

Unit 3: Enterprise Formation Process

Section 3.1: Steps for setting up business enterprise

The procedure in setting up of a business unit is a time consuming, complex and complicated activity. It involves various steps, procedures and formalities.

The following steps are involved in process of setting up a new business enterprise:

1. Identification of business opportunity.
2. Generation of business idea.
3. Feasibility Study.
4. Preparation of a business plan.
5. Launching the enterprise.

Step1. Identification of business opportunity:

This is the first step in setting up of a business unit Entrepreneur is an opportunity seeker. As observed by Albert Einstein “In the middle of every difficulty lies opportunity”. He perceives an opportunity and strives to translate the opportunity into an idea.

Opportunities do not come suddenly. The entrepreneur must show alertness to grab opportunities when they come. The opportunities must be carefully scrutinized and evaluated. The process of identifying opportunity involves identifying the needs and wants of the customers, scanning the environment, understanding the competitor’s policy etc.

To identify the right business opportunity, an entrepreneur needs to consider the following :

- Identify Market Inefficiencies
- Remove Key Hassles
- Customers Desire to Experience Something New
- Pick a Growing Sector/Industry
- Product Differentiation
- Cash Flow Considerations
- Listen to your potential clients and past leads. When you're targeting potential customers listen to their needs, wants, challenges and frustrations with your industry.

- Listen to your customers.
- Look at your competitors.
- Look at industry trends and insights.

Step 2. Generation of business idea:

This is the most important function of an entrepreneur.

The ideas that provide value for the customer, profit for the entrepreneur and benefit for society and can be transformed into products of services are called **business ideas**. Idea is generated through vision. Idea generation is a critical skill in entrepreneurship and involves insight, observation, experience, education, training etc. It involves lot of creativity on the part of entrepreneur and generally arises from an opportunity in the market.

The various *sources* of information for business ideas can be personal experience, observing markets, prospective consumers, developments in other nations, government organizations and trade fairs & exhibitions. This can be done through environmental scanning and market survey.

An entrepreneur is not someone with clever ideas but someone who has the ability to turn that idea into a real business. An entrepreneur conceives the idea of launching the project and program the structure of business. Converting a business idea into a commercial venture is at the heart entrepreneurship.

The entrepreneur then undergoes detailed investigation of an idea. He analyse the idea to find out the feasibility whether the project is profitable or not. An entrepreneur must show the initiative to develop the idea and implement it in practical sense.

Note: here we need to understand what is meant by *innovation* and *creativity* and how important they are for generation of business idea in entrepreneurship.

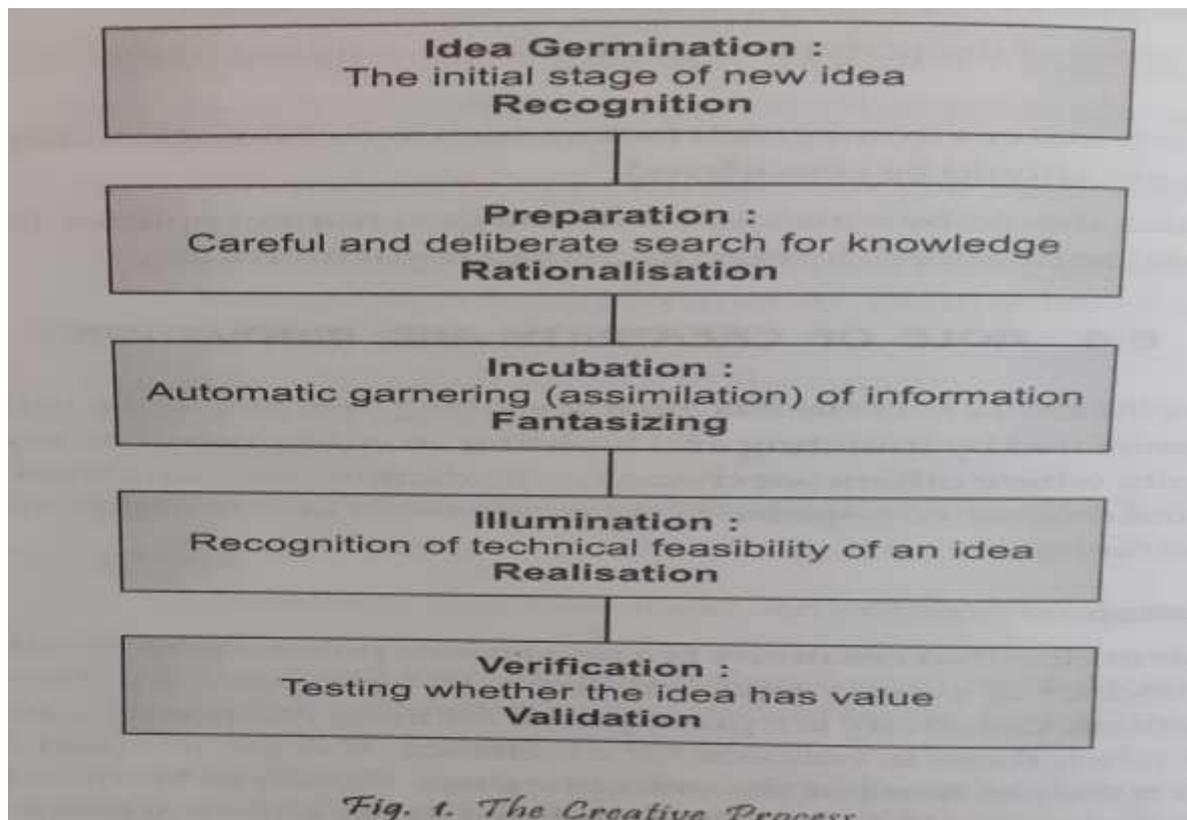
❖ Role of Innovation and Creativity:

Innovation may be defined as exploiting new ideas leading to the creation of a new product, process or service. Innovation deals with coming up with creative idea and turning that idea into process. It may be defined as the process of doing new things or doing old things in new ways. Entrepreneurship is a source of innovation.

Creativity means to come up with new ideas, concepts, process and products. In other words, it means the ability to bring something new in existence.

Entrepreneurship process involves innovation and creativity. Entrepreneurs are innovators. They constantly develop new ideas, concepts and process to survive in a competitive business world. Entrepreneurship is an art of finding creative solutions to the problems. Innovation and creativity are essential for sustainable growth and economic development.

❖ **Stages In Creativity Process**



In the nutshell we can say that, Ideas evolve through a creative process whereby a person with imagination germinates ideas, nurtures them and develops them successfully.

Step 3. Feasibility Study:

After the selection of a worthy idea, an entrepreneur undertakes various researches relating to market selection, competition, location, machinery and equipment's, capital, customer preferences etc. to test the feasibility of the project.

A feasibility study is an evaluation of a proposed project. It is the study of the project to find out whether the project is profitable or not. In other words, feasibility study involves an examination of the operations. Project has to be viable not only in technical terms but also in economic and commercial terms too. The objective of financial analysis is to ascertain whether the proposed project will be financially viable.

Feasibility study is a detailed investigation of the proposed project to determine whether the project is financially, economically and technically viable or not. Feasibility Study contains the comprehensive, detailed information about the business structure, availability of resources and whether the business will run efficiently or not.

Feasibility study is conducted in the following areas:

➤ **Market/ commercial Feasibility:**

It involves study of market situation, current market, anticipated future market, competition, potential buyers, etc.

➤ **Technical Feasibility:**

This study involves study of technological aspects related to the business, like location of the business, layout, infrastructure, plant and equipment, effluent treatment and discharge, foreign collaboration, transportation, resource availability etc.

➤ **Financial Feasibility:**

Financial feasibility denotes the financial aspects of the business. This study helps to understand requirement of start-up capital, sources of capital, returns on investment, etc. It helps to assess the financial health of the business.

➤ **Socio- economic Feasibility:**

This study is important to determine the extent to which the project is meeting its social economic objectives of development. It involves social cost-benefit analysis for testing national profitability. It helps to know the contribution of the project towards employment generation, income distribution, foreign exchange savings, development of backward regions, etc.

➤ ***Preparation of Feasibility Report:***

Feasibility report is the final conclusion drawn about the business after conducting the feasibility study. The feasibility report includes the confirmation of the proposed project. It

gives the detail about technical, economic and financial, environmental, socio-cultural and operational aspects of the project.

It is a formal document prepared by the experts. It gives the information on the authenticity of the feasibility study. The feasibility report answer the question ‘the plan must be implemented or not’.

The feasibility report contains information on:

- a. It helps him to determine the viability of the venture.
- b. It provides guidance to the entrepreneur in planning realistic goals.
- c. It helps to identify possible roadblocks.
- d. It is a pre-requisite to obtain finance.

Step 4: Preparation of a business plan:

It this step an entrepreneur prepares a good business plan, the designs and creates the organisational structure for implementation of his plan. This plan is further used to achieve the realistic goals.

A **business plan**, as defined by **Entrepreneur**, is a “written document describing the nature of the business, the sales and marketing strategy, and the financial background, and containing a projected profit and loss statement.” It serves as the blueprint for how you will operate your business. It is an effective means of defining your goals and the steps needed to reach them.

➤ *Need and purpose of a business plan:*

A business plan spells out your **purpose**, vision and means of operation. It also serves as your company's resume, explaining your objectives to investors, partners, employees and vendors. It serves the following purposes:

- Maintaining Business Focus.
- Securing Outside Financing.
- Understanding consumers and competitors.
- Fuelling Ambitions and Mapping Growth.
- Enlightening Executive Talent or to understand employee needs.

- To assess feasibility of your venture.

➤ *Contents of a business plan:*

a. Executive Summary

Your executive summary should appear first in your business plan. It should summarize what you expect your business to accomplish. A good executive summary is compelling. It reveals the company's mission statement, along with a short description of its products and services. It might also be a good idea to briefly explain why you're starting your company and include details about your experience in the industry you're entering.

b. Company Description

The next section that should appear in your business plan is a company description. It's best to include key information about your business, your goals and the customers you plan to serve. Your company description should also discuss how your business will stand out from others in the industry and how the products and services you're providing will be helpful to your target audience.

c. Market Analysis

Ideally, your market analysis will show that you know the ins and outs of the industry and the specific market you're planning to enter. In that section, you'll need to use data and statistics to talk about where the market has been, where it's expected to go and how your company will fit into it. In addition, you'll have to provide details about the consumers you'll be marketing to, such as their income levels. Further information about markets, pricing systems, methods of distribution, sales forecast, etc. to be enclosed.

d. Competitive Analysis

A good business plan will present a clear comparison of your business to your direct and indirect competitors. You'll need to show that you know their strengths and weaknesses and you know how your business will stack up. If there are any issues that could prevent you from jumping into the market, like high upfront costs, it's best to say so. This information will go in your market analysis section.

e. Description of Management and Organization

Following your market analysis, your business plan will outline the way that your organization will be set up. You'll introduce your company managers and summarize their skills and primary job responsibilities. If you want to, you can create a diagram that maps out your chain of command. Don't forget to indicate whether your business will operate as a partnership, a sole proprietorship or a business with a different ownership structure. If you have a board of directors, you'll need to identify the members.

f. Breakdown of Your Products and Services

If you didn't incorporate enough facts about your products and services into your company description (since that section is meant to be an overview), it might be a good idea to include extra information about them in a separate section. Whoever's reading this portion of your business plan should know exactly what you're planning to create and sell, how long your products are supposed to last and how they'll meet an existing need?

It's a good idea to mention your suppliers, too. If you know how much it'll cost to make your products and how much money you're hoping to bring in, those are great details to add. You'll need to list anything related to patents and copyright concerns as well.

g. Marketing Plan

In your business plan, it's important to describe how you intend to get your products and services in front of potential clients. That's what marketing is all about. As you pinpoint the steps you're going to take to promote your products, you'll need to mention the budget you'll need to implement your strategies.

h. Sales Strategy

In this section of business plan, one needs to decide, How will you sell the products you're building? That's the most important question you'll answer when you discuss your sales strategy. It's best to be as specific as possible. It's a good idea to throw in the number of sales reps you're planning to hire and how you'll go about finding them and bringing them on board. You can also include sales targets.

i. Manufacturing and Operational Plan

In your business plan, the operations plan section describes the physical necessities of your business' operation, such as your physical location, facilities, and equipment. Depending on what kind of business you'll be operating, it may also include information about inventory requirements, suppliers, and a description of the manufacturing process. An **operations plan** is helpful for investors, but it's also helpful for you and employees because it pushes you to think about tactics and deadlines.

j. Financial Projections

In the final section of your business plan, you'll reveal the financial goals and expectations that you've set based on market research. You'll report your anticipated revenue for the first 12 months and your annual projected earnings for the second, third, fourth and fifth years of business. The following schedules and statements to be included: Start up projections, income statement, cash flow statement, balance sheet and break even analysis.

k. Appendices and Exhibits

In addition to the sections outlined above, at the end of your business plan, include any additional information that will help establish the credibility of your business idea, such as marketing studies, photographs of your product, permits, intellectual property rights such as a patent, credit histories, resumes, marketing materials, and/or contracts or other legal agreements pertinent to your business.

Note: Add a Title Page and Table of Contents

After completing all the sections, don't forget to insert a title page at the beginning of the plan followed by a table of contents listing each section with page numbers.

Table of Contents

1. Executive Summary.....	Page #
2. Business/Industry Overview.....	Page #
3. Market Analysis.....	Page #
4. The Competition.....	Page #
5. Sales & Marketing Plan.....	Page #
6. Ownership and Management Plan.....	Page #

7. Operating Plan.....	Page #
8. Financial Plan.....	Page #
9. Appendices and Exhibits.....	Page #

Step 5: Launching the enterprise and managing the business

At this step the entrepreneur fulfill some legal formalities. He hunts for suitable location, design the premises and install machinery. All the statutory formalities are to be met.

- i. Acquiring license.
- ii. Permission from local authorities.
- iii. Approvals from banks and financial institution.
- iv. Registration etc.

Once the project is set up, the entrepreneur must try to achieve the target of a business plan. This involves setting up of an appropriate business process. Only proper management can ensure achievement of goals. The entrepreneur must be capable of turning his ideas into reality. He should also have the foresight to anticipate changes to avail of opportunities and meeting threats likely to arise in the near future.

The Big Picture

Identify and Evaluate the Opportunity	Develop Business Plan	Resources Required	Manage the Enterprise
<ul style="list-style-type: none"> • Opportunity assessment • Creation and length of opportunity • Real and perceived value of opportunity • Risk and returns of opportunity • Opportunity versus personal skills and goals • Competitive environment 	<ul style="list-style-type: none"> • Title page • Table of Contents • Executive Summary • Major Section <ol style="list-style-type: none"> 1. Description of Business 2. Description of Industry 3. Technology Plan 4. Marketing Plan 5. Financial Plan 6. Production Plan 7. Organization Plan 8. Operational Plan 9. Summary • Appendix (Exhibits) 	<ul style="list-style-type: none"> • Determine resources needed • Determine existing resources • Identify resource gaps and available suppliers • Develop access to needed resources 	<ul style="list-style-type: none"> • Develop management style • Understand key variables for success • Identify problems and potential problems • Implement control systems • Develop growth strategy

Section 3.2: Problems in setting up of a business

The factors that affect the growth of business are explained below in detail:

1. Lack of legal knowledge:

The entrepreneur should have adequate legal knowledge to handle legal affairs efficiently. Lack of legal knowledge on the part of entrepreneurs may affect smooth conduct of business. He should have knowledge regarding Factories Act, Wages & Salaries Act, and Workers Compensation Act etc.

2. Lack of experience:

An entrepreneur should have enough experience to manage the business efficiently. Lack of adequate experience may create major problems and adversely affect the experience. The major hurdles that the new entrepreneurs face are the availability of resources to carry out such a business. The most important is the allocation of funds that comes in the form of money to research and development.

3. Lack of finance:

Finance is the life blood of every business. To start up a new venture requires adequate capital. It is required to meet business expenses like purchase of raw material, payment of wages and salaries; payment of interest on loans etc. Lack of finance can create hurdles in setting up of a business unit.

4. Lack of technology:

Technology is never constant, it keeps on changing. Sophisticated technology helps in increasing the production capacity and quality of the products. Lack of suitable technology can hamper the reputation of the firm. Adoption of suitable technology can prove beneficial to the business success and vice versa.

5. Problem of human resource:

Organisation is made up of people and people make an organisation. A firm requires skilled, qualified and talented employees. Lack of competent staff is another major issue for a business unit.

6. Problem of data:

Entrepreneurship is based on research work. The Entrepreneur need to conduct a survey for gathering information regarding market condition, competition, technology, consumer etc. the data collected may not be accurate and precise. At times it is incorrect and outdated. This hampers the survival of a business.

7. Problem of marketing:

The Entrepreneur should have marketing knowledge. This helps to face cut-throat competition in all sectors. Lack of marketing efforts and knowledge with respect to product, pricing, distribution and promotion hampers the Entrepreneurial growth.

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