

How to Set-Up an Enterprise

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Decision to be an Entrepreneur

It All Begins with an Idea

The overriding reason for anyone to think of establishing a SSI unit can be summarized in one word - opportunity. An opportunity to be your own boss, to provide a product or service, to implement your ideas which can generate sufficient surplus is reason to think of starting up a SSI unit.

Starting a small business takes a lot of courage. To be successful - to stay in business - you need a combination of hard work, skill and perseverance.

Generally, people who start their own businesses can be grouped into two broad categories. The first group consists of people who know exactly what they want to do and are merely looking for the opportunity or resources to do it. These people may have already developed many of the skills necessary to succeed in their chosen field and are also likely to be familiar with industry customs and practices, which can help during the startup phase of a new business.

The second group consists of people who want to start their own business, but don't have any real definite ideas about what they'd like to do. They may have developed skills in the course of their employment or education, but may not be interested in opening a business in the same field of Endeavour.

How a person will proceed depends on, mainly, to which group they belong to. To evaluate the aptitude for small business ownership, an entrepreneur needs to:

Understanding the Responsibilities of Ownership.

Before starting a business entrepreneur should know what's involved in owning a business and what are the roles s (he)'ll have to play if they start on their own one? Most important fact to keep in mind is - Owning a small business is not just another job but a lot more than that. You are totally and completely responsible for its growth, development and its future. It's a completely different lifestyle. Entrepreneurs have to ask themselves whether they are ready for a complete commitment to the success of their business.

As a small business owner, entrepreneurs are going to have less time for their personal life and probably be using much of what they own as collateral to raise money for the business. The pros and cons of owning a business are listed below.

Pros:

1. You'll be your own boss and the boss of other people and make the decisions that are crucial to the business' success or failure.
2. You'll have the chance to put your ideas into practice.
3. You will make money for yourself rather than for someone else.

4. You may participate in every aspect of running a business and learn more about every aspect of a business and gain experience in a variety of disciplines.
5. You'll have the chance to work directly with your customers.
6. You'll have the personal satisfaction of creating and running a successful business.
7. You'll be able to work in a field or area that you really enjoy.
8. You'll have the chance to build retirement value (for example, by selling the business when you retire).
9. Last but not the least anyone can fire you.

Cons:

1. You may have to take a large financial risk and will probably have to work long hours and may have fewer opportunities to take vacations.
2. You may end up spending a lot of your time attending to the details of running a business and less time on those things you really enjoys.
3. You may find that your income is not steady and that there are times when you don't have much income coming in at all.
4. You may have to undertake tasks you find unpleasant, such as firing someone or refusing to hire a friend or relative.
5. You may have to learn many new disciplines, such as filing and bookkeeping, inventory control, production planning, advertising and promotion, market research, and general management.

Special Pros and Cons of the Home-Based Business:

1. Your startup costs will be lower.
2. Your operating costs will be lower than they would if you were renting space and paying utilities.
3. Your commute will be shorter.
4. If your location is unimportant to your business, you can theoretically live anywhere and still operate your business.
5. You may be more flexible in your schedule if your business can be conducted at your convenience or outside "normal" weekday business hours.
6. On the other hand, you're much more vulnerable to interruptions from family members, neighbors, and door-to-door salespeople.
7. You may have trouble attracting qualified employees.
8. You may be less accessible to suppliers.
9. You may have an image problem, although with the growing popularity of home businesses, that's less common.
10. You may run out of space at home if your business grows.

Ability to Set Your Goals

What do you want from your business? If you want to "succeed," how will you know if you get there? What should be the next goal once you reach the initial goal. Knowing what you want from your business permeates all of the other decisions you'll have to make in starting a new business. It will affect which business you choose, how you evaluate your chances for success, and how you determine if you have the right skills.

Estimate the Impact on Your Everyday Life

Your life will change completely once you start your own business. Try to comprehend the degree to which your life is going to change when you become a business owner? Many of the more "secure" aspects of employee life does not exist/ will vanish once you open up your own business. You might have to be perform more than one function, work at all irregular hours, juggle between business and household demands. You will need to reprioritise your schedule, work and personal life.

Evaluate Your Skills

Evaluate your own skills and make judgments about whether you're ready to own your own business. There are many entrepreneurial quizzes available on the net and with Entrepreneurship Development Institute, which test your entrepreneurial capabilities.

Assessing Your Strengths

Successful small business owners know their own strengths and weaknesses. They build their businesses around their strengths and they compensate for their weaknesses. If you're to succeed, you'll have to be able to identify what you do well and what you don't do so well.

While evaluating yourself, be honest otherwise you'll only hurt yourself if you're not. Also, don't panic if you discover that you have weaknesses. Every one including small business owner has them. The key to success is not so much in having every skill as it is in finding ways to compensate for those weaknesses.

By evaluating yourself, you are making a list of what you like to do and what you don't like to do. Generally, you like to do things you are good at and you don't like doing things you're not good at. It's a simple approach, but it should help you start to focus.

Preparation of Business Plan

A Business Plan is a document where you plan your Business to have an organized and effective response to a situation which may arise in future. Business plan is not just for a start up company but also for those which are growing. It can be used it to establish realistic goals or targets to achieve and to determine the current position. A workable business plan.

1. Determine where the company needs to go
2. Forewarn of possible roadblocks along the way
3. Formulate responses to contingencies
4. Keep the business on track to reach its planned goals

Start a business plan with describing your business and product or services. Tell about the market you are targeting and the stage of development your company is in. If you get stuck up on a particular part of the plan-leave it for time being-and come back later and finish it . You can't make a perfect first draft- so just get some thoughts down to start the process and you can always come back and change it or polish it up later. While making a business plan keep following points in mind.

Keep Target Audience in Your Mind

While writing your business plan keep in mind the intended audience and why you are writing the plan. For example, if you are trying to get debt financing emphasis should not be on the huge profit potential - but on the certainty that the debt can be repaid. If you are writing a plan to help you run

the business better you may start with general background information on the company and the industry, and focus on the areas of your plan that are currently most important to you.

Strategy - Core of Your Business Plan

Basically the first part of the business plan should be geared towards helping develop and support solid business strategy. The plan should explain the market, the industry, target customers and competitors. Write about customer needs and the benefits of current products and services. Evaluate the strengths and weaknesses of each competing firm and draw out the opportunities for your product or service in the marketplace. All of these steps largely aims to help you in creating a strategy for your business. The second half of the business plan should explain how to execute your selected business strategy. Your products and services, your marketing and operations should all closely tie in with your strategy. Have a strategy that will set the course for your business rather than having a smart-sounding strategy for your plan,

Think Competitively Throughout Your Business Plan

In present competitive market, you would probably be facing some serious competition sooner or later no matter how unique your business idea is. You need to think competitively throughout your business plan. As an entrepreneur, you need to identify where you will do things in similar manner as your competitors, where you will do things differently, what will be your real strengths and real weaknesses, where will you create your niche. Focus your plan on being different than your competitors and compete with existing players less directly. Find a particular market niche to focus on. Think over the points, can you find a unique strategy? Can you position your products differently? Can you use different sales or marketing vehicles? Your business plan should be able to answer these questions.

Be Realistic With Your Business Plan

Lots of business plans sound good on paper, but don't work in the real world marketplace. It's difficult to attract people to a new product or service, just because it's better. People or companies have established buying patterns and are currently doing business with someone else. To do business with you, it takes more than attracting them to your business. You've got to steal your customers from someone else's business and create your own base of loyal customers. It is possible that your competitors may launch new products or services or cut their prices to counter your entry in the current market. For a new start up company it's easy to overestimate sales projections as it's easy to underestimate costs. There are always going to be some unseen expenditure, hefty amount of cost overruns, expensive problems, and items that you simply overlooked. So forecast conservatively and try to have an extra cushion of cash tucked in reserve.

Tips on Creating Plans

People

In seeking fund from banks, venture capitalists or other outside investors, you will increase your chances of success if you get someone committed to your management team who at least have a recognizable name.

Alternately, you can include as exhibits to your plan any positive media clippings you can find, such as items from trade publications, about members of your management team. If you don't have any clippings, try contacting relevant publications to get media coverage-perhaps about your start-up business proposal.

Keep Your Business Plan Factual and Succinct

Try to keep the plan factual; don't use hyperbole or generalizations to describe the potential of your business plan. Use more factual information you present to reach their own conclusions. Keep it succinct. Don't put too much detail when creating plans. If a business plan is too long, it might be skimmed and focus on what is really important might be lost.

Involve Everyone

Involve use expert opinion or key employees to create business plan. Then work with them until you are satisfied. Have key people get together to get the plan in synchronised fashion and to get any disagreements out in the open. The more input people have in creating the plan, the more responsibility they will feel toward it.

Legal Aspects

Registering SSI Unit

Small Scale and ancillary units (i.e. undertaking with investment in plant and machinery of less than Rs. 6.0 million and Rs. 7.5 million respectively) should seek registration with the Director of Industries of the concerned State Government.

The main purpose of Registration is to maintain statistics and maintain a roll of such units for the purposes of providing incentives and support services.

States have generally adopted the uniform registration procedures as per the guidelines. However, there may be some modifications done by States. It must be noted that small industries is basically a state subject. States use the same registration scheme for implementing their own policies. It is possible that some states may have a 'SIDO registration scheme' and a 'State registration scheme'.

Benefits of Registering

The registration scheme has no statutory basis. Units would normally get registered to avail some benefits, incentives or support given either by the Central or State Govt. The regime of incentives offered by the Centre generally contains the following:

1. Credit prescription (Priority sector lending), differential rates of interest etc.
2. Excise Exemption Scheme
3. Exemption under Direct Tax Laws
4. Statutory support such as reservation and the Interest on Delayed Payments Act

(It is to be noted that the Banking Laws, Excise Law and the Direct Taxes Law have incorporated the word SSI in their exemption notifications. Though in many cases they may define it differently. However, generally the registration certificate issued by the registering authority is seen as proof of being SSI).

States/UTs have their own package of facilities and incentives for small scale. They relate to development of industrial estates, tax subsidies, power tariff subsidies, capital investment subsidies and other support. Both the Centre and the State, whether under law or otherwise, target their incentives and support packages generally to units registered with them.

Objectives of the Registration Scheme

They are summarized as follows:

1. To enumerate and maintain a roll of small industries to which the package of incentives and support are targeted
2. To provide a certificate enabling the units to avail statutory benefits mainly in terms of protection
3. To serve the purpose of collection of statistics
4. To create nodal centres at the Centre, State and District levels to promote SSI

Features of the Scheme

Features of the scheme are as follows:

1. DIC is the primary registering centre
2. Registration is voluntary and not compulsory.
3. Two types of registration is done in all States. First a provisional registration certificate is given. And after commencement of production, a permanent registration certificate is given.
4. PRC is normally valid for 5 years and permanent registration is given in perpetuity.

Provisional Registration Certificate (PRC)

1. This is given for the pre-operative period and enables the units to obtain the term loans and working capital from financial institutions/banks under priority sector lending.
2. Obtain facilities for accommodation, land, other approvals etc.
3. Obtain various necessary NOC's and clearances from regulatory bodies such as Pollution Control Board, Labor Regulations etc.
4. Application form for Provisional Registration

Permanent Registration Certificate

Enables the unit to get the following incentives/concessions:

1. Excise exemptions
2. Income-Tax exemption and Sales Tax exemption as per State Govt. Policy.
3. Incentives and concessions in power tariff etc.
4. Price and purchase preference for goods produced.
5. Availability of raw material depending on existing policy.
6. Application form for Permanent Registration
7. Certificate for Permanent Registration
8. Appendix A and B
9. Affidavit

Procedure for Registration

Features of the present procedures are as follows:

1. A unit can apply for PRC for any item that does not require industrial license which means items listed in Schedule-III and items not listed in Schedule-I or Schedule-II of the licensing Exemption Notification. Units employing less than 50/100 workers with/without power can apply for registration even for those items included in Schedule-II.
2. Unit applies for PRC in prescribed application form. No field enquiry is done and PRC is issued.
3. PRC is valid for five years. If the entrepreneur is unable to set up the unit in this period, he can apply afresh at the end of five years period.
4. Once the unit commences production, it has to apply for permanent registration on the prescribed form.

5. The following form basis of evaluation:
6. The unit has obtained all necessary clearances whether statutory or administrative. e.g. drug license under drug control order, NOC from Pollution Control Board, if required etc.
7. Unit does not violate any locational restrictions in force, at the time of evaluation.
8. Value of plant and machinery is within prescribed limits.
9. Unit is not owned, controlled or subsidiary of any other industrial undertaking as per notification.

De-Registration

A Small Scale Unit can violate the regulations in the following ways which will make it liable for de-registration:

1. It crosses the investment limits.
2. It starts manufacturing any new item or items that require an industrial license or other kind of statutory license.
3. It does not satisfy the condition of being owned, controlled or being a subsidiary of any other industrial undertaking.

Labor Laws

The small units manufacturing items reserved for manufacture in small scale sector do not require any prior license. This is a major relaxation where no licensing or restriction in production in small scale sectors exists. The Locational restrictions have also been minimized. Similarly, Labor Act has simplified in 1988 to assist the small establishments. The Act, namely "Labor Laws (exemption from furnishing returns and maintaining registers by certain establishment) Act, 1988" covers labor related acts and thus provides:

1. Establishment employing 10-19 persons require to maintain only 3 register and to submit an annual core return only.
2. Establishment employing less than 10 persons to maintain only 1 register and submit only an annual core return.
3. Only one Inspector will be responsible for various labor laws, except in case of Factory Act and Boiler Act.
4. The Labor Minister has also accepted in principle to transform the enforcement of labor laws for SSI's from a regime of regulation to an era of self-discipline and voluntary compliance.

Marketing

Marketing is an important tool to be used while setting up your business. Study, but don't necessarily copy your competitor's moves. Visit their businesses, watch their ads, figure out their strategies, and keep your eyes open. You may not be able to keep up with your competitor's strategy move by move. You should, however, be ready and able to blunt or block the impact of their moves through effective marketing. Then, later, you can make your own offensive move at your own pace.

Build a Successful Marketing Plan

A good marketing plan summarizes the who, what, where, when, and how much questions of company marketing and sales activities for the planning year:

1. Who are target buyers?
2. What sources of uniqueness or positioning in the market will/ does your product have?
3. Where will you implement your marketing spending plans?
4. When will marketing spending plans occur?
5. How much sales, spending, and profits will you achieve?

The financial projections contained in your business plan are based on the assumptions contained in your marketing plan. It is the marketing plan that details when expenditures will be made, what level of sales will be achieved, and how and when advertising and promotional expenditures will be made.

The major elements of a marketing plan:

1. The situation analysis describes the total marketing environment in which the company competes and the status of company products and distribution channels.
2. The opportunity and issue analysis analyses the major external opportunities and threats to the company and the internal strengths and weaknesses of the company, along with a discussion of key issues facing the company.
3. The goals and objectives section outlines major company goals and the marketing and financial objectives.
4. The marketing strategy section provides the company's marketing strategy statement, summarizing the key target buyer description, competitive market segments the company will compete in, the unique positioning of the company and its products compared to the competition, the reasons why it is unique or compelling to buyers, price strategy versus the competition, marketing spending strategy with advertising and promotion, and possible R&D and market research expenditure strategies.
5. The sales and marketing plan outlines each specific marketing event or action plan to increase sales. For example, it may contain a summary of quarterly promotion and advertising plans, with spending, timing, and share or shipment goals for each program.

Market Your Product or Service

Some of the ways to market your product or service are

1. Write letters (on issues and news items that have SOME relation to your business) to the editors of local papers.
2. Have give-away's (e.g. bookmarks or pens) that are useful and give details of your business. Distribute, with the aid of friends and family, everywhere.
3. Send news releases about your products and your business to local papers, radio and TV shows.
4. Take out an ad in a publication of a local group, school anniversary bulletin.
5. Offer to make presentations, on a topic related to your product or service, at schools.
6. Keep your eyes open for "specialized" newsletters, newspapers, or other publications which might welcome an article written by you.
7. Get on the Internet and connect to the world with your own home page.

Remember marketing is the face you show to public, highlighting uniqueness and quality of the product. Check the content and layout before releasing an advertisement or distributing pamphlet. Marketing is becoming an ever important tool in present competitive scenario, tell what your product or services can do, but don't promise what you can not deliver.

Finance and Working Capital to Start Business

Arranging Finance

To start and set up their business all SSI units need monetary support. Before seeking fund estimate the cost including that of working capital required for a minimum of 6-8 months and always keep a provision for buffer. you can take help of an CA or concerned officials in Entrepreneurship Development Institutes to work out the total financial cost of your project. Decide the form in which you are going to raise the capital i.e. should it be equity finance, debt finance, loans or a combination of these.

The financial assistance in India for SSI unit is available from a variety of institutions. The important ones are

1. SIDBI: Small Industries Development Bank of India (refinance and direct lending)
2. SFC's: State level Financial Corporation e.g. Delhi Financial Corporation (DFC), Gujarat State Financial Corporation (GSFC).
3. NSIC: National Small Industry Corporation.
4. Small Industry Development Corporations of various states.
5. Commercial/Co-operative Banks.
6. DIC: District Industry Centre.
7. In addition, large term loans are also available from All India financial institutions such as IDBI, IFCI and ICICI. The EXIM Bank (Export Import Bank of India) and the ECGC (Export Credit and Guarantee Corporation) are Federal agencies which provide credit for export/import and exam guarantees respectively.

This need for finance can be classified into following types:

1. Long and medium term loans
2. Short term or working capital requirements
3. Risk Capital
4. Seed Capital/Marginal Money
5. Bridge loans

Long and medium term loans are provided by State Financial Corporations, SIDBI and State Industrial Development Corporations. Banks also finance term loans. This type of financing is needed to fund purchase of land, construction of factory building/shed and for purchase of machinery and equipment. The term loans are secured against mortgage of assets such as land, building, machines, equipment and other stocks. The short term loans are required for working capital requirements, which fund the purchase of raw material and consumable, payment of wages and other immediate manufacturing and administrative expenses. Such loans are generally available from commercial banks.

There is, however, a SINGLE WINDOW SCHEME, for SSI units. Under the scheme, one agency, either the bank or the financial institution, funds both the term loan and working capital requirements. This scheme applies to all SSI projects with project cost up to Rs 50 Lakhs. The working capital loan is generally secured against

1. Pledging of stocks, raw materials and finished goods,
2. Advances against work-in-progress (WIP),
3. Advance against bills.

For loans from financial institutions and commercial banks a formal application needs to be made. The details of documentation that need to be provided with the loan application is shown here.

1. Documentation for Loan Application
2. Balance Sheet and Profit Loss Statement for last three consecutive years of firms held by promoters
3. Income Tax Assessment Certificates of Partners/Directors
4. Proof of Possession of Land/Building
5. Architects estimate for construction cost
6. Partnership deed/Memorandum and Articles of Associations of Company.
7. Project Report
8. Budgetary Quotations of Plant and Machinery

A sanction or rejection letter is issued by bank after its assessment of the application. After receiving sanction letter applicants need to indicate in writing their acceptance of terms and conditions laid down by FI/ Banks.

Subsequent loan is disbursed according to the phased implementation of the project.

In today's environment there are other choices apart from commercial banks and Government owned financial institutions. These options include venture capital funds and non-government finance companies.

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