

**SUBJECT— BUSINESS ORGANISATION**

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**BY::**

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# **PROCESS OF SETTING UP A BUSINESS ENTERPRISE**

The major steps involved in the process of setting up a new business enterprise include the following.

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

## **Step 1: Identification of Business Opportunity**

Business opportunity refers to a business idea which can be converted to a profitable business.

The world of business offers a number of business opportunities, but not many people can identify them. An entrepreneur should be able to identify such business ideas which can be converted to profitable business ventures. While choosing an idea to work with, an entrepreneur has to be very careful about the line of business (manufacturing, trading or service) as any mistake made in taking such a decision may prove to be very costly. Moreover, the entrepreneur should also ensure that there is an adequate market for the product or service that he wants to offer in the market and that the rate of return on the investment is sufficient.

## **Step 2: Generation of Business idea**

This stage requires generation of an idea that can be converted into a business. The idea should be able to yield a reasonable return on investment i.e. it should be worthwhile for implementation. A business idea may be discovered from the following sources.

1. **Observing Markets:** The promoter should study the market to find out the demand and supply position for various products. He should then estimate the future demand after taking into account the anticipated changes in income levels, fashions etc. market surveys can also reveal competition and price trends. From the data collected through market

surveys, the promoter should try to identify those products and industries where demand exists and supply needs to be increased.

**2. *Prospective Consumers:*** Contacts with prospective consumers can give an idea of the features that should be built into the product/service. It is also important to collect data on customer needs and preferences before choosing the product to be manufactured. A market test of the prototype product can be conducted before launching the product in the market.

**3. *Study of Project Profiles:*** Various publications of public and government agencies on various projects and industries is an important source of business ideas. Such project profiles describe in detail the prevailing market situation and the technical and financial requirements of different projects. A careful analysis of such details can bring out the most promising projects which can then be taken up for further evaluation.

**4. *Developments in Other Nations:*** An entrepreneur can discover good business ideas by keeping good knowledge about developments in advanced nations of the world. Underdeveloped and developing countries prove to be a good market for those products which are the 'in things' in developed nations. An entrepreneur can also visit foreign markets to explore the possibility of a foreign collaboration and to discover other types of business ideas.

**5. *Trade Fairs and Exhibitions:*** A visit to national and international trade fairs and exhibitions can provide information about various products. It is also a good place to explore possibilities of collaboration and dealership and gives a fair idea of the existing competition in the market.

While selecting the business idea, the following points need to be considered.

1. There must be sufficient demand for the proposed product or service.
2. The idea should require such capital, technical know how, raw material and other inputs which the entrepreneur can arrange for.
3. The idea must ensure a reasonable return on investment.

### **Role of Creativity and Innovation**

Creativity and innovation are two important traits of a successful entrepreneur. Creativity means the ability to bring something new into existence. Innovation is the process of doing new things or doing old things in a new way. Creativity is the process of generating new ideas whereas, innovation involves translation of ideas into a new business opportunity. Creative ideas are of no use unless and until they are converted into useful products or services through innovation.

### ***Stages in Creativity Process***

A creative idea evolves through a process consisting of the following stages.

1. ***Germination:*** A person with imagination and curiosity germinates an idea. For instance, Newton's curiosity about apple falling from the tree led to the law of gravitation.
2. ***Preparation:*** Once the idea is germinated, efforts are directed towards how to convert the idea into a useful product or service. In case the idea relates to a new product, information about consumer buying habits, product design, material requirement etc. may be collected.
3. ***Incubation:*** Incubation is a stage of fantasizing and mulling over. This is the stage when the

creative person allows the idea to incubate in his subconscious mind. The person in his subconscious mind gets enough time to assimilate information about the idea and ponder over it.

4. ***Illumination***: Illumination occurs when the idea resurfaces in a catalytic event. Several cycles of preparation and incubation may be repeated until the idea takes some realistic shape.

5. ***Verification***: An illuminated idea requires verification before it is accepted as a realistic and useful application. During the verification stage many ideas may be rejected because they are of little practical relevance.

### ***Invention and Innovation***

Though both invention and innovation require a lot of creativity, they are entirely different processes. Innovation is the discovery of some new material or method. The resulting idea of an inventor did not exist before. For example, mathematical calculators and microelectronics were inventions. Innovation may occur in several forms – introduction of a new product, a new method of distribution, opening of a new market, locating a new source of raw material,

On the other hand, innovation is a new combination of existing knowledge that results in a useful and commercially viable product. For example, micro-computer is an innovation made by combining the inventions mentioned above. Thus, an inventor produces ideas and adds to the existing knowledge. In contrast, an innovator implements the ideas to come up with new products and services to satisfy human wants.

### **Step 3: Feasibility Study**

Feasibility study is a detailed study done by an entrepreneur to ensure that the project is viable.

The feasibility study should contain an analysis of the following.

a. Technical Aspect

b. Commercial Aspect

c. Financial Aspect

d. Socio-economic Aspect

**Technical aspect:** The technical feasibility of a project involves a critical study of the factors such as location, size of the plant, raw materials and labour, machinery and equipment, infrastructure etc. Here the entrepreneur should ensure that the location of plant and the site selected is such that it permits cost-effective operations of business.

Also, in determining the size

of the plant, it should be remembered that if the plant size is smaller than the optimum size, cost of production increases. An entrepreneur must also examine whether the required raw material, machinery and equipment and infrastructure is available for carrying out the operations.

**Commercial Aspect:** Technical feasibility of a project has no meaning if the project is not commercially viable. Commercial viability of a project requires a study of the present and potential demand for firm's product in national and international markets. It also requires an analysis of margin of profit, degree of competition, market stability etc. Sometimes the services of an expert may be required to find out the commercial viability of the project.

**Financial Aspect:** Financial viability of the project can be judged on factors like total estimated cost of the project, projected cash flow and profitability, financing of the project with reference to the capital structure, promoter's contribution to the total project cost etc.

**Socio-economic Aspect:** A social cost-benefit analysis should be made to judge the national viability of the project. Every project entails some costs to the nation and produces certain benefits. The contribution of the project to social objectives such as employment generation, development of infrastructure, development of backward areas, earning foreign exchange, import substitution etc. is evaluated.

Once the feasibility study is completed, an indepth analytical study of the project is made to decide selection or rejection of the project. Such an analysis is known as **project appraisal**.

Once the project is selected, the findings of the feasibility study are presented in the form of a **Project Report**. This project report is needed to get sanction for the project from the concerned authorities, including financial institutions.

#### **Step 4: Preparation of Business Plan**

Business plan is an important document prepared by the entrepreneur that describes various elements involved in starting a new enterprise. It is often an integration of functional plans such as marketing, finance, production, personnel etc. Business plan serves the following objectives:

- a. It indicates the actions to be taken to implement the project.
- b. It helps the entrepreneur in raising necessary funds.
- c. It helps in measuring the progress of the venture at successive stages
- d. It informs investors, suppliers, creditors and other stakeholders about the programme of the entrepreneur.

#### **Contents of a Proposed Business Plan**

1. General Introduction- name and address of business and entrepreneurs, nature of business
2. Description of Venture- products and services to be offered, scale of business operations, type of technology to be used
3. Organisational Plan- form of ownership (sole proprietorship, partnership or joint stock company), identification of business partners, roles and responsibilities of members of the organisation
4. Production Plan- details of manufacturing process, type of plant and machinery, raw material

to be used

5. Marketing Plan- products and services offered, pricing policies, distribution channels, promotional strategies

6. Financial Plan- fixed and working capital requirements, sources of capital, cash flow projections, break even analysis

7. Appendix- market research report, price lists from suppliers, contingency plans

### **Step 5: Launching the Enterprise**

After preparing the business plan, the entrepreneur assembles the necessary resources to launch the enterprise. He collects the required funds and acquires land and buildings, plant and machinery, furniture and fixtures, raw materials, employees etc. Once this is achieved, it is necessary to ensure that the project is implemented properly and it has smooth and uninterrupted operation.

### **Questions (assignment)**

1. Discuss the benefits of Franchising to the franchiser and the franchisee.
2. Write brief notes on the following:-
  - a. Network marketing.
  - b. Business Process Outsourcing.
3. Discuss the concept and benefits of e-commerce.
4. What is meant by M-commerce? State the opportunities of M-commerce.
5. What entrepreneurial decisions are required to be taken while setting up a business enterprise?

