

E-CONTENT-SERIES ON ENTREPRENEURSHIP AND MSMEs

by

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Business Planning Process

- **Meaning of Business Plan**
- **Process of Business Plan**
- **Project Report Preparation**
- **Sample Business Plans**

Meet Bhai Mohan Singh, father of first Indian Pharmaceutical Multinational. During the partition in 1947 he migrated from Pakistan to India. The first job that he took up in India was that of a moneylender and within a span of five years he took over Ranbaxy Laboratories in 1952 when the promoters of Ranbaxy Laboratories defaulted on loan. At that time Ranbaxy was a mere medical distribution company. It was Bhai Mohan Singh who had the vision to perceive the opportunity that the patents law in force in India at that time offered. He understood that if a pharmaceutical manufacturing company is build up in this 'product patent' regime in India, this Recession-free industry can be very profitable. It was for his vision and skillful business planning that Ranbaxy Laboratory stands tall as – India's Largest Pharmaceutical Company. The company now has manufacturing operations in seven countries with ground presence in 49 countries and its products are available in over 125 countries.

Planning is the first and the most crucial step for starting a business. A carefully planned and meticulously designed business plan can convert a simple idea/ innovation into a successful business venture.

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Business plan is a road map for starting and running a business. A well-crafted business plan identifies an opportunities, scans external and internal environment to assess feasibility of business and arranges resources in the best possible way which finally leads to the success of the plan. It provides information to all concerned people like the venture capitalist and other financial institutions, the investors, the employees. It provides information about the various functional requirements (Marketing, Finance, Operations & Human Resource) for running a business.

What is a Business Plan?

Business plan is the blue print of the step-by-step procedure that would be followed to convert a business idea into a successful business venture. A business plan first of all identifies an innovative idea, researches the external environment to list the opportunities and threats, identifies internal strengths and weakness, assesses feasibility of idea and then arranges resources (production/ operation, finance, human resources) in the best possible manner to make the plan successful.

The objectives of business plan are:

- To give directions to the vision formulated by entrepreneur.
- To objectively evaluate the prospects of business
- To monitor the progress after implementing the plan.
- To persuade others to join the business.
- To seek loans from financial institution
- To visualize the concept in terms of market availability, organizational, operational and financial feasibility.
- To guide the entrepreneur in actual implementation of the plan.
- To identify strengths and weakness of the plan.
- To identify challenges in terms of opportunities and threats from the external markets.



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- To clarify ideas and identify gaps in management information about their business, competitors and the market.
- To identify the resources that would be required to implement the plan.
- To document ownership arrangements, future prospects and projected growths of the business venture.

Preparing a business plan is not an easy task. Business plan makes the entrepreneur forcibly plan all the critical dimensions of business and it also ensures that entrepreneur does a thorough research about the planned business venture. The process of researching and writing the business plan helps to identify the gaps in the existing plan. For any business venture all the functional plans (Marketing, operations/ production, finance, human resource) have to be prepared. The functional plans reveal the resources required, strategies planned and the budgeted expenditure of each functional area. It also determines when would the company break even and when would it start registering profits. Here we would like to state that preparing a business plan is not just one time activity but is an ongoing process. A successful business enterprise constantly keeps improvising its business plan based on market dynamics and learning experiences. The challenge in preparing a business plan for an entrepreneur is to communicate the business idea clearly and precisely to the stakeholders. Business plan is a written document, which has to be produced to various stakeholders to get their consent. The shareholders require it to know the ownership patterns and future prospects, the government need it to give various certifications like pollution controls, the financial institutions like venture capitalist need it to estimate the prospects and the risks involved in disbursing funds to the business venture.

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Preparing a Business Plan

Preparing a Business Plan is not an easy task. A plan, which looks very lucrative/ feasible at the first instance, might actually not be when details are drawn. Hence documenting the business plan is the first step that an entrepreneur should take. The various steps involved in preparing a business plan are:

I Preliminary Investigation: Before preparing the plan entrepreneur should:

- Review available business plans (if any).
- Draw key business assumptions on which the plans will be based (e.g. inflation, exchange rates, market growth, competitive pressures, etc.)
- Scan the external environment and internal environment to assess the strengths, weakness, opportunities and threats.
- Seek professional advice from a friend/ relative or a person who is already into similar business. (If any)

Business Planning Process

As discussed above the successful entrepreneur lays down a step-by-step plan that she/ he follows in starting a new business. This business plan acts as a guiding tool to the entrepreneur and is dynamic in nature – needs a continuous review and updating so that the plan remains viable even in the changing business situations. The Various Steps involved in Business Planning Process are:

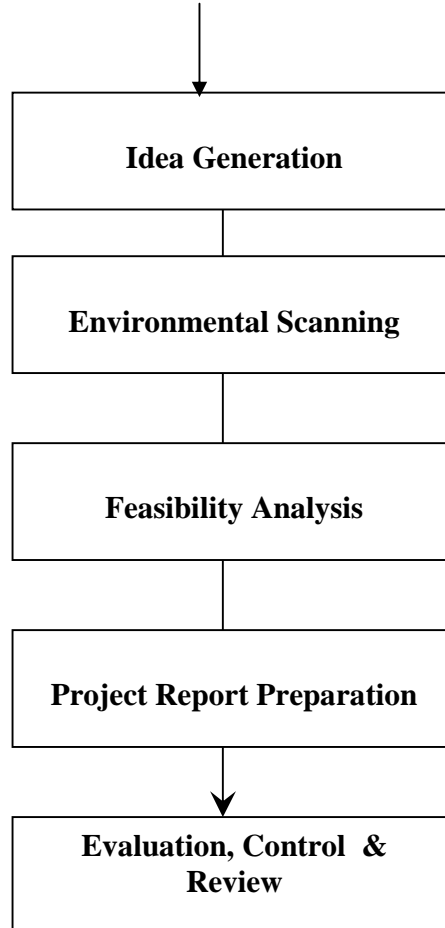
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Preliminary Investigation



Business Planning Process

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1. Idea Generation

As discussed in the previous chapters, entrepreneurship is not just limited to innovation (generation of entirely new concept, product or service but it also encompasses incremental value addition to the concept/ product/ services offered to the consumer, shareholder & employee). Hence value addition is the key word that an entrepreneur needs to keep in mind while generating new ideas even at the inception stage. Idea generation is the first stage of business planning process. This step differentiates between an entrepreneur and businessman distinctly. An entrepreneur is highly creative person who gets an innovative idea about a product or service that could be brought into the market. Let us make it very clear again at this stage that it is not necessary to have an idea which is entirely new; even value added to the new products in the market is included in the innovative products/ services. Idea generation is the first stage of business planning process. It involves generation of new concept, ideas, products or services to satisfy the existing demands, latent demands & future demands of the market. The various sources of new ideas are:

- Consumer/ Customers
- Existing Companies
- Research & Development
- Employees
- Dealers, retailers

The various methods of generating new ideas are:

- a) Brainstorming
- b) Group discussion
- c) Data collection through questionnaires/ schedules etc from consumers, existing companies, dealers, retailers
- d) Invitation of ideas through advertisements, mails, internet
- e) Value addition to the current products / services
- f) Market research

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- g) Commercializing inventions
- h) These days even contests are being organized to identify business ideas like '*business bazzigaar*' on Star TV which invites Participation in the contest and rewards the best business plan.

Screening of the new ideas should be done so that promising new ideas are identified and impractical ideas are eliminated.

2. Environmental Scanning

Once a promissory idea emerges through idea generation phase the next step is environmental scanning which is carried out to analyze the prospective strengths, weakness, opportunities & threats of the business enterprise. Hence before getting into the finer details of setting up business it is advisable to scan the environment – both external & internal and collect the information about the possible opportunities, threats from the external environment and strength & weaknesses from the internal environment. The various variables to be scanned are in terms of Socio-cultural, economic, governmental, technological, demographic changes taking place in the external environment and availability of raw material, machinery, finance, human resource etc with the entrepreneur. The various sources for gathering the information are Informal Sources (Family, friends, colleagues etc.) and formal sources (bankers, magazines, newspaper, government departments, seminars, suppliers, dealers, competitors). The Objective for a successful environmental scanning should be to maximize the information and hence the entrepreneur should collect information from as many resources as possible and then analyze them to understand whether the given information would be supportive / obstructive to the business venture. The more supportive the information the greater is the confidence for the success of the business.

External Environment

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Socio-cultural Appraisal

It assesses the social and cultural norms of a society in a given period of time. The variables that are appraised are values, beliefs, norms, fashions and fads of a particular society. It can help in understanding the level of rigidity/ flexibility of a given society towards a new product/ service/ concept. Take for example the socio-cultural norms of United States and United Arab Emirates. Americans are experimenting, and adventurous whereas Arabs are conservative. If an entrepreneur wishes to introduce an innovative product like bungee jumping its acceptability would be more in America than in UAE.

Technological Appraisal

It assess the various technological know-how available to convert the idea into a product, it can also be done to assess the various modern technologies expected in the near future & their receptiveness by the industry. For Example an entrepreneur has an idea of manufacturing tobacco free herbal cigarettes which would not harm the health of the smokers, the technological appraisal can assess whether manufacturing of this kind of product is possible or not.

Economic Appraisal

It assess the status of economy in a given society in terms of inflation, per capita income & consumption pattern, balance of payment, Consumer price index etc. The healthy economy offers greater opportunities for growth & development of the industry. And hence gives greater confidence to the entrepreneur about the success of his business venture.

Demographic Appraisal

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It assesses the overall population pattern of a given geographical region. It includes variables like age profile, distribution, sex, education profiles, income distribution etc. The demographic appraisal can help in identifying the size of target customers.

Governmental Appraisal

It assesses the various legislations, policies, incentives, subsidies, grants, procedures etc formulated by government for a particular industry. The softer the government norms for the industry the easier it is for the entrepreneur to establish and run the business. Take for example the government policies of subsidized electricity in Uttranchal. A manufacturing unit highly dependent on power has added advantage for setting up industry there. On the other hand take Uttar Pradesh here the electricity is not just expensive but there is acute shortage of it as well and the entrepreneurs in UP are dependent on personal generators for electric supply which automatically increases the cost of product and hence it would be a wise decision on the part of an entrepreneur to setup/shift his manufacturing unit to Uttranchal.

Another example on governments role is analyzing the feasibility of comes from governments decision on allowing partial entrance to FDI in retail segment because of this particular clause the multi national retail outlets like Wal-Mart are not able to enter the Indian markets though the market potential and financial feasibility is in abundance.

Internal Environment

Raw Material

It assesses the availability of raw material now and in near future. If the availability of raw material is less now or would be less in future then entrepreneur should give a serious thought for establishing a venture as the entire system can come to a standstill for the availability of raw material.

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Production/ Operation

It assesses the availability of various machineries, equipments, tools & techniques that would be required for production/ operation.

Finance

It assesses the total requirements of finance in terms start-up expenses, fixed expenses and running expenses. It also indicates the sources of finance that can be approached for funding

Market

It assesses the present, potential and latent demands of the market.

Human Resource

It assesses the kind of human resource required and its demand and supply in market. This further helps in estimating the cost and level of competition in hiring & retaining the human resource.

As stated above the objective of the environmental scanning should be to gather information from as many sources as possible and to maximize this information for enhanced probability of success in the business.

3. Feasibility study is done to find whether the proposed project (considering the above environmental appraisal) would be feasible or not. It is important to demarcate environmental appraisal & feasibility study at this point. Environmental appraisal is carried out to assess the external & internal environment of the geographical area/ areas where entrepreneur intends to setup his business enterprise whereas feasibility study is carried out to assess the feasibility of the project itself in a particular environment in greater details. Hence, though feasibility study would be dependent

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on environmental appraisal yet it is far more descriptive. The various variables/ dimensions are

➤ **Market Analysis**

Market analysis is to be conducted for the following reasons

- To estimate the demand of the proposed product / service in future
- To estimate the market share of the proposed product/ service in future.

The demand analysis & market share is based on number of factors like consumption pattern, availability of substitute goods/ services, type of competition etc. Wide variety of information has to be collected to make these estimations.

A preliminary discussion with consumers, retailers, distributors, competitors, suppliers etc is carried out to understand the consumer preferences, existing, latent & potential demands, strategy of competitors & practices of distributors, retailers etc. The objective of a formal study needs to be comprehensive enough that they are able to generate the desired answers to the following questions:

1. Who are the consumers (customers) both present & prospective?
2. What is the present & future demand
3. How is the demand distributed seasonally (for eg airconditioners are required from May to September in most part of our country)
4. How is demand distributed geographically
5. How much price the consumer is willing to pay
6. What is the marketing mix of competitors
7. What marketing mix would the consumers accept?

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In nearly all cases research is required to obtain enough information to answer the above questions and to identify whether project is feasible or not. This is done through a market research. (Market Research has been discussed in greater details in Chapter V – Drawing Functional Plan – I).

➤ **Technical/ Operational Analysis**

Technical/ Operational Analysis is done to assess the operational ability of the proposed business enterprise. The cost and availability of technology may be of critical importance to the feasibility of a project or it may not be an issue at all.

Key Questions to be answered are:

- a) What are the technological needs for the proposed business?
- b) What other equipment does the proposed business need ?
- c) From where will this technology & equipment be obtained?
- d) From where can the technology & raw material be obtained?
- e) What would be the equipment & technology cost?

Technical/ Operational Analysis collects data on the following parameters:

- Material availability
 - Material Requirement planning
 - Plant location
 - Plant capacity
 - Machinery & equipment
 - Plant layout
- a) **Material Availability:** It is imperative to assess the availability of the raw material required for production of goods/ services. The feasibility study of material should make an account of following variables:
- The availability of quality & quantity of raw material

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- The factors on which the availability of raw material is dependent
 - Price sensitivity (elasticity) of raw material
 - Perishable time of raw material
- b) Material Requirement Planning is undertaken to analyze the quantity of material that would be required to let the production run smoothly, it would be dependent on material availability variable mentioned above.
- c) Analysis of Choice of technology: It is done to identify whether the product developed at the idea generation stage is technologically feasible or not ie; it answers the questions like:
- Whether a technology for the product exists or not?
 - If technology exists in more than one form then which technology would be more profitable to the company

The choice of the technology would be affected by:

- Capacity of Plant
- Amount of investment
- Availability of technology
- Production cost
- Latest developments
- Quantity of planned production
- Affect of environment

d) Plant Location

Plant location refers to fairly broad area where the enterprise is to be established like city, industrial zone or costal area. Plant location is the physical layout of the business and is affected by process of production, safety of personnel, minimum production cost, scope of expansion, proper space utilization etc.

The choice of the location is affected by the following:

- Proximity to raw material & markets

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- Availability of infrastructure like power, transportation, water, means of communication
- Favorable Government policies
- Other factors like climatic condition, availability of manpower etc can affect the decision of plant location

e) **Machineries & equipment:**

Machinery & equipment is dependent on production technology, plant capacity, investment cost of buying, maintenance & running cost

➤ **Financial Feasibility**

Once the analysis of marketing, Operation & organization has been done successfully, finally financial feasibility is done to assess financial issues of the proposed business venture. Following cost estimates have to be done:

- a) **Cost of Land & building:** depending on the requirement & the availability of funds the land & building can be hired, can be taken on lease or purchased.
- b) **Cost of Plant & Machinery:** It includes estimates of cost of plant & machineries, their running & maintenance cost
- c) Preliminary cost estimation is made to assess how much cost would be required in conducting market survey, preparing feasibility report, expenses in registering & incorporating machine, establishment expenses, expenses in raising capital from public & other miscellaneous expenses
- d) Provision for contingencies needs to be done to cover certain unexpected expenses which can emerge due to change in the external environment like increase in price of raw material like transport cost goes up if the petrol prices are revised.
- e) Working capital estimates for running the business are also made

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- f) Cost of production, which would include raw material cost, labour cost, overhead expenses, utilities like power, water, fuel etc.
- g) Sales & production estimates: Based on the plant capacity the production & sales estimates are made which help in estimating profitability
- h) Sales & Production estimates: based on the plant capacity the production & sales estimates are made which help in estimating profitability
- i) Profitability projections are made on the following parameters:
 - i) Cost Of production
 - ii) Sales expenses
 - iv) Administrative Expenses
 - v) Expected sales

Summation of all above gives gross profit

Based on the above information following projections are made:

1. Break even point
2. Cash flow statement
3. Balance sheet statement
4. Multiyear projections are made (see financial plans for details)

4. Drawing Functional Plans: After positive results from the feasibility study functional plans are drawn. (Some of the scholars and writers prefer to include feasibility study with the functional plans but they have been taken separately in this book as feasibility study is precursor to plan & is done to check viability of the projected from various dimensions, whereas after the feasibility study gives positive indication about the viability of the proposed projected one can go into the details of drawing functional plans which would plan the strategies for all the operational areas : marketing, finance, HR & production.

a) Marketing plan:

(Detailed discussion in chapter 5)

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Marketing plan lays down the strategies of marketing which can lead to success of business. These strategies are in terms of Marketing Mix (Product, Price, Place & promotion). From the market feasibility study & marketing research, potential/present demands of customers is determined which helps in understanding the profile of customers & hence help in laying down the strategies for segmentation of the market, identification of the target market & laying down strategies for target market.

b) Production/ Operation Plan

(Details in chapter 6)

Production plan is drawn for business enterprise in manufacturing sector whereas operational plans are drawn for business enterprise in service sector. The production / operation plan should include strategies for the following parameters

- 1) Location & reasons for selecting the location
- 2) Physical layout
- 3) Cost & availability of machinery, equipments, raw material
- 4) List of suppliers & if possible distributors
- 5) Cost of manufacturing/ running the operations
- 6) Quality Management
- 7) Production scheduling, Capacity management & inventory management.
- 8) Changes in above in case of expansions of business

c) Organizational Plan

(Detailed discussion in chapter 7)

Organizational plan defines the type of ownership: it could be single proprietary, partnership, company, private limited or public limited. It also proposes an organizational structure & proposes the Human resource management practices that would govern the successful running of the proposed business enterprise.

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d) Financial Plan

(Details in chapter 8)

Financial plan indicates the financial requirements of the proposed business enterprise

- 1) Cost incurred in smooth running of all the financial plans(Marketing, Operation & human resource)

For example cost incurred in marketing plan would include Forecasting sales, for production plan it includes cost of goods, for organizational plan it includes cost of compensation to employees

- 2) Projected cash flows
- 3) Projected Income statement
- 4) Projected Break even point
- 5) Project ratios
- 6) Projected balance sheet

4. Project Report Preparation

After environmental scanning and feasibility analysis, project report is being prepared. The business plan is a written document that describes step-by step strategies involved in starting and running a business.

5. Evaluations, Control & Review

As stated earlier it is imperative to continuously review and evaluate the business constantly. This is because the competition in today's globalized world is high and the technological changes are taking place at much faster rates. In this dynamic business environment it is important to evaluate, control and review the business periodically and introduce changes to keep up with the market share.

To cope up with the rising competition Hindustan Liver Limited (HLL) had come up with a new strategy: New Product Every Month!



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Project Report Preparation

Project report helps to understand the opportunities, problems and weakness of the business. It guides the entrepreneur in actually starting up and running the business venture. It helps him to monitor whether the business is growing as was projected in the business plan or not. It helps in documenting the cost estimates of the business. It can be used as a handy tool to persuade investors and financial institution to fund the project. It can help in proper utilization of all the resources. It can keep the morale of employees, owners and investors up. It can finally lead to a sustainable development of the organization.

Essentials Of A Project Report

1. The project report should be sequentially arranged.
2. The project report should be exhaustive (covering all the details about the proposed project)
3. The project report should not be very lengthy and subjective
4. The project report should logically and objectively explain the projections.
5. The projections should be appropriately be made from two to ten years.
6. The project report should be professionally made to exhibit that the promoters have entrepreneurial acumen and sound experience.
7. The project report should justify the financial needs and financial projections
8. The project report should also justify market prospects and demands.
9. The project report should be attractive to the financial agencies and investors.
10. The project report should also have a high aesthetic value.



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Preparing a Project Report

I Cover Sheet

Cover sheet is like the Cover page of the book. It mentions the name of the project, Address of the head quarter (if any) and name & address of the Promoters

II Table of Contents

Again the table of content is like the table of content of a book, it guides the person reviewing the project locate to the desired section quickly. A good methodology would be to divide the project report into sections and number or label the sections like 1, 2, 3 or I, II, III or A, B, C and the divide each section into subsections by using numerals after the decimal like 1.1, 1.2, 1.3 or I-1, II-2, III-3 or A-a, B-b, C-c. No matter which method is used for classification once a method is picked up the entire report should uniformly adopt the same procedure.

III Executive Summary

Executive summary is the first impression about the business proposal. As the saying goes that first impression is the last impression, careful presentation of information should be done to attract the attention of the evaluators. It should be in brief (not more than two or three pages) yet it should have all the factual details about the project that can improve its marketability. It should briefly describe the company; mention some financial figures and some salient features of the project. Generating interest in the mind of the readers is the prime motive of the executive summary.

IV The Business

This will give details about the business concept. It will discuss the objective of the business, a brief history about the past performance of the company (if it is an old company), what would be the form of ownership (whether it would be a single proprietor,

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partnership, co-operative society or a company under the company law). It would also label the address of the proposed headquarter.

V Funding Requirement

Since the investors and financial institutions are one of the key bodies examining the project report and it is one of the primary objectives of preparing the project report, a careful well-planned funding requirement should be documented and how these requirements would be fulfilled should be projected. Debt equity ratio should be prepared which can give an indication about how much finance would the company require and how would it like to fund the project.

VI The Product Or Services

A brief description of product/ services is given in this subsection. It includes the key features of the product, the product range that would be provided to the customers and the advantages that the product holds over and above the similar products/ substitute products available in market. It also gives details about the patents, trademarks, copyrights, franchises, and licensing agreements

VII The Plan

Now the functional plans for Marketing, Finance, Human Resource and Operation are to be drawn

a) Marketing Plan: Marketing mix strategies are to be drawn based on the market research. The market research will provide information about the following parameters: i) Market Demography like profiles of customers and end-users; preferences and needs of the customers ii) Strengths and weaknesses of competitors iii) SWOT analysis of the market. A thorough market research is the backbone of success and failure of any product in the market. Based on the information collected through Market Research, Marketing mix strategies for product/ services, Price, promotion and distribution are presented

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meticulously and reasons are displayed in relation to why the targeted market is so attractive? And how can the market provide gains to the organization? What marketing strategies would ultimately lead to the success of the organization? The budgets for the marketing plan are drawn at the end.

b) Operational Plan: The operational plan would give information about i) Plant Location: why was a particular location chosen: Is it in the vicinity of market, suppliers, labour or does it have an advantage of government subsidizes for that particular location or are their any other specific reasons for choosing the particular location. ii) Plant layout is also at times mentioned in the project report to provide pattern of arrangement of the organization and would indicate the exhaustive planning for the business iii) Plan for Material requirements, inventory management and quality control are also drawn for identifying further costs and intricacies of the business. Finally the budget for operational plan is also drawn.

c) Organizational Plan: The organizational plan indicates the pattern of flow of responsibilities & duties amongst people in the organization, it provides details about the board of directors, it can also enlist the manpower plan that would be required to put life to the company and it would also enlist the details about the laws that would be governed in managing the employees of the organization. In the end the Organizational plan is also budgeted.

d) Financial Plan: The financial plan is usually drawn for Two-Five years for an existing company, a summary of previous financial data is given whereas for a new organization following projections are drawn

- Projected Sales
- Projected Income and Expenditure Statement
- Projected Break Even Point

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- Projected Profit & Loss Statement
- Projected Balance Sheet
- Projected Cash Flows
- Projected Funds Flow
- Projected ratios

VIII Critical Risks: The investors are interested in knowing the tentative risks to evaluate the viability of the project and to measure the risks involved in the business. This can further give confidence to the investors as they can calculate the risks involved in the business from their perspectives as well.

VII Exit Strategy: The exit strategies would provide details about how would the organization be dissolved, what would be the share of each stakeholders in case of winding-up of the organization. It further helps in measuring the risks involved in investing.

VIII Appendix: The appendix can provide information about the Curriculum Vitae of the owners, Ownership Agreement, Certificate from pollution board, Memorandum Of Understanding, Article Of Association and all the supporting agreements/ documents that can help in marketing the project viability at large.

Format of A Project Report

I. Cover Sheet (name of company, address, promoters)

II. Table of Contents

III. Executive Summary (2-3 pages)

IV. The Business

- a) Objective for setting up business
- b) Brief History of past performance (if any.)

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- c) Form of ownership
- d) Name, Qualification of the owners
- e) Proposed / actual head quarter
- f) Proposed/ actual capital structure

V The Funding Requirements

- a) Debt
- b) Equity

VII The Product / Service

- a) Description of product/ service
- b) Comparative analysis with similar products/ substitute products
- c) Patents, trademarks, copyrights, franchises, and licensing agreements

VIII The Plan

- e) Marketing plan
 - Market Demography like profiles of customers and end-users; preferences and needs
 - Strengths and weaknesses of competitors
 - SWOT Analysis of the market
 - Marketing Mix Strategy
 - Product Mix Strategy
 - Promotion Mix Strategy
 - Pricing Mix Strategy
 - Distribution Mix Strategy
- f) Operational Plan
 - a. Plant Location
 - b. Plant Layout

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- c. Material Requirement
- d. Inventory Management
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- h) Financial Plan For Two-Five years
 - For existing companies, a summary of previous financial data
 - Projected Sales
 - Projected Income and Expenditure Statement
 - Projected Break Even Point
 - Projected Profit & Loss Statement
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E-CONTENT-SERIES ON ENTREPRENEURSHIP AND MSMEs



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Sample Project Report

Project Report on ‘Tea cafe’

Name Of The Organization

Chai

Owners

Alam & Saurabh Malhotra

Prepared By

Shikha Sahai

C 851, Sector C

Mahanagar

Lucknow

II. Table of Contents

Executive Summary

The Business

The objective

Brief History

Form of Ownership

Name, Qualification of the owners

Proposed Headquarter



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Funding Requirement

Debt

Equity

The Market

Description of product

Comparative Analysis

Licensing Agreement

The Plan

Marketing Plan

Operational Plan

Organizational Plan

Financial Plan

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III. Executive Summary

India is the largest producer and consumer of tea. This is where the Opportunity lies! Chai is the oldest tea trader in the state of Uttar Pradesh. We are catering to tea lovers with Darjeeling Tea, Sikkim Tea, Niligiri Tea & Assam tea since 1929. Chai offers world's finest teas in more than 100 varieties. We are at present trading in UP and some cities of Maharastra & Rajasthan. In the business plan proposed we intend to enter a new Business – the fast-food joints. The fast food culture is on rise amongst teenagers, working professionals and public at large. The reasons are simple – the adaptation of western culture, rising income and the simplicity of arranging for any kind of meeting; be it business or social. In the business plan proposed below Chai café wants to enter into a highly competitive market of fast food and coffee café. But there is no single food joint offering tea as a specialty that would act as a USP for the company. The market offers tremendous opportunities. A market survey and estimations have revealed that the potential market is as large as 70,000 customers. The financial projections have been conservative based on assumption that even if acceptability is by only 1% of the total market, (which is quite conservative), markets display a handsome profit of 25%, which is very promising and motivating for the owners.

Both the owners are well educated, talented and motivated. They vision creating chains of similar fast-food centers in the whole country. Since this is their nascent project individually they are seeking loans from banks. Though they are new into the business they are supported by their fathers who have sound 35 years of experience in business.



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IV. The Business

Objective: To provide high quality & variety of tea and fast food in the state of UP

Form of ownership: Partnership Firm

Name, Qualification of the owners: Owner 1: Alam
Educational Qualification: M. Com

Owner 2: Saurabh malhotra
Educational Qualification: MBA

Proposed head quarter: Kapoorthala, Lucknow

V The Funding Requirements

- a) Debt: The debts would be borrowed from family members, on which no interest rates would be charged. A loan would be requested from banks and other funding agencies
- b) Equity: No equity funds.

VII The Product / Service

- a) Description of product: The product offered to the market will be 'Tea & Accompanying Snacks'.

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- b) Comparative analysis with similar products/ substitute products: there are more than 69 coffee house cum snack bar in the city of lucknow but there is no food joint that offers variety of tea
- c) Licensing agreements have been obtained from the Lucknow development authority.

VI The Plan

Marketing plan

- Market Summary: ‘Chai’ Chai has entered a mature market, which is highly competitive. There are 69 coffee houses in the city of lucknow but ‘chai café’ would be offering 100 variety of Indian tea and coffee plus bakery products.
- Market Demography: The Potential customers can be divided into following broad categories:
 - a) School/ College going students
 - b) Working professionals
 - c) Senior Citizens
- Market Research
A market research on 100 correspondents evenly distributed amongst the demography discussed above revealed following results:
 - a) 89% correspondents visit fast food centers/ coffee houses in at least once a week
 - b) 70% correspondents visit thrice a week
 - c) 76% correspondents order for some snacks along with tea/ coffee/ cold drink

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d) More than 8000 individuals pass the way (where the tea café is proposed)

- SWOT Analysis of the market: SWOT analysis provides us with an opportunity to examine internal strengths & weakness and external opportunities & threats.

Strengths

- Tea at 'Chai café' is of premium quality and is in the market for more than 100 years
- More than 100 variants of tea are available with 'Chai Café'
- Employees at chai are highly dedicated, loyal and understand the taste of customers of Lucknow.

Weakness

- Inadequate finance to start an independent café.

Opportunity

- Market is growing at the rate of 20%
- Lucknow is becoming hub of all the major business centers
- Middle class is growing at the rate of 27%

Threat

- There is lot of political interference in Lucknow
- Market is already saturated with 69 café in the city
- Emergence and preference of multiplex culture.

- Marketing Mix Strategy

- Marketing Objective:

a) To grow sales by 10% every year

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- b) Diversify services
- c) Build customer loyalty
- Market Segmentation: potential customers can be segmented into Students, working professional and senior citizens.
- Target market: All the segments would be targeted
- Market Positioning: The café would be positioned as ‘ A food joint that specializes in tea and provides sumptuous snacks for all age groups. High quality products and customer centric services would be our priority.
- Product Mix Strategy
 1. 100 floavour of tea
 2. Espresso Coffee and cold drinks
 3. 35 varieties of icecreams
 4. Bakery items like cake, pastries, pizza
 5. Home Delivery through Dial-an-order services
- Pricing Mix Strategy : leadership pricing to maintain its premium quality and brand equity
- Promotion Mix Strategy
Promotion would be through
 - a) Radio advertisements on AIR FM and Radiocity
 - b) Through Pamphlets

Facilities Plan/ Operational Plan

- i. Plant Location

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The location of chai café would be adjacent to CMS school, aliganj, lucknow. this location is ideal because it provides access to all the potential customers discussed in the market demography. Market research has given an indication that around 8000 individuals pass this street everyday. There are about 2000 students in the adjacent school and more than 150 offices in the nearby aliganj area. Moreover lucknow university and IT college are 3 km from this place. The total no. students in them are more than 25,000. the population of Sector B Aliganj is approximately 30,000. Thus we have approx 70,000 potential customers. Initially the location would be leased at Rs 10,000 pm & with electricity, salaries, material cost the total cost per month would be Rs 30,000.

The equipments that would be required are Ice-cream machine, coffee maker, refrigerator, food display counter, computer and air conditioner

The layout would be a simple L-shaped selling counter with a seating capacity of 50 people at a time , storage space of food would also be required.

Organizational Plan

It would be a partnership establishment. Saurabh and Alam would be the partners, with equal ownership in business. The duties and responsibilities of each would be as under:

Saurabh: Would be responsible for general administration. This would include all the administrative/ HR activities: recruitment, training, development, compensation, performance appraisal and everyday working.

Alam: Would be responsible for sales & marketing as well as financial accounting. He would make promotional efforts, monitor sales, maintain accounts, payroll, billing and payment of taxes.

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Financial Plan For Two-Five years

Start-Up Expenses

a) Land & building (on lease)	Rs 10,000/- pm
b) Furniture & Office equipment	Rs 25,000/- (fixed cost)
c) Machinery, equipment & tool	Rs. 30,000/- (fixed cost)
d) Raw material & Inventory	Rs 20,000/- (pm)
e) Connection of power supply	Rs 5,000/- pm
f) Advertising & Promotion	Rs 5,000/-pm

Budgeted Cost

3,00,000

operational cost **2,65,000**

sales cost **5,000**

personnel costs **30,000**

Administrative Cost **50,000**

Total Cost **3,50,000**

Expected Sales **6,00,000**

Gross Profit (Sales – Total Cost) **2,50,000**

% Gross profit margin (gross profit/ Sales) **41.61%**

Proforma For Cash Flow Statement

Sources Of Funds

- Mortgage Loan
- Term Loan
- Personal Funds
- Net Income From Operations etc.
- Add depreciation

Total Sources Of Funds

Dispositions (Uses) Of Funds

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Purchase of Equipment

Inventory

Loan repayment

Total Dispositions (Uses) Of Funds

Net Increase in working capital

Balance Sheet of XYZ as on 31.3.200...-

Capital & liability	Amt.	Assets	Amt.
Capital		Fixed Assets: tangible	
-Equity Share Capital		Land & building	
-preference Share Capital		Leasehold	
- General Reserves		Plant & Machinery	
- Funds		Furniture & Fittings	
		Motor, van, lorry	
<i>Liabilities</i>		Fixed Assets: Intangible	
Long Term Liability		Goodwill	
-Secured Loans (Public deposits, Long Term Loans)		Copyrights & trademarks Patents	
-Unsecured Loans (Debentures, Bonds)		<i>Fictitious Assets</i>	
<i>Curent Liabilities</i>		Underwriting Commission	
-Trade Liabilities		Brokerage	

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- Bills Payable		Discount on issue of shares & debentures	
-Creditors		Interest paid out of capital	
-Provision for taxes		Development expenditure not adjusted	
-dividend payable		Heavy advertisement expenses	
-Overdraft		Preliminary expenses	
-Short Term Loans from bank		Wasting assets	
-deferred Revenue		Current Assets	
-Advances from customer		Payment in advance/ prepaid expenses	
Contingent Liabilities		Closing Stock/ Stock in trade (RW+ WIP+Finished Goods)	
-Claims against the firm not acknowledged as debt		Sundry Debtors (including adjustments for bad debts & its reserves)	
- Uncalled Liabilities on investment in other companies		Bills receivable	
- Arrears of fixed cumulative dividends		Temporay Investments/ Marketable Investments	
- Liability on account of bill discounted with bankers		Cash In Bank	
-estimated amount of contracts remaining to be executed on capital account and not provided for		Cash in Hand	
		Contingent Assets	
		(e.g. wining of law suit)	

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Total		Total	
-------	--	-------	--

VI Critical Risks

Following types of risks are involved

- a) Excessive Political Interference
- b) Non-acceptability of the product & services

VII Exit Strategy

If the proposed project does not run successfully we would wind it up and payback the loan by selling the machineries, equipments & tools, moreover we have enough financial backing from our ancestral property that in case we are not able to run the business profitably we would still be able to payback the loan by selling our ancestral property.

VIII Appendix

- ii. Curriculum Vitae of the owners
- iii. Ownership Agreement
- iv. Certificate from pollution board
- v. Memorandum Of Understanding



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Samridhi

Business Plan For A BPO (Business process Outsourcing) in Lucknow

Prepared By

Shikha Sahai



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C-851, Sector C

Mahanagar

Lucknow



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The Product / Service

Description of product/ service

The Plan

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 - SWOT Analysis of the market
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 - Product Mix Strategy
 - Promotion Mix Strategy
 - Pricing Mix Strategy
 - Distribution Mix Strategy
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 - Plant Location
 - Plant Layout



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Executive Summary

Business Process Outsourcing (BPO) is the delegation of one or more IT-intensive business processes to an external provider that in turn owns, administers and manages the selected process based on defined and measurable performance criteria.

The Business Process Outsourcing (BPO) industry in India has been growing 70 percent a year and is now worth \$1.6 billion, employing more than 100,000 people. And as McKinsey analysts put it, BPO has to grow only 27% till 2008 to deliver \$17 billion in revenue and employment of a million people. BPO organizations combine the use of highly effective and empowered company representatives with a service framework that relies heavily on state-of-the-art communications and information technologies. Call centers in India are already on a boom with different companies operating for e.g. British Airways, GE capital, American Express, Whirlpool, Compaq, Asian Paints, Dell computers, Hutchison Whampoa, 3com, Citibank, Swiss Air, etc.

Samiridhi Industries proposes to set up a BPO in Lucknow- The capital of Uttar Pradesh state. It proposes to offer customized business data processing services that match international standards in terms of precision and timely execution. The availability of massive land with the owner & human resource in the local market at much lower rate (as compared to metropolitan cities in India) and excellent infrastructure (good roads, power supply) are some of the key strengths of the project. The business plan below is presented before you to project the prospects of setting up this a venture in Lucknow.

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The Business

a) Objective for setting up business: To provide world-class state-of-the-art business process outsourcing services in the city of Lucknow as a subsidiary to the parent company.

b) Brief Introduction of The company: Samridhi has been established in the year 2006 for providing state-of-the-art BPO services in the city of Lucknow.

c) Form of ownership: Samiridhi is a single proprietorship company which would become a franchisee of a parent brand that would have tie-up with the company.

d) Name, Qualification of the owners: Mr Sharad Kumar, Chartered Accountant with Seven years of experience in private practice of Chartered Accountancy

e) Proposed Head Quarter: 123, New Hyderabad Colony, Lucknow

f) Proposed capital & gain structure Samridhi will offer the land and the Parent brand will offer construction of the infrastructure. The management will be joint but the day to day administration will be done by Mr. Sharad Kumar 60:40 (Samiridhi will have 60% profit) and the parent brand will have 40% profit)..



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Industry Background

IT Enabled Service (**ITES**) includes the activities those are carried out based on the application of Information Technology. In other words IT Enabled Services cover the entire range of **services which exploit information technology for empowering an organization with improved efficiency** or a type of service which may not be possible to be rendered cost effectively without IT. The activity could be internal to the organisation i.e. meant to increase the operational efficiency through work force residing within the organisation or could be outsourced. The outsourced or cross-border IT enabled services is now receiving greater attention as this category of **ITES** has a great potential for growth and contribution towards employment opportunities in India. IT Enabled Services are business processes and services performed or provided from a location different from that of their users or beneficiaries and are delivered over telecom networks and the Internet. IT enabled services include areas like transaction or accounts processing, credit card processing, remote investment research, Customer interaction services, Animation, Translation and Transcription etc.

IT enabled services in INDIA (overview)

After the software services industry put India in the world map, it is the turn of IT enabled Services (**ITES**), which has taken the baton to keep the Indian flag high and flying. The **ITeS** was the silver lining in the dark clouds of the Indian IT marketplace during the turbulent year of 2001 as it posted a growth of 73 percent, from a turnover of **Rs. 4,100 crore** in 1999-2000, to nearly **Rs. 7,100 crore** in 2001-02.

The growth opened windows for job opportunities, service offerings, foreign investments, infrastructure and emergence of internationally reputed **ITeS** companies from India. The **ITeS** contributed **\$1.5 billion** to the Indian IT industry total size of **\$13.2 billion** for the year 2001-02. But a **growth of 73 percent** posted during the year has clearly indicated

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that **ITeS** will end up being one of the significant contributors of the Indian IT industry in the coming years.

The **ITES** sector currently employs around 107,000 personnel. According to a **Nascom-McKinsey** Study, the **ITES** segment will generate job opportunities for over **1.1 million Indians** and a **revenue potential of Rs. 81,000 crore (\$17 billion)**. India is well positioned to derive benefits from the ITES market and become a key hub for these services. The country's strengths in the form of low staff costs, a large pool of skilled, English speaking workforce, conducive policy environment and Government support has made India a popular choice for customers seeking outsourced services.

POTENTIAL FOR INDIA:

As per a survey done by NASSCOM, IT Enabled Services is expected to increase the revenue to US\$17-18 Billion by 2008 and would employ more than 1 million people.

IT Enabled Services	2008(Projection)	
	Can be Employed	Rs. Billion
Back Office Operation/Revenue Accounting/Data Entry/Data Conversion	2,60,000	1900
Remote Maintenance and Support	1,80,000	1350
Medical Transcription/Insurance Claim Processing	1,60,000	110
Call Centres	1,00,000	60
Data Base Services	1,00,000	65
Content development	3,00,000	250

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Total	11,00,000	810
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ADVANTAGES IN INDIA

India offers many advantages to serving as an IT enabled Services destinations for major global companies. These include:

1. A virtual 12- hour time zone difference with USA and other major markets for IT Enabled Services.
2. A huge pool of English speaking and computer literate manpower that can continue to cater to the growing demand for professionals for IT Enabled Services. These professionals are skilled as well as quality conscious.
3. Cost of qualified personnel is amongst the lowest in the world.
4. Stable legislative and economic framework.
5. Many State Governments in India offer special incentive and infrastructure for setting up IT Enabled Services.
6. Thrust by Government of India to make India an IT –driven nation with the focus on the services sector their potential for value addition and thus premium is higher.
7. India enjoys very strong brand equity in major markets, thanks to its growing and globally competitive software industry. The proliferation of IT enabled services and its continuing demand- led growth may well emerge to be a strong opportunity for India, both in terms of generating employment and export.

ITES/BPO opportunities by geography and segment

In terms of geographies, the following trends are apparent:

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- The Americas will continue to lead in terms of ITES/BPO spending, with the US accounting for over 59 percent of total worldwide spend.
- Europe is the second largest market for ITES/BPO services, accounting for 22 percent of the market (IDC estimates).

Government Policies

- The Indian government recognizes that Information Technology will influence economic development extensively in the future. IT is a part of government's national agenda and all policies are driven to achieve maximum benefit to their industry.
- The liberalization and deregulation initiatives taken by the Indian government are aimed at supporting growth and integration with the global economy. The reforms have reduced licensing requirements and made foreign technology accessible. The reforms have also removed restrictions on investment and made the process of investment easier.
- The government is actively promoting FDI, investments from NRIs (Non-Resident Indians) including Overseas Corporate Bodies (OCB's) owned by the NRIs. FDI can be brought in through the automatic route, based on powers accorded to the Reserve Bank of India.
- Till 1994, DOT was the sole provider of basic telecom services in India. The new National Telecom Policy has opened the field for private participants.
- After realizing the potential of India as a major IT power, the government has taken several initiatives to promote the development of IT. The Ministry of Information and Communication Technology is playing an active role in

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developing the infrastructure that supports the development of information technology. The IT Bill passed in 2000 provides a legal framework for the recognition of electronic contracts, prevention of computer crimes, electronic filing of documents, etc.

- Amendments have also been proposed in the Indian Evidence Act, Indian Penal Code and the RBI Act. The mechanism of digital signature has been proposed to address the issues of jurisdiction, authentication and origination.
- Recognizing the importance of Venture Capital Funding, the Ministry of Information Technology has set up a National Venture Fund for the Software and IT Industry with a corpus of Rs. 100 crore in association with the Small Industries Development Bank of India (SIDBI) and Industrial Development Bank of India (IDBI). The aim of the Fund is to provide Venture Capital to start up software professionals and IT units in the small-scale sector.
- The IPR law in India

The Product / Service

- c) Description of product/ service: BPO offers varied number of product/ services:

Customer Interaction Services

Contact center that are service facilities with adequate telecom infrastructure, trained consultants, access to requisite databases, Internet and other online information infrastructure to provide information and support to customers round the clock, year round. Customer related support in areas such as marketing, selling, information dispensing, advice, technical, etc. is provided.



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Transcription/Translation services

Medical transcriptions involve the transcribing of medical records from audio format or dictated by doctors or other healthcare professionals into either a hard copy or electronic format. Doctors overseas, record their findings into a Dictaphone or any other such device and the sound tracks are transferred through datacom links to ITES companies specializing in this area. Medical transcriptionists, listen to the recordings, transcribe them and send them back electronically.

Content development/GIS

Content development for Web sites, CAD/CAM/CAE, GIS product life cycle management, remote sensing and photogrammetry, image processing, engineering services for plant design automation, etc. are covered under this segment.

Insurance Claims Processing:

Large insurance companies get myriad claims. Since there are well laid down rules on how they are to be processed such processing can be done anywhere, as long as there is availability of graduates who can read and write English in large numbers, a few doctors and a few accountants. As a result, to save costs, large insurance companies in the U.S. are now outsourcing a lot of this work. This is another good opportunity area.

Digital Content Development/Animation:

New Media content development is emerging as one of the fastest growing service segments in the global I.T. services industry. It caters to needs of web site management, production of content for new media such as Compact Disk, Digital Versatile Disk and products of convergent technologies such as Internet enabled TV. It offers a large emerging potential; as more and more offices, homes, institutions, students and professionals realise an ever growing need to have easy access to information that can

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also be suitably fused with other media. It consists of compilation and development of digital content for intra-organisation dissemination, cross-institution usage, collaborative projects, public domain information, programs for public/specialised education, web content development and management, developing animated movies. It typically involves defining a set of rules and norms for collection of data; collating various unorganised sources of data; sorting; indexing and sifting; compilation; conversion into digital format and disseminating to various users. In other types of digital content development, there is usually a contract between the content provider and developer to review the project on an ongoing basis such as cartoon movies, etc. Opportunities also include acting as an offshore content developer for organisations such as Internet media companies and advertising organisations where there is a constant need for content development.

Other services

On line education or Web based training implies that courses are delivered partly or completely via the Internet, an intranet or an extranet; data conversion, market research analysis using statistical packages, remote network maintenance and monitoring. Law process outsourcing, Accounts process outsourcing are some of the emerging sectors in BPO/KPO.

The Plan

a) Marketing Plan

Advantages & Disadvantages of the Lucknow market.

The Advantages

Lucknow has a large population of highly educated people, a well-developed infrastructure and a large unemployed workforce- cost of labour is cheaper than metropolitans of India. The government is also stable and is offering subsidies for investment in the state of Uttar Pradesh.

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The Disadvantages

The customers find difficulty in understanding the English spoken by in India.

Bureaucratic interference is high. The attrition rate of the employees is also high.

The Market

As discussed above Lucknow as a city offers immense potential of successfully running a BPO. At present there are more than 12 BPO- big and small like Genpact, Hutch, EXL, running successfully in Lucknow.

Marketing Mix Strategy

Product Mix Strategy: Samridhi proposes to offer following services:

Following IT enabled services would be provided: Customer Interaction Services, Transcription/Translation services, Content development/GIS, Transcription/Translation services, Insurance Claims Processing, Digital Content Development/Animation, Other services

Operational Plan

The proprietor Mr Sharad Kumar, owns a land of one acres in New Hyderabad Colony, Lucknow. He proposes to lend this land for building infrastructure to the parent company. The location is supported by excellent infrastructure in terms of good roads, adequate power supply and good broadband and telecom services. Both the parent brand and Samridhi would share the cost of equipments including computers, telephones, faxes etc.

Organizational Plan

Since the attrition rate is very high the human resource policies have to be made attractive enough to retain the employees. This would mean higher salaries, higher scope for growth & development, effective training programmes, recreational activities and

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fringe benefits. All these activities would go a long way in making the business plan a success.

Financial Plan For Two years: Attached in the annexure

Summary

Business plan is an outline of a business giving details of the finance, assets, staff, products or services and markets. It guides the entrepreneur, it identifies possible problems and it is also used in funding applications. The business plan sets out how the owner of a business intends to realize its objectives. Steps in a business plan include: Idea Generation, Environmental Scanning, Feasibility Analysis, functional plan (marketing Plan, financial plan, organizational plan & Operational plan), Project Report Preparation, Evaluation, Control & Review. Planning is essential in all organizations and company plans should be documented in the form of a project report. This chapter presents a comprehensive discussion and outline of a typical business plan. All the key elements in a business plan are discussed and a format of a business plan is presented at the end of the chapter.

End of The Chapter Exercise

- Q1. What is a business plan? Describe it in detail
- Q2 Discuss the types of environmental analysis
- Q3 What is feasibility analysis? Discuss its types.
- Q4. What is market research? Discuss
- Q5. Why is a business plan important to the entrepreneur?
- Q6. What are the essentials of a good project report discuss.



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End Of The chapter Project

Draw a business plan for any hypothetical organization of your choice, the product would be from any one of the five innovative projects that you had selected from outlook magazine from the previous end of the chapter project (do a through research for collection of data for both environmental study and feasibility analysis) and then prepare all the functional plans.