



# Business Start-up Training Programme

## Trainee Workbook 3



### Modules

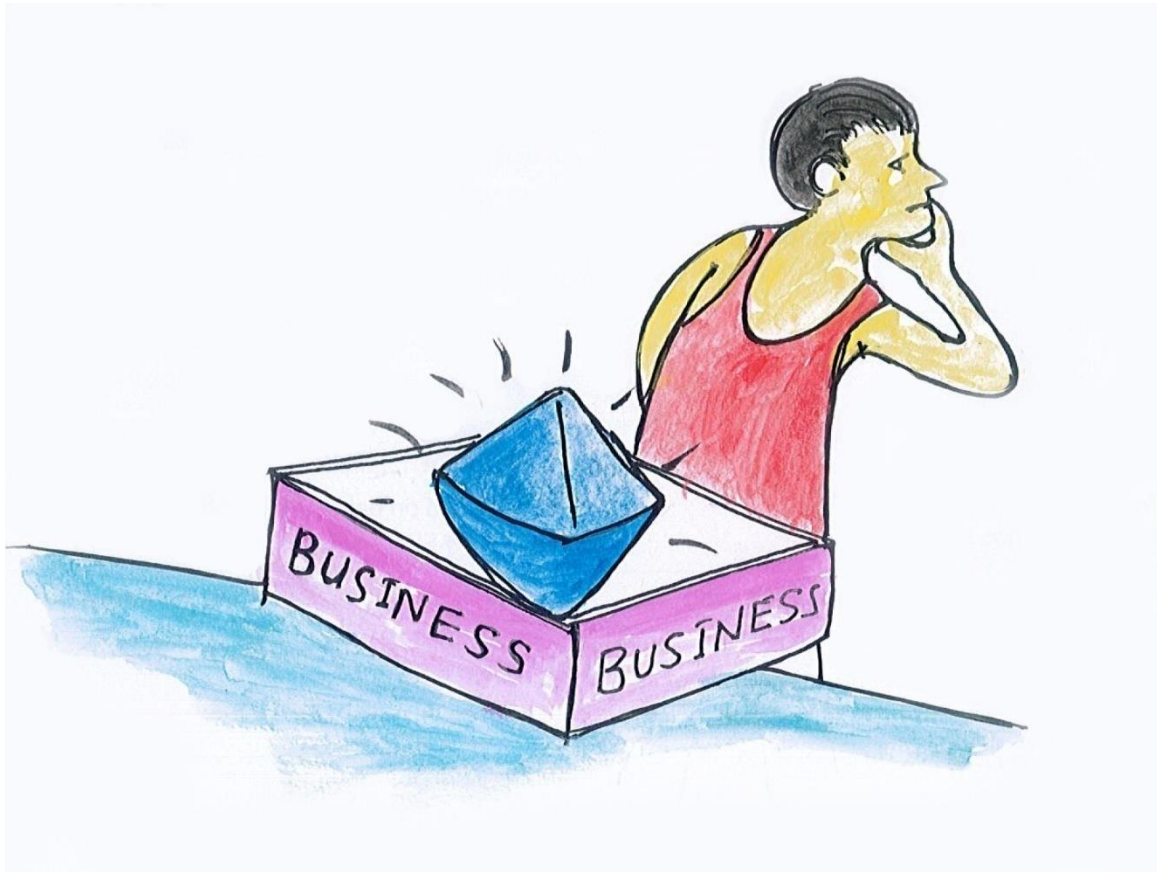
5. Concept Development & Validating
6. Marketing Strategy Development
7. Business Analysis
8. Pre-Feasibility Study
9. Market Research
10. Test Marketing
11. Viability Testing
12. Technical Knowhow Acquisition
13. Business Start-up Action Plan

## Trainee Workbook 3

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## 5. Concept Development and Validating



We have selected a good business idea. How can we move forward with that idea if we want to start a business with it? Although we have collected some information from the market during the idea generation and screening period, our market knowledge about this specific idea can be minimal. Converting the raw business idea to a nutritious form that can be planted in the market is essential at this juncture. In this module, we are going to learn how to develop the product or service concept of our idea, taking it to a marketable product form.

Concept development and validating is strictly essential for new product development. But, even if we select a business idea that can be seen in the market, this is still valid because we should explore the best possibilities to offer it as a product or service which is different to the prevailing versions. Entrepreneurs should be creative to achieve that end. In other words, even the raw business idea is a market-familiar one, our effort should be to give it a unique form using concept development approach.

### Module Objectives:

At the end of this module, trainees will have,

- ✓ developed their understanding, and practical skills on concept development and validating while improving the familiarity with the concepts on products / service, market, financial situation, intellectual property, and SWOT analysis, and
- ✓ developed product / service concept for their business ideas and validated it.

This module covers the following sessions:

- 5.1 What is product / service concept development and validating?
- 5.2 Description of the product or service
- 5.3 Market situation
- 5.4 Financial information
- 5.5 Intellectual property issues
- 5.6 SWOT analysis of the product / service
- 5.7 Validation of the business concept

### **Session 5.1 – What is product / service concept development and validating?**

Most businesses start with a small idea. The idea may have the potential to build a business, but it is still in the raw, unpolished form. We should give it the appropriate shape to enable its business building capability. There is some work to be done to connect the full potential of the idea with the consumer world. We need to examine in advance how it can be formed in to a real seed which will grow as a business tree when planted. This task is called Product or Service Concept Development of the idea. After developing the idea as a marketable product or a service, we should validate it by feeling pulses about its ability to perform in the market– by validating that it will grow.

#### **Dulsi's senior citizen's recreation centre**

A strong business idea is roaming in Dulsi's mind over a long period. Idea is to set up a recreation centre for senior citizens where the kids in the area come to this centre and have some joint activities. But, how can Dulsi make it a promising business idea? She has to explore many things; what should be the operational model? How to attract area kids? Will there be a demand for this service? How much it will cost? All these questions should be answered to decide the real service concept if Dulsi wants to next step in the business start-up process. She has to develop the product / service concept by finding answers to all questions. Dulsi also has to check the validity of that concept as a marketable one.

In the task of product / service concept development approach, special considerations must be given to all the moving parts that are involved in a particular business idea. Product features, raw material, prices, its ability to face competition and many aspects are the components of moving parts. The greater the amount of time an entrepreneur spends on the conceptual component of the business, the easier it will be to market.

Thus, it is essential to gain familiarity with the basic aspects explained in the following sessions.

## Session 5.2 – Description of the product or service

### Product or service concept:

A product or service concept is the way in which an entrepreneur likes to position its products / services in the market, in terms of product features, quality, price, service, distribution, differentiating elements etc. While trying to position its products / services in a distinct manner, the company should not lose sight of its present and potential rivals competitive environment changing preferences of customer etc.

### What is a product?

A product is the item offered for sale. A product can be a service or an item. It can be physical or in virtual or cyber form. Every product is made at a cost and each is sold at a price. The price that can be charged depends on the market, the quality, the marketing and the segment that is targeted. Each product has a useful life after which it needs replacement, and a life cycle after which it has to be re-invented. In FMCG parlance, a brand can be revamped, re-launched or extended to make it more relevant to the segment and times, often keeping the product almost the same.

**A product needs to be relevant:** the users must have an immediate use for it. A product needs to be functionally able to do what it is supposed to, and do it with a good quality.

**A product needs to be communicated:** Users and potential users must know why they need to use it, what benefits they can derive from it, and what difference it does to their lives. Advertising and 'brand building' best do this.

**A product needs a name:** a name that people remember and relate to. A product with a name becomes a brand. It helps it stand out from the clutter of products and names.

**A product should be adaptable:** with trends, time and change in segments, the product should lend itself to adaptation to make it more relevant and maintain its revenue stream.

### What is a service?

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

There are several features specific for services

## **Intangibility**

Services are by definition intangible. They are not manufactured, transported or stocked.

Services cannot be stored for a future use. They are produced and consumed simultaneously.

## **Inconsistency (variability)**

Each service is unique. It can never be exactly repeated as the time, location, circumstances, conditions, current configurations and/or as signed resources are different for the next delivery, even if the same service consumer requests the same service. Many services are regarded as heterogeneous and are typically modified for each service consumer or each service contextual

## **Involvement**

Both service provider and service consumer participate in the service providers

Type of service processing involvements

- **Service processing involving people**

Some of the most common types of service processing is the one involve people. Health care, lodging, Passenger transportation, Fitness centres, Haircutting salon are all examples of service processing involving directly the end customer.

- **Service processing involving objects**

When the customer is not required to be present while giving the necessary service, then it is a type of service process involving objects. Repair and maintenance work, Warehousing, Recycling of waste, Laundry or dry cleaning are procedures where the input is from the customer, but the processing does not require the customer's presence at all.

- **Mental stimulus-focused**

In this type of service processing, there is only mental work involved. As this is very difficult to be measured, it is classified as intangible. Theatre performance is one such activity which can be intangible. In a theatre performance, each of our performance will be perceived differently by different customers. At the same time, this theatre performance can also be shown on TV or it can be a radio reading.

- **Information processing**

The last type of service processing occurs where information is being processed and there is no other processing involved. So when we go to a bank, the customer is an input and he wants to deposit cash to someone else's account. After the instructions are given, the processing involves basic information processing thereby ensuring the transfer of money from the customer's account to the account number given by the customer. In this case, neither customer nor the recipient is needed to be present. Only the information is required. Hence it is information type of service processing.

Some examples of service processing where only information is processed are Banking, business consulting Legal services, programming, website development, Research and several others. In fact, since the rise of the internet, information processing has become a big business.

### Session 5.3 – Market situation

The Market Situation section of our target market comprises of competitors, business challenges, and our company's competitive differentiators. It should contain our best and most clear description of the current state of the marketplace.

A sampling of the kinds of questions the Market Situation section should answer are:

- What are our products/services or product/service lines?
- How big is our market opportunity?
- What are our sales and distribution setup?
- What geographic area do we sell to?
- Who are our target audience (in terms of population, demographics, income levels and so on)?
- What competitors exist in this marketplace? What is our market share relative to them?
- Historically, how well have our products sold?

#### Competitors:

Knowing who our competitors are, and what they are offering, can help us to make our products, services and marketing stand out. It will enable us to set our prices competitively and help us to respond to rival marketing campaigns with our own initiatives.

We can use this knowledge to create marketing strategies that take advantage of our competitors' weaknesses, and improve our own business performance. We can also access any threats posed by both new entrants to our market and current competitors. This knowledge will help us to be realistic about how successful we can be.

Our competitor could be a new business offering a substitute or similar product that makes our own redundant.

We can get **clues** to the existence of competitors from:

- Researching the market
- Local business directories
- Local Chamber of Commerce
- Advertisements

- Press reports
- Exhibitions and trade fairs
- Web– searching
- Information provided by customers
- Flyers and marketing literature available

### **What we need to know about our competitors**

- the products or services they provide and how they market them to customers
- the prices they charge
- how they distribute and deliver
- the devices they employ to enhance customer loyalty and what back-up service they offer
- their brand and design values
- whether they innovate – business methods as well as products
- their staff numbers and the calibre of staff that they attract
- how they use IT – for example, if they're technology-aware and offer a website and email
- who owns the business and what sort of person they are
- their annual report – if they're a public company
- their media activities – check their website as well as local newspapers, radio, television and any outdoor advertising

### **Market segmentation**

Market segmentation is one of the systems to manage the marketing efficiently. With the customer population and preferences becoming more wider, and the competitive options becoming more available, market segmentation has become critical in any business or marketing plan. In fact, people launch products keeping the market segmentation in mind.

There are three ways to classify what the customer wants. It is known as needs, wants and demands. However, to decide the needs, wants and demands, we need to carry out segmentation first. And in segmentation, the first step is to determine which type of customer will prefer our products. Accordingly, that customer will be from our targeted segment. Who would want our product and whether it falls in the needs segment, the wants segment or the demands segment. Once we decide the product we are going to make, then we decide on the market segmentation.

There are 4 types of Market segmentation which are most commonly used.

## **1) Demographic segmentation**

Demographic segmentation is one of the simplest and widest type of market segmentation used. Most companies use it to get the right population in using their products. Segmentation generally divides a population based on variables. Thus demographic segmentation too has its own variables such as Age, gender, family size, income, occupation, religion, race and nationality.

Demographic segmentation can be seen applied in the automobile market. The automobile market has different price brackets in which automobiles are manufactured. For example – Maruti has the low price bracket and therefore manufactures people driven cars. Audi and BMW have the high price bracket so it targets high end buyers. Thus in this case, the segmentation is being done on the basis of earnings which is a part of demography. Similarly, Age, life cycle stages, gender, income etc can be used for demographic type of market segmentation.

## **2) Behavioural segmentation**

This type of market segmentation divides the population on the basis of their behaviour, usage and decision-making pattern. For example – young people will always prefer Dove as a soap, whereas sports enthusiast will use Lifebuoy. This is an example of behaviour-based segmentation. Based on the behaviour of an individual, the product is marketed. Another example of behavioural segmentation is marketing during festivals. Say on Sinhala Tamil New Year, the buying patterns will be completely different as compared to buying patterns on normal days. Thus, the usage segmentation is also a type of behavioural segmentation.

## **3) Psychographic segmentation**

Psychographic segmentation is one which uses lifestyle of people, their activities, interests as well as opinions to define a market segment. Psychographic segmentation is quite similar to behavioural segmentation. But psychographic segmentation also takes the psychological aspects of consumer buying behaviour into accounts.

## **4) Geographic segmentation**

This type of market segmentation divides people on the basis of geography. Your potential customers will have different needs based on the geography they are located in. Eg; People living in North Central Province required purified drinking water than other areas.

Similarly in cold areas, the same company might be marketing for heaters whereas in hot areas, the same company might be targeting air conditioners. Thus, many companies use geographic segmentation as a basis for market segmentation.

### **Distribution Channels:**

Distribution channels in marketing are one of the classic “4 Ps” (product, promotion, price, placement a.k.a. “distribution”). They’re a key element in our entire marketing strategy — they help you expand your reach and grow revenue.

B2B and B2C companies can sell through a single distribution channel or through multiple channels that may include:

- Wholesaler/Distributor
- Direct/Internet
- Direct/Sales Team
- Value-Added Reseller (VAR)
- Dealer
- Retailer
- Sales Agent/Manufacturer’s Rep

To create a good distribution program, it is necessary to focus on the needs of our end-users.

- If users need personalized service, we can utilize a local dealer network or reseller program to provide that service.
- If our users prefer to buy online, we can create an e-commerce website and fulfilment system and sell direct; we can also sell to another online retailer or distributor that can offer our product on their own sites.
- We can build our own specialized sales team to prospect and close deals directly with customers.

Wholesalers, resellers, retailers, consultants and agents already have resources and relationships to quickly bring our product to market. If we sell through these groups instead of (or in addition to) selling direct, treat the entire channel as a group of customers – and they are, since they’re buying our product and reselling it. Understand their needs and deliver strong marketing programs; we could maximize everyone’s revenue in the process.

### Session 5.4 – Financial information

Once the concepts are clear the next one of the most important aspects is finance. Finance can be considered as the life blood of the business. A big part of managing our finances is having visibility of what's going on in our business, whether we are a sole trader, or in a partnership or company. The key tools and reports to manage our finances are:

#### Cash flow

Our cash flow is the money coming in and going out of our business — and how much of the money sitting in our bank account are to spend. A healthy cash flow is having enough money to pay what we owe when it's due. Three sections of the Cash Flow statement:

1. Operating Activities: The principal revenue-generating activities of an organization and other activities that are not investing or financing; any cash flows from current assets and current liabilities
2. Investing Activities: Any cash flows from the acquisition and disposal of long-term assets and other investments not included in cash equivalents
3. Financing Activities: Any cash flows that result in changes in the size and composition of the contributed equity or borrowings of the entity (i.e., bonds, stock, cash dividends)

#### Budget

A budget is an estimate of income and spending over a period. It helps us to think ahead and plan our spending to get to where we want to go. Budgeting is the process of creating a plan to spend our money. Creating this spending plan allows us to determine in advance whether we will have enough money to do the things we need to do or would like to do.

If we don't have enough money to do everything we would like to do, then we can use this planning process to prioritize our spending and focus our money on the things that are most important to us.

## Profit and loss statement

Our profit and loss statement are an accounting report that shows income and expenses — and whether we made a profit or loss — over the financial year. It may also be known as the income statement. The profit & loss statement summarizes the revenues and expenses generated by the company over the entire reporting period.

The basic equation on which a profit & loss statement is based is  $\text{Revenues} - \text{Expenses} = \text{Profit}$ .

All companies need to generate revenue to stay in business. Revenues are used to pay expenses, interest payments on debt, and taxes owed to the government. After the costs of doing business are paid, the amount left over is called net income. Net income is theoretically available to shareholders, though instead of paying out dividends, the firm's management often chooses to retain earnings for future investment in the business.

## Balance sheet

The balance sheet is an accounting report that shows what we own and what we owe at the time of the report. It's known as the 'snapshot' of our business's financial position. It can also sometimes be referred to as a statement of net worth, or a statement of financial position. The balance sheet is based on the fundamental equation: **Assets = Liabilities + Equity**. As such, the balance sheet is divided into two sides (or sections). The left side of the balance sheet outlines all a company's assets. On the right side, the balance sheet outlines the company's liabilities and shareholders' equity. On either side, the main line items are generally classified by liquidity. More liquid accounts like Inventory, Cash, and Trades Payables are placed before illiquid accounts such as Plant, Property, and Equipment (PP&E) and Long-Term Debt. The assets and liabilities are also separated into two categories: current asset/liabilities and non-current (long-term) assets/liabilities.

## Financial Ratios

Financial ratios are relationships determined from a company's financial information and used for comparison purposes. Once we develop our product/service concepts it is essential to calculate the ratios to see the business status of our intended business idea.

Ratios are calculated by dividing one number by another, total sales divided by number of employees, for example. Ratios enable business owners to examine the relationships between items and measure that relationship. They are simple to calculate, easy to use, and provide business owners with insight into what is happening within their business, insights that are not always apparent upon review of the financial statements alone. Ratios are aids to judgment and cannot take the place of experience. But experience with reading ratios and tracking them over time will make any manager a better manager.

Ratios can help to pinpoint areas that need attention before the looming problem within the area is easily visible.

Virtually any financial statistics can be compared using a ratio. In reality, however, small business owners and managers only need to be concerned with a small set of ratios in order to identify where improvements are needed.

### Main ratios

- Current. Measures company's ability to meet financial obligations. Expressed as the number of times current assets exceed current liabilities. A high ratio indicates that a company can pay its creditors. A number less than one indicates potential cash flow problems.
- Quick. This ratio is very similar to the Acid Test, and measures a company's ability to meet its current obligations using its most liquid assets. It shows Total Current Assets excluding Inventory divided by Total Current Liabilities.
- Total Debt to Total Assets. Percentage of Total Assets financed with debt.
- Pre-Tax Return on Net Worth. Indicates shareholders' earnings before taxes for each dollar invested. This ratio is not applicable if the subject company's net worth for the period being analysed has a negative value.
- Pre-Tax Return on Assets. Indicates profit as a percentage of Total Assets before taxes. Measures a company's ability to manage and allocate resources.

### Additional ratios

- Net Profit Margin. This ratio is calculated by dividing Sales into the Net Profit, expressed as a percentage.
- Return on Equity. This ratio is calculated by dividing Net Profit by Net Worth, expressed as a percentage

### Session 5.5 – Intellectual property issues

Intellectual property (IP) refers to creations of the mind, such as inventions; literary and artistic works; designs; and symbols, names and images used in commerce. The entrepreneurs must aware about this when they develop a new concept. We can protect our rights as well as we have to aware about other people rights as well.

IP is protected in law by, for example, patents, copyright and trademarks, which enable people to earn recognition or financial benefit from what they invent or create. By striking the right balance between the interests of innovators and the wider public interest, the IP system aims to foster an environment in which creativity and innovation can flourish.

#### Patents rights:

A patent is an exclusive right granted for an invention. Generally speaking, a patent provides the patent owner with the right to decide how – or whether – the invention can be used by others. In exchange for this right, the patent owner makes technical information about the invention publicly available in the published patent document. If someone wants to use that patented idea it is necessary to pay and get it from the original owner of this idea.

There are three types of patents available in the world.

- (1) **Utility patent**, which covers the functional aspects of products and processes,
- (2) **Design patent**, which covers the ornamental design of useful objects, and
- (3) **Plant patent**, which covers a new variety of living plant.

Each confers “the right to exclude others from making, using, offering for sale, or selling” the invention in the Sri Lanka or importing the invention into the Country. Generally speaking, when one speaks of “a patent” generically, the reference is to a utility patent. Again, generally speaking, if a design or plant patent are being discussed the qualifying terms “design” or “plant” are almost universally included in the discussion.

#### Copy rights:

Copyright is a legal term used to describe the rights that creators have over their literary and artistic works. Works covered by copyright range from books, music, paintings, sculpture and films, to computer programs, databases, advertisements, maps and technical drawings.

The primary goal of copyright law is to protect the time, effort, and creativity of the work's creator. As such, the Copyright Act gives the copyright owner certain exclusive rights, including the right to:

- Reproduce the work
- Prepare "derivative works" (other works based on the original work)
- Distribute copies of the work by sale, lease, or other transfer of ownership
- Perform the work publicly
- Display the work publicly

The copyright owner also has the right to authorize other people to do any of the rights mentioned above. The copyright owner has the option and ability to transfer his or her exclusive rights or any subdivision of those rights to others as well.

## Trademark

A trademark is a sign capable of distinguishing the goods or services of one enterprise from those of other enterprises. Trademarks date back to ancient times when artisans used to put their signature or "mark" on their products

A trademark not only gives the trademark owner the exclusive right to use the mark, but also allows the owner to prevent others from using a similar mark that can be confusing for the general public. A trademark cannot, however, prevent another person or company from making or selling the same goods or service under a clearly different mark. Rights to a mark can be established through the legitimate use of the mark in a commercial or business setting. Registration with the Trade Mark registration unit in 'Samagam Madura' is not required, but offers additional protections.

When a person claims the rights to a particular mark, he or she is allowed to use "TM" (for a trademark) and "SM" (for a service mark) to designate that the mark is trademarked. The symbol "®" designates registration and can therefore only be used after the registration, meaning the symbol cannot be used when an application is pending. In addition, the ® symbol may only be used with goods and/or services that were allowed by the government.

## Geographical indications (GI)

This is a quite new rule came in to practice after 1992. Geographical indications and appellations of origin are signs used on goods that have a specific geographical origin and possess qualities, a reputation or characteristics that are essentially attributable to

that place of origin. Most commonly, a geographical indication includes the name of the place of origin of the goods. This GI is mainly useful if exporting, where we can have GI for very authentic product come from special location. Eg: Kitul treacle from Sinharaja forest.

A geographical indication right enables those who have the right to use the indication to prevent its use by a third party whose product does not conform to the applicable standards. For example, in the jurisdictions in which the Darjeeling geographical indication is protected, producers of Darjeeling tea can exclude use of the term “Darjeeling” for tea not grown in their tea gardens or not produced according to the standards set out in the code of practice for the geographical indication.

However, a protected geographical indication does not enable the holder to prevent someone from making a product using the same techniques as those set out in the standards for that indication. Protection for a geographical indication is usually obtained by acquiring a right over the sign that constitutes the indication.

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### Session 5.5 – SWOT Analysis

SWOT Analysis is a useful technique for understanding our Strengths and Weaknesses, and for identifying both the Opportunities open to us and the Threats we are facing in identification of the viability of our business concept. A SWOT analysis is a simple, but powerful tool to help us to develop our business strategy for the new concept developed.

SWOT stands for Strengths, Weaknesses, Opportunities, and Threats.

Strengths and weaknesses are internal to our company—things that we have some control over and can change. Examples include who is on our team, your patents and intellectual property, and our location.

Opportunities and threats are external—things that are going on outside our company, in the larger market. We can take advantage of opportunities and protect against threats, but we can't change them. Examples include competitors, prices of raw materials, and customer shopping trends.

#### Strength:

- What advantages do our concept have?
- What we do better than anyone else?

- What unique or lowest-cost resources can we draw upon that others can't?
- What do people in our market see as our strengths?
- What factors mean that we "get the sale"?

Consider our strengths from both an internal perspective, and from the point of view of our customers and people in your market.

When looking at our strengths, think about them in relation to our competitors. Always it should be better than them.

### Weaknesses

- What could we improve?
- What should we avoid?
- What are things that people in our market likely to see as weaknesses?
- What factors lose our sales?

Again, consider this from an internal and external perspective: do other people seem to perceive weaknesses that we don't see? Are our competitors doing any better than us?

### Opportunities

- What good opportunities can we spot in near future?
- What interesting trends are we aware of?

Useful opportunities can come from such things as:

- Changes in technology and markets on both a broad and narrow scale.
- Changes in government policy related to our field.
- Changes in social patterns, population profiles, lifestyle changes, and so on.
- Local events that can be happen in near future.

### Threats

- What obstacles do we face?

- What our competitors doing?
- Are quality standards or specifications for our job, products or services changing?
- Is changing technology threatening our position?
- Do we have bad debt or cash-flow problems?
- Could any of our weaknesses seriously threaten our business?

The SWOT analysis should be done by ourselves. We should do SWOT analysis for our product or service based on the learning accrued.

## **Session 5.7– Validation of Business Concept**

Idea validation is the process of testing and validating our idea prior to launching our business name, tagline, product, service or website. This is like the research and development process big companies use to test product ideas before they're released to the general public. Once the business concept is developed, a validation is designed to give us a reasonable certainty for business will have a sustainable, growing, paying its investment soon. it is a step-by-step process. The process is as follows:

### **01. Find the most profitable niche for our product**

Search for most promising customer group for validating the business concept

### **02. Exploit our strengths to overcome the weaknesses**

Now we have identified our strengths and weaknesses. We need to capitalize our strengths to minimize our weaknesses

### **03. Develop competitive advantage for our product**

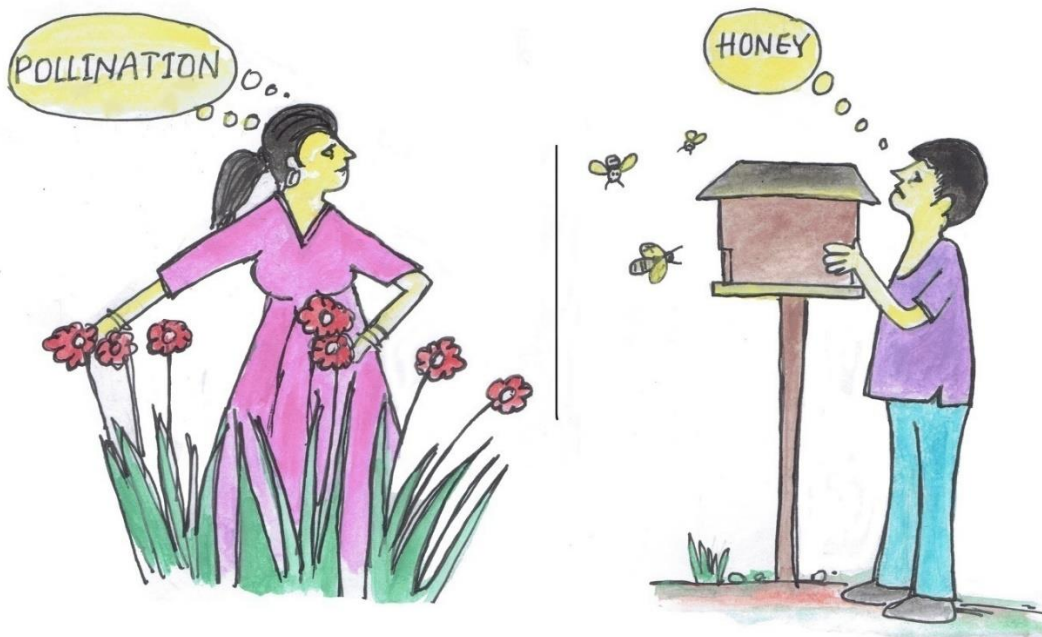
Consider potential competitive advantageous in line with following aspects

- our cost structures
- Product offering
- Distribution network
- Customer support
- our own personal skill set (like being able to tell great stories)
- our experience
- Industry knowledge
- Strategic relationships
- A powerful personal brand

### **04. validate your product with the customers**

Introduce your product to the limited number of consumers and validate your product with them

## 6. Marketing strategy development



Marketing is the bridge between the business and its customers. The business needs to communicate its business presence and products or service details to the customers. In addition, the customers who are looking for such products or services should be attracted to the business. The methodologies used in all these marketing needs are the marketing strategies. In the process of business start-up, once the business idea is selected and concept has been developed, developing a marketing strategy plays a key role. Therefore, this module covers a vital area of knowledge and skills building in relation to marketing strategy development.

### Module objectives:

At the end of this module, the trainees will be able to

- ✓ Explain what a marketing strategy is
- ✓ Describe about the marketing mix
- ✓ Describe the process of marketing strategy development
- ✓ Perform a market research and collect information
- ✓ Develop a marketing strategy for own intended business

The module covers the following sessions:

- 6.1 What is a marketing strategy?
- 6.2 Importance of developing a marketing strategy
- 6.3 How to develop a marketing strategy
- 6.4 Marketing strategy development exercise

## Session 6.1 – What is a marketing strategy?

### Glenda's novel business

Glenda has selected a novel business idea of “Making business promotion videos for hotels” using drone service. A drone will fly inside and outside the hotel and take images to include in the videos. She has developed the concept of the idea and validated. She has made a sample video using a three-star hotel known to her. Glenda believes that she will have good business from the hotels in Negombo, Hikkaduwa and Batticaloa areas where tourism is being popularized.

Since this is a new concept, Glenda has planned to communicate the message of her new business to the hotels in the above areas through flyers, e-mails and personal meetings with the top management of the hotels. In addition, she has launched her website for this business. She has also been intensively using social media to promote her business. However, she noted that her price is above the market price because of the usage of the drone. As a strategy she decided to lower her profit margin and enter the market with a nominal price. Glenda has also made arrangements with two close friends to represent her in Hikkaduwa and Batticaloa areas since she can cover Negombo from her small office.

### Role play

Let's do a role play based on the above case. During the role play, almost all facts should be revealed.

### Discussion

The trainer will lead a discussion based on the role play. Participation of all trainees in the discussion is very important.

After the discussion, we should complete the following exercise.

### Exercise – Glenda's novel business

Question	Answer
1. What is Glenda's novel business?	
2. What are the non-marketing strategies used by her?	a. ....
3. What are the marketing strategies used by her?	a. .... b. ....

	c. ....
4. What did you understand by the term strategy?	
5. What did you understand by 'marketing strategies'?	

### Business aims & Marketing strategies

Any entrepreneur, or a business has business aims. The methods formulated to achieve these business aims are 'business strategies'. At the start, the most important business aim is to inform the customers about the business – its products or services. The method used to achieve it is called a marketing strategy, or more precisely communication strategy. Other aims can include the following.

- Attract customers,
- Influence customers to buy more of our products,
- Increase market share, and many more.

Thus, any method developed and introduced to improve marketing is a marketing strategy.

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### Session 6.2 – Importance of developing a marketing strategy for a business

**Group exercise:** Brainstorming discussion on importance of developing a marketing strategy for a business

**Method:** Trainer will divide the large group in to four small groups. Each small group is required to discuss the importance of having a marketing strategy for their business within a time slot of 5 minutes. Each group should present their main points. Finally the trainer will summarize all key points from the group discussion outcomes. The total time allocated for this exercise is 30 mins.

## Session 6.3 – How to develop a marketing strategy?

### Types of strategies in a marketing strategy

When we have a selected business idea for which the concept also has been developed, our broad exercise is to build a business based on the idea selected. With this understanding, we can express the type of marketing strategy we need to develop at this level. We should find answers to the following questions.

1. How can I differentiate my business or product from similar businesses or products?
2. How to communicate about my business's presence, its products or service, product benefits to the new set of customers?
3. How can my products reach the customer?
4. How can I attract customers for my business?
5. How to compete with my competitors?

All five questions above require different methods, or different strategies. They have different names as given in the following table. We should formulate appropriate strategies accordingly and the bundle of those strategies will make the Marketing Strategy of our business.

Purpose (based on the above questions)	Strategy
1. Differentiation	Branding strategy
2. Communication about the business, product etc.	Communication strategy
3. Product's reach; making it physically available to the customer	Distribution strategy
4. Attracting customers	Sales/ marketing promotion strategy
5. Competing with competitors	Strategy to overcome competition

There can be more business needs and appropriate strategies that can add to the above. But, in general, the bundle of the above strategies are sufficient to make our marketing strategy. A basic awareness on the concept– “Marketing Mix” is useful when dealing with developing the marketing strategy.

## **Marketing Mix – Product, Price, Promotion and Place (4Ps)**

Marketing mix is a popular concept used in the business world. It refers to the set of actions, or tactics, that a company uses to promote its brand or product in the market. Marketing mix is denoted by the 4Ps that make up mix of four types of concerns – Price, Product, Promotion and Place. Marketing mix for a service include two more Ps, Process, and Physical evidence. These factors denoted by Ps can be manipulated positively for marketing of the relevant product or service.

We can understand more about the marketing mix with the following Group Exercise on Motorola case study.

### **Group Exercise: Motorola case study**

Large group is divided in to four groups. Each group will be provided with one of the four Motorola cases (Motorola product, Motorola price, Motorola place and Motorola promotion). Each group should discuss about the vital points under the relevant P and present their findings to the large group. Presentation time per group is 5 mins. Total time for the group exercise is 45 mins.

### **Case study 1: Motorola Product**

Motorola is a global leader in wireless and broadband communications technologies. It has significant operations in the UK employing approximately 2,400 people.

Mobile phones are among the most familiar Motorola products to consumers. Many functions are associated with these phones. Some of them are as follows:

- As a fashionable possession,
- As a communication equipment,
- As a source of entertainment with music and video games,
- As a recording device,

The mobile phone market has risen dramatically in size. In April 2005, Mintel market research has revealed that 80% of the youth market in the UK has a mobile phone, and that over 61 million people subscribed to an airtime contract.

In order to be competitive in the market, Motorola produced 3G or WAP-enabled phones. Customers can browse special internet sites to look at football scores, search cinema movie times, or live-chat with friends faster with these models.

In creating products, Motorola concentrates on:

- attractive design

- excellent call-quality
- ease of use feature
- value-added features including music player, games, camera, and video features
- high quality and reliability

The casing is made from air craft grade alloy, and the outer screen from glass, as no conventional plastic materials were strong enough.

### **Case study 2: Motorola Price**

As with other companies, prices charged by Motorola are linked to the product life cycle. When a new product is launched prices will typically be quite high. This is because a lot of product and market research has gone into producing the product. It usually takes time for large numbers of consumers to purchase new products. As a product matures and sales increase, it is possible to reduce costs.

Economies of scale are important. These come in when a firm is able to produce on a large scale. With high outputs of production, costs of research and development, software engineering and investment in plant (manufacturing machinery and tooling) can be spread. State-of-the art products are sold at premium prices reflecting the high quality of the items and their innovative nature.

The costs to the users of Motorola mobile phones are kept down because they are subsidised by the network providers such as Vodafone.

### **Case study 3: Motorola Place**

There are a number of ways in which Motorola distributes its phones. If you want to buy a Motorola mobile phone there are a number of distribution channels that you can use. Many people like to buy phones from independent retailers such as Carphone shopping malls. These can offer advice about a variety of different phones and suggest the one best suited to your needs. A second source is a retail outlet belonging to a network provider such as Vodafone.

Nowadays, increasing numbers of people buy through the Internet. This is an example of e-commerce. The great thing about buying online is that you can spend as long as you like and examine a lot of information. You can buy a Motorola phone from the Motorola website. It will tell you about different models of phones, their prices and features etc. An advantage of buying online is that prices are typically cheaper because you are cutting out the middle person.

## Case study 4: Motorola Promotion

Motorola uses various promotional methods to promote products. An important avenue for communication is advertising. Advertising is referred to as 'above the line' promotion. Other types of promotion such as special offers and discounts are referred to as being 'below the line'.

The type of promotion that is used depends on the stage in the product life cycle. For example, when a new product is launched, it makes sense to make people aware. Advertising will communicate the desirability, emotional benefits and exclusive features of the product.

Motorola works in close partnership to promote its phones with retailers. Promotion costs are shared with retailers. The more retailers sell – the more Motorola is able to help them.

### Collection of information to develop our marketing strategy

It is clear that we need some practical information to formulate the strategy. We should know who our customers are. We also should know how they purchase such products from the market. If it's a morning newspaper, two distribution strategies are used; deliver to the doorstep and make it available at the newspaper stall. Thus, all relevant information should be practically collected first through a preliminary market research and then, we can formulate the marketing strategy.

### Conducting the preliminary market research

As we did in the earlier field research in the business idea selection module, we should prepare first before going to the market. Basically, we need to understand what information should be collected. Since, the nature of information can differ according to the business idea, a sample of information to be collected in general is given as a guide.

### Information to be collected

About whom / what?	Information to be collected
CUSTOMERS	<ol style="list-style-type: none"><li>1. Who are the customers?</li><li>2. Where do they buy from?</li><li>3. What is the price they like to pay?</li><li>4. What are the unsatisfied needs related to this product?</li><li>5. -----?</li></ol>

MARKET	<ol style="list-style-type: none"> <li>1. How many units are sold in the relevant market?</li> <li>2. What is the rupee value of the above?</li> <li>3. At what rate does the market fluctuate?</li> <li>4. -----?</li> </ol>
COMPETITORS	<ol style="list-style-type: none"> <li>1. Who are the leading competitors? What brands?</li> <li>2. At what price do they sell?</li> <li>3. What are the distribution strategies of them?</li> <li>4. What promotional methods do they use?</li> <li>5. What are their strengths and weaknesses?</li> <li>6. -----?</li> </ol>

## **Session 6.4 – Marketing strategy development exercise**

Step 1: Preparation for the market research

Step 2: Conducting the market research

Step 3: Developing the marketing strategy for the business / product

### **Activity 1: Preparation for the market research**

Using the knowledge and skills accrued so far, we should prepare ourselves for the market research exercise.

### **Activity 2: Conducting the market research**

We are required to go to the market and conduct the market research. Trainer will provide basic instructions. Each of us will need 4 – 5 days for this activity.

### **Activity 3: Developing the marketing strategy for the business / product**

We can prepare the marketing strategy for our business / product by answering the following questions.

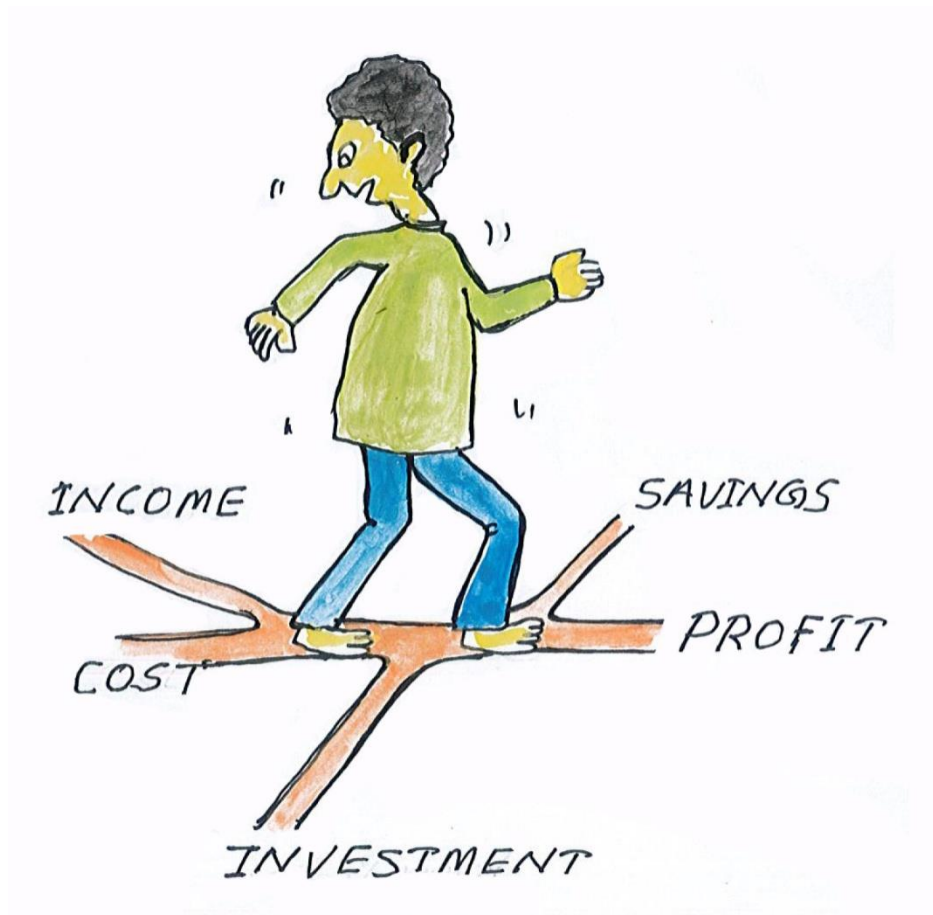
1. How can I differentiate my business or product from similar businesses or products?
2. How to communicate about my business's presence, its products or service, product benefits to the new set of customers?
3. How can my products reach the customer?
4. How can I attract customers for my business?
5. How to compete with my competitors?

Trainer will provide more guidance in this regard.

### **In-class activity: Presentation of individually developed marketing strategies**

Each trainee should present his / her marketing strategy to the large group.

## 7. Business Analysis



After selecting the most suitable business idea, we have developed the concept for the business idea to be used as a proper basis to be considered for the next steps of the business start-up process. In addition, we have already developed a marketing strategy also during the previous module. Now, we need to do the Business Analysis for the business we are going to start using this business idea.

Consciously completed Business Analysis Report shows how our intended business will be. While performing the business analysis, we can understand about pitfalls, weaknesses and threats that may encounter. Therefore, this module provides a great guidance to our business start-up process. Preparing a comprehensive report on business analysis is a key task in our training and it is a must for an intelligent business start-up.

Since the task of Business Analysis involves collection of information from the field and doing analytical work in the class, the whole module is an activity-oriented engagement.

## **Module objectives:**

At the end of this module, trainees will be able to improve their understanding, and practical skills in performing Business Analysis, while completing the Business Analysis for the intended businesses.

The module covers the following sessions:

- ✓ What is Business Analysis?
- ✓ Structure of Business Analysis Report
- ✓ Analysing Macro Environment Situation
- ✓ Analysing Market Situation
- ✓ Analysing Production / Service Process Information
- ✓ Analysing Management Information
- ✓ Analysing Human Resource Management Information
- ✓ Analysing Financial Information

## **TRAINEE WORKBOOK CONTENTS**

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### **Session 7.1 – What is Business Analysis?**

#### **Business analysis**

Business analysis in the process of business start-up is analysing the surrounding and internal situation of the intended business. It examines the external factors affecting the business and see how sustainable the business within the external context. Similarly, it explores how the internal picture is. This is an overall analysis from various directions.

#### **Purpose**

Purpose of conducting a business analysis is to understand the initial level of viability of the business idea or the relevant business. In addition, the business analysis report provides the basis for some contents of the business plan we are going to build in this process.

However, if the complete business analysis gives more negatives and strong barriers, we should think about the next best business idea. In that case, we should start from concept development and validating stage.

## Method

Business analysis process has some components. While the number of these components can vary according to some factors such as the size and the nature of the business, we will consider 6 main components for our business analysis process. Each component has several sub components. However, let's understand each component, collect the information, do the relevant analysis for our business and complete the business analysis part pertaining to that component. At the end, we will have a complete Business Analysis Report when we link each component according to the Business Analysis Report Structure, which we will learn during this module.

During completion of the components, we will be required to find some realistic information. In order to do that, we may have to refer reports, visit institutions, meet experts and entrepreneurs, go to the market and meet customers, and apply different strategies to collect more reliable information.

## Session 7.2 – Structure of Business Analysis Report

### Part 1: Macro Environment Situation

Economic & Business Conditions:  
Technological Situation:  
Political Situation:  
Legal Situation:  
Social & Cultural Situation:  
Environmental Situation:

### Part 2: Market Situation

Products / Services:  
Description of Market Area:  
Economic Condition of Market Area:  
Demographics of Market Area:  
Other Conditions of Market Area:  
Competitive Situation:  
Target Customers' Information:  
Marketing Objectives:  
Marketing Expenditure Budget:  
Marketing Strategies:  
Marketing Mix:  
Sales Plan (Budgeted)

### Part 3: Production / Service Process Information

Production / Service Process:  
Production Trends:  
Total Manufacturing Costs:  
Direct Cost Per Unit:  
Costing Methods:  
Production Overhead Cost:  
Capacity Utilization:  
Skilled / Unskilled Labour Information:  
Inventory Control:  
Waste Management System:

## Part 4: Management Information

Vision & Mission Statements:

Owner's Information:

Management Team:

Organization Structure:

Legal Structure:

Action Plans:

## Part 5: Human Resource Management Information

Positions Required / Job Descriptions / Qualifications:

HR Selection Method: *(Methods of sourcing / Selection methods etc)*

HR Recruitment: *(Recruitment methodology .....)*

Employment Conditions: *(Employment terms / Leave / Transfers / Promotions)*

Employment Development: *(On-boarding / Skills transfer / Training .....)*

Productivity Improvement Considerations:

Other Considerations of HR:

## Part 6: Financial Information

- Owner's equity:
- Percentage of ownership:
- Total equity capital:
- Loan capital:
- Cash-flow statements:
- Income statements:
- Balance sheet:
- Budgets:
- Ratio Analysis:

### Session 7.3 – Analysing Macro Environment Situation

Macro environment is the large environment outside the business. When the Government implements a new tax on timber imports, it affects negatively on businesses dealing with imported timber, and positively on local timber businesses. That means, the government or political decisions can affect businesses. If someone plans to start a SPA in an area with anti-SPA culture, the business start-up plan will have a natural death. The culture can have effects on businesses. Political situation, social and cultural situation, and similar external factors that surround the business are the macro environment components. Since we need to analyse the effects of these macro environment components on our expected businesses before proceeding further, it is beneficial for us to understand about all these components first. Let's learn about the tool called "PESTEL Analysis" for this purpose. The acronym PESTEL covers key components of the macro environment.

**PESTEL** stands for:

Political	Economical	Social (and cultural)	Technological	Environmental	Legal
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In PESTEL Analysis, we examine our business concept against each of these macro environmental situations and see pros and cons, advantages and disadvantages, opportunities and threats, and easy sailing and barriers.

#### Case Study: Setting up a white fibre making factory

Kumar– a potential entrepreneur is making arrangements to setup a white fibre making factory in Madampe. During information collection for business analysis, he observed that the current government has implemented a special loan facility to develop the local fibre industry. But, he found that obtaining a licence from the environmental authority is not that easy without establishing a proper waste disposal system. Environmental and labour laws are very rigid in this industry. Kumar's expectation is to export the full production. Export market demand is increasing for Sri Lankan natural white fibre.

Kumar suspects that the people living in surrounding area may protest against the factory because it generates coir dust and noise pollution. They also may show concerns about the waste water, if not disposed properly. However, the poor people in the area could get many job opportunities in the factory and related operations such as collection of

coconut husks. Although Kumar prefers to employ youths, they may hesitate to join because of they consider this type of work as dirty and difficult.

This industry could expect increasing demand for its products in the future too. Current trend of depreciation of Rupee value against US dollar is again a positive factor for these exports in short run. The demand for other by products from the industry such as coir briquettes is also increasing. However, the freight charges are high, resulting in higher market prices. This is a negative factor when the competition is considered.

The technology is not very complicated, but required safety improvement for the workers. Many industrial accidents have been reported in similar factories due to unsafe machineries.

The main issue of this industry is industrial wastes, including coir dust and waste water. In addition, bad odour of used water pits creates public arousal. Therefore, precautionary methods are required to control such issues.

### **Group Exercise based on the case study:**

The large group is divided in to six small groups. Each group is assigned one condition out of 6 PESTEL conditions. Each group should find the relevant information for the assigned macro-economic factor. For an example, if the Group 4 has been assigned Economic Conditions, they should identify all information pertaining to the Economic Condition from the case.

Time allocation is 10 minutes. At the end, each group should present their answers. Presentation time is 3 mins per group.

At the end of the presentations, the trainer will facilitate an interactive discussion.

Let's get **more insights** of these conditions.

### **Political Factors**

Government policies, interests, stability level and behaviours can significantly influence the economy. When a political decision is taken to rapidly develop roads and buildings, the business of manufacturing interlock blocks will be a promising business. If a potential entrepreneur who plans to start a foreign employment agency focusing on sending housemaids to the Middle East sees that the government has taken a decision to scale down sending of housemaids, he / she should seriously think about his business idea.

### **Economic Factors**

Economic factors have a significant impact on how an organisation does business and also how profitable they are. Factors include – economic growth, interest rates, exchange rates, inflation, disposable income of consumers and businesses and so on. Opening a

pizza outlet in an area with higher disposable income consumers is a good idea, but it is a bad idea if the disposable income of consumers is less.

## **Social Factors**

Also known as socio-cultural factors, are the areas that involve the shared belief and attitudes of the population. These factors include – age distribution, health consciousness, career attitudes, social behaviours, social values and so on. Social factors are strong influencers on businesses depending on their nature. Last year, an entrepreneur started a garment manufacturing plant employing skilled employees from outside. But, the area community had a strong social belief that the factories that commence operations in their area should employ the youths from that area. After a short term battle, the entrepreneur had to shift the factory causing a huge cost.

## **Technological Factors**

Technology changes very fast. The whole landscape of business operations is rapidly changing with the technology. Technological factors affect marketing and the management thereof in three distinct ways:

- New ways of producing goods and services
- New ways of distributing goods and services
- New ways of communicating with target markets

Increased use of technology has dramatically reduced the viability of old-fashioned studios.

## **Environmental Factors**

Environmental factors are gaining high power day by day. They affect businesses significantly. Emerging approach to reduce polythene is based on environmental factors. Entrepreneurs who start water bottling plants, using ground water always face critical obstacles owing to extraction of surrounding water. This environmental situation very often leads to social issues. For a business to be ethical and sustainable in the future, it will be compelled to follow certain standards in terms of environmental protection. Consumers are organizing themselves to buy only from businesses that conform to set standards.

## **Legal Factors**

Legal factors include – health and safety, equal opportunities, advertising standards, consumer rights and laws, product labelling and product safety. Certain industries need

to obtain licences, certificates to operate the business. It is clear that companies need to know what is and what is not legal in order to trade successfully. If an organisation trades globally this becomes a very tricky area to get right as each country has its own set of rules and regulations.

### Individual activity:

We should perform macro environment analysis for our selected business. This is an individual activity. Here, we use a simpler version of PESTEL (see the format below) which is appropriate for our macro environment analysis. The trainer will guide. We should collect information from the field and other ways, and complete the below chart with comparatively accurate information.

### 1. MACRO ENVIRONMENT SITUATION

Economic & Business Conditions	
Technological Situation	
Political Situation	
Legal Situation	
Social & Cultural Situation	
Environmental Situation	

### Session 7.4 – Analysing Market Situation

Next step is to complete the market situation analysis. This is a special part of analysis because all aspects pertaining to sales and marketing of the business, markets, customers and competitors are analysed and recorded here. But, it is easy to grasp the method when we consider each sub-component separately. While doing this exercise, as potential entrepreneurs, we can get more insights of the most important function of our business– sales and marketing.

Let's examine and analyse sub-components one-by-one.

#### Products / Services:

Give the complete idea of your products or services based on your business idea. In case of products, there can be different sizes, colours or any other differentiations. Even services can be marketed in different forms under the same business idea. If Devika's business is providing catering services, it can include two different service offers such as supplying catering services to festive occasions, and renting out catering equipment. Complete description should include all these different offers.

Complete description of your products or service should be included in the below cage.

Products / Services:

#### Description of the Market Area:

We are required to provide the description of the targeted market area. It can be a segmented area, the whole island or an overseas market. Indication of the geographical boundaries of the market area would be essential.

Description of my targeted market area should be included in the below cage.

Description of Market Area:

#### Description of the Economic Condition of Market Area:

We need to examine the economic condition of the targeted market area and include it here.

Economic Condition of Market Area:

#### Demographic of Market Area:

We need to examine carefully the demographic of the market area. The population, age groups with percentages, male–female composition, income sources, are some of demographics. We should complete the below cage with relevant details.

Demographics of Market Area:

#### Other Conditions of Market Area:

We need to find out the other conditions that are associated with the market area. If any, they should be included in the below cage.

Other Conditions of Market Area:

### Competitive Situation:

This is a highly sensitive information. Competitor details are very important, not only to do business analysis and the business plan, it's vital throughout the business continuation. Therefore, we should attentively collect information about the competitive situation in our market area. We need to identify the main competitors, their activities and the competitive strength order (example: Competitor A is dominating the market supplying 85% to the customers, Competitor B is the second.), specific marketing strategies used by them, their operational modes, reasons for them to be strong-competitor-wise, and indirect competition available in the market.

Example: Plastic water tap suppliers pose an indirect competition to the steel tap manufacturer in the relevant market.

After collecting the relevant information, we should complete the following cage.

Competitive Situation:

### Target Customers' Information:

The sensitivity of this information is very high. It means that we need to pay very sharp attention in collecting target customers' information. Our business aims at a specific group of customers. We need to identify the information relating to the age groups, male-female proportion, buying habits and preferences, and all customer-related information at this stage and complete the below cage. This information is very useful in fine-tuning our marketing strategies, setting marketing objectives, forecasting sales plans and many more business start-up related vital functions.

Target Customers' Information:

### Marketing Objectives:

We should prepare meaningful marketing objectives. This is a comprehensive activity that needs the following steps.

**Step 1:** We should prepare a VISION statement for my business. The trainer will guide us how to establish the vision.

**Step 2:** Next step is to prepare the MISSION statement for my business. With the trainer's guidance, we can prepare a mission for my business.

**Step 3:** We should set up MARKETING OBJECTIVES now. Trainer will guide us to set up marketing objectives.

### Example:

Michael has been doing the business analysis for his intended business of "making laptop bags". He has prepared his marketing objectives as follows:

Marketing objective 1	My business will manufacture and market two types of laptop bags, namely the standard bag and the expandable bag.
Marketing objective 2	Expected sales during the first 12 months Standard laptop bag – 720 units Expandable laptop bag– 480 units

We should complete the following cage after deciding about our marketing objectives.

Marketing Objectives:

### **Marketing Expenditure Budget:**

We don't have complete details to prepare an accurate marketing expenditure budget. But, we need to collect possible information from relevant sources about this aspect. If we have collected some information about the marketing expenditure budgets of our competitors during our competitor study, it will be useful here. Our trainer will guide us in preparing our marketing expenditure budget.

However, in the SME sector, the practical situations confirm that SMEs generally spend 1% – 5% of their sale values for marketing expenditure. Considering all these facts, we should decide our expected marketing expenditure budget and complete the following cage.

Marketing Expenditure Budget:

### **Marketing Strategies:**

We have developed a marketing strategy for our business during our 6<sup>th</sup> module. However, it is a gross development. Since we have now developed the vision, mission and marketing objectives, we can re-frame our marketing strategies more accurately. Trainer will guide us with more instructions. We should include the marketing strategies re-framed in the following cage.

Marketing Strategies:

### **Marketing Mix:**

We learnt about marketing mix in the Module 6. With all these information and trainer guidance, we can re-frame our marketing mix with more depth. This part should cover

basically 4Ps (Product / service, Price, Place and Promotion) for a product-oriented business and it should be supplemented with another 2Ps (Process and Physical Presence) for a service-oriented business. Distributions channels and related aspects are included in the P– Place. Trainer will give necessary guidance in the preparation.

Once, analysed, it should be inserted in the following cage.

Marketing Mix:

### **Sales Plan:**

This is also another vital preparation. We need to prepare our estimated sales plan with the information collected under the close supervision of the trainer. Trainer will provide the necessary knowledge and skill inputs. After preparing the estimated sales plan, we should complete the following cage.

Sales Plan (Budgeted):

### **Session 7.5 – Analysing Production / Service Process Information**

We are gradually completing our business analysis task. During this session, we should examine the information pertaining to production / service process.

#### **Production / Service Process:**

Production process is the backbone of a manufacturing enterprise. If the business offers a service, it is the service process which is the backbone of it. As potential entrepreneurs, it is imperative for us to have a basic knowledge of production process. Service process is generally not that complicated and it depends on the particular business. Let's have a basic idea about production through the additional reading given below.

#### **ADDITIONAL READING ON PRODUCTION**

##### **Production process:**

In the production, we use inputs to make outputs which are the products our business market. This transformation process of inputs to outputs is called the production process.

##### **Value addition in the production chain:**

Any production process involves a series of links in a production chain. At each stage value is added in the course of production. Adding value involves making a product more desirable to a consumer so that they will pay more for it. Adding value therefore is not just about manufacturing, but includes the marketing process including advertising, promotion and distribution that make the final product more desirable.

It is very important for businesses to identify the processes that add value, so that they can enhance these processes to the ongoing benefit of the business.

##### **Types of production process:**

Three types – Job, Batch and Flow production.

##### **Job production:**

In making jewellery, the jeweller makes the complete wedding ring from its raw material up to the finished product and then start making the next product. This is job production. We can't make several units through a single process here.

### Batch production:

In making bread, the baker makes the mixture for 50 loaves of bread, and send it thorough the baking process together. It's a batch production.

### Flow production:

Flow production is a continuous process of parts and sub-assemblies passing on from one stage to another until completion. Units are worked upon in each operation and then passed straight on to the next work stage without waiting for the batch to be completed. Manufacturing of cars is done through flow production.

We should examine the production / service process information carefully for our business. It includes mainly the **Flow Chart** of the production process, production methodology/ type, raw material required, and the other process- related information. It is essential to include all these in the following cage.

Production / Service Process:

### Production Trends:

It is essential to analyse the industry changes in the production process. If Priyakala is planning to start a cap manufacturing business, she should study about the manufacturing process she is going to apply in making caps. In addition, if the market research reveals that most of the manufacturers have now shifted from making a part of it from the manual process to machine-based process, it has to be recorded in the business analysis of her business. All this information flashes a light on the mind of the entrepreneur to make his / her business viable.

Production Trends:

**Total Manufacturing Costs:**

The trainer will guide us as to how to arrive at the total manufacturing costs. We need to calculate it and include in the below cage.

Total Manufacturing Costs:

**Direct Cost per Unit:**

The trainer will guide us as to how to arrive at the direct cost per unit. We need to calculate it and include in the below cage.

Direct Cost Per Unit:

**Costing Methods:**

There are different methods to do costing in manufacturing / service businesses. The trainer will explain these methods and guide us as to how we can select the most appropriate one for our business model. With that study, we can decide about it and include it in the below cage.

Costing Methods:

**Production Overhead Cost:**

The trainer will guide us as to how to arrive at the production overhead costs. We need to find it and include in the below cage.

Production Overhead Cost:

**Capacity Utilization:**

The trainer will guide us as to how to complete the below cage with relevant information.

Capacity Utilization:

### **Skilled / Unskilled Labour Information:**

When we do the field research, we have collected vital information. Similarly, we know about our production information. With all these information collected so far, we can assess the required skilled and unskilled labour for our business. What we need here is the numbers separately for skilled and unskilled categories, the nature of skills required, whether they can be recruited from the surrounding areas, and similar labour information.

Once the information is collected, we should include them in the following cage.

Skilled / Unskilled Labour Information:
---

### **Inventory Control:**

Expected stock situation is examined, analysed and included in this section. We have already projected the quantity of sales for the next 12 months. We also have information about our production process, raw material needs, and production related information. We need to analyse the raw material stocks that should be maintained at each production cycle, buffer stocks, re-order levels, minimum order quantities, and similar inventory control related information.

The trainer will guide us as to complete this section in a satisfactory manner. If we lack some information, it is essential to collect them further. We need to complete the analysis and include in the below cage.

Inventory Control:
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### **Waste Management System:**

As studied earlier, environmental concerns are highly sensitive in sustaining a business. Therefore, we should pay our specific attention to the waste matter accumulated during the production / service process and in the business as a whole. It is unethical and unsustainable to send the waste matter out without managing them internally and dispose of in the socially and legally accepted manner. That indicates that we should plan for an ethical and acceptable waste management system for our business. All these information should be narrated in the below cage. Trainer will guide us in completing this section also.

Waste Management System:

With the completion of the above section, we have analysed the production / service process information required for our business analysis. Next section deals with the analysis of expected management-related information.

### Session 7.6 – Analysing Management Information

#### **Vision & Mission Statements:**

We have already completed the vision and mission statement during completing our marketing objectives. We can include them in the below cage.

Vision & Mission Statements:

#### **Owner's information:**

This is the space for the inclusion of our information– owner's profile. My name, sex, age, phone numbers and e-mail address, marital status, educational and professional qualifications are some components. It is very useful to include my qualifications related to starting a business, and my business-related experience, if any. Undergoing this business start-up training course is a valid qualification here.

Owner's Information:

#### **Management Team:**

We should complete the information of the management team. Being an average start-up, in most cases, it will be the owner who carries out all functions of the business. However, we need to record the real information in the below cage. We should identify the different management functions in the business. Purchasing, production, sales and marketing are some of those generic functions in a business entity. After identifying, we should indicate who is responsible for which function in the relevant cage. When indicating the management team, it is important to include their qualifications that justify their suitability to handle that particular function.

Management Team:

#### **Organization Structure:**

Organization structure depicts the different management levels, and their comparative authority levels etc. Trainer will guide us in completing this section.

Organization Structure:

### Legal Structure:

Expected legal mode of our business (sole proprietorship, partnership, or private limited company) is the main ingredient of this section. In addition, we can include the other necessary legal permits / licences etc.

Legal Structure:

### Action Plans:

We need to develop action plans for different functional areas– Marketing Action Plan, Production Action Plan, HR Action Plan etc. This is the section of the business plan for the inclusion of all such action plans prepared for the business. Trainer will guide us with more details.

Action Plans:

### Session 7.7 – Analysing Human Resource Management Information

We should complete each cage according to the topics given in each cage. If the information available with us are not sufficient, it is essential to find all relevant information from the appropriate sources. Trainer will guide in completing this section, wherever necessary.

Positions Required / Job Descriptions / Qualifications:

HR Selection Method: *(Methods of sourcing / Selection methods etc.)*

HR Recruitment: *(Recruitment methodology .....)*

Employment Conditions: *(Employment terms / Leave / Transfers / Promotions)*

Employment Development: *(On-boarding / Skills transfer / Training .....)*

Productivity Improvement Considerations:

Other Considerations of HR:

### Session 7.8 – Analysing Financial Information

This is a technical part. But, the trainer will explain about each component given in the below cage. We should understand the concept, decide about the information to be given there and complete the section carefully.

- Owner's equity:
- Percentage of ownership:
- Total equity capital:
- Loan capital:
- Cash-flow statements:
- Income statements:
- Balance sheet:
- Budgets:
- Ratio Analysis:

We can now compile all sections together and prepare the Business Analysis Report for our business. Our next step is to perform the Pre-Feasibility Study for our business.

## 8. Pre-Feasibility Study



Pre-feasibility study is a preliminary study undertaken to

determine, analyze, and select the best business options. In this study, we assume we have more than one business options, then we want to know which one is the best, both technically and financially. In pre-feasibility we select the best idea among several ideas. It will be hard and takes time if we explore each option deeply. Therefore, shortcut method is considered acceptable in this early stage and can be used to determine minor components of investment and production cost. If the selected option is considered feasible, it is recommended to continue the study to feasibility to get deeper analysis of the selected business option.

## **Module objectives:**

At the end of this module, the trainees will be able to understand about the pre-feasibility study in a business, and perform a practical pre-feasibility study for their business ideas covering,

- ✓ Marketing Feasibility
- ✓ Technical feasibility
- ✓ Financial feasibility
- ✓ Environmental feasibility

## **TRAINEE WORKBOOK CONTENTS**

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### **Session 8.1 – What is a Pre-Feasibility study for a business idea?**

Pre-feasibility study for a business idea shows if the intended business is viable in the context of key functional areas of a business. We focus our attention on marketing, technical, financial and environmental areas as the key functional areas. For an example, we closely examine whether our business idea will have a sufficient market. This is done under marketing feasibility coverage.

Pre-Feasibility Study is a non-comprehensive analysis at this level because at a subsequent stage of our process we do a complete Feasibility Study called Viability Testing in a comprehensive manner. Feasibility studies are assessment tools – not just reports. We should do the analysis of each and every feasibility component and make decision about the status of our business idea.

### **Group work: “No pre-feasibility studies please!”**

Your trainer will divide the main group in to 4 small groups. Each group should discuss about the following topic, write their ideas on a flipchart and present to the large group.  
Topic: What problems does a business face if it started without a pre-feasibility study?

### **Session 8.2 Marketing feasibility study**

Marketing Feasibility Study involves investigation of the target market identifying the potential threats and finding out solutions to overcome them. It considers the significance of the business in the projected area. These studies are done on ideas, campaigns, products and processes. Different factors are included in the market feasibility study, such as

- Industry situation –what is happening to the industry now is it growing or shrinking
- current market situation– who are the customers, how much demand exists, why customers are they buying this product, how they buying now, what are the preferences
- Competition– who are they, how many of them, what are their strengths, what are their weaknesses,
- Expected future market potential, new potential markets
- Projected future sales how much you could sale in your target market

### Session 8.3 – Technical feasibility study

A business is considered technically and operationally feasible if it has the necessary expertise, infrastructure and capital to develop, install, operate and maintain the proposed system, and that by establishing such a system, the business will be able to deliver goods or services at a profit. When considering a new business, it is important to consider if there is sufficient access to resources. One of the primary reasons that new business fails is not enough money to keep the business going from start-up until it starts to make a profit. This can lead to a lack of resources.

In technical feasibility the following issues are taken into consideration.

- Whether the required technology is available or not,
- Whether the required human resources are available,
  - Opening a restaurant is a good idea, but can I find skilled chefs to make food?
- Is it possible to find quality raw materials in our area?

Once the technical feasibility is established, it is important to consider the monetary factors also.

### Session 8.4 – Financial feasibility study

A financial feasibility study is an assessment of the financial aspects of something. In this case, for starting and running a business. It considers many things including start-up capital, expenses, revenues, and investor income and disbursements. Other portions of a complete feasibility study will also contribute data to your basic financial study.

A financial feasibility study can focus on one particular project or area, or on a group of projects (such as advertising campaigns). However, for the purpose of establishing a business or attracting investors, you should include at least three key things in your comprehensive financial feasibility study:

The factors to be considered in conducting financial feasibility

- How long do we expect to be in business before we make our first sale?
- How much money do we need to start up?

- How do we intend to fund the business during the start-up phase?
- Estimate our fixed and variable costs.
- What price would our customers pay for our products and services?
- What is our sales forecast?
- What is our breakeven point?
- How long will it take to reach breakeven sales volume?
- How much working capital will we need to sustain operations?
- Return on investment
- Cash flow analysis

## TRAINEE WORKBOOK CONTENTS

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### Session 8.5 – Environmental feasibility study

It's certain that a feasibility study plays a major role in a decision making process before or during a business start-up. It also helps businesses to be aware of both – the impact of the environmental factors on the project activities, and the risks or challenges that need to be evaluated in order to make a back-up plan by controlling and providing solutions that will surely lead to a significant result at the closing phase of the project. There are three types of possible impact to the environment by a given industry.

#### Possible Negative Impacts on the Environment by business activities:

- Environmental Stress

Environmental stress is the type of negative psychological responses of people in the vicinity of the business that causes environmental pollution. These people can include employees (within the business) and the nearby communities. Possible objections of these people could cause severe obstacles to the operation of the business.

- Environmental Risks

Actual or potential threat of adverse effects on living organisms by effluents, emissions, wastes, resource depletion arising out of the business operation activity are called environmental risks. This may be harmful to the environment at varying degrees and can jeopardize the business operations in the long run.

- Deforestation

Some business activities could influence on deforestation directly or indirectly. For instance, a cane sugar factory could clear the forests to plant sugar cane.

Avoiding negative environmental effects is a great global challenge; otherwise, the whole world will have to high cost consequences. Therefore, as business operators, it's our prime responsibility to stop everything that could represents a risk to our environment.

In this regard, business people should take the following into consideration.

**Environment sanitation:** Activities aimed at improving and maintaining the standard basic environmental conditions that affect well-being of people.

**Environment sustainability:** Maintenance of factors and practices that contribute to the quality of environment on the long-term basis.

**Practical assignment:**

- a. Each trainee should **conduct a pre-feasibility study for the selected business idea.**
- b. Each trainee should present his / her pre- feasibility study report summary to the large group at the end (10 mins per trainee for presentation).

## 9. Market Research



We should find out more market information to understand the nature of the market, size of the market, customer preferences and dislikes, competitor strengths and their activities before moving further ahead. This is market research. Big companies pay and get the services of professional market research agencies. But, we are yet to start our business. Even if we can afford to get the services of an outside agency, as potential entrepreneurs, we must go to the market and do a simple market research by ourselves because our field work improves our entrepreneurial maturity and close familiarity on the market, customers and competitors. This experience makes us strong in our entrepreneurial journey. Almost all entrepreneur stars have done their groundwork at the initial stage.

Market research consists of systematically gathering data about the behaviour and activities of a market – and then analysing it to better understand what that group of people needs, what aspects do they search for in buying, who is stocking the particular product, who are the suppliers, what are their marketing strategies etc. The results of market research, which are usually summarized in a report, are then used to help business owners make more informed decisions about the company's strategies, operations, and potential customer base.

Understanding industry shifts, changing consumer needs and preferences, and legislative trends, among other things, can shape where a business chooses to focus its efforts and resources. That's the value of market research.

Meaning, if your research told you that scientists had recently created a new kind of belt that helped the wearer lose weight just by putting it on, for example, your retail store might want to adjust its buying plan to test designs using this new belt. Or if you uncovered that shoppers in your area rely heavily on coupons in making a purchase decision, you might decide to test sending your mailing list a promotional coupon.

Market research can help businesses run more efficiently and market more effectively.

### **Module objectives:**

At the end of this module, trainees will have developed their understanding, familiarity and practical skills on how to conduct a market research

The module covers the following sessions:

- 9.1 What is a market research?**
- 9.2 How to design a market research?**
- 9.3 What are sampling techniques?**
- 9.4 How to design a market research questionnaire?**
- 9.5 Data collection and reporting**
- 9.6 Report preparation and presentation**

## **TRAINEE WORKBOOK CONTENTS**

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### **Session 9.1 – What is market research?**

Market research is the process of examining our buyers, the product these buyers want, and where they're currently getting it. By engaging the right people and data, a business can use this research to understand what customers really want and how to satisfy their expectations.

The market research could be either qualitative or quantitative in nature depending on the studies you conduct and what you're trying to learn about your industry. Qualitative research is concerned with public opinion, and explores how the market feels about the products currently available in that market. Quantitative research is concerned with data,

and looks for relevant trends in the information that's gathered from public records, the size of the demand etc.

There are four different types of market research studies we can conduct, depending on the information that we really need.

## **Interviews**

Interviews are the personal, one-on-one conversations you can have with the buyers in your industry. You can conduct interviews in person or over the phone. The information you are collecting through are mainly qualitative information. In an interview our interviewees can answer questions about themselves to help us design our buyer real requirements. These buyer requirements describe our ideal customer's age, family size, budget, job title, the challenges they face at work, and similar aspects of their lifestyle. Having this buyer profile in hand can shape our entire marketing strategy, from the features we add to our product to the content we publish on our website.

## **Focus Groups**

Focus groups are similar to interviews, we are gathering Qualitative information, but in this case, we are assembling a group of people for one shared interview. A focus group consists of people who have at least one similar category — age or job title, for instance. (example: we can conduct a focus group discussion to check the consumer perception on a particular brand of a cooking oil with a group of housewives)

This type of market research can give us ideas for product differentiation, or the qualities of our product that make it unique in the marketplace. Consider asking our focus group questions about (and showing them examples of) your services, and ultimately use the group's feedback to make these services better.

## **Surveys**

Surveys are a form of quantitative research, collect Quantitative information, and we can distribute them over the phone, via email, or through an online survey. A survey could cater to people who've downloaded content from our website or interacted with a member of our business.

Enough completed surveys can help us determine our customer satisfaction level. This means how happy our customers are with what we are selling them. We might include questions like, "How well did we solve your problem?" and "Would you recommend our product to a friend?"

## Secondary Data

The interviews, focus groups, and surveys are all sources of primary data. On the other hand, the public information — online and offline — that characterizes your business are called as Secondary data, this includes competitor websites, social media business pages, trade magazines, market reports, and even census data published by the government. If we examine enough secondary data, we can learn how much brand awareness we have in the marketplace compared to the companies that provide the same product or service as us.

When we are conducting a market research, we don't necessarily conduct all above methodologies. Based on the needs of your research and according to the required data and information the methodology is being selected.

The goal of doing market research is to equip ourselves with the information we need to make informed business decisions about the start-up, innovation, growth and the marketing mix (popularly known as 4 Ps).

Marketing mix (4 Ps):

- Product** : Improve our product / service based on findings about what our customers really want and need. Focus on things like function, appearance and customer service or warranties.
- Price** : Set a price based on popular profit margins, competitors' prices, financing options or the price a customer is willing to pay.
- Placement: (Place, Distribution)** Decide where to set up and how to distribute a product. Compare the characteristics of different locations and the value of points of sale (retail, wholesale, online).
- Promotion:** Figure out how to reach best the particular market segments (teens, families, students, professionals, etc.) in areas of advertising and publicity, social media, and branding.

The kind of information gathered through marketing research during the planning and growth stages of your business can also be very useful in its day-to-day operation. A regular flow of market research information can help you to maximize the potential of your current business activities and help you to create a roadmap for future growth.

## Session 9.2– How to design a market research?

The purpose of the market research is mainly to collect information for a business startup or an existing business. But, undertaking a market research helps us gather a strong understanding about the connection of our business and the market.

A well-designed market research / survey can help us to:

- Enter a new market
- Launch a new product or service
- Promote brand awareness
- Optimize our marketing campaign
- Improve customer service
- Change messaging perception of our product or service
- Adjust price points
- Change our product packaging or delivery method

Once we have identified our objectives, it's time to start creating the plan. The first step to designing a good market research plan is to define our need. What issue do we want to address? What do we hope to achieve? Set a survey goal to keep our market research focused on the decisions we are trying to make.

**The designing process of a market research is as follows:**

**a. Identification of the problem**

Identification of the research problem is the first step of the market research designing process. There we need to consider why we need to do a market research first. It may be to identify the demand for the product we are going to introduce or existing level of the competition for our product etc.

**b. What are the information we need to collect?**

We need to consider what information we require to find a solution for our problem.

**c. How are we going to collect the information? What are the methodologies? From whom? What would be the sample size?**

We have to consider what methodology we are going to use to collect the information. As an example you can use telephone interview methodology to collect information from your customers or you can interview the people directly and collect the information.

**d. What are the tools we can use to collect information? How can we develop such tools?**

This is mainly how you develop your questionnaires to collect the information from your sample. You need to develop correct questions to get correct answers otherwise the information you have collected may not be relevant to your research problem.

**e. Data collection**

The data collection involves manpower who operate either in the field, as in the case of personal interviewing (in-home, mall intercept, or computer-assisted personal interviewing), from an office by telephone (telephone or computer-assisted telephone interviewing), or through mail (traditional mail and mail panel surveys with pre-recruited households). Proper selection, training, supervision, and evaluation of staff members helps minimize data-collection errors.

**f. How could we analyse data?**

Once you collect the data, you need to analyse it in a scientific manner. Otherwise, you may not get the correct picture that you want to see.

**g. The final stage of market research is preparation of a report.**

- There we need to use the findings that come out from the data analysis.

## TRAINEE WORKBOOK CONTENTS

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### Session 9.3 – What are sampling techniques?

Sampling is an effective way of finding views from a wide range of people, selected from a specific group. It would be extremely expensive and time-consuming to gather data from the entire population of our target market, so by carefully sampling our total population it's possible to build an accurate picture of our target market using common trends from the results. As a market research tool for entrepreneurs and start-ups looking to better understand their target market or research the potential for new business ideas, sampling can be a real benefit.

There are several methods to do sampling for your research.

### **Cluster sampling**

A sample within your target population can be targeted using certain demographic groups or 'clusters'. It's a relatively quick sampling technique for those looking to conduct research without complete population information. However, it can prove expensive if the clusters you select are vast and there is also a much greater risk of sampling errors.

Example: We can divide the sample in to GN divisions of our DS division and collect information from each division.

### **Convenience sampling**

This is the easiest form of sampling; convenience sampling utilises people who are willing to volunteer their services. By using subjects who are readily available for questioning it's possible for fledgling businesses with small budgets to gather large amounts of data very quickly. On the other side, the sample will not be wholly representative of the entire population and the results will also be at risk of volunteer bias.

### **Quota sampling**

The aim of this sampling technique is to gather a representative sample of the entire target population. You will go about this by dividing your population using key variables and drawing a sample from each variable. This is not an entirely random selection criteria given that you're drawing a quota from key variables and it's a time intensive task to understand the population to be able to even identify the basis of stratification for the key variables.

### **Pure random sampling**

With this sampling method, every single person within your target population has an equal chance of being selected for questioning. This makes it much easier to determine both the estimate of the population and the sampling error. It may not be logistically viable however, if the sample means you're required to make lots of small visits across the country to interview those selected.

### **Systematic sampling**

This is a probability sampling method in which people are selected from a larger population according to a random starting point and a fixed, periodic interval. This technique ensures the sample is spread throughout the target population but can be costly and time-consuming if, like pure random sampling, the chosen sample is not conveniently located.

## Session 9.4 – How to design a market research questionnaire?

Survey questionnaires can be used as a relatively simple tool to obtain market research data, and taking the time to create a well-designed questionnaire can give us useful and accurate insight into our audience's opinions.

A short questionnaire is more likely to be completed and returned. It's important to establish a clear goal for our market research project and avoid including questions that do not contribute to the achievement of this goal.

It is also important to make our questionnaire as simple as possible, especially if it is being administered on paper.

In some situations, we may need to use a more complex design, such as one that requires respondents to skip or complete questions or sections based upon their previous responses. It is important to make sure that the design is as straightforward as possible.

Brief questions that use simple language minimize the chances that our questions will be misunderstood, making our survey results more useful.

Simple language is easy to read and comprehend, making our questionnaire less taxing for our participants.

Be brief and direct with our questions, leaving out any unnecessary words and phrases. Short questions are easier for the respondents to answer because they don't have to retain as much information, and therefore are less likely to need to re-read the questions.

We can start our questionnaire with general questions and then move to specific ones. General questions are often easier to answer and can serve as a 'warm-up' that will help our respondents ease into the questionnaire. This can help them to answer more specific questions faster and more accurately later on.

We need to avoid jumping back and forth between general and specific questions as this will require our respondents to shift their focus as they attempt to answer the questions. Slowly building up the complexity of the questions can help our respondents maintain concentration for the entire length of the questionnaire. Personal questions, such as those asking for demographic information, should be placed near the end of the questionnaire. This way, we will still have usable data from the questionnaire if the respondent declines to answer the more personal questions. Make sure that we respect privacy laws.

Open-ended questions allow respondents to answer freely using their own words. Closed-ended questions can be answered using a simple piece of information, such as a 'yes' or 'no'.

The advantage of open-ended questions is that they can generate more detailed information. However, open-ended questions take more time and effort to answer and can be more difficult to analyze once we have collected our responses.

### **Avoid using leading questions**

A leading question is one in which the answer is suggested within the question itself and can make the respondent feel compelled to answer in a particular way. This can frustrate respondents and skew our survey results. Some examples of leading questions are:

- You like eating at restaurant X, don't you?
- Why do you like eating at restaurant X more than restaurant Y?

### **Avoid using compound questions**

Compound questions are two or more questions in one. These questions are problematic because the answer may be different for each part of the question. Examples of compound questions include:

- 'Have you ever shopped at store X and do you shop there frequently?'
- 'Do you purchase product X and product Y?'

## **The questions should be straightforward**

Ambiguous questions use words that do not have fixed definitions and are therefore open to a range of interpretations by respondents. Questions that use ambiguous words can produce inconsistent results. Avoid being ambiguous about the time period the respondent should consider, and about describing your product or service. Some examples of questions using ambiguous words are:

- Do you buy product X regularly?
- Is product X a good product?

## **The questions can be answered**

Unanswerable questions are those which require the respondent to provide information that is difficult to remember or convey accurately. If our respondents find the questions too difficult to answer, our response rate is likely to suffer. Some examples of unanswerable questions include:

- What is the first restaurant you remember visiting?
- How many fruits and vegetables have you eaten in the past three months?

Future behaviour can be difficult to predict, so while the answers to questions such as 'If your income increased, would you buy more of product X?' can give us useful information, but keep in mind that actual consumer behaviour may happen differently.

## **Use clear response scales**

Response scales assess a respondent's level of agreement or disagreement with a statement, or their satisfaction with an experience. For example, you might ask a respondent to rate their experience with your business on a scale of one to five.

Response scales can be an excellent way to remove ambiguity from questions and gather data that is easy to tabulate and interpret. There are some pitfalls to be aware of, however, when designing questions that incorporate response scales.

First, when selecting the number of response categories, try not to have so few that respondents' answers fall between the points, or so many that the values are too ambiguous to produce useful data. Scales with 5 or 7 points are generally considered appropriate for providing valid and reliable responses.

Offering a neutral response option as a midpoint appears to enhance the quality of the data that is produced. Ensure that the differences between the response categories are roughly equivalent and present the choices in a logical and consistent manner (for example, low to high ratings) to avoid confusing our respondents.

We must also make sure that our response categories are mutually exclusive and exhaustive. Mutually exclusive categories have no overlap between adjacent categories. Exhaustive categories ensure that there are no gaps between categories and that the high and low categories account for all possible extreme answers.

### Clean and visually appealing questionnaire

To make our questionnaire as easy to read as possible, keep the following design elements in mind:

- **Text:** Choose a font style that is easy to read, and make sure the font size is large enough for our respondents to read. If we use coloured text, make sure the contrast on the paper or screen is adequate.
- **Paragraphs:** Long paragraphs can be discouraging for readers. Try to keep your blocks of text to a handful of lines.
- **White space:** Ensure that there is space between questions and sections. Don't make margins too small.

### Pre-testing questionnaires

Testing our questionnaire in advance can help us to identify any changes that need to be made. There are several testing options we can use.

One option is to have friends or family members complete our questionnaire. Try to select people who are unfamiliar with the goals of our market research campaign. Those who already know what information we are looking for may not accurately represent the people who will participate in our survey. Try to select people who won't hesitate to provide constructive criticism if necessary.

Ideally, we should test our questionnaire with individuals that represent the population we will be targeting with our market research campaign (for example, our customers or residents in the geographic location we serve). Conducting a small pilot test of the questionnaire is one way to get feedback from relatively impartial participants. Given that we may not be able to ask these people questions about the questionnaire itself, this option may not allow us to clearly identify problems with our survey questions.

One of the best ways to evaluate our questionnaire is to conduct personal interviews or focus groups with individuals that have taken the survey. Getting these individuals to take time to test our questionnaire and give us feedback can be a challenge, so we may want to compensate participants for their time.

Interviews and focus groups allow us to determine whether our questions were clear and easy to answer. These approaches allow us to focus on any problem areas identified by our participants. While focus groups can save time by allowing us to get the opinions of several individuals in a single session, keep in mind that individuals may be influenced by others in the group.

The testing method you choose will be influenced by the type of information we require, the amount of time we have available, and our market research budget. Taking the time to develop a well thought-out, participant-friendly questionnaire will give us useful data that can help to make solid business decisions.

## TRAINEE WORKBOOK CONTENTS

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### Session 9.5 – Data collection and reporting

#### Data collection

Data collection for marketing research is a detailed process where a planned search for all relevant data is made by a researcher. The success of marketing research is contingent on the integrity and relevance of the data. And to a high degree, the quality of the data depends on the methods of data collection used. The selection and use of methods for conducting marketing research requires a great deal of experience and expertise in order to correctly gauge suitability.

These methods fall into two types of research categories, which are Qualitative Research and Quantitative Research. Qualitative Research is generally used to develop an initial understanding of the problem. It is non-statistical in nature and the answers are derived from the data itself. It is used in exploratory and descriptive research designs. Qualitative data can be procured through a variety of forms like interview transcripts; documents, diaries and notes made while observing. Quantitative Research on the other hand, quantifies the data and generalizes the results from the sample to the population.

**There are two types of data:**

- |                          |   |
|--------------------------|---|
| a. <b>Primary Data</b>   | Data that is collected first hand by the researcher. This data is specifically collected for the purpose of the study and addresses the current problem. This data is comparatively more expensive. |
| b. <b>Secondary Data</b> | Data from other sources that has been already collected and is readily available. This data is less expensive and more quickly attainable from various published sources.                           |

Secondary data is extremely useful when primary data cannot be obtained at all.

### **Basic methods of data collection:**

#### **a. Telephone Interviews**

The biggest advantage of telephone interviews is cost and time saving. Today, accessing people via telephone is so much easier because almost everyone has one. Another advantage is that fewer interviewers are required in order to conduct telephone interviews than face-to-face interviews. On the other hand, people may not pick up your call or they may not take it as serious as you do personal interview. It is a disadvantage.

#### **b. Online Surveys**

With the current technological developments, the use of online surveys has rapidly increased. It may well be the least expensive way to reach the greatest amount of people – all over the world. Once an online survey has been designed, it can be stored easily, revised and reused as needed from time to time. The key is in the design and layout of the survey so that respondents don't overlook a survey in their crowded inboxes. The response time is quick so online surveys have become the preferred method of data collection for many consumer satisfaction surveys and product and service feedback. It is easy to track respondents, non-respondents and results through the data collection process. Electronic reminders can be sent easily at a very low cost. Respondents have the option to begin the survey, stop, save the responses at a later more convenient time. Research shows that respondents tend to answer questions more truthfully than when engaged through other methods.

#### **c. Face to Face Interviews**

This method is one of the most flexible ways to gather data and gain trust and cooperation from the respondents. Besides that, interviewing respondents in person means their non-verbal language can be observed as well. It is especially useful to detect discomfort when respondents are discussing sensitive issues. Respondents have more time to consider their answers and the interviewer can gain a deeper understanding of the validity of a response. It is also easier to maintain their interest and focus for a longer period. Focus Group Interviews entail more respondents at one time.

Face to face interviews can also take place via Intercept Interviews as well. These interviews can take place on the spot at shopping malls, street corners or even at the threshold of people's homes. It is understandable why these types of interviews must be

brief, to the point and free of from distasteful questions as there is a strong risk of the potential respondent leaving. However, these face to face interactions can be time consuming and costly than other methods.

## **Report Preparation and presentation**

Mostly, research work is presented in a written form. The practical utility of research study depends heavily on the way it is presented to those who are expected to act on the basis of research findings. Research report is a written document containing key aspects of research project.

Research report is a medium to communicate research work with relevant people. It is also a good source of preservation of research work for the future reference. Many times, research findings are not followed because of improper presentation. Preparation of research report is not an easy task. It is an art. It requires a good deal of knowledge, imagination, experience, and expertise. It demands a considerable time and money.

Research report involves relevant information on the research work carried out. It may be in form of hand-written, typed, or computerized.

### **Report Format:**

There is no one best format for all reports. Format depends on several relevant variables. One must employ a suitable format to create desirable impression with clarity. Report must be attractive. It should be written systematically and bound carefully. A report must use the format (often called structure) that best fit the needs and wants of its readers. Normally, following format is suggested as a basic outline, which has sufficient flexibility to meet the most situations.

Research report is divided into three parts as follows.

#### **I. First Part (Formality Part):**

- (i) Cover page
- (ii) Title page
- (iii) Certificate or statement
- (iv) Index (brief contents)
- (v) Table of contents (detailed index)
- (vi) Acknowledgement
- (vii) List of tables and figures used

(viii) Preface / forwarding / introduction

(ix) Summary report

## **II. Main Report (Central Part of the Report):**

(i) Statement of objectives

(ii) Methodology and research design

(iii) Types of data and its sources

(iv) Sampling decisions

(v) Data collection methods

(vi) Data collection tools

(vii) Fieldwork

(viii) Analysis and interpretation (including tables, charts, figures, etc.)

(ix) Findings

(x) Limitations

(xi) Conclusions and recommendations

(xii) Any other relevant detail

## **III. Appendix (Additional Details):**

(i) Copies of forms used

(ii) Tables not included in findings

(iii) A copy of questionnaire

(iv) Detail of sampling and rate of response

(v) Bibliography – List of books, magazines, journals, and other reports

(vi) Any other relevant information

## **Key Considerations/Factors:**

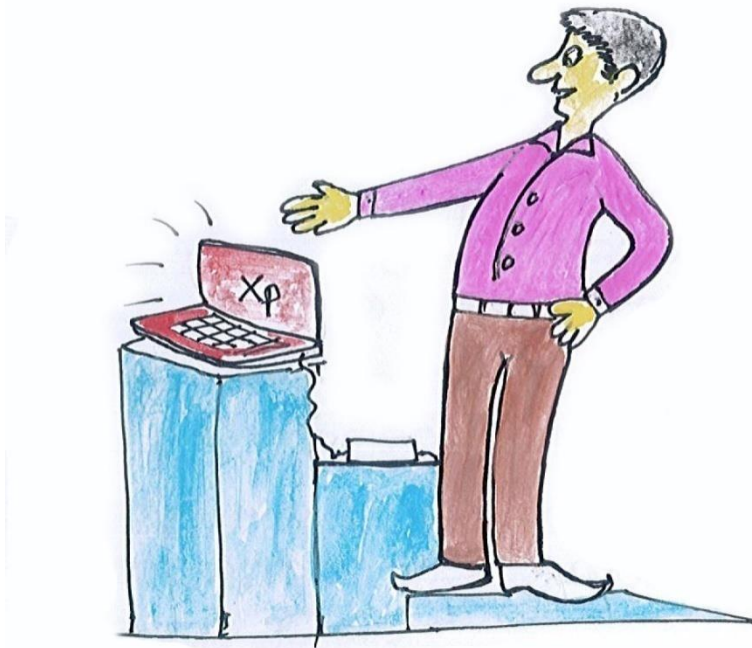
While preparing research report, following issues must be considered:

(i) Objectives

(ii) Type of problem / subject

- (iii) Nature and type of research
- (iv) Audience or users of research work
- (v) Size of report
- (vi) Form of writing – handwritten, typed, or computerized.
- (vii) Time and cost
- (viii) Language
- (ix) Contents of report
- (x) Order of contents
- (xi) Number of copies
- (xii) Format – type and size of paper; length, width, and depth of report; and pattern of writing including paragraph, indent, numbering, font size and type, colouring, etc.
- (xiii) Binding (for soft, and, particularly, for hard copy) – type, quality of material, colour, etc., related issues.

# 10. Test Marketing



Test marketing is an entrepreneurial approach used to discover consumer response to a product / service or marketing campaign by making it available on a limited basis before a wider release. Consumers exposed to the product or service may or may not be aware that they are part of a test group. Test marketing of retail products involves placement in a limited number of stores. Sales in those stores are used to predict market response to the product and guide distribution for the full launch. Test marketing often launches regionally and a product is made available only within a limited geographic area. However, it's important to ensure that the test market is a reliable predictor of the full market since a product that is popular in a given area may not be successful elsewhere.

## Module objectives:

At the end of this module, trainees will have,

- ✓ developed their understanding, familiarity and practical skills on how to conduct test marketing, and
- ✓ done test marketing for their product / service

The module covers the following sessions:

- 10.1 Why test marketing?
- 10.2 Concept testing in marketing
- 10.3 What is the test market?
- 10.4 Practical approaches in test marketing

## Session 10.1 – Why test marketing?

Test marketing involves launching the product in a selected area (usually geographic) of the target market in order to measure the viability of a product or service in the target market prior to a main roll-out or launch.

The aim of the test marketing is to gather as much information as possible about the elements of the marketing mix, in the context of our product. It includes:

- Product itself
- Promotional message and media spend
- Distribution channels (Place)
- Price

Sometimes several test markets (usually small ones) are used, with each testing different marketing mixes.

The main benefits and disadvantages of test marketing can be summarised as follows.

### Advantages of test marketing

- Data provided is from actual customer spending
- Reduces the risk of a full-scale launch – if the product fails a test, entrepreneur can save a significant amount of costs that would have been a loss in full-scale launch.
- Helps fine-tuning the marketing mix before full launch
- Can create promotional inputs which supports the main launch

### Disadvantages of test marketing

- Danger of the competitors' learning about the product where they can come up with a strong competitive response before the full launch
- Test market may not be representative of the full target market, leading to inappropriate decisions
- Delays in full launch may limit the revenue opportunity in markets subject to rapid change
- Costly and time-consuming to administer

## Session 10.2 – Concept testing in marketing

Concept Testing is the investigation of potential consumers' reactions to a proposed product or service before introducing the product or service to market. As businesses and organizations look to launch a product or invest in the development of an idea, concept testing is a valuable step to identify perceptions, wants and needs associated with a product or service. Concept testing is that stage in product or marketing campaign development where concepts are evaluated to determine if they have enough potential for further investment and development. With the high rates of new product failure in the market, it is safe to assume that many businesses neglect this critical phase.

Concept testing is done both with surveys as well as qualitative research (such as focus groups or in-person interviews). Base our concept test methodology on both who we need to include in the research as well as whether our concept itself to being presented graphically or verbally, without explanation or discussion. In either case, the research investment conducted at the concept testing phase is minimal compared to launching a new product that does not meet sales goals.

### Why concept testing?

1. To develop the original idea further; Running a quick concept test will tell us whether our product has the potential to justify investment in further development.
2. To estimate the concept's market potential. Sometimes, it is critical to know whether we have a special product to guide further investment. We never want to overinvest in a product that can't sell.
3. To eliminate lower-potential concepts. With this we may find that our great idea is not so great. Identifying and killing low-potential product ideas before they drain resources unnecessarily is another important purpose of concept tests.
4. To determine the value of concept features and benefits. Knowing what our customers like (or dislike) about our new concept can guide future development. Additionally, it is important for marketers to understand what benefits to communicate to the target audience at launch – and beyond.
5. To identify the highest potential customer segments. Who likes the concept the most, and why? Who is likely to be an early adopter – and even potentially a loyal purchaser? Understanding our customer base can help us to optimize our product launch.
6. To estimate of sales or trial rate. To scale up production of the new product (or delivery in the case of a new service), we need to have an estimate of how much will sell or what percentage of current customers will try the new offering.

Innovation, and developing new products and services, is the lifeblood of our business. With the concept testing we can vastly reduce the risk of product failure – and increase the probability of new product success.

### Session 10.3 – What is the test market?

Geographic areas selected for a limited-scale introduction of a new product and/or a marketing plan. A test market serves as a field-laboratory which simulates some or all factors associated with a full scale or national launch of the product. It generally includes at least one city that is a hub of commercial and media activity in that area and is surrounded by, and well connected to, several suburbs. Multiple test market locations allow evaluation of different pricing schemes, advertising media, promotional techniques, and other components of a marketing strategy.

The test market ideally aims to duplicate "everything" – promotion and distribution as well as "product" – on a smaller scale. The technique replicates, typically in one area, what is planned to occur in a national launch; and the results are very carefully monitored, so that they can be generalised to projected national results. The area may be any one of the following:

- Television area
- Internet online test
- Test town
- Residential neighbourhood
- Test site

Answers to the following questions will help us to plan test marketing:

- Which test market?
- What is to be tested?
- How long the testing?
- What are the key success criteria?

The simple go or no-go decision, together with the related reduction of risk, is normally the main justification for the expense of test markets. At the same time, however, such test markets can be used to test specific elements of a new product's possibly the version of the product itself, the promotional message and media spend, the distribution channels and the price. In this case, several 'matched' test markets (usually small ones) may be used, each testing different marketing mixes.

All test markets provide additional information in advance of a launch and may ensure that launch is successful: it is reported that, even at such a late stage, half the products entering test markets do not justify a subsequent national launch.

However, all test markets do suffer from a number of disadvantages:

1. **Replicability** – Even the largest test market is not totally representative of the national market, and the smaller ones may introduce gross distortions. Test

market results therefore have to be treated with reservations, in exactly the same way as other market research.

2. **Effectiveness** – In many cases the major part of the investment has already been made (in development and in plant, for example) before the 'product' is ready to be test marketed. Therefore, the reduction in risk may be minimal; and not worth the delays involved.
3. **Competitor warning** – Test markets can give competitors advance warning of a company's intentions and time to react. They may even be able to go national with their own product before the test is complete. They may also interfere with a test, by changing their promotional activities (usually by massively increasing them) to the extent that results are meaningless.
4. **Cost** – Although the main objective of test markets is to reduce the amount of investment put at risk, they may still involve significant costs.

### Session 10.4 – Practical approach in test marketing

As we know already **Test marketing** is a tool used by companies to provide insight into the probable market success of a new product or effectiveness of a marketing campaign. Test marketing can be used by a business to evaluate factors such as the performance of the product, customer satisfaction or acceptance of the product, the required level of material support for the full launch, and distribution requirements for a full launch.

There are three common types of test marketing. They are as follows.

**Type 1:** In this approach, a business will send a new product to a select group of customers before it's released into the full marketplace. In return, the customers will help identify any problems in the product and provide feedback on the product's performance. Any necessary changes based upon the feedback can then be incorporated into the product before its launch. This is known as beta-testing. Beta-testing is very common in the software industry, where software ranging from word processor upgrades to new console games is sent to beta testers for review.

**Type 2:** This is the second approach. In this approach, the business limits the release of a product or service to a specific geographic region or regions for testing. This is called a regional launch. A small regional launch saves money and lets a business determine the impact of different factors affecting the launch, such as advertising, sales training and incentives, use of specific retailers, and lines of distribution. In undertaking a regional launch, you should try to find a region that matches your full target market as much as possible.

**Type 3:** This approach is called direct marketing. In this case, the business representative goes to the doorstep of the potential customer and explains to him / her about the product and sells as a test. The customer feedback and the responses are recorded and analysed to see the demand.

**Individual exercise:** Each trainee is required to do test marketing for the selected product / service and present the respective test marketing report summary to the large group.

This is a key exercise. Trainer guidance to carry out this practical task is important.

## 11. Business Viability Testing



We are in the possession of a promising business idea that passed through several stages and in each stage it was shaped in to a better form as a great business idea. Being potential entrepreneurs involved in field work, market studies, information collection and various business-related learning activities, each stage has been providing us more business-related knowledge, skills and entrepreneurial orientation. We have just concluded the Test Marketing stage. At this stage, it is essential to conduct an investigative function in relation to our business idea to assess whether the proposed business based on the chosen idea is really viable or not. This task is called Viability Testing of the business idea. Feasibility Testing or Feasibility Study are synonyms.

The current module of Viability Testing is also an actionable module. We need to go to the market, visit institutions, meet entrepreneurs and customers, see how the competitor products are moving, streamline technology issues, and look at financial barriers etc during viability testing period. In-house information gathering work, class room exercises, and discussions with experts would also be part of our actions during this module.

### **Module objectives:**

At the end of this module, trainees will have developed their understanding, familiarity and skills on business viability testing through performing the real Viability Testing for our business idea covering the appropriate feasibility components. They also will have the Viability Test Report related to their chosen business ideas in their hands at the end of the session.

The module covers the following areas:

- 11.1 Viability testing – Introduction**
- 11.2 Marketing feasibility**
- 11.3 Production / Operational feasibility**
- 11.4 Financial feasibility**
- 11.5 Management & Organizational feasibility**
- 11.6 Environmental & Social feasibility**
- 11.7 Completion of the Viability Test Report**

### Session 11.1 – Introduction to viability testing

Viability testing shows whether the proposed business idea can be the base for a viable business that can be started, continued and sustained. Feasibility study and feasibility testing are different names for viability testing. During the test study, we will uncover if there are serious barriers or non-viability based factors are linked in our expected business start-up process. Focused areas are marketing, technical, management, financial and environmental areas. Those are the key areas of our business, or any other business in general. Although we have performed similar tasks like business analysis and pre-feasibility study, this task of viability testing is a broader version of them. We go in to more depth and analyse, probably the same factors. We are advancing through a process to ensure that we can start a successful and sustainable business based on the chosen idea. If we find some serious issues during the viability testing, we may be able to see if we can overcome the results of that particular factor by changing the associated strategy. But, if the total viability testing report gives a negative sign, we may have to go back to the next best idea selected during the module 4 and perform the series of tasks again starting with module 5.

It should be clearly understood that the Viability Test Report is NOT the Business Plan. Viability testing is an investigative function as explained earlier. Preparation of the business plan is a planning function. The business plan outlines the actions needed to take the proposal from “idea” to “reality.”

#### Components of Viability Testing

- ✓ Marketing feasibility
- ✓ Production / Operational feasibility
- ✓ Financial feasibility
- ✓ Management & Organizational feasibility
- ✓ Environmental & Social feasibility

### Session 11.2 – Marketing feasibility

Marketing feasibility is performed in order to examine whether the business idea is viable in the marketing context.

Market feasibility should **answer the following questions**:

- What is the product / service you are going to sell?

- What market segments are you targeting?
- Would people buy the product or service?
- Who are the potential customers and how many of them are there?
- What are the buying patterns of these potential customers?
- How will you sell the product or service? Where? (*marketing strategy; distribution*)
- Who are your competitors, including past, current and future competitors?
- What are the strengths and weaknesses of your competitors?
- What is the competitive advantage of your product or service? (Why should customers buy?)
- How much will you sell? At what cost?

Marketing feasibility study should investigate in to the answers to the above problems mainly. All the answers, with other facts that support the marketing feasibility of the business should be narrated in the marketing feasibility section. The following information is essential for the marketing feasibility study. They are the components of the marketing feasibility study report.

### Marketing Feasibility

1. Summary
2. Description of the Product or Service
3. Description of the industry
4. Current market analysis
5. Anticipated future market potential
6. Potential Buyers and Sources of Revenues
7. Competitor information
8. Marketing Strategies
9. Sales Plan (Budgeted)
10. Overall Marketing Plan

It is important to collect relevant information through a marketing research, especially for starting a business. It is useful in business expansion activities and new product / service launch also.

## **Additional learning – Marketing feasibility**

The following additional learning may help us to streamline our efforts to conduct the marketing feasibility study and write the report.

### **Industry description:**

Our potential business is a member of an industry category. If we are planning to start a Homestay Facilities for tourists, our business belongs to the Hospitality industry. During our market research, we have found information about our industry. Relevant information can be stated in a two-paragraph description of the industry. Within an industry category, there are common factors applicable for individual businesses. Customer groups have many similarities; marketing strategies have some common features, gross profit margin could have a uniformity. Determining our industry is important for some other factors such as receiving contracts, attracting investors, and for receiving grants or bank loans. We should try to analyse the future trends of the industry as well and record them in this section.

### **Analysing our current market**

Using the information collected through the market research, we should complete this section. When completed, it should reflect the current market for our product or service. If we are offering something so unique that there are few market statistics, we can either use related industry information or even conduct our independent study. Several ways to conduct our research for new ideas include: questionnaires addressed to targeted consumer groups or the general population, or even customer surveys.

### **Anticipated future market (based on industry trends)**

This section should include a narrative description, as well as attached spreadsheets, graphs, or tables to showing trends, statistics, or projections. There are no guaranteed ways to tell if an industry will have measurable growth in the future, but we can make logical and reasonable predictions based on trends, past growth, and current markets.

It is important in this section that our projections are fact-based as much as possible. Any business takes risks; the key is to minimize those risks is by carefully studying already successful businesses. Rather than targeting the entire industry, it is more practical to isolate similar businesses in the industry and study what they are doing, how they are doing it, and their financial track record.

### **Competitor information:**

If we are planning to serve only a localized market, we should start identifying every competitor within a reasonable radius. Most comprehensive way is to list each competitor by location and distance from us, and from each other. However, we can customize the approach, but need to have correct information. We should closely examine all competing businesses that are within a reasonable distance from our location. It is important to consider their locations, business hours, their marketing strategies and how long they have been in business. These things can help us to determine how hard it will be to establish a similar business in the same geographic area.

We should also make a note of any similar businesses in our area that has recently gone out of business. There may be a reason such as poor location, high taxes or operating restrictions, or there may be not enough demand for the product or service in that area to sustain a business. Researching local competitor information can tell us two things: What works now and what has not worked for other business owners.

### **Identifying potential customers:**

This component of our market feasibility study should be descriptive. Our potential customers should include the following:

- A list of current customers of the product / service and the potential customers.
- Any sales lead that may generate new customers or clients.
- A list of institutional customers (government, semi-government, private or NGO) pertaining to our industry with a brief description if relevant to our business.
- A list of group market types such as seniors' citizens, working mothers, specialty retailers, etc.

Depending upon the nature of our business, it may not be possible to associate specific amounts of revenue with a particular market, but we can at least try to estimate the percentage of total revenue expected from each source. For example, if we plan to sell products to five specialty shops, list each shop we plan to sell to, and a total overall revenue for a category "specialty shops" rather than an amount for each individual shop.

By performing the marketing feasibility we try to establish evidence that our product / service has a definite market and we can sell if we produce. Our sales projections give quantifiable evidence about the market. Revenues are known, at least as projections. In addition, we learn about serious barriers if any. During our market research, if we find that a well reputed tailoring company has made plans to start operations in proximity where we are making arrangements to start a medium level tailoring shop, we can re-think about our marketing strategies, and types of customers we want to reach. If don't do a market research, or viability testing, after starting our business, we will have to close down our business if the competitor activity is strong.

### Activity 1: Marketing feasibility report

Each trainee is required to do the market research, collect information and complete the marketing feasibility report for his / her selected business.

### **Session 11.3– Production / Operational feasibility**

The production / operational feasibility study assesses the details of how we intend to produce the product (production) or generate the service (operation) for sales. Considerations are mainly given to the factors such as raw material needs, production process and technology, labour requirement, and similar factors mainly associated with production / service.

Main sections of the production / operational feasibility report are given below.

#### **Production / Operational Feasibility**

1. Summary
2. Production / Operation process
3. Technology requirement
4. Equipment required
5. Material requirement
6. Labour requirement
7. Packaging
8. Distribution
9. Cost per Unit
10. Direct and Indirect Cost
11. Manufacturing Account

The production or operational feasibility study report should have the above components. Therefore, although the task is not very convenient, it is essential to collect all relevant information through possible means in order to prepare a proper feasibility study report.

## **Additional learning – Production / Operational feasibility**

### **Summary:**

In the summary, key points should be highlighted. This part can be completed only after the completion of the other parts of production / operational feasibility report.

### **Production / Operation process:**

Trainee, as a potential entrepreneur should have an understanding about the production process (or the operational process in case of a service). It should be explained with relevant flow charts.

### **Technology requirement:**

Under this section, we should include the technology component of our business.

### **Material requirement:**

We should prepare a list of all material we require to produce a product or service. Production of television stands may require nails and glue also apart from its main raw material. We should not forget to mention all material that will be involved in producing or manufacturing what we are selling.

This section should essentially explain what they are and where we will get those material from, and whether raw material is freely available or not.

We don't have to include actual financial data in this portion of the study either, but financial data that supports our narrative assessment should be included as an attachment in a separate spreadsheet.

### **Labour Requirement:**

We can't run a business, offer services, or manufacturer products without the help of others and that help will cost us. Even if we start our business as its only employee, we will have to add to our labour pool at some point if we plan to grow.

We can break labour into categories if necessary, such as senior level management, office and clerical support, production or distribution staff, professional staff etc.

### **Activity 2: Production / Operational feasibility report**

Each trainee is required to collect information and complete the Production / Operational feasibility report for his / her business.

## Session 11.4 – Financial feasibility

The financial feasibility study of a business is an assessment of the financial aspects of starting and running. It should clearly reflect the following aspects.

- Start-up capital can be found.
- Cash-flow can keep the business running.
- There is sufficient sales revenue.
- Profit ratios are in accordance with industry standards.
- Business is financially viable.

It considers many things including start-up capital, expenses, revenues, profit and loss account, and similar financial facts. The report should essentially narrate the following components.

### Financial Feasibility

1. Summary
2. Start-up capital requirement
3. Sources of start-up capital
4. Manufacturing Trading Profit and Loss Account
5. Accounting and Financial System
6. Cash Flow Statement
7. Ratio Analysis
  - Gross Profit Ratio
  - Net Profit Ratio
  - Return on Income (ROI)
  - Payback period

### Additional learning – Financial feasibility

#### Start-Up capital requirement:

Business start-up costs are costs incurred in setting up a business. The common business start-up costs include equipment purchases, starting fees, purchasing office premises, buying inventory, advertising, building a website, purchasing office supplies,

utility costs, cost of borrowing (loan interest payment) etc. There are two components of the start-up costs. First one is **one-time start-up costs**, which we have to spend only one time for the business. This is called the **Fixed Capital**.

Example: Purchasing a land for a business.

The second type is the **on-going start-up costs**. A good example is the cost of raw material used for production until we get the initial income from sales. This component is called the **Working Capital**.

*Example: A Furniture manufacturer needs money to purchase timber for the production until he does receive money from his sale.*

The financial feasibility report should clearly show the sources of start-up capital.

### Sources of start-up capital:

Often the difficult part of starting a business is raising the money to start a business. Even if the potential entrepreneur has a vibrant idea and clear idea of how to set up the business and turn it into a successful business, he / she may encounter a significant barrier if the start-up capital cannot be found. Therefore, sourcing start-up capital requires careful planning. In this case, he / she needs to decide:

- How much do I require?
- When should I need it?
- How can I find it?

It is important to point out here that the potential entrepreneurs should not be motivated to go for loans with interests for business start-ups, because the business operation can be unaffordable owing to lack of experience and newness in the market. Best option is to start with the own savings or interest free borrowings from family members or friends. If everything fails, when the bank loan is the only option, he / she should try to source start-up capital through special SME loan programmes with easy interest schemes. There are some other start-up capital raising possibilities such as joint venture and angel investor arrangements.

If we are compelled to think about a bank loan, it will be essential to provide security (collateral) through mortgaging our own property or assigning a similar asset to the bank.

One way of categorising the sources of finance for a start-up is to divide them into sources as self-funding and external.

### Potential Returns from the investment:

The business should generate returns for its investment. We need to show how our business generate return for us. There are several methods to calculate and show it.

### Return on Investment (ROI):

Return on investment or ROI is the gain or projected gain of an investment often expressed as a percentage of the investment cost. It is a common financial metric used to compare and evaluate strategies.

### Breakeven point:

In simple words, the **break-even point** can be defined as a point where total costs (expenses) and total sales (revenue) are equal. That means, at the **break-even point**, there is no net profit or loss. The firm just “breaks even.” We should calculate and find out the break-even point for our product so that we know that we should always sell more than the break-even point-related quantity to earn a profit. We also can estimate the profit we need to earn and calculate back to check how many units should be sold to earn that profit amount.

### Payback period:

**Payback period** is the length of time that it takes an investment to reach break-even. It is often calculated as the period for which future cash flows discounted to net present value equal cost. It is common to represent payback period in months or years. It can be used to compare strategies and investments based on projected returns.

### Activity 3: Financial feasibility report

Each trainee is required to collect information and complete the financial feasibility report for his / her business.

### Session 11.5 – Management & Organizational feasibility

Management & Organizational Feasibility study is the assessment of the strengths and weaknesses of the proposed management, and the management structure to examine whether the management component will be capable of managing the affairs of the business to achieve its expectations.

We should find out and record all relevant information to support the above requirement. This report should essentially include the following aspects in addition to the other related information.

#### Management & Organizational Feasibility

1. Summary
2. Expected legal mode of the business
3. Entrepreneur's information
4. Organization structure
5. Human Resource– related concerns
6. Occupational safety and health of employees
7. Action Plan

#### Additional learning – Management & Organizational feasibility

##### Entrepreneur's information:

This information should highlight the entrepreneurial qualifications of the business owner and how his / her involvement can contribute to the success of the business.

##### Occupational safety and health of employees:

Information provided under this should emphasize what actions will be taken to ensure the occupation– related health and safety of employees. Establishing an occupational safety and health policy, supply of personal protective equipment etc can be narrated in this section.

#### Activity 4: Management & Organizational feasibility report

Each trainee is required to collect information and complete the management and organizational feasibility report.

### Session 11.6 – Environmental & Social feasibility

The environmental & social feasibility analysis needs to provide a sound recommendation about the environmental and social viability of the business. The government, citizens, NGOs and the other organizations are much concerned about the environment and social aspects. Even each and every business should have concerns on three aspects– Profit; People; and Environment. When we proceed with our business idea, we should ensure that we conform to the nationally accepted environmental policies, regulations and standards. We also need to respect the socially accepted environmental norms although they are not prescribed in the law.

There are many practical evidence to prove that businesses that had commenced their operations on excellent business ideas have discontinued the business operations due to the public objections, or law enforcement in relation to social / environmental hazards. They have not paid attention to do the environmental feasibility study before investing!

For our intended business, this the stage in our viability testing exercise to do the environmental feasibility analysis.

Further, this exercise allows for a reduced environmental footprint of the business, offering input to the design of the technical requirements, greatly contributing to the sustainability of the initiative. Proper environmental feasibility also offers a very important set of inputs, both for the financial model and the technical requirements.

As potential entrepreneurs, we need to consider the following aspects for information collection and completing our environmental feasibility study report.

#### Environmental & Social Feasibility

1. Summary
2. Conformity of our business location with regulations
3. Possibility of obtaining all clearance certificates, and licences
4. Use of hazardous material
5. Generation of pollutants to air, water, soil, sewerage system
6. Generation of light, noise, vibration
7. In respect of export-oriented businesses, conformity with international / client country's environmental regulations and concerns
8. Situations where public / community objections can arise
9. Effects on Habitats, living species and biodiversity (if applicable)
10. Employment opportunities generated by the business
11. Contribution to peace-building
12. Other relevant environmental factors

We should clearly identify the environmental feasibility– related concerns pertaining to our business and complete the analysis to find out the following:

1. Will my business be in the safe phase in relation to environmental concerns?  
This should reveal whether there will be environmental concerns– related barriers for my business or not.
2. If there are grey areas when analysed, what actions should I take now to make them clear? This facilitates our readiness. If additional costs are involved with new actions, we can incorporate those costs in the financial feasibility and redo the financial feasibility exercise.

#### **Activity 5: Environmental & Social feasibility report**

Each trainee is required to collect information and complete the environmental and social feasibility report.

### TRAINEE WORKBOOK CONTENTS

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#### **Session 11.7 – Completion of the Viability Test Report**

By adding the individual report components prepared above, we can compile the complete Viability Test Report. Each trainee should compile it and get it approved by the trainer before moving to the next step in the business start-up process.

## 12. Technical Knowhow Acquisition



We have now travelled some distance in the business start-up journey. At this stage, it is essential that we should acquire the technical knowhow required to manufacture the respective product / service to suit the market at a commercial level. Even if we have some knowledge and skills in this regard, it may not be sufficient.

Therefore, this module guides us to the required awareness on acquiring technical knowhow. What we learn in this module provide answers to the following questions.

- ✓ Why we should acquire technical knowhow?
- ✓ What should we know about acquiring technical knowhow?
- ✓ From where can we get technical knowhow?

- ✓ What is our role as a trainee (potential entrepreneur) in the task of acquiring technical knowhow?
- ✓ How to get technical knowhow?

When we are aware of the answers to the above questions, we can approach technical training institutes and get the technical knowhow in a productive manner. Obtaining technical knowhow in the correct manner provides new essential knowledge to the entrepreneur, and new knowledge to the business.

If the entrepreneur is well equipped with technical knowhow, it facilitates new product manufacturing, entry to new markets, solving production-related issues, cost-effective production, researching for more advanced versions of the product, enhancing entrepreneurial personality, and many more. It also reduces the dependency of the entrepreneur on the knowledge of external technical personnel who should be hired.

### **Module objective:**

At the end of this module, trainees will have developed their understanding, and familiarity on technical know-how acquisition, and finally been guided to the suitable institutes to get the technical knowhow required by them.

This module covers the following sessions:

**12.1 Role of the trainees in the process of technical knowhow acquisition**

**12.2 Sourcing of technical knowhow providers & Effective coordination with those institutions**

### Session 12.1 – Role of the trainees in technical know-how acquisition

Guiding potential entrepreneurs for accurate technical know-how acquisition is a vital component in the business start-up training process and it needs proper planning before implementation. Each and every approach made during the proposed technical know-how acquisition stage should contribute to better results. Further, it should be ensured that the selected technical training courses build essential technical knowledge and skills of the trainees. In addition to the outcomes of the training courses, their costs also should be a prime concern.

Although the task of facilitating the technical knowhow acquisition is an external activity to the business start-up training programme, technical knowhow acquisition is an important stage in perfecting the business start-up process.

Trainees should focus their attention to the following points during the technical knowhow acquisition stage.

#### **01. Facts which we should be aware in relation to the technical training institute from which we expect to get the technical knowhow**

- Name of the technical training institute
- Whether it is a Government Organization or registered with a Government Authority
- Name of the technical training course
- Number of training hours of the course with duration allocated for practical
- Duration for completion
- Contents of the training course
- Course fee and other charges
- Value of the certificate offered by the institute
- Contact details of the institute
- Brochures on the specific technical training

Each trainee should collect the above details and submit a permission-seeking application to the trainer for his / her approval. Specimen of this application is given below. Trainer will give the approval for the proposed institute and the technical training course after examining the accuracy of information and assessing the acceptability of the relevant technical training institute.

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#### **Specimen of the Permission-Seeking Application:**

1. Name of the technical training institute
2. Address of the institute
3. Contact details of the institute
4. Whether it is a Government Organization or registered with a Government Authority
5. Name of the technical training course
6. Number of training hours of the course with duration allocated for practical
7. Duration for completion
8. Contents of the training course

- .....  
 .....  
 9. Course fee and other charges  
 10. Payment methodology

I hereby certify that the above given information was gathered directly from the responsible officers of the above technical training institute.

.....  
 Signature of the Trainee

Name of the Trainee: .....

### **Recommendation of the Trainer**

While I have checked about this technical training institute and the course, I recommend / do not recommend this institute and the relevant course for this trainee for the purpose of technical knowhow acquisition.

Reasons for recommendation / not recommending:

- i. ....
- ii. ....
- iii. ....

.....  
 Signature – Entrepreneurship Development Trainer

.....  
 Date

## **02. Knowledge to be achieved at the end of the technical training**

- Manufacturing process of the product / service
- Types and quantities of direct raw material required to produce one unit or a batch of product
- How to source direct raw material
- Current prices of direct raw material
- Standard number of labour hours required to manufacture one unit / batch
- Additional direct expenditure / costs required for production
- Production overhead expenditure
- Standard waste rate
- Machinery used for manufacturing
- Machinery suitable for the proposed business
- Machinery capacity suitable for the proposed business
- Machinery costs
- Suitability of the usage of the used machinery for this business
- Maximum lifetime of the machinery

- No. of workers needed to operate machinery
- Operational time of the machine by one unit of electricity
- Convenience of acquiring spare parts and maintenance

Acquiring this knowledge during the technical training is very useful for the trainee and he / she can use it during the business plan preparation stage.

## TRAINEE WORKBOOK CONTENTS

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### **Session 12.2 – Sourcing of technical knowhow providers & Effective coordination with those institutions**

Sourcing of technical training institutions / organizations and coordinating with the selected institutions for effective results are two key functions in the total process. As potential entrepreneurs, you should develop your skills to explore the information needed, extract the most appropriate information, get further details for comparisons, and conclude the best solution under with the blessing of the trainers.

Similarly, you are required to find out the technical knowhow providers operating in the area or nearby cities. It is more practical to prepare a list of such institutions with their contact details. You should take your own initiative in preparing this directory, but the trainers will help you. All details required to complete the approval-seeking application should be obtained either by visiting those institutes, or surfing valid and updated websites of those institutions.

After gathering information, you need to assess the most suitable technical training institute and the appropriate course using what you learnt from the previous session. You can always consult the trainers if necessary.

# 13. Business Start-up Action Plan



We are much closer to make last phase arrangements of starting our aspiring business. As most successful entrepreneurs have been doing, we need to prepare our Business Start-up Action Plan.

## Module objective:

At the end of this module, trainees will have developed their Business start-up action plan.

This module covers the following sessions.

### 13.1 Understanding the business start-up action plan

### 13.2 Preparation of the business start-up action plan

## TRAINEE WORKBOOK CONTENTS

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### 13.1 Understanding the business start-up action plan

Business start-up process is complicated because it has many action steps. Preparation of the action plan is essential to monitor every action step and complete the whole process step-by-step.

Action plan is a detailed plan that outlines actions to be completed. It includes sequence of steps that must be taken or activities that must be performed satisfactorily. Action plan is the road map to the business start-up.

Each vital action step should have separate action plans.

We can categorize main areas of the proposed actions of the start-up business as follows.

1. Pre-operating actions of the business
2. Operating actions of the business
3. Post-start up actions of the business

**Start-up Action Plan Template** is a useful tool for the potential entrepreneurs. They can easily identify relevant actions if they use the start-up action plan template.

## 13.2 Preparation of the business start-up action plan

Preparation of the business start-up action plan should be done carefully because it is the vehicle that moves our efforts to complete each action step.

### Action plan building steps

1. To start creating the action plan, we should begin by listing all the possible outcomes we would like to achieve. For instance, if Dave is about to build a bakery business, his list might include
  - Tools and equipment,
  - Obtaining business telephone,
  - Office equipment,
  - Recruiting skilled and unskilled workers,
  - Rent storage facilities,
  - Accounting functions,
  - Registration process and other licenses
2. Once you created action list, prioritize it. Be sure to assign priority to the actions that are legally necessary and those that will provide the quickest payback to the business.
3. After setting priorities, you can add the achievable actions steps you will need to take to make your objectives a reality.
4. After identifying all possible actions of the proposed business then you will need to tailor your road map to your particular business. A typical plan of action follows this process.
  - I. Identify desired outcomes within each areas or the sections of the proposed business
  - II. Identify preferred solutions
  - III. Set goals and steps step forward making the outcome a reality.
  - IV. Assign each goal to a person whether yourself or someone you hire.
  - V. Assign a desired start date
  - VI. Assign a desired ending date
  - VII. Schedule millstones and status updates
  - VIII. Allocate money and time to each objective
5. Once you have slotted each of your objectives in to an action plan, you can plug the assigned date in to your business calendar.

Your action plan is a vital document to refer to regularly; you can also use it to tract your results and compare against your master business plan.

## Examples of a start-up actions of a proposed business

1. Attend career guidance programme (Business path/ Employment path)
2. Participate motivation programme to starting a business
3. Do business idea generation activity (Attend business idea generation programme)
4. Attend business idea screening programme
5. Business idea selection
6. Concept development and testing
7. Marketing strategy development
8. Business analysis
9. Conduct prefeasibility study
10. Product development
11. Market research
12. Test marketing
13. Viability testing
14. Technical knowhow acquisition
15. Business plan preparation
16. Business plan evaluation
17. Re-correction of a business plan
18. Finalization of a business plan

In addition to the above actions following possible actions also need to be included in the action plan

1. Get advices and support
2. Choose a business name
3. Verify right to use the name
4. Reserve your company name
5. Select the suitable mode of business registration
6. Register the business name
7. Get the certificate of incorporation
8. Choose a location for the business
9. Check business laws and procedures
10. Get the business permits and certificates
11. Register trade mark
12. Register copy rights if applicable
13. Apply for patent (If you will be marketing an invention)
14. Get business phone lines
15. Ready letterheads and visiting cards
16. Arrange business related insurances
17. Get EPF & ETF registration numbers
18. Open a bank account (Current and Savings account)

19. Print source documents and other necessary forms
20. Purchase capital items (based on the capital budget)
21. Order inventory
22. Get an email address
23. Get your web site set up
24. Tax obligations
25. Record keeping and accounting system
26. Recruitment of staff
27. See possibilities to get grants or financial assistance
28. See possibilities of doing online businesses
29. Work, health and safety obligations
30. Export opportunities
31. Import necessity
32. Possibilities to get government tenders and contracts
33. Identify your potential customers
34. Prepare potential customer base
35. Identify potential suppliers and prepare suppliers data base
36. Get the member ships of local chambers
37. Identify list of BDS providers
38. Identify Employee requirements
39. Prepare job descriptions
40. Finding necessary capital
41. Find out what are the available loan schemes for business start up
42. See possibilities of apply grants as initial capital
43. Selecting a banker
44. Selecting a business lawyer
45. Selecting a part time accountant
46. Selecting an Auditor
47. Selecting a Tax consultant
48. Get and see possibilities of getting quality stuttered certifications
49. See possibilities of online resources to help business
50. Identify organizations which are providing training and consultancy to start a business
51. Collect all necessary information for the preparation of business plan
52. Collect all information with regard to the marketing plan
53. Collect all information with regard to the production/ operational plan
54. Collect all information with regard to the Management & Organizational plan
55. Collect all information with regard to the finance plan
56. Finalization of the business plan
57. Funding arrangements to start the business
58. Arrangements of starting the business
59. Starting the business physically

## Action Plan

	Action plan time table																																
Action	20--								20---								20---																
	M a y	J u n	J u l	A u g	S e p	O c t	N o v	D e c	J a n	F e b	M a r	A p r	M a y	J u n	J u l	A u g	S e p	O c t	N o v	D e c	J a n	F e b	M a r	A p r	M a y	J u n	J u l	A u g	S e p	O c t	N o v	D e c	
Attend carrier guidance programme																																	
Participate motivation programme to starting a business																																	
Do business idea generation activity (Attend business idea generation programme)																																	
Attend business idea screening programme																																	
Business idea selection																																	
Concept development and testing																																	
Marketing strategy development																																	
Business analysis																																	

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