

PROMOTION OF A VENTURE - (OPPORTUNITY ANALYSIS AND ENVIRONMENTAL ANALYSIS)

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1.4.0 Objectives

As we know every thing have to be explored, nothing can be self generating. So, Promotional activities commence with the search for prospective/ beneficial business ideas or opportunities. So an entrepreneur has to follow some steps for the promotion and establishment of a suitable enterprise. The main focus of this lesson is on promotion of a new venture, how the prospective business ideas are explored and then processed and finally from the resources collected how enterprises are setup? In the next part of the lesson opportunity analysis is explained as it is very much necessary in the present competitive market and in the 'present global regime. In the later part of the lesson, Environment analysis & technological analysis is explained.

1.4.1 Introduction

An entrepreneur has to follow some steps for the promotion and establishment of a suitable enterprise. After establishing an enterprise, an entrepreneur is required to look after the operation of this enterprise. He has to plan expansion, growth and diversification of the enterprise over

a period of time. An entrepreneur is expected to undertake the following steps :

- I. Searching for prospective business ideas or opportunities.
- II. Processing of these ideas and selecting the best idea.
- III. Collecting the required resources and setting up the enterprises.

1.4.2 Searching for prospective business ideas :

As we know every thing has to be explored and nothing can be self generating. So, Promotional activities commence with the search for prospective/ beneficial business ideas or opportunities. Ideas come from the talent of entrepreneur himself or from the stories of experience of other entrepreneurs. The promoter is required to employ his imagination and farsightedness in preparing list of business ideas. Business idea may come to his mind at his own or he may depend on various sources like success stories of other entrepreneurs, excess demand for any product, producing import substitute product, study of project sports assistance from governmental agencies, visit to trade fairs etc. The idea should be sound and practicable and may relate to start a new business or takeover of an existing enterprise. The idea must be viable and should ensure adequate return on investment. The business idea may come from the following sources :

1.4.2.1 Consumers Survey :

This days even Indian markets have become consumer oriented markets. Consumer is the central point of the market for sale and production of any commodity. The success or failure of any venture depends upon prospective consumers. Consumers survey's collect and provide detailed information regarding taste, fashion, liking, disliking, when they will buy, where they will buy from, at what price they will buy etc. Thus a product can be devised in such a manner that it fits exactly in consumer's demand. Even test marketing can be conducted to know about the consumers response. It can help us in knowing about the product's short-comings, which can be removed before launching the product in the market on a large scale. Initially a company should concentrate on a product or two and the range can be extended depending upon consumers response.

1.4.2.2 Market Observation :

Generally market is a place where buying and selling activities are done. So, market survey is conducted to know the demand and supply positions of different products in the market. After knowing about anticipated future demand, provisions can be made about the possible changes in the prices, fashion, income level, competition, technology etc. Expert advise of salesmen, dealers, advertising

agencies and commercial consultants may be considered while anticipating demand of the products. From the information so collected a prospective promoter can find out the products which are more in demand and hence profitable.

1.4.2.3 Demand Based Industries And Resource Based Industries

Demand based industries are those industries, which are set up keeping in mind the demand for the output produced by these industries. Here an attempt is made to know about the product or service for which there is ready demand and accordingly steps are taken for the development of these industries. Resources are mobilized keeping in mind the demand. On the other hand resource based industries are those industries wherein an attempt is made to develop industries keeping in mind easy or unexploited existence of local resources. Here main attempt is made to assess the available resources and steps are taken to develop those industries which can utilise these resources more productively.

1.4.2.4 Keeping Track of the developments

Development means change in business due to the change in demand pattern of the consumers, according to changing technologies of production. A prospective entrepreneur must keep his eyes and ears open. He should keep in touch with whatever is happening around especially concerning business ideas, new products, changes in technology etc. In order to be good entrepreneur he must acquire whatever best is available anywhere. Keeping in touch can discover sometimes useful business ideas with the developments taking place in developed countries. Entrepreneurs can also visit various Trade fairs, exhibitions etc. for getting useful information. The Trade Fair Authority of India is the apex agency which organizes on a regular basis, trade/ industrial fairs where in it provides opportunities for :

- (i) Establishing personal contacts with dealers, importers and customers.
- (ii) Providing a platform for the meeting of large number of buyers from different states/ countries.
- (iii) Assessing the market trends in terms of demand potential and type of products required.
- (iv) Promoting new ideas for increasing sales in the country and abroad.
- (v) Assessing the attitude of competitors in a particular product or marketing area.
- (vi) Comparing the quality and price of competing products.

1.4.2.5 Scrutinising Project Profiles :

Both government and private agencies provide profiles of various projects and industries. These profiles provide prospective entrepreneur to make

assessment of the technical, financial, managerial and market requirements of various projects. After an indepth scrutiny of the same most suitable project is picked up. Assistance from various experts can be taken for arriving at the right decision.

1.4.3 Processing of the ideas and selecting the most suitable idea :

Processing and selecting of most suitable idea is possible by detailed investigation of the potential ideas. This investigation can cover technical and commercial feasibility.

1.4.3.1 Technical Feasibility

Through technical feasibility, it is ascertained as to what extent it is possible to produce a technically sound product, conceived through the idea. Technical feasibility covers detailed study with regard to the availability of the requisite technology and other input requirements. Services of experts can also be taken in ascertaining the feasibility of the various ideas from technical point of view from technical background of those experts.

1.4.3.2 Commercial Feasibility :

Commercial feasibility includes projection about the probable demand, sale volume, cost of production, break even point and profitability expected under different business positions. There is every possibility that a particular idea may be technically sound but may not be in the interest of the organisation from commercial feasibility point of view. So the idea to be selected should be technically as well as commercial feasible.

1.4.3.3 Selection of idea :

Consideration for selecting a suitable idea :

- (a) Demand-Supply gap
- (b) Products, where profitability is more.
- (c) Products, where entrepreneur possesses marketing or manufacturing experience.
- (d) Products, which are to be used by the parent company for the assembly of final product.
- (e) Products, whose imports are discouraged by the government.
- (f) Products which have got more export potential.
- (g) Products enjoying various types of concessions in the shape of subsidies and incentives.

After detailed study of the above points, an entrepreneur would be in a position to evaluate alternate business ideas properly. After comparing the plus and minus points of various options entrepreneur can easily pick up that business

proposition which suits his interest and at the same time is sound or viable from all angles. Once he has made up his mind, he can proceed ahead for giving concrete shape to his dream project.

1.4.4 Collecting the required sources and setting up the enterprise :

An entrepreneur is required to develop a sound and efficient system of collection, recording and analyzing of market information. This system ensure availability of right information, at right time, to right persons and thereby ensuring right decisions and achieving right results. An entrepreneur as a decision maker is required to perform the following functions-

- (a) The development of a market for the products and devising of new products to meet the anticipated consumers demand.
- (b) The maintenance of good relations with public authorities and society at large.
- (c) The determination of objectives of an enterprise.
- (d) The development of an organisation including efficient relations with subordinates and all employees.
- (e) Securing adequate financial resources, the relations with existing and potential investors.
- (f) The requisition of efficient technological equipment and the up gradation of it as new machinery appear.

The above stated functions are important but the functions regarding finance, manpower, marketing and demand draw more attention of entrepreneur. Finance is the lifeblood of an organization and all the business activities revolve around it. Funds are required for both fixed and current assets. The estimation of financial requirements of a concern can be done with the help of the following two theories.

1.4.4.1 Cost Theory :

In every organisation, funds are needed for promotion and setting up of an enterprise and also for meeting fixed and current assets requirements. The capitalisation of the firm includes provisioning for all these items. Though this theory is simple and convenient, it fails to explain anything concerning earning potentials of the enterprise. This theory can also create problems of under and over capitalisation.

1.4.4.2 Earning Theory :

In this theory, capitalisation of an undertaking is equal to capitalised value of its anticipated earnings. Capitalisation can be ascertained in the following way :-

$$\frac{\text{Anticipated Profit}}{\text{Return on Investment in the Industry}} \times 100$$

This theory provides a reasonable basis for calculating capital requirements. The problem with this theory is that estimation of future earning of a new enterprise can be inaccurate. After ascertaining the amount of funds required the entrepreneur is to decide the sources from where the funds are to be raised. He has to decide the proportion of funds invested by his sources and from other sources. This decision about capital structure is very important as it has bearing on the return on investment.

1.4.4.3 Setting up of an enterprise :

An entrepreneur has to decide about the ownership of enterprise. This decision will affect the availability of resources, rights, duties and obligations of the stakeholders. There are various options open to the entrepreneur and he has to take decision in the light of business requirements like - size, nature or type of business. Various forms of ownership are as follows :-

1.4.4.3.1 Sole Proprietorship :

In this kind of business style, only one man is the owner and decision making body in the organisation. This person will take all decisions for the business and he will bear all risks of the business. According to L.H. Haney "The Individual form of business organization is an organization at the head which stands an individual as the one who is responsible, who directs its operations alone. In this kind of business style monopoly for profit is on the head of one man only, he controls, directs and manage all the things regarding their business.

1.4.4.3.2 Partnership : As per Indian Partnership Act of 1932 :

"Partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all." This kind of organisation forms arisen when one person is not able to invest entire money capital and not able to manage entire business exclusively. So, in this kind of organisation form two or more person join together and makes common efforts to earn profit. Every partner of the firm has the Principal-Agent relationship between each other i.e. there is implied agency relationship between all the agents.

1.4.4.3.3 Joint Stock Company :

It is most common form of organisation presently popular in the market. ney "A company is an artificial person created by law having a separate entity with a Perpetual succession and a common seal. Company form of business can arrange for hirge capital.

1.4.4.3.4 Cooperative Organization :

It is a voluntary association of individuals who join together on the basis of equity for the promotion of their common economic or business interest. According to Cooperative Society Act 1912, Cooperative Organization is "a society

which has as its objectives the promotion of the interests of its members in accordance with the principles of cooperation." Keeping in mind the above features an entrepreneur can take appropriate decision regarding the form of ownership best suited for his business.

1.4.4.3.5 Manpower :

Out of five Ms of Production, most important is the manpower factor. After land, the next important factor of production is Labour. The type and quality of manpower resources has got direct bearing on the future success of an enterprise. So every entrepreneur has to consider what kind of labour force is required for efficient functioning of the enterprise, what are the various sources from where required manpower can be obtained, what kind of training have to be provided for the development of manpower, decision regarding performance appraisal etc. Availability of trained manpower also depend upon the type of economy and facilities provided by the state.

1.4.4.3.6 Marketing :

"Marketing means providing the right goods and services to the right people at the right time, at the right place, at the right price with right communication and promotion." Under marketing various important functions like buying; selling, transporting, warehousing, financing risk bearing, standardization and market information are to be performed for achieving success.

Exercise - 1

Q. Explain various steps in setting up an enterprise?

1.4.5 Opportunity Analysis

1.4.5.1 Meaning

In every economy the role of entrepreneurship in economic development varies from economy to economy depending upon human & material resources, industrial environment and the importance attached to the entrepreneurial growth by the political system. According to Joseph Schumpeter, 'Entrepreneur is one who seeks to reform or revolutionise the pattern of production by exploiting an innovation or more generally an untried technological possibility for producing a new commodity or producing an old one in a new way by opening up a new source of supply of material or a new outlet a product.

1.4.5.2 Types of Opportunities

Thus an entrepreneur is always in the serach of potential profitable opportunities and exploits them in the best interest of his enterprise. Opportunities according to Drucker are of three kinds.

1. Additive Opportunities
2. Complementary Opportunities

3. Break through opportunities

1.4.5.2.1 Additive opportunities :

Those opportunities which enable the decision maker to better utilise the existing resources without involving any change in the character of a business.

1.4.5.2.2 Complimentary opportunities :

Complimentary opportunities provide the involvement of new ideas and lead to a certain amount of change in the existing structure.

1.4.5.2.3 Breakthrough opportunities :

Breakthrough opportunities on the other hand cause the basic change in the structure as well as in the character of the business.

Additive opportunities does not disturb the existing state of affairs and hence there is minimum amount of risk. There is more risk, involved in complimentary and breakthrough opportunities. With the Increase in risk, it becomes more important for the entrepreneur to carefully define the nature and scope of the project idea and analyse various solution available to realise objectives of the project by selecting a suitable solutions which reduces cost and risks and facilitate the realisation of maximum possible returns to the enterprise.

While selecting a project, a good entrepreneur has to consider various aspects like input, output, social cost and benefits. Input refers to the requirement of various things like raw material, labour, Power, funds etc. He must make detailed investigation with regard to all these inputs covering both their present and future availability. Output refers to final outcome of the project in terms of goods and Services, revenue and generation of employment. At the same time an entrepreneur has to make thorough study of costs and benefits that a society bears, when a unit is setup. Entrepreneurs have to consider availability, at a particular place, of 5 Ms.-comprising of Men, Materials, Machines, Money and Markets.

- Input : Raw material, labour, power, funds etc.
- Output : Goods and services, revenue and employment
- Costs : Cost of setting up of a venture that is to be borne by the society
- Benefits : The benefits in form of reasonable product price, quality of product, availability of goods, market place etc.

Besides these there are various other things to be considered by the prospective entrepreneur and include various financial and non-financial incentives provided by the government and environmental factors etc.

1.4.5.3 Opportunities at Global Level :

Modern business units have to think and act globally. Failure to exploit global markets can result in the downfall of a business. On the other hand by

exploring global market conditions, following benefits can be captured by the entrepreneur.

- (i) New products and new product life cycles.
- (ii) Lower cost of production.
- (iii) Increased production and profitability.
- (iv) Offsetting decline in domestic sales with increase in sales at international levels.
- (v) More customer orientation
- (vi) Improvement in the quality of product.
- (vii) More Emphasis on innovation and creativity.

For going global, an entrepreneur is required to develop right type of attitude and commitment, constant innovation, staying visible, maintaining a high level of quality and constantly improving it, being sensitive to foreign customer's unique requirements; adopting a more respectful attitude towards foreign customers and their habits, hiring motivated employees and retaining a desire to learn constantly about global market. So to explore market and to become successful, an entrepreneur must follow some key points.

1.4.5.4 Steps in Selection of new Business Ideas :

In the modern competitive environment, customers expect new and improved products from an entrepreneur. Without a continue flow of new products the marketing system would probably die. There are various steps in the selection of a new business idea and there are :-

1.4.5.4.1 New Product Ideas :

An attempt is made to visualize the product. Scientists, professional designers, rivals, customers, sales force, dealers, top management, magazines, new shapes, surveys etc may contribute ideas. A detailed list of new ideas about potential product is prepared and an earnest attempt is made to find out commercially viable product.

1.4.5.4.2 Ideas Screening :

Next step is detailed investigation of various ideas. Those ideas which offer less scope and are not promising are generally dropped. Most promising and viable ideas are carried to the next stage.

1.4.5.4.3 Concept Development and Testing :

After screening all ideas which are selected they are subject to indepth study. These ideas are developed into matured product concepts. Concept development and testing product ideas are undertaken keeping in mind preferences of the consumers. Concept testing enables a firm to pick up the best product concept amongst alternative product concepts.

1.4.5.4.4 Business Potential Analysis :

This analysis is carried out after selecting the best product concept. In this analysis detailed investigation is carried out to find out its market potential, gestation period, capital investment and expected rate of return. This analysis covers demand analysis, cost benefit analysis, competition analysis, profitability analysis etc. Basic idea behind this analysis is to ascertain the viability and profitability of the proposed product.

1.4.5.4.5 Product Development :

Product development includes what type and quality of materials comprising the product, the method of production, cost of production and production time requirements (per unit), plant capacity, alternative sizes and columns, name, trademark and image sought, testing of the model product etc. these factors provide a base for selecting most suitable model of the proposed product.

1.4.5.4.6 Test Marketing :

At this stage the product and marketing programs are introduced into more realistic market settings. Main purpose behind this step is to test the performance and quality of the product before commercialisation of that product or we can say before launching a new product in the market, the producer is interested in knowing about consumer opinion so that a stable and accepted product is introduced in the market or some improvement can be made if required.

So an entrepreneur is required to check and control the new product through the stages of product life cycle and he always has to attempt to make the product popular through regular improvement in the quality of the products keeping in mind the interest of the customers and profitability of the business.

Exercise-2

Q. What is opportunity analysis, and what are the various steps involved in selecting a new business idea?

1.4.6 External Environment Analysis : Economic, Social and Technological**1.4.6.1 Meaning of Environment :**

Environment means surrounding objects, regions or circumstances. It is sum total of external factors within which the enterprise operates. Environment consists of economic, political, social, technological geographical, demographical and psychological factors, which are responsible for the growth of entrepreneurship. Entrepreneurship environment is a collection of various positive and negative prohibitions within which various enterprises are required to be operative. The external environment is highly dynamic and keeps on changing and affects all the organisation to some extent.

The environment provides the opportunities for growth and survival of business and also the threats about the closure of the business in some circumstances. For this purpose external environment analysis is conducted to gain the opportunities to be profitable and minimize the risk involved in threats.

External environment consists of economic, social and technological factors :

1.4.6.2 Economic Environment :

It comprises of capital, labour, raw material and market demand :

Capital :

Capital is required for the production and establishment of an enterprise. Capital provides the better arrangement of other factors of production like labour, raw material, machinery etc. Increase in capital investment results in increase in profit, which helps in accelerating the process of capital formation.

Labour :

Availability and quality of labour influences the working and growth of entrepreneurship. The high costs of labour can be controlled by resorting to capital intensive technologies. The problem of labour immobility can be solved by providing infrastructural facilities including efficient transportation.

Raw Material :

With adequate supply of raw material, the functions of the enterprise can run smoothly and efficiently. The shortage of raw material will, adversely affect the smooth running of the business.

Market :

An entrepreneur has to launch his product in the market. There are mere competitors in competing market. It is difficult for entrepreneur to create and maintain monopoly about his produce, therefore, the entrepreneur has to keep the latest knowledge of market and various marketing techniques like purchasing power of consumer, brought rate of market, share, savings and income of consumers etc.

1.4.6.3 Social Environment :

Social environment contributes to the growth of the entrepreneurship, This consists of social believes, values and norms. The social factors are :

- Family backgrounds
- Friends, relatives and teachers
- Religion
- Social status
- Social mobility and social marginality

Family Background :

The family may be a single family or joint family. A joint family can provide the sources to invest and expand the family business. Background of family in

manufacturing concern provides industrial entrepreneurship.

Friends, relatives and teachers :

The group of friends and relatives of entrepreneur are called reference groups. They can provide advise or consultancy to the entrepreneur to start a new business. High degree of social mobility is conducive for the growth of entrepreneurship. The lack of mobility will cause the unviable entrepreneurship.

Mobility / Social status / Religion :

Mobility of entrepreneur may be due to the occupational and social status of the family. These two factors affect the Entrepreneurship. Caste and religion of Entrepreneur provide a particular culture that maintains entrepreneurship. In India, Jains, Khatries etc. Are the dominant social castes of entrepreneurship.

Social marginality :

Social marginality is a situation where there is a demarcation between the personal attitude of the individual and the roles played by the individual. Therefore, social environment will affect the growth of entrepreneurship. A socially marginal person is debarred from taking the economic activities.

1.4.6.4 Technological Environment :

An alert entrepreneur in order to survive in his business will keep a watch on the Technological changes to compete with the whole world. The Technological developments provide opportunities for the entrepreneur to develop and produce new products in the market. An entrepreneur must have technical and professional skills. So that he can adopt the advanced technical changes. Then an Entrepreneur with high level of education and technical skills can run his enterprise efficiently. So, for the development of entrepreneurship the environmental analysis is must and be conducted by the team of experts who can have the professional and technical skills and have practicability to judge the affect of these factors on the business of enterprise.

1.4.7 Competitive Factors :

An industry is a group of enterprises offering similar products or services that satisfy the consumer needs. An entrepreneur is a strategic manager who can study the competitive forces in the form of channels of distribution scale of production, product range and price determination. A entrepreneur has to analyses the competitive forces in the industrial opportunities and threats that company will meet while pursuing its business.

Five Competitive Factors :

1.4.7.1 Risk of entry of potential competitors :

Existing firms in the industry try to discourage the new entrants at their entry point in the industry. Because their entry can adversely affect the existing

firms in the industry and their market share. So the restricting entry of the new competitors and these are :

(A) Cost Advantage :

The existing enterprise enjoys the cost advantage due to economies of scale, better and tested production techniques, cheap sources of raw material. The advantages provide opportunities to the existing firms to earn profit and restrict entry of potential entrants.

(B) Brand Image :

Brand image can be built by the entrepreneur through innovations, product differentiation, aggressive advertising, better quality products and after sale service facilities.

(C) Govt. policies :

Govt. Policies regarding entry of the new foreign companies and licensing system before liberalization and preventive entry of new entrants.

(D) Channels of distribution :

The existing firms have distribution channels and new firms have to spend more efforts, money and time for the developing rapport with channel numbers.

1.4.7.2 Rivalry amongst existing companies :

Rivalry amongst existing firms within an industry is very Common. If competitive forces are intense the ultimate beneficiary are the customers who are able to get same goods at low prices and channels of distribution to provide economical and efficient services. If competitive forces is weak, it generates opportunity for the existing firms to raise prices and earn more profits, the rivalry extent on then demand conditions, competitive structure within industry and exist barriers.

1.4.7.3 Bargaining strength of Buyers :

Buyers can be competitive threat when they demand better quality and additional services or when they force down prices and earn better returns.

1.4.7.4 Bargaining powers of suppliers :

Suppliers are able to force up the prices and the company has to pay or settle for inferior quality. Weak suppliers provide the company an opportunity to force down prices or demand higher quality resulting in the profitability of the company going up.

1.4.7.5 Threats of close substitutable products :

Products serving similar consumer needs or purposes are called substitute products e.g. coffee and tea. The firms which have close substitute, will enjoy more liberty to rise prices and earn more profit.

1.4.8 Political factors : General political conditions will also affect an enterprise. e.g. Political instability in a particular state will give the chance to an entrepreneur to think so many times before starting a new venture in that state. Something may happen if Govt./ruling party is not stable.

Exercise-3

Q. "External environment consists of economic, social and technological factors" Comment on the statement?

1.4.9 Summary

An entrepreneur after making appraisal of resources starts a process for marketing and producing a product well. For this process he searches for prospective business ideas, processes them and selects the best idea out of ideas explored by him. Then finally collect required resources and set up the enterprise.

Entrepreneur is one who revolutionise the pattern of production by exploiting an innovation or more generally an untried technological possibility for producing a new commodity or producing an old one in a new way by opening up a new source of supply of material or a new outlet for a product. Thus an entrepreneur is always on the look out for potential profitable opportunities and exploits them in the best interest of his enterprise. Environment means surrounding objects, regions or circumstances. It is sum total of external factors within which the enterprise operates. Environment consists of economic, political, social, technological and psychological factors, which are responsible for the growth of entrepreneurship. For this purpose external environment analysis is conducted to gain the opportunities to be profitable and minimize the risk involved in threats. External environment consists economic, social and technological factors.

1.4.10 Recommended Books

1. Entrepreneurial Development : C.B. Gupta & N.P. Srinivasam
2. Fundamentals of Entrepreneurship : Arora Renu; Sood S.K.

1.4.11 Glossary

Appraisal	:	assessment/ evaluation
Substitute	:	alternate/replacement
Discourage	:	deject
Prospective	:	potential
Preventive	:	precautionary
Unexplored	:	uncharted/ New
Viability	:	feasibility
Strategic	:	planned/tactical
Concrete	:	real/actual

1.4.12 Answer to Self Check-Exercises

- 1) For answer see 1.2, 1.3 & 1.4
- 2) For answer see 1.5.1, 1.5.2 & 1.5.4
- 3) For answer see 1.6.1 to 1.6.4

LEGAL REQUIREMENT FOR ESTABLISHING NEW UNITS

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1.5.0 Objectives

The main objective of the lesson is to familiar you people what are the

various legal formalities that have to comply with while establishing a new unit. Other objectives are, what is the procedure to obtain Registration Certificate and the various Documents required to be submitted for obtaining registration. In the later part of the lesson various general & Special exemptions, which are available to SSI and what conditions required to be fulfilled by SSI to avail these exemptions, are discussed.

1.5.1 Introduction

Whenever a unit is established, some legal formalities have to be completed. As we know Small scale industries play a very important role in the economic development of a country. For establishing a new unit, a number of legal requirements have to be complied with. Unless and until of those requirements no new unit will be established. So following are the various legal formalities which have to be completed for setting up a small scale unit.

1.5.2 Registration Procedure

1.5.2.1 Registration with Director of Industries

Registration of small scale industrial unit is not compulsory. However registration with the State Directorate of Industries or District Industry center facilitates in obtaining of assistance from the government. So, registration are done in the following two kinds in case of SSI :-

- (i) Provisional registration.
- (ii) Permanent registration.

Provisional registration is made before the setting up of unit and permanent registration is done after the unit commences production. In case a small scale unit is a subsidiary of or owned by or controlled by any other undertaking, it is subject to the normal licensing provision under the Industries Development and Regulation Act, 1951.

Provisional Registration :

A good entrepreneur can go in for provisional registration even when he is planning to set up his unit. In Order to get registration an application in the prescribed form is to be submitted. Provisional certificate is issued within a week of applying except in the case where proposed unit is one which needs raw materials which the government has declared non-available due to shortage of the same for registration of SSI unit should be submitted to the General Manager, District Industries center situated in the district where the unit is to be setup. The validity of provisional certificate in the first instance is for one year which can be extended for two more years on the condition of for submission of certificate by the entrepreneur that he has taken steps the Setting up of unit and he requires more time for the completion of project.

Documents required for provisional registration :

- (i) Application on the prescribed form duly filled and signed by the owner, partners, directors as the case may be.
- (ii) Photocopy of the partnership deed if the unit is a partnership firm.
- (iii) Photocopy of ration card of proprietor/partners/directors who have signed the application.
- (iv) Photocopy of the Memorandum and Article of Association in case of a company.
- (v) Passport size photos of the proprietor/partners/director.

The provisional certificate will entitle the small scale unit to :

- (i) Apply for power and water connections.
- (ii) Apply for financial assistance to State Finance Corporation (SFC)/ nationalized banks and other financial institution on the basis of project report as may be required by them.
- (iii) Apply to the National Small Industries Corporation (NSIC)/ Small Scale Industrial Corporation (SSIC) and other institutions for procuring machinery.
- (iv) Make firm arrangement for working capital resources with banks and other financial institutions.
- (v) Apply for a shed in an industrial estate or developed site in industrial area and material for the construction of a shed.
- (vi) Apply to the Corporation/Municipality/Panchayat or other local authorities for permission to construct the shed.
- (vii) Obtain sales tax excise duty etc. and registrations fees.
- (viii) Take other steps that may be necessary to set up the unit.
- (ix) Apply for import of raw material.

Municipal License :

After the registration process with the central and state sales tax department is complete, registration with the Inspectors of Factories is necessary, if the small-scale unit comes within the preview of Factories Act i.e. employs 10 persons with power or persons without power; failing which the unit has to be registered under the shop and Establishment Act, wherever applicable.

1.5.2.1.2 Permanent Registration :

Basically Provisional registration includes the process of setting up of unit by the entrepreneur and after setting up of unit and obtaining license from municipal corporation or other local authorities etc., the entrepreneur can proceed ahead and apply for permanent registration of his unit.

Permanent registration is life time registration granted to SSI which has

commenced production. It is given after physical inspection of enterprise.

The application for permanent registration is to be made on the prescribed form with the following documents :

Documents required for Permanent registration :

- (a) Ownership and tenancy rights of the premises where unit is located.
- (b) Municipal Corporation clearance.
- (c) Purchase bill of machinery installed.
- (d) BIS/QC certificate if applicable.
- (e) An affidavit giving status of the unit, machine, installed, power require.
- (f) State Pollution Control Board/ Committee clearance.
- (g) Electricity Board sanction.
- (h) Copy of partnership deed/Memorandum of articles of association.
- (i) Sale bill of product manufactured.
- (j) Sale bill of each end product.
- (k) Purchase bill of each raw material.

1.5.2.2 Registration with DGS & D / NSIC :

A small scale unit can get itself registered with the Director General of Supplies & Disposal (DGS & D) or National Small Industries Corporation. If it wants to avail the benefit of purchases made for government office. For obtaining registration application should be submitted in the prescribed form.

1.5.2.2.1 Document Required :

- (i) Copies of balance sheet and profit & loss account of last three years.
- (ii) Copies of Form A, in case of partnership firm.
- (iii) Copies of Memorandum and Articles of Association, in case of a company.
- (iv) Income Tax clearance certificate.
- (v) Ownership document in respect of firm's factory and machinery.

1.5.3 Cancellation of Registration :

- The registration of SSI can be cancelled on the following basis :
- (i) The unit remained closed continuously for more than one year.
 - (ii) The unit fails to give full and true information required by the registering authority at various intervals of time.
 - (iii) The unit has miss utilized the raw material allocated to it.
- The affected unit is at liberty to file appeal against cancellation of registration.

Exercise - 1

Q. What is the registration procedure of a small-scale industrial unit and what are the various documents required for registration?

1.5.4 General Exemption To SSI Unit

1.5.4.1 Exemptions from Licensing

Section 11 of IDR, provides that no industrial undertaking shall be established without a license. After obtaining the license the undertaking has to adhere to various rules as laid by the central govt. under section 30. According IDR Act, industrial license would be required for :

1. establishment of a new undertaking;
2. substantial expansion;
3. production of a new product ;
4. changing the location of an industrial undertaking.

According to Section 11B of IDR Act. SSI units are exempted from licensing provisions of the act for maintaining viability and strength of small scale Units as follows :-

- (1) The articles manufactured are not included in Schedule 1 & Schedule II
- (2) The articles manufactured are included in Schedule III

Schedule I. Schedule I of the notification relates to item which are reserved for manufacture by public sector undertakings.

Schedule II. Schedule II includes those industries, which are kept under compulsory licensing.

Schedule III. The small scale industries may manufacture those items which are included in Schedule III, which are exclusively reserved for such sector even if they happen to be included in Schedule II.

1.5.4.2 Memorandum with SIA

The small scale and ancillary units are not required to file the Memorandum with the Secretariat for Industrial Assistance (SIA) before any action for setting up of new project or substantial expansion and at the time of commencement of commercial production.

1.5.4.3 Carry on Business (COB) License

All undertakings other than small scale industrial undertakings engaged in the manufacture of items reserved for exclusive manufacture are exempted from the operations of Section 29B of IDR Act.

Such undertakings have to export minimum of 50% of the new or additional production. The Govt. has decided to exempt export-oriented units (EOUs) from obtaining industrial license, if they manufacture items reserved for small scale units. The exemption would be available even if they had a foreign equity component of over 24%.

If existing small scale and ancillary undertakings exceed their investment ceiling in plant. And machinery (which is 1 crore in case of small scale industry and ancillary industry) by virtue of natural growth, needs to apply for and obtain a carry on business (COB) license.

1.5.4.4 Industrial Entrepreneur Memorandum (IEM)

If any existing small scale or ancillary industry which is engaged in the manufacture of items exempted from compulsory industrial licensing or items not reserved for small scale industries, cross the investment limit prescribed for them, they are not required to obtain COB license. Such industries, named as de-licensed industries, are required to file an IEM to (SIA), Deptt.

The entrepreneurs can conclude an agreement with a collaborator for import of technology or in respect of technical transfer without obtaining any clearance from the govt. provided that royalty payment doesn't exceed 5% of domestic sales and 8 percent on exports.

1.5.4.5 State Regulations

The state govt. has the right in the interest of the economy, to grant fiscal benefits by way of exemption from sales tax or concessional tariff etc. having regard to the industrial policy of the govt. The government may modify its industrial policy and grant, withdraw or modify fiscal benefits and exemptions granted from time to time.

1.5.4.6 Environmental Clearance

Those items which are reserved for small scale sector investment of less than Rs. 1 crore, are exempted from obtaining environmental clearance from the Central Government, However entrepreneurs are required to obtain necessary clearance before setting up an industrial project for keeping the environment pollution free. Small scale industries are also exempted from taking the prior approval of Pollution Control Boards before starting operations except for 17 heavily polluting categories :

Heavily polluting categories include items :

- (i) Sugar
- (ii) Fertilizer (nitrogenous / phosphates)
- (iii) Cement
- (iv) Fermentation and distillery.
- (v) Aluminium
- (vi) Petrochemicals
- (vii) Thermal Power
- (viii) Caustic Soda
- (ix) Oil Refineries

- (x) Tanneries
- (xi) Copper smelter
- (xii) Zinc Smelter
- (xiii) Iron and Steel
- (xiv) Pulp and paper
- (xv) Dye and dye intermediaries
- (xvi) Pesticides manufacturing and formulation
- (xvii) Basic Drugs and pharmaceuticals.

1.5.4.7 Regulation of Acceptance of Loan :

Section 58A of the Companies Act, 1956, prescribe the limits up to which, the manner in which and the conditions subject to which deposits may be invested or accepted by a company either from the public or from its members.

SSI units registered under companies Act, 1956 As companies are exempted from the above said provisions of Section 58A of the companies Act, and the Acceptance of Deposit Rules provides the following conditions are fulfilled :

- (i) the paid-up capital of the company does not exceed Rs. 25 lakhs;
- (ii) the company accepts deposits from not more than 100 persons.
- (iii) there is no invitation to public for deposits;
- (iv) the amount of deposit accepted by the company doesn't exceeds 20 lakhs or the amount of its paid up capital whichever is less.

Exercise - 2

Q. What are the various general exemptions available for SSI units?

1.5.5 Excise Exemptions and Concessions

Taxes on commodities are generally called indirect taxes as the producer ultimately shifts them completely or partially to the consumer. Such indirect taxes are first collected from the dealers or producers by the govt. but later the burden of tax is shifted to the ultimate consumer. Taxes on commodities may take the following forms :

- (i) A tax on manufacturing or production of a commodity is called excise duty;
- (ii) A tax on the sale of a particular commodities is called general sales.
- (iii) A tax on import or export of a commodity is called customs duty.

Excise duty (tax on production of a commodity) tends to raise the price of a commodity, which is ultimately borne by the consumer. Small scale industries are required to fulfill certain conditions in order to avail of excise exemptions and concessions :

- (i) Small scale industrial units must be a factory as defined in the factories Act, 1948;
- (ii) The unit shall be engaged in manufacture of goods;

(iii) SSI unit must be a factory registered with the Directorate of Industries.

Exemptions. The excise exemptions of small scale industrial units are as follows :

- (1) The small scale and tiny industrial units are not required to pay any excise duty for the value of clearances If excisable goods including value of clearances for export doesn't exceed Rs. 50 lakhs.
- (2) If value of clearances is with in 50 lakhs, no declaration need to be filed with the Central Excise.
- (3) No separate accounts are to be maintained by small scale industrial units for excise purposes.
- (4) No monthly return is required to be sent by SSI units to excise office. Only quarterly return should be sent but only by those manufacturers whose sales start exceeding Rs. 30 lakhs and they start paying duty.

1.5.5.1 SSI Exemption Scheme as Per Budget 2003-04

- (i) Exemption for SSI goods has been raised to Rs. 3 crore. Value of exempted goods will be including (excluding exports) for calculating eligibility limit of Rs. 3 crores under SSI exemption w.e.f. 1.4.03.
- (ii) SSI exemption has been withdrawn on the following items w.e.f. 1.4.2003;-
 - (a) Ceramic tiles, printed ceramic tiles, made from duty paid tiles outside the factory.
 - (b) Stainless steel patties/pattas used for manufacturing cycles.

1.5.5.2 Scheme for Excise Relief for Weak Industrial Units :-

A special type of Excise Loan is provided by the govt. of India according to a scheme framed in 1989.

Following financial institutions designated by the central govt. of India to provide Excise loan to weak industrial units are as follows :-

- (i) Industrial Development Bank of India (IDBI)
- (ii) Industrial Finance Corporation OF India (IFCI)
- (iii) Industrial Reconstruction Bank Of India (IRBI)
- (iv) Such other financial institutions which the central govt. may specify in this regard.

1.5.6 Tax Considerations or Tax Benefits to Small Scale Units :

SSI units are given preference while framing taxations policies. SSI units are provided support and assistance and concessions of tax liability or can be exempted from tax payments. These units need to be provided with support and assistance to tide over the crucial initial stage which will enable them to survive and prosper. In the small scale sector various tax benefits offered by the government are in the form of direct and indirect tax. Various benefits under the taxation system can be as under :-

1.5.6.1 Excise benefits

- (a) Excise exemption was provided on a turnover of Rs. 30 lakhs in 1986 and it was raised to Rs. 50 lakhs for small scale industries in 1998-99. A flat rate of excise duty @ 5% advalorem is imposed on value based product between Rs. 50 lakhs and Rs. 100 lakhs of annual turnover.
- (b) SSI may opt. for MODVAT (Modified Value Added Tax) with concession in normal rate of duty.
- (c) Union budget 1998-99 provided for duty exemption to SSI units producing products under another brand name in the rural areas.
- (d) Exemption provided to SSI units based on the product line has now been extended to cover cotton yarri, which does not contain synthetic staple fiber.
- (e) With effect from June 1, 1999 SSI can remit excise duty on a monthly basis instead of each time goods are cleared from the factory premises. This applies to small scale units having turnover between Rs. 50 lakhs to Rs. 1 crore.
- (f) An expert committee would be setup to examine and review on where the exemption should be retained and where they should be integrated in to new structure.

1.5.6.2 Customs benefits :

- (i) A surcharge @ 10 percent of basic duty has been imposed across the board except on gold and silver, crude and petroleum products, items attracting 40 percent rate of basic duty and certain GATT bound items.
- (ii) Special additional duty of 4 percent shall continue.
- (iii) Special custom duty of 5 percent has been withdrawn.
- (iv) A basic duty of 5 percent has been imposed on a number of commodities by withdrawing exemptions.

1.5.6.3 Income Tax

Income tax benefits available to SSI are as follows :-

Tax Holidays :

Under section 80 J of the Income Tax Act, 1961, new industrial undertakings including SSI are exempted from the payment of income tax on their profits subject to a maximum of 6% per annum of their capital employed. This exemption in tax is allowed for a period of five years from the commencement of production. A SSI unit can avail this tax exemption only after satisfying the following two conditions :

- (a) This unit should not have been formed by splitting or reconstruction of an existing unit.
- (b) The unit should employ at least 10 workers in the manufacturing process with power or at least 20 workers without power.

Depreciation :

Under Section 32 of Income Tax Act of 1961 a SSI is entitled to a deduction on depreciation account on block of assets as per the prescribed rates. In case of SSI a deduction from actual cost of plant and machinery is allowed up to Rs. 20 lakhs. The depreciation amount on assets is calculated by the diminishing balance method. Where assets are acquired before the accounting year, depreciation is calculated on written down value. Extra Shift Allowance is available for the plant and machinery used in manufacturing in double or triple shifts. A SSI need to satisfy the following conditions for becoming eligible to avail depreciation allowance :

- (a) The assessee must be the owner of the assets for which depreciation allowance is sought.
- (b) The assets must be actually used for the business or profession of the assessee.
- (c) Depreciation allowance is allowed only on fixed assets like plant & machinery, building and furniture and not for other capital assets.
- (d) All the required particulars must be furnished to the Income Tax Officer as required under Sect 34(I) of Income Tax Act, 1961.

Rehabilitation Allowance :

Under Section 33B of the Income Tax Act, 1961, rehabilitation allowance is granted to SSI whose business is discontinued on account of :

- (a) Floods, typhoon, hurricane, cyclone, earthquake or other natural calamities.
- (b) Civil Disturbance.
- (c) Explosion or accidental fire
- (d) Action taken in combating an enemy.

The rehabilitation allowance must be used within three years of unit's reestablishment reconstruction or revival. The rehabilitation allowance is allowed to the unit to the extent of 60% of the amount of deductions allowable to the unit.

Amortization of Preliminary Expenses :

Under Section 35D of Income Tax Act, 1961, Indian companies and residents are allowed to write off the preliminary and development expenses. As per the Act, the aggregate amount of expenditure allowed to be deducted is limited to 2.5 percent of the total cost of the project.

Income Tax Concessions to Small Scale Industries in Rural Areas :

As per Finance Act, 1977, small scale industries established in rural areas

are allowed 20% of profits as deduction from income tax. This deduction is permissible for 10 years beginning with year of commencement of manufacturing or production after September 1977.

Income Tax Concessions to Small Scale Industries in Backward Areas :

In order to promote rural industrialization various concessions like concessional finance, central investment subsidy and income tax relief etc. are being granted to the units being setup in backward areas. These units are allowed a deduction of 20% income tax on their income from their profits subject to the satisfaction of following two conditions :

- (a) The unit is setup on or after 31st Dec., 1970.
- (b) The unit should employ 10 or more workers in manufacturing processes carried on with power and at least 20 or more without using power.

Investment Allowance :

This allowance is allowed at the prescribed rate of 25 percent of the cost of acquisition of new plant or machinery.

Expenditure on Scientific Research :

Section 35 of Income Tax Act, 1961, allows the following deductions :

- (a) Any expenditure, not being in the nature of capital expenditure, incurred on scientific research related to business.
- (b) Any amount paid to scientific research association or university, college, institution or to a public company for undertaking scientific research.

1.5.6.4 Sales Tax and Other Taxes :

State governments, in order to encourage small scale units, give concession or sales tax exemption on the sale of their finished production for a period of three to fifteen years.

SSIs are also exempted from the payment of stamp duty on land allotted by the government. for setting up of new enterprises. SSI is also exempted from octroi and other local taxes on raw material, packing material, machinery equipment etc.

Exercise-3

- Q.** What are the various Excise exemptions and concession available for small scale industries?

1.5.7 Summary

Whenever a new unit is established some legal requirement should be fulfilled. Various legal formalities for setting up and establishing small scale unit are like Provisional Registration, Municipal License, Permanent Registration, Registration with DGC & D/NSIC, Cancellation of Registration, Tax Consideration or Tax Benefits to small scale units, other tax benefits such as excise & customs

tax exemptions and concessions are provided to small scale units. Income tax act also provides some tax exemptions to small scale units. After that concept of Venture capital is explained. Venture capital means investment in such new and risky units which are unable to raise funds but having potential growth in future.

1.5.8 Recommended Books

1. Entrepreneurial Development : C.B. Gupta & N.P. Srinivasam
2. Fundamentals of Entrepreneurship : Arora Renu ; Sood S.K.

1.5.9 Glossary

Provisional	:	Temporary
Rehabilitation	:	Remedy/Treatment
Amortization	:	Paying off/Written off
Exemption	:	Release/Discharge
Concession	:	Allowance/Dispensation
Regulation	:	Rule/Guideline/Directive
Consideration	:	Concern/Deliberation
Unexplored	:	Uncharted/New

1.5.10 Answer to Self Check Exercises

- 1) For answer see 1.2, 1.2.1 and 1.2.2
- 2) For answer see 1.4.1 to 1.4.8
- 3) For answer see 1.5 & 1.6