)Financial Feasibility
(4)Socio-economic Feasibility.

Besides these aspects, a project report should also contain general information including description of the project, the status of the project in the national priority and the government policies supporting the project, information about the promoters of the project, etc.

(1)Technical Feasibility:
(a)Location
(b)Plant Capacity or Size:
(c)Plant and Equipment:
(d)Infrastructure:
(e) Effluent Treatment and Discharge:
(f) Foreign Collaboration:
(2) Commercial Feasibility:
(3) Financial Feasibility
(4) Socio-Economic Feasibility:
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3.9.Project Appraisal

It refers to in-depth analytical study of the project after doing feasibility analysis. Before implementation of the project analysis is done with technical and financial information and finally the project is either recommended or rejected.

3.10. Meaning of Business Plan/Project Report

Feasibility plan helps to determine whether the idea is viable or not. But business plan is prepared to execute the viable plan. A business plan is a written statement of where an entrepreneur is going and how to reach there. It is a kind of roadmap in setting up an enterprise and to reach the destination as decided by the entrepreneur.

Definition of Business Plan: Business plan can be defined as a written document of entrepreneurial vision, describing the strategy and operations of the proposed venture and which also acts as a roadmap of where entrepreneurs are, where they want to be, and how they want to get there. So it is a summary of various elements involved in the starting a new business.

The business plans are known by different names to different people. For example, when presented to a bank, it is called 'Loan proposal', a venture capital group calls it 'venture plan' or 'investment prospects' and common people call it 'project report'.

3.10.1.Essential of a Good Business Plan

A good business plan must:

(i)determine the direction of the company i.e. where the business is heading.

(ii)highlight the problems in the path of business.

(iii)direct towards achievement of goals and objectives.

(iv)formulate strategies to keep the business on track.

Business plan is not only necessary for a startup company but also for those companies which are growing.

3.11.Difference between feasibility Study and Business Plan

Points of difference	**Feasibility Study**	**Business Plan**
1.Meaning	To determine whether the idea is viable or not feasibility plan is prepared.	On the other hand business plan is prepared to execute the viable idea.
2.Linkage	Feasibility study is converted into business plan.	But business plan cannot be converted into feasibility study.
3.Objectives	The main objective of feasibility study is to assure whether business venture is worth in terms of money, time, efforts and resources.	Business plan is made to expand the business and carry out the business successfully.
4.Benefit	The benefit of feasibility study is that it helps to assess the viability.	The benefit of business plan is that it is beneficial to carry out the plan successfully.

3.12. Significance of Writing Business Plan/Project Proposal

The significant of writing business plan are:

(i)Reducing tensions:

(ii)Financial Help from banks or equity funding:

(iii)Road Map

(iv)Attract Lenders, Business Partners and Vendors:

(v)Provides standard against which actual performance can be measured:
(vi)Alliances:

(vii)Communicate line of action the organization:

(ix)Blue print of the organization:

3.13 Contents of Business Plan/Project Proposal

A well prepared business plan has no substitute and there is no short-cut to prepare a business plan. The business plans are required to be prepared as per the need of the organization. For example a manufacturing company needs to prepare a detailed business plan whereas a small scale business required a small business plan.

The entrepreneur or his consultant prepare a report regarding the project of a new establishment or the expansion of an existing unit after considering all aspects for further investigation and analysis. The project report is useful in applying loans from financial institutions like banks and also for getting any kind of clearance from the government.

The contents of business plan must include the following elements:

1.General Information: It includes the following matters:

(i) Name and address of the business,

(ii)Promoters background/experience:

(iii)Memorandum and Articles of Association :

(iv)Industry Profile

(v) Stakeholders of the business,

(vi) Nature of business and its customers.

(vii) History and other details of the entrepreneur.

(viii)Management and Organisation set up:

2.Business Venture: It includes the following matters:

(i)Product profile and product details,

(ii)Services to be offered,

(iii)Scale of business operations,

(iv)Type of employees required,

(v)Types of technology required.

3.Organizational Plan: It includes the following matters:

(i)Forms of ownership like sole proprietorship, partnership or company form of business,

(ii)Administrative structure i.e., functional structure or divisional structure, span of control etc.,

(iii)Hierarchical structure of management.

(iv)Identification of management team*: It* includes the name and address and other details of the directors and top level managers including their vision and mission for the organization.

4.Manpower Planning: It includes the following matters:

(i)Manpower requirement by skilled and semi-skilled,

(ii)Sources of manpower supply,

(iii)Cost of procurement,

(iv)Training requirement and its cost.

5.Production Plan: It includes the following matters:

(i)Land and Building: Land area, construction area, plant layout etc.

(ii)Technology and manufacturing process:

(iii)Site/Location of the Project

(iv)Plant & Machinery: (v)Raw Materials:

(vi)Capacity of the Plant

(vii)Research and Development

(6)Project Description:

(i)Contracts:

(ii)Communication System:

(iii)Project monitoring and implementation:

(iv)Transport Facilities:

(v)Environmental Aspects:

6.Market Plan: It includes the following matters:

(i)End-users of the product, (ii)Present demand, (iii)Pricing policies,(iv) Availability of substitutes (v)Promotion policies,(vi)Marketing strategies,(vii)Physical distribution policies,(viii)New market likely to be available,

(ix)Channels of distribution, (x)competition (xi)Proposed market research etc.

7.Marketing Plan: It provides the strategies to sell the company's product or services to the consumers. Major components of marketing plan are:

(i)Product and services offered

(ii)Price

(iii)Place or physical distribution and

(iv)Promotion.

8.Financial Plan: It includes the following matters:

(i) Fixed capital requirement,

(ii)Requirement of Working Capital: It includes working capital required, sources of working capital, nature and extent of credit facilities offered and available etc.

(iii)Sources of Finance: It includes internal sources as well as external sources of financing like equity capital and debt capital, unsecured loans from Promoters/associates, internal accruals, term loans, Government subsidy/grant.

(iv) Cash flow projections on the basis of Cash Flow Statement,

(v) Procurement of fixed assets.

(vi) Total income, operative net profit,

(vii)Profitability Projections:

(i)Analysis of Break-even point: The project report must also contain the Break-Even Analysis. The level of output or production or sales where total revenue equals to total cost is called Break-Even Point. At this point the organization earns no profit or no loss. Break-even level indicates gestation period and the likely moratorium required for repayment of loans. Break-Even Point is calculated in the following manner:

$$BEP = \frac{\text{Fixed Cost}}{\text{Sales} - \text{Variable Cost}} \times 100$$

9.Miscelaneous/Appendices:

(i)Types of business risks,

(ii)Contract with vendors,

(iii)Market research reports,

(iv)Mode of transport and communication,

(v)Contingency plan.

(vi)Copy of documents relating to incorporation of partnership business,

(vii)Projected Profit & Loss Account

10. Socio-economic benefits of the business plan i.e. importance of the project to national economy, availability of government support, if any.

11.Productivity Management: It refers to total output per one unit of a total input. Productivity management is concerned with maximizing productivity and observes how efficiently a process runs and how effectively it uses resources because high productivity leads to greater profits and higher income for workers of the organization. It has been observed that in India only few organization achieves the satisfactory level of productivity. In this context the other areas which require adequate attention in Indian Industries are quality control , logistics management and Total Quality management (TQM).

3.14.Business process

A **business process** or **business method** is a flowchart sequence of activities or tasks which produces a product or service for a particular customer or customers.

3.15.Business Process Design (BPD)/Designing Business Processes:

The act of creating a new process or workflow from scratch is called business process design. Business Process Design is the building block of any business which describes a series of repeatable steps for achieving some sort of business goals. It is completely different from business process redesign which implies improving an already existing process. The efficiency of the business process design determines the performance of the business.

3.16.Location and Layout in Business Process Design

The operational success of any business process design or new process is dependent on the location and layout of the plant. The location of a plant is selected after the considering the following factors:

1. **Raw material supply:** The source and price of raw materials is one of the most important factors that determine the location decision of a plant.
2. **Transport facilities:** Transport facilities such as road, rail, waterway, and/or seaport should be very close to the plant location.
3. **Nearest to the local market:** If the plant manufactures high volume and low cost products such as fertilizers then it should be situated very near to the local market because transportation cost constitutes a significant portion of the sales price.
4. **Availability of labor:** Skilled labour is to hired from the outside the plant but the location of the plant should be such that unskilled local labours can be easily brought to plant and trained to operate the plant.
5. **Availability of suitable land:** At the time selecting the plant location it should be kept in mind that the land should be flat, well drained with suitable load bearing characteristics.
6. **Availability of utilities:** Some processes requires substantial amount of cooling water .In that case the plant should be situated very near to the water sources.
7. **Environmental impact:** The location of the plant should be such so that wastes can be easily disposed without any kind of difficulty.
8. **Political and strategic considerations:** Sometimes government gives capital grants, tax concessions, and other incentives to encourage startup and existing business to build their plant in specific areas.
9. **Local community considerations:** Before selecting the plant location the considerations of the local community must be given due importance such as employment creation and development of the area.

3.17.Plant Layout

Plant layout is drawn to show the arrangement of physical assets like machines and equipments needed to manufacture a product. It refers to the arrangement of process units and buildings so that there is smooth flow of materials and people between them.

The principal ancillary building should be located in such place so that it takes minimum time of a worker to bring the ancillary parts. Control rooms must be situated next to the processing equipment. The location of Administrative offices and laboratories should be away from hazardous processes. Utility buildings must be located as to minimize piping between the process units. Storage or warehouse must be placed between the loading and

unloading facilities and next to the process units that they serve. Tanks containing hazardous material are placed at least few meters from the plant.

3.18.Process Planning

Process planning is also called manufacturing planning, process engineering, material processing which involves preparing detailed work instruction and detail description of the specific stages in the production process. So it determines how the product will be produced or the service will be provided. It is mainly required for new product or services and designing of factory building, facility layout and selecting production equipment depends on process planning.

3.19.Steps in the preparation of Project Report/Project Plan

The various steps involved in the preparation of project report are as follows:

(1)Determination of Project plan goals or objectives:

(2) Project Deliverables:
(3)Project Schedule:

(4)Feasibility Study:

(5)Determination of right organization structure

(i) A project team is required to be formed with delegation of authority,

(ii) Communication network is to be implemented,

(iii) Establishing co-ordination and co-operation for smooth performance of the project work.

(iv)Administrative structure is to be established etc.

(6)Supporting Plans
(6)Budgeting

(7)Designing Control System:

EXERCISE

MCQ Questions **1 / 2 mark(s) each**

1.Business idea mainly focus on a–

(a)Product or service (b)Project (c)Feasibility study (d)Creativity

Ans.(a)

2.The primary task of a dynamic entrepreneur is –

(a)Generation of feasible (b) Generation of employment

(c)Generation of new idea (d)Generation of opportunity

Ans.(c)

3.For generating business idea which of the following potential studies can be referred by the entrepreneur–

(a)National Council of Applied Economic Research (NCAER)

(b)Confederation of Indian Industries (CII)

(c)Both (a) and (b)

(d)None of these

Ans.(c)

4.It identifies the development of a potential backward area or a district. Which study it refers?

(a) Area Studies (b)Sub-sectoral studies

(c)Resource-based studies (d)Surveys

Ans.(a)

5.Which of the following approaches to generate business ideas can be used by an entrepreneur while exploring the different sources of business ideas?

(a)Brainstorming (b)New ways of doing old things
(c)Converting hobby into business (d)All of these

Ans.(d)

6.The business could have an employee suggestion scheme which give rewards to employees generating innovative ideas. It refers to –

(a) **Netpreneurship** (b) **Ecopreneurship**

(c) **Technopreneurship** (d) **Intrapreneurship**

Ans.(d)

7.The business idea or project idea should be compatible with the–

(a)Objectives and resources of the entrepreneur

(b)Mission and vision of the entrepreneur

(c)Objectives and goals of the entrepreneur

(d)None of these

Ans.(a)

8.Which of the following facts should be considered for finally selecting the most potential and promising idea?

(a)Return on investment (b)compatibility of objectives and resource

(c)Environmental factors (d)All of these

Ans.(d)

9.Business opportunity is the proven–

(a)Project plan (b)Business idea

(c)Innovative idea (d)Creative idea

Ans.(b)

10.It means complete, thorough and detailed study of the acceptability of any project. It refers to-

(a) Feasibility study (b)Project study

(c)In-depth study (d)Thorough study

Ans.(a)

11.A feasibility study is presented in the form of a–

(a)Project idea (b)Project statement

(c)Project analysis (d)Project Report

Ans.(d)

12.The need for feasibility plan arises for which of the following reasons?

(a)Estimating Human and Material Resources
(b)Identify Sources of Resources
(c)Understanding business related problems
(d)All of these

Ans.(d)

13.It indicates analysis of the implementation of the technical and engineering aspects in the project and it its effectiveness on the project.It refers to what type of feasibility study?

(a)Socio-economic Feasibility (b)Technical Feasibility
(c)Commercial Feasibility (d)Financial Feasibility

Ans.(b)

14.Which of the following parameters are included in technical feasibility?

(a)Location (b)Level of risk

(c)Employment generation (d)Development of backward regions

Ans.(a)

15.Location of the project refers to–

(a)Local area (b)Concentrated area

(c)geographical area (d)None of these

Ans.(c)

16.Selection of site refers to –

(a) Exact location in the geographical area where the project is to be put up

(b) Exact periphery in the geographical area where the project is to be put up

(c)Exact plot in the geographical area where the project is to be put up

(d) Exact centre in the geographical area where the project is to be put up

Ans.(c)

17.Which one of the following factors results in high cost and makes survival in a competitive market, particularly in the international market, very difficult–

(a)Sub-optimal size (b)Uneconomic size of the plant

(c)Optimal size (d)None of these

Ans.(b)

18.In Technical feasibility infrastructure means-

(a)Facilities to transport raw materials and other inputs

(b)Facilities to transport and distribute the output

(c)Disposal of effluents

(d)Both (a) and (b)

Ans.(d)

19.Safe disposal of gases into air, water and soil is related to–

(a)Effluent treatment and discharge of air pollution

(b)Air pollution

(c)Water pollution

(d)Soil pollution

Ans.(a)

20.Commercial Feasibility indicates the viability of the project from the view point of marketability of the products and services–

(a)Foreign collaboration (b)Marketability of the products and services

(c)Location (d)Plant capacity

Ans.(b)

21.Which of the following factors are considered in the Financial Feasibility?

(a)cash flow for the last few years (b)Development of infrastructure

(c)Income distribution (d)Foreign exchange earnings

Ans.(a)

22.In which study aspects like the capital structure of the project, contribution of the promoter in the total project cost, debt equity ratio and the resources that will be available in the future are considered?

(a)Socio-economic feasibility (b)Technical feasibility

(c)Financial feasibility (d)Project feasibility

Ans.(c)

23.Evaluation of private sector projects is done in terms –

(a)National profitability analysis (b) Commercial profitability of a project

(c)Social cost benefit analysis (d) None of these

Ans.(b)

24.In case of public sector projects evaluation is done on the basis of

(a)The socio-economic benefits (b)National profitability analysis

(c)Social cost benefit analysis (d)All of these

Ans.(d)

25.The socio-economic viability of a project, in Indian context may be judged on the basis of its net contribution to the following objectives–

(a)Development of small-scale and ancillary industries

(b)Development of backward regions

(c)Development of infrastructure

(d)All of these

Ans.(d)

Chapter 4	MOBILIZING RESOURCES FOR START-UPS

4.1Mobilizing Resources for Start-up

A startup is a company in which the public are not "substantially interested". Therefore it is difficult for the startups to mobilize the finance from general public as well as from financial institutions. Realising these problems the ambitious startup India movement was launched by the Prime Minister Narendra Modi in order to augment the entrepreneurial spirit of country's youth and tap on the immense potential of innovative ideas. According to NASSCOM report of 2014 India is the fastest growing startup eco-system and with approximately 3100 startups and it is the third largest startup ecosystem globally. The annual growth of startups in India is approximately 800. In India the startup culture is rising but such culture is facing a lot of challenges including lack of clarity on regulatory approvals, multiple registrations and compliances, lack of supporting eco-system and most important funding constraints. Considering all these challenges that startup financing is facing the Government has decided to provide an enabling environment for nurturing talent, simplifying systems and processes, handholding, mentoring and incubating new ventures and most important providing financial support through this new initiative.

4.2.What is a Start-up?

A 'Start-up' has been defined by Department of Industrial Policy & Promotion (DIPP):

- *An entity, incorporated or registered in India*
- *Not older than 5 years,*
- *Annual turnover does not exceeding INR 25 crore in any preceding financial year,*
- *Working towards innovation, development, deployment or commercialization of new products, processes or services driven by technology or intellectual property.*

Provided that such entity is not formed by splitting up or reconstruction of a business already in existence.

Entity means:-It must be a Private Company under the Companies Act, 2013 or Partnership Firm registered under the Indian Partnership Act, 1932 or Limited Liability partnership under LLP Act, 2008.

However the entities are eligible for tax benefits only after obtained certification from the Inter-Ministerial Board. Turnover means turnover as per Companies Act, 2013.

4.3. What is Resource Mobilization

Resource mobilization refers to all those activities which involve securing new and additional resources for any organization. It also involves better use maximizing the use of present resources by making better use of existing resources. Resource mobilization is called 'New Business Development'.

4.4 Types of Resources required for a Startup Business

Any startup would need all of the following resources, but the financial resource may be considered as the most important resource. Generally five types of resources are required to start a business. They are:

1.Financial Resources: The most important resource for a startup is funding. Startups can mobilize financial resources from different sources like

(i)Personal accounts of the entrepreneur.

(ii) Loans and lines of credit may be granted from financial institutions.

(iii) Friends and relatives.

(iv) Private investors.

(v)Love Money: This money is given as loan by spouse, parents, family or friends.

(vi)Venture capital.

(vii)Angel investors and

(viii) Business incubators.

2. Intellectual Resource: It is the sum total of the knowledge and wisdom that employees of a company have that gives a competitive edge to it. It is intangible in nature. The start-ups also require this resource and can mobilize it from within the close circle i.e. employees, friends, relatives etc.

3.Human Resource: Another important resource required by the startups are human resource. Recruitment and selection of the new employees should be done on a scientific basis so that experience professional and talented employees can be hired which paves the way for achieving the goals and objectives of the startups. Startups can also find employees through referrals from individuals whose judgment is trusted.

3.Educational Resource: At the time of establishing a startup business an entrepreneur must try to gain as much education possible. He must try to understanding his competitor and must gather in-depth knowledge of the industry. This will help him to make better decision for the startup business.

4. Physical Resources: A startup business must have appropriate physical resources like workspace, money, equipment(s) and supplies, working telephone lines, adequate information systems and effective marketing materials.

5. Emotional Resources: Starting a new business involves huge stress and an entrepreneur must undertake that stress. To stay motivated during this phase he must get inspirations and guidance from his family and friends as well as from a mentor or professional group.

6. Relational Resource: A startup business must have relational resources which consist of elements like customer relationships, supplier relationships, trademarks and trade names, licenses, franchises etc.

4.4. Accommodation and Utilities required for Startup

An enterprise needs to plan about its resource mobilization first and then it has to have a clear picture about the space or accommodation and utilities of what business must have. Adequate attention is required to be paid to this task though it is tedious and time consuming. For example the mistakes of start-up business can be rectified later on but any mistake relating to poor choice of location of the business and office space is sometimes impossible to rectify or repair.

- **Important points to be considered in selecting the location or accommodation of Business Office Space**

1.Style of Operation: The style of operation of the business like formal, casual, traditional retail store, kiosk, cart etc. determines the location or accommodation decision of the business office space.

2. Nearness to customers: Another important factor in the location or accommodation decision is the nearness of the startup business to its customers. The customers can be end users or resellers and based on this the entrepreneur can determine the best area to locate the startup business.

3. Availability of basic infrastructure: Availability of basic infrastructure can affect the choice of startup business location. Amenities and infrastructure such as water supply, power supply, good road network and security are few important things to consider when locating the startup business.

4.Parking Space: One major factor to be considered in startup location is the availability of parking space for four wheelers and two wheelers. Cars and two wheelers will be the main method of transportation to get to the office location. In absence of parking space it will create complications and accessibility issues.

5.Demographics: The choice of startup location is influenced by the demographic factors like age, sex, income ,occupation etc. of the customers. The product or service the new business is offering determines the demographic profile of the target group customers which in turn determines the location of the startup business.

6.Availability of raw materials: If the startup intends to run a manufacturing or production business, then the nearness or availability of raw materials should be considered in choosing the business location. If the startup business is not situated close to raw material source, then sourcing and transportation will reduce the profit margin of the business.

6. Psychographics: Another important factor which affects the startup location is the mindset of the customers or the development of a particular region. For example; if the business site is located in a region where tribalism thrives, then it will be difficult to run the startup business if the entrepreneur is not a member of the tribe and create employment opportunities for them.

7. Security: Before selecting the location of the startup, the entrepreneur must consider the chances of crime in that area and knowing the risk of potential criminal activity adequate precautions can be taken for protecting the startup business.

8. Industrial Clusters / areas: Due to good infrastructure and amenities some entrepreneurs may decide to site their business in industrial areas or clusters. Industrial areas are areas mapped out specifically for commercial purposes especially manufacturing firms. Special attention is given to these areas such as good road network, constant power supply, etc. In some regions of the country, heavy duty manufacturers are forced by the government to site their companies in these industrial areas. Some industrial clusters are:

(i) Export processing zones: The smart choice for an entrepreneur will be to choose the location of the startup in an export processing zone because locating business in such regions means a reduction in transportation cost, faster inspection and clearance of the products by custom officials and so on.

(ii) Free Trade Zones (FTZ): Another good place to site startup business is free-trade zones and trade fairs because it is easily accessible and normally receives wide publicity. **Free trade zone** is a geographic area where goods may be landed, stored, handled, manufactured, or reconfigured, and re-exported under specific customs regulation and such zones are generally not subject to customs duty.

(iii)Speical Economic Zone(SEZ): It is an area where trade and business laws are completely different from the rest of the country. SEZs are mainly located in the country's border and aims to increase trade, investment, job creation and effective administration. A rational entrepreneur will always try to locate his startup business in SEZ in order to avail tax holidays along with various concessions and benefits. The benefits a startup company can enjoy by selecting its site in the SEZ is that it can produce and trade goods at a lower price, aimed at being globally competitive.

(iv) Industrial Parks / Industrial Estates (IE): It is an area zoned and planned for the purpose of development of industries. It has offices and light industry rather that heavy industry. So it is beneficial for the entrepreneur to set up startup business in the industrial parks because it is located very near to transport facilities like highways, railroads, airports, ports etc.

(v)Export Processing Zones (EPZ): In case the startup is an export oriented unit then it beneficial for the unit to locate its business in the Export Processing Zones because it offers tax holidays and provide different types of infrastructural facilities.

9. Skill base in the area: The location of the startup must be decided after considering the skill base of the area and employment rates. A location that is lacking in required talent may be responsible for business's downfall.

10. Competitors in the area: The proximity of the startup business with the competing business is very crucial for success. It may cause benefit or hindrance. If there are one or two competitors in the area then it is beneficial but if there are too much competitors then it is better to site the startup elsewhere.

11. Potential for growth: The location decision of a startup business should also be taken considering its growth potential. In case of highly growing startup flexibility of the location should be given priority than other factors.

12.Distributive channel: The location decision of the startup must be taken by due consideration of the distributive channel i.e. whether the business directly deals with the end users or final consumers. If the business is not dealing with end users in that case the startup business location must be such so that distributors can be easily accessed.

13. Accessibility: First consider whether the startup business rely on frequent deliveries or not. If so then it is important to consider the local transport links like car, bus and trains. Property rental and purchase price of the office must also be considered and after that decision is to be taken whether the business location should be in the commercialised areas or more out of town location.

- **Utilities required for startups**

The successful operation of any business enterprise depends on availability of essential services known as utilities which includes water, fuel, electricity etc. The nature of the business and the size of the business mainly determine what utilities business requires. These utilities are required for smooth functioning of the business and also for improving the efficiency, health and safety at workplace.

A start-up must acquire or obtain or hold the following common utilities:

a) **Water:** In deciding business location running water is a must for most businesses. From a health and safety perspective, it is important to have access to water first and then basic hygiene. If the startup is planning to locate near to a metropolitan area, then they can hook up to the town's or city's water services. But if they are planning to locate in an isolated or rural area, then they may have to dig a well and connect a water pump to their office.
b) **Sewage:** In some metropolitan cities and localities water and sewage is grouped into a single service. In this is the case, the startup business may need to register for this service and pay a monthly fee. But, if the startup business is not part of a metropolitan area, then it is necessary to install own septic tank of the business and connect it with the drainage system.
The other utility services required by startups are:
c) Electricity;
d) Trash services;
e) Canteen;
f) Furniture;
g) Telecommunication (i.e. telephone, Internet, FAX machine, word processing software etc.);

h) Catering;
i) LCD Projectors;
j) Parking;
k) Photocopy;
l) Video Conferencing facilities;
m) Toilets for basic health, welfare, privacy and dignity;
n) Dining hall;
o) Personal storage;
p) Lighting and temperature;
q) Shelter from heat, cold, rain, wind etc;
r) Washing facilities for personal hygiene;
s) Change room;
t) Waiting room/hall/area.

Preliminary Contracts with Vendors, Suppliers, Bankers, Principal Customers

In start-up business enterprises, entrepreneurs needs to sign different kinds of contracts with various stakeholders or parties like vendors, suppliers, shareholders, financial institutions, lenders, bankers and principal customers. The preliminary contracts help to define the legal relationships between the start-up and the other participants. The contracts should be preferably in writing which states the expectations of both the parties and how negative situations will be resolved. Contracts must be legally enforceable in a court of law. Companies sometimes contracts in order to protect their resources. For start-up enterprises the following points should be considered in the process of forming a contact with various parties like vendor, suppliers, shareholders, financial institutions, lenders, bankers and principal customers:

1.Details of the Parties: The agreement must specifically mention the details of the parties involved in the agreement like name of the start-up and the parties with whom they are entering into contracts.

2. Consideration: Next the consideration of the agreement is to be defined in the agreement i.e. what both parties are offering to each other because it is said that no consideration no contract. Consideration is considered as the base of the contract and the law enforces only those promises which are made for consideration. Consideration may be related with past, present or future and also may be in the form of cash or kind.

3.Define terms and conditions of contract: The definition of the terms and conditions of a contract must include what each party is promising to do. For example, the following terms and conditions must be a part of the contract in case of agreement with the vendor:

- Bidding
- Confidentiality agreement

- Ownership
- Invoice
- Reporting
- Communication
- Review and Acceptance
- Timeliness
- Insurance verification
- Attendance at meeting
- Back-up.

4.Additional terms and conditions: The contract must include additional terms and conditions like conditions under which either party can terminate the contract, transfer or assign the contract to another company or person, how disputes arising from the contract may be mediated or arbitrated and the consequences and compensation in case of one party breach the contract.

5.Signing non-disclosure agreement: Sometimes organization's need to share their proprietary information with other parties. In this case they need to enter into or sign a non-disclosure agreement. Proprietary information can be anything which includes business plan, marketing plan, resource planning, code of financial information as well as client and customer list.

6.Commencement and Termination Date of the Contract: The contract must mention the effective date of the commencement of the contract and also the expiry date unless otherwise terminated in accordance with the conditions mentioned in the contract.

7.Not creating any kind of relationship: Nothing in the contract shall be construed as creating any kind of relationship like a partnership, a contract of employment or a relationship of principal and agent between the client and the contractor.

8.Preparation of the Contract: Finally prepare the contract and review it, substitute the conditions not agreed by both the parties and incorporate those conditions which are mutually agreed by both.

9.Signing of the Contract: The final draft contract is placed for approval and signature of both the parties. It must be noted here that the person signing must have the authority to sign.

10.Copy of the Agreements: It must be ensured that both the parties gets a copy of the signed agreement.

11.Sending to Legal Department: At the final stage the contract is amended if required, proofed and then send to the legal department for approval.

Contract Management/Contract Administration in Start-up Enterprises

The process or system of managing the contract made with various parties like vendor, suppliers, shareholders, financial institutions, lenders, bankers and principal customers etc. is known as contract management or contract administration. Contract management is concerned with systematic and efficient creation of contract and also their execution for maximum operational efficiency, financial performance and minimization of risks. For any start-up enterprise contract management is very important because poor contract management can result in loss of sales, penalties and even lawsuits. Due to a variety of reasons problems can arise in the contracts which are as follows:

- Disagreement
- Conflict
- An issue
- Breach
- Variation
- Change
- Failure
- Unrealised expectations
- Misrepresentation
- Miscommunication

Sometimes a minor problem develops into disputes and in order to minimize it ,the issue need to be identified, discussed and resolved. This is possible only on the basis of effective contract management system.

Contract Problems of Start-up

The various reasons for which contract problems may arise have been mentioned above. But the contract problems of start-up enterprises are not as simple as it appears. For example, a start-up owner cannot express his family members and friends that he wishes to enter into a contract with them. Thus, a contract problem arises due to a number of unusual reasons. These could include the following:

- Poor knowledge and understanding about contract agreement or contract formation or contract management
- The language of the agreement is not simple
- No experience in forming contracts
- Not obtaining right legal advice
- The supplier is not cooperative and supportive
- Circumstances under which agreements can be terminated are not clear

- The terms and conditions of the contract are not clear and there is misrepresentations in the contract
- Communication problem
- Confidentiality of business information is not maintained
- Absence of clear deal with promoter or co-founder
- Lack of suitable process to support the management of contract.
- Sometimes tax issues are ignored in the contract
- Not carefully considering the protections of the Intellectual Property(IP) assets
- Not following the standard form of the contract followed by other enterprises
- At time of procuring finance not complying with the securities law when the stat-up issues stocks to angels or family or friends.

Funding Opportunities for Start-ups

Without proper monetary support no business can survive. Finance is needed for purchasing land, plant and machinery, equipment, construction of factory, purchasing technology or know-how, payment of wages and salaries, purchasing raw materials and consumables and meeting other manufacturing and administrative expenses. A start-up enterprise needs the following types of finance:

- Short-term or working capital financing
- Loan and medium term financing
- Seed capital/Seed Money
- Bridge loans and
- Risk financing

Thus finance is required for every activity of the business and at every stage of the business.

Seed money or seed capital or seed funding

Seed money or seed capital or seed funding is a form of funding where an investor invests his funds or capital in a startup company in exchange for an equity stake in the company. The word seed implies that it is a very early stage of investment to support the business until it can generate cash to sustain its own business or until it is ready for further investment. The options of seed funding includes family and friends, angel funding and crowd funding.

Basically, three sources of financing are available for financing start-up enterprises:

1.Equity Financing: It refers to sale of ownership interest to raise funds for the startup business. Popular equity financing options are:

- Life insurance policies
- Personal savings
- Friends and relatives

- Venture capital
- Initial Public Offerings(IPOs)
- Government grants
- Angel investors
- Warrants

2.Debt Financing: It involves borrowing funds from secured and unsecured creditors with the stipulation of repayment of the borrowed funds plus interest at a committed rate in short-term or long-term. Popular debt financing options are:

- Commercial banks and development banks like IFCI, IDBI, SIDBI, ICICI Venture capital Funds Ltd.
- State Finance Corporations(SFCs)
- Bonds
- Friends and relatives
- **Government Programs:** In the Union Budget of 2014-15 Government of India has launched 10,000 start-up fund to improve the start-up ecosystem of the country.

Some of the notable policies and programs to support the start-up business in India are as follows:

- Pradhan Mantri Micro Units Development and Refinance Agency Ltd.(MUDRA)
- Start Up India Action Plan
- Mahila Udyan Nidhi(MUN)
- Micro Finance Program
- National Equity Fund Scheme
- Market Development Assistance Scheme for MSMEs
- The Credit Guarantee Fund Scheme

3.Lease Financing: Lease financing is a method where the owner of an asset gives another person, the right to use that asset against periodical payments. It is one of the sources of medium- and long-term financing .The owner of the asset is known as *lessor* and the user is called *lessee*. The periodical payment made by the lessee to the lessor is known as lease rental. The lessee under lease financing, is given the right to use the asset but not the ownership and the ownership of the asset lies with the lessor and at the end of the lease contract, the asset is returned to the lessor or an option is given to the lessee either to purchase the asset or to renew the lease agreement.

4.5. Basic Start-up Problems/Challenges of Start-up Business

The basis problems of start-up businesses are discussed below:

(1)Technology Infrastructure: Considering the growing number of online consumers an appropriate IT-infrastructure has become a need for Indian businesses. It is absolutely

necessary for new startups to train their employees for handling critical customer information such as that of credit card numbers and related data.

(2)Finding Good Employees: Now-a-days it is a difficult task to get a hardworking and trustworthy employee. Most employees want to work less and get paid more. Finding a good employee is another problem of the startups.

(3)Market structure: One of the roadblocks for start-up business to succeed is that Indian markets are largely unorganised and fragmented and which needs to be organized and consolidated in order to make the start-up business success.

(4)Location: Business location of the start-ups is an important problem faced by the Indian start-ups. India is a place of varied culture and taste and thus every product might not be welcomed equally in every region.

(5)Product Problems: Another reason for the startup failure is that they develop products which do not meet market needs.

(6)Effective cash management: To achieve both the short term and long term objectives effective management of cash is an important issue for the start-up businesses. Cash is still a preferred option for payments owing to the fact that electronic payment has not achieved complete penetration to Tier 2 and Tier 3 cities

(7)Cyber security: Most startups follow B2B business model. There is a high degree of cyber risk and most of the start-up businesses are not aware about it. Such risk may destroy some key equipment in their data centre.

(8)Sustainability Issues: The owner of the start-up businesses are required to gather knowledge from their business advisers about ecological issues and their willingness to discuss this with their advisers is important in creating business ventures.

(9)Operational finance: Almost all startups are funded out of the owners pocket or by their family friends and also the workforce is limited which makes it difficult to maintain records both financial and operational.

(10)Consumer behaviour: The Indian consumers behavior changes from one region or territory to another region or territory which makes it really difficult for a startup to create business or market strategy for their products or services. Most startups generally get stuck in stagnancy and gradually shut down.

(11)Taxation issue: In our country taxes like octroi, VAT, excise creates problems for entrepreneurs while starting up a business. For technology adoption taxation is a big barrier for budding entrepreneurs.

(12)Culture and Awareness: The culture of Indian people is that they look down upon failure. In case of failures, opinions do come by but encouragement rarely so.

(13)Poor Management Team: One common problem that causes startups to fail is weak management team. They do mistakes in multiple areas such as strategy formulation, product design and features which no-one wants to buy, poor marketing strategies etc. They are also not good in execution which leads to product failures.

In India about 40 percent of the population is below 35 years of age. There is no dearth of supply qualified young talents in India. For generating employment in India the government has provided a start-up ecosystem to encourage small entrepreneurs to set up new companies, the success of which depends on whether the startups are grabbing the opportunity or not and trying to build a sustainable business model keeping in mind the benefits and concessions allowed in the policy initiatives. As per the action plan, the start-up company requires a 'recommendation' from a government owned incubator center or from an incubator of a government recognized post-graduate institution. This again may lead to unwanted layer of bureaucracy which can go against the very essence of setting up this initiative. The government involvement should be minimal. Not only technology based startup companies will be encouraged but the encouragement is also required to be given to other industries like manufacturing, service sector and agriculture. Start-up India is in-line with the PM's call for innovation i.e., Digital India. The Start-up India Action Plan is a good start to this. We can expect that this initiative will be implemented in true spirit and brings revolution among youth of India, making them job-seekers to job-creators. However, its success will largely depend on the Government's eagerness in implementing the scheme in true spirit, reducing the bureaucratic hurdles and minimizing Government's interference together with facilitation of financial and incubation support to the Start-ups.

EXERCISE

MCQ Questions **1 / 2 mark (s) each**

1.The ambitious startup India movement was launched by

(a) Narendra Modi (b)Sardar Patel

(c)Mahatma Gandhi (d)None of these

Ans.(a)

2.According to which report India is the fastest growing startup ecosystem with approximately 3100 startups-

(a)FICCI (b)CII

(c)NASSCOM (d)ASSOCHAM

Ans.(c)

3.The annual growth of startups in India is

(a)400 (b)800

(c)900 (d)1,000

4.Start-up' has been defined by Department of Industrial Policy & Promotion (DIPP) as-

(a)An entity, incorporated or registered in India

(b) An entity, incorporated or registered outside India

(c)An entity, registered in India

(d) An entity, incorporated in India

Ans.(a)

5.A startup must not be older than-

(a)2 years (b)5 years

(c)7 years (d)8 years

6. Annual turnover of startups does not exceed in any preceding financial year-

(a) INR 20 crore (b) INR 22 crore

(c) INR 24 crore (d) INR 25 crore

And.(d)

7.Startup entity means-

(a) Private Company under the Companies Act, 2013

(b)Partnership Firm registered under the Indian Partnership Act, 1932

(c)Limited Liability partnership under LLP Act, 2008

(d)All of these

Ans.(d)

8.Startup must obtain certificate from

(a)Inter-Ministerial Board (b)Inter-Minister Board

(c)Inter-Central Board (d)Inter-State Board

Ans.(a)

9.How many stages are there in the Startup life cycle?

(a)3 (b)4

(c)5 (d)6

Ans.(c)

10.In which stage of the startup life cycle IPO is issues?

(a) Pre-startup stage (b) Start-up stage

(c) Expansion (d) Exit stage

Ans.(d)

11.Mobile application for startup registration was launched on-

(a)1.4.15 (b)1.4.16

(c)2.4.17 (d)2.4.18

Ans.(b)

12.What percentage of rebate is allowed in filing application for patents?

(a)30% (b)60%

(c)70% (d)80%

Ans.(d)

13.Tax exemption to startups is given for how many years?

(a)3 (b)4

(c)5 (d)6

Ans.(a)