

---

*"Research is the word which moves me. It gives me all kinds of perspectives in my mind. In the larger sense of the word, research looks upon it as something more than that: as something leading a community or country forward or humanity forward in its march towards the goal that it has."*

— Jawaharlal

---

## CHAPTER 15

# INSTITUTIONS IN AID OF ENTREPRENEURS

---

### Introduction

Since 1950, a substantial volume of study has gone into the different facets of entrepreneurial development in India to accelerate the process of industrialisation. The study showed that entrepreneurs are born and can also be made — their skills sharpened, quality of an enterprise improved and generated in good number. It is possible to identify individuals in all communities, in rural and urban areas, among men and women with entrepreneurial talent, to motivate and train them through properly organised programmes undertaking risk-bearing innovative activities for raising the growth rate in agriculture, in industry as well as in the service sector.

The Entrepreneurial Development Programmes (EDPs) thus became a new concept for harnessing the vast untapped human resources. The EDPs are presently one of the most talked about social development activities which many organisations have taken up in right earnest. It strikes a welcome note in respect of change in perception and recognition of the critical role the entrepreneurs play in industrial development by creating potential avenues for self-employment.

### Focus of EDPs

While organising EDPs, it should be remembered that entrepreneurs cannot be created like degree-holders in a university and that it would be necessary to eliminate those who do not possess the basic capabilities for entering into business ventures, weed out such persons and help develop latent facilities of those who possess the potential for becoming entrepreneurs.

As the quality of entrepreneurship differs from region to region, the type of inputs that a particular group of entrepreneurs would require should be understood clearly and the training programmes tailored accordingly. Training should be not only to set up an industrial venture but also to enable the trainee to run it successfully. The focus of EDP should be on the person rather than on the project and this calls for proper

counselling facilities available to the trainees. These programmes should be conducted in places where necessary infrastructure for training is available and proximity of the support agencies is assured. This would underline the need for proper selection of the trainees. It should be ensured that the trainees show interest in setting up industries and that they do not treat the ED as a stop Ps gap arrangement for taking up a job subsequently. For this purpose, we should think new techniques to make the process of selection more appropriate. Poor involvement on the part of the institutions as also trainees and an incorrect selection of target groups contribute largely to the failure of a number of EDPs. One of the objects of training should be on changing the attitude and set of mind of young people from security-oriented activities to risk-taking through entrepreneurship development.

#### **Entrepreneurship Development Programme Organisations**

There are several organisations engaged in conducting entrepreneurship development programmes in India. The lead in the matter was given by Small Industries Development Organisation through its Small Industries Service Centres.

In the area of creation the institutional infrastructure for entrepreneurship development, the first step of India financial institutions including IFCI was the establishment of Entrepreneurship Development Institute of India (EDII) in March, 1983, at Ahmedabad as a resource organisation at the national level. The Central Government also established in the same year the National Institute for Entrepreneurship and Small Business Development (NIESBUD) at New Delhi, with the objective of co-ordinating activities related to entrepreneurship and small business development. Both these organisations are working hand in hand for giving a fillip to the entrepreneurship development movement.

In addition, institutions established by the government are: Rural Entrepreneurship Development Institute (RED) at Ranchi in 1983, Rural Management and Management centres (RMEDC) at Maharashtra and Training cum Development centres (RDCS) aim increasing interaction between entrepreneurs and enterprise.

This apart, a host of management institutions various universities have included entrepreneurship development in their Curriculum.

Other organisations that have been actively conducting entrepreneurship development programmes are State Bank of India; financial institutions such as IDBI; Entrepreneurial Motivation Training Centre in Northern-Eastern Region; Xavier Institute of Social Services Ranchi; industrial consultancy organisations in various states; Centre for Entrepreneurship Development, Ahmedabad; state financial corporations; the Centre for entrepreneurship Development, Hubli; Small Industries Extension Training Institute, Hyderabad; National Science and -Technology Entrepreneurship Development Board etc.

For institutionalising the entrepreneurship development activities at the state level, Institutes of Entrepreneurship Development (IEDs) in Uttar Pradesh, Bihar and Orissa have already come into existence with the support of India's financial institutions, concerned State Governments and banks, and are carrying on their activities on a full-fledged basis. During the period under review, a Centre for Entrepreneurship Development

(CED) was registered in Madhya Pradesh on 17th November, 1988, taken up later by IFCI. An Institute for Entrepreneurship Development was also set up at Goa under DB on the same pattern as other IEDs. A proposal to set up an IED for North-Eastern Region was also under consideration by the North Eastern Council. A few State Governments of Karnataka, Andhra Pradesh, Rajasthan, etc., have also expressed the desire to set up CEDs in their respective States. The proposals of these State Governments to be considered on their merits by the financial institutions in due course, while the focus of the national organisations like EDII, NIESBUD etc., continued to be on (a) institutional entrepreneurship activities, (b) generating, sharpening and sharing knowledge through research documentation and publication, (c) creating and developing professionals in the discipline of "entrepreneurship" to emerge and flourish, and (e) developing new products and pursuing market segments for carrying the entrepreneurship development in priority areas and sections of the people. The State-level Institutes/ CEDs endeavoured to carry out at the grass-root level to provide the support of human resources to various State and district EDPs level organisations engaged in entrepreneurship. The State-level organisations also continued to provide industrial extension motivation services, business opportunities guidance, project counselling, etc., and helped in initiating entrepreneurship at school level in the career planning of the younger generation. For this these organisations conducted, during the period under review, a number of workshops, seminars, conferences and brought out well researched publications, for training of entrepreneurs. The organisations also produced a number of video films as audio-visual aids for training the entrepreneurs and motivating them towards enterprise setting and operating the same on sound and healthier lines.

#### **Management Development Institute (MDI)**

For developing and improving the quality of day-to-day management, which is so crucial for the success of any industrial venture, as also, with a view to encouraging professionalisation in management, IFCI had sponsored in 1973, the Management Development Institute (MDI) at Gurgaon (Haryana) near Delhi. MDI is now a cornucopia of management training, research and consultancy, its prime goal being to improve managerial effectiveness in the industry/government and banking' sectors of the economy. Research studies undertaken by MD are in both macro areas of economic and industrial development as also in micro areas relevant to a specific industry or economic activity.

A mention was made in the last year's Annual Report about MD having been chosen by the Government of India, Department of Personnel and Training as an agency for conducting the first-ever intensive 15 month National Management Programme (NMP) for Government Officers belonging to IAS/ Group 'A' Services as well as executives from public and private sector organisations having potential to acquire top positions.

MDI conduct Management Development Programmes in various disciplines. These programmes included the programmes for officers of the Indian Economic Service (IES), Indian Administrative Service (IAS) and for the executives of a number of PSUs of, like Oil & Natural Gas Commission (ONGC), Bharat Heavy Electrical Ltd.

(BHEL), Bharat Aluminium Co. Ltd. (BALCO), Export Credit Guarantee Corporation of India (ECGC), Bureau of Indian Standards (BIS), Hindustan Zinc Ltd. (HZL), Hindustan Machine Tools Ltd, (HMT), Indian Drugs & Pharmaceuticals Ltd. (IDPL), Uttar Pradesh State Industrial Development Corporation Ltd. (UPSIDC), Madhya Pradesh Financial Corporation (MPFC), etc.

MDI also had conducted in Karnataka a programme on Identification, Promotion and Implementation of Industrial Projects' (IPIIP) special catering to the needs of officers of 'District Industries Centres (DICs) State-level Promotional and Financial Institutions, Commercial Banks, etc. In addition, a number of programmes, particularly in concerning strategic planning, marketing of new products, strengthening of co-operative short-term credit system, marketing and sales, management consultancy, development banking, labour-management relations, human resources development, evaluation of small industries financing performance, role of directors, merchant banking, leasing, working capital financing, technology transfer, management, documentation and recovery practices of Development Financing Institutions, etc., were carried out by MDI and its subsidiary Development Banking Centre (DBC). As many as 23 workshops were conducted by MDI under the Planning Commission International Labour Organisation United Nations Development Programme, In-house Management Consultancy Development Project (Phase II).

A major effort was also made by MDI during the period in the area of consultancy and research — focus was not only on developing management consultancy through training programmes and workshops but also undertaking process consultancy assignments in large complex organisations and directing efforts to develop in-house management consultancy teams in public utilities. The Consultancy and Research Wings of MDI have done extensive work in areas like corporate planning, evaluation of appraisal systems, feasibility studies, job structuring, management information systems, manpower planning, marketing appraisal, capital markets, off-shore banking, inter-firm comparison, seed capital, technology — its relevance, assessment and diffusion etc.

### **The National Institute for Entrepreneurship and Small Business Development (NIESBUD)**

The need for a national organisation to serve as an apex body to co-ordinate the training programmes of various centres and organisations in the country, to train a larger number of trainers and motivators in entrepreneurship development, to prepare model syllabuses of training for various target groups and target areas, etc. was felt for further accelerating training in entrepreneurship.

The Delhi-based National Institute for Entrepreneurship and Small Business Development (NIESBUD), established by the Government of India, is an apex body for coordinating and overseeing the activities of various institutions and agencies engaged in entrepreneurship development particularly in the area of small industry and small business. The Institute, registered as a Society under Government of India Societies Act XXI of 1860, started functioning from 6 July, 1983.

Over the years, the Institute stands devoted to evolving model syllabi for training various target groups — by effective training strategies, methodology, manuals and tools; facilitating and supporting Central/State governments and other agencies in executing programmes of entrepreneurship and small business development; maximising benefit and accelerating entrepreneurship development; conducting programmes for motivators, trainers and entrepreneurs which are commonly not undertaken by other agencies. Above all organising those that help in developing entrepreneurial culture is worth appreciation in society. The Institute is also the secretariat of the National Entrepreneurship Development Board (NEDB), the apex body which determines policy for entrepreneurship development in the country. The Institute, therefore, performs the task of processing the recommendations made by the Board.

### **Objectives**

The main objectives of the Institute are:

- To accelerate the process of entrepreneurship development ensuring its impact throughout the country and among all segments of the society.
- To help/support institutions/agencies in carrying out activities relating to entrepreneurship development with greater success.
- To evolve standardised process of selection, training support and sustenance to potential entrepreneurs enabling them to set up and run their enterprise successfully.
- To provide vital information support to trainers, promoters and entrepreneurs by organising documentation and research work relevant to entrepreneurship development.
- To provide functional forums for interaction and exchange of experiences helpful for policy formulation and modification at various levels.

Since development of entrepreneurship and self-employment is basically a promotional and industrial extension activity, the programmes organised by the Institute are mostly by the founded government. However, the institute's training activities are restricted to areas in which either demand for programmes is very great or there is absence of such training programmes. For organisations directly or indirectly engaged in promoting entrepreneurship and self-employment in the country, the NIESBUD'S role is that of a catalyst as it helps in developing the effectiveness of all these organisations. Programmes initiated/sponsored by the NIESBUD are constantly evaluated and revised to suit the changing needs in the area of entrepreneurship and small business development. The institute is engaged in creating a climate conducive for entrepreneurship and in developing favourable attitude amongst the general public in support of those who opt for entrepreneurial career.

### **Activities**

The activities of the Institute include evolving effective training strategies and methodology; standardising model syllabi for training various target groups; formulating scientific selection procedures; developing training aids, manuals and tools; facilitating and supporting Central/State/other agencies in executing entrepreneurship development

programmes; maximising the benefits and accelerating the process of entrepreneurship development.

The various functions which the National Institute has been called upon to perform are as follows:

- To serve as an apex national level institute;
- To organise and conduct training programmes;
- To co-ordinate the training activities of various institutes and organisations in the country imparting training in entrepreneurship;
- To affiliate institutes and organisations conducting entrepreneurship training;
- To identify, train and assist potential entrepreneurs amongst technical and non-technical personnel in setting up self-employment ventures in small industries including service industries;
- To hold examinations and tests and confer certificates and diplomas on the trainers as well as trainees;
- To undertake documentation and research in the field of entrepreneurship and small business development;
- To conduct workshops, seminars and conferences, etc. for promotion and development of entrepreneurship in small scale industries and small business;
- To publish literature for furtherance of entrepreneurship and small business development;
- To provide a forum for interaction and exchange of view with agencies engaged in various aspect of entrepreneurship in small industries and small business development.
- To assist in setting up of regional and state level training institutes for entrepreneurship and small business development.

The Institute interacts with all other organisation centres engaged in conducting entrepreneurship development programmes in the country and provides them support in various areas including funding of programmes wherever necessary and feasible. The Institute addresses itself to working with them in enhancing the efficiency and utility of entrepreneurship development programmes bringing about co-ordination.

With the setting up of this Institute, entrepreneurship development in India through organised training has assumed added significance particularly for training educated unemployed youth for taking up self-employment ventures.

### **Entrepreneurship Development Institute of India (ED II)**

Entrepreneurship Development Institute of India (EDII), the principal agency with special responsibility for entrepreneurship development in the country, has been focussing attention on developing programmes for entrepreneurship development and innovative training techniques for trainers. The Institute has developed an experimental EDP for women, keeping in view their special needs and the first such EDP was conducted in September 1988. EDII over the years has carried out experiments in rural

entrepreneurship development in a cluster of villages of U.P. and Orissa in collaboration with a voluntary organisation. EDII prepared a video cassette on the "focussed behaviour event interview technique" for assessing entrepreneurial potential. In addition, it conducted an entrepreneurs' meet, entrepreneurship development orientation programmes and training programme for trainers, besides giving professional assistance to various institutions for their entrepreneurial development activities. EDII continued to offer its service to Sri Lanka, Nepal, Kenya, Ghana and other African Commonwealth countries. The Institute has organised a special camp on entrepreneurship in which more than 2,000 students had participated in various activities creating interest in entrepreneurial pursuits. In the Nehru Centenary Year, EDII brought out a book entitled "Self-made Impact making Entrepreneurs" based on a study undertaken by it.

### **Institutes for Entrepreneurship Development**

As part of a strategy of giving special attention to entrepreneurship development needs of the more backward states, IDBI had announced the proposal to set up Institutes for Entrepreneurship Development (IEDs) in association with other financial institutions and banks and the State Governments. IEDs set up in Uttar Pradesh, Bihar and Orissa have become operational and the proposed IED in Madhya Pradesh has already been registered.

IED in the UP had conducted 16 EDPs covering 664 trainees, besides training state level trainers. It also has conducted programmes on industrial extension motivation, business opportunity guidance and project counselling for women, entrepreneurial awareness workshop for ex-serviceman, state level meet of EDP conducting agencies, studies on "Factors inhibiting and facilitating turnaround possibilities in small sector" and "Relevance of hill wool scheme." IED in Orissa had conducted 11 EDPs which benefited 307 trainees. It also conducted four Management Development programmes four entrepreneurship awareness camps and lecture-cum-discussion session on "Problems and Prospects of Indo-US Trade and Investment." IED in Bihar conducted two EDPs and organised an entrepreneurs' meet during the period under review.

### **Science and Technology Entrepreneurship Parks (STEPs)**

As part of the programme for supporting the setting up of 15 STEP's jointly with other institutions, IDBI over the years has assisted seven STEP's, viz., those sponsored by the Birla Institute of Technology (BIT), Ranchi, National Entrepreneurs Chemical Park (NECP), Regional Engineering College (TREC), Trichy, Harcourt Butler Technological Institute (HBTI), Kanpur, Sri Jayachamarajendra College of Engineering (SJCE), Mysore, Guru Nanak Engineering College, Ludhiana and Maulana Azad College of Technology, Bhopal with the aggregate assistance of Rs. 6.2 crore. While the first five STEP's were sanctioned assistance prior or 1988-89, the last two were sanctioned assistance during the reporting period. STEP's proposed by Guru Nanak Engineering College will specialise in machine tools and electro-mechanical control equipment while the STEP sponsored by the Maulana Azad College of Technology will be specialising in electronics and power engineering.

BIT-STEP has developed a unique technology for automatic wire length measurement system and import substitutive stainless steel wedge wire screen, besides other technologies for industrial applications. NECP is engaged in the preparation of project profiles of selected imported drugs. TREC-STEP has developed technology for hit-tech paints for nuclear applications, besides other hi-tech and import-substitutive products. Commercial production had already been started by seven TREC-STEP entrepreneurs. Student entrepreneurs of HBTI-STEP are working on projects which include fibre reinforced concrete and plastic components. SJCE-STEP has already transferred technology of liquid level pump controller to one of its entrepreneurs for commercial exploitation and eight of the STEP entrepreneurs have established their units.

#### **The Centre for Entrepreneurship Development**

Development of entrepreneurs on a systematic basis started in 1970. A number of specialised institutions came up to provide training to various target groups — educated unemployed persons, women, technicians, foremen, rural artisans, physically handicapped persons, etc. The Centre for Entrepreneurship Development (CED), Ahmedabad was sponsored by the State government and public sector corporations concerned with industrial development in the State. This Centre conducts entrepreneurship development programmes. Persons were selected from amongst the employees, workers, merchants and graduates and training was imparted at six centres. The following are some of the significant features of the programme of training:

- (a) Before conducting the programme of training, a survey of investment opportunity was made for identifying industries having good scope in the area;
- (b) Appropriate linkage was developed with various agencies which provide support and service to entrepreneurs in getting finance, readymade sheds, raw materials and other inputs;
- (c) Entrepreneurs were selected through behavioural tests. Due weightage on experience was given rather than education or unemployment;
- (d) Programmes of training included theoretical and practical coverage, including visits to industrial units consistent with the items identified by the entrepreneurs.
- (e) Follow-up action was taken by the full-time project leader and individual attention was given to each entrepreneur trainee.

The success rate of CED programmes is reported to be of the order of 66 per cent.

**The Entrepreneurial Motivation Centre**, set up in Assam in the north-eastern region of India, conducts entrepreneurial development programmes. In the earlier stages 28 officers drawn from various departments of the state government were given training in entrepreneurial motivation, economic investigation and survey, management of small enterprise etc. in the Small Industries Extension training Institute in Hyderabad. These officers then joined the various branches of the Entrepreneurial Motivation Training Centre in six districts.



**The Entrepreneurial Motivation Training Centre** gave wide publicity to the entrepreneurial development programmes and invited applications from educated unemployed persons. Selection was made based on psychological tests and personal interviews. Selected entrepreneurs were given preliminary motivation training of two weeks for developing or strengthening the motivation for self-employment, managerial and economic aspects of entrepreneurial development. The entrepreneurs were further assisted in selecting enterprises for themselves, conducting guided market surveys and preparing economically viable and feasible project reports. The Centre acted as link agency and helped the entrepreneurs in obtaining finance from banks and other institutions, and readymade sheds as working space. The Centre further provided 10 per cent of the sanctioned amount as seed money wherever necessary. An evaluation revealed that by March 1975, the number of entrepreneurs trained came to 1,550, of which 1,053 entrepreneurs (68 per cent) completed their project reports and 581 were given in-plant training. Among those who completed the project reports, 310 entrepreneurs were assisted in obtaining sanction of financial assistance. Of these 310 entrepreneurs, 279 (90 per cent) actually established their enterprises and started functioning.

**The Xavier Institute of Social Service in Ranchi** was involved with tribals and people from the villages in training to become entrepreneurs. A group of young tribal youths constituted into a local organisation for promotion of socio-economic and health schemes (known as Vikas Maitry) received some funds from the Indo-German Social Service Society in New Delhi in 1975. They desired that an entrepreneurship development programme be run for them. A project leader who himself was a tribal was appointed. The programme was organised and 20 candidates were selected, all belonging to tribal areas. In selecting, little importance was given to academic qualifications. Clarity of presentation of goals and determination to reach that goal were the important considerations. Four months full-time training was arranged. During the day the entrepreneurs worked as apprentices in shops of the type they intended to set up themselves. In the evening, they got a grounding in the basis of achievements, motivation, leadership and communication, management, finances, costing, laws and taxation, marketing and project preparation. After completion of the training course, the entrepreneurs went back to their respective villages and made mini-market surveys. They brought back the field data and worked these into a project proposal for financing by the bank. The financing was undertaken through the intermediacy of Vikas Maitri Kalyan Sangh and the organisation undertook to stand guarantee for the young entrepreneurs. Continuous and sustained follow-up action was undertaken. This was the responsibility of the project officer and assistant project officer. A success rate of 60 per cent was attained. The State government later gave assistance to the Institute for conducting entrepreneurial development programmes for unemployed engineers, diploma holders, graduates and ITI trained boys and the Institute has done well.

### **Role of Development Banks**

Various development banks in India have introduced "special capital" and "seed capital" schemes to provide equity of assistance to new and technically-skilled entrepreneurs who lack financial resources of their own. In view of the long-term

benefits to society from the emergence of a new class of entrepreneurs, development banks have been actively involved in entrepreneurship development programmes and in establishing a set of institutions which identify and train potential entrepreneurs. The promotional activities like carrying out industrial potential surveys, identification of potential entrepreneurs, conducting entrepreneurship development programmes and providing technical consultancy services have contributed in a significant manner to the process of industrialisation and effective utilisation of institutional finance by industry. In recent years, the development banks have initiated special measures for the creation of specialised institutions for the training of entrepreneurs and research in this field.

Upto end-March 1995, the IDBI extended support to 3084 EDPs, of which 2412 were completed benefiting more than 58,223 potential entrepreneurs; the remaining were under progress.

The Institutes of Entrepreneurship Development (IEDs) set up with Bank's support in Bihar, Orissa, Madhya Pradesh and Uttar Pradesh, continued to make good progress.

SIDBI's strategy for entrepreneurship development involves support to specially designed programmes covering the target groups like rural poor, women, Scheduled Castes/Tribes, ex-servicemen, etc. In tune with the renewed policy initiatives on rural development, the Bank has given thrust to promote rural entrepreneurs. This is evident from the fact that of 102 EDPs supported during the 1994-95 for various target groups, 66 were exclusively targeted at rural entrepreneurs. Besides rural EDPs conducted during the current year, SIDBI supported 30 EDPs for women and 8 for other groups having special focus on North Eastern and other backward areas. A few specialised technical institutes like Central Institute of Plastic Engineering & Technology at Bhopal, Patna, Lucknow and Madras; Rural Technology Institute, Ahmedabad and UP Electronics Corporation, Lucknow were extended assistance for conduct of product specific EDPs. To back up the EDP efforts, the Bank has been compiling project profiles on viable project ideas suitable for tiny and rural entrepreneurs. A compendium of Profiles on Food Processing and Agro-based Industries, prepared by Central Food Technological Research Institute, Mysore, on behalf of SIDBI, was brought out during the year. Two more compendia — one on new hi-tech projects prepared by various CSR laboratories in collaboration with National Research Development Corporation and the other on location neutral projects (Volume - II), prepared by Gujarat Industrial and Technical Consultancy Organisation Ltd. have been Published.

### **Role of Commercial Banks**

The State Bank of India at that time was the only bank amongst commercial banks to come out with a comprehensive programme for entrepreneurship development. From the orthodox role of commercial banks, the State Bank of India pioneered as a premier banking institution in India by assuming the role of a development bank. The sixties and early seventies saw many important strides towards the fulfilment of this objective. The bank recognised the importance of small-scale industries in industrial development and started financing small-scale industries on a large scale. To cater to the specific needs of this sector a package of schemes and programmes was formulated

by the bank. These are in (i) Liberalised scheme of financing small-scale industries wherein 75 per cent of the project cost is met as bank loan; (ii) Entrepreneur scheme for financing technically-qualified persons where the entire project cost could be financed by way of term loan; and (iii) Equity Fund Scheme for providing interest-free loan to meet the equity gap up to Rs. 1 lakh.

### **Approach Modifications**

Looking to the characteristics of the small-scale industries, it must be realised that these are basically owner-manager oriented and need special attention and support. The norms for financing such industries were, therefore, liberalised and a need-based approach was evolved — a major departure from earlier security-oriented approach.

### **Non-financial Support**

In spite of liberalisation in financing policy and government incentives, the progress in industrialisation was not so rapid. Realising that mere provision of financial support was not sufficient for bringing about that desired change, the need was felt for evolving a policy of providing for non-financial assistance. A number of measures were thereafter initiated — development of management skills of the SSI borrowers through Management Development Programmes and Management Appreciation Programmes. The bank went to the extent of conducting training programmes for development of entrepreneurial attitude and financing such entrepreneurs. It was indeed the beginning of a new banking era.

To set up an industry, the ability to meet the margin money requirements of the small-scale project itself is not enough, but entrepreneurial characteristics have to be identified and reinforced in the entrepreneur of that industry. Thus the important characteristics of the entrepreneur, namely, psychological, economic, social and managerial characteristics, have to be learnt, understood and digested by every prospective entrepreneur. For the success of the industry, the man behind the project is more important than its fixed assets; the entrepreneur has to be trained well. Industrial and Technical Consultancy Organisation Limited (ITCO), as subsidiary of Industrial Development Bank of India, having a professional experience in counselling the entrepreneurs, identifying the project ideas and preparing detailed project reports, conducting EDPs with the following objectives:

1. Assess and develop entrepreneurial abilities required to become a successful industrialist.
2. Dissemination of information on the formalities and procedures to be followed for starting small-scale industries.
3. Dissemination of information on the facilities and incentives available for starting small-scale industries.
4. Guidance in selecting projects suitable for different trainees based on their investment, educational background, technical expertise, proficiency, aptitude, etc.
5. Acting as a liaison between the various officers/organisation engaged in industrial promotional activities in the State and trainees for availing of necessary facilities available in their projects.

6. Dissemination of information on how to plan and manage a small-scale industry successfully.

These programmes cover all educated unemployed youths —

1. Having a strong desire to set up an industry and having the confidence of its success.
2. With basic technical qualification of S.S.C. with 5 years' industrial experience.
3. In the age group of 21 to 35 years.
4. Able to invest the required share capital (25 per cent of project cost) to the selected project.
5. With independent thinking and decision-making status.
6. Claiming nativity of the district.

This course is intended to give a working knowledge of industrial promotional agencies, project report preparation, general management of small-scale industries, besides transforming the prospective entrepreneurs by achievement motivation. These programmes include the academic inputs necessary for the purpose.

### **SBI's Programmes**

The State Bank of India formulated an elaborate plan to conduct the EDPs, particularly in the backward areas and started conducting such programmes since 1978. As per the Bank's model, the EDPs consist of one month's intensive training in Behavioural Sciences, aspects of Management and field training. During this period, the entire cost of boarding and lodging is borne by the Bank. In this year, the bank had conducted 7 EDPs covering 11 districts in Madhya Pradesh (7 lead districts plus Surguja, Bhind, Morena, and Gwalior districts) and a total of 156 candidates were trained under these programmes. A total loan of Rs. 121 lakhs has been sanctioned to 44 such trained persons.

### **Phases of Entrepreneurship Development**

In broad terms, the EDP consists of three basic phases:

- (i) *Initiation Phase*: For creating awareness about the entrepreneurial opportunities.
- (ii) *Development Phase*: Through training programmes in developing motivation and management skills.
- (iii) *Support Phase*: Counselling, encouragement and infrastructural support for establishing and running an enterprise.

In the initiation phase, it is aimed at identifying persons with a potential for development of entrepreneurial disposition. The development phase aims at infusing motivation through achievement motivation training, supported with adequate management and technical knowledge. But finally, the most important is the support phase as from the entrepreneurial point of view, the most crucial stage is the start-up period.

The development of entrepreneurship depends very much on organisation, education, stimulation and motivation of the clientele through a concerted and

systematic approach, focusing on individuals and groups. Entrepreneurial development, is essential not only to solve the problem of industrial development but also to solve the long existing problems of unemployment, unbalanced area development, concentration of economic power, and diversion of profits from traditional avenues of investment. Therefore, one can notice some attempts made by the Government's agencies and other institutions to undertake the task of entrepreneurial promotion. Most of the promotional activities are directed towards the financial and physical facilities with a strong belief that there will be a conglomeration of entrepreneurs if such facilities are created in the a conglomeration economically backward states of India. Financial and physical facilities are not the only crucial inputs in the development of entrepreneurship. There are other inputs also which one has to consider in any model for entrepreneurial development. In this study, a quantitative survey of entrepreneurship development India has been presented. The study says that in spite of abundant natural resources, the pace of industrial and entrepreneurial development is slow not only because of lack of basic facilities and financial institutions, but due to untapped entrepreneurial talent in the country and suggests that timely action by the Government and other agencies should be taken for the entrepreneurship development in the country.

### **Role of NAYE (National Alliance of Young Entrepreneurs)**

NAYE has been a pioneer in promotion and development of entrepreneurship among women. In keeping with the emerging trends, then NAYE had set up a Women's Wing in 1975, the internationally acknowledged Women's Year. NAYE convened a Conference of Women Entrepreneurs in November 1975 in New Delhi to discuss at length steps to be taken to make women self-reliant and to raise their status in the society. Since then three International Conferences and eight National Conventions of Women Entrepreneurs have been organised in different cities in the country.

Women's wing of NAYE assists women entrepreneurs in:

- (a) getting better access to capital, infrastructure and markets;
- (b) development of management and production capabilities;
- (c) identifying investment opportunities;
- (d) attending to problems by taking up individual cases with appropriate authorities;
- (e) sponsoring delegations, participation in trade fairs, exhibitions, buyer-seller, specialised conferences, etc.;
- (f) organising seminars, workshops and training programmes for giving them wider exposure to available facilities and developing their entrepreneurial capabilities;
- (g) lobbying for them in Press, Parliament, State legislatures and other forums;
- (h) advocating effectively for securing their rightful place in the Indian economy.

In addition, the Association of Women Entrepreneurs of Karnataka (AWAKE), Women Entrepreneurs Association of Maharashtra (WIMA) and Self-Employed Women's Association (SWWA) are not only fighting for their rights but also striving to promote entrepreneurship among women.

Set up in May 1985, WIMA — the Association of Women Industrialists/Entrepreneurs of Maharashtra has 400 members all over Maharashtra, with its head office in Pune, and branches at Mumbai, Aurangabad, Nasik and Dhulia. NAYE of which WIMA forms a part, presented the organisation with a national award in 1988 for promoting entrepreneurship among women. WIMA aims to help 1,000 women all over Maharashtra.

WIMS's main objective has been to provide a forum for members and to help them sell their products. But making is their main problem. WIMA also has training programmes.

Having conducted approximately 20 exhibitions, the association held its first state level convention of women entrepreneurs of Maharashtra on its fifth anniversary in May 1990. "The women had good ideas for their projects." Observed a bank official who attended it, "but they needed guidance. Many, for example, did not know how to prepare feasibility reports, or of the existence of counselling centres, such as the ones run by Mahila Arthik Vikas Mahamandal (MAVIM)."

In 1989, the Industrial Development Bank of India (IDBI) set up the Mahila Udyam Nidhi (MUN) and Mahila Vikas Nidhi (MVN) schemes to help such entrepreneurs. The former had provided 15 per cent equity assistance for new units with project cost not exceeding Rs 10 lakh. Eligible entrepreneurs were required to bring in a token contribution of 10 per cent, and allowed to retain central or state investment subsidies, if any, to meet working capital requirements. The MVN scheme extend aid to voluntary agencies in decentralised industries for training-cum-production centres and management and skill upgradation.

There were also a third scheme, under which indirect loans were given through State finance corporations and State industrial development corporations. In 1989-90, 563 units promoted by women were provided aid totalling upto Rs. 20.1 crore, as against Rs. 10.4 crore in the previous year for 323 units. The schemes have since been transferred to the Small Industries Development Bank of India (SIDBI), a subsidiary of IDBI set up on 2 April 1990.

Mumbai-based Sharayu Lele, one of WIMA's earliest members, was among those who benefited from IDBI aid. Ten years ago, with an initial investment of Rs. 5 lakh, she started a computer data centre with hand punches and hired IBM machines. With a Rs. 10 lakh turnover, she has acquired 20 Uptron data entry machines, and her initial clients were Air India, State Bank of India and Datamatics.

WIMA had received IDBI aid to the tune of Rs. 4 lakh in August 1988 for the development of the WIMA Bazaar in Pune. Of this, Rs. 1 lakh was in the form of a grant, and the rest, a soft loan.

There should be a curriculum change along with proper career guidance in women's polytechnics, which will shape the students to become capable entrepreneurs in future. There should also be some reservation for admission of women to disciplines like engineering, medicine, law, agriculture and architecture, with some concessions in regard to the qualification marks. It will be worthwhile to consider the institution of special scholarship schemes for meritorious women students. As far as the State and

Central Governments are concerned, a scheme could be evolved for extending additional concessions for women entrepreneurs for setting up industrial units. As in the case of weaker sections of society, the financial institutions and banks should consider feasibility of waiving collateral security, because women do not possess any land or other property. Women should also be given property rights and an equal share in their fathers' property.

Although the rate of interest then charged by banks on loans extended to women entrepreneurs slightly lower than that charged on the normal loans, what is more important is further reduction and the reorientation by the Reserve Bank of India. In order to ensure that there was adequate credit flow to women entrepreneurs, a sub-goal was considered under the priority sector advances by the banks as is being done presently for advances to weaker sections and other special sectors. More importantly, the condition of a guarantor in the case of women entrepreneurs should be waived by the banks.

In order to ensure that development of women entrepreneurship takes place, as fast as possible, there is a case for setting up apex bodies at the State capital level and organisations at district levels which could be affiliated to the apex body. Separate industrial cooperative estates for women in different cities may be set up. And 15% to 20% of the purchases of the state governments should be made from women entrepreneurs.

Women entrepreneurs in rural and backward regions need special assistance and incentives from the Government and other associate agencies. What is more, training of lakhs of women entrepreneurs in the coming decade is a Herculean task for various agencies.

Although it is still in the growing stage, there is unquestionably a business revolution in the works across the nation — and women are a major part of it. Whether they opt to remain on a micro level, or move to expand on a major scale, they are making their impact felt on the society.

#### **Structuring Entrepreneurial Development Programmes**

The above case studies bring out certain features important for the success of entrepreneurial development programmes. The training programme aims at identification and careful selection of entrepreneurs (using advanced series of psychological tests), developing the motivation and entrepreneurial capabilities of the trainees, equipping the trainees to identify viable industrial projects and to prepare project profiles or brief project reports, equipping the trainees with basic enterprise-building skills, imparting basic managerial skills required for the successful management of the unit and helping the trainees to secure the necessary financial, infrastructural and related assistance during the implementation of the project. Skill training formed a vital and major component of this programme.

#### **Conclusion**

Economic activities could be directly linked with the entrepreneurial level of a nation and, therefore, entrepreneurship development be considered as a critical input

for industrial and business development efforts of a country. In this process, institutions play a catalytic role in entrepreneurship development.

Entrepreneurial development in India has now been conducted for a long-time, and sophisticated selection techniques and training methodology have been developed. The programme integrates identification and training of potential entrepreneurs, identification of viable industrial projects and developing managerial capabilities. Institutional support in the areas of finance, infrastructure, etc. is also linked with the programme.

The role of EDPs in accelerating industrialisation of a state or a region can hardly be over-emphasised. All those who are engaged in the administration of this programme must fully realise the enormous responsibility entailed in seeking to assist those without much influence, managerial ability or capability to bear risks. No tangible results can, therefore, be expected unless all the agencies involved in the task work with determination, zeal and a sense of dedication and commitment. Entrepreneur development is to be attuned to economic needs. It is, therefore, necessary to recognise the importance of entrepreneurship as an aspect of social life. Similarly, entrepreneurship education should be made more socially utilitarian. It is, nevertheless, imperative to restructure the entire curriculum — should identify the area of entrepreneurship and to motivate young people to start their own business at an early age in their chosen field of interest, for entrepreneurship exists in every profession, irrespective of its size. This will generate self-employment, which is always more satisfying than working for others.

### A TEACHER'S GUIDE

In the early 1990s, the International Center for Entrepreneurial Studies, the University of Maryland's Dingman Center, and CIPE developed a core curriculum for Romanian trainers. The courses covered the essential elements needed to expose potential entrepreneurs to the realities of business life. The following list presents some of the subjects included in the core curriculum:

#### Introduction to Business and Economics

- Global economy
- Wealth distribution
- Relationship between government and industry
- Regulation in a "free market" economy
- Tax structure
- Stock, bond, and futures markets
- Bank and thrifts

#### Basic Concepts of Entrepreneurship

- Dynamics of change
- Opportunities and resources
- Entrepreneurial viewpoint and personality
- Risk and risk/reward factor
- Case histories



**Venturing**

- Innovation
- Objective analysis
- Creation of a team

**Strategic Planning in New Ventures**

- Business definition
- Market research and analysis
- Competition analysis
- Formulation of overall business strategy

**Financial Planning in New Ventures**

- Financial statements
- Financial projections
- Determination of funding requirements
- Debt and equity financing
- Valuation of company

**Winning Business Plan**

- Business plan objectives and targets
- Step-by-step guide to business plan preparation
- Presentation of business plans to financial community
- Operations plan from business plan

**Raising Capital**

- Fundraising tools and team
- Financiers' considerations
- Sources of funding: equity and debt capital
- Negotiating the deal

**Organisation for Success**

- Company name
- Organisation forms
- Boards of directors
- Structuring the company organisation
- Attracting outstanding key employees
- Infrastructure without bureaucracy.





---

*"Information technology's youth and dynamism make it highly resilient. New developments and opportunities constantly arise. Its very importance and increasing pervasiveness make it resistant to all but the most ill-conceived and consistently misguided policy initiatives."*  
— *Ralph Weindling*

---

## UNIT 3

# PROJECTS MANAGEMENT

---

Entrepreneurial development has assumed great importance and has become one of the dominant topics of discussion with the world moving towards the 21st century — an era of technological advancements and achievements. In the context of rapid industrialisation in India resistance to change can be resolved by involving human resources in the process. The remedy lies in fostering an entrepreneurial spirit among the people.

The professional expertise of entrepreneurs, no doubt, contribute to significant inputs to the country's economic development. The need for a broad-based entrepreneurial class in India arises from the need to speed up the process of activating the factors of production, dispersal of economic activities, creating employment opportunities — thus leading to economic growth. It is now well recognised that entrepreneurs can be developed through appropriately designed entrepreneurship development programmes on a sustained basis.

### **A Project**

It is known that a project is planned to achieve a specific objective which calls for a specific authority to implement it.

Every project has three basic attributes: the input characteristics, output characteristics and the social cost benefit characteristics. The input characteristics define what the project will consume. Projects require raw materials, energy, manpower, financial resources and an organisational set up. In order to make the input characteristics of project explicit, it is necessary to evaluate the nature as well as the magnitude of each of these essential inputs.

The output characteristics of a project define what the project will generate — production of addition goods, provision of additional services. In either case, it is essential to have a broad idea of quantitative as well as qualitative of the project outputs. It also becomes necessary in case of quantifiable projects to assess financial outputs which the project will generate.

Input and output characteristics of a project define the impact of the project on the project implementing body and the environment. Every project, however, has a social cost-benefit aspect which affects the current equilibrium of the availabilities and non-availabilities in an economy and thus involves the entire society in its implications. The sacrifice which the society will be called upon to make and the benefits which will be accrued to the society have therefore to be carefully evaluated.

The identification of the project characteristics provides the basic information, which along with the information obtained from a study of the project implementing body and the environment forms the basis of evaluation of the feasibility prospects of the project idea.

More importantly, an appraisal of a project must be carried out in explicit, well-defined, preferably standardised terms and should be based on sound economic logic. Informal and cursory treatment should give way to thorough and rigorous analysis. The setting up of an enterprise should be based on careful and sound evaluation. Project appraisal brings credibility to a project and protects from in-built weaknesses. And, a healthy and viable industry comes up.

## SEARCH FOR A BUSINESS IDEA

---

### Introduction

Industrialisation is widely recognised not only as one of the important means to usher in socio-economic transformations and achieving industrial self-sufficiency but also for the accelerated development of agriculture, transport, trade, services and other potential sectors through the forward and backward linkages. It is a process which accelerates economic growth; effects structural changes in the economy, particularly in respect of resource utilisation, production functions, income generation, occupational pattern, population distribution and foreign trade; and induces social change. Jawaharlal Nehru had emphasised that "Real progress must ultimately depend on industrialisation. Throughout the world, industrialisation has indeed become the magic word of the mid-twentieth century."

Industrialisation is brought about by well-trained entrepreneurs. Entrepreneurship is one of the most important factors of industrialisation in the process of economic growth.

### Choosing an Idea

Establishing yourself as a successful entrepreneur depends, in part, upon choosing a good idea. That idea must not only be good for the market, but good for the project and good for the entrepreneurs. It should also be manageable by you without much dependence on others. Importantly, the idea should give satisfying results to you.

As an entrepreneur, when you are searching for an idea worthy of your commitment, don't pursue one idea at a time. Develop five or ten in parallel until one emerges so appropriate that it begins to dominate your thoughts and fantasies. To adopt one idea at a time has several disadvantages. First, because you are constantly receiving random information from what you read and from people you talk to, having a number of back-burner ideas gives you a greater likelihood of finding uses for information you pick up. Secondly, if you are pursuing a single idea by feigning commitment before you feel it, you may put yourself into a tight corner. It is very hard to be objective when you are down to your last idea.

Choosing an idea is quite difficult and the entrepreneur has to weigh objectively his intrinsic capabilities in finalising an idea.

In the idea stage, suggestions for new products are obtained from all possible sources: customers, competitors, R & D, distributors, and company employees. Frequently, one of the creative problem-solving techniques discussed below are used to develop marketable ideas. The suggested ideas need to be carefully screened to determine which are good enough to qualify for a more detailed investigation. Established objectives and defined growth areas provide a basis for developing these criteria.

#### PRODUCT IDEA

It had been an exhausting day. Mansukhbhai had spent all morning cycling to and fro, hawking his home made goods in the lanes and bylanes of the crowded city. Now he sat outside a pan shop, trying to snatch a few minutes rest before starting another round.

As he sat there, he noticed how the customers at the pan shop kept growing, in number and impatience. Mansukhbhai saw the time it took to make each pan, the panwallah trying to attend to a dozen people at the same time. It occurred to him that if pan could be packaged and sold, it would instantly find a ready market.

And an idea was born. A man of the masses, with only his native shrewdness to guide him, had hit upon a marketing idea in a million. The kind that takes a genius to think of. That man was Mansukhbhai Mahadevbhai Kothari. The man behind Pan Parag Pan Masala.

#### **An Illustration: Choice of a Product**

##### ***Sanitary Napkin***

The product was first introduced in the late 60s, and the concept of a sanitary napkin was popularised through the 70s while the 80s introduced new variations like the beltless napkin and tampons.

Since the very concept of a sanitary napkin was so new to India, one realised that conventional retailing alone was not enough to sell the product. What was important was educating women about the product and about personal hygiene, so the manufacturers started schools, screening firms on menstruation and how to cope with it. This was followed up by free sampling.

Estimated to be a growing Rs. 30 crore industry (that's an astonishing 180 million pieces), with a growth rate of more than 15 per cent, manufacturers are unanimous that this is still just the tip of the iceberg. It is likely to scale new heights in the 90s. And, the entry of Procter and Gamble with the much publicised dry weave technology for Whisper, the market is expected to double at the turn of the century.

The market leaders and pioneer in the field is undoubtedly Johnson and Johnson with Carefree, Stayfree, OB tampons and now, Freshday, Pantyliners. As things stand, the consumer does not yet have a real choice in terms of wide price variations, for instance. But the market is poised for a boom and even smaller manufacturers who admit that they earn 50 per cent of their income from his one product category alone are doing well, though they are not advertising or retailing their product.

Starting with the base, which is still the belted napkin, the pyramid narrows to the apex consisting of products like tampons (3 per cent of the market share) and pantyliners. There is still a tremendous potential for expansion even at the base. The women population needing sanitary napkins is estimated to be around 20 crores, of which 5 crore lives in urban centres. There is thus scope for (Rs. 840 crore industry) 500 crore pieces alone in urban centres. At that time, big cities were prime targets for expansion and the huge rural market remained untapped. Given this scenario, the 90s will see many new brands and consequently more brand wars, hopefully resulting in the ideal napkin at the right price, for the consumer. And this is what is happening in this industry.

### **Observations**

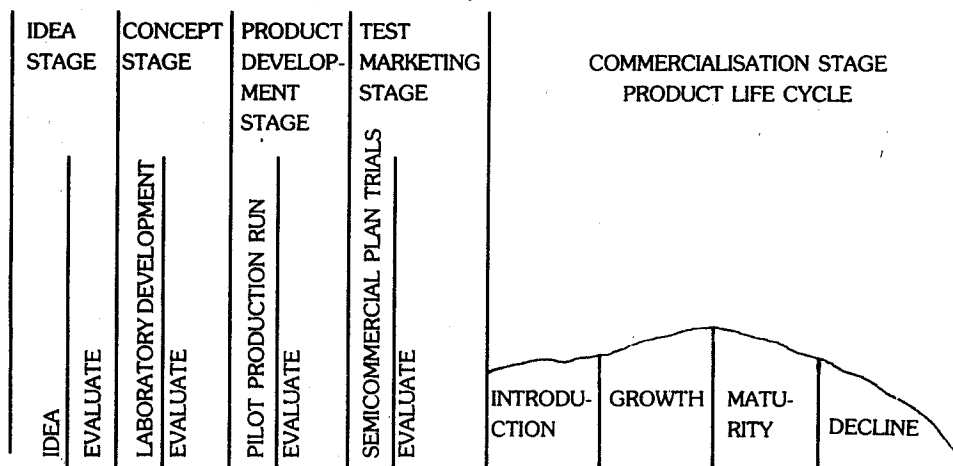
With the constant awareness campaign, the entrepreneurs have targeted the consumers and made an impact on them. The product has a ready market. Technology is available. Raw material is in plenty. With the widenings of the market the demand for the product has increased manifold. It is profitable. It is healthier, comfortable and socially accepted. Market is vast but tricky. The product is tempting entrepreneurs/manufacturers to step into this field.

### **Selection of Product**

At this stage, the entrepreneur is concerned with identifying a particular product that he hopes to market successfully at a reasonable profit. Therefore, the selection of the right product is very essential for being successful in the business venture. The right product here means that which can be marketed at a reasonable profit which will go towards growth business. Various factors influence the entrepreneur in selecting the right product. These decisive factors are (i) whether import restrictions, or the items selected are banned items would considerably weigh favourably or otherwise in the selection of the products. This is because in the case of banned items the domestic market offers considerable scope for selling as the demand for such a product would not be met by import.

Thus, if the item selected fall in the category of banned import items, the entrepreneur would favour it the category of banned import items, the entrepreneur would favour it and in the case of unrestricted import of the items, he would definitely not show his favour for selecting such a product. (ii) If the entrepreneur himself or his partners have gathered, substantial amount of experience in the manufacture and marketing of certain products, then the selection of such a product would be to their advantage. Therefore, most often the items selected are of those lines of products in which the entrepreneur or his colleagues have gathered enough experience. The line in which they are not experienced obviously would not be favoured much as it will entail uncertain situations very often. (iii) The selection of the product will also be based upon the degree of profitability that generally rules in the market. Such information can be obtained from the banks or the financial corporations or the market itself. The selection, therefore, will depend upon the information compiled for the particular line of product for its profitability. (iv) Many concessions are available from the government for producing a product which serves as an import substitute or even essential item,

hence if a particular product enjoys a substantial amount of incentives, concessions, liberal taxation policies, obviously the entrepreneur will select that item to enjoy these advantages conferred on the production of this particular type of product. (v) Many products belong to the priority industries or small-scale sector also; certain products are listed by the Government for purchasing exclusively from the small-scale sector. As a result if a particular product belongs to this category, the selection of such a product would be advantageous for the entrepreneur; therefore, these factors also must receive due consideration before the selection of a product. (vi) The market for the product also plays a significant role in the selection of the product. If the product also has an export market, it widens the scope of marketing, hence such a product has its own advantages in the success of the enterprise. (vii) Certain products are permitted for production only if the licence is obtained from the appropriate authority while others belong to the de-licensed category. In the case of a licensed product, obtaining a licence is obtained a licence would be a difficult proposition or the capacity required for the entire industry may also have been created fully by the government. As a consequence, impossibility of seeking further permission for the production of such a product. A product belonging to licensed category or de-licensed category also is considered before selecting the product. (viii) Many products enjoy specific advantages in regard to the scale of manufacture or carry locational advantages, e.g., if produced in a free trade zone or in the backward areas with special incentives and concessions which are made available for manufacturing such a product. Selection of a product therefore depends upon these factors. (ix) If a product belongs to an ancillary unit and serves as a major component for the parent industry, it provides a ready demand, hence selection of this type of product entails easy marketability.



**Fig. 16.1 Product-Planning and Development Process**

Source: Adapted from Robert D. Hisrich and Michael P. Peters, *Marketing Decisions for New and Mature Products*.

(Columbus, Ohio: Charles E. Merrill Publishing Co., 1984).

Finally, at this stage, the selection of product would also be weighed in favour or against depending upon whether or not the machinery and the raw materials required would be imported or indigenous. Similarly, the section would also be based



upon the skill and unskilled labour position as well as the technical know-how which is available indigenously or would require foreign collaboration.

The study of the project idea is the starting point of the feasibility analysis. The study is undertaken to identify the logic of the project, the tasks which must be performed for achieving the objectives, and the inputs, outputs and process involved in each activity. The ultimate aim is to identify the characteristics of the project. A project idea poses a problem, on the one hand and seeks a solution of the problem, on the other. In order that the solution may be an appropriate one, it is necessary to examine and appreciate the nature and extent of the problem and to clearly identify its dimensions.

### **The Adoption Process**

The adoption of an innovation demands planned management of change (overcoming the resistance to change). An adoption process is a process bringing about a change in a buyer's attitudes and perception. Consumer adoption process covers the steps that a consumer usually goes through in determining the feasibility of buying new products: (1) Awareness, (2) Interest, (3) Evaluation or mental trial, (4) Trial (physical), (5) Adoption.

1. *Awareness*: A person learns about a new idea, product or practice. He has general information about it, e.g., through advertisement. He has, however, limited knowledge about special qualities, usefulness, performance, etc., regarding the innovation. He merely knows about its existence.

2. *Interest*: He now develops an interest in the innovation. He demands more detailed information about the new product, its utility, its performance, and so on. He listens with interest to Jingles on the radio or TV ads, reads press ads, and learns more about it from others, and is now inclined to actively seek the desired information from sales-persons, opinion leaders, peers, friends, etc.

3. *Evaluation*: The accumulated information and evidences are weighed by the person in order to assess the basic soundness or worth of the innovation. He tries to weight the value of the new product and the extent to which it is good for him. In a sense, he conducts a mental trial of the new product.

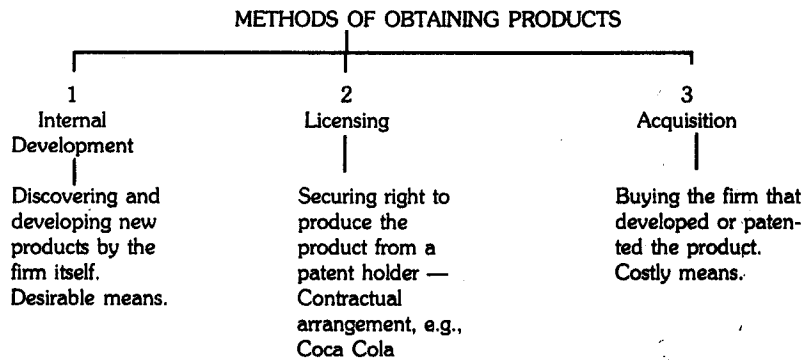
4. *Trial*: The person now is ready to put the idea into practice. Competent personal assistance is necessary to put the innovation to use.

5. *Adoption*: It is the final stage in which he makes a decision to buy. The person now decides to adopt the new idea, product or practice for continued use. If post-purchase experience is good, he becomes a repeat buyer and a talking advertisement of the innovation.

### **Product Innovation**

The innovation attitude of the marketer is expressed in the watch word "innovate or die." Such an attitude must be an integral part of the marketing concept. P. Drucker recognised the equal importance of innovative attitude and marketing concept. He said, "Because it is its purpose to create a customer, any business enterprise must have only two basic functions: *marketing* and *innovation*. All growth industries have an important

role for innovation in their marketing and market penetration plans. Innovation alone assures growth and survival while customers orientation assures survival. The evolution of new products is a practical business function and it is described as a process product management. The new product programme must be organised and controlled if it is to be effectively managed. The process of product planning and development is always adopted for product innovation. Product development is a general term covering the search for new products and new innovations as well as the improvement of existing products.

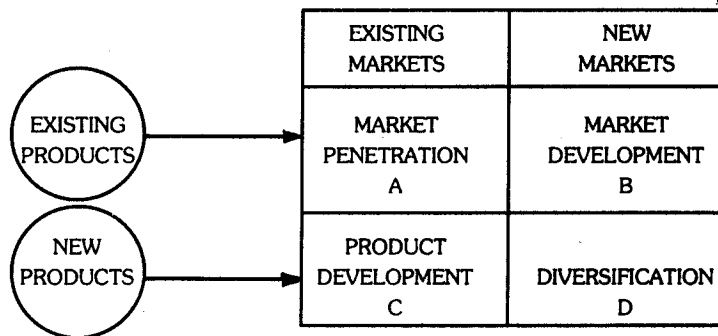


- Note:*
1. Internal product innovation implies no payment of profits to inventor or developer.
  2. Licensing obviates the possibility of internal discovery and may inevitable or preferable, e.g., complex products like electronics.
  3. Acquisition is very costly but gives exclusive rights.

**Fig. 16. 2**

**Product Planning and Development Strategy**

Marketers have four alternative ways of bringing about an increase in sales and profits: (1) market penetration, (2) market development, product development, and product diversification.



**Fig. 16. 3 Four Basic Types of Opportunities for Sales Growth**

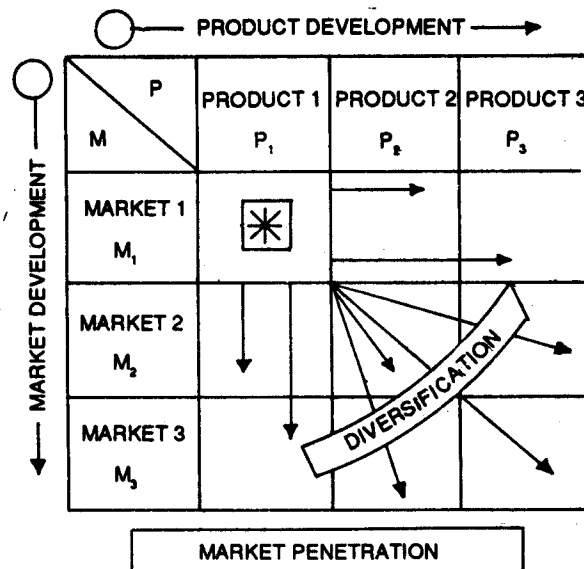
*Market Penetration:* It involves the expansion of sales of the existing products in the existing markets by selling more to present customers or gaining new customers in the existing markets. The firm can market its present products to existing markets. This is done through a more aggressive marketing mix. Customers from rivals or potential buyers can also be attracted. Existing buyers may be induced to increase their

rate of use. We may have a temporary price cut to raise the volume of sales and penetrate the market in a big way.

**Market Development:** In market development, a present product is introduced to a new market or segment. Market development is the creation of new markets by discovering new applications for existing goods, e.g., Mini-bus may be made available for goods or passengers. The firm can offer its existing products to new markets. This is another alternative to expand market opportunity, prolong product life cycles, profitability and survival.

**Product Development:** Product development occurs when a firm introduces new products into a market in which it is well established. Product development is the introduction of new products in the present market, e.g., new synthetic fibres for known textile products. The firm may decide to create new products for the existing market. Established firms with high customer patronage may have new product additions upon existing market successes. The firm by offering new or improved products to present markets can satisfy the present customers better and stand assured of their loyalty.

**Diversification:** Diversification occurs when a firm seeks to enter a new market with a completely new product. Such a firm has neither market expertise nor product knowledge. The firm may adopt a daring strategy by creating new products for entirely



**Fig. 16.4 Relationship between Various Marketing Strategies**

- Note:
1. We have four marketing strategies to achieve growth: (1) Market Penetration, (2) Product Development, (3) Market Development, and (4) Diversification.
  2. Market penetration, i.e., penetrating the current market for higher usage rate is a conservative choice.
  3. Diversification by entering a new market with brand new product is the most radical choice. It is the most difficult strategy as the firm has no market expertise and no product knowledge. Many firms fail in their diversification strategies.

new markets. The innovations are introduced for the first time in the new markets. Only innovations marketers venture to go in for diversification of products. The strategy is risky but the innovator can have spectacular results. In 1960, polaroid camera and television were in this category in many countries. Micro-wave ovens and digital watches are novelties even today in many countries. We have entirely an unfamiliar product for an unfamiliar market. Factors rating for a new product introduction are: (1) marketability, (2) durability, (3) Productive ability, and (4) growth potential. Philips is an example of diversification or lateral integration: light bulbs, radio lamps, television tubes, radio sets, taperecorders and a wide range of luminaries or lamp shades.

### New Product Idea

Excluding the continual search for new ideas, the time and costs involved in the activities relating to product planning and development process, from experience in the U.S.A., is as follows:

| Stage                | Time    | Money cost | Ideas reduced from original 60 to |
|----------------------|---------|------------|-----------------------------------|
| 1. Screening         | 3 p.c.  | 2 p.c.     | 12                                |
| 2. Business Research | 12 p.c. | 7 p.c.     | 7                                 |
| 3. Development       | 40 p.c. | 31 p.c.    | 3                                 |
| 4. Testing           | 20 p.c. | 15 p.c.    | 2                                 |
| 5. Commercialisation | 25 p.c. | 45 p.c.    | 1                                 |

(One successful new product)

- Note: 1. Development, testing and launching are the most expensive stages.  
2. They take more than 50 per cent of total time involved in the process.

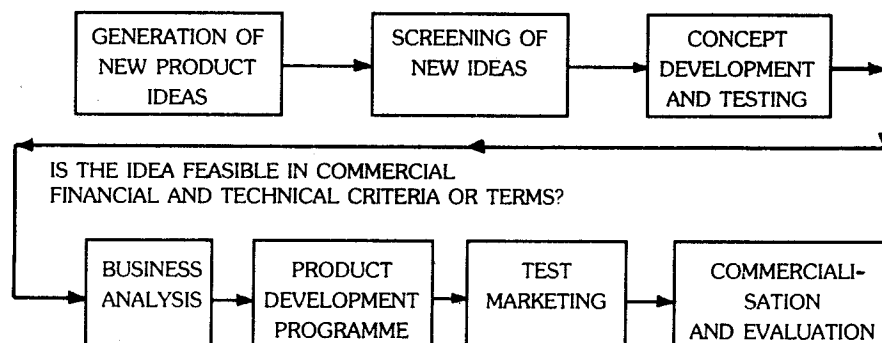


Fig. 16.5 New Product Development Process (Innovation Management)

- Note. 1. Product life cycle requires the product development programme for new products and new profit opportunities.  
2. New product development must be carefully planned and managed.  
3. Special organisational wing is necessary to stimulate, collect, screen, evaluate, develop, test, and commercialise new product ideas.  
4. Business analysis is the crucial stage. It concentrates on demand analysis, cost analysis and profitability analysis. It also considers social responsibilities of marketing new product.

Many innovative ideas are needed to find one good idea worth for commercialisation and many new ideas fail to pass the screening stage. Few ideas are compatible with the corporate resources and goals. Finally, five ideas are eliminated for lack of profit potential. Finally, having profitability, only one new product idea becomes eligible for market introduction and officially enters its life cycle.

### **Product Planning and Development Process**

There are seven steps in the planning and development of a new product:

1. *New Product Ideas:* We visualise the detailed features of a model product. Ideas may be contributed by scientists, professional designers, rivals, customers, sales force, top management, dealers, etc. We may need sixty new ideas to get one commercially viable product.

2. *Idea Screening:* We have to evaluate all ideas and inventions. Poor or bad ideas are dropped and through the process of elimination, only the most promising and profitable ideas are picked up for further detailed investigation and research.

3. *Concept Development and Testing:* All ideas that survive the process of screening (preliminary investigation) will be studied in detail. They will be developed into mature product concepts. We will have a precise description of the ideas and features of the proposed product. At this stage, we can incorporate consumer preference into our agenda for concept development and testing product ideas. Concept testing the company to choose the best among the alternative product concepts. Consumers are called upon to offer their comments on the precise written description of the product concept, viz., the attributes and expected benefits.

4. *Business Analysis:* Once the best product concept is picked up, it will be subjected to rigorous scrutiny to evaluate its market potential, capital investment, rate of return on capital, etc. Business analysis is a combination of marketing research, cost-benefit analysis and assessment of competition. We have demand analysis, cost analysis and profitability analysis. Business analysis will prove the economic prospects of the new product concept. It will also prove the soundness and viability of the selected product concept from a business viewpoint. Now we can proceed to concentrate on product development programme. The proposed product must offer a realistic profit objective.

5. *Product Development Programme:* We have three steps in this stage when a paper idea is duly converted into a physical product. (a) prototype development, giving a visual image of the product, (b) consumer testing of the model or prototype, and (c) branding, packaging and labelling. Consumer testing of the model product will provide the ground for the final selection of the most promising model for mass production and mass distribution.

6. *Test Marketing:* The entire product marketing programme is tried out for the first time in a small number of well-selected test markets, i.e., test markets, i.e., test cities or areas. Test marketing is necessary to find out the viability of a full marketing programme for national distribution. Customer reactions can be tested under normal market conditions. It helps the company to learn through trial and error and to get additional valuable clues for product improvement and for modifications in our

marketing mix. We can use test markets for testing the effectiveness of all ingredients of our marketing mix. Test marketing can answer such questions as: Is the new product labelled and packaged properly? Is the new product liked by the consumer? Is the firm justified in spending large sums on productive capacity? Has the communication (promotion) programme been right? Positive answers will reassure marketers.

7. *Commercialisation*: Once the test marketing gives the green signal for the product with or without expected modifications, the company can proceed to finalise all features of the product. Now marketing management can launch a full-fledged advertising and promotion campaign for mass distribution. Mass production will start and all distribution channels will be duly organised. The product is now born and will start its life cycle in due course.

### Conclusion

The search for a business idea is a continuous process. The entrepreneur will have to undertake constant checking of the new product through its life cycle. And, keep a constant tap on the markets, consumer needs and their changing styles, research and development as an ongoing source of information regarding business idea as well as appropriate technology.

### CHECKLIST FOR CHOOSING IDEAS

#### *Fit with your skills and experience*

- Do you believe in the product or service?
- Does the need it fits mean something to you personally?
- Do you like and understand the potential customers?
- Do you have experience in this type of business?
- Do the basic success factors of this business fit your skills?
- Are the tasks of the enterprise the ones you will enjoy doing yourself?
- Are the people the enterprise employ will enjoy working with and supervising?
- Has the idea begun to take over your imagination and spare time?
- Is the idea innovative to the extent of social benefit?
- Are you expecting a good return?

#### *Fit with the Market*

- Is there a real customer need?
- Can you get a price that gives you good margins?
- Would customers believe in the product coming from your company?
- Does the product or service you propose produce a clearly perceivable customer benefit which is significantly better than that offered by competing ways to satisfy the same basic need?
- Is there a cost effective way to get the message and the product to the customers?

#### *Fit with the Enterprise*

- Is there a reason to believe your enterprise could be very good at the business?
- Does it fit the enterprise culture?
- Can you imagine who might sponsor it?

- Does it look profitable (high margin — low investment)?
- Will it lead to large markets and growth?

*What to do when your idea is rejected?*

Frequently, as an entrepreneur, you may find that your idea has been rejected and/or is not successful as envisaged. There are a few things you can do:

1. Give up and select a new idea.
2. Listen carefully, understand what is wrong, improve your idea and your presentation, and try again.
3. Find someone else to whom you present your idea by considering:
  - Who will benefit most if it works and can they be a sponsor?
  - Who are the potential customers and will they demand the product?
  - How can you get to the people who really care about entrepreneurial ideas?

