



UNIT-2: ENTREPRENEURIAL PLANNING

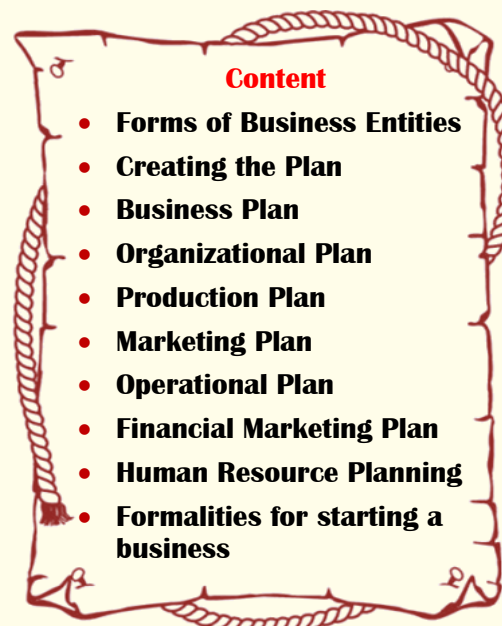
"Logic will get you from A to B. Imagination will take you everywhere."

- Albert Einstein

Learning Objectives

The learner would be able to:

- Enlist the type of economic activities
- Understand the forms of business organization
- Understand the meaning of business plan
- Understand the format of business plan
- Understand the organizational plan
- Understand the production plan
- Understand the human resources plan
- Understand the operational plan
- Understand the financial plan
- Understand the marketing plan
- Enlist the various formalities required for starting a business



Human life is built around work. Because of being a bundle of recurring needs and wants, every person is engaged in some kind of activity with a view to earn his living and satisfy the material and social requirements. Activity, a symbol of human life may broadly be categorized into:

a) **Economic Activities:**

Activities undertaken to earn monetary gains are called economic i.e. activities primarily concerned with:

- Production
- Distribution and/or
- Consumption of goods and services.

b) **Non-Economic activities:**

Activities done out of love, care, affection, self-satisfaction, emotions, sympathy, patriotism etc. but not for money, are known as non-economic.

Types of Economic Activities

Activities which are inspired mainly by economic consideration can be classified in three broad categories:

- 1) Profession
- 2) Employment
- 3) Business





1) Profession

"Profession is that occupation in which one professes to have acquired specialized knowledge, which is used either in instructing, guiding or advising others," says the Webster's Dictionary.

Examples: Lawyers, Doctors, Chartered Accountants, Company Secretaries, etc. Thus, the occupation/activity which requires an individual to apply special knowledge and skills is said to be a profession.

2) Employment

An activity in which an individual works regularly for others and get remuneration in return, undertaking personal services as per the agreement of employment.

3) Business

This is our key area of study. 'A state of being busy or occupied', is what 'Business literally means'. In a way all economic activities related to the production and distribution of goods and services undertaken for monetary gains, are said to be business.

Activities which are inspired mainly by economic consideration can be classified in three broad categories:

- 1) Manufacturing
- 2) Service
- 3) Trading

1) Manufacturing:

Production of merchandise for use or sale using labour and machines, tools, chemical and biological processing, or formulation, may also refer to a range of human activity, from handicraft to high tech, but is most commonly applied to industrial production, in which raw materials are transformed into finished goods on a large scale. Such finished goods may be used for manufacturing other, more complex products, such as aircrafts, house hold appliances or automobiles, or sold to wholesalers, who in turn sell them to retailers, who then sell them to end users – the "CONSUMERS".

Manufacturing takes turns under all types of economic system. In a free market economy, manufacturing is usually directed toward the mass production of products for sale to consumers at a profit. In a collectivist economy, manufacturing is more frequently directed by the state to supply a centrally planned economy. In mixed market economies, manufacturing occurs under some degree of government regulation.

2) Service:

An intangible commodity a type of economic activity that is intangible is not stored and does not result in ownership. A service is consumed at the point of sale. Services are one of the two key components of economics, the other being goods. Examples of services include the transfer of goods, such as the postal service-delivering mail, and the use of expertise or experience, such as a person visiting a doctor.



Service sector includes commercial firms engaged in banking, communication, transport, insurance, warehousing etc. This sector constitutes the basic infrastructure which is a must for smooth flow of business activities. In the recent past, the role of service sector in the Indian economy is growing faster than agriculture and industry.

3) Trading:

Not a new phenomenon we've been doing it for centuries! The trade that occurred among the most primitive humans has evolved considerably over time. Trading is;

- the activity or process of buying, selling, or exchanging goods or services
- the amount of things or services that are bought and sold : the money made by buying and selling things or services
- the act of exchanging one thing for another

Thus, in nutshell, our key area of study is - BUSINESS. 'A state of being busy or occupied', is what 'Business literally means'. In a way all economic activities related to the production and distribution of goods and services undertaken for monetary gains are said to be business.

Different Authors, Different Opinions

Business is "whole complex field of commerce and industry, the basic industries, process and manufacturing and the network of ancillary services, distribution, banking, insurance, transport and so on which serve and interpenetrate the world of business as a whole." – F.C. Hooper

Business may be defined as "an activity in which different persons exchange something of value whether goods and services for mutual gain or profit." – Peterson and Plowman

"An institution organized and operated to provide goods and services to the society under the incentive of private gain", is said to be business. – Wheeler

Business is a continuous human economic activity with an objective to earn profit by producing, buying and selling of goods and services. Irrespective of size, nature, scale or ownership, an activity is referred as business if it exhibits the following essential characteristics:

1) Entrepreneur's presence

There must be someone/person to take initiative for establishing a business and undertake the risk associated with the same.

2) Economic activity

All those activities related to the production and/or distribution of goods and services, with economic motive i.e. profit can form part of business.

3) Production or procurement of goods and services

A business which either produces or procures goods and services for offering them to consumers, could be:





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- a) Consumer's goods
- b) Producer's goods
- c) Services

4) **Sale or exchange of goods and services**

A business must involve sale, exchange or transfer of goods and/or services for the satisfaction of human needs against a value/price. Goods/services purchased or produced for personal/self-consumption, is not a business.

5) **Regularity**

One time transaction or dealing in goods and services is not business, even if one earns profit in return. Business must be done regularly.

6) **Utility creation**

Business activities result in creation of utilities i.e.

- a) Form utility - Changing the form of raw material into finished product creates form utility.
- b) Place utility - From the place of production, transporting goods to the place of consumption results in place utility.
- c) Time utility - The process of storing the goods when not required to supplying them when required generates time utility.

7) **Profit earning**

Profit is the reward for undertaking a business activity as no business can survive for long without earning profits.

8) **Uncertainty of return**

Business does not guarantee for the return of either principal amount invested in the business or the profit.

9) **Element of risk**

Business involves risk i.e., uncertainty. 'Higher the risk, higher the profit' goes the old proverb. The actual business situation is affected by a variety of uncontrollable external factors casting favourable or unfavourable impact on business. Thus, the risk element keeps a businessman vigilant and going.

Forms of business organisation

Setting-up a business is not an easy task. An enterprise is a separate and distinct unit, institutionally arranged to conduct any type of business activity.

It needs to combine the necessary things such as materials, tools, equipment, working space and bring together all of them in a systematic and effective manner to accomplish the entrepreneur's desired objective.



Thus, every business entity needs to select an appropriate legal structure or framework to work in. This legal structure determines the extent of ownership and responsibility of proprietor(s). Appropriate form of organisation strongly influences the enterprise's success and future prospects.

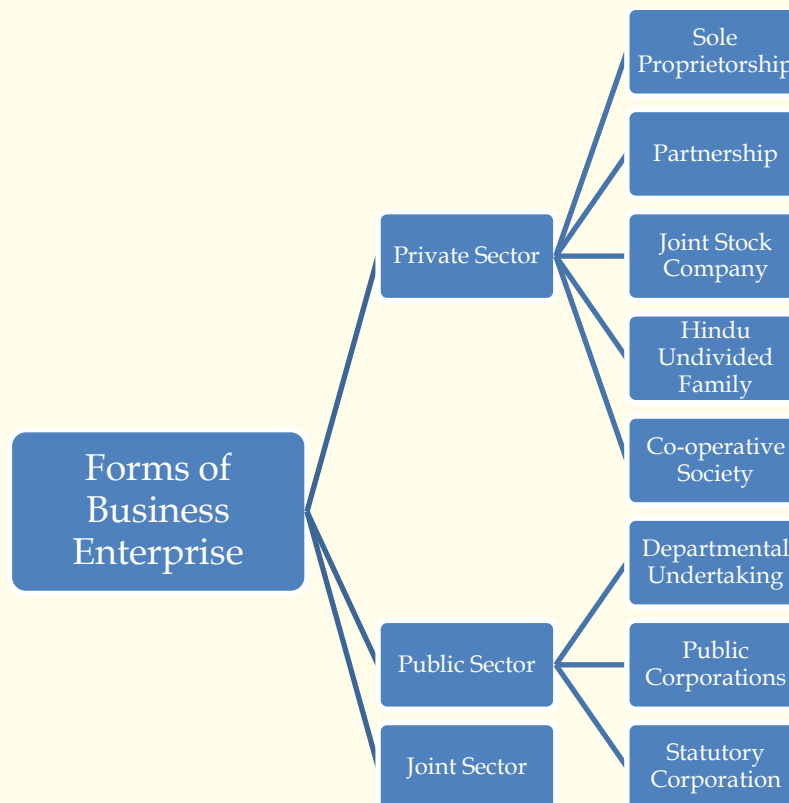
Once selected, changing the 'form' is quite a complex, time consuming and costly affair.

Forms of enterprises

From the point of view of ownership and management, business enterprises may be broadly classified under three categories.

- 1) Private sector enterprises
- 2) Public sector enterprises
- 3) Joint sector

1) Private sector enterprises



The enterprises which are owned, controlled, and managed by private individuals, with the main objective of earning profit comes under this category.

Private individuals thus could start a venture as:

- a) Sole-proprietorship
- b) Partnership
- c) Joint Hindu family business





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- d) Co-operative
- e) Company

2) Public sector enterprises

When business enterprises are owned, controlled and operated by public authorities, with welfare as primary and profit as secondary goals, they are called as public sector enterprises.

Either the whole or most of the investment in these undertakings is done by the Government(s). These enterprises have the following forms of organisation:

- a) Departmental undertaking
- b) Public corporations
- c) Government companies

3) Joint sector enterprises

Joint sector is a form of partnership between the private sector and the government where management is generally in the hands of private sector, with enough representation on Board of Directors by the Government too. Resources are mostly borne equally.

Thus, one of the first decisions that an entrepreneur will have to make for his new venture is how the business should be structured. We know all businesses must adopt some legal configuration that defines the:

- a) Control,
- b) Personal liability,
- c) Rights and liabilities of participants in the business's ownership
- d) Life span
- e) Financial structure.

This decision will have long-term implications. So an entrepreneur may consult experts and professionals and seek help to select the form of ownership that is right for him/her. In making a choice, entrepreneur will want to take into account the following:

- 1) Vision regarding the size and nature of the business.
- 2) The level of control the entrepreneur wishes to have.
- 3) The level of "structure" entrepreneur is willing to deal with.
- 4) The business vulnerability to lawsuits.
- 5) Tax implications of the different organizational structures.
- 6) Expected profit (or loss) of the business.

From the entrepreneur's point of view the most commonly opted out forms for starting a new venture are:

- 1) Sole proprietorship
- 2) Partnership



3) Company

As entrepreneurs are strongly motivated by monetary gains and independence, these three forms fulfill the basic requirement of entrepreneurs well, making them the most desirable structure to commence a venture.

An overview of the five basic legal forms of organization is as follows:

I. Sole proprietorship

"The one-man control is the best in the world if that man is big enough to manage everything." – W.R. Basset.

One Man Show

Tom Monaghan, the founder of Domino's Pizza, had a tough childhood, was raised in orphanages and foster homes. In 1960, Monaghan and his brother Jim BORROWED \$ 900 and bought a foundering Pizzeria in Ypsilanti, Michigan.

Jim left within the year, but Tom hung on, surviving two near - bankruptcies and a fire.

Monaghan worked eighteen hours a day seven days a week, whole heartedly making Domino's Pizza – A GIANT MNC world over a household name. Started as sole and today a MNC – a long successful journey of 'one big man'.



Historically, it appears that business first started with this form of organization. One of the oldest, simplest and most commonly used forms of business organization which is owned, financed, controlled and managed by only one person is called as sole proprietorship, single entrepreneurship or Individual proprietorship.

"Sole proprietorship is a business initiated, and operated by one individual who carries all financial and administrative responsibilities, employing such assistants as may be necessary.

– E.T. Elbourne

"Sole proprietorship is a business unit whose ownership and management are vested in one person. The individual assumes all risks of loss or failure of the enterprise and receives all profits from its successful operations.

– Edward Elbourne.

Characteristics of sole proprietorship:

As 'sole' means single and 'proprietor' means owner, this type of business is one person show exhibiting following features:

- 1) **Individual ownership:** This business is exclusively owned by a single person.





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- 2) **Individual management and control:** "What is to be done, how it is to be done, and when it is to be done" - all affairs are managed and controlled by the sole proprietor. Though, competent people can also be employed for efficient management.
- 3) **Individual financing:** All investment is made by the proprietor. Though, if required he/she has access to loans and debts to procure funds for business.
- 4) **No separate legal entity:** Legally, the proprietor and proprietorship are one and the same business and owner exists together, thus with owner's death, business too dies.
- 5) **Unlimited liability:** The proprietor is liable/responsible for all losses arising from business. In case the business assets are insufficient to pay off liabilities, his/her personal property can be called upon to pay his business debts.
- 6) **Sole beneficiary:** The sole proprietor alone is entitled to all the profits and losses of business. So he/she puts his/her heart and soul to increase his/her profits.
- 7) **Easy formation and closure:** Sole proprietorship is subjected to minimum legal formalities and regulations both at the time of commencing and/or closing.
- 8) **Limited area of operation:** This form of business generally has a limited area of operation due to:
 - limited finance availability
 - limited managerial abilities

Suitability of sole proprietorship form of business

The success or failure of an enterprise depends upon the intelligence, competence and sensible decision making capacity of the entrepreneur. Before opting for sole proprietorship, an entrepreneur should carefully compare and evaluate pros and cons of this form. Basically, this type of form is suitable when:

1. Capital requirement is limited
2. Confidentiality / secrecy is important
3. Market is local
4. Goods are of artistic nature or demands customized approach
5. Quick decision-making is necessary
6. Size of the venture is small.

Every Big Business Started Small

Shipping tycoon Aristotle Onassis, was one of the richest men in the world in the 1960s. As a youngster, Onassis had immigrated to Argentina from Greece. He learned Spanish at night and sold tobacco by day.

At merely 15, he landed a big tobacco order and reinvested in his petty business. As he accumulated more money, his small business was eventually built into his great financial empire.



Legal formalities involved

Sole proprietorship registration procedure

A sole proprietorship does not need to be registered (so yes, 'registration of a sole proprietorship' is a wrong thing to say) and is therefore an inexpensive manner of commencing business.

However, in order to start a sole proprietorship an entrepreneur requires certain industry specific licenses. A few general factors are:

1. **Business name:** Sole proprietors are under no obligations to select a trade name for their business. How so ever they are free to do so if they desire to.
2. **Service tax registration:** Form ST 1 is to be filled for registration if the taxable services are more than 10 lakh for a financial year.
3. **VAT/CST registration:** If proprietorship is selling tangible goods within a state then VAT applies, if it is inter-state then CST applies. The threshold for registration for VAT varies depending on the city in which entrepreneur commences business but a CST registration is imperative if he/she affect an inter-state transfer.
4. **Others:** PAN Card no. of the sole proprietor, bank account no. in the name of sole proprietorship business, Shops & Establishment License, Employee Provident Fund Registration or Importer Exporter Code (if in export-import business) as and where applicable, have to be complied with.
5. **Payment of taxes:** A sole trader has to ensure his/her business meets the state and federal taxation requirements. Due to the fact that legally, a sole tradership and a sole trader are a single entity, the sole trader bears the taxes of the business.

Case Study-I

Satya Barta Dey: SHREE LEATHERS

Satya Brata Dey

Ever seen a long time outside a shoe store? People waiting in the scorching heat just to buy a pair of shoes? If you haven't, you'll see it outside Satya Brata Dey's Shree Leather Shoe Stores in Calcutta.

From Rags to Riches

One dreary November morning in 1986, Satya left his home in Jamshedpur and came to Calcutta with little more than the clothes on his back. He wore a pair of corduroy pants, a shirt and a pair of sturdy shoes made by his father. Before he left home, his mother had pressed in his hands a few hundred-rupee notes, which he brought with him. Today, Satya Brata Dey is a millionaire, a crorepati. And what gives him the greatest satisfaction is that, he provides jobs for people in Wes t Bengal-a state where there are very few industries and over five million unemployed.





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Parents had a strong influence on his life

Satya's mother was always a strong woman and still is, even at age eighty. She believed in herself and encouraged Satya to do the same. "Son, she would say stroking his unruly hair into place, "No matter what you do, always win. Remember that. Always win." Satya learned his lesson well. He won. And he won against great odds.

Satya's father owned a small shop in Jamshedpur where he made shoes. His shoes were so sturdy that they could last twenty years. As a teenager, Satya often went to his father's shop and helped him make shoes. That's where he learned the fine art of making sturdy, good looking shoes at a reasonable cost. It was this apprenticeship under a master shoemaker like his father that taught Satya very early in life, a priceless craft. Little did he know then, that what he was learning in his father's humble shop in Jamshedpur, would someday make him a millionaire, a "crorepati" in Calcutta. He would have laughed if someone had told him back then, that someday, he would create jobs for hundreds of people with this priceless craft that he learned from his father. When he remembers his father bending over his worktable making shoes day after day, tears glisten in his eyes. Tears of love and pride. He remembers his father's hands that had, over the years become hard and tough like the leather he worked with. Today, Satya would give anything to be able to hold those callused, wrinkled hands in his own and invite him to come and see the little boy. But Satya's father is no more. Whereas Satya manages a business worth crores, what he is most proud of is that even today he can make shoes with his own hands.

From his beloved father, Satya learned another important lesson that would come in very handy for him later in life – the dignity of labour. The value and worth of working with one's own hands. Because of his background, Satya has great respect for the working man. In his business, he treats his employees and workmen like family members and they in turn give him their undying loyalty. That is one of the secrets of his success.

What? Start your own business? That's despicable

In Satya's Bengali community, running one's own business was not much respected. Starting a business was looked down upon. Businessmen were seen as people who amassed wealth at the cost of others. They took too much risk. What if the business failed? What would you do then? On the other hand, a secure government job was quite another thing. Becoming a 'babu' in a government department was coveted. Once you got your foot in the door, nobody could fire you and whether you worked or not the government paid you and even when you retired the government paid you and even when you retired the government took care of you. It gave you a pension. It was like your father-in-law's house. You were always a well-looked after guest.

The second best thing to being a government employee was being in 'service,' getting a job in someone else's business. Of course, if you had a job in somebody's private business enterprise, you did not get good marriage proposals as the government employee would, but there was still hope for you. You had a job.

Making shoes was low in the prestige ladder

It was bad enough to do a risky thing like running one's own business, but making shoes? That was truly low down in the prestige ladder of the community. Satya had faced this kind



of prejudice before. He remembers well the days he used to go to his father's shop after school to help out. One day his father's friend said to him, "Why do you let your son come here and waste his time? Doesn't he have anything better to do? He should learn skills that would get him a job instead of doing this.'

Satya remembered this comment made by his father's friend as he wandered down the streets of Calcutta looking for a place where he could start a business making shoes. Thank goodness he had learned the trade and art of making good shoes. There were no jobs available and last thing he wanted to do was join the ranks of the unemployed. But Satya had never considered looking for a job.

Satya dreamed big but reality hit hard

Ever since Satya was four or five he knew he wanted to have his own business. In Jamshedpur he would look at the TISCO (Tata Iron and Steel Company) Plant and say to himself, "Someday I will have a factory like this."

Hot, tired and hungry, Satya wandered down the streets of Calcutta looking for a place that could be his "showroom" or shop. At the corner of a deserted street, he spotted a rundown showroom that was for rent. He used the money his mother gave him to pay the rent and moved in. It was his home and 'show room' rolled in one. The 'show room' was rat and cockroach infested. The paint on the walls was peeling. It was dingy, dirty and dimly lit. The windows were filthy and you could hardly see through them. The floor had several layers of dust caked with moisture. But for Satya, it was his dream showroom. It was his place.

Every night Satya washed his pants and shirt and hung them to dry. Often his corduroy pants were still wet in the morning. He wore the wet pants anyway and hoped that his body heat would dry them during the course of the day. "I was sweeper, painter, salesman, owner everything rolled into one," says Satya.

Never be afraid to dream big, "he advises. "You can make your dreams come true."

Even as he dreamed his big dreams, he continued to live in the filthy, run-down "show room." He set about cleaning and fixing it. He swept and mopped until the floor shone. Then he cleaned the windows with soap and water until they sparkled and finally he painted the walls until the "showroom" looked bright and attractive and ready for business.

Satya Starts his business

Satya starts his business venture with buying six pairs of ladies' chappals. He was determined not to borrow money from anybody. He sold the chappals at Rs. 69 each and made a little profit, which he invested to buy more chappals. After a few months Satya made a profit of Rs. 300 which thrilled him to no end. Now he was really in business

Satya's business philosophy develops

Satya's showroom was in New Market. In those days New Market used to close by 6 pm. After 6 or 7 pm the whole area used to be dark and deserted. But Satya opened his shop before anyone else and kept it open long after others had closed theirs. He did this even if there were no customers. What if there was one customer who needed shoes late in the day when the other shops were closed?

E
enterprising

N
novelty

T
trends

R
risks

E
employment

P
profits

R
rewards

E
empowerment

N
new

E
emerging

U
utilize

R
record

S
struggle

H
harness

I
innovation

P
populat



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Gradually over a period of time, Satya started to manufacture the shoes that he sold in his store. He positioned his shoes as poor man's shoes-good quality and inexpensive. He kept his margins low so that he could attract a large number of customers. Even though his shoes were meant to attract the low-income customers, many ministers and businesspeople also bought his shoes. Soon satisfied customers brought their friends and family and his business started to grow by leaps and bounds. He had a winning combination for success-the quality was good and the price was right.

A shrewd businessman that Satya is, he kept other manufacturers products as well, so the customers could compare and see that sreeleathers shoes were cheaper and better.

Customer service is of prime importance

Customer service is always very important at Sree leathers stores. Satya offers his customers tea, coffee or coke at his stores so that they would sit, spend some time and buy more than they had originally come to buy. Satya told me the story of a woman who was standing outside his store one day waiting for a sari shop across the street to open. His salesman invited her in and asked her to sit and wait in the store. She came in and sat down in the comfortably air-conditioned store. The salesman offered her coffee. She had some. She started to look at the different shoes displayed in the store. Without anyone trying to sell her anything, she ended up buying 12 pairs of shoes.

"We don't just sell shoes. We make our customers feel good. That's what brings them back," says Satya Brata Dey.

One day a man was in a hurry to catch a train to Raipur. He came to the store bought his shoes and rushed to the train station. But soon he came back and bought four more pairs. He continues to come back to the store every time he is in Calcuta and is one of Satya's best customers. About 15% of his customers are from out of town.

Cut out the middleman

Since Satya manufactures his own shoes there are no middlemen to pay. He can afford to sell his shoes at a lower price than Bata and other large companies who have huge overheads. If he has to import something from abroad such as material for soles, which he gets from the UK, he imports it directly from the manufacturer there. Thus once again he avoids paying the middlemen.

He keeps his employees happy and motivated

Satya firmly believes that motivating the staff and keeping them happy is critical for the success of any business. A disgruntled or unhappy employee will not provide good customer service. And customer service is what keeps people coming back and that is what makes the business successful.

"How do you motivate your staff?" I asked

"I have staff who have been with me right from the very beginning. I treat them like family. I keep them in good humour. I spend time talking with them and help solve their problems. My staff members don't feel like employees. They feel like they are the owners."



Satya has a small team of dedicated managers who work long hours, sometimes as much as from 6 a.m until midnight

The third important key to a successful business is paying the vendors and suppliers on time, says Satya. He loses his temper if his vendors and suppliers are not paid on time.

Sources of stress

Some of Satya's biggest sources of stress are government authorities. The small bureaucrats and government employees harass for no reason whatsoever, he says. To illustrate his point he told me the following story.

Satya was getting a new showroom constructed. He had taken permission from the Calcutta Municipal Corporation and everything was legal and above board. The construction started and then one day out of the blue, some policemen arrived and ordered the work to be stopped. They demanded a huge bribe. Satya's manager negotiated and settled for a lower sum. But when Satya came to know of it he was furious and refused to pay a single paisa. He said he wasn't going to bribe. He contacted some higher authorities in the police department and the government and the policemen left. The work continued. Then one day a couple of the Calcutta municipal corporation employees arrived. They started finding faults with the construction. Now they wanted a bribe. Once again he had to approach the higher authorities to solve the problem. These kinds of harassment and hassles cause unnecessary delays and make doing business stressful.

Growing, growing ,franchising

Sree leathers has about 15 outlets in Eastern India. He has only one showroom of his own; the rest are all franchises. There is such a great demand for his franchises that people come with recommendations from the Prime Minister and the Finance Minister. Some people come with briefcases full of money requesting a franchise. But Satya Brata is very choosy about giving franchises because the quality and his hard won reputation are very important to him.

Satya's shoes are sold in many countries abroad such as Greece, Austria, Netherlands, Germany, UK, USA, Singapore and Saudi Arabia. But in these countries they are sold as non-brand name shoes.

Satya has reached a point in life when expansion has taken on a new meaning and purpose. Expansion for its own sake doesn't mean much to him. He makes enough money and expansion would only mean more stress for him. But creating jobs is important to him. West Bengal doesn't have many industries and jobs are scarce. He feels that it would be selfish of him not to expand. He wants to create as many jobs as he can. He believes that creating jobs is the best service he can do for the society. He employs about 150 people in his factory and outlets and in addition, if each of his fifteen franchises employs about ten people, then Satya has created employment for at least 300 people. It's a win-win situation.

Sree leathers is worth several crores today. The young man who came to Calcutta with only the clothes on his back and a fistful of money has come a long way. His secret? Hard work, dignity of labour and big dreams.





II. Partnership

"TWO HEADS BEING BETTER THAN ONE."

Growing Trend – Partner Up!

TATA wants to make HBO the most sought after premium subscriber – based channel in India.

Apart from HBO, the company also has two other channels, both HD HBO Hits and HBO Defined, in partnership with Eros.

WHO SAYS PARTNERSHIP IS RESTRICTED TO INDIVIDUALS ALONE?

Partnership form of organisation has developed due to the inherent limitations of sole proprietorship i.e.

- a) Limited capital
- b) Limited managerial ability
- c) Limited continuity

In this era of specialization, expansion and diversification, expecting one man to combat them all is not possible. Business acumen and wealth seldom meet in one person. This, desirable combination probably led to the emergence of Partnership form of business.



Meaning:

A partnership is an association of two or more persons to carry on, as co-owners, a business and to share its profits and losses.

Thus, two or more persons may form a partnership by making a written or oral agreement to carry a business jointly and share its proceeds.

To Quote Authors....

"Two or more individuals may form partnership by making written or oral agreement that they will jointly assume full responsibility for the conduct of business."

– John A. Shubin

"The relationship between persons who agree to carry on a business in common with a view to private gain is partnership."

– L.H. Haney

"Partnership is a relationship between persons who have agreed to share the profits of a business carried on by all, or any of them acting for all."

– Indian Partnership Act, 1932.



Characteristics of partnership:

The essential features of partnership are as follows:

1) Two or more persons:

Partnership is the outcome of a contract. Thus:

- a) There must be at least 2 persons to enter into contract to form partnership.
- b) Minors cannot form a partnership firm as they are incompetent to enter into contract but can be admitted to the benefits of a running firm.
- c) If these people intend to do banking business, the maximum number can be ten otherwise twenty for the other business.

2) Agreement:

The relation of partnership arises from contract and not from status. Though oral agreement is even acceptable but in practice written agreement is much more advisable as disputes can be resolved better with it.

3) Profit sharing:

The objective of the business is to make profits and distribute the same amongst partners. Any association initiated to do charity work is not partnership.

4) Unlimited liability:

Mostly, the liability of the partners of a firm is unlimited. Their personal properties can be disposed off to pay the debts of the firm if required. The creditors can claim their dues from any one of the partner or from all of them, meaning partners are liable:

- Individually
- Collectively

5) Implied authority:

There is an implied authority that any partner can act on behalf of the firm. The firm stands bound by the acts of partners.

6) Mutual agency:

The business of partnership can be carried on by all the partners or any one of them acting for all. Thus, every partner is principal as well as agent of other partners and of the firm. Thus, (i) Each partner is liable for acts performed by other partners, (ii) Each partner can bind other partners and the firm by his acts done in the ordinary course of business.

7) Utmost good faith:

Every partner is supposed to act honestly and give proper accounts to other partners. Thus, mutual faith and confidence in one another is the main strength of partnership.





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8) **Restriction on transfer of shares:**

No partner can sell or transfer his share to anybody else without the consent of the other partners. By giving a notice for dissolution of the firm, a partner can show intention to discontinue as partner.

9) **Continuity:**

A partnership continues up to the time that all partners desire to continue it. Legally, a firm dissolves on the retirement, death, bankruptcy lunacy, or disability of a partner if not otherwise provided for in the partnership deed.

Take a Partner when you trust your Partner

Steve Perlman, the inventor of Web TV, built his first home computer when he was only fifteen years old. In 1995, he created a working prototype of the Web TV box.

He and a friend Bruce Leak, started a firm with another friend Phil Goldman and began to sell Web TV out of the guest bedroom in Perlman's house.

Perlman, being something of a mad scientist, buried himself in development and let his partners worry about the money. By 1997, Perlman had raised and burned through \$ 46 million developing Web TV. Luckily, that's when Microsoft's came calling. Joining Microsoft's team netted Perlman and his two partners around \$ 70 million apiece.

TRUST AND CONFIDENCE ARE THE PILLARS FOR GREAT PARTNERSHIP.

Suitability

The use of better sophisticated production techniques has necessitated more investments. Complex nature of businesses needs expert managerial hands. Thus, partnership form of a business is an ideal choice for starting a new venture, if the entrepreneur's-

- 1) capital and managerial requirements are higher as compared to that of sole proprietorship,
- 2) enterprise falls in the category of either being a small or a medium scale enterprise,
- 3) direct contact with the customers is essential.

Consequences for non-registration of a partnership firm:

Partnership firms in India are governed by the Indian Partnership Act, 1932. While it is not compulsory to register your partnership firm as there are no penalties for non-registration, it is advisable since the following rights are denied to an unregistered firm:

- 1) A partner cannot file a suit in any court against the firm or other partners for the enforcement of any right arising from a contract or right conferred by the Partnership Act.
- 2) A right arising from a contract cannot be enforced in any Court by or on behalf of the firm against any third party.



- 3) Further, the firm or any of its partners cannot claim a set off (i.e. mutual adjustment of debts owned by the disputant parties to one another) or other proceedings in a dispute with a third party.

Drafting of partnership deed:

Partnership is an agreement between persons to carry on a business, entered into either orally or in writing. It is always desirable to have a written agreement so as to avoid misunderstandings and unnecessary litigations in future. When the agreement is in written form, it is called a '*Partnership Deed*'. It must be duly signed by the partners, stamped and registered. Any alteration in one partnership deed can be made with the mutual consent of all the partners.

Although it is left to the choice of the partners of the firm to decide themselves as to what should be mentioned in their partnership deed, yet a partnership deed generally contains the following:

1. Name of the firm.
2. Nature of the business.
3. Name of partners.
4. Place of the business.
5. Amount of capital to be contributed by each partner.
6. Profit sharing ratio between the partners.
7. Loans and advances from the partners and the rate of interest thereon.
8. Drawings allowed to the partners and the rate of interest thereon.
9. Amount of salary and commission, if any, payable to the partners.
10. Duties, powers and obligations of partners.
11. Maintenance of accounts and arrangement for their audit.
12. Mode of valuation of goodwill in the event of admission, retirement and death of a partner.
13. Settlement of accounts in the case of dissolution of the firm.
14. Arbitration of case of disputes among the partners.
15. Arrangements in case a partner becomes insolvent.

Registration procedure

A partnership firm can be registered whether at the time of its formation or even subsequently. Entrepreneur needs to file an application with the Registrar of Firms of the area in which his/her business is located.

Step: 1

Application for partnership registration should include the following information:





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- 1) Name of the firm
- 2) Name of the place where business is carried on
- 3) Names of any other place where business is carried on
- 4) Date of partners joining the firm
- 5) Full name and permanent address of partners.
- 6) Duration of the firm

Step: 2

Every partner needs to verify and sign the application. Ensure that the following documents and prescribed fees are enclosed with the registration application.

- a) Application for registration in the prescribed form-I.
- b) Duly filled specimen of affidavit
- c) Certified copy of the partnership deed
- d) Proof of ownership of the place of business or the rental/lease agreement thereof

It may be noted here that, the name of the partnership firm should not "contain any words which may express or imply the approval or patronage of the government except where the government has given its written consent for the use of such words as part of the firm's name."

Once the Registrar of Firms is satisfied that the application procedure has been duly complied with, he/she shall record an entry of the statement in the Registrar of Firms and issue a Certificate of Registration.

III. Joint Stock Company

ONCE "ILLEGAL TODAY LEGALLY MOST DESIRABLE!!!

Joint stock company organisation was started first in Italy in the thirteenth century. During seventeenth and eighteenth centuries, joint stock companies were formed in ENGLAND under ROYAL CHARTER OR ACTS OF PARLIAMENT.

The joint stock company form of organisation got a great set back when "BUBBLES ACT OF 1720" declared promotion of companies as ILLEGAL by ENGLAND'S PARLIAMENT.

It was much later in 1844, that the company form regained status after passage of THE JOINT STOCK COMPANIES ACT IN 1844 and LIMITED LIABILITY granted only in 1855.

The first Companies Act was passed in India in 1850 and the principle limited liability was introduced only in 1857.

Much later in 1956, a comprehensive bill was passed and any firm incorporated under this Act was started to be referred as "COMPANY".



Resources and the life span of both sole proprietorship and partnership form of organisation stands limited with liabilities being unlimited.

To comply with these growing needs, the demand was on rise for:

- 1) Capital
- 2) Managerial talent and skills
- 3) Limited liability

Thus, joint stock company as a modern form of business organisation emerged to meet the requirements of large sized business.



Meaning:

In common prevalence, a company means a voluntary association of a person formed for some common object with capital divisible into units of equal value called 'shares' and with limited liability. Company is a creation of law that is the birth of this artificial human being is by law and it can be put to death by law only.

Definitions Well Known

"A joint stock company is a voluntary association of individuals for profit, having a capital divided into transferable shares, the ownership of which is the condition of membership."

— Prof. L.H. Haney

"A company is an association of many persons who contribute money or money's worth to a common stock and employ it in some trade or business, and, who share the profit and loss arising there from."

— James Stephenson

According to section 3 of Indian companies act, 1956, "A company means a company formed and registered under this act or any previous act."

Thus, a company is an association of persons who contribute money in the shape of shares and the company gets a legal entity and enjoys a permanent existence.

Characteristics of a Company

A company is distinctive from other forms of organisation because of the following features:

1) 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 are required for a public company.

2) 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.





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Because like a human being it can buy, sell and own property, sue others, be sued by others, its called as an artificial person.

3) **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. Company has a distinct entity separate from its members.

4) **Common seal**

Being an artificial person, company cannot sign the documents. Hence, it uses a common seal on which its name is engraved. Putting the common seal on papers, is equivalent to that of signatures of a human being, making them binding on the company.

5) **Limited liability**

The liability of the shareholders of a company is normally limited to the amount of shares held or guarantee given by them.

6) **Transferability of shares**

No shareholder is forever wedded to the company. Subject to certain conditions, the shares are freely transferable. The private companies do impose some restrictions on the transfer of shares.

7) **Diffusion of ownership and management**

In this form of organisation, entrepreneur should clearly understand there exists separation of ownership from management.

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

8) **Number of members**

Private company:

Minimum required members : 2

Maximum members : 50 (excluding employees)

Public company:

Minimum requirement : 7

Maximum number : No limit

9) **Limitation of action**

The scope of this artificial person is determined by:

- The Indian Companies Act
- Memorandum of Association
- Articles of Association



Any work done beyond what is stated in these documents can lead to winding up of the process of the company.

10) 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.

Choice to be made:

An entrepreneur, under the 'Company' form of organisation has a further choice to incorporate an enterprise either as either a:

- a) Private company or,
- b) Public company

A) Private company

A private company:

- 1) has a minimum of two and a maximum of fifty members excluding its past and present employees.
- 2) restricts the right of its members to transfer shares.
- 3) prohibits an 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.

B) 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 minimum seven people to commence with no upper limit to membership
- 2) does not restrict any transfer of shares
- 3) invites 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.

Why private company is more desirable

In spite of certain restrictions imposed on a private company, it enjoys certain privileges under the Companies Act. A substantial number of entrepreneurs prefer to form a private company because of the following important privileges:

- 1) Only two members are required to form a private company.
- 2) Only two directors are required to constitute the quorum to validate the proceedings of the meetings.





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- 3) Such company can file a statement in lieu of prospectus with the Registrar of Companies.
- 4) It can commence its business immediately after incorporation.
- 5) Holding of a statutory meeting or filing of a statutory report is required by a private company.
- 6) A non-member cannot inspect the copies of the profit and loss A/c filed with the Registrar.
- 7) Limit on payment of maximum managerial remuneration does not apply to a private company.
- 8) Restrictions on appointment and reappointment of managing director do not apply.
- 9) Maintaining of index of members is not required by a private company.
- 10) Directors of the private company need not have qualification shares.

The company form of organisation has shown phenomenal increase in almost all countries of the world in the twentieth century.

Case Study-II

Quest for Independence effects Form's Selection

William C. Durant, the founder of General Motors, started a variety of entrepreneurial ventures, primarily in the fields of insurance, real estate and construction. None of them really took off.

Once he hitched a ride to work with a friend, nothing that his friend's new 'buggy' rode smoother than any he had been in. New design in the buggy's springs was the reason for this..

Durant, on learning that the Coldwater Road Cart Company made the buggies with the improved springs, immediately offered to buy the company for \$ 1500. For this, he had to borrow \$ 2000 from Citizen National Bank of Flint and made two sample buggy carts. Within a week, the buggy was sold, leaving orders for 600 buggy carts and there was no turning back and the turning point came in 1904, with BUICK MANUFACTURING COMPANY offering Durant partnership, as they were both in need of fresh source of capital and the famed selling abilities of Durant.

But, Durant agreed to come in only if he could have absolute managerial control and finally took over the BUICK COMPANY.

Suitability

On comparing the advantages and limitations of company form of business, it is suggested that an entrepreneur should choose this form provided his/her:

- 1) Venture is a heavy and basic industry type
- 2) Large-scale operations are involved
- 3) Business requires huge funds
- 4) Enterprise involves heavy risks



- 5) Enterprise is technologically complex and sophisticated, banking heavily upon experts and professionals.

To commence a "Company" in India

The idea of forming a company is conceived either by a person or by a group of persons known as promoters. Our entrepreneurs are basically the promoters as they are the ones who:

- Conceive the idea.
- Scan it against the environmental forces to establish its feasibility and viability.
- Procures the resources essential for its commencement.
- Ensure the incorporation of the enterprise.
- Arrange for commencing of the business.
- Plans out expansion and diversification strategies.

The concept of the company is born in the entrepreneur's mind – they investigate the potential and take a lead for bringing human resources, money, materials, machinery and methods together for converting his/her dream into reality.

Legal formalities expected to be complied by the entrepreneur:

A heavy responsibility rests on the entrepreneur in translating his idea into a working reality. The sphere of activities done during this stage is very wide encompassing:

1. Obtain PAN number from Income Tax Department

What is PAN?

Permanent Account Number (PAN) is a ten-digit alphanumeric number, issued by the Income Tax Department.

PAN enables the department to link all transactions of the “person” with the department. These transactions include tax payments, TDS/TCS credits, returns of income/wealth/gift/FTB, specified transactions, correspondence, and so on. PAN, thus acts as an identifier for the “person” with the tax department.

It is mandatory to quote PAN in all documents pertaining to financial transactions.

Who must have PAN?

- All existing assesses or taxpayers or persons who are required to furnish a return of income, even on behalf of others, must obtain PAN.
- Any person carrying on any business or profession whose total sales, turnover or gross receipts are or is likely to exceed five lakh rupees in any previous year;
- Any person, who intends to enter into financial transaction where quoting PAN is mandatory, must also obtain PAN.
- The Assessing Officer may allot PAN to any person either on his/her own or on a specific request from such person.





2. Open a current account

Who can open a current account

- i) Any person, competent to contract and satisfactorily introduced to the Bank may open an account in his/her own name. He/she may not open more than one such account. Accounts may be opened in the names of two or more persons and may be made payable to.
- ii) Accounts can be opened for sole proprietorship firms, partnership firms, private limited and public limited companies, Joint Hindu families, trusts, clubs, associates etc. satisfactorily introduced to the Bank and on fulfilling laid down procedures and tendering required credentials.
- iii) Accounts can be opened by minors of 14 years and above, if able to read and write, in their sole names.

Basic common documentation

- Proof of Identity: PAN Card, Voter Id Card, Passport, Driving License
- Proof of Address: Latest Telephone Bill or Electricity Bill

Public or private limited companies

- Certificate of incorporation and commencement of business
- Memorandum and Articles of Association
- Board resolution authorising the opening and operation of the account
- PAN or GIR No. or completed Form 60
- List of directors with residential addresses

3. Register your company (Pvt. Ltd/Public limited Company)

The following steps are involved in incorporating a private or public company in India

1. Name of the business entity
2. Register for e-filing at MCA (Ministry of Corporate Affairs) portal
3. Apply for Director Identification Number (DIN)
4. Obtain Digital Signature Certificate (DSC)
5. Register DSC at MCA website
6. Apply for approval of the name of the company
7. Formulate Memorandum of Association
8. Formulate Articles of Association
9. Verify, stamp and sign Articles of Association
10. Verify the various forms required for incorporation of the company



4. Register for service tax

Service tax is, as the name suggests, a tax on Services. It is a tax levied on the transaction of certain services specified by the Central Government under the Finance Act, 1994.

It is an indirect tax (akin to Excise Duty or Sales Tax), which means that normally, the service provider pays the tax and recovers the amount from the recipient of taxable service.

5. Register for VAT/sales tax

Value added tax (VAT)

- VAT is a multi-point destination based system of taxation, with tax being levied on value addition at each stage of transaction in the production/ distribution chain.
- The term 'value addition' implies the increase in value of goods and services at each stage of production or transfer of goods and services.
- VAT is a tax on the final consumption of goods or services and is ultimately borne by the consumer.



For identification/registration of dealers under VAT, the Tax Payer's Identification Number (TIN) is used. TIN consists of 11 digit numerals throughout the country. Its first two characters represent the State Code and the set-up of the next nine characters can vary in different States.

Sales tax

Sales tax is levied on the sale of a commodity, which is produced or imported and sold for the first time. If the product is sold subsequently without being processed further, it is exempted from sales tax.

Sales tax is paid by every dealer on the sale of any goods made by him in the course of inter-state trade or commerce, despite the fact that no liability to tax is raised on the sale of goods under the tax laws of the appropriate state.





Sales tax ID number

A state Sales Tax ID number is essentially a business version of your PAN number, under which you collect and pay tax for any service or product you sell, which in turn, qualifies for taxation in your state.

6. Excise duty (If applicable)

What is excise duty? Is it collected by the State Government or the Central Government? How is it different from sales tax?

Excise duty is a tax on manufacture or production of goods. Excise duty on alcohol, alcoholic preparations, and narcotic substances is collected by the State Government and is called "State Excise" duty. The Excise duty on rest of goods is called "Central Excise" duty and is collected in terms of Section 3 of the Central Excise Act, 1944. Sales Tax is different from the Excise duty as former is a tax on the act of sale while the latter is a tax on the act of manufacture or production of goods.

What categories of persons are required to obtain registration with the Central Excise department?

Subject to specified conditions, generally the following categories of persons are required to get themselves registered with the central excise department:

- i) Every manufacturer of dutiable excisable goods;
- ii) First and second stage dealers or importers desiring to issue Cenvatable invoices;
- iii) Persons holding bonded warehouses for storing non-duty paid goods;
- iv) Persons who obtain excisable goods for availing end-use based exemption.

What is the procedure for obtaining registration?

Apply to the nearest central excise division office in form A.1 along with a self-attested copy of the PAN issued by the income tax department. After post verification, a regular registration certificate in form RC is normally issued immediately, as far as possible.

7. Customs duty

Customs Duty is a type of indirect tax levied on goods imported either in or to India, not both, as well as on goods exported from India. Taxable event is imported into or exported from India. Import of goods means bringing goods to India from a place outside India. India includes the territorial waters of India which extend up to 12 nautical miles into the sea to the coast of India. Export of goods means taking goods out of India to a place outside India.

8. File entrepreneurship memorandum at DIC (optional)

Although not mandatory, you may file part I of entrepreneurs memorandum to the district industries centre. This may be necessary for claiming certain incentives / subsidies and for certain formalities at the state level.



9. Apply for TAN

TAN or tax deduction and collection account number is a 10 digit alpha numeric number required to be obtained by all persons who are responsible for deducting or collecting tax. It is compulsory to quote TAN in TDS/TCS return (including any e-TDS/TCS return), any TDS/TCS payment challan and TDS/TCS certificates.

Who must apply for TAN?

All those persons who are required to deduct tax at source or collect tax at source on behalf of Income Tax Department are required to apply for and obtain TAN.

10. Permissions required at the construction stage

These are some permissions which are required to be obtained from the government:

- Application for plot/shed, offer letter, payment of earnest money deposit
- Allotment of plot/shed, payment of balance occupancy price, taking over possession thereof
- Application for issuance of NOC/SSI registration
- Execution of lease agreement
- Application for grant of connection for construction water
- Application for grant of connection for construction power

Post construction clearances

- Building completion/drainage completion/tree plantation certificate
- Permission for mortgage
- NOC from Pollution Control Board
- Final fire clearance
- NOC from environment department
- Industrial safety permit
- Sanction of permanent power
- Sanction of permanent water and sewerage connection

11. Employee's Provident Fund (EPF)

Applicable for establishments employing 20 or more persons and engaged in industry.

12. Employee's State Insurance (ESI) scheme

The Act is applicable to non-seasonal factories employing 10 or more persons.





The scheme has been extended to shops, hotels, restaurants, cinemas including preview theatres, road-motor transport undertakings and newspaper establishments employing 20 or more persons.

Steps involved in starting business in Mumbai

Registration requirements:

No.	Procedure	Time to complete	Cost to complete
1.	Obtain director identification number (DIN) online from the Ministry of Corporate Affairs portal (National)	1 day	INR 100
2.	Obtain digital signature certificate online from private agency authorized by the Ministry of Corporate Affairs (National)	3 days	INR 1,500
3.	Reserve the company name online with the Registrar of Companies (ROC) (National)	2 days	INR 500
4.	Stamp the company documents at the State Treasury (State) or authorized bank (Private)	1 day	INR 1,300 (INR 200 for MOA + INR 1,000 for AOA for every INR 500,000 of shares capital or part thereof + INR 100 for stamp paper for declaration Form 1)
5.	Get the certificate of incorporation from the Registrar of Companies, Ministry of Corporate Affairs (National)	5 days	INR 14,133 (See comments)
6.	Make a seal (Private)	1 day	INR 350 (cost depends on the number of seals required and the time period for delivery)
7.	Obtain a permanent account number (PAN) from an authorized franchise or agent appointed by the National Securities Depository Ltd. (NSDL) or the Unit Trust of India (UIT) Investors Services Ltd. as outsourced by the Income Tax Department (National)	7 days	INR 67 (INR 60 application fee + 12.36% service tax + INR 5 for application form, if not downloaded)



8.	Obtain a Tax Account Number (TAN) for income taxes deducted at source from the Assessing Office in the Mumbai Income Tax Department	7 days	INR 57 (INR 50 application fee + 12.36% service tax)
9.	Register with the Office of Inspector, Shops and Establishment Act (State/ Municipal)	2 days	INR 6,500 (INR 2000 + 3 times registration fee for trade refuse charges)
10.	Register for Value-Added Tax (VAT) at the Commercial Tax Office (State)	12 days	INR 5,100 (registration fee INR 5000 + stamp duty INR 1000)
11.	Register for Profession Tax at the Profession Tax Office (State)	2 days	No cost
12.	Register with Employees' Provident Fund Organization (National)	12 days	No cost
13.	Register for medical insurance at the regional office of the Employees' State Insurance Corporation (National)	9 days	No cost

Source: Take in the India Biz-Tech Buzz

Though the most commonly opted out forms of business had already been discussed, yet there are two more forms prevalent in India, to start venture. They are:

IV. Joint Hindu family / firm (HUFs):

Joint Hindu family or Hindu Undivided Family Business is a unique form of business organisation prevailing only in India. It is governed by Hindu law and represents a form which is owned, managed and controlled by the male members of a joint Hindu family.

Meaning of HUFs: The HUFs have been defined under the Hindu law "as a family, which consists of male lineally descended from a common ancestor and included their wives and unmarried daughters." The relation of HUFs arises from the status not from legal contracts. Creating HUFs are the best possible way to save taxes.

Schools of law under HUF: Two schools of law are there in order to create a HUF:

- Dayabhaga** – It is prevalent in West Bengal and Assam. As per this school of law, the son acquires the right in the family property only after the death of his father.
- Mitaakshara** – It is prevalent in rest of India under which, the son acquires the right in the family property right from his birth.

There are two conditions for existence of HUFs. They are:

- Minimum two members must be there in the family.
- Existence of some ancestral property.





Characteristics of Hindu undivided family

The main features of HUF are as follows:

- 1) **Creation:** It arises by status or operation of Hindu Law.
- 2) **Membership:** A male member becomes a member merely by his birth. By adoption, an outsider can be admitted to its membership but not otherwise.
- 3) **Management:** The senior most male member of the family known as 'Karta' manages the affairs, having unlimited powers. The other male members called 'Coparceners' have no right to deal with outsiders or inspect accounts.
- 4) **Liability:** The liability of Karta is unlimited and that of coparceners is limited to the extent of their share in property which is jointly held by the family. The self-acquired property of any member cannot be taken in order to satisfy business liabilities.
- 5) **Right of Accounts:** The members other than Karta do not have right to inspect and/or copy contents of the account books.
- 6) **Minor as member:** A male from the time of his birth becomes the member in this form of enterprise.
- 7) **Dissolution:** The HUF continues to operate forever as death of members does not effect it. As upper links are removed by death, the lower ones are added by birth. So there is no limit to its membership. But if all members want to mutually dissolve the firm, they can do so.
- 8) **Implied Authority:** Only the Karta has implied authority to bind the HUF by acts done in the ordinary course of the business of the firm. That's why he alone has unlimited liability.

Legal formalities involved

Steps involved in creation of HUFs

Entrepreneur who is interested to operate his/her enterprise as an HUF is required to comply with following requirement.

- 1) **Capital and members:** For an HUF to be created the major requirements is the capital and persons. Capital can be in the form of ancestral property, assets gifted by relatives and friends, or received by the HUF through a will. The minimum no. of members required is two.
- 2) **Select a suitable name:** The HUF to be created should have proper name. Entrepreneur should select a proper name for the HUF, ensuring it does not violate the laws or have any negative impact.
- 3) **Form a Deed:** Formation of HUF should be embodied in a deed which provides that a proper legal deed or agreement is required before creating a HUF, disclosing the name of Karta, coparceners, address and source of funds in the corpus.



- 4) **Apply of PAN:** Application of PAN (Permanent Account Number) is also an important step to be undertaken while forming a HUF. After executing the deed, the Karta is required to obtain a permanent account number PAN for the HUF. Obtaining PAN is a mandatory requirement as all financial transactions shall carry PAN.
- 5) **Open a Bank Account:** After PAN has been allotted, the Karta is required to open a Bank a/c in the name of the HUF. It is also advisable to get some stationery printed for official communication. The HUF is now ready to function. The Karta will have to invest in tax saving instruments and file tax returns on behalf of the HUF. Only the money related to the business of HUF shall be invested in such Bank accounts.

Some Interesting Information

1. *The daughter after her marriage ceases to be a member of her father's HUF. After marriage she becomes the member of her husband's HUF.*
2. *Adopted child can become the member but he cannot become the coparcener.*
3. *The HUF continues to exist in the hands of the female members after the death of the male member.*
4. *A widow cannot be the Karta of the HUF as she is not the coparcener.*
5. *HUF is a separate entity for income tax purposes under the provisions of Section 2(31) of the Income Tax Act.*

V. Co-operative Organisations

A co-operative is a different form of business enterprise as here, the main motive is not earning profit but mutual help. It works with the principle of each for all and all for each.

"Co-operation is a form of organisation wherein persons voluntarily associate together as human beings on the basis of equality for the promotion of the economic interest of themselves."

– H.C. Calvert

The Indian Co-operative Societies Act, 1912 defines co-operative in section 4 as, "Society which has its objectives as the promotion of economic interests of its members in accordance with co-operative principle."

Features

Co-operative is a self-help as well as mutual help system, exhibiting following characteristics:

1. **Voluntary organisation:** Co-operative organisation is a voluntary association of persons desirous of pursuing a common objective. They can come and leave the organisation at their own will without any coercion or intimidation.





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2. **Democratic management:** The management of a co-operative organisation is vested in the hands of the managing committee elected by the members on the basis of 'one member-one vote'. Democracy is, thus, the keynote of the management of a co-operative society.
3. **Service motive:** Rendering services to its members rather than to earn profit as the primary objective is the feature that distinguishes a cooperative organisation from the other forms of business. The primary objective of a co-operative society is to render services to its members rather than to earn profits.
4. **Capital and return thereon:** The capital is procured from its members in the form of share capital. A member can subscribe subject to a maximum of 10% of the total share capital or Rs. 1,000 whichever is higher. Shares cannot be transferred but surrendered to the organisation. The rate of dividends paid to the members/ shareholders is restricted to 9% as per the Co-operative Societies Act, 1912.
5. **Government control:** In India, the activities of co-operative societies are regulated by the Co-operative Societies Act and the State Co-operative Societies Acts. Co-operative societies are required to submit their annual report and accounts to the Registrar of Co-operatives.
6. **Distribution of surplus:** After giving dividends to the members, the surplus of profits, if any, is distributed among the members on the basis of goods purchased by each member from the society.

Entrepreneur does not find this form as a very desirable structure to start a new venture because of his / her:

- a) Quest for excellence
- b) Drive for independence
- c) Tendency to be project champion
- d) Strong desire to succeed and earn profit
- e) Creative and innovative nature
- f) "Must be own boss", attitude.
- g) Love for being a 'Leader' in the field.
- h) Zeal to capture major market share.

Amazing Similarities!

Ray Kroc, founder of McDonald's, was selling milkshake machines when he was inspired to turn the McDonald brothers hamburger restaurant into a International operation.

William C. Durant, the founder of General Motors, began his career as a buggy salesman.

King C. Gillette was a traveling salesman when he invented the safety razor.



No form is without merits and limitations. Entrepreneur needs to understand it better that no form is the best form. Thus, selection of an appropriate form of business organisation is a very difficult decision. With regards to special requirements of the enterprise if any, mostly the selection of a form is to a great extent affected by:

- 1) Capital requirement of the enterprise
- 2) Risk and liability involved
- 3) Managerial control desired
- 4) Scale of operations involved
- 5) Continuity and stability demanded
- 6) Government regulations involved
- 7) Tax burden on the entrepreneur/enterprise
- 8) Nature of business
- 9) Confidentiality required
- 10) Flexibility desirable.

No single factor can help to decide the form. Thus, it's a summative effect of the factors to be taken into consideration before opting the form of business ownership.

BUSINESS PLAN

"WHAT TO DO? HOW TO DO? WHO IS TO DO?" IS BASIC TO ANY ACTIVITY

Close your eyes for a while and suppose you are trying to decide a visit to SHIMLA in a car. As a vigilant traveller, you must make some important decisions and gather information before undertaking the journey as there might be a number of possible time frames and costs involved.

As a traveller, you should consider various factors which might be:

- I) **EXTERNAL:** The factors which are basically uncontrollable by you but must be considered in your plan, viz.
 - i) Emergency car repair
 - ii) Weather and road conditions
 - iii) Hotels availability and bookings
 - iv) Available rights to exercise and food availability
 - v) Political conditions prevailing etc. (i.e. unrest/peaceful)
- II) **INTERNAL:** i.e. the factors which are, to an extent, controllable by you, viz.
 - i) Availability of money and time,
 - ii) Clothes to be taken





- iii) Number of members to accompany
- iv) Choosing between hotels and routes and highways
- v) Who will be driving and which type of vehicle

Thus, your travel plan responded to three important issues:

(i) WHERE AM I NOW? (ii) WHERE AM I GOING? (iii) HOW DO I GET THERE?



Planning, can thus be defined as "thinking in advance, what is to be done, when it is to be done, how it is to be done and by whom it should be done."

Like the traveller, the entrepreneur must make some important decisions and gather information about the external and internal factors so as to address the integration and co-ordination of effective business objectives and strategies related to his proposed venture. We know, planning is a process that never ends. It's an intellectual thinking process, with the organized foresight, the vision based on facts and experience, which is quite essential for an intelligent action. Planning bridges the gap between where we are standing and where we want to reach.

"Entrepreneurship is personal. It is what you can do almost by yourself."

- John H. Johnson

American publisher of Ebony and Jet magazines

This is possible only if the entrepreneur is capable of effectively planning where he/she is, and where he/she would like to be and how? Some kind of a 'game plan' or a 'road map' is required to let the venture evolve from an early start-up to a mature business. Thus, an entrepreneur needs to workout in detail all the relevant external and internal elements involved in starting a new venture and then running it successfully. He/she needs to develop a road map for himself/herself called a "Business Plan".



What is the business plan

The business plan is a comprehensively written down document prepared by the entrepreneur describing formally all the relevant external and internal elements involved in starting a new venture.

It's a formal statement of a set of business goals, the reasons they are believed attainable and the plan for reaching those goals along with the background information about the organization or/and team attempting to reach those goals.

Thus, a business plan is a comprehensive project report which not only encompasses the entire range of activities which are being planned in the business, but also:

- helps to understand the feasibility and viability of the proposed venture,
- facilitates in assessing and making provisions for the bottlenecks in the progress and implementation of the idea,
- discusses the potential for success of the project along with the risk factors involved.

Business plans are decision-making tools:

- 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.

Thus, the content and the format of the business plan is such which is able to represent all these aspects of the business planning process.

Who should write the 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.

As such preparing a business plan draws on a wide range of knowledge from many different business disciplines, requiring, the entrepreneur to consult with many other expert professional sources in its preparation like:

- Lawyers,
- Accountants,
- Marketing consultants,





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- iv) Engineers
- v) Internet sites
- vi) Officially appointed or/and set-up Banks, Specialized financial institutions or Agencies to promote entrepreneurship
- vii) Friends, relatives, mentors etc.

Though the business plan should be prepared by the entrepreneur, to determine whether to hire a consultant or to make use of other resources, the entrepreneur can make an objective assessment of his/her own skills, to determine where he/she is lacking and needs assistance.

Importance of the business plan

The business plan is valuable to the entrepreneur, potential investors, venture capitalists, banks, financial institutions, new personnel's suppliers, customers, advisors and others who are trying to familiarize themselves with the venture, its goals, and objectives. The business plan –

- a) helps in determining the viability of the venture in a designated market
- b) helps in providing guidance to the entrepreneur in organizing his/her planning activities as such:
 - i) identifying the resources required
 - ii) enabling obtaining of licenses if required etc.
 - iii) working out with legal requirements as desired by the government.
- c) helps in satisfying the concerns, queries, and issues of each group of people interested in the venture.
- d) provides room for self-assessment and self-evaluation, requiring entrepreneur to think through various scenarios and plan ways to avoid obstacles.
- e) though not desirable, at times, business plan helps to realize the obstacles which cannot be avoided or overcome, suggesting to terminate the venture while still on paper without investing further time and money.
- f) as the investors/lenders focus on the four Cs of credit : character, cash flow, collateral and equity contribution, it is the business plan which reflects the entrepreneur's credit history, the ability to meet debt and interest payments, and the amount of personal equity invested thus serving as an important tool in funds procurement.

Hence, a business plan gives adequate clarity to the entrepreneur, investor(s) and the government of:

- What an entrepreneur is doing
- Why he/she is doing it
- How he/she will do that

It's well said that "writing a good business plan can't guarantee success, but it can go a long way toward reducing the odds of failure."



Formats of a business plan:

The depth and detail in the business plan depends on the size and scope of the proposed new venture. There is no fixed content for a business plan as it varies according to the entrepreneur's goals and audience (i.e. who are being targeted).

Thus, it is common for especially start-ups to have three or four formats as follows for the same business plan.

- i) **Elevator pitch:** It is a three minute summary of the business plan's executive summary. This is often used as a teaser to awaken the interest of potential funders, customers, or strategic partners.
- ii) **A pitch deck with oral narrative :** A hopeful, entertaining slide show and oral narrative that is meant to trigger discussion and interest potential investors in reading the written presentation, i.e. the executive summary and a few key graphs showing financial trends and key decision making benchmark.
- iii) **A written presentation for external stakeholders:** A detailed, well written, and pleasingly formatted plan targeted at external stakeholders.
- iv) **An internal operational plan:** A detailed plan describing planning details that are needed by management but may not be of interest to external stakeholders.

Depending upon the entrepreneur's experience, knowledge and purpose, generally a business plan outlines sequentially following components or parts:

- 1) Introductory cover page/general introduction
- 2) Business venture
- 3) Organisational plan
- 4) Production plan
- 5) Operational plan
- 6) Human resource plan
- 7) Marketing plan
- 8) Financial plan
- 9) Miscellaneous/appendix

These are discussed in detail below:

I. Introductory profile /general introduction

This is the title or cover page that provides a brief summary of business plan's contents. The information of general nature contained in the introductory profile includes:

a) Entrepreneur's bio-data:

- Name and address of the promoter
- His/her qualifications,
- Experience and other capabilities
- In case of partners – their names, number, addresses, designation etc. individually





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b) Industry's profile:

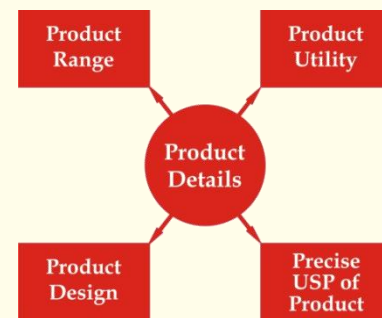
- The name and address of the enterprise.
- Telephone numbers/Fax/e-mail/website address.
- The nature of business.
- Any branches/sister concerns.

c) Constitution and organisation:

The constitution and organizational structure of the enterprise i.e. the legal form of the proposed enterprise-sole, partnership, company or any other form, along with registrations details.

d) Product details:

- Product utility
- Product range
- Product design
- Precise USP of product



II. Description of venture/business venture

This section of the business plan generally begins with the "mission statement" by the entrepreneur describing the size, scope and nature of the enterprise.

What the entrepreneur hopes to accomplish with that business, along with a clear description about the following key elements is covered under project description.

- Site:** Location of enterprise, owned or leasehold land, industrial area, no objection certificate from the Municipal Authorities if required, needs to be determined.
- Physical infrastructure:** Availability of the following items of infrastructure should be mentioned in the business plan.
 - Raw material:** Whether indigenous or imported, sources of supply etc.
 - Labour:** Type of labour required, provision for their training, number of manpower required etc.
 - Utilities:** These include: power, fuel, water, gas, electricity, etc. Business plan needs to clearly state: (a) type of utilities required, (b) load sanctioned (c) sources and quality of water used quantum of coal, coke, oil etc. required and the suppliers of the same.
 - Pollution control:** The sewage system, and the sewage treatment plant, water harvesting system, arrangement for dumping and disposing of the other types of waste or emission all need to be discussed in the plan.



- v) **Transport and communication system:** Requirements for transportation and communication facilities, modes and means opted for, bottlenecks etc. are duly covered in by the business plan.
- vi) **Machinery and equipments:** A complete list of items of machinery and equipments required indicating their size, capacity, type, cost and sources of their supply should be disclosed.
- vii) **Production process:** A mention of the process involved in production, the installed licensed capacity of the plant, the technology to be used, whether available locally or imported, shifts involved, needs to be present in the business plan.

The target of this section of the plan is to save the entrepreneur from a potential disaster of time and cost later on. Here in the entrepreneur is able to assess and evaluate whether idea is feasible or not.

Describing the venture

1. *What is the mission of the new venture?*
2. *What are your reasons for going into business?*
3. *Why will you be successful in this venture?*
4. *What development work has been completed to date?*
5. *What are your product(s) and/or service(s)?*
6. *Describe the product(s) and/or service(s), including patent copyright, or trademark status.*
7. *Where will the business be located?*
8. *Is your building new? old? in need of renovations? (if renovation is needed, state costs.)*
9. *Is the building leased or owned? (State the terms)*
10. *Why is this building and location right for your business?*
11. *What office equipment will be needed?*
12. *Will equipment be purchased or leased?*
13. *What experience do you have and/or will you need to successfully implement the business plan?*

Source: Entrepreneurship by The McGraw Hill Companies.

III. Production Plan

"The planning of industrial operations involves four considerations, namely, what work shall be done, how the work shall be done and lastly, when and by whom the work shall be done."

– Kimball and Kimball Jr.





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Production, the most important activity of an enterprise, because it is here that transformation of raw material into finished product takes place with the help of energy, capital, manpower and machinery.

Being highly complex and tedious, the manufacturing operation needs to be well planned. No doubt it will be nature of venture which will decide the magnitude of importance and disclosure required under the production plan. Most likely there are three situations before the venture viz.



- a) **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.
- b) **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 involved
 - iv) Any contracts that have been completed etc.

In such cases, a clear mention of what entrepreneur intends to do himself and what he plans to get it done from outside is required.

- c) **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.

"Picturising ahead every step in a long series of separate operations, each step to be taken in the right place of the right degree, and at the right time and each operation to be done at maximum efficiency", quoted Alford and Beathy, is the objective of a production plan.

Hence, a production plan helps to plan the work in such a manner that one can clearly form an idea about:

- a) Production schedule and/or budget
- b) Machinery, equipment requirement
- c) Manufacturing method and process involved
- d) Plant layout



- e) Time, motion and work study
- f) Manpower requirement
- g) Inventory requirement

Production plan

1. Will you be responsible for all or part of the manufacturing operation?
2. If some manufacturing is subcontracted, who will be the subcontractors? (Give names and address)
3. Why were these subcontractors selected?
4. What are the costs of the subcontracted manufacturing? (Include copies of any written contracts)
5. What will be the layout of the production process? (Illustrate steps if possible)
6. What equipment will be needed immediately for manufacturing?
7. What raw materials will be needed for manufacturing?
8. Who are the suppliers of new materials and what are the appropriate costs?
9. What are the costs of manufacturing the product?
10. What are the future capital equipment needs of the venture?

If a retail operation or service:

1. From whom will merchandise be purchased?
2. How will the inventory control system operate?
3. What are the storage needs of the venture and how will they be promoted?
4. How will the goods flow to the customer?
5. Chronologically, what are the steps involved in a business transaction?
6. What are the technology utilization requirements to service customers effectively?

Source : Entrepreneurship by The McGraw-Hill Companies

IV. Operational plan

Operational plan is a system whereby there is achieved a smooth and coordinated flow of work within the factory so that, by planning and control of all the productive operations in all the stages of manufacture, the final product is completed in accordance with the plans.

– Wright





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Where the production plan aims at "plan your work", there operations plan ensures "work your plan". It is actually a blue print prepared right in advance of actual operations –

- i) Ensuing orderly flow of materials in the manufacturing process from the beginning (raw state) to the end (the finished products)
- ii) Facilitating continuous production, lesser work-in-progress and minimization of wastage.
- iii) Co-ordinating the work of engineering, purchasing, production, selling and inventory management.
- iv) Describing the flow of goods / services from production point to the consumers.
- v) Introducing a proper system of quality control
- vi) Undertaking the best and most economic production policies and methods.

Thus, the operational plan organizes for the movement of material, performance of machines and operations of labour, however sub-divided, into a defined direction, co-ordinating for the desired manufacturing results in terms of:

- a) Quantity
- b) Quality
- c) Time
- d) Place and
- e) Cost

Elements of operational plan:

The operation plan, in a way is planning:

- i) For production in advance of operations.
- ii) Establishing the exact route of each individual item, part of assembly.
- iii) Setting starting and finishing dates for each important assignment/work.
- iv) Regulating the orderly movement of goods through the entire manufacturing cycle i.e. right from procurement of all materials to the shipping of finished goods.

Thus, to obtain the above mentioned objectives, entrepreneur specifically pays attention to the following elements of the plan:

1) Routing

Routing is a process concerned with determining exact route or path a product/ service has to follow right from raw material till its transformation into finished product.

2) Scheduling

Scheduling, simply means 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.



3) **Dispatching**

The process of initiating production in accordance with pre-conceived production plan is said to be dispatching. This includes issuing necessary orders instructions, guidelines and/or information to work pertaining to giving practical shape to the production plan.

4) **Follow-Up**

Follow-up or expediting function relates to evaluation and appraisal of work performed. A properly planned follow-up procedure is helpful in dispatching errors and defects in the work. Follow-up element helps the entrepreneurs in:

- Developing ways to review the present situation with regard to materials, work-in-progress and finished goods.
- Evolving ways to expedite the performance of those departments which lag behind.
- Removing obstacles in the way of production by suggesting remedial measures.

5) **Inspection**

Inspection is the art of comparing materials, product or performance with established standards. This element helps the entrepreneur to set up laboratories or evolve strategies/methods to ensure predetermined quality of product/service.

6) **Shipping**

This section goes beyond the manufacturing process and describes the flow of goods / services from production to the consumers.

This part is a detailed presentation by the entrepreneur explaining the chronological steps in completing a business transaction efficiently and profitably. Operation plan is greatly effected by:

- Nature of venture
- Type of product/service
- Scale of operation, and
- Technology involved

V. **Organizational plan**

You may start any kind of business, but surprisingly, all of them will fall into one of the four basic categories:

- Manufacturing – a business that makes a tangible product.
- Wholesale – a business that buys products in bulk from the manufacturers to be sold in smaller lot to retailers.
- Retail – a business that sells directly to the final consumer for final satisfaction.
- Service – a business that sells intangible such as time or expertise.





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Thus, the organizational plan is that part of the business plan that describes the proposed venture's form of ownership.

Each type of business differs significantly in terms of:

- Commencement procedures
- Legal constraints
- Financial requirement
- Accounting methods
- Marketing and promotional strategies
- Risk and liability



That's why it is important to be able to categorise the business first and then to carefully choose a legal structure for it. As already dealt in detail in the beginning of the chapter, the entrepreneur have access to following forms to choose from to start his/her venture:

- Sole proprietorship
- Partnership
- Joint Hindu family
- Cooperative, or
- Corporation

We know, each of these forms has important implications on (i) Taxes (ii) Liability (iii) Continuity (iv) Financing (v) Ownership. You are already familiar with the merits and demerits associated with the different forms of organisation. No form is the best form. Entrepreneur in light of multiple factors (as already discussed) decides the legal structure, best suited to attain his/her dream.

Thus, the organizational plan is that part of the business plan that describes the proposed venture's opted form of ownership adequately mentioning:

- 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
- stake of members in the organisation
- roles and responsibilities of each member
- procedure for solving conflicts/disputes amongst members
- forms of payment for the members of the organisation
- voting rights, managerial and controlling rights of the members.

All this information provides the potential investor with a clear understanding of who controls the organisation and how other members will interact in performing their management functions.



As it is important to begin the new venture with a strong management team, committed to the goals of the enterprise, it is the organizational plan that helps the entrepreneur to carefully evaluate and decide that legal structure for his organization that could affect :

- Long-term effectiveness of the enterprise, and
- Profitability.

To conclude, both the entrepreneur and the potential investors stands to gain from the organizational plan as the design of the organization so opted helps even in:

- i) Specifying the types of skills needed and the roles that must be filled by the members i.e. helps to decide the enterprise's formal organisation, and
- ii) representing the attitudes, behaviours, dress, communication styles etc., thus chalking out informal organisation or culture.

Organization Structure

1. *What is the form of ownership of the organization?*
2. *In a partnership, who are the partners and what are the terms of agreement?*
3. *If incorporated, who are the principal shareholders and how much stock do they own?*
4. *How many and what type of shares of voting or non-voting stock have been issued?*
5. *Who are the members of the board of directors? (Give names, addresses, and resumes)*
6. *Who has the check-signing authority or control?*
7. *Who are the members of the management team and what are their backgrounds?*
8. *What are the role and responsibilities of each member of the management team?*
9. *What are the salaries, bonuses, or other forms of payment for each member of the management team?*

Source: Entrepreneurship by The McGraw Hill Companies.

VI. Financial plan

Finance is one of the most important pre-requisites to establish an enterprise. Availability of finance facilities the entrepreneur to bring together men, material, machines and methods to produce goods/services.

As timely availability of funds in right volume is key to entrepreneurial success, the entrepreneur should develop a sound financial plan discussing:

- a) Financial requirements
- b) Sources of raising funds
- c) Exact assessment of the revenue, cost, profits, cash flow dynamics, stock of inventory loans etc.





Troublesome Money

King C. Gillette invented the disposable razor and started the Gillette Company, which is a multibillion business today. But way back in 1901, Gillette's fledgling company was \$ 12,500 in debt – a lot of money then.

"We were backed upto the wall with our creditors lined up in front waiting for the signal to fired" – recalls Gillette.

Gillette managed to secure financing from a Boston Millionaire and saved his company.

THUS, AN ENTREPRENEUR MAY FACE EQUALLY INTENSE FINANCIAL CHALLENGES MANY TIMES.

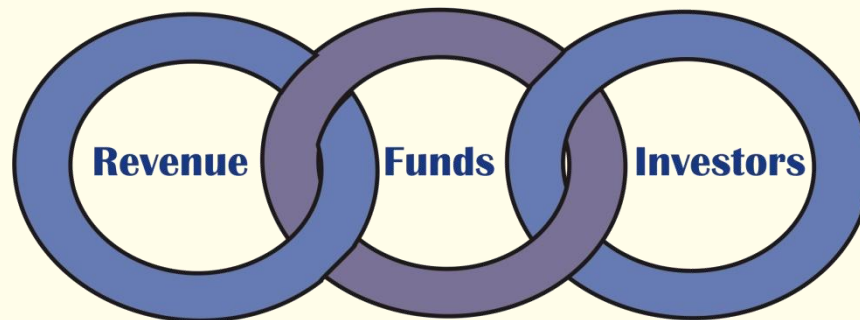
Financial plan is a projection of key financial data about:

- a) The potential investment commitment needed for the new venture, and
- b) Economic feasibility of the enterprise

To simplify, the financial plan is so designed that the entrepreneur and the investors could have a clear picture of:

- a) How much funds are required?
- b) Where will funds come from?
- c) How are they disbursed?
- d) The amount of cash available
- e) General financial well-being of the new venture i.e. probable revenue forecast for the first year at least.

Financial Plan



As the financial plan must explain to any potential investor how the entrepreneur plans to meet all financial obligations and maintain its liquidity in order to either pay off debt or provide good return on investment, several financial projection techniques and tools are made use of by the entrepreneur. In general, the financial plan will need three years of projected financial data to satisfy any outside investors.

HENRY FORD went bankrupt twice before the FORD MOTOR COMPANY succeeded.



Components of financial plan

Major financial items that should be included in the financial plan are:

- a) Proforma investment decisions
- b) Proforma financing decisions
- c) Proforma income statements
- d) Proforma cash flow
- e) Proforma balance sheet
- f) Break-even analysis
- g) Economic and social variables

A) Proforma investment decisions:

This part of financial plan relates to how the enterprise's funds are invested in different assets so that the enterprise is able to earn the highest possible returns on investment. An estimate of various components of capital nature i.e. fixed assets and of working capital should be clearly mentioned in this part of business plan.

Carefully, clearly and sequentially the entrepreneur should mention investment required in for:

- i) Land and building
- ii) Machinery and plant
- iii) Installation cost
- iv) Preliminary expenses
- v) Margin for working capital
- vi) Expenses on research and development
- vii) Investment in short-term assets viz. raw material, level of cash, etc.



This part helps to understand the total amount of finance required by the entrepreneur. Inadequate funds or excess funds, both have the capacity to severely damage the financial fortune of a business. Therefore, these decisions must be taken with utmost care.

B) Proforma financing decisions

This section summarizes all the projected sources of funds available to the venture to raise finance from, which you have already studied in previous class.

Typically, sources of funds are:

- i) owners i.e. Owner's funds
- ii) outsiders i.e. Borrowed funds

The entrepreneur's job is to ensure the selection of the best overall mix of financing for the enterprise so that:

- a) the cost of capital and the financial risk stands minimized,
- b) return on investment and profitability stands maximized.





C) Proforma income statement

The proforma income statement is the projected net profit calculated from projected revenue minus projected costs and expenses. Basically, it summarizes all the profit data during the first year of operations of the new enterprises.

In preparing the proforma income statement, 'sales by month' must be calculated first, making use of forecasting techniques as the basis. Following are the most commonly adopted techniques for forecasting:

- 1) Marketing research
- 2) Industry sales
- 3) Survey of buyers' intentions
- 4) Expert opinions
- 5) Financial data on similar start-ups
- 6) Some trial experience of self or others.



While calculating the projected sales and expenses, it is not important to be conservative for initial planning purposes. A reasonable profit that is earned with conservative estimates lends credibility to the potential success of the new venture.

D) Proforma cash flow

Profit and cash flow are not the same, when from sales we subtract expenses, the result is profit and when from cash receipts we subtract cash payments, the resultant figure is the cash flow. Proforma cash flow reflects the projected cash available with the enterprise as a result of subtracting projected cash disbursements from projected cash accumulations.

Cash flows only when actual payments are received or made. Mere sale which might be on credit, will not generate cash. Similarly, all bills are not paid immediately by the enterprises.

For simplification and internal monitoring of cash flow purposes, many new entrepreneurs prefer a simple determination of "Cash in LESS cash out", giving them a fast indication of cash position. The entrepreneurs find it difficult to project cash flows as determining the exact monthly receipts and disbursement is not so easy. Thus, while working out the cash flows, an entrepreneur normally follows a conservative approach, making some necessary assumptions so that enough funds could be maintained to cover the negative cash months.

E) Proforma balance sheet

This document helps the enterprise to reflect the position of the business at the end of its first year. A summary of the projected assets, liabilities and net worth of the entrepreneur is depicted through proforma balance sheet.

F) Break-even point

Every firm wants to maximise its profits. The Breakeven point is that level of volume of production at which firm neither makes a profit nor a loss. Here, the total revenue is equal to the total cost of a firm, at the given level of capacity.



Thus, calculation of BEP is quite useful for the entrepreneur as it helps in assessing:

- 1) The minimum level of output to be produced.
- 2) The effect of change in quantity of output upon the profits.
- 3) The selling price of the product.
- 4) The profitable options in line of production.

Thus, the break-even analysis is a useful technique for determining how many units must be sold or how much sales volume must be achieved in order to break-even. It helps to indicate the volume of sales needed to cover total variable and fixed expenses by the new enterprise.

G) Economic and social variables

In view of the social responsibility of business, the abatement costs, i.e. the cost of controlling the environmental damage should also be stated in the plan. It's always advisable to mention in the business plan, the socio-economic benefits expected to acquire from the proposed investment like:

- 1) Employment generation
- 2) Import substitution
- 3) Ancillarisation
- 4) Export promotion
- 5) Local resource utilization
- 6) Development of the area

Wherever, it is not possible to quantify the expected benefits, they should be analyzed and their importance emphasized.

VII. Manpower planning

Every organisation comes into existence when a number of persons join hands. All these people work to achieve the organizational goals set by the entrepreneur. Human resource is of paramount importance for the success of any organisation.

"The people working in a firm make it what it is."

— Hicks and Gullet

An organisation's performance and resulting productivity are directly proportional to the quantity and quality of its manpower. Thus, the best assurance that the enterprise will flourish, requires the entrepreneur to properly plan out for a rich and continuous supply of qualified personnel. In order to build up loyal, efficient and dedicated personnel, entrepreneur needs to pay adequate and proper attention to human resource planning.





This planning is a process by which an entrepreneur ensures that he/she has the right number of people, and the right kind of people with appropriate skills, at the right place and the right time to do work for which they are economically most suitable.

Manpower planning thus helps to assess:

- 1) What kind of people are required?
- 2) How many people are required?
- 3) How will they be selected?

1) What kind of people are required?

To carry on its work, each organisation needs personnel with the necessary qualifications, skills, knowledge, experience and aptitude for work.

Thus, as the most basic thing, the entrepreneur must clearly state: (a) what kind/type of person is required to be hired for getting his work done. (b) as each person would have a different positions, duties and responsibilities, it becomes imperative for the entrepreneur to clearly workout a wide range of personnel ranging from managers, supervisors, administrators, engineers, technical, skilled and unskilled class. (c) Nature of business activity helps entrepreneur to a large extent in deciding the type of manpower required.

2) How many people are required?

This question deals with the quantity of personnel the enterprise needs. The number of people required for various positions throughout the enterprise gets affected by:

- a) The total work to be done.
- b) How much work can an average person do in a specified period of time.
- c) Level of absenteeism expected.
- d) Rate of labour turnover.
- e) The present number of employees.
- f) The future plans for expansion and diversification.

3) How to procure personnel?

As the next step in manpower planning, entrepreneur clearly mentions the strategies, methods, policies, rules and regulations pertaining to personnels:

- Recruitment
- Selection
- Training.

Procurement of "right person, at right job, at right time" is the objective of human resource plan.



VIII. Marketing plan

Case Study-III

**EXACTLY 3.875 Inches Across WEIGHS 1.6 OUNCES
HAVE 178 SESAME SEEDS AND 19% FAT IN EVERY
MCDONALD BURGER WORLD ACROSS**

Ray Kroc, the president of McDonald's, did not invent or even improve the hamburger. He invented a new way of marketing hamburgers.

The Original McDonald's restaurant was a small hamburger stand in San Bernardino, California. Two brothers, Maurice and Richard McDonald, ran the stand.

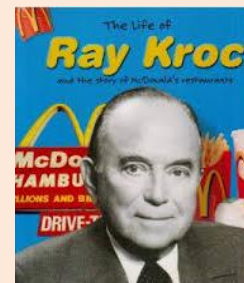
Kroc was a fifty-two years old salesman of Multimixers, the mixers the McDonald brothers used to make their shakes. When Kroc received an order for eight multimixers – enough to make forty milkshakes at once from these brothers, he flew out to see the business for himself.

With sales of over \$ 350,000 a year, McDonald's was one of the most successful little restaurants in America, which had the potential to expand around the country – BUT BOTH BROTHERS HATED TO FLY.

When Kroc flew in and formed a partnership with them and took care of franchising their business, they signed on the dotted line. Kroc's marketing strategy aided around –

- 1) *rigidly following McDonald brothers' original recipes even after buying them out.*
- 2) *rigidly ensuring that every customer from Anchorage to Miami get an identical product.*

MANY GREAT FORTUNES HAVE BEEN BASED ON A SINGLE MARKETING INSIGHT.



This section goes beyond the production process by describing the market conditions and strategies related to how:

- a) Products/services will be distributed,
- b) Priced
- c) Promoted.

This valuable document is a guideline regarding the marketing objectives, strategies and activities to be followed by the new enterprise. The marketing plan represents a significant element in the business plan for a new venture as it effectively establishes how the entrepreneur will complete and operate in the market place by providing answers to three basic questions:

1) **Where have we been?**

This segment focuses on:

- Some history of the market place,





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- Marketing strengths and weaknesses of the new venture,
- Market opportunities and threats.

2) Where do we want to go?

This primarily addresses the marketing objectives and goals of the enterprise in the next 12 months.

3) How do we get there?

This question discusses:

- a) the specific marketing strategy that will be implemented,
- b) when it will occur,
- c) who will be responsible for the monitoring of activities.

Normally, each year the entrepreneur should prepare an annual marketing plan so as to gel well with the changing business environment and its forces.

Facts Needed for Market Planning

- 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 has 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 marketing techniques are used by the most successful competitors and by the least successful?
- What are the overall objectives of the company for the next year and five years hence?
- What are the company's strengths and weaknesses?
- What are one's production capabilities by product?

Source: Entrepreneurship by The McGraw-Hill Companies



Steps in preparing the marketing plan

Potential investors regard the marketing plan as critical to the success of the new venture. Thus, the entrepreneur should make every effort to prepare it as comprehensive and detailed. Generally, procedure for preparing the marketing plan involves following steps:

1) Business situation analysis

'Where we have been?' - is the question responded to as the first step in designing the marketing plan. Mostly a review of past performance and achievements of the enterprise are stated here in but for a new venture, focus shifts rather towards:

- Personal profile of the entrepreneur
- Emphasis on products development
- What 'need' it satisfies
- Any other enterprise/experience of the entrepreneur
- Any marketing segmentation, if planned.

2) Identify the target market

For a new venture, it's very essential to define clearly the specific group of potential customers whose needs the enterprise aims to fulfill. This identification of the "target market" is pretty tedious task as it involves:

- Deciding what the general market or industry entrepreneur wishes to pursue is based, on market research or industry analysis done and complied with by competent people or the entrepreneurs.





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b) Divide the market into smaller groups based on:

i) Consumer's characteristics viz.

- Geographic (State, Country etc.)
- Demographic (Sex, age, etc.)
- Psychographics (Personality, life style, etc.)

ii) Buying situations viz.

- Buying conditions (time available etc.)
- Usage
- Desired benefits (features of product)

c) Select segment or segments to target.

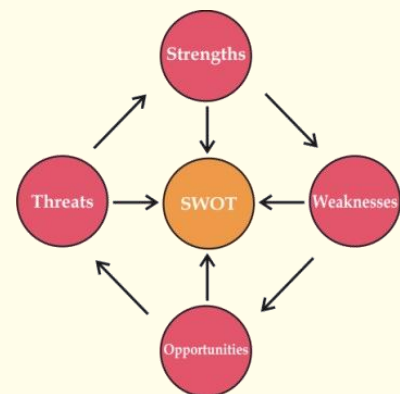
d) Develop a marketing plan integrating according to product, price, distribution, promotion.

3) Conduct SWOT analysis

It is important for the entrepreneur to consider in the 'target market' his/her enterprise's:

- Strengths
- Weaknesses
- Opportunities
- Threats

Marketing plan needs to consider the strengths and weaknesses of the new venture to ensure its success.



4) Establish goals

"Where do we want to go?" is answered well by establishing –

- realistic, attainable and well defined goals and objectives for the enterprises,
- quantifying the goals so that they could be measured for control purposes.
- setting standards to measure those goals which are qualitative in nature.
- limiting the goals to a specific number so that there are no chaos, confusions or overlapping. Otherwise, even controlling and monitoring will be difficult.

5) Define marketing strategy

"How do we get there?" demands specific activities to be outlined to meet the enterprise's so established goals and objectives. The marketing strategy and action plan comprise of decisions pertaining to the following 4 P's:

- Product
- Price
- Promotion
- Place



6) 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. It is important for the entrepreneur to be flexible and be prepared to make adjustments if necessary in the plan.

Outline for a marketing plan

1. Situation analysis
 - Background of venture
 - Strengths and weaknesses of venture
 - Market opportunities and threats
 - Competitor analysis
2. Marketing objectives and goals
3. Marketing strategy and action programs
4. Budgets
5. Controls

Source: Entrepreneurship by The McGraw-Hill Companies.

IX. Assessment of risk

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

- 1) identify potential hazards
- 2) develop alternative strategies to either prevent minimize or respond to the risk.

X. Appendix

The appendix of the business plan generally contains any backup material that is not necessary in 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. With the proper commitment and support from many experts these days preparing an effective plan is no more a Herculean task.





Outline of a Business Plan

- I. Introductory page
 - A. Name and address of business
 - B. Name(s) and address(s) of principal(s)
 - C. Nature of business
 - D. Statement of financing needed
 - E. Statement of confidentiality of report
- II. Executive summary – Three to four pages summarizing the complete business plan
- III. Industry analysis
 - A. Future outlook and trends
 - B. Analysis of competitors
 - C. Market segmentation
 - D. Industry and market forecasts
- IV. Description of venture
 - A. Product(s)
 - B. Service(s)
 - C. Size of business
 - D. Office equipment and personnel
 - E. Background of entrepreneurs
- V. Production plan
 - A. Manufacturing process (amount subcontracted)
 - B. Physical plant
 - C. Machinery and equipment
 - D. Names of suppliers of raw materials
- VI. Operational plan
 - A. Description of company's operation
 - B. Flow of orders for goods and/or services
 - C. Technology utilization
- VII. Marketing plan
 - A. Pricing
 - B. Distribution
 - C. Promotion
 - D. Product forecasts
 - E. Controls
- VIII. Organizational plan
 - A. Form of ownership
 - B. Identification of partners or principal shareholders



- C. Authority of principals
- D. Management-team background
- E. Roles and responsibilities of members or organization
- IX. Assessment of risk
 - A. Evaluate weakness of business
 - B. New technologies
 - C. Contingency plans
- X. Financial plan
 - A. Proforma income statement
 - B. Cash flow projections
 - C. Proforma balance sheet
 - D. Break-even analysis
 - E. Sources and applications of funds
- XI. Appendix (contains backup material)
 - A. Letters
 - B. Market research data
 - C. Leases or contracts
 - D. Price lists from suppliers

Source: Entrepreneurship by The McGraw Hill Companies.

SUMMARY

- ❖ Entrepreneurial activities are divided into three major categories: manufacturing, trading and service providing.
- ❖ Activities undertaken to earn monetary benefits are called economic activities.
- ❖ Activities done out of love and affection and not to earn monetary benefits are called non-economic activities.
- ❖ There are three main forms of enterprises: public sector, private sector, joint sector
- ❖ The business plan is a comprehensively written down document prepared by the entrepreneurship.
- ❖ It describes the internal & external elements involved in a new venture.
- ❖ It represents all aspects of business planning process.
- ❖ It embodies sub plans from diverse avenues of business, namely;
 - Marketing
 - Finance
 - Operations
 - Human
 - Legal
- ❖ A business plan is prepared by an entrepreneur with the assistance of experts & professionals from diversified fields
- ❖ A business plan is valuable not only to the enterprise but all the stakeholders who may be directly or indirectly associated with the enterprise.
- ❖ The four Cs of credit are: character, cash flow, collateral and contribution (equity)





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- ❖ The depth & detail in the business plan depend on the size & scope of the proposed new venture.
- ❖ Depending upon the entrepreneur's experience, knowledge and purpose, following are the basic components/parts of a business plan.
 - Executive summary
 - Description of venture
 - Operation plan
 - Financial plan
 - Manpower plan
 - Industrial analysis
 - Production plan
 - Organisational plan
 - Marketing plan
- ❖ The executive summary highlights in a concrete and convincing manner the key provisions in the business plan, yet stimulating the potential investors that the entire plan is worth reading.
- ❖ The objective of the production plan is to plan the work in a manner that each step to be taken in the right place, right degree, right time and more efficiently.
- ❖ The operations plan is the soul of business plan
- ❖ The organizational plan is that part of business plan that describes to proposed venture's form of ownership
- ❖ The financial plan is a projection of the financial data about the potential investment commitment needed for the new venture & economic feasibility of the enterprise.
- ❖ In order to build up loyal, efficient and dedicated personnel, entrepreneurs need to pay adequate and proper attention to human resource planning.
- ❖ The marketing plan is a guideline regarding the marketing objectives, strategies and activities to be followed by any enterprise
- ❖ Formalities for starting a business
 - Obtain a PAN Number from Income Tax Department
 - Open a current account
 - Register your company (Pvt. Ltd / Public Limited Company)
 - Register for Service Tax
 - Register for VAT / Sales Tax
 - Excise Duty (Check Applicability)
 - Customs Duty
 - File Entrepreneurship Memorandum at DIC (Optional)
 - Apply for TAN
 - Employees State Insurance (ESI) Scheme

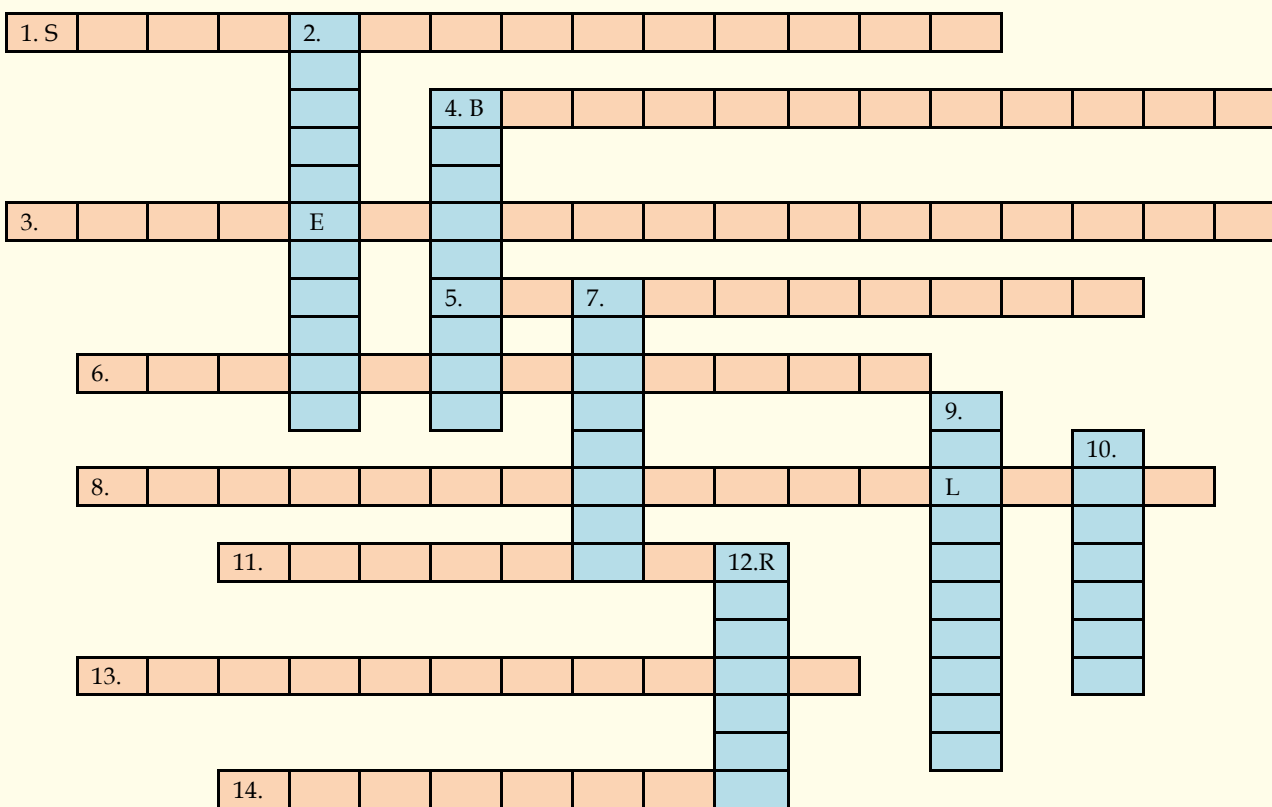


"Success is walking from failure to failure with no loss of enthusiasm."

- Winston Churchill



REVIEW CROSSWORD PUZZLE



Across:

1. A business unit whose ownership and management are vested in one person.
3. AMUL comes under this form of business
4. A financial statement that summarizes a company's assets, liabilities and shareholders' equity at a specific point in time.
5. Tax on the sale, or production for sale, of specific goods
6. A comprehensively written document prepared by the entrepreneur
8. Type of liability that does not exceed the amount invested
11. Total supply of personnel available
13. A tax levied on imports by the customs authorities of a country
14. The process of transporting an item, usually through by mail.

Down:

2. An association of two or more people
4. A point in a business venture when the profits are equal to the costs
7. The total amount of money being transferred into and out of a business
9. Something pledged as security for repayment of a loan
10. Synonym of 'useful'
12. Process concerned with determining the exact route or path of a product





LET'S REVISE

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A. Very short type question: (10 words)

1. Give any two contents of a business plan?
2. Who can write the business plan?
3. How many formats are available to design a successful business plan?
4. What is the meaning of shipping in the process of operational plan?
5. What is a proforma income statement?
6. What is break-even analysis?
7. What is meant by a target market?
8. What is TAN?

B. Short type questions (50 words)

1. What is a business plan?
2. What is elevator pitch?
3. What is a production plan?
4. Name the factors which affect the operational plan.
5. How many sources of funds are available for arranging funds for business enterprises?

C. Short type questions (75 words)

1. Briefly, explain the objectives of an operational plan.
2. Describe the contents of an organisational plan.
3. Which common techniques are required to calculate the forecasting income?
4. Write the steps in preparing a marketing plan.
5. What is PAN? Why is it required?

D. Long type questions (100 words)

1. What is an operational plan? Discuss its blue print.
2. Define organisational plan? A business can be classified in how many categories?
3. How many choices are there to start a business by a business man? Explain each of them
4. What are the key areas, for a sound financial plan to work?
5. What are the major financial items that should be included in the financial plan?

E. Long type questions (250 words)

1. What is a business plan? Explain its importance.
2. Describe the different elements of an operational plan.
3. What is a financial plan? What are its objectives?



4. Explain the investment decision under the financial plan? In which areas should the investment should be on the basis of priority?
5. What is manpower planning? Why is it necessary for every business unit?
6. What is a marketing plan? Why is it required in business enterprises?
7. Explain, in detail, the various formalities required to start a business.

F. HOTS (High Order Thinking Skills)

1. A person has decided to start a small leather belt manufacturing unit. He/she is not aware of the various formalities involved in the process of setting up the unit. Explain to him/her the procedure.

G. Value based questions

1. The first stage of a business plan is to come up with a business name supposing you are an entrepreneur, who is in the stage of deciding a business name for your enterprise would you:
 - a) Keep the name of your enterprise, similar to one of the enterprises that are already doing really well in the same line of business?
 - b) Select/create a completely new name for your enterprise and create a brand name of your own? Give reasons. (Honestly)
2. An entrepreneur is doing an industry analysis. While he/she is analyzing his/her competitions in his/her line of business, he realises that the competitors are far better in their business plans and their execution. Should the entrepreneur add unique selling point in the existing plan to get a creative niche above others or should he/she go for a completely different line of business where the competition is less and he/she is easily able to place his/her feet in the market? Give reasons. (creativity and problem solving)
3. You are an entrepreneur who is deciding the operational plan for your business. While deciding the technology to be used, you come across three alternatives:
 - a) Use a cheaper technology which lets you dispose of the waste water and lets you fix the price of your product low.
 - b) Use a technology that is a little expensive as it lets you recycle that waste water into water fit for drinking. In this case, you will have to fix the price a little higher in order to earn profits.
 - c) Use the technology that recycles the waste, do not change the price. And go about cost cutting though efficient utilization of resources.

Give reasons for your selection of an alternative

4. An individual wants to start an enterprise that manufactures steam iron which can be imported from Germany. The material available in Germany is a little better in quality. However, there are no safety issues with the one available in India, which material would you go for and why? (social responsibility, import substitution).





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5. While doing the manpower planning an entrepreneur, decides to keep less qualified manpower and give them low wages and salaries to enable higher profits. Do you think his/her approach is correct and justified, why?
6. According to you, what kind of organisational set up is better – an autocratic form of an organization where there is absolute centralization of power and the communication from is from top to bottom.

OR

A democratic form of an organization where power is decentralized and communication from both the ends. Justify?

7. Raghav, an entrepreneur realises that the enterprise he wants to start, has a potential risk of fire accidents because the production process poses such a threat. Should he develop strategies to:
 - a) Prevent the risk
 - b) Respond to the risk
 - c) Prevent as well as respond to the risk? Give reasons

H. Activity based questions

1. There are a lot of firms that use corporate social responsibility (CSR) as a tool for marketing and promotion. For example ITC, P & G etc.
Devise a marketing plan for a clothing brand which uses CSR as a tool for marketing. Your marketing plan should include:
 - i) Pricing
 - ii) Place
 - iii) Promotion
 - iv) Production forecasts
 - v) Controls
2. You are an individual who wants to create an enterprise that produces chocolates. Develop a competition analysis, considering the giants that almost control the market (Nestle, Cadbury etc). Prepare a detailed SWOT (strengths, weaknesses, opportunities and threats) analysis of your enterprise and devise a strategy that gives you an edge over your competitors.

