Chapter- 2

Entrepreneurial Planning

CONCEPT OF BUSINESS

HUMAN ACTIVITIES

- Every individual is busy in one or another activity to satisfy his/ her needs wants. Human activities are classified as:
- **ECONOMIC ACTIVITY:** The activities which are undertaken to earn monetary gains are called economic activities. They are primarily concerned with the production, distribution, and consumption of goods and services.
- **NON- ECONOMIC ACTIVITY:** The activities which are not taken up for monetary gains but are done out of love, care, affection, self-satisfaction, emotion, sympathy, etc. are called non- economic activity.

ECONOMIC ACTIVITY

- Economic activity can broadly be classified as:
- Business
- Profession
- Employment

BUSINESS

- The business includes all those economic activities which are concerned with the production or distribution of goods and services to earn profits.

CHARACTERISTICS

- Entrepreneur's presence
- Economic activity
- Production or procurement of goods and services.
- Sale or exchange of goods and services.
- Regularity
- Utility creation
- Profit earning

- Elements of risk
- Uncertainty of returns

TYPES OF BUSINESS ACTIVITY

- Manufacturing: It includes all those processes which lead to the production of goods using human and mechanical power. It means the conversion of raw materials into finished products. Finished products can be industrial goods or consumer goods.
- Service: Service is an intangible commodity, it cannot be stored that is it should be consumed at the point of sale and it does not lead to a transfer of ownership.
- Trading: It is buying, selling, or exchanging goods or services.

FORMS OF BUSINESS ORGANIZATION

- Private sector enterprise:
- Sole proprietorship
- Partnership
- Co-operative societies
- Joint-stock companies
- Joint Hindu family
- Joint sector enterprise
- Public sector enterprise
- Departmental undertakings
- Public corporation
- Government companies

CHOICES OF FORM OF BUSINESS

- Vision regarding the size and nature of the business.
- The level of control, the entrepreneurship wishes to have.
- The level of structure the entrepreneur is willing to deal with.
- The business vulnerability to lawsuits.
- Tax implications of the different organizational structures.
- Expected profit of the business.

FORMS OF BUSINESS

- NON- CORPORATE FORMS: In this form of ownership, the identity of the enterprise is not different from that of its owners. Owners are personally liable for all the debts of the enterprise. This form of organization can be set up without registration under the governing laws.
- CORPORATE FORMS: In this form of ownership, the identity of the enterprise is separate from that of its owners. The owners cannot be made personally liable to pay the debts of the enterprise. This form of organization is required to get itself registered under the governing laws.

SOLE PROPRIETORSHIP

- ‘sole’ means single and ‘proprietor’ means an owner.
- It is a form of business organization that is owned, financed, controlled, and managed by one person only.
- It is also known as single entrepreneurship or individual proprietorship.

CHARACTERISTICS

- Individual ownership
- Individual management and control
- Individual financing
- Unlimited liability
- Sole beneficiary
- Easy formation and closure
- No separate legal entity
- Limited area of operation

MERITS

- Quick decision making
- Confidentiality of information
- Ease of formation and closure
- Direct incentives
- Sense of accomplishment

- Flexibility

DEMERITS

- Limited resources
- The limited life of a business concern
- Unlimited liability
- Limited managerial ability
- Limited scope for expansion and diversification

LEGAL FORMALITIES INVOLVED IN SOLE PROPRIETORSHIP

- Business name
- Service tax registration
- VAT registration
- Payment of taxes

PARTNERSHIP

- A partnership is an association of two or more persons as co-owners, to carry on a business and to share its profits and losses.
- The partners in the partnership firm can proceed with the business by agreeing, it may be oral or it may be written, which is known as partnership deed.
- The partnership deed must be duly signed by the partners, stamped and registered. If the partners want to alter the deed, it can be done through the mutual consent of all the partners.

CHARACTERISTICS OF PARTNERSHIP

- Two or more persons
- Agreement
- Profit-sharing
- Unlimited liability
- Implied authority
- Mutual agency
- Utmost good faith
- Restriction on transfer of shares

- Continuity

MERITS OF PARTNERSHIP

- Ease of formation and closure
- Balanced decision making
- Access to more funds
- Sharing of risk
- Maintenance of secrecy of business

DEMERITS OF PARTNERSHIP

- Unlimited liability
- Limited resources
- Possibility of conflicts
- Lack of continuity
- Lack of public confidence.

CONSEQUENCES OF NON- REGISTRATION OF PARTNERSHIP FIRM

- Registration is not compulsory: The act does not provide any penalties for non-registration but it is advisable.
- Why should the partnership be registered: if the firm does not get registered then,
  - A partner cannot file a suit in any court against the firm or other partners.
  - A case cannot be filed against a third party for claiming any right conferred by a contract.
  - The firm cannot claim set-off or other proceedings in a dispute with a third party.

REGISTRATION PROCEDURE OF A PARTNERSHIP FIRM

- **Application for registration**:
  - Name of the firm
  - Name of the place
  - Date
  - Full name
  - Duration
- **Formalities for registration**

- Application, which is duly filled and certified
- Proof of ownership
- **Issue of certificate of registration**

HINDU UNDIVIDED FAMILY

- Hindu undivided family business is a unique form of business as this is only present in Indian society. HUF is governed by Hindu Law.
- ESSENTIAL CONDITIONS FOR EXISTENCE OF HUF
- Minimum of two members in a family
- Existence of ancestral property
- SCHOOLS OF LAW UNDER HUF
- Dayabhaga: A son acquires the right in a family property only after the death of his father.
- Mitaakshara: where the son acquires the right in property from his birth.

CHARACTERISTICS OF HUF

- Creation
- Membership
- Management
- Liability
- Rights of accounts
- Minor as member
- Dissolution
- Implied authority

DEMERITS OF HUF

- Limited resources
- Unlimited liability of Karta
- Dominance of Karta
- Limited managerial skill

MERITS OF HUF

- Effective control

- Continued business existence
- Limited liability of members
- Increased loyalty and cooperation

LEGAL FORMALITIES INVOLVED IN HUF

- Capital
- Members
- Suitable name
- Form of deed
- Apply for PAN
- Open a bank account
- Others

CO-OPERATIVE ORGANIZATION

- This is the second most important form of corporate organization.
- This form operates not for profit but to provide benefits or services to its members and even to the general public by against some social evils.
- It is governed by the cooperative societies Act, 1912

FEATURES OF CO-OPERATIVE ORGANIZATION

- Registration
- Voluntary association
- Minimum and maximum number of members
- Service motive
- Capital and return thereon
- Government control
- Limited liability

REASONS FOR NOT CHOOSING COOPERATIVE FORM BY ENTREPRENEUR

- Quest for excellence
- Drive for independence
- The tendency to be project champion
- Strong desire to succeed and earn profits

- Creative and innovative nature
- 'Must be own boss' attitude
- Love for being a 'Leader' in the field
- Zeal to capture major market share

JOINT STOCK COMPANY

- Joint Stock Company means a voluntary association of persons, formed for some common objectives, with capital divisible into units of equal value called to share and with limited liability.
- It is governed by companies Act 2013
- A company is a 'legal person' or legal entity, separate from and capable of surviving beyond the lives of its members.

CHARACTERISTICS OF COMPANY

- Voluntary association: A single person cannot constitute a company. At least two persons, voluntarily, must join hands to form a private company, while a minimum of seven persons is required for a public company.
- Artificial person: A company is created by law. Though it has no body and no conscience, it still exists as a person, having a distinct personality of its own.
- Separate legal entity: A company has an independent status, different from its members. This implies that a company cannot be held liable for the actions of its members and vice-versa.
- Common seal: Being an artificial person, a company cannot sign the documents. Hence, it uses a common seal on which its name is engraved.
- **Limited liability:** The liability of the shareholders of a company is normally limited to the number of shares held or guarantee given by them.
- **Transferability of shares:** The shares of the company are freely transferable. The private companies do impose some restrictions on the transfer of shares.
- **Diffusion of ownership and management:** In this form of organization, an entrepreneur should clearly understand there exists a separation of ownership from management. As

the shareholders could be scattered across the country here, they give the right to the directors to manage the company's affairs.

- **The number of members:** Private company:
- Minimum required members: 2
- Maximum members: 50 (excluding employees)
- Public company:
- Minimum requirement: 7, Maximum number: No limit
- **Limitation of action:** The scope of this artificial person is determined by:

a) The Indian Companies Act b) Memorandum of Association

c) Articles of Association

- **Winding up:** The mode of incorporation and termination (winding up) is both as per the Companies Act only. It's born out of law and can be liquidated only by law.

FORMS OF COMPANY

- **Private company:** A private company:

1) Has a minimum of two and a maximum of two hundred members excluding its past and present employees.

2) Restricts the right of its members to transfer shares.

3) Prohibits any invitation to the public to subscribe for any shares or debentures of the company, or accept any deposits from persons other than its directors, members, or relatives.

4) Has a minimum paid-up capital of one lakh rupees (subject to change)

5) Uses the word 'Pvt. Ltd.' at the end of its name.

- **Public company:** Under Section 3(i) (ii) of the Companies Act, a public company is a company which is not a private company. By implication, a public company:

1) Has a minimum of seven people to commence with no upper limit to membership

2) Does not restrict any transfer of shares

3) Invites the public to subscribe for its shares, debentures, and public deposits.

4) Has a minimum paid-up capital of five lakh rupees.

5) Uses the word 'Ltd.' at the end of its name.

STEPS TO COMMENCE A COMPANY IN INDIA

- Promotion
- Incorporation
- Subscription of capital
- Commencement of business

LEGAL FORMALITIES

- Obtain PAN number from the income tax department
- Open a current account
- Register your company
- Register for service tax
- Register for VAT/ Sales tax
- Excise duty
- Custom duty
- File entrepreneurship memorandum at the district industries center.
- Apply for a tax deduction
- Permissions required at the construction stage
- Employees provident fund
- Employees state insurance scheme.

BUSINESS PLAN

- A business plan is a written representation of an entrepreneur's vision for his business. It is a comprehensively written document prepared by an entrepreneur describing formally all the external and internal factors involved in starting a new venture.

BUSINESS PLAN- A DECISION-MAKING TOOL

- Describing all necessary inputs for the enterprise.
- Explaining the mode of utilization of the resources.
- Detailing the strategies for the execution of the project.
- Outlining the desired goals
- Assessing market sensitivity and the profitability of the venture.

SCOPE OF THE BUSINESS PLAN

- A business plan represents all aspects of the business planning process declaring vision and strategy alongside sub-plans to cover:
- Marketing
- Finance
- Operations
- Human resources
- Legal compliance
- Intellectual property rights, etc.

WHO SHOULD WRITE THE PLAN?

- A business plan requires knowledge of diverse business disciplines. A business plan should be prepared by the entrepreneur himself, with the advice and input derived from:
- Lawyers,
- Accountants,
- Marketing consultants,
- Engineers
- Internet sites
- Officially appointed or/and set-up Banks, Specialized financial institutions, or Agencies to promote entrepreneurship.
- Friends, relatives, mentors, etc.

IMPORTANCE OF BUSINESS PLAN

- A business plan helps in determining the viability of the venture in the designated market.
- Helps in guiding the entrepreneur in organizing his/her planning activities.
- Helps in satisfying the concerns, queries, and issues of each group of people interested in the venture.

- Provides room for self-assessment and self-evaluation, requiring entrepreneurs to think through various scenarios and plan ways to avoid obstacles.
- A business plan is an important tool for procuring funds. Any investor, before investing in a venture is interested in knowing about 4 C's to access the creditworthiness of the entrepreneur and the business.
- A business plan gives a clear indication to the entrepreneur, investors, and the government regarding:
  - What an entrepreneur is doing
  - Why he/she is doing it
  - How he/she will do that

FORMATS OF A BUSINESS PLAN

- Elevator pitch
- A pitch deck with oral narrative
- A written presentation for external stakeholders
- An internal operational plan

COMPONENTS OF A BUSINESS PLAN

- Introductory profile: This is the cover page of the plan. It provides a summary of the business plan's content.
- Description of the venture/ business venture: This section of the business plan generally begins with the 'mission statement'.
- Production plan
- Operational plan
- Organizational plan
- Financial plan
- Human resource plan
- Marketing plan
- Assessment of risk
- Appendix

PRODUCTION PLAN

- Production is the most important activity of an enterprise because it is through this process that raw materials are transformed into finished products.
- The manufacturing operation needs to be well planned. The operational plan mostly faces the following situation:
- **No manufacturing involved:** If the new venture does not include any manufacturing function, say it's a trading firm or a service provider, then this section will stand eliminated from the plan.
- **Partial manufacturing**: If some or all the manufacturing process is to be subcontracted or outsourced, then the production plan should describe:

i) Name and location of subcontractor(s) ii) Reasons for their selection

iii) Cost and time involve iv) Any contracts that have been completed etc.

- **Complete Manufacturing:** If the manufacturing is to be carried out in whole by the entrepreneur, he/she will need to describe:

i) the physical plant layout,

ii) the machinery and equipment required to perform the manufacturing operations,

iii) raw materials and suppliers' names, addresses, terms, and conditions,

iv) cost of manufacturing

v) any future capital equipment required etc.

OBJECTIVES OF A PRODUCTION PLAN

- A production plan helps to plan the work in such a manner that one can form an idea about:
- Production schedule and/or budget
- Machinery, equipment requirement
- Manufacturing method and process involved
- Plant layout
- Time, motion and work-study
- Manpower requirement
- Inventory requirement

OPERATIONAL PLAN

- The operational plan ensures 'work your plan'. It is related to how a business proposes to put in a business plan in action.
- An operational plan is a blueprint prepared in advance of actual operations, to:
- Ensure the orderly flow of materials in the manufacturing process
- Facilitating continuous production, lesser work-in-progress, and minimization of wastage.
- Coordinating the work of engineering, purchasing, production, selling, and inventory management.
- Describing the flow of goods/services from production point to the consumers.
- Introducing a proper system of quality control
- Undertaking the best and most economic production policies and methods.

OBJECTIVES OF OPERATIONAL PLAN

- Planning for production in advance of operations.
- Establishing the exact route for each item in the part of the assembly line.
- Setting starting or finishing dates for each important assignment or work.
- Regulating the orderly movement of goods throughout the entire manufacturing cycle.

ELEMENTS OF OPERATIONAL PLAN

- Routing: Routing is a process concerned with determining the exact route or path a product/ service has to follow right from raw material until its transformation into a finished product.
- Scheduling: Scheduling, simply means the fixation of time, day, date when each operation is to be commenced and completed. In general, it's the determination of the time that should be required to perform each operation.
- Dispatching: It means issuing necessary orders, instructions, and guidelines relating to the work to be performed. It initiates the production process.
- Follow-up: This element relates to the evaluation and appraisal of work performed. It is helpful in the early detection of errors.

- Inspection: Inspection is the art of comparing materials, products, or performance with established standards. This element helps the entrepreneur to set up laboratories or evolve strategies/methods to ensure the predetermined quality of product/service.
- Shipping: This section goes beyond the manufacturing process and describes the flow of goods or services from production to the consumers.

FACTORS AFFECTING OPERATIONAL PLAN

- The operational plan is greatly affected by:
  - Nature of venture
  - Type of product/ service
  - Scale of operation
  - Technology involved

ORGANIZATIONAL PLAN

- The organizational plan is that part of the business plan that describes the form of the proposed venture of ownership, whether it is a sole proprietorship, partnership, joint Hindu family, etc.
- Before selecting the form of ownership, it should be remembered that each type of business, whether it is related to manufacturing, wholesale, retail, or service.
- Each of them differs significantly in terms of commencement procedures, financial requirements, accounting methods, marketing and promotional strategies, risk, and liability.
- So before selecting the form of ownership, firstly it is necessary to categories the business. No form is the best form. So entrepreneurs should choose according to the requirement.

ELEMENTS OF ORGANIZATIONAL PLAN

- An organizational plan throws light on:
  - the terms and conditions associated with the selected form
  - lines of authority and responsibility of members of the new venture
  - the names, designation, addresses, and resumes of the members
  - a stake of members in the organization

- roles and responsibilities of each member
- procedure for solving conflicts/disputes amongst members
- forms of payment for the members of the organization
- Voting rights, managerial, and controlling rights of the members.

IMPORTANCE OF ORGANIZATIONAL PLAN

- The organizational plan is very important for the entrepreneur as well as the investor, as it:
- Specifies the types of skills required and the roles that will be performed by the members.
- Represents the attitudes, behaviors, dress code, communication styles, etc thus defining the informal organizational culture.

FINANCIAL PLAN

- Finance is the most important pre-requisite to establish any business. The availability of finance enables the entrepreneur to bring together the 5Ms of business that is men, material, machines, methods, and money.
- Before drawing out the financial plan an entrepreneur should keep in mind the financial requirements, sources of raising funds, and exact assessment of the revenue, cost, profits, cash flows, stock of inventory, loans, etc.
- So, a financial plan is a projection of key financial data about the potential investment commitment needed for the new venture and the economic feasibility of the enterprise.

OBJECTIVES OF FINANCIAL PLAN

- The financial plan must be able to explain to any potential investor how the entrepreneur plans to meet all financial obligations and also to maintain his liquidity to pay for debt and to provide a good return on investment.

ELEMENTS OF FINANCIAL PLAN

- An entrepreneur makes use of several financial projection techniques and tools to draw up a financial plan.
- The financial plan is so designed that the entrepreneur and the investors could have a clear picture of:

- How many funds are required?
- Where will funds come from?
- How are they disbursed?
- The amount of cash available
- The general financial well-being of the new venture i.e. probable revenue forecast for the first year at least.

COMPONENTS FINANCIAL PLAN

- Proforma investment decisions: This part of the financial plan highlights how the business possesses to invest its assets, to be able to generate the highest possible returns.
- Proforma financing decision: This section summarizes all the projected sources of funds available to the venture to raise finance from. An entrepreneur should select the best possible mix of financing so that the cost of capital and the financial risk is minimized and the return on investment and profitability is maximized.
- Proforma income statement: This part shows the projected net profit of the business based on projected revenues and projected expenses.
- Proforma cash flow: This reflects the projected cash available with the enterprise as a result of subtracting projected cash payments from projected cash receipts.
- Proforma balance sheet: This helps the enterprise to reflect the position of the business at the end of its first year.
- Break-even point: It is the level of volume of production at which the firm neither makes a profit nor loss.
- Economic and social variable: It is always advisable to mention the social responsibility of the business, the abatement costs that is the cost of controlling the environmental damages should also be stated in the plan.

MARKETING PLAN

- The marketing plan is a significant element in the business plan of a new venture, as it highlights how a business plan makes a place for itself in a competitive market by providing answers to the three basic questions, they are:

- Where have we been?
- Where do we want to go?
- How do we get there?
- Generally, every year the entrepreneur should prepare an annual marketing plan to get well with the changing business environment and its forces.

FACTS NEEDED FOR MARKETING PLAN

- Who are the users, where are they located, how much do they buy, from whom do they buy, and why?
- How have promotion and advertising been employed and which approach has been most effective?
- What are the pricing changes in the market, who have initiated these changes, and why?
- What are the market's attitudes concerning competitive products?
- What channels of distribution supply consumers, and how do they function?
- Who are the competitors, where are they located, and what advantages/ disadvantages do they have?
- What are the company's strengths and weaknesses?

STEPS IN PREPARING A MARKETING PLAN

- Business situation analysis: It deals with addressing the question, 'where we have been?' Mostly a review of past performance and achievements of the enterprise are stated here.
- Identify the target market: This identifies the target consumers for a business so that marketing strategies could be aimed towards them.
- Conduct SWOT analysis: A successful marketing plan needs to consider the strengths and weaknesses of the new venture to ensure its success.
- Establish goals: This identifies; where do we want to go?
- Define marketing strategies: "How do we get there?" demands specific activities to be outlined to meet the enterprises so established goals and objectives.

- Implementation and monitoring of the plan: Evolving a marketing plan is not a mere formality. It is meant to be a commitment by the entrepreneur to a specific strategy. The entrepreneur needs to be flexible and be prepared to make adjustments if necessary in the plan.

HUMAN RESOURCE PLAN

- An organization's performance and resulting productivity are directly proportional to the quantity and quality of its manpower. So, human resources are of paramount importance for the success of an organization.
- To build up loyal, efficient, and dedicated personnel, the entrepreneur needs to pay adequate and proper attention to human resource planning.

MANPOWER PLANNING HELPS TO ASSESS

- **What kind of people are required?** To carry on its work, each organization needs personnel with the necessary qualifications, skills, knowledge, experience, and aptitude for work.
- **How many people are required?** This question deals with the quantity of personnel the enterprise needs.
- **How to procure personnel?** The procurement of the "right person, at the right job, at the right time" is the objective of the human resource plan. An entrepreneur clearly states the strategies, methods, policies, rules, and regulations relating to manpower.

ASSESSMENT OF RISK

- There are some hazards, risks, or/and obstacles always present in a competitive environment. In a business plan, an entrepreneur should:

1) Identify potential hazards.

2) Develop alternative strategies to either prevent minimize or respond to the risk.

APPENDIX

- The appendix of the business plan generally contains any backup material that is not necessary for the text of the document as:

a) Letters from customers, distributors, etc.

b) Any primary or secondary research data

c) Copies of contracts, agreements, or any price lists if received.

- At times, businesses fail because of the entrepreneur's inability to plan effectively. Intelligent planning is not difficult or impossible for an experienced entrepreneur.