



RKVY-RAFTAAR-KP PROJECT
NIAM AGRI-BUSINESS INCUBATOR (NABI)



AGRIPRENEURSHIP TRAINING CUM INTERNSHIP PROGRAMME

29 March To 28 May, 2019

At

Convention Centre, CCS NIAM, Jaipur

Funding
Mentoring
Branding and PR
Intellectual Property
development
Business Coaching and Training
Technology Commercialization and Pilot Support

IDEA

Business and Financial
Model development
Pitch deck Preparation
Networking and Investor connect
Infrastructure Support



Dr. RAMESH MITTAL

DIRECTOR & CHAIRMAN



CCS NATIONAL INSTITUTE OF AGRICULTURAL MARKETING (CCS NIAM)

(An Autonomous Organization of Ministry of Agriculture & Farmers' Welfare, Government of India)

Jaipur-302033, Rajasthan-India

www.ccsniam.gov.in



Dr. P. Chandra Shekara
Director General

FOREWORD

Transformation of Agriculture to Agri Business is essential to enhance the income of the farmers at micro level and increasing the contribution of Agriculture to national GDP at macro level. The difficult task of Agripreneurship development has to be led by Agri Startups, Agri Innovations and Agri Innovators. These stakeholders have to be facilitated by Agriculture Development Institutions and Programmes.

CCS National Institute of Agricultural Marketing is knowledge partner for implementation of RKVY-RAFTAAR in which Agri Startups are promoted. As a first step, Agripreneurship Development programme is being conducted by CCS NIAM in which budding Agri innovators from different parts of the country are participating.

On behalf of CCS NIAM family I would like to congratulate and welcome them.

This two months programme will be a Life Changer for the Agripreneurs as the programme provides time, platform, professional support and motivation to all the participating Agripreneurs. The participants get opportunity to learn not only from Practitioners but also from other participants. This widens their knowledge, network and clarity of thoughts about their own startup.

CCS NIAM will do everything possible to make budding ideas to bloom as successful Agri Enterprises.

Congratulate CCS NIAM team for giving their best to make the programme, a grand success.

(Dr. P. Chandra Shekara)

TABLE OF CONTENTS

S. No.	Topics	Page No.
1.	Module 1: Entrepreneurship Development	1-50
	Chapter 1: Concept of Entrepreneur, Entrepreneurship	1
	Chapter 2: Characteristics of Entrepreneur	8
	Chapter 3: Definition and Functions of Entrepreneur	18
	Chapter 4: Entrepreneurship Theories	24
	Chapter 5: Types of Business Enterprises	34
2.	Module 2: Entrepreneurial Marketing	51-86
	Chapter 1: Entrepreneurial Marketing	51
	Chapter 2: Marketing Mix	55
	Chapter 3: Marketing Challenges Faced by Entrepreneurs	58
	Chapter 4: Strategies of Entrepreneurial Marketing	61
	Chapter 5: Marketing Philosophy	67
	Chapter 6: Customer Relationship Management	71
	Chapter 7: Customer Value Concepts	76
	<i>A Case Study: Marketing Strategies of Patanjali Ayurveda (FMCG)</i>	79
3.	Module 3: Innovation Management	87-134
	Chapter 1: Innovation Management	87
	Chapter 2: Business Model Canvas	98
	Chapter 3: Lean Model Canvas	103
	Chapter 4: Product-Market Fit	111
4.	Module 4: Management Accounting, Cost Accounting, Income Tax And GST	135-234
	I. Management Accounting	
	Chapter 1 : Fundamentals of Management Accounting	135
	Chapter 2 : Financial Statements	144
	Chapter 3 : Recording Financial Transactions	154
	Chapter 4 : Depreciation & Inventory	159

Chapter 5 : Cash Flow	165
II. Cost Accounting	
Chapter 1 : Introduction to Cost Accounting	171
Chapter 2 : Cost Accumulation	177
Chapter 3 : Product and Process Costing	179
Chapter 4 : Activity Based Costing	182
Chapter 5 : Cost Volume Profit Analysis	186
Chapter 6 : Relevant Costs in Decision Making	189
Chapter 7 : Budgeting	193
III. Income Tax	198
IV. Goods and Services Tax (GST)	212
5. Module 5: Legal Compliances	235-259
Chapter 1: Appropriate Business Form for Startup (Type of Entity)	235
Chapter 2: Funding Options for Startup	239
Chapter 3: Types of Agreements	244
Chapter 4: Protection of Intellectual Property	250



Module 1

ENTREPRENEURSHIP

DEVELOPMENT



NIAM Agri-Business Incubator (NABI)

Ch. Charan Singh National Institute Of Agricultural Marketing (CCSNIAM)
(An Organization of Ministry of Agriculture & Farmers' Welfare, Government of India)
Kota Road, Bambala, Pratap Nagar, Jaipur – 302033, Rajasthan
Website: www.ccsniam.gov.in

Chapter - 1

CONCEPT OF ENTREPRENEUR, ENTREPRENEURSHIP

The capacity and willingness to develop, organize and manage a business venture along with any of its risks in order to make a profit. The most obvious example of entrepreneurship is the starting of new businesses. In economics, Entrepreneurship combined with land, labor, natural resources and capital can produce profit. Entrepreneurial spirit is characterized by innovation and risk-taking, and is an essential part of a nation's ability to succeed in an ever changing and increasingly competitive global marketplace.

Richard Cantillon:

An entrepreneur is a person who pays a certain price for a product to resell it at an uncertain price, thereby making decisions about obtaining and using the resources while consequently admitting the risk of enterprise.

J.B. Say:

An entrepreneur is an economic agent who unites all means of production- land of one, the labour of another and the capital of yet another and thus produces a product. By selling the product in the market he pays rent of land, wages to labour, interest on capital and what remains is his profit. He shifts economic resources out of an area of lower and into an area of higher productivity and greater yield.

Schumpeter:

According to him entrepreneurs are innovators who use a process of shattering the status quo of the existing products and services, to set up new products, new services.

David McClelland:

An entrepreneur is a person with a high need for achievement [N-Ach]. He is energetic and a moderate risk taker.

Peter Drucker:

An entrepreneur searches for change, responds to it and exploits opportunities. Innovation is a specific tool of an entrepreneur hence an effective entrepreneur converts a source into a resource.

Kilby:

Emphasizes the role of an imitator entrepreneur who does not innovate but imitates. Technologies innovated by others are very important in developing economies.

Albert Shapero:

Entrepreneurs take initiative, accept risk of failure and have an internal locus of control.

G. Pinchot:

Intrapreneur is an entrepreneur within an already established organization. Entrepreneurship is the process of creating something new and assuming the risks and rewards.

Four aspects of being an entrepreneur today:

- 1 Involves creation process.
- 2 Requires devotion of time and effort.
- 3 Involves rewards of being an entrepreneur.
- 4 Requires assumption of necessary risks

The Myths of Entrepreneur

- Myth 1: Entrepreneurs Are Doers, Not Thinkers
- Myth 2: Entrepreneurs Are Born, Not Made
- Myth 3: Entrepreneurs Are Always Inventors
- Myth 4: Entrepreneurs Are Academic and Social Misfits
- Myth 5: Entrepreneurs Must Fit the “Profile”
- Myth 6: All Entrepreneurs Need Is Money
- Myth 7: All Entrepreneurs Need Is Luck
- Myth 8: Ignorance Is Bliss For Entrepreneurs
- Myth 9: Entrepreneurs Seek Success But Experience High Failure Rates
- Myth 10: Entrepreneurs Are Extreme Risk Takers (Gamblers)

THE CONCEPT OF ENTREPRENEURSHIP

Basically an entrepreneur is a person responsible for setting up a business or an enterprise. He has the initiative, skill for innovation and who looks for high achievements. He is a catalytic agent of change and works for the good of people. He puts up new green field projects that create wealth, open up many employment opportunities and leads to growth of other sectors.

ENTREPRENEUR

The word "entrepreneur" is derived from a French root 'entreprendre', meaning, "to undertake". The term "entrepreneur" seems to have been introduced into economic theory by Cantillon (1755) but Say (1803) first accorded the entrepreneur prominence. It was Schumpeter however, who really launched the field of entrepreneurship by associating it clearly with innovation. Drucker's definition of entrepreneurship, namely a systematic, professional discipline, brought a new level of understanding to the domain identified two clusters of thought on the meaning of entrepreneurship. One group focused on the characteristics of entrepreneurship (e.g. innovation, growth, uniqueness) while a second group focused on the outcomes of entrepreneurship (e.g. the creation of value).

- 1 He is a person who develops and owns his own enterprise
- 2 He is a moderate risk taker and works under uncertainty for achieving the goal
- 3 He is innovative
- 4 He peruses the deviant pursuits
- 5 Reflects strong urge to be independent
- 6 persistently tries to do something better
- 7 Dissatisfied with routine activities.
- 8 Prepared to withstand the hard life
- 9 Determined but patient
- 10 Exhibits sense of leadership
- 11 Also exhibits sense of competitiveness
- 12 Takes personal responsibility
- 13 Oriented towards the future
- 14 Tends to persist in the face to adversity

Convert a situation into opportunity. An entrepreneur is a person who starts an enterprise. He searches for change and responds to it. A number of definitions have been given of an entrepreneur-The economists view him as a fourth factor of production along with land labour and capital. The sociologists feel that certain communities and cultures promote entrepreneurship like for example in India we say that Gujaratis and Sindhis are very enterprising. Still others feel that entrepreneurs are innovators who come up with new ideas for products, markets or techniques. To put it very simply an entrepreneur is someone who perceives opportunity, organizes resources needed for exploiting that opportunity and exploits it. Computers, mobile phones, washing machines, ATMs, Credit Cards, Courier Service, and Ready to eat Foods are all examples of entrepreneurial ideas that got converted into products or services. Some definitions of an entrepreneur are listed below:

Concept of Entrepreneurship

Entrepreneurship involves decision making, innovation, implementation, forecasting of the future, independency, and success first and this is how entrepreneurship developed Entrepreneurship is a discipline with a knowledge base theory. It is an outcome of complex socio-economic, psychological, technological, legal and other factors. It is a dynamic and risky process. It involves a fusion of capital, technology and human talent. Entrepreneurship is equally applicable to big and small businesses, to economic and non-economic activities. Different entrepreneurs might have some common traits but all of them will have some different and unique features. If we just concentrate on the entrepreneurs then there will be as many models as there are ventures and we will not be able to predict or plan, how and where, and when these entrepreneurs will start their ventures.

Entrepreneurship is a process. It is not a combination of some stray incidents. It is the purposeful and organized search for change, conducted after systematic analysis of opportunities in the environment. Entrepreneurship is a philosophy- it is the way one thinks, one acts and therefore it can exist in any situation be it business or government or in the field of education, science and technology or poverty alleviation or any others. Entrepreneurship can be described as a process of action an entrepreneur undertakes to establish his enterprise. Entrepreneurship is a creative activity. It is the ability to create and build something from practically

nothing. It is a knack of sensing opportunity where others see chaos, contradiction and confusion. Entrepreneurship is the attitude of mind to seek opportunities, take calculated risks and derive benefits by setting up a venture. It comprises of numerous activities involved in conception, creation and running an enterprise. According to;

Peter Drucker

Entrepreneurship is defined as ‘a systematic innovation, which consists in the purposeful and organized search for changes, and it is the systematic analysis of the opportunities such changes might offer for economic and social innovation. Entrepreneurship is a dynamic process of vision, change, and creation. It requires an application of energy and passion towards the creation and implementation of new ideas and creative solutions. Essential ingredients include the willingness to take calculated risks- in terms of time, equity, or career; the ability to formulate an effective venture team; the creative skill to marshal needed resources; the fundamental skills of building a solid business plan; and, finally, the vision to recognize opportunity where others see chaos, contradiction, and confusion. Entrepreneur is a person who starts an enterprise. The process of creation is called entrepreneurship. The entrepreneur is the actor and entrepreneurship is the act. The outcome of the actor and the act is called the enterprise. An enterprise is the business organization. That is formed and which provides goods and services, creates jobs, contributes to national income, exports and overall economic development.

The basic concepts and characteristics of entrepreneurship are concerned with developing a vision of what a company should be, and then executing that vision by translating it into concrete steps and following through. Entrepreneurs tend to be personally involved in building and shaping their companies, but business success also depends on understanding personal limits, and developing strategies and systems to transcend these limits. Although many business magazines publish long lists of entrepreneurial traits, entrepreneurship is more a way of thinking and behaving than a set of specific, sharply defined character traits.

Measured Risk

Entrepreneurs are risk takers, staking money, time, and personal reputations to manifest their visions. But, like heroes, entrepreneurs are rarely reckless. Rather, successful entrepreneurs take measured risks, weighing the stakes and the potential consequences, and then stepping into unknown territory to generate results. As risk takers, successful entrepreneurs understand that failure can be a vital part of success, and that learning from mistakes can be a way of reaping benefits from situations that might otherwise feel like failures.

Fiscal Responsibility

Businesses run on money, so entrepreneurs must have a solid sense of how to raise and manage funds. Successful entrepreneurs have an intuitive sense of how much money they will need to run their companies, but they supplement this sense with concrete documentation and calculations to mitigate uncertainties. Entrepreneurs are willing to risk money by making investments in building their businesses, but they keep a close eye on the numbers in order to understand how much they are spending and whether their expenditures are bringing about the desired results.

Creativity

Starting a business is a creative endeavor that starts with conceptualizing a product or service, and then building a practical infrastructure that can sustain itself while delivering that product or service. Entrepreneurship requires creative problem solving as well as creative product development, and entrepreneurs have the creative freedom to think outside the box and develop unique strategies that balance personal values with practical constraints.

Management Skills

Successful entrepreneurs see the big picture. They have the skills and the humility to define their own role in company operations, and the interpersonal skills to successfully delegate the tasks they can't complete themselves. Successful entrepreneurs are successful managers, sharing the company's vision and clearly communicating the ways that this vision is infused into mundane daily tasks. An entrepreneur's management skills come into play in the process of carefully choosing

employees, and these skills carry over into careful training, as well as the daily challenges of motivating and organizing workers.

Concept of Entrepreneurship:

The word “entrepreneur” is derived from the French verb *entreprendre*, which means ‘to undertake’. This refers to those who “undertake” the risk of new enterprises. An enterprise is created by an entrepreneur. The process of creation is called “entrepreneurship”.

Entrepreneurship is a process of actions of an entrepreneur who is a person always in search of something new and exploits such ideas into gainful opportunities by accepting the risk and uncertainty with the enterprise.



Chapter – 2

CHARACTERISTICS OF AN ENTREPRENEUR

Entrepreneurship is characterized by the following features:

1. Economic and dynamic activity:

Entrepreneurship is an economic activity because it involves the creation and operation of an enterprise with a view to creating value or wealth by ensuring optimum utilization of scarce resources. Since this value creation activity is performed continuously in the midst of uncertain business environment, therefore, entrepreneurship is regarded as a dynamic force.

2. Related to innovation:

Entrepreneurship involves a continuous search for new ideas. Entrepreneurship compels an individual to continuously evaluate the existing modes of business operations so that more efficient and effective systems can be evolved and adopted. In other words, entrepreneurship is a continuous effort for synergy (optimization of performance) in organizations.

3. Profit potential:

“Profit potential is the likely level of return or compensation to the entrepreneur for taking on the risk of developing an idea into an actual business venture.” Without profit potential, the efforts of entrepreneurs would remain only an abstract and a theoretical leisure activity.

4. Risk bearing:

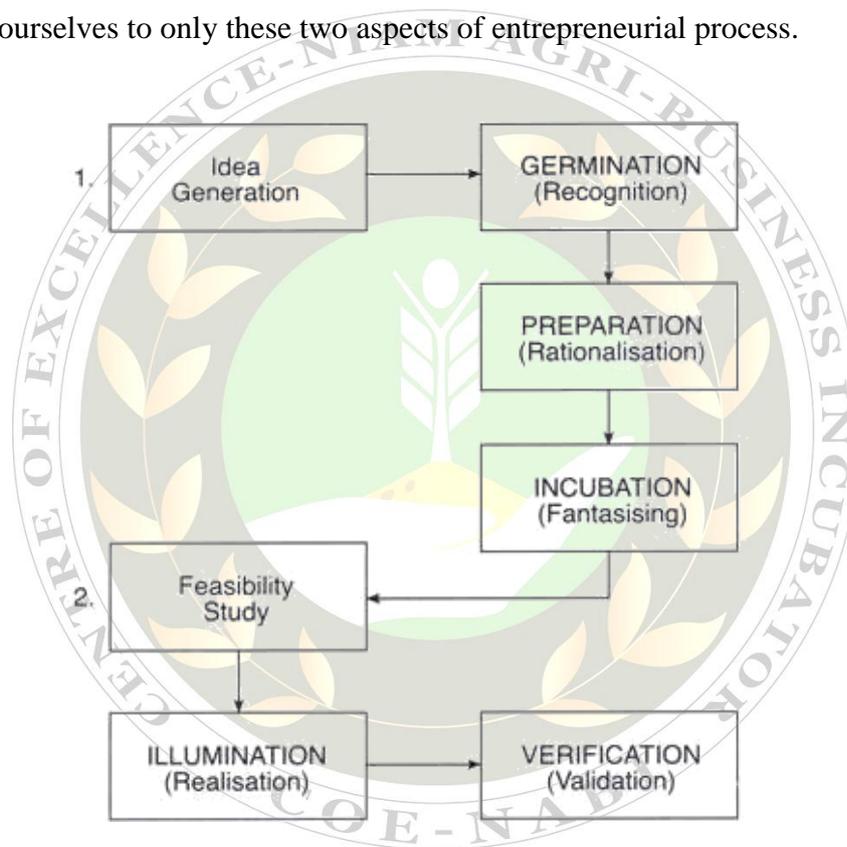
The essence of entrepreneurship is the ‘willingness to assume risk’ arising out of the creation and implementation of new ideas. New ideas are always tentative and their results may not be instantaneous and positive.

An entrepreneur has to have patience to see his efforts bear fruit. In the intervening period (time gap between the conception and implementation of an idea and its results), an entrepreneur has to assume risk. If an entrepreneur does not have the willingness to assume risk, entrepreneurship would never succeed.

Entrepreneurial Process:

Entrepreneurship is a process, a journey, not the destination; a means, not an end. All the successful entrepreneurs like Bill Gates (Microsoft), Warren Buffet (Hathaway), Gordon Moore (Intel) Steve Jobs (Apple Computers), Jack Welch (GE) GD Birla, Jamshedji Tata and others all went through this process.

To establish and run an enterprise it is divided into three parts – the entrepreneurial job, the promotion, and the operation. Entrepreneurial job is restricted to two steps, i.e., generation of an idea and preparation of feasibility report. In this article, we shall restrict ourselves to only these two aspects of entrepreneurial process.



1. Idea Generation:

To generate an idea, the entrepreneurial process has to pass through three stages:

- (a) Germination: This is like seeding process, not like planting seed. It is more like the natural seeding. Most creative ideas can be linked to an individual's interest or curiosity about a specific problem or area of study.
- (b) Preparation: Once the seed of interest curiosity has taken the shape of a focused idea, creative people start a search for answers to the problems.

Inventors will go on for setting up laboratories; designers will think of engineering new product ideas and marketers will study consumer buying habits.

- (c) Incubation: This is a stage where the entrepreneurial process enters the subconscious intellectualization. The sub-conscious mind joins the unrelated ideas so as to find a resolution.

2. Feasibility study:

Feasibility study is done to see if the idea can be commercially viable. It passes through two steps:

- (a) Illumination: After the generation of idea, this is the stage when the idea is thought of as a realistic creation. The stage of idea blossoming is critical because ideas by themselves have no meaning.
- (b) Verification: This is the last thing to verify the idea as realistic and useful for application. Verification is concerned about practicality to implement an idea and explore its usefulness to the society and the entrepreneur.

Importance of Entrepreneurship:

1. Development of managerial capabilities: The biggest significance of entrepreneurship lies in the fact that it helps in identifying and developing managerial capabilities of entrepreneurs. An entrepreneur studies a problem, identifies its alternatives, compares the alternatives in terms of cost and benefits implications, and finally chooses the best alternative.

This exercise helps in sharpening the decision making skills of an entrepreneur. Besides, these managerial capabilities are used by entrepreneurs in creating new technologies and products in place of older technologies and products resulting in higher performance.

2. Creation of organizations: Entrepreneurship results into creation of organizations when entrepreneurs assemble and coordinate physical, human and financial resources and direct them towards achievement of objectives through managerial skills.

3. Improving standards of living: By creating productive organizations, entrepreneurship helps in making a wide variety of goods and services available to the society which results into higher standards of living for the people.

Possession of luxury cars, computers, mobile phones, rapid growth of shopping malls, etc. are pointers to the rising living standards of people, and all this is due to the efforts of entrepreneurs.

4. Means of economic development: Entrepreneurship involves creation and use of innovative ideas, maximization of output from given resources, development of managerial skills, etc., and all these factors are so essential for the economic development of a country.

Factors affecting Entrepreneurship:

Entrepreneurship is a complex phenomenon influenced by the interplay of a wide variety of factors.

Some of the important factors are listed below:

1. Personality Factors:

Personal factors, becoming core competencies of entrepreneurs, include:

- (a) Initiative (does things before being asked for)
- (b) Proactive (identification and utilization of opportunities)
- (c) Perseverance (working against all odds to overcome obstacles and never complacent with success)
- (d) Problem-solver (conceives new ideas and achieves innovative solutions)
- (e) Persuasion (to customers and financiers for patronization of his business and develops & maintains relationships)
- (f) Self-confidence (takes and sticks to his decisions)
- (g) Self-critical (learning from his mistakes and experiences of others)
- (h) A Planner (collects information, prepares a plan, and monitors performance)
- (i) Risk-taker (the basic quality).

2. Environmental factors:

These factors relate to the conditions in which an entrepreneur has to work. Environmental factors such as political climate, legal system, economic and social conditions, market situations, etc. contribute significantly towards the growth of entrepreneurship. For example, political stability in a country is absolutely essential for smooth economic activity.

Frequent political protests, bandhs, strikes, etc. hinder economic activity and entrepreneurship. Unfair trade practices, irrational monetary and fiscal policies, etc. are a roadblock to the growth of entrepreneurship. Higher income levels of people, desire for new products and sophisticated technology, need for faster means of transport and communication, etc. are the factors that stimulate entrepreneurship.

Thus, it is a combination of both personal and environmental factors that influence entrepreneurship and brings in desired results for the individual, the organization and the society.

Types of Entrepreneurs:

Depending upon the level of willingness to create innovative ideas, there can be the following types of entrepreneurs:

1. Innovative entrepreneurs:

These entrepreneurs have the ability to think newer, better and more economical ideas of business organization and management. They are the business leaders and contributors to the economic development of a country.

Inventions like the introduction of a small car 'Nano' by Ratan Tata, organized retailing by Kishore Biyani, making mobile phones available to the common man by Anil Ambani are the works of innovative entrepreneurs.

2. Imitating entrepreneurs:

These entrepreneurs are people who follow the path shown by innovative entrepreneurs. They imitate innovative entrepreneurs because the environment in which they operate is such that it does not permit them to have creative and innovative ideas on their own.

Such entrepreneurs are found in countries and situations marked with weak industrial and institutional base which creates difficulties in initiating innovative ideas.

In our country also, a large number of such entrepreneurs are found in every field of business activity and they fulfill their need for achievement by imitating the ideas introduced by innovative entrepreneurs.

Development of small shopping complexes is the work of imitating entrepreneurs. All the small car manufacturers now are the imitating entrepreneurs.

3. Fabian entrepreneurs:

The dictionary meaning of the term 'Fabian' is 'a person seeking victory by delay rather than by a decisive battle'. Fabian entrepreneurs are those individuals who do not show initiative in visualizing and implementing new ideas and innovations wait for some development which would motivate them to initiate unless there is an imminent threat to their very existence.

4. Drone entrepreneurs:

The dictionary meaning of the term 'drone' is 'a person who lives on the labor of others'. Drone entrepreneurs are those individuals who are satisfied with the existing mode and speed of business activity and show no inclination in gaining market leadership. In other words, drone entrepreneurs are die-hard conservatives and even ready to suffer the loss of business.

5. Social Entrepreneur:

Social entrepreneurs drive social innovation and transformation in various fields including education, health, human rights, workers' rights, environment and enterprise development.

They undertake poverty alleviation objectives with the zeal of an entrepreneur, business practices and dare to overcome traditional practices and to innovate. Dr Mohammed Yunus of Bangladesh who started Grameen Bank is a case of social entrepreneur.

Functions of an Entrepreneur:

The important functions performed by an entrepreneur are listed below:

1. **Innovation:** An entrepreneur is basically an innovator who tries to develop new technology, products, markets, etc. Innovation may involve doing new things or doing existing things differently. An entrepreneur uses his creative faculties to do new things and exploit opportunities in the market. He does not believe in status quo and is always in search of change.
2. **Assumption of Risk:** An entrepreneur, by definition, is risk taker and not risk shirker. He is always prepared for assuming losses that may arise on account of new ideas and projects undertaken by him. This willingness to take risks allows an entrepreneur to take initiatives in doing new things and marching ahead in his efforts.
3. **Research:** An entrepreneur is a practical dreamer and does a lot of ground-work before taking a leap in his ventures. In other words, an entrepreneur finalizes an idea only after considering a variety of options, analyzing their strengths and weaknesses by applying analytical techniques, testing their applicability, supplementing them with empirical findings, and then choosing the best alternative. It is then that he applies his ideas in practice. The selection of an idea, thus, involves the application of research methodology by an entrepreneur.
4. **Development of Management Skills:** The work of an entrepreneur involves the use of managerial skills which he develops while planning, organizing, staffing, directing, controlling and coordinating the activities of business. His managerial skills get further strengthened when he engages himself in establishing equilibrium between his organization and its environment.

However, when the size of business grows considerably, an entrepreneur can employ professional managers for the effective management of business operations.
5. **Overcoming Resistance to Change:** New innovations are generally opposed by people because it makes them change their existing behavior patterns. An entrepreneur always first tries new ideas at his level.

It is only after the successful implementation of these ideas that an entrepreneur makes these ideas available to others for their benefit. In this manner, an entrepreneur paves the way for the acceptance of his ideas by others. This is a reflection of his will power, enthusiasm and energy which helps him in overcoming the society's resistance to change.

6. Catalyst of Economic Development: An entrepreneur plays an important role in accelerating the pace of economic development of a country by discovering new uses of available resources and maximizing their utilization.

To better appreciate the concept of an entrepreneur, it is desirable to distinguish him from an entrepreneur and promoter.

Some Myths about Entrepreneurship:

Over the years, a few myths about entrepreneurship have developed. These are as under:

(i) Entrepreneurs, like leaders, are born, not made:

The fact does not hold true for the simple reason that entrepreneurship is a discipline comprising of models, processes and case studies.

One can learn about entrepreneurship by studying the discipline.

(ii) Entrepreneurs are academic and socially misfits:

Dhirubai Ambani had no formal education. Bill Gates has been a School drop-out. Therefore, this description does not apply to everyone. Education makes an entrepreneur a true entrepreneur. Mr. Anand Mahindra, Mr. Kumar Mangalam Birla, for example, is educated entrepreneurs and that is why they are heroes.

(iii) To be an entrepreneur, one needs money only:

Finance is the life-blood of an enterprise to survive and grow. But for a good idea whose time has come, money is not a problem.

(iv) To be an entrepreneur, a great idea is the only ingredient:

A good or great idea shall remain an idea unless there is proper combination of all the resources including management.

(v) One wants to be an entrepreneur as having no boss is great fun:

It is not only the boss who is demanding; even an entrepreneur faces demanding vendors, investors, bankers and above all customers.

An entrepreneur's life will be much simpler, since he works for himself. The truth is working for others are simpler than working for one. One thinks 24 hours a day to make his venture successful and thus, there would be a punishing schedule.

NATURE AND DEVELOPMENT OF ENTREPRENEURSHIP

The term *entrepreneur* comes from the French and translates "between-taker" or "go-between."

Earliest Period

In this period the money person (forerunner of the capitalist) entered into a contract with the go-between to sell his goods. While the capitalist was a passive risk bearer, the merchant bore all the physical and emotional risks.

Middle Ages

In this age the term **entrepreneur** was used to describe both an actor and a person who managed large production projects. In such large production projects, this person did not take any risks, managing the project with the resources provided. A typical entrepreneur was the cleric who managed architectural projects.

17th Century

In the 17th century the entrepreneur was a person who entered into a contract with the government to perform a service

Richard Cantillon, a noted economist of the 1700s, developed theories of the entrepreneur and is regarded as the founder of the term. He viewed the entrepreneur as a risk taker who "buy[s] at certain price and sell[s] at an uncertain price, therefore operating at a risk."

18th Century

In the 18th century the person with capital was differentiated from the one who needed capital. In other words, entrepreneur was distinguished from the capital provider.

Many of the inventions developed during this time as was the case with the inventions of Eli Whitney and Thomas Edison were unable to finance invention themselves. Both were capital users (entrepreneurs), not capital providers (venture capitalists.) Whitney used expropriated crown property. Edison raised capital from private sources.

A **venture capitalist** is a professional money manager who makes risk investments from a pool of equity capital to obtain a high rate of return on investments
Entrepreneurship

19th and 20th Centuries

In the late 19th and early 20th centuries, entrepreneurs were viewed mostly from an economic perspective. The entrepreneur "contributes his own initiative, skill and ingenuity in planning, organizing and administering the enterprise, assuming the chance of loss and gain."

Andrew Carnegie is one of the best examples of this definition, building the American steel industry one of the wonders of industrial world, primarily through his competitiveness rather than creativity.

In the middle of the 20th century, the notion of an **entrepreneur as an innovator** was established. Innovation, the act of introducing something new, is one of the most difficult tasks for the entrepreneur. Edward Harriman and John Pierpont Morgan are examples of this type of entrepreneur. Edward reorganized the Ontario and southern railroad through the northern pacific trust and john developed his large banking house by reorganizing and financing the nation's industries.

This ability to innovate is an instinct that distinguishes human beings from other creatures and can be observed throughout history.

Chapter - 3

DEFINITION OF ENTREPRENEUR

The concept of entrepreneurship from a personal perspective has been explored in this century. This exploration is reflected in the following three definitions of an entrepreneur:

In almost all definitions of entrepreneurship, there is agreement that we are talking about a kind of behavior that includes:

1. Initiative taking.
2. The organizing and reorganizing of social/economic mechanisms to turn resources and situations to practical account.
3. The acceptance of risk or failure.

To an economist, an entrepreneur

Are one who brings resources, labor, materials, and other assets into combinations that make their value greater than before, and one who introduces changes, innovations, and a new order?

To a psychologist, such a person is typically driven by certain forces- the need to obtain something, to experiment, to accomplish or perhaps to escape the authority of others.

Entrepreneurship is the dynamic process of creating incremental wealth. Our definition of entrepreneurship

Involves four aspects:

1. Entrepreneurship involves the creation process.
2. It requires the devotion of the necessary time and effort.
3. It involves assuming the necessary risks.
4. The rewards of being an entrepreneur are independence, personal satisfaction, and monetary reward.

For the person who actually starts his or her own business there is a high failure rate due to poor sales, intense competition, lack of capital or lack of managerial ability.

THE ENTREPRENEURIAL DECISION PROCESS

(Deciding to become an entrepreneur by leaving present activity)

Many individuals have difficulty bringing their ideas to the market and creating new venture. Yet entrepreneurship and the actual entrepreneurial decisions have resulted in several million new businesses being started throughout the world.

Indeed, millions of ventures are formed despite recession, inflation, high interest rates, and lack of infrastructure, economic uncertainty and the high probability of failure

The entrepreneurial decision process entails a movement *from* something to something-- a movement from a present life style to forming a new enterprise.

To leave a present live-style to create something new comes from a negative force--disruption. Many Companies are formed by people who have retired, moved, or been fired. Another cause of disruption is completing an educational degree.

The decision to start a new company occurs when an individual perceives that forming a new enterprise is both desirable and possible

Role of Entrepreneurship in Economic Development!

The word development is used in so many ways that its precise connotation is often baffling. Nevertheless, economic development essentially means a process of upward change whereby the real per capita income of a country increases over a long period of time. Then, a simple but meaningful question arises: what causes economic development?

This question has absorbed the attention of scholars of socio-economic change for decades. In this section, we shall attempt to shed light on an important aspect of that larger question, i.e. the phenomenon of entrepreneurship.

The one major issue we shall address here is: what is the significance of entrepreneurship for economic development? Does it add an important independent influence to that of other factors widely agreed to promote economic development of a country like India?

Adam Smith, the foremost classical economist, assigned no significance to entrepreneurial role in economic development in his monumental work 'An Enquiry into the Nature and Causes of the Wealth of Nations' published in 1776. Smith extolled the rate of capital formation as an important determinant of economic development.

The problem of economic development was ergo largely the ability of the people to save more and invest more in any country. According to him, ability to save is governed by improvement in productivity to the increase in the dexterity of every worker due to division of labour. Smith regarded every person as the best judge of his own interest who should be left to pursue his own advantage. According to him, each individual is led by an 'invisible hand' in pursuing his/her interest. He always advocated the policy of laissez-faire in economic affairs.

In his theory of economic development, David Ricardo identified only three factors of production, namely, machinery, capital and labour, among whom the entire produce is distributed as rent, profit and wages respectively. Ricardo appreciated the virtues of profit in capital accumulation. According to him, profit leads to saving of wealth which ultimately goes to capital formation.

Thus, in both the classical theories of economic development, there is no room for entrepreneurship. And, economic development seems to be automatic and self-regulated. Thus, the attitude of classical economists was very cold towards the role of entrepreneurship in economic development. They took the attitude: "the firm is shadowy entity and entrepreneur even shadowed or at least is shady when he is not shadowy." The economic history of the presently developed countries, for example, America, Russia and Japan tends to support the fact that the economy is an effect for which entrepreneurship is the cause.

The crucial role played by the entrepreneurs in the development of the Western countries has made the people of underdeveloped countries too much conscious of the significance of entrepreneurship for Economic development. Now, people have begun to realize that for achieving the goal of economic development, it is necessary to increase entrepreneurship both qualitatively and quantitatively in the country. It is only active and enthusiastic entrepreneurs who fully explore the potentialities of the country's available resources – labour, technology and capital.

Schumpeter (1934) visualized the entrepreneur as the key figure in economic development because of his role in introducing innovations. Parson and Smelter (1956) described entrepreneurship as one of the two necessary conditions for economic development, the other being the increased output of capital.

Harrison (1965) includes entrepreneurs among the prime movers of innovations, and Sayigh (1962) simply describes entrepreneurship as a necessary dynamic force. It is also opined that development does not occur spontaneously as a natural consequence when economic conditions are in some sense 'right': a catalyst or agent is always needed, and this requires an entrepreneurial ability.

It is this ability that he perceives opportunities which either others do not see or care about. Essentially, the entrepreneur searches for change, sees need and then brings together the manpower, material and capital required to respond the opportunity what he sees.

Akio Morita, the President of Sony who adopted the company's products to create Walkman Personal Stereo and India's Gulshan Kumar of T-Series who skimmed the audio-cassette starved vast Indian market are the clearest examples of such able entrepreneurs.

The role of entrepreneurship in economic development varies from economy to economy depending upon its material resources, industrial climate and the responsiveness of the political system to the entrepreneurial function. The entrepreneurs contribute more in favorable opportunity conditions than in the economies with relatively less favorable opportunity conditions.

Viewed from the opportunity conditions point of view, the underdeveloped regions, due to the paucity of funds, lack of skilled labour and non-existence of minimum social and economic overheads, are less conducive to the emergence particularly of innovative entrepreneurs.

In such regions, entrepreneurship does not emerge out of industrial background with well developed institutions to support and encourage it. Therefore, entrepreneurs in such regions may not be an "innovator" but an "imitator" who would copy the innovations introduced by the "innovative" entrepreneurs of the developed regions.

In these areas, according to McClelland's (1961) concept of personality aspect of entrepreneurship, some people with high achievement motivation come forward to behave in an entrepreneurial way to change the stationary inertia, as they would not be satisfied with the present status that they have in the society.

Under the conditions of paucity of funds and the problem of imperfect market in underdeveloped regions, the entrepreneurs are bound to launch their enterprises on a small-scale. As imitation requires lesser funds than innovation, it is realized that such regions should have more imitative entrepreneurs.

And, it is also felt that imitation of innovations introduced in developed regions on a massive scale can bring about rapid economic development in underdeveloped regions also. But, it does not mean that such imitation requires in any way lesser ability on the part of entrepreneurs.

“It involves often what has aptly been called ‘subjective innovation’, that is, the ability to do things which have not been done before by the particular industrialists, even though unknown to him, the problem may have been solved in the same way by the others.” These imitative entrepreneurs constitute the main spring of development of underdeveloped regions.

Further, India which itself is an underdeveloped country aims at decentralized industrial structure to militate the regional imbalances in levels of economic development, small-scale entrepreneurship in such industrial structure plays an important role to achieve balanced regional development.

It is unequivocally believed that small-scale industries provide immediate large-scale employment, ensure a more equitable distribution of national income and also facilitate an effective resource mobilization of capital and skill which might otherwise remain unutilized.

Lastly, the establishment of Entrepreneurship Development Institutes and alike by the Indian Government during the last decades is a good testimony to her strong realization about the premium mobile role of entrepreneurship plays in economic development of the country.

The important role that entrepreneurship plays in the economic development of an economy can now be put in a more systematic and orderly manner as follows:

1. Entrepreneurship promotes capital formation by mobilizing the idle saving of the public.
2. It provides immediate large-scale employment. Thus, it helps reduce the unemployment problem in the country, i.e., the root of all socio-economic problems.
3. It promotes balanced regional development.
4. It helps reduce the concentration of economic power.
5. It stimulates the equitable redistribution of wealth, income and even political power in the interest of the country.
6. It encourages effective resource mobilization of capital and skill which might otherwise remain unutilized and idle.
7. It also induces backward and forward linkages which stimulate the process of economic development in the country.
8. Last but no means the least; it also promotes country's export trade i.e., an important ingredient to economic development.

Thus, it is clear that entrepreneurship serves as a catalyst of economic development. On the whole, the role of entrepreneurship in economic development of a country can best be put as “an economy is the effect for which entrepreneurship is the cause”

Chapter-4

ENTREPRENEURSHIP THEORIES

Entrepreneurship has increasingly become popular as the recession keeps on getting worse and worse. Those who have already decided to become entrepreneurs have discovered that there is more to the activity than what is generally assumed. Hence need to know clearly the theories of entrepreneurship.

Entrepreneurship – Introduction

For one to become a successful businessman there is need for that person to know all about the theories of entrepreneurship. However, entrepreneurship (though famous) is not a fully known field to many people.

Hence its theories are very abstract and boring for most people. Therefore, the main purpose of this article is to explain these theories in full depth so that people can really appreciate the whole process of entrepreneurship.

The Neo-Classic Theory of Entrepreneurship

This is one of the famous theories of entrepreneurship up to date. Advanced by Marshal in 1948, the theory stipulates that there is no exploitation on the business platform.

The theory is of the view that everyone who is conducting a particular business gets a particular profit margin which is line with his or her levels of labor.

Hence this means that entrepreneurs who work very hard at their various businesses will get more profits than those who don't. The theory also views the level of knowledge of an entrepreneur as an important factor in whether or not that person will make a lot of profits.

This means that if one entrepreneur has more knowledge in the type of business that he or she is doing than another entrepreneur, then that particular entrepreneur will be more successful. This is one of the theories of entrepreneurship that many people follow.

Innovative Theory of Entrepreneurship

The innovative theory is one of the most famous theories of entrepreneurship used all around the world. The theory was advanced by one famous scholar, Schumpeter, in 1911. Schumpeter analyzed the theory proposed by Marshall, and he concluded that the theory was wrong.

Schumpeter believes that creativity or innovation is the key factor in any entrepreneur's field of specialization. He argued that knowledge can only go a long way in helping an entrepreneur to become successful.

However, Schumpeter viewed innovation along with knowledge as the main catalysts of successful entrepreneurship. He believed that creativity was necessary if an entrepreneur was to accumulate a lot of profits in a heavily competitive market.

Many business people support this theory, and hence its popularity over other theories of entrepreneurship.

Alert Theory of Entrepreneurship

This is probably the most controversial of all the theories of entrepreneurship. The theory was first founded by Kroner (in 1997) who wanted to bring together the other theories of entrepreneurship advanced by Marshall and Schumpeter.

But he realized that the market itself played the most important role in whether an entrepreneur would be successful or not.

Hence he came up with his own view of entrepreneurship which he called 'alert'. The theory states that understanding the market is the key to being a successful entrepreneur.

Theory of entrepreneurship helps us to comprehend phenomena better. Understanding theory one can apply the same in practice more effectively. Various theories of entrepreneurship have been propounded by thinkers. They can be classified in three categories:

- Sociological
- Economic
- Cultural

Sociological theories of entrepreneurship

Max Weber's theory: Salient features of his theory are: Spirit of Capitalism is highlighted.

Adventurous spirit facilitates taking risk.

Protestant ethic embodying rebellion is conducive. Inducement of profit is the criterion.

E.E. Hagen's theory

Reveals general model of the social- inter relationship among physical environment, social structure, personality and culture.

Thinks economic theories are inadequate.

Political & social change – catalyst for entrepreneurs.

Rejects follower's syndrome imitating western technology. Technology is an integral part of socio- cultural complex.

Historic shift as a factor initiates change.

Economic theories of entrepreneurship

Schumpeter's theory of innovation: Development implies carrying one of new combinations of entrepreneurship. 'Entrepreneur' is an innovator– who carries new combination of:

New goods / services.

New method of production.

New market.

New source of supply of raw materials.

New organization.

Harvard Business School considers entrepreneurship as the outcome of the combination of internal and external forces.

Internal forces– Individual's traits and qualities viz:

- Intelligence
- Skill. Knowledge
- Intuition
- Exposure & experience

External forces– Surrounding’s conditions viz: Economic, Political, Social & cultural.

Legal frame-work: Stable Govt. External security, law & order and legal process are the influencing factors. Cultural theories of entrepreneurship

Hoselitzs theory: He explains that the supply of Entrepreneurship is governed by cultural factors & culturally minority groups are the spark – plugs of entrepreneurial economic development.

Marginal men - Reservoir of entrepreneurial development. Ambiguous positions from a cultural or social statement make them creative.

Emphasis on skills - Who possess extra-ordinary skills. Function of managerial additional personal traits & leadership skills. Additional personal traits. Exploration of profit ability to lend.

Contribution of social classes- Socio-economic economic background of specific classes makes them entrepreneurs. Family patterns in France, Protestants in UK/USA & Parsees in India.

Peter F Drucker on entrepreneurship: “An entrepreneur is one who always searches for change, rapidness to it and exploits it as an opportunity.” He emphasizes on:

Innovation.

Resource: A thing is regarded as resource when its economic value is recognized. Example- Fixed salary can also be an opportunity. Thus installment purchase was introduced.

ECO model

- Entrepreneurship
- Creativity
- Organization

Socio-Economic Benefits from Entrepreneurship

The following are the benefits we get from entrepreneurship:

1. Entrepreneurship creates employment.

The existence of business activities influences employment. Business establishments need people to work for them.

2. Entrepreneurship improves the quality of life.

People need to work in order to survive, attend to their needs, and satisfy their wants.

3. Entrepreneurship contributes to a more equitable distribution of income.

With more entrepreneurial activities provided to the people in the country sides, natives have more work opportunities thus, discouraging them from resettling in other places.

4. Entrepreneurship utilizes resources.

We may use our own natural resources, and process and convert them to more useful things.

5. Entrepreneurship brings social benefits through the government.

The resources collected by the government are given back to the people in the form of services, infrastructure projects, school buildings, and maintenance of peace and order.

INDIAN ENTREPRENEUR

Today, many more Indian entrepreneurs are emerging in the business world. Astonishingly enough, they are quite different from when they first appeared over twenty years ago. In the 1980s, the Indian economy was greatly bogged down by an atrocious socialistic ideology, whereby a rigid license raj and corrupt bureaucratic control was how businesses were conducted.

It began when Jawaharlal Nehru, India's first Prime Minister, wanted to tailor the Indian economy after the Soviet Union's socialistic economic structure. In his mind, he strongly believed that the state should control every aspect of the Indian economy, and thus, a planned economic growth could be achieved. His idea revolved around

issuing licenses to a worthy few who were selected based on their credentials and the existing market economies of operation. Although Nehru had good intentions, the way he executed his plan proved to be counterproductive.

Nehru strongly believed that entrepreneurs should focus their efforts on nation building rather than selling products or competing with each other, because he felt that it did not directly contribute to this cause. To ensure that the concept of nation building was properly enforced by all business owners, Nehru made sure that every entrepreneur received a "certified nation building" license from the relevant license officer. He also put forth a rule stating that only two to three companies could be granted a license within the same industry, greatly limiting the possibility of establishing competition.

In addition, Nehru wanted industries to be located all over India, rather than be positioned at select industrial hubs; a strategy which he theorized would ensure a balanced industrial growth. Therefore, he passed laws requiring entrepreneurs to obtain a location permit (license) prior to the start of their company. In order to avoid capitalistic monopolies, Nehru stated that companies should obtain licenses to expand their production capacity. To prevent money laundering within companies, another major issue, Nehru made it mandatory for the excise and licensing officials to visit and audit every company each year in order to ensure quality assurance. All of these strict regulations had their problems as well. Not only did every entrepreneur need to obtain multiple licenses but the government officers who were in charge of overseeing all licensing aspects were underpaid and eventually resorted to bribery and corruption. This led to entrepreneurs paying bribes in order to acquire the necessary licenses.

ENTREPRENEUR FLOCKED

Situations got so precarious that even business owners had to obtain a government license just to meet with foreign business delegates in other countries. During those times, entrepreneurs flocked around ideas that mostly involved cornering manufacturing or importing licenses. This sort of business environment offered absolutely no incentive to invest time in technical innovation to reduce manufacturing costs or even offer better quality products and services since one could get far higher results by influencing the customs or excise officer to classify a product under a category that attracted a lower rate of duty.

YOUNG ENTREPRENEUR

During this license raj, most highly qualified young Indian graduates had no family connections nor were interested in influencing excise officers. Therefore, many of them immigrated to the United States to avoid such red tape and to gain economic freedom. Realizing that the existing economy was in dire crisis, Indian business practices began changing for the better in 1991 after extensive economic reforms. By ridding the old socialistic license raj system, Indian entrepreneurs no longer needed to worry about excise Officers in order to achieve their business goals. This encouraged them to start focusing on expanding their markets and acquiring more customers

Rapid economic growth has resulted since the removal of the license raj. For instance, the Indian economy has sustained an average growth rate of over 6% annually, with the gross domestic product or GDP being around 9.2 % between 2006 and 2007. In the past decade, India's GDP has also arisen from 21

% to 33 % and India's foreign exchange reserves has reached over \$200 billion. Domestic markets have also grown substantially to support innovation. Worldwide, India's vast economic success is recognized by many national and international corporations who have not only taken advantage of its pool of high- quality scientific talent but have also established many research and development facilities (R&D) throughout India.

Today's promising market conditions have been very encouraging to many young engineering graduates who strongly believe that they have the technical knowledge and skills to attract new customers. These young Indian entrepreneurs are not the typical and conventional business entrepreneur. They are the children of many business professionals. As elite graduates of IITs, National Institutes of Technology, Indian Institute of Science, and the IIMs, this new young breed of worthy entrepreneurs have targeted their efforts on innovative ways to technologically address the genuine needs of millions of people.

In the past few years, entrepreneurship in India has slowly taken off. Indian engineers who migrated to the United States in the eighties have found the U.S. to be a haven for entrepreneurial pursuits and have become highly successful in their respective fields. They initially started high technology product companies in Silicon Valley that primarily focused on solving critical market problems. Most of these Indian

entrepreneurs, after making fortunes by excelling in their respective market segments, started helping entrepreneurs in India with startup companies.

The rapid success of Indian American entrepreneurs has led to vast angel investments in India. Organizing themselves into angel confederacies after the Band of Angels in the Silicon Valley, each member diligently researches and pools their own capital for each prospective investment. Being known for founding and establishing well-known companies such as Symantec, Logitech, National Semiconductor, Sun Microsystems, Hewlett Packard, and Intuit, etc., these angel investors like to invest their time and money into new, cutting edge, start-up companies. This trend has boosted the pace at which new startups are being established in India.

India offers a unique incubation environment for most entrepreneurs, greatly distinguishing it from other western democracies. A country where almost 50% of the Indian population is below 35 years old, it is apparent that India has a large working class. Ineffective political regimes have been enforcing their outdated ideologies on this dynamic young population. In addition, these young Indians have become acclimated to non security related civic amenities such as laying roads, clean drinking water, and appropriate health services from the government. Most of the civic amenities are in shambles. In fact, situations in India have become so slow that the Indian government needs 6 months to execute the very same civic infrastructure project that the Chinese government executes within a couple of days.

Because of such ineffective government implementation, the entire society of India has become chaotic. For example, traffic conditions in India are considered to be horrendous. Since there are no existing highways and a basic auto infrastructure, it takes the average commuter about an hour to travel Approximately 10 miles. In addition, shipping in Indian ports is in shambles. Atypical entrepreneur has to wait in a queue at the sea port to get his/her products exported to a foreign country. Although this may sound quite daunting, it is this very chaotic environment that train Indians how to make sure that things get done in time irrespective of the hurdles.

Although the roads are terrible and the ports have waitlists, most Indian businesses try out creative strategies to make sure their services or products reach overseas customers on time. It is this struggle to stick to the promised schedule that really differentiates an Indian entrepreneur from his/her western counterparts. Indians grow

up in a chaotic environment and learn how to manage their lives in such bleak environments. Indian entrepreneurs are groomed to get things done, no matter what the odds are.

The Driving Forces for women entrepreneurs

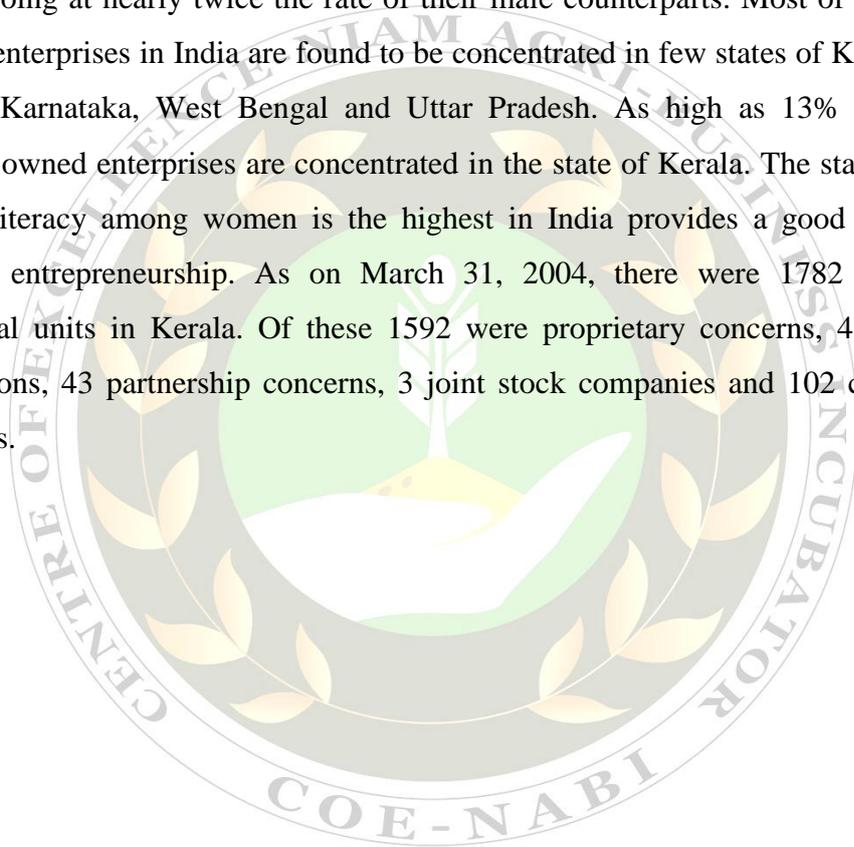
- Economic independence
- Establishing their own creativity
- Establishing their own identity
- Achievement of excellence
- Developing risk-taking ability
- Equal status in society
- Greater freedom and mobility
- Additional income to the family

Some Common Features of women entrepreneurs

- 1 Women with small families are more likely to become entrepreneurs
- 2 A majority of women entrepreneurs are married
- 3 Unmarried women face difficulties in getting financial support to launch their enterprises
- 4 Many women entrepreneurs belong to low income group
- 5 A large number of women with little or no education enter into business without undergoing any training
- 6 Many women become entrepreneurs out of economic necessity
- 7 Women's hard work is generally responsible for the launch and sustainability of the business
- 8 Support system do not effectively handle their important need for vision
- 9 Gender discrimination is encountered at every stage of business development
- 10 Women entrepreneurs are security oriented rather than growth oriented
- 11 Women prefer diversification to specialization
- 12 Women prefer stabilization of income and minimization of risk over maximization of income
- 13 though the trend is changing, it is not uncommon to find enterprises owned by women but run by men.

Women Entrepreneurship in India

It is estimated that women entrepreneurs presently comprise about 10% of the total number of entrepreneurs in India, with the percentage growing every year. If the prevailing trends continue, it is likely that in another five years women will comprise 20 % of the entrepreneurial force. Even though women own around 10% of the total enterprises in the small sector, the gross output of these units is just 3.5% of the total output of the SSI sector. In contrast, in developed countries such as United States, women own nearly 91 lakh small businesses and the number of women-owned start-ups is going at nearly twice the rate of their male counterparts. Most of the women-owned enterprises in India are found to be concentrated in few states of Kerala, Tamil Naidu, Karnataka, West Bengal and Uttar Pradesh. As high as 13% of the total women owned enterprises are concentrated in the state of Kerala. The state of Kerala where literacy among women is the highest in India provides a good example of women entrepreneurship. As on March 31, 2004, there were 1782 women-run industrial units in Kerala. Of these 1592 were proprietary concerns, 42 charitable institutions, 43 partnership concerns, 3 joint stock companies and 102 cooperatives societies.



Chapter – 5

TYPES OF BUSINESS ENTERPRISES

Following are the advantages of Joint Stock Company:

1. **Limited Liability:** Liability of members of Joint Stock Company is limited to the extent of shares held by them. Hence shareholders assets will not be on stake. This feature attracts large number of investors to invest in the company.
2. **Perpetual Existence:** A company is an artificial legal person created by law which has its own independent legal status. Its existence is not affected by the death or insolvency of its members.
3. **Large Scale Operation:** The capacity of the corporate organizations to raise the funds is comparatively high which provide capital for large scale operations. Hence opens the scope for expansion.
4. **Transferability of Shares:** In a joint stock company it is easy to transfer shares to anyone. But the same is not permitted to private limited company.
5. **Raising of Funds:** It is easy to raise a large amount of funds as the number of persons contributing to the capital are more.
6. **Social Benefit:** It offers employment to a large number of people. It facilitates promotion of various ancillary industries. It also donates money for education, community service.
7. **Research and Development:** It invests a lot of money on research and development for improved production process, improving quality of product, designing and innovating new products etc.

Disadvantages of Joint Stock Company:

1. **Formation is not easy:** To act as a legal entity a company has to fulfill various legal and procedural formalities making it a complicated process.
2. **Double Taxation:** This is the biggest disadvantage which the company faces. Firstly, company needs to pay tax for the earned profits and again the shareholders are taxed for the earned income.

3. Control by Board of Directors: After electing directors of the company which manage the business for the company the shareholders become ignorant of their responsibilities. This may be due to lack of interest and lack of proper and timely information.
4. Excessive Government Control: A company has to comply with provisions of several acts, non-compliance of which can cause a company heavy penalty. This affects the smooth functioning of a Company.
5. Delay in Policy Decisions: All the legal and procedural formalities which are required to fulfill before making policies of the company delay the policy decisions.
6. Speculation and Manipulation: As the shares of a joint stock company are easily transferable thus the shares are purchased and sold in the stock exchanges on the value or price of a share based on the expected dividend and the reputation of the company

JOINT STOCK COMPANY

What is a joint stock company? What are their characteristic features?

A Joint Stock Company is a voluntary association of persons to carry on the business. It is an association of persons who contribute money which is called capital for some common purpose. These persons are members of the company. The proportion of capital to which each member is entitled is his share and every member holding such share is called shareholders and the capital of the company is known as share capital. The Companies Act 1956 defines a joint stock company as an artificial person created by law, having separate legal entity from its owner with perpetual succession and a common seal. Shareholders of Joint Stock Company have limited liability i.e. liability limited by guarantee or shares. Shares of such company are easily transferable. From the above definition the following characteristics of a Joint Stock Company can be easily identified:

1. **Artificial Person:** A Joint Stock Company is an artificial person as it does not possess any physical attributes of a natural person and it is created by law. Thus it has a legal entity separate from its members.
2. **Separate legal Entity:** Being an artificial person a company has its own legal entity separate from its members. It can own assets or property enters into contracts, sue or can be sued by anyone in the court of law. Its shareholders cannot be held liable for any conduct of the company.
3. **Perpetual Existence:** A company once formed continues to exist as long as it is fulfilling all the conditions prescribed by the law. Its existence is not affected by the death, insolvency or retirement of its members.
4. **Limited liability of shareholders:** Shareholders of a joint stock company are only liable to the extent of shares they hold in a company not more than that. Their liability is limited by guarantee or shares held by them.
5. **Common Seal:** Being an artificial person a joint stock company cannot sign any documents thus this common seal is the company's representative while dealing with the outsiders. Any document having common seal and the signature of the officer is binding on the company.
6. **Transferability of Shares:** Members of a joint stock company are free to transfer their shares to anyone.
7. **Capital:** A joint stock company can raise large amount of capital by issuing its shares.
8. **Management:** A joint stock company has a democratic management which is managed by the elected representatives of shareholders, known as directors of the company.
9. **Membership:** To form a private limited company minimum number of members prescribed in the companies Act is 2 and the maximum number is 50. But in the case of public limited company the minimum limit is 7 and no limit on maximum number of members.

What are the advantages and disadvantages of joint stock companies?

Following are the advantages of Joint Stock Company:

1. **Limited Liability:** Liability of members of Joint Stock Company is limited to the extent of shares held by them. Hence shareholders assets will not be on stake. This feature attracts large number of investors to invest in the company.
2. **Perpetual Existence:** A company is an artificial legal person created by law which has its own independent legal status. Its existence is not affected by the death or insolvency of its members.
3. **Large Scale Operation:** The capacity of the corporate organizations to raise the funds is comparatively high which provide capital for large scale operations. Hence opens the scope for expansion.
4. **Transferability of Shares:** In a joint stock company it is easy to transfer shares to anyone. But the same is not permitted to private limited company.
5. **Rising of Funds:** It is easy to raise a large amount of funds as the number of persons contributing to the capital is more.
6. **Social Benefit:** It offers employment to a large number of people. It facilitates promotion of various ancillary industries. It also donates money for education, community service.
7. **Research and Development:** It invests a lot of money on research and development for improved production process, improving quality of product, designing and innovating new products etc.

Disadvantages of Joint Stock Company:

1. **Formation is not easy:** To act as a legal entity a company has to fulfill various legal and procedural formalities making it a complicated process.
2. **Double Taxation:** This is the biggest disadvantage which the company faces. Firstly, company needs to pay tax for the earned profits and again the shareholders are taxed for the earned income.

3. **Control by Board of Directors:** After electing directors of the company which manage the business for the company the shareholders become ignorant of their responsibilities. This may be due to lack of interest and lack of proper and timely information.
4. **Excessive Government Control:** A company has to comply with provisions of several acts, non-compliance of which can cause a company heavy penalty. This affects the smooth functioning of a company.
5. **Delay in Policy Decisions:** All the legal and procedural formalities which are required to fulfill before making policies of the company delay the policy decisions.
6. **Speculation and Manipulation:** As the shares of a joint stock company are easily transferable thus the shares are purchased and sold in the stock exchanges on the value or price of a share based on the expected dividend and the reputation of the company.

Sole Proprietorship form of Business: Features, Advantages and Disadvantages!

Proprietorship (also called sole trade organization) is the oldest form of business ownership in India. In a proprietorship, the enterprise is owned and controlled by one person. He is master of his show. He sows, reaps, and harvests the output of this effort. He manages the business on his own. If necessary, he may take the help of his family members, relatives and employ some employees.

Sole proprietorship is the simplest and easiest to form. It does not require legal recognition and attendant formalities. This form is the most popular form in India due to the distinct advantages it offers. William R. Basset opines that “The one-man control is the best in the world if that man is big enough to manage everything”.

Main Features:

The main features of proprietorship form of business can be listed as follows:

1. One Man Ownership:

In proprietorship, only one man is the owner of the enterprise.

2. No Separate Business Entity:

No distinction is made between the business concern and the proprietor. Both are one and the same.

3. No Separation between Ownership and Management:

In proprietorship, management rests with the proprietor himself/herself. The proprietor is a manager also.

4. Unlimited Liability:

Unlimited liability means that in case the enterprise incurs losses, the private property of the proprietor can also be utilized for meeting the business obligations to outside parties.

5. All Profits or Losses to the Proprietor:

Being the sole owner of the enterprise, the proprietor enjoys all the profits earned and bears the full brunt of all losses incurred by the enterprise.

6. Less Formalities:

A proprietorship business can be started without completing much legal formalities. There are some businesses that too can be started simply after obtaining necessary manufacturing license and permits.

Advantages:

The various advantages that proprietorship form of business offers are as follows:

1. Simple Form of Organization:

Proprietorship is the simplest form of organization. The entrepreneur can start his/her enterprise after obtaining license and permits. There is no need to go through the legal formalities. For starting a small enterprise, no formal registration is statutorily needed.

2. Owner's Freedom to Take Decisions:

The owner, i.e. the proprietor is free to make all decisions and reap all the fruits of his labour. There is no other person who can interfere or weigh him down.

3. High Secrecy:

Secrecy is another major advantage offered by proprietorship. This is because the whole business is handled by the proprietor himself and, as such, the business secrets are known to him only.

Added to it, the proprietor is not bound to reveal or publish his accounts. In present day business atmosphere, the less a competitor knows about one's business, better off one is. What the competitors can make is guesstimates only.

4. Tax Advantage:

As compared to other forms of ownership, the proprietorship form of ownership enjoys certain tax advantages. For example, a proprietor's income is taxed only once while corporate income is, at occasions taxed twice, say, double taxation.

5. Easy Dissolution:

In proprietorship business, the entrepreneur is all in all. As there are no co-owners or partners, therefore, there is no scope for the difference of opinion in the case the proprietor/entrepreneur-wants to dissolve the business. It is due to the easy formation and dissolution, proprietorship is often used to test the business ideas.

Disadvantages:

Proprietorship form of ownership suffers from some disadvantages also. The important ones are:

1. Limited Resources:

A proprietor has limited resources at his/her command. The proprietor mainly relies on his/her funds and savings and, to a limited extent, borrowings from relatives and friends. Thus, the scope for raising funds is highly limited in proprietorship. This, in turn' deters the expansion and development of an enterprise.

2. Limited Ability:

Proprietorship is characterized as one-man show. One man may be expert in one or two areas, but not in all areas like production, finance, marketing, personnel, etc. Then, due to the lack of adequate and relevant knowledge, the decisions taken by him are imbalanced.

3. Unlimited Liability:

Proprietorship is characterized by unlimited liability also. It means that in case of loss, the private property of the proprietor will also be used to clear the business obligations. Hence, the proprietor avoids taking risk.

4. Limited Life of Enterprise Form:

The life of a proprietary enterprise depends solely upon the life of the proprietor. When he dies or becomes insolvent or insane or permanently incapacitated, there is very likelihood of closure of enterprise. Say, enterprise also dies with its proprietor.

A private limited company is one type of business structure. In this lesson, you will learn what a private limited company is and explore some of its advantages and disadvantages.

What is a Private Limited Company?

A private limited company, or LTD, is a type of privately held small business entity. This type of business entity limits owner liability to their shares, limits the number of shareholders to 50, and restricts shareholders from publicly trading shares.

Advantages

Let's look at some of the advantages of having a private limited company. Limited Liability

During the recent recession, which lasted from December 2007 - June 2009, many businesses experienced financial problems and permanently closed. One advantage of owning a private limited company is that the financial liability of shareholders is limited to their shares. Therefore, if a private limited company was in financial trouble and had to close, shareholders would not risk losing their personal assets.

Although, perpetrating a fraud related to the private limited company would negate an owner's limited liability protection.

Restricted Trade of Shares

The restriction placed on the sale or transfer of shares may be considered an advantage or disadvantage, depending on your outlook. It is an advantage to some shareholders because shareholders who want to sell shares cannot sell them to outside buyers. Shareholders must also agree to the sale or transfer of shares; therefore, the risk of hostile takeovers is low. The restriction placed on the sale of shares is a disadvantage because shareholders have limited options for liquidating shares.

Continued Existence

Another advantage of a private limited company is its continued existence, even after the owner dies or leaves the business. Private limited companies are incorporated. When a business incorporates, it becomes an independent legal entity, meaning it is able to sue or own assets separate from the company owner. A private limited company differs from a sole proprietorship in that the latter is owned by a single individual who is personally responsible for the company's business debts and essential to its continued existence.

Tax Breaks

Private limited companies also enjoy tax advantages. For example, their corporate taxes may be lower than those paid by other types of businesses. Financial statements for private limited companies must be filed no later than nine months after the fiscal year ends. The first accounting period begins the same day that the business is incorporated. When pursuing tax advantages, private limited companies must keep accurate records.

An association engaged in business for profit with ownership interests represented by shares of stock.

A joint stock company is financed with capital invested by the members or stockholders who receive transferable shares, or stock. It is under the control of certain selected managers called directors.

A joint stock company is a form of partnership, possessing the element of personal liability where each member remains financially responsible for the acts of the company. It is not a legal entity separate from its stockholders.

A joint stock company differs from partnership in that the latter is composed of a few persons brought together by shared confidence. Partners are not free to retire from the firm or to substitute other persons in their place without prior assent of all the partners. Partner's death causes the dissolution of the firm.

In contrast, a joint stock company consists of a large number of stockholders who are unacquainted with each other. Change in membership or a transfer of stock has no effect on the continued existence of the company and the death of stockholder does not result in its dissolution. Unlike partners in a partnership, an individual stockholder in a joint stock company has no agency relationship to the company or any of its members.

A joint stock company is similar to a corporation in that both are characterized by perpetual succession where a member is allowed to freely transfer stock and introduce a stranger in the membership. The transfer has no effect on the continuation of the organization since both a joint stock company and a corporation act through a central management, board of directors, trustees, or governors. Individual stockholders have no authority to act on behalf of the company or its members.

A joint stock company differs from a corporation in certain respects. A corporation exists under a state charter, while a joint stock company is formed by an agreement among the members. The existence of a joint stock company is based upon the right of individuals to contract with each other and, unlike a corporation, does not require a grant of authority from the state before it can organize.

While members of a corporation are generally not held liable for debts of a corporation, the members of a joint stock company are held liable as partners.

In a legal action, a corporation sues and is sued in its corporate name, but a joint stock company sues and defends in the name of a designated officer.

Partnership Firms: Definition, Features, Advantages and Disadvantages!

Definition:

The proprietorship form of ownership suffers from certain limitations such as limited resources, limited skill and unlimited liability. Expansion in business requires more capital and managerial skills and also involves more risk. A proprietor finds himself unable to fulfill these requirements. This call for more persons comes together, with

different edges and starts business. For example, a person who lacks managerial skills but may have capital.

Another person who is a good manager but may not have capital. When these persons come together, pool their capital and skills and organize a business, it is called partnership. Partnership grows essentially because of the limitations or disadvantages of proprietorship.

Let us consider a few definitions on partnership:

The Indian Partnership Act, 1932, Section 4, defined partnership as “the relation between persons who have agreed to share the profits of business carried on by all or any of them acting for all”. The Uniform Partnership Act of the USA defined a partnership “as an association of two or more persons to carry on as co-owners a business for profit”.

According to J. L. Hanson, “a partnership is a form of business organization in which two or more persons up to a maximum of twenty join together to undertake some form of business activity”. Now, we can define partnership as an association of two or more persons who have agreed to share the profits of a business which they run together. This business may be carried on by all or anyone of them acting for all.

The persons who own the partnership business are individually called ‘partners’ and collectively they are called as ‘firm’ or ‘partnership firm’. The name under which partnership business is carried on is called ‘Firm Name’. In a way, the firm is nothing but an abbreviation for partners.

Main Features:

Based on the above definitions, we can now list the main features of partnership form of business ownership/organization in a more orderly manner as follows:

1. **More Persons:** As against proprietorship, there should be at least two persons subject to a maximum of ten persons for banking business and twenty for non-banking business to form a partnership firm.
2. **Profit and Loss Sharing:** There is an agreement among the partners to share the profits earned and losses incurred in partnership business.

3. **Contractual Relationship:** Partnership is formed by an agreement-oral or written-among the partners.
4. **Existence of Lawful Business:** Partnership is formed to carry on some lawful business and share its profits or losses. If the purpose is to carry some charitable works, for example, it is not regarded as partnership.
5. **Utmost Good Faith and Honesty:** A partnership business solely rests on utmost good faith and trust among the partners.
6. **Unlimited Liability:** Like proprietorship, each partner has unlimited liability in the firm. This means that if the assets of the partnership firm fall short to meet the firm's obligations, the partners' private assets will also be used for the purpose.
7. **Restrictions on Transfer of Share:** No partner can transfer his share to any outside person without seeking the consent of all other partners.
8. **Principal-Agent Relationship:** The partnership firm may be carried on by all partners or any of them acting for all. While dealing with firm's transactions, each partner is entitled to represent the firm and other partners. In this way, a partner is an agent of the firm and of the other partners.

Advantages:

As an ownership form of business, partnership offers the following advantages:

1. **Easy Formation:** Partnership is a contractual agreement between the partners to run an enterprise. Hence, it is relatively ease to form. Legal formalities associated with formation are minimal. Though, the registration of a partnership is desirable, but not obligatory.
2. **More Capital Available:** We have just seen that sole proprietorship suffers from the limitation of limited funds. Partnership overcomes this problem, to a great extent, because now there is more than one person who provides funds to the enterprise. It also increases the borrowing capacity of the firm. Moreover, the lending institutions also perceive less risk in granting credit to a partnership than to a proprietorship because the risk of loss is spread over a number of partners rather than only one.

3. **Combined Talent, Judgment and Skill:** As there is more than one owner in partnership, all the partners are involved in decision making. Usually, partners are pooled from different specialized areas to complement each other. For example, if there are three partners, one partner might be a specialist in production, another in finance and the third in marketing. This gives the firm an advantage of collective expertise for taking better decisions. Thus, the old maxim of “two heads are better than one” aptly applies to partnership.
4. **Diffusion of Risk:** You have just seen that the entire losses are borne by the sole proprietor only but in case of partnership, the losses of the firm are shared by all the partners as per their agreed profit-sharing ratios. Thus, the share of loss in case of each partner will be less than that in case of proprietorship.
5. **Flexibility:** Like proprietorship, the partnership business is also flexible. The partners can easily appreciate and quickly react to the changing conditions. No giant business organization can stifle so quick and creative responses to new opportunities.
6. **Tax Advantage:** Taxation rates applicable to partnership are lower than proprietorship and company forms of business ownership.

Disadvantages: In spite of above advantages, there are certain drawbacks also associated with the partnership form of business organization.

Descriptions of these drawbacks/ disadvantages are as follows:

1. **Unlimited Liability:** In partnership firm, the liability of partners is unlimited. Just as in proprietorship, the partners’ personal assets may be at risk if the business cannot pay its debts.
2. **Divided Authority:** Sometimes the earlier stated maxim of two heads better than one may turn into “too many cooks spoil the broth.” Each partner can discharge his responsibilities in his concerned individual area. But, in case of areas like policy formulation for the whole enterprise, there are chances for conflicts between the partners. Disagreements between the partners over enterprise matters have destroyed many a partnership.

3. Lack of Continuity: Death or withdrawal of one partner causes the partnership to come to an end. So, there remains uncertainty in continuity of partnership.
4. Risk of Implied Authority: Each partner is an agent for the partnership business. Hence, the decisions made by him bind all the partners. At times, an incompetent partner may lend the firm into difficulties by taking wrong decisions. Risk involved in decisions taken by one partner is to be borne by other partners also.

The meaning of Hindu Undivided family is defined under the Hindu law. According to this law it is a family that consists of persons lineally descended from a common ancestor. HUF consists of father, sons and daughters and wives. Though Jain & Sikh families are not governed by the Hindu law, families belonging to such religion are treated as Hindu Undivided Families for the purpose of the assessment under the Income tax Act, 1961.

What is HUF (Hindu Undivided Family?)

Under the Income tax, a Hindu Undivided family is treated as separate tax entity for the purpose of assessment under income tax act. The meaning of HUF (Hindu Undivided Family) has not been defined under the Income act. The relation of a Hindu undivided family does not arise from contract but is creation of law. It arises from status. After marriage as soon as child is born, the HUF comes into existence. Only one male member is required to form a Hindu Undivided family. After formation of Hindu undivided family, continuance of such male member is not required. It is not required the male member should always remain in existence once a Hindu Undivided Family comes into form. Even after death of the members, as long as the property which was originally of the Hindu Undivided family remains in the hands of the widows of the members of the family and is not divided among them, the existence of Joint family continues.

There are two schools of Hindu law:

Dayabhaga Mitakshara of law is prevalent in West Bengal and Assam. Under this school of law, a son does not acquire any interest by birth in any ancestral property. He acquires interest in such property on the event of death of his father. Therefore under this school of law, the son does not have a right to demand.

Partition of property during the lifetime of his father. In view of this the father enjoys an absolute right to deal with the family property whether by the way of disposing off such property or in any other manner as considered fit by him. It can therefore be said that there is no coparcener in Dayabhaga School of law. The father is assessed as individual not as HUF during his lifetime. Even After the death of the father the sons do not immediately by virtue of law become members of joint family. They remain as co- owners with definite and ascertained shares in the properties by the deceased unless the voluntarily decide to live as joint family.

Mitakshara School of law applies to the whole of India except Assam & West Bengal. Under this school of law and with the introduction of Hindu Succession (Amendment) Act, 2005, both son and daughter acquire by birth an equal right in ancestral property along with their father. The coparcener under this law is therefore a fluctuating body which is widened at time of each birth and reduced on the event of death of coparcener child. However with introduction of Hindu Succession (Amendment) Act, 2005 both daughter and in case predeceased daughter, her children are eligible for a share in the assets of the family in the event of partition.

Types of Members Describing What is HUF

HUF consist of two types of members: Coparceners

Non-Coparceners

Coparceners are members who acquire an interest in the property of the Hindu undivided family by birth I.e. Father, sons and daughters. Wife i.e. mother is a member of Hindu Undivided Family but not a coparcener. Previously it was limited to male descendents only. With the introduction of Hindu Succession (Amendment) Act, 2005, daughters are also given coparcener status.

Non Coparceners or other members are those who entitled to maintenance like mother. A member does not have right to claim partition of properties of Hindu Divided Family by the virtue of being member.

The senior most male member of family i.e. father is ordinarily regarded as Karta of the Hindu Undivided family. In case of his death or if he surrenders his right of management, a junior male member i.e. the eldest son may be appointed as Karta of

the Hindu Undivided family. If there no male member in the family or the male member is not competent to contract, the senior most female member will be regarded as Karta of Hindu Undivided family.

Partition of Hindu Undivided Family

Partition means division of property. Where the property is capable of admitting a physical division share of each member is determined by doing physical division of property. However division of income without physical division of property does not amount to partition.

On the other hand where the property is not capable of admitting physical division, then partition means such division as the property may admit i.e. to the extent possible.

Though only coparceners can claim partition of Hindu Undivided Family, the following persons are entitled or can claim share in partition:

All coparceners;

A son in the womb of his mother at time of partition;

Mother (who gets equal share if there is partition between the sons after the death of the father); and

Wife (who gets a share equal to that of son at the time of partition between father and sons).

We have special tutorial on how to save tax by clubbing income and how to save further tax by making changes to salary component.

Types of Partition

Under Hindu law, a Hindu Undivided family is entitled to take into effect a partition which may be: Total Partition

Partial Partition

Total Partition: Where a Hindu Undivided Family undergoes a total partition, the entire joint family property is divided among all coparceners and the Hindu Undivided family ceases to exist.

Partial Partition: A partial partition may be partial as regards the persons constituting the Hindu Undivided Family or as regards the properties belonging to Hindu Undivided Family or both. In partial partition as regards as the persons constituting the family, one or more coparceners may separate from other s and the remaining coparceners may continue jointly. In a partial partition as regards as property, division of Property is made partially.





Module 2

ENTREPRENEURIAL MARKETING



NIAM Agri-Business Incubator (NABI)

Ch. Charan Singh National Institute Of Agricultural Marketing (CCSNIAM)
(An Organization of Ministry of Agriculture & Farmers' Welfare, Government of India)
Kota Road, Bambala, Pratap Nagar, Jaipur – 302033, Rajasthan
Website: www.ccsniam.gov.in

Chapter –1

ENTREPRENEURIAL MARKETING

Who is an Entrepreneur???

An entrepreneur is an individual who, rather than working as an employee, founds and runs a small business, assuming all the risks and rewards of the venture. The entrepreneur is commonly seen as an innovator, a source of new ideas, goods, services and business/or procedures.

- Investopedia

What is Entrepreneurial marketing?

Entrepreneurial marketing is less about a single marketing strategy and more about a marketing spirit that differentiates itself from traditional marketing practices. It eschews many of the fundamental principles of marketing because they are typically designed for large, well established firms. Entrepreneurial marketing utilizes a toolkit of new and unorthodox marketing practices to help emerging firms gain a foothold in crowded markets.

Many entrepreneurial marketing strategies are born out of necessity. New businesses might have ten, five, or just one person working on their marketing efforts. They work within limited budgets and have access to a fraction of the resources that their major competitors have. Luxuries like graphic design teams and advertising consultants are often outside the means of start-ups, requiring them to find ways to make the maximum impact with limited resources.

The most common features of entrepreneurial marketing include innovation, risk taking, and being proactive. Entrepreneurial marketing campaigns try to highlight the company's greatest strengths while emphasizing their value to the customer. Focusing on innovative products or exemplary customer service is a way to stand out from competitors. They make this pitch using cheap and accessible tools including viral videos, tweets, facebook pages, whats app, linked in and email marketing. Any and all marketing strategies can be considered as long as they produce results.

Marketing Strategies for Entrepreneurs

In competitive markets, it can be easy to get lost in the crowd. One of the biggest challenges for entrepreneurs is standing out from their competitors. Marketing in new, unusual, or aggressive ways is the best way to illustrate what makes a business unique. Below are some marketing strategies that entrepreneurs have used successfully in the past. A company can direct all of its marketing efforts towards one strategy, or use several of them at once.

Relationship Marketing – Focuses on creating a strong link between the brand and the customer.

Expeditionary Marketing – Involves creating markets and developing innovative products. Companies act as leaders rather than followers.

One to One Marketing - Customers are marketed to as individuals. All marketing efforts are personalized.

Real Time Marketing – Uses the power of technology to interact with a customer in a real time.

Viral Marketing – Places marketing messages on the Internet so they can be shared and expanded on by customers.

Digital Marketing – Leverages the power of Internet tools like email and social networking to support marketing efforts

Who employs Entrepreneurial Marketing

Entrepreneurial marketing is best defined by the types of companies that use it. The easiest way to identify an entrepreneurial marketing effort is to look at the company doing the marketing. Start ups and emerging companies use entrepreneurial marketing to help establish themselves in emerging industries.

It is important to distinguish these businesses from small businesses. While they do start small, their goal is to grow rapidly and to become major players in their industry as quickly as possible. This is drastically different from a restaurant or machine shop that may be content to stay small forever. Growth is the primary goal of entrepreneurship, and marketing is the primary means for growth.

The marketing strategies used by emerging business are not unique to them though. In fact, many major companies use some of the same strategies. Nike and Burger King have both used viral marketing to great effect. Major businesses use these strategies out of opportunity while entrepreneurs use them out of necessity.

Zappos.com, an Internet shoe store, was able to popularize online shoe shopping by offering free, easy returns. By highlighting this innovative service in their marketing, they were able to reassure customers who were unsure about buying shoes they could not try on. They now sell millions of dollars worth of shoes every year.

Dell Computers: A case study in Entrepreneurial Marketing

In 1984, a college student named Michael Dell decided to found a computer company. Today it is one of the largest and best known computer companies in the world. Below are some of the steps that Dell took in its earliest stages to get noticed in the computer market.

Define your customers – Dell realized early that there was a hole in the market for customized business computers. Their first products were marketed to large and mid-sized companies looking to purchase many computers at once. It was only in the late 90s that they began to focus on personal computers for students and families.

Offer something new – In the early 80s, computers were bought and sold primarily through retail stores. Dell took the then radical step of selling directly to consumers, cutting out the retail middle man. This made it easy for business customers to place large orders and to customize each computer they purchased.

Go to where the customers are – Dell marketed at electronics trade shows, in trade magazines, and in other avenues that corporate technology officers would follow. Advertising messages highlighted the ways that Dell computers were optimized for business customers.

Offer exceptional services – Dell offered 24 hour technical support to all of its customers. This was a valuable service to customers who were only beginning to integrate computers into their businesses.

How is an Entrepreneurial marketing Plan Developed and Implemented

Marketing plans can only develop after a company determines several aspects about their business model. They must understand the core mission of the company, which customers they will target, and who their competitors are. Making a careful self-analysis can help emerging businesses define their place in the market and set realistic goals. The type of business a start-up strives to be will also affect its marketing decisions. If a company decides that it will market to professional business customers, it probably won't use funny viral videos on YouTube.

The details of the plan will depend largely on the particular marketing strategy that a company chooses. The strategies of relationship marketing are significantly different than viral marketing. It is important to define which type of marketing to focus on, and then concentrate all efforts in that area. A comprehensive marketing plan helps companies to maintain this focus as they revise their strategies. Most marketing plans do not cover more than a year's worth of time because start-ups face such uncertain circumstance, requiring businesses to be flexible and open to quick changes.

Entrepreneurial marketing plans are based on input from every aspect of the company -- from production, to finance, to personnel. In order to succeed, start-ups should work in a coordinated way to use their resources as efficiently as possible. Marketing decisions must reflect the real world circumstances facing the company.

Metrics used to evaluate the marketing plan should reflect the goals of the company. These goals can range from maximizing profits, to reaching the broadest customer base, to redefining a particular market. Each goal will require a different marketing strategy and be evaluated on different terms. Emerging companies have to set quantitative targets for themselves and then revise their strategies if those targets are not met. Otherwise, growth is impossible

Chapter–2

MARKETING MIX

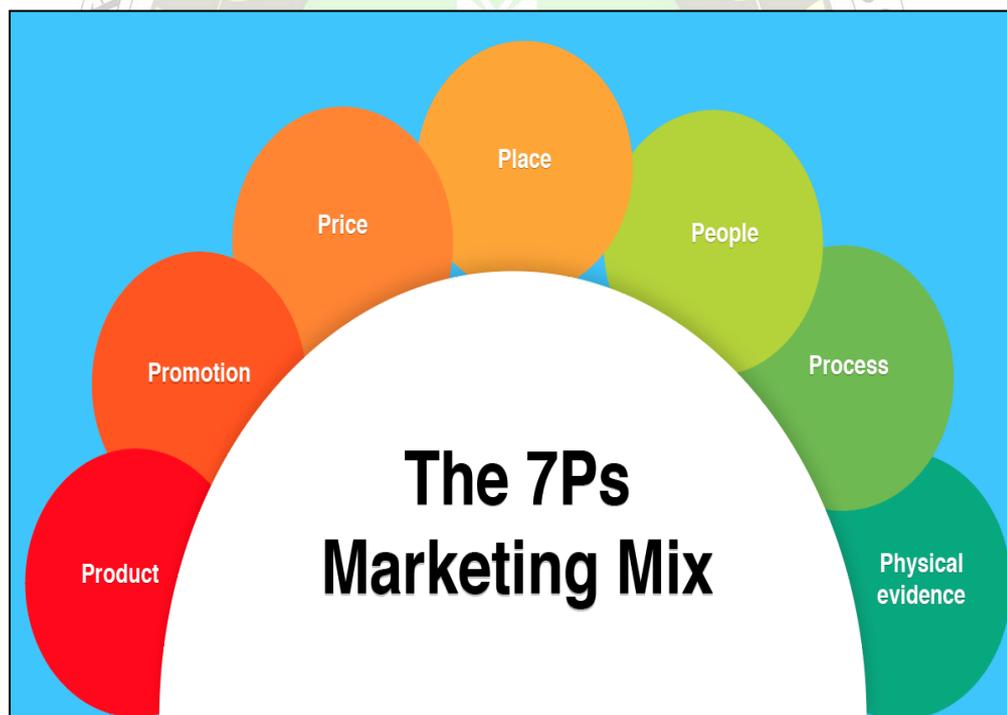
What is the 7Ps Marketing Mix and how should it be used?

The marketing mix is a familiar marketing strategy tool, which as you will probably know, was traditionally limited to the core **4Ps of Product, Price, Place and Promotion**.

Who created the 7Ps model

The 7Ps model was originally devised by *E. Jerome McCarthy* and published in 1960 in his book *Basic Marketing. A Managerial Approach*.

We've created the graphic below so you can see the key elements of the 7Ps marketing mix.

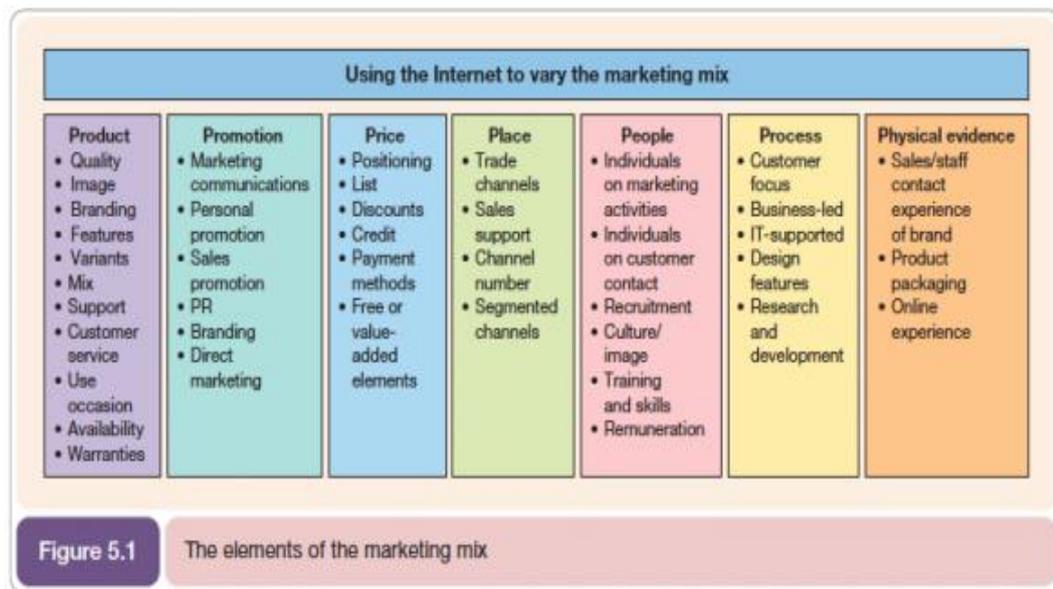


The 4Ps vs The 7Ps

The 4Ps were designed at a time where businesses were more likely to sell products, rather than services and the role of customer service in helping brand development wasn't so well know. Over time, Booms and Pitner added three extended 'service mix P's': **Participants, Physical evidence and Processes**, and later **Participants** was

renamed People. Today, it's recommended that the full 7Ps of the marketing mix are considered when reviewing competitive strategies.

The 7Ps helps companies to review and define key issues that affect the marketing of its products and services and is often now referred to as the 7Ps framework for the digital marketing mix.



In Dave Chaffey's book: Digital Marketing: Strategy, Implementation and Practice, this model was refreshed and applied to online channels to give a practical approach which works well for multichannel businesses. An eighth P, 'Partners' is often recommended for businesses to gain reach online (first mentioned in Digital Marketing Excellence by Dave Chaffey and PR Smith although some would argue it's part of Place).

How to use this model?

For startups reviewing price and revenue models today, using the Business Model Canvas for marketing strategy is a great alternative since it gives you a good structure to follow.

Companies can also use the 7Ps model to set objectives, conduct a SWOT analysis and undertake competitive analysis. It's a practical framework to evaluate an existing business and work through appropriate approaches whilst evaluating the mix element as shown below and ask yourself the following questions:

Products/Services: How can you develop your products or services?

Prices/Fees: How can we change our pricing model?

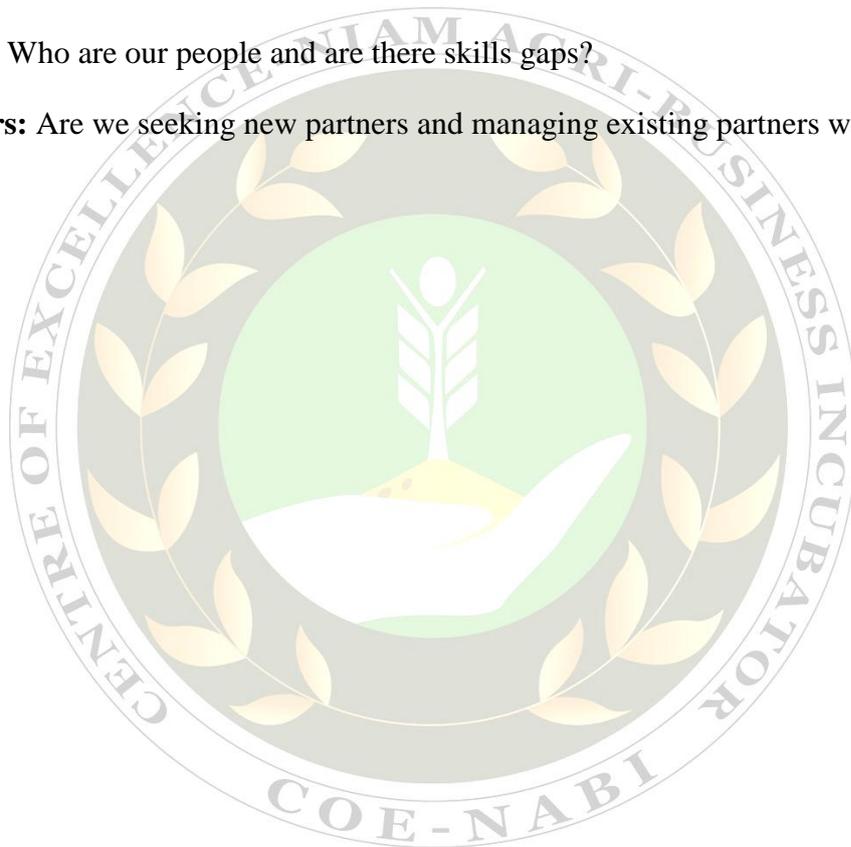
Place/Access: What new distribution options are there for customers to experience our product, e.g. online, in-store, mobile etc.

Promotion: How can we add to or substitute the combination within paid, owned and earned media channels?

Physical Evidence: How we reassure our customers, e.g. impressive buildings, well-trained staff, great website?

People: Who are our people and are there skills gaps?

Partners: Are we seeking new partners and managing existing partners well?.



Chapter–3

MARKETING CHALLENGES FACED BY ENTREPRENEURS

The marketing challenges that are faced by entrepreneurs are important to understand as coping up with them will be difficult. There is no limit to one's imagination and ideas. There are a very large number of Entrepreneurs who set up their startup in hopes of achieving success, but in reality, only a few of them gets the wanted attention and visibility. There is no doubt in the fact that without recognition your company is as good as nothing. Every Entrepreneur wishes to promote his business in any way he can. Marketing plans are made, different types of marketing are done, may it be guerrilla marketing or social media marketing, everyone needs attention. Publicity stunts are so common nowadays, that they seem a normal practice to anyone and everyone. But is this really how you tackle these challenges? and what exactly are the challenges an Entrepreneur face especially when it comes to marketing?

The marketing challenges faced by entrepreneurs are:

Loss of creative methods for marketing

One of the marketing challenges faced by Entrepreneur is Loss of creative methods for marketing. There are so many companies that are promoting their companies in the traditional way for so long now, every business aims to do something new, they come up with a creative idea which with time is so overused that it becomes the most boring. It seems like the market has run out of creative marketing ideas and no one can deny their important role in catching customer's attention.

No exposure

Sometimes, it happens that the company does very well in its initial months in terms of marketing, however later on the graph decreases significantly, the main reason behind it is the low exposure. There isn't much scope of exposure once the company is established and did well at the start, that's the mentality of most of the Entrepreneurs. However, one needs to understand that exposure comes with expansion and right strategies, it won't come to you, you have to go behind it.

Not effective social media presence

Social Media is one of the most trending practice worldwide. However, it brings along the biggest marketing challenge for Entrepreneurs. It seems like everyone is trying to promote their business on social media, social media users have grown so tired of it that they have started ignoring these kinds of pages and anything related to Entrepreneurship as a whole. At this time, you need to make your presence known. Difficult?

No, absolutely not. Here is where your marketing plan comes in use, make use of the target crowd you chose, hunt them down and make it a point, to be honest, but at the same time give them something to think about. Make your product that strong.

Finding right marketing channels

It's one of the most common marketing challenges and is faced by every Entrepreneur at least once. You have a marketing plan, a strategy but you don't know where to use it, there are so many channels that you are confused between them, which is the most reliable, which will give you more benefits, which will provide you with your target crowd. All these questions can be answered by only one thing, Research.

It's important to research not only about the market but different marketing channels, keep tabs on potential channels, evaluate all the pros and the cons and you will have the best option in your hand.

Scarcity of funds

Finance always has been a problem and is many times considered the biggest marketing challenge. Marketing need funds, funds means more and more money, and money needs a carefully designed budget plan. Make a nice carefully illustrated budget plan, hunt down potential investors and proceed further.

Ads, but where?

You have lots of posters but are they really going to help or be a waste of money? A fear, a doubt is always there when it comes to marketing. One can say the biggest marketing challenge is **doubt**. You doubt your marketing strategies and plans, they seem good but at the same time you question yourself, again and again, that will they

work? To remove that fear what you need is faith, faith in your idea and your marketing strategies, if you believe that posters will do you good, go ahead with them but if you feel they won't, then don't waste your time and money on them.

We conclude by saying that one always face challenges however you need to be strong and smart to face them. Don't be scared of them but learn from them. At least, play smart and be an Entrepreneur.

How to overcome Challenges

From finding creative ways to market your small business to learning which marketing strategies and tactics work best for your business, marketing challenges are not uncommon. So we asked entrepreneurs to share their biggest marketing dilemmas alongside practical solutions they use to overcome them.

1. Utilize creative, low-cost self-promotion tactics.
2. Choose the right marketing strategy.
3. Maintain credible and authentic marketing messages.
4. Create organic awareness with social media.
5. Market in platforms that speak to more than one target audience.
6. Develop a social media presence with proactive content marketing.
7. Stay abreast of Internet Marketing changes.

Chapter–4

STRATEGIES OF ENTREPRENEURIAL MARKETING

1. Guerrilla Marketing

What is Guerrilla Marketing?

Guerrilla marketing is a marketing tactic in which a company uses surprise and/or unconventional interactions in order to promote a product or service. Guerrilla marketing is different than traditional marketing in that it often relies on personal interaction, has a smaller budget, and focuses on smaller groups of promoters that are responsible for getting the word out in a particular location rather than through widespread media campaigns.

The term “guerrilla marketing” was first coined by Jay Conrad Levinson in his 1984 book of the same title, and has since become an important section in many marketing textbooks. Basically, guerrilla marketing is about investing time, energy, and (particularly) imagination into a campaign, instead of primarily money. Guerrilla tactics use unconventional communications, often in unexpected places, and focus on low-cost strategies that make a high-impact impression.

Principles of Guerrilla Marketing

- measure success by profits, not sales
- instead of prioritizing new customers, prioritize increasing number and size of transactions from existing customers, and gaining referrals
- aim messages at small groups instead of mass audiences
- focus on gaining the consent of the consumer to send them more information
- commit to a campaign, pursuing effective frequency, instead of creating a new message each time

Who Employs Guerrilla Marketing

Originally conceived as a tool for small businesses and entrepreneurs, guerrilla marketing is nonetheless increasingly popular among large businesses. Additionally,

non-profit organizations have been apt to invest their time, energy, and creativity into guerrilla campaigns. Some examples include:

Unicef - Unicef placed a vending machine in Manhattan that sold dirty water for a dollar. “Flavors” included Malaria, Cholera, Typhoid, and Dysentery. The machine’s display informed people about the plight of children in need of clean drinking water, and pointed out that a single dollar could provide 40 days of clean drinking water for such a child. Additionally, it provided a number to text in order to donate to the cause.

Volkswagen - Volkswagen hung a series of cartoon thought bubbles over all the spaces in a parking structure in Dubai, so that parked cars appeared to be thinking, “I wish I was a Volkswagen.” As people pulled into the car park, they were welcomed by a boundary wall reading, “Have you ever wondered what your car is dreaming of?”

Coca-Cola - To advertise its new “grip” bottle, Coca-Cola placed a static-charged ad at a bus stop, which would grip people’s clothing if they stood too near.

Bounty - Next to an eight-foot-tall coffee cup spilled on the ground (or in another case, a giant popsicle), a sign declared that Bounty “Makes small work of big spills.”

Jeep - To advertise the versatility of the Jeep, and to make the brand more part of the urban environment, the company drew parking spaces in unlikely locations, such as across plaza stairs or through planters and curbs.

Several different cancer awareness groups have employed similar guerrilla messages at beaches, including providing coffin-shaped beach towels, and placing morgue toe-tags on sleeping sunbathers.

For what kind of customers is Guerilla Marketing effective?

Guerrilla marketing was conceived to primarily target existing customers rather than new ones, aiming to increase their engagement with a product and/or brand. When selecting audiences for a guerrilla message, a group that is already engaged with the product at some level is the best target; they will be quicker to recognize and respond to creative tactics, and more likely to share the experience with their friends.

As social media has become a major feature of the market landscape, guerrilla marketing has shown to be particularly effective online. Consumers who regularly use

social media are more likely to share their interactions with guerrilla marketing, and creative advertising can quickly go viral.

2. *Ambush Marketing*

One of the most distinguishing features of ambush marketing is how unexpected it tends to be. For example, money is needed to host and broadcast sporting events, and companies enter into official sponsorships to help provide funding. While smaller companies cannot afford to contribute this level of funding, they still use creative tactics to get the crowd's attention. The more attention they garner, the better.

Bigger companies also engage in ambush marketing tactics to undermine official event sponsors. For example, consider Kodak's campaign during the 1984 Olympic Games. Though Fuji was the official sponsor of the games, Kodak ran an aggressive television ad campaign that created the perception that *they* were the official sponsors. As a result of this, a number of laws were passed to prevent this kind of marketing during broadcasts of popular sports events.

These days ambushes tend to be rather creative and daring, teetering on the brink of legality—although there are plenty of ways to stay within the law. If you've attended an extreme sporting event in the last decade, there's a good chance you saw the Red Bull car, or perhaps several Red Bull employees standing beside coolers, handing out free samples to passers-by.

Direct Vs. Indirect Ambush Marketing

Direct ambush marketing is an approach where a brand works aggressively to associate itself with an event or property, when that brand has not purchased rights as the official sponsor. Indirect ambush marketing, on the other hand, doesn't force the association, but seeks to align a brand through suggestion or reference to an event or property.

<p>Types of Direct Ambush Marketing:</p> <ul style="list-style-type: none"> Predatory Ambushing Coattail Ambushing Property Infringement Self-Ambushing 	<p>Types of Indirect Ambush Marketing:</p> <ul style="list-style-type: none"> Associative Ambushing Distractive Ambushing Values Ambushing Insurgent Ambushing Parallel Property Ambushing
--	--

Who Employs Ambush marketing?

Essentially, any company that's not an official sponsor can employ ambush marketing strategies at an event. The reality is, not every company will. The kind of business that uses ambush marketing normally appeals to a particular demographic—specifically, men ages 18 to 34.

The most successful ambush marketing campaigns in recent memories have been executed by brands appealing to the “millennial” demographic—which is both highly social and highly goal-oriented. A brand like Red Bull appeals to this crowd with their highly caffeinated beverages that can allow someone to extend his or her fun throughout the night. Red Bull positions itself to help a millennial think he or she can accomplish their goals by consuming their drink.

Other characteristics of the millennial generation include their use of technology, sense of connectivity, media consumption (including social media), diversity, and relevance. Companies that fail to engage social media, or which appear homogeneous, and/or don't know what a hashtag is will most likely not make it onto a millennial's radar. The brand that keeps pace with the ever-changing definition of “hip” will stay relevant in the mind of the millennial consumer.

3. Viral Marketing

Viral marketing is a business strategy that uses existing social networks to promote a product. Its name refers to how consumers spread information about a product with other people in their social networks, much in the same way that a virus spreads from one person to another.

The basis of viral marketing is in the spread of information by word-of-mouth, but modern technology has allowed the viral effect to include many Internet-based platforms as well.

Viral marketing typically supplies its audience with something of value for free. This can be something as simple as an amusing song or game. Whatever the viral content is, it must encourage people to share with others so as many people as possible receive the content's message.

Avenues of Viral Marketing

The viral effect can spread through many different networks, including:

- Word-of-mouth
- Email
- Social networking sites (Facebook, Twitter, LinkedIn, etc)
- Video sharing sites (Youtube etc)
- Web forums

Who employs Viral Marketing?

Viral marketing is useful as a stand-alone marketing tool or as a part of a larger campaign that uses multiple kinds of marketing. It is especially attractive to smaller businesses or companies because viral marketing can be a cheaper alternative to traditional marketing efforts.

A new energy drink company, for example, could create an Internet video featuring a person who consumes the energy drink before performing a seemingly impossible bicycle jump. If the video is made to look real, it may encourage people who see it to share it with others. After the video receives enough views, the company could reveal its true purpose, convincing its viewers to seek out more information about the drink without ever using a traditional advertisement.

Viral marketing is often used in conjunction with other methods of marketing, such as in the case of the Blair Witch Project. The viral aspect of the campaign generated buzz about the story long before the release of commercials, trailers, posters, and other forms of traditional marketing. This caused many people to already talk about the movie before it was officially announced to the public.

Content does not have to be covert to be viral. Political campaigns often create videos featuring sound clips of an opposing candidate saying something people may find offensive. Politicians hope that by pointing out an outrageous statement, the video will go viral and cause others to develop a negative attitude toward the targeted opponent.

Implementing Viral marketing

There is a common misconception that viral marketing depends on the ability to reliably create something extremely popular. In reality, a successful viral marketing campaign rests more on understanding how to connect with specific demographics by presenting them with valuable content.

Viral marketing is a customer-focused approach, so the first step is to identify the target demographic for a product and what they value the most in products, requiring marketers to research and analyze demographic data. During the Blair Witch campaign, the filmmakers and main marketing agents for the movie were accomplished film students. They examined what made horror movies compelling for the demographic of teens to young adults they were targeting, as well as explored how that demographic shared information. They used this information to focus on their product's mystery, and they concentrated their early efforts on the Internet where they knew they would have the best chance of reaching a younger audience.

Once a company knows what its target demographic wants and how they communicate, they begin creating content those people will want to share. The *Blair Witch* team created websites, message boards, and fake news stories that heightened the horror and mystery of the movie's story. The content encouraged people to look for more information about the story, and even collaborate with their friends in their investigations.

Viral marketing is a continual, interactive process. A company that implements a viral campaign shouldn't simply let it run its course without adjustment. The Blair Witch campaign remained active on Internet message boards, interacting with real fans and regularly updating websites with more information based on fan discussions. It, like most viral campaigns, succeeded because it grew along with the interest in the product.

Chapter–5

MARKETING PHILOSOPHY

What philosophy should guide a company marketing and selling efforts? What relative weights should be given to the interests of the organization, the customers, and society? These interest often clash, however, an organization’s marketing and selling activities should be carried out under a well-thought-out philosophy of efficiency, effectiveness, and socially responsibility.

Six orientations (philosophical concepts to the marketplace have guided and continue to guide organizational activities:

1. The Production Concept
2. The Product Concept
3. The Selling Concept
4. The Marketing Concept
5. The Customer Concept
6. The Societal Marketing Concept

1. **The Production Concept.** This concept is the oldest of the concepts in business. It holds that consumers will prefer products that are widely available and inexpensive. Managers focusing on this concept concentrate on achieving high production efficiency, low costs, and mass distribution. They assume that consumers are primarily interested in product availability and low prices. This orientation makes sense in developing countries, where consumers are more interested in obtaining the product than in its features.

2. **The Product Concept.** This orientation holds that consumers will favour those products that offer the most quality, performance, or innovative features. Managers focusing on this concept concentrate on making superior products and improving them over time. They assume that buyers admire well-made products and can appraise quality and performance. However, these managers are sometimes caught up in a love affair with their product and do not realize what the market needs. Management might commit the “better-mousetrap” fallacy, believing that a better mousetrap will lead people to beat a path to its door.

3. **The Selling Concept.** This is another common business orientation. It holds that consumers and businesses, if left alone, will ordinarily not buy enough of the selling company's products. The organization must, therefore, undertake an aggressive selling and promotion effort. This concept assumes that consumers typically show buying inertia or resistance and must be coaxed into buying. It also assumes that the company has a whole battery of effective selling and promotional tools to stimulate more buying. Most firms practice the selling concept when they have overcapacity. *Their aim is to sell what they make rather than make what the market wants.*

4. **The Marketing Concept.** This is a business philosophy that challenges the above three business orientations. Its central tenets crystallized in the 1950s. It holds that the key to achieving its organizational goals (goals of the selling company) consists of the company being more effective than competitors in creating, delivering, and communicating customer value to its selected target customers. The marketing concept rests on four pillars: target market, customer needs, integrated marketing and profitability.

Distinctions between the Sales Concept and the Marketing Concept:

- a. The Sales Concept focuses on the needs of the seller. The Marketing Concept focuses on the needs of the buyer.
- b. The Sales Concept is preoccupied with the seller's need to convert his/her product into cash. The Marketing Concept is preoccupied with the idea of satisfying the needs of the customer by means of the product as a solution to the customer's problem (needs).
- c. The Marketing Concept represents the major change in today's company orientation that provides the foundation to achieve **competitive advantage**. This philosophy is the foundation of **consultative selling**.
- d. The Marketing Concept has evolved into a sixth and more refined company orientation: The Societal Marketing Concept. This concept is more theoretical and will undoubtedly influence future forms of marketing and selling approaches.

5. The Customer Concept

The Customer concept is a 4 stage model which shows how the organization can achieve growth by capturing and retaining its customers. The customer concept model can be used to determine where the organization stands in terms of serving its customers. This model can be used in product market as well as the service market. Here are the four stages of the customer concept:

1) Starting point

Over here the customer is just an individual who falls in a Target Group. Thus the first thing which the organization needs is to know the Segmentation, Targeting and positioning. Once the customer has been defined it's time to move to the next phase.

2) Focus

In this stage, the organization needs to focus on the customers' needs and wants as well as the value it provides for the customer. What is it that the customer exactly wants?

It is very important that the organization stays in sync with the continuous changes in the business world. Thus it needs time to time gap analysis as well as market surveys and research to focus on customers' needs and wants.

3) Means

What are the means available for the organization to deliver value to the customer? In this stage, it is very important for the organization to connect each and every function of the organization so as to form a Value Chain. The services should be connected to sales which in turn should be in sync with the manufacturing so on and so forth. You can refer the value chain to understand how customer value can be created in an organization. Along with this, integration of multiple sales channels is also important.

4) Ends

Customer share, customer loyalty and customer lifetime value are three concepts which can define the customer equity of the organization. Thus this is the last stage of the customer concept wherein the organization has to ensure that it has kept its

customers satisfied, that the organizations customers have become “repeat customers” and finally that they remain a customer for a lifetime.

6. The Societal Marketing Concept

This concept holds that the organization’s task is to determine the needs, wants, and interests of target markets and to deliver the desired satisfactions more effectively and efficiently than competitors (this is the original Marketing Concept). Additionally, it holds that this all must be done in a way that preserves or enhances the consumer’s and the society’s well-being.

This orientation arose as some questioned whether the Marketing Concept is an appropriate philosophy in an age of environmental deterioration, resource shortages, explosive population growth, world hunger and poverty, and neglected social services.

Are companies that do an excellent job of satisfying consumer wants necessarily acting in the best long-run interests of consumers and society?

The marketing concept possibly sidesteps the potential conflicts among consumer wants, consumer interests, and long-run societal welfare. Just consider:

The fast-food hamburger industry offers tasty but unhealthy food. The hamburgers have a high fat content, and the restaurants promote fries and pies, two products high in starch and fat. The products are wrapped in convenient packaging, which leads to much waste. In satisfying consumer wants, these restaurants may be hurting consumer health and causing environmental problems.

Chapter–6

CUSTOMER RELATIONSHIP MANAGEMENT

The better a business can manage the relationships it has with its customers the more successful it will become. Therefore IT systems that specifically address the problems of dealing with customers on a day-to-day basis are growing in popularity.

Customer relationship management (CRM) is not just the application of technology, but is a strategy to learn more about customers' needs and behaviours in order to develop stronger relationships with them. As such it is more of a business philosophy than a technical solution to assist in dealing with customers effectively and efficiently. Nevertheless, successful CRM relies on the use of technology.

WHY CRM?

In the commercial world the importance of retaining existing customers and expanding business is paramount. The costs associated with finding new customers mean that every existing customer could be important.

The more opportunities that a customer has to conduct business with your company the better, and one way of achieving this is by opening up channels such as direct sales, online sales, franchises, use of agents, etc. However, the more channels you have, the greater the need to manage your interaction with your customer base.

Customer relationship management (CRM) helps businesses to gain an insight into the behavior of their customers and modify their business operations to ensure that customers are served in the best possible way. In essence, CRM helps a business to recognize the value of its customers and to capitalize on improved customer relations. The better you understand your customers, the more responsive you can be to their needs.

CRM can be achieved by:

Finding out about your customers' purchasing habits, opinions and preferences profiling individuals and groups to market more effectively and increase sales changing the way you operate to improve customer service and marketing. Benefiting from CRM is not just a question of buying the right software. You must also adapt your business to the needs of your customers.

Business Benefits of CRM

Implementing a customer relationship management (CRM) solution might involve considerable time and expense. However, there are many potential benefits.

A major benefit can be the development of better relations with your existing customers, which can lead to:

- increased sales through better timing due to anticipating needs based on historic trends
- identifying needs more effectively by understanding specific customer requirements
- cross-selling of other products by highlighting and suggesting alternatives or enhancements
- identifying which of your customers are profitable and which are not
- This can lead to better marketing of your products or services by focusing on:
- effective targeted marketing communications aimed specifically at customer needs
- a more personal approach and the development of new or improved products and services in order to win more business in the future.

Ultimately this could lead to:

- enhanced customer satisfaction and retention, ensuring that your good reputation in the marketplace continues to grow
- increased value from your existing customers and reduced cost associated with supporting and servicing them, increasing your overall efficiency and reducing total cost of sales
- improved profitability by focusing on the most profitable customers and dealing with the unprofitable in more cost effective ways
- Once your business starts to look after its existing customers effectively, efforts can be concentrated on finding new customers and expanding your market. The more you know about your customers, the easier it is to identify new prospects and increase your customer base.

- Even with years of accumulated knowledge, there's always room for improvement. Customer needs change over time, and technology can make it easier to find out more about customers and ensure that everyone in an organisation can exploit this information.

TYPES OF CRM SOLUTION

Customer relationship management (CRM) is important in running a successful business. The better the relationship, the easier it is to conduct business and generate revenue. Therefore using technology to improve CRM makes good business sense.

CRM solutions fall into the following four broad categories.

Outsourced solutions

Application service providers can provide web-based CRM solutions for your business. This approach is ideal if you need to implement a solution quickly and your company does not have the in-house skills necessary to tackle the job from scratch. It is also a good solution if you are already geared towards online e-commerce.

Off-the-shelf solutions

Several software companies offer CRM applications that integrate with existing packages. Cut-down versions of such software may be suitable for smaller businesses. This approach is generally the cheapest option as you are investing in standard software components. The downside is that the software may not always do precisely what you want and you may have to trade off functionality for convenience and price. The key to success is to be flexible without compromising too much.

Custom software

For the ultimate in tailored CRM solutions, consultants and software engineers will customise or create a CRM system and integrate it with your existing software.

However, this can be expensive and time consuming. If you choose this option, make sure you carefully specify exactly what you want. This will usually be the most expensive option and costs will vary depending on what your software designer quotes.

HOW TO IMPLEMENT CRM

The implementation of a customer relationship management (CRM) solution is best treated as a six-stage process, moving from collecting information about your customers and processing it to using that information to improve your marketing and the customer experience.

Stage 1 - Collecting information

The priority should be to capture the information you need to identify your customers and categorise their behavior. Those businesses with a website and online customer service have an advantage as customers can enter and maintain their own details when they buy.

Stage 2 - Storing information

The most effective way to store and manage your customer information is in a relational database - a centralised customer database that will allow you to run all your systems from the same source, ensuring that everyone uses up-to-date information.

Stage 3 - Accessing information

With information collected and stored centrally, the next stage is to make this information available to staff in the most useful format.

Stage 4 - Analysing customer behavior

Using data mining tools in spreadsheet programs, which analyse data to identify patterns or relationships, you can begin to profile customers and develop sales strategies.

Stage 5 - Marketing more effectively

Many businesses find that a small percentage of their customers generate a high percentage of their profits. Using CRM to gain a better understanding of your customers' needs, desires and self-perception, you can reward and target your most valuable customers.

Stage 6 - Enhancing the customer experience

Just as a small group of customers are the most profitable, a small number of

complaining customers often take up a disproportionate amount of staff time. If their problems can be identified and resolved quickly, your staff will have more time for other customers.

POTENTIAL DRAWBACKS OF CRM

There are several reasons why implementing a customer relationship management (CRM) solution might not have the desired results.

There could be a **lack of commitment** from people within the company to the implementation of a CRM solution. Adapting to a customer-focused approach may require a cultural change. There is a danger that relationships with customers will break down somewhere along the line, unless everyone in the business is committed to viewing their operations from the customers' perspective. The result is customer dissatisfaction and eventual loss of revenue.

Poor communication can prevent buy-in. In order to make CRM work, all the relevant people in your business must know what information you need and how to use it.

Weak leadership could cause problems for any CRM implementation plan. The onus is on management to lead by example and push for a customer focus on every project. If a proposed plan isn't right for your customers, don't do it. Send your teams back to the drawing board to come up with a solution that will work.

Trying to implement CRM as a **complete solution** in one go is a tempting but risky strategy. It is better to break your CRM project down into manageable pieces by setting up pilot programs and short-term milestones. Consider starting with a pilot project that incorporates all the necessary departments and groups but is small and flexible enough to allow adjustments along the way.

Don't underestimate how much data you will require, and make sure that you can expand your systems if necessary. You need to carefully consider what data is collected and stored to ensure that only useful data is kept.

Chapter-7

CUSTOMER VALUE CONCEPTS

1. Customer Perceived Value (CPV)

Customer Perceived Value is the evaluated value that a customer perceives to obtain by buying a product. It is the difference between the total obtained benefits according to the customer perception and the cost that he had to pay for that. Customer perceived value is seen in terms of satisfaction of needs a product or service can offer to a potential customer. The customer will buy the same product again only if he perceives to be getting some value out of the product. Hence delivering this value becomes the motto of marketers.

Customer Perceived Value = Total Perceived Benefits – Total Perceived Costs

The CPV is kind of an evaluation done by customer on what value a product or a service would be able to provide if he/she buys it by paying money.

Please note that the benefits and costs also include the emotional benefits and costs.

Example of Customer Perceived Value:

While buying a car, the expected reactions from family and friends also become a part of benefits or gain. The customer evaluates whether the particular car would be able to provide whatever he/she is looking for from a car. Whether the car would provide the comfort and the usability? Also for many customers the perceived value would also include the mileage a car gives.

2. Customer Lifetime

Customer lifetime is the approximate time for which the customer is expected to be associated with our firm/ brand. This is based on various factors like customer satisfaction level, the competitive scenario, the economic environment in future etc. A firm can work on increasing the customer's lifetime by concentrating on customer relationship management and by ensuring happy customers. A higher lifetime is one factor that can lead to a higher lifetime value of a customer.

3. Customer Lifetime Value (CLV)

Customer lifetime value (CLV) is a metric that represents the total net profit a company makes from any given customer. CLV is a projection to estimate a customer's monetary worth to a business after factoring in the value of the relationship with a customer over time. The most straightforward way to calculate CLV is to take the revenue you earn from a customer and subtract the money spent on acquiring and serving them.

CLV is calculated by subtracting the cost of acquiring and serving a customer from the revenue gained from the customer and takes into account statistics such as customer expenditures per visit, the total number of visits and then can be broken down to figure out the average customer value by week, year, etc.

Common ways of calculating a company's CLV include the following:

Average revenue per user: Determine the average revenue per customer per month (total revenue ÷ number of months since the customer joined) and multiply that value by 12 or 24 to get a one- or two-year CLV. This approach is simple to calculate but does not take customer behavior into account or changes over time, either in customers' preferences or company strategy.

Cohort Analysis. A cohort is a group of customers that share a characteristic or set of characteristics. By examining cohorts instead of individual users, companies can get a picture of the variations that exist over the course of an entire relationship with groups of customers. Factors such as market changes, seasonality and the introduction of new products, competitors or promotions could skew cohort analysis.

Individualized CLV. Companies not interested in broadly calculating CLV often focus on determining the total value of customers by source, channel, campaign or other mediums such as coupons or landing pages on a company website. This could mean comparing CLVs as obtained through social media advertising against those from other digital marketing tactics, for example, with a focus on whether company resources are being efficiently spent.

The CLV can affect many different areas of the business since it is not focused on acquiring many customers or how cheaply those customers can be obtained but,

instead, emphasizing efficient spending to maximize customer acquisition and retention practices. Customer segmentation can affect CLV in that some groups of customers might be more highly valued than others.

What can you do with Customer Lifetime Value?

Customer Lifetime Value is the single most important metric for understanding your customers. CLV helps you make important business decisions about sales, marketing, product development, and customer support. For example:

Marketing: How much should I spend to acquire a customer?

Product: How can I offer products and services tailored for my best customers?

Customer support: How much should I spend to service and retain a customer?

Sales: What types of customers should sales reps spend the most time on trying to acquire?

4. Customer Equity

The customer equity of a firm is defined as the present value of the total revenues that the customer base of the firm will generate in its lifetime. A company with higher equity is valued higher than the one with lower equity. The following three factors drive customer equity:

- **Value Equity:** This measures how the customer perceives the firm in terms of the product the quality, price and convenience. This is parallel to the concept of “value for money”.

- **Brand Equity:** This measures how the customer feels about the firm. This includes brand awareness, brand recall and the emotional connect of a customer with the firm.

- **Retention Equity:** This measures the tendency of a customer to be loyal to the brand. This can be measured by the loyalty programs, its reputation etc.

Chapter-8

MARKETING STRATEGIES OF PATANJALI AYURVED (FMCG) IN PRESENT MARKET SCENARIO

A case Study

India is one of the biggest developing business sector with an aggregate populace over one billion. After post-progression the nearness of MNCs indicate extraordinary rivalry among organizations for their item. They are accompanying new items to pull in clients. In such a ferocious rivalry period organizations are accompanying separated and imaginative items to pick up piece of the overall industry. Around 73 percent of the populace lives in rustic territory while rest 28 percent in urban agglomerations. Since the real Indian populace lives in provincial zone so there is a need to supplant conventional urban system with imaginative country methodology. The present paper endeavors to talk about the part of creative promoting and marketing strategies in the market and its effect on clients. Multinational enterprises (MNEs) are increasing their presence in the lives of more and more consumers as companies seek to expand and promote their products to a still wider range of markets globally. As markets change and develop, so does the strategy used to enter them, and companies must be able to choose the correct way to enter markets in order to remain competitive.

INTRODUCTION

FMCG items are those item which have short life expectancy which are utilized for brief time and are supplanted inside days, week, and month or inside a year. Since FMCG items are supplanted quickly so they are having high market request. They work at a lower edge. A noteworthy bit of month to month spending plan distributed on these items. The business are continually stretching out and growing new item to improve buyer's involvement. Real players in FMCG enterprises are HUL, ITC, Nestle India, Dabur and P&G. The major FMCG fragments are-close to home care, sustenance and drink, family care, tobacco and oral care. Nourishment fragment is the main portion in FMCG part. Taste and inclination of clients are changing quickly so the organizations are embracing creative process because of mechanical improvement to match current clients necessity so there is a gigantic open doors in the area.

Additionally we try to gain an understanding of why any discrepancies exist and whether they can be explained by the nature of emerging markets as well as the characteristics of the FMCG industry.

OVERVIEW OF PATANJALI AYUURVED LIMITED

Patanjali Ayurved Limited is an Indian FMCG Company headquartered at Haridwar, Uttarakhand. The Company was established on 13th January, 2006 with Acharya Balkrishna as its majority state holder as well as managing Director with 92% stake, the rest being with an NRI family from UK.

Product Portfolio

It is involved in manufacturing as well as distribution of products ranging from food, beverages to cosmetics and fabric care. Since its inception in 2006 the company has made rapid advances in expanding its reach across many segments and currently operates a plethora of brands.

Production

Patanjali Food and Herbal Park at Haridwar is the main production facility operated by Patanjali Ayurved. The company plans to establish further units in India and in Nepal. In 2016, the Patanjali Food and Herbal Park was given a full-time security cover of 35 armed Central Industrial Security Force (CISF) commandos. The park will be the eighth private institute in India to be guarded by CISF paramilitary forces. Baba Ramdev is himself a "Z" category protectee of central paramilitary forces.

Products

Patanjali Ayurved produces products in the categories of personal care and food. The company manufactures 444 products including 45 types of cosmetic products and 30 types of food products. According to Patanjali, all the products manufactured by Patanjali are made from Ayurveda and natural components. Patanjali has also launched beauty and baby products. Patanjali Ayurvedic manufacturing division has over 300 medicines for treating a range of ailments and body conditions, from common cold to chronic paralysis. Patanjali launched instant noodles on 15 November 2015. Food Safety and Standards Authority of India slapped a notice on the company as neither Patanjali nor Aayush, which are the two brand names under

which Patanjali got licenses, have got any approval for manufacturing instant noodles. In 2016, Patanjali has announced to enter the textile manufacturing centre. The company is reported to manufacture not only traditional clothes such as Kurta Payjama but also popular western clothes such as jeans. On November 5, 2016, Patanjali announced that it will set up a new manufacturing plant Patanjali Herbal and Mega Food Park in Balipara, Assam by investing ₹ 1,200 crore (US\$180 million) with the manufacturing capacity of 1,000,000 tonnes (2.2×10⁹ lb) of goods per year. The new plant will be the largest facility of Patanjali in India and will be operational by March 2017. Patanjali already has around 50 manufacturing units across.

Sales & Distribution

Patanjali Ayurved sells through nearly 4,700 retail outlets as of May 2016. Patanjali also sells its products online and is planning to open outlets at railway stations and airports. Patanjali Ayurveda has tied up with Pittie Group and Kishore Biyani's Future Group on 9 October 2015. As per the tie-up with Future Group, all the consumer products of Patanjali will be available for the direct sale in Future Group outlets. Patanjali Ayurveda products are also available in modern trade stores including Reliance retail, Hyper city and Star Bazaar apart from online channels. Patanjali Ayurved, co-founded by yoga guru Ramdev, is targeting Rs 10,000- crore revenue in 2016-17, after sales grew 150 per cent in the previous financial year to Rs 5,000 crore. Patanjali Ayurved has also started its FMCG expansion in form of dealership and distributorship channels across the country and expects wider growth in overseas distribution as well.

RESEARCH METHODOLOGY

Research Objectives

The principle target of this research is to: build up an unmistakable comprehension about the distinctive research guides related toward investigations of showcasing techniques and investigate and break down the diverse philosophies actualized by the scientists in the field of advertising methodologies utilized by another FMCG Organization. The goals of this examination are as per the following:- 1. To study the increasing growth of profit of Patanjali products. 2. To study the factor responsible for growth. 3. To study the Marketing strategies that are unique to attract the people to buy Patanjali Product.

Research Methods

This paper depends on secondary data where sources have been utilized to gather data about Patanjali brands. Diaries, articles, research reports and government records were explored to get the knowledge of the past intercessions. Web references have additionally been accomplished for accomplishing the reason and goals of the review. Data has been sourced from different books, exchange diaries, government distributions and web. What's more, research is expressive in nature.

Limitation of the Study

As the research have done through the secondary data where research, data, realities, data have as of now gave either on books, reports, newspapers, sites and so forth. Raw numbers are not straightforwardly accumulated from the organization so that data or data may change from the genuine realities. What's more, time compel has disallowed from diving deep into the subject because of time imperatives study is confined to constrained spots/urban communities as it were.

Marketing strategies by Patanjali Ayurved Ltd

- Industry sources indicate that Patanjali's market share is likely to be around 5% by end 2015. This is a big success in this category, which had just three players until now. (Credit Suisse).
- Patanjali is likely to more than double its revenue to Rs 5,000 crore in FY16 from Rs 2000 crore in FY15. (Reliance securities) Sales and Distribution
- Patanjali Ayurved sells through nearly 4000 retail outlets as of 2015. Patanjali also sells its products online and is planning to open outlets at railway stations and airports. Patanjali Ayurveda has tied up with Pittie Group and Kishore Biyani's Future Group on 9 October 2015. As per the tie-up with Future Group, all the consumer products of Patanjali will be available for the direct sale in Future Group outlets.
- Patanjali Ayurveda products are also available in modern trade stores including Reliance retail, hyper city and Star Bazaar apart from online channels. Defense organization DRDO entered into licensing agreements with Patanjali Ayurveda for transfer of technology.

THE FACTORS RESPONSIBLE FOR THE GROWTH AND THE DEMAND INCLINATION OF PATANJALI PRODUCTS

Patanjali out performed in merely half of a decade and became a Brand, demand for the Patanjali products inclined enormously. The success of brand Patanjali happened due to these factors – Opportunist Strategy (Struck the hammer when the iron was red hot) – In a recent case we seen that Patanjali had skimmed the Opportunity and launched their new product Patanjali Atta Noodles when the biggest competitor of leading brand Maggie, was not in the game. It is a lesson to keep your hammer ready for the favorable conditions. Built a strong fan base and the followers trust – Before Patanjali came into the picture and before launching the full-fledged marketing campaign, a large number of people were trusted him and following Baba Ramdev and the idea that yoga was solutions to many problems. Yoga Guru adopted “Telling is the new selling!” concept. Instead of focus on selling Patanjali products; he started working on building relations with them. “People do not buy goods and service. They buy relations, stories, and magic.” – Seth Godin. [3]

Brand should be visible always – From 1993 Himalayan caves of the Hindu pilgrim town of Gangotri to 2011 „anti corruption andolan“ in support of Jan Lokpal Bill Yoga guru have taken out the entire buzz and able to create a image visibility for each and every age, gender, cast, religion over the world.

Smart pricing – Patanjali products are cheaper than its peers in the same category. As per the Acharya Balkrishna the input costs is too low because they directly source raw material from the farmers and middlemen are not entertained, and the brand have its own face to promoting brand, so cost for the brand ambassador is negligible as well salaries are also modest. Since the production and promotion cost is less than the other companies are spending, it directly lessens the product cost. But there are some categories where people may not buy his suggestions and may not switch to Patanjali, if people don't find a satisfactory reason. For such categories Yoga guru has put the price card but not all Patanjali products are cheap but most have 10-20% lesser cost than its rival products.

Awareness strategy through Social Media – Now days the digital world like Facebook, Twitter, Instagram , blogs and web pages are more effective and prompt to promote and advertise the product. The same product awareness strategy has been

adopted by the brand Patanjali to spread the awareness about the Patanjali products to educate and to engage people through the social media over the world. Even Yoga guru has more than 7.4 million likes on Facebook and 623 thousands of followers on twitter as of November 2016. [5] Where he interacts with the followers on Twitter and Facebook by organizing live chats and also informed them about new camps, events, product announcement.

Retail outlets Trust and Faith – Previously, we used to get all the products only in Patanjali Ayurvedic stores located in rare cities, now you can get them from every town today even though you can buy Patanjali products in Big Bazaar as well. If you ever visit to a Patanjali retail outlet, you would not only find herbal medicines but also licensed Ayurvedic Doctor for a free and expertise consultation. This trust and faith are the major reasons why people feel connected to Patanjali.

Variety of products –The major step towards success is its variety of products in each and every segment, brand Patanjali is not only focusing on medicinal products but also focusing on herbal products of personal care, grocery, nutrition and supplements, home care etc.

FUTURE PROSPECTUS OF PATANJALI

Rural Push: Rural market accounts for over 70% of India's 1.21 billion population but contributes only 9% in the FMCG Industry. Thus increasing distribution and support infrastructure in rural areas is a key area where it needs to focus.

Increment in Research and Development:

FMCG brands would need to concentrate on R&D and advancement as methods for development. In this period of extraordinary rivalry, organizations that keep on doing great would be the ones that have a culture that elevates utilizing client bits of knowledge to make either the up and coming era of items or now and again, new item classes. Along these lines Patanjali would need to contribute a great deal of capital and exertion into huge innovative work of more up to date item classifications.

Focus on Exports: Patanjali has to a great extent centered to take into account the residential market. Trades in this manner stay to be a low division of the aggregate deals. It is in this way basic to concentrate on sending out items utilizing Indian operations as sourcing center for the same.

CONCLUSION

There is doubtlessly Patanjali is a problematic drive in the FMCG space and is a solid risk for the occupants, yet Patanjali has its difficulties. A political relationship with any political gathering is a twofold edged sword as a change in political administration implies terrible news. For another, Patanjali does not have a multitude of B-school directors and advertisers, at HUL (albeit one could contend that might be leeway). An indication of that hole was noticeable when, after the dispatch of the atta noodle, the Food Safety and Standards Authority of India said that Patanjali did not have any significant bearing for endorsements. Ramdev figures all endorsements are set up and it might be a scheme to censure him. In the event that he is not kidding, and it appears he is, it's most likely time for Ramdev to get some administration heave in his positions.

The push for high development accompanies challenges. Sourcing of crude material, for example, will be basic to adapt to the volumes. Patanjali has effectively confronted that with gooseberries. To achieve online customers quicker (Grofers and Big Basket presently stock Patanjali items), it must have producing units and distribution centers the nation over. Patanjali's item portfolio is awkward. That's a test that Mudra and McKann Erickson, who have been restricted into handle promoting for Patanjali, should overcome. From a zero-publicizing system, Patanjali has done a U-turn, rising as the third greatest TV publicist in the nation. Additionally, as Naresh Gupta, Managing Partner, Bang in the Middle, a promoting office, calls attention to, for the brand to move into the major class, it needs to speak to the individuals who don't become tied up with Baba's individual conviction framework. He says, "Today Ramdev is additionally a political figure and to union trade with governmental issues has not been simple or fruitful for anybody." But rather whether anybody can break Patanjali's record is yet to be seen. On the off chance that Patanjali is to be contrasted and any player whatsoever, it could be the internet business commercial center Unicorn Flipkart, which began a year after Patanjali, was joined, and hit \$1 billion in gross stock esteem (GMV) two years prior.

REFERENCE

- Aaker, D. (1992). Strategic market management (3 ed.). Canada: John Wiley & Sons, IncAaker,
- Duclos, L. K., Lummus, R. R. and Vokurka, R. J. (2003) A conceptual model of supply chain flexibility. Industrial Management and Data Systems 103(6), 446–456.
- Kotler, P. K. Lane, K. A. and Zha, Mithileshwar.(2008).Marketing Management (Twelfth Edition), Pearson Education Ltd .PgNo:142
- Mintzberg, H. &Lampel, J. (1999). Reflecting on the Strategy Process. Sloan Management Review, Spring 1999 pp. 21-30. 5. Morewedge, C. K., Holtzman, L., &Epley, N. (2007). Unfixed resources: perceived costs, consumption, and the accessible account effect. Journal of Consumer Research, 34(4), 459–467). 6. Sharma, N.: International Journal of Marketing, Financial Services & Management Research. 2(3), 65-72, (2013)

Newspapers:

[1] The Economics Time, September-October, 2016

[2] The Business Line, Nov. –Dec., 2016



Module 3

INNOVATION MANAGEMENT



NIAM Agri-Business Incubator (NABI)

Ch. Charan Singh National Institute Of Agricultural Marketing (CCSNIAM)
(An Organization of Ministry of Agriculture & Farmers' Welfare, Government of India)
Kota Road, Bambala, Pratap Nagar, Jaipur – 302033, Rajasthan
Website: www.ccsniam.gov.in

Chapter–1

INNOVATION MANAGEMENT

1. INTRODUCTION

Innovation is essential for business survival in highly competitive markets where it is increasingly difficult to differentiate products and services. Innovation is important for the following reasons:

- It allows businesses to expand their customer base by refreshing the market with new and improved products
- It is a key component of competitive advantage and helps companies stay ahead of competitors before rivals' innovations take market share
- It supports the ability to charge a premium
- It provides incremental revenue and profit and also increases shareholder value

Businesses that are not growing through new product and service introduction are likely to decline as their existing sales portfolio inevitably matures.

It is not surprising that companies such as Procter & Gamble and General Electric have actively embraced the management of innovation. Their principal goal is to drive growth and then to improve shareholder value.

‘Nothing is more central to sustain growth than innovation that leads an industry and not only product innovations, but innovative design, innovative marketing, innovative in-store shopping experiences, innovation across the entire business. The companies and brands that lead innovation are the catalysts for growth.’

2. MEANING AND DEFINITIONS OF INNOVATION

The term “Innovation” seems to derive from the Latin novus (Hsu 2005), which means new or young or novel. For most people “to be innovative” means to be creative and/or to make something new.

Unfortunately there is no single accepted definition of the term “Innovation”. For some people it means a new idea, for others it means an invention (a materialized new idea), for some it means a new product (a developed invention), for some others it

means the act of creating a new product or process, while for others it means to create a new business.

“Innovation is the introduction of new ideas, goods, services, and practices which are intended to be useful (though a number of unsuccessful innovations can be found throughout history). The main driver for innovation is often the courage and energy to better the world. An essential element for innovation is its application in a commercially successful way. Innovation has punctuated and changed human history (consider the development of electricity, steam engines, motor vehicles, etc.).”

Innovation is

The act of introducing something new i.e.

- The successful exploitation of new ideas
- A creative idea that is realized

Innovation is the entire process by which an organization generates creative new technological ideas (invention) and converts them into novel, useful and viable commercial products, services, and business practices for (potential) economic gain.

According to **Rosabeth Kanter**, “Innovation is the generation, acceptance and implementation of new ideas, processes, products or services”

Strategic Importance of Innovation

For both established organizations as well as new organizations, innovation and change become important in a dynamic, changing environment. When a company fails to innovate and change as needed, its customers, employees and the community at large can all suffer. The ability to manage innovation and change is an essential part of a manager’s competencies.

3. TYPES OF INNOVATION

Three basic types of innovation are:

- (i) Technical
- (ii) Process
- (iii) Administrative

Technical innovation involves creation of new goods and services. Many technical innovations occur through research and development efforts intended to satisfy demanding customers who are always seeking, new, better, faster and/or cheaper products.

Process innovation involves creating a new way of producing, selling or distributing an existing good or service.

Administrative innovation occurs when creation of a new organization design better supports the creation, production and delivery of goods and services.

The various types of innovation often go hand in hand. For example, the rapid development of business to business e-commerce represents process innovation. But this new process requires many technical innovations in computer hardware and software. Also as firms began to use business to business e-commerce, administrative innovation soon followed. Further, implementation of process innovations necessitated organizational change. "Doing something new means doing something differently". Thus, innovation and organizational change go hand in hand.

Product and Process Innovation

Product innovation is the creation and subsequent introduction of a good or service that is either new, or an improved version of previous goods or services.

A product innovation is the introduction of a good or service that is new or significantly improved with respect to its characteristics or intended uses. These include significant improvements in technical specifications, components and materials, incorporated software, user friendliness or other functional characteristics.

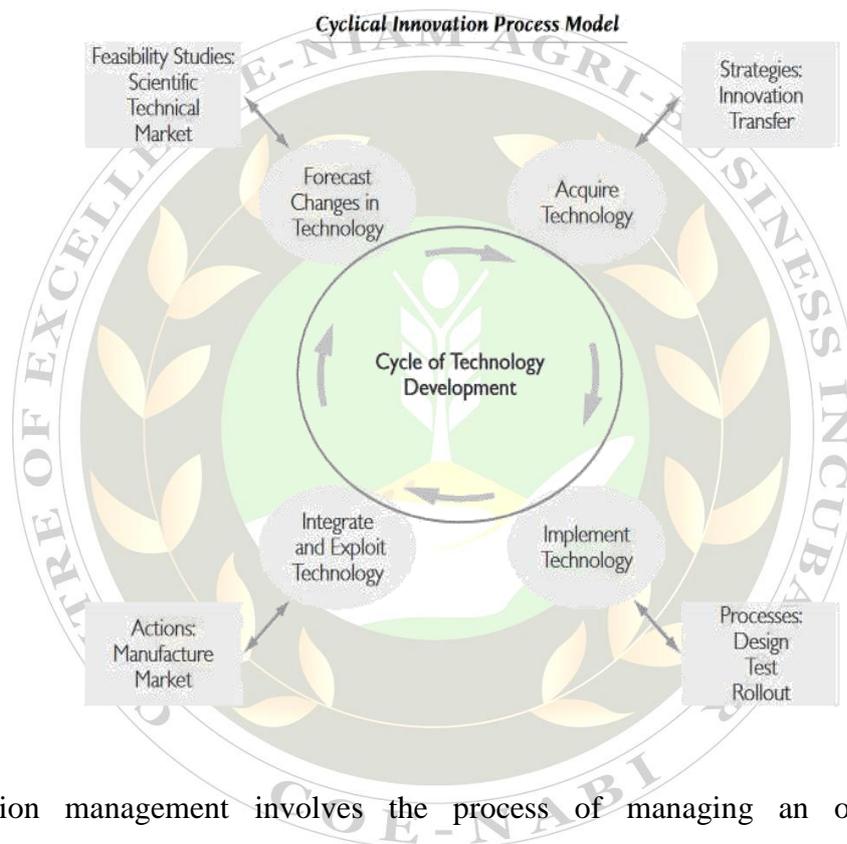
Process innovation is the application or introduction of a new technology or method for doing something that helps an organization remain competitive and meet customer demands.

A process innovation is the implementation of a new or significantly improved production or delivery method. This includes significant changes in techniques, equipment and/or software. Process innovations can be intended to decrease unit costs of production or delivery, to increase quality or to produce or deliver new or significantly improved product.

4. WHAT IS INNOVATION MANAGEMENT?

A management innovation can be defined as a marked departure from traditional management principles, processes, and practices or a departure from customary organizational forms that significantly alters the way the work of management is performed.

Definition of Innovation Management



Innovation management involves the process of managing an organization's innovation procedure, starting at the initial stage of ideation, to its final stage of successful implementation. It encompasses the decisions, activities and practices of devising and implementing an innovation strategy.

It can be defined as a comprehensive approach to managerial problem solving and action based on an integrative problem solving framework, and an understanding of the linkages among innovation streams, organizational teams, and organization evolution. It is about implementation, managing politics, control, and individual resistance to change. The manager is an architect/engineer, politician/network builder, and artist/scientist.

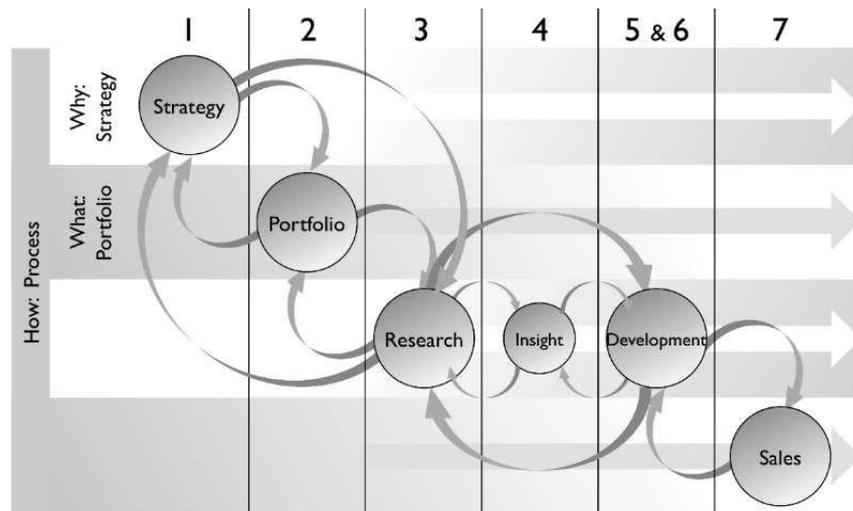
Innovation management is complex

Innovation projects can be of different sizes, duration, and complexity levels. The risk of failure in one or more respects - as overdrawn costs and time, low satisfaction rate, poor performance, burnt-out team members, etc. is dependent on many factors. In figure 1-1 some important factors are shown that will influence the risk factor and the outcome of a project in general and an innovation project in particular.

5. PROCESS OF INNOVATION MANAGEMENT

The innovation management process has become an important part of the operations of many businesses, as the recognition of the importance of initiatives towards innovation has become much more common. That said, while many companies do attempt to have a solid approach to creativity and innovation, too few actually focus on it as a single function. Instead, they seem to hold many separate activities in isolation, such as brainstorming sessions, pilot projects and campaigns, and vague communication with the market, and simply keep fingers crossed that it will come together in the end. While this has worked for some in the past, it is far from the ideal way of performing this important task. Instead, the best way to accomplish this is to have a set innovation activities which integrates the activity into the regular cycle of your business. The list below shows the phases in innovation management process, which will help your organization to put it all together as one process.

The looping arrows indicate feed forward loops to help people working downstream to anticipate change, and feedback loops from outputs back to inputs, representing lessons learned now applied to improving results. The arrows are more symbolic than realistic, as there will ideally be continual interaction between people working in various steps of the innovation process as they learn and share with others. Although the sequence of steps from 1 to 7 suggests that the innovation process is linear, the arrows moving from left to right indicate that all aspects of the process actually occur in parallel as multiple projects progress simultaneously.



The Innovation Process

Setting the goals for the process

Innovation always begins with a goal in mind. It is many times based on finding the solution to a problem. Once you have this goal, it should be discussed among everyone in the problem solving team. This team may consist of you and another person, a group of people, or may even be all of your organization's employees. It may involve others such as your customers (who can provide suggestions and feedback based on their own experience with your product or service) or other stakeholders in the business. When you establish the team for this process, make sure that you have someone representing all the parts of the process from start to the end.

Cooperation

The innovation team should work together so that instead of trying to come up with an idea separately, they can bounce ideas off one another and create a collaborative solution. This can include the use of online tools, attendance of events such as trade shows that can be inspiring and informative, or simply consist of brainstorming sessions. You might consider having a trained business coach facilitating the discussions. There are many online tools available for real-time document sharing that might help teams that are geographically separated to still have intense cooperation.

Combination of ideas

Once the ideas are in, choose the best ones and then consider whether they can be combined to create an even greater idea. Often, strong ideas will be complementary to one another and will join well to create an even better result. As you know, the whole result can be bigger than its individual parts. And for this combination to work well, you need representatives of all parties involved in the process, because they for sure have ideas that people from other departments could not come up with. Business coaches may be useful here for making sure that all the angles of innovative aspect are covered.

Evaluation of innovation

This is an important and yet all too frequently overlooked aspect of the innovation management process. When the best ideas have been combined, fine-tuned, and polished, it is time to subject them to evaluation based on peer reviews. This helps to ensure that any ideas that have a promising veneer but that are poorly thought out will be identified before resources, funding and time have been poured into them. It also helps to select the ideas with the greatest potential from among several that appear equally capable of being successful. It is cheap to change your innovation at this stage compared to later stages. Each step you take forward will cost you more.

Testing the ideas

Once the ideas with the greatest potential have been identified, they can be tested so that they can be better developed. One of the most common means of testing a product or service idea is to create a prototype or test group. This allows the team, as well as customers and investors to have a better look at how the product will function and what changes can be made to it so that it will be even further improved. Make sure that the product or service not only raises interest but is able to generate orders also. If people say that they are interested in it, then ask them if they give you the order right away.

Execution of innovation implementation

The ideas that survive the testing process can be further developed and altered until they are ready to be executed as a part of the business offerings. The execution of

implementation is a step that is unique to your business and, unless your new product causes you to have to drastically alter the typical way that your go-to-market strategy functions, then this part of the innovation management process should be relatively commonplace in your organization. It should be easier for you to move from testing to execution if you were able to generate orders already in testing phase.

Assessment of innovation life-cycle

After the execution of an idea, its implementation needs to be carefully monitored and assessed in terms of a number of milestones that should be set. Should a milestone not be reached, then changes will need to be made or the idea will need to be shut down. Remember to keep always customer in your mind also in execution phase and design your measuring systems so that they measure added value for the customer (you get what you measure and customers weight you based on that!).

Rethink

The next step in the process is simply to start again, always finding new needs, inspiration, solutions and taking them through the cycle until they can be offered by your company. Here are some reflective questions that you can use to evaluate innovation management process in your organization:

6. BENEFITS THAT COME FROM MANAGING INNOVATION

Innovation management is quickly becoming a critical requirement for enabling a sustainable business. Some of the benefits for doing it well include

- Improved timing for market introduction
- Ability to maintain or improve business margins
- Enabling access to new customers and markets
- Increased market share
- Improved and longer lasting competitive advantage
- Increased employee engagement and initiative
- Improved customer satisfaction
- Sustainable increase in shareholder returns

While basic research rarely leads directly to new products or services, many corporations invest serious money into it. Some companies, like IBM, have internal labs doing primary research, while others invest by way of research grants to outside scientists and academic affiliations.

Sustaining Innovation: Sustaining innovation is probably the most common in the corporate world and is often referred to as engineering rather than science. Like basic research, much of this is done by internal R&D labs, but many firms outsource it as well.

For instance, when Steve Jobs wanted a mouse for the Macintosh computer, he went to IDEO with clear technical specifications knowing that they had the right skills to produce what he wanted.

Disruptive Innovation: Disruptive innovation is particularly tricky because you don't know it until you see it and sometimes its value isn't immediately clear. That's why venture capital firms expect the vast majority of their investments to fail.

There is also a growing trend toward corporate innovation labs, which work closely with start-ups to perform ongoing "test and learn" programs that help identify promising new technologies before they are fully mature.

Breakthrough Innovation: Often, a particular field has trouble moving forward because they need a new approach. That's why breakthroughs often come from newcomers. Einstein and Newton were both in their 20's when they came up with their major discoveries. The problem is, of course, waiting for a maverick genius to come along isn't an efficient solution.

One way companies have started to attack the problem is through open innovation, either through internal programs like P&G's connect and develop or through external platforms such as Incentive. As Jonah Lehrer points out in his book *Imagine*, answers to tough questions often come from professionals working outside their chosen field.

Finally, some companies build multidisciplinary teams and set them up in a separate unit to pursue a particular innovation, like IBM did when they created the PC. This is rare, but can be the only viable option when breakthrough innovation is crucial to the future of a business.

Innovation Matrix

Problem Definition	Well Defined	Breakthrough Innovation Mavericks Skunk Works Open Innovation/Prizes	Sustaining Innovation Roadmapping R&D Labs Engineering Acquisitions
	Not Well Defined	Basic Research Research Divisions Academic Partnerships Journals & Conferences	Disruptive Innovation VC Model Innovation Labs 15% / 20% Rule Lean LaunchPad
		Not Well Defined	Well Defined
		Domain Definition	

7. INNOVATION PLANNING

To maintain leadership position companies need to be continuously proactive in exploring new opportunities for innovation & focusing on core offerings customer support and relationship management is a safe way to sustain business and maintain continued revenue flows.

Robust planning processes that are commonly understood continuously practiced and collaboratively applied by innovation teams are likely to increase the success rate of innovations. ‘Innovation planning’ although it may seem like an oxymoron is really not as the current growth of the industry providing sophisticated tools for research analysis and ideation tells us. Innovations can be planned to ensure their successful uptake. To plan innovations it is possible to benefit from well-developed processes to foresee people’s needs and the nature of contexts within which those innovations fit. Powerful innovation tools are needed to empower this planning process.

Innovation planning needs to accommodate inputs from various specialty areas such as market research, engineering, design, business management, branding, finance and strategy. Tools that can be used across specialty areas and commonly understood by diverse specialist team members should take precedence.

In short, to innovate successfully companies need a disciplined innovation planning process supported by structured methods, tools and frameworks that can integrate multidisciplinary teams and multiple specialty areas.

Research objective and approach: The first objective of this research is to model a disciplined *'innovation planning process'* that could be commonly understood by team members belonging to various specialty areas. The second objective is to model an innovation planning toolkit consisting of a set of tools that teams can collaboratively use during the innovation planning process.



Chapter–2

BUSINESS MODEL CANVAS

1. BUSINESS MODEL CANVAS

The Business Model Canvas is a strategic management template documented by Alex Osterwalder and Yves Pigneur. It is invented to develop models for new businesses or improving existing business models. Business Model Canvas is a visual template describing the outline of a business model and important elements, such as the value proposition and potential customers (Osterwalder, Pigneur & Clark, 2010).

The Business Model Canvas is a visual framework for describing different elements of how a business works. It illustrates what the business does, for and with whom, the resources it needs to do that and how money flows in and out of the business. It can be used to design new models or to analyse current models. The canvas is made up of nine different elements. This introduction will explain what each of them might describe in an arts and cultural context. One advantage to the Business Model Canvas is that it is not a linear description. This allows for the effects of alterations in one area to be clear, making it easier to play around with changes to current or potential models. One can ask questions such as ‘what would happen to costs or revenue income if we introduce new partners or offers?’ This allows to weigh up effects and risks. It can also stimulate new ideas. ‘What if...?’ can be the most powerful question when working with the canvas?

Delving into the nine elements

Value Proposition

For many cultural organizations a natural starting point is the Value Proposition. This section of the canvas should capture what you provide to people that they value. It might also be something that wouldn’t happen without you there to facilitate it - such as the vibrancy you bring to part of a town or innovation in an art form. There are likely to be several elements to your Value Proposition, offered to different Customer segments. A follow up to Business Model Generation, titled Value Proposition Design (Copyright Strategized AG and Strategyzer.com), focuses on this area of the canvas. It argues that good Value Propositions address specific customers’ ‘pains’ or

problems and offer them ‘gains’ by meeting a need. It has a good fit in practice with the profile of potential customers. The Value Proposition has a relationship to what arts organizations might traditionally describe under mission, vision and offer. The key difference is that it’s looked at from the point of view of people who benefit rather than your own perspective. If you struggle to define your Value Proposition ask yourself ‘what difference do we make and to whom?’

<p><i>Key Partners</i> Who are our Key Partners? Who are our Key Suppliers? Which Key Resources are we acquiring from partners? Which Key Activities do partners perform?</p> <ul style="list-style-type: none"> • DELETE GRAY TEXT & WRITE HERE 	<p><i>Key Activities</i> What Key Activities do our Value propositions require? Our Distribution Channels? Customer Relationships? Revenue streams?</p> <ul style="list-style-type: none"> • DELETE GRAY TEXT & WRITE HERE 	<p><i>Value Proposition</i> What value do we deliver to the customer? Which one of our customer's problems are we helping to solve? What bundles of products and services are we offering to each Customer Segment? Which customer needs are we satisfying?</p> <ul style="list-style-type: none"> • DELETE GRAY TEXT & WRITE HERE 	<p><i>Customer Relationships</i> What type of relationship does each of our Customer Segments expect us to establish and maintain with them? Which ones have we established? How are they integrated with the rest of our business model? How costly are they?</p> <ul style="list-style-type: none"> • DELETE GRAY TEXT & WRITE HERE 	<p><i>Customer Segments</i> For whom are we creating value? Who are our most important customers?</p> <ul style="list-style-type: none"> • DELETE GRAY TEXT & WRITE HERE
	<p><i>Key Resources</i> What Key Resources do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue Streams?</p> <ul style="list-style-type: none"> • DELETE GRAY TEXT & WRITE HERE 		<p><i>Channels</i> Through which Channels do our Customer Segments want to be reached? How are we reaching them now? How are our Channels integrated? Which ones work best? Which ones are most cost-efficient? How are we integrating them with customer routines?</p> <ul style="list-style-type: none"> • DELETE GRAY TEXT & WRITE HERE 	
<p><i>Cost Structure</i> What are the most important costs inherent in our business model? Which Key Resources are most expensive? Which Key Activities are most expensive?</p> <ul style="list-style-type: none"> • DELETE GRAY TEXT & WRITE HERE 		<p><i>Revenue Streams</i> For what value are our customers really willing to pay? For what do they currently pay? How are they currently paying? How would they prefer to pay? How much does each Revenue Stream contribute to overall revenues?</p> <ul style="list-style-type: none"> • DELETE GRAY TEXT & WRITE HERE 		

Customer Segments

The last part of that question brings you to your ‘Customer Segments’. The word customer can undoubtedly feel uncomfortable in the arts and cultural sector. It can help to think of it as a term for people who get something out of what you do and give you something in return. This might include visitors to a gallery or participants in an education programme. It could also be funders who have a particular interest in those people because of their own missions and priorities. Sometimes customer segments may be mutually dependent. For example funders of work with young people will only engage if you have young people in your audiences and young people can only attend because the activity is subsidized. You’ll notice we put grant funders such as Arts Council England in the Customer Segments section sometimes as well as listing them as Key Partners. This is to emphasise that grant funding is an exchange. They give you money plus public backing or endorsement, and often other advocacy and development assistance, and you give them something they value such as artistic innovation. Knowing what they want from you and what you want to give can be important to having long-term relationships with such ‘customers’.

Key Partners

The Key Partners section lists those people or organisations you need to work with to carry out your activities and reach your customers. These might be people with whom you work in formal or informal alliances, collaborations, partnerships or joint ventures. They might also be people you could categorise as suppliers. Sometimes Key Partners can provide things you don’t have within your Key Resources such as workshop spaces. Sometimes they can perform Key Activities that you don’t do yourselves such as distributing books you publish. It’s useful to think about what role Key Partners play in the fundamentals of your business, as well as the ‘added value’ partners often bring. Be clear where you can structure them into your business model and where doing so might bring risks.

Customer Relationships

This aspect describes the kind of relationships customers want or expect with you and the type of relationships you want to make with them. This often relates to the values of your organisation as well as to how you see your organisation working in practice. If, for example, your values include collaboration and equality you might want to

establish relationships based on co-creation, listening and community input. If your model requires a lean staff and a digital platform, you might encourage a more 'self-serve' relationship with customers. One key question for cultural organisations is the extent to which different Customer Segments can influence what you do and how you do it. There is no right or wrong answer but the answer can vary from organisation to organisation.

Key Activities

In some ways this is one of the most obvious parts of the canvas. What do you need to do to deliver your Value Proposition, to develop the Customer Relationships you want and to bring in Revenue Streams? If you're assessing a current business model and a Key Activity doesn't especially connect to those areas you may need to adjust your model. What is the activity doing for you? If it doesn't deliver value, customers or revenue then why are you doing it? What does it bring that you might be missing from your value proposition? Could you stop doing it or do it differently in a way that does deliver value or income?

Key Resources

This section describes what you need to have and maintain to deliver your Value Proposition, Customer Relationships and Revenue Streams. These can include tangible resources such as financial reserves, buildings, equipment and people, alongside intangible assets such as brand, trust, data and intellectual property. If there are resources you need in an ideal world but can't get immediately can your Key Partners supply these? Do you really need all things you list here or could others provide them?

Channels

In this section you should think about and summarise the ways you will reach your Customer Segments. Word of mouth, advertising and social media are all common Channels. There may also be other ways that are important to you such as community or business networks. How will you maintain contact with customers if an ongoing relationship is important, as it might be with funders for instance? It's worth capturing how you'll approach this so you can see the implications on Key Resources and staff costs.

Cost Structure

Although the Business Model Canvas is excellent at illustrating how business is not all about the money, knowing what it will cost to carry out your Key Activities and develop your resources, partnerships and customer relationships is vital. What do you need to pay for and what will it cost to deliver your Value Proposition via the Key Resources and Activities? It's a useful check when moving from Business Model Canvas to Business Plan to be sure you know how much each thing noted on the canvas costs financially and what it brings in. It is useful to cluster types of costs so you can see the proportions spent on staffing, programme, fundraising and other common areas. There may be times you need to be lean in the Cost Structure, and others when actually increasing costs to focus on value creation is more appropriate.

Revenue Streams

You can also assess the importance of each element of cost by seeing how it delivers *revenue* income. What activities do you do that bring in different revenue streams? Income from particular customers may be worth noting if they represent a significant proportion of overall income, such as Arts Council or local authority funding. You will need to pay particular attention to what you need to do to maintain that income and assess how secure it is in the future.

Conclusion

It can be worth assessing your Business Model Canvas from time to time to see how it is evolving. Sometimes Customer Segments or Key Activities change over a period of time, almost without conscious strategic decision. This might be the result of changes in the market or in staffing. There may be opportunities to make more of this or to react more consciously if you feel less positive about the implications. Sometimes stepping back to look at your model can highlight something that you'd not noticed - be it threat or opportunity, strength or weakness. This puts you in a better position to respond. It may help you understand and communicate your value better to those who need what you offer or can help. The Business Model Canvas is not so much a prescriptive recipe for success as a portrait of your organisation. Considering how you might take control of that picture will help you keep designing what you do and how you do it.

Chapter–3

LEAN CANVAS MODEL

1. LEAN

Lean is a management and manufacturing philosophy that became famous in the early 1990's, when James Womack, Daniel Jones and Daniel Roos investigated the production processes of Toyota in their book "The Machine That Changed the World". The book gained international attention, documenting Toyota's principles to effective management and manufacturing for the first time. Lean refers to minimizing waste without sacrificing productivity. It consists of five core parts, which are:

1. Value definition is based on customers' views
2. The value chain is identified and everything that does not increase value will be removed from the process
3. The value chain should be solely based on suction control caused by customer needs
4. Employers should be taken along to all development
5. Organization's continuous learning (Womack, Jones, Roos, 1990).

The roots of the term lie in various sets of principles of optimizing production chain in order to manufacture more products with less wasted effort (at Toyota this would obviously mean more cars), but lean thinking has then been applied to many different areas of business and life in general.

2. THE LEAN CANVAS

The Lean Canvas is essentially an iterated version of the Business Model Canvas, adapted by **Ash Maurya**. It is specifically modeled for early-stage startups. It focuses on addressing potential customer problems and solutions for them via a documented visual chart that replaces the traditional business plan (Maurya, 2012).

As a business entrepreneur, it's our duty to get ideas from our head onto paper so that others can see and help build the problem solution. Traditional business plans are not relevant in the ideation stage, they take too much time and are usually created without

any validated learning. Business plans are more suited to once one have a business running and are looking to scale. During the ideation stage Lean Canvas should be used to get ideas down and use lean principles to test hypothesis by getting out the building. Lean Canvas promises an actionable and entrepreneur-focused business plan. It focuses on problems, solutions, key metrics and competitive advantages. The structure is similar to the well-known Business Model Canvas, but some sections have been exchanged.

3. HOW TO CREATE YOUR LEAN CANVAS

Capture your business model in a portable one-page diagram. The Lean Canvas is the perfect format for brainstorming possible business models, prioritizing where to start, and tracking ongoing learning.

Brainstorm Possible Customers

One most likely inkling of the problem, solution, and customer in mind. Start by brainstorming the list of possible customers one envision using their product.

Distinguish between customers and users

If one have multiple user roles in their product, identify customers. A customer is someone that pays for your product.

Split broad customer segments into smaller ones

Startups feel that the problems they are solving are so universal, that they apply it to everyone.

While one might be aiming to build a mainstream product, one need to start with a specific customer in mind. Even Facebook, with it's now 500 million+ users started with a specific user in mind - Harvard college students.

Sketch a Lean Canvas for each customer segment

The elements of business model can and will vary greatly by customer segment. It is recommended to start with the top two- three customer segments which is felt to be the best or the most promising.

Problem Top 3 problems 1	Solution Top 3 features 3 Key Metrics Key activities you measure 6	Unique Value Proposition Single, clear, compelling message that states why you are different and worth buying 2	Unfair Advantage Can't be easily copied or bought 7 Channels Path to customers 4	Customer Segments Target customers 1
Cost Structure Customer Acquisition Costs Distribution Costs Hosting People, etc. 5		Revenue Streams Revenue Model Life Time Value Revenue Gross Margin 5		

Lean Canvas is adapted from The Business Model Canvas (<http://www.businessmodelgeneration.com>) and is licensed under the Creative Commons Attribution-Share Alike 3.0 Un-ported License.

Problem and Customer Segments

- List top 3 problems
- List existing alternatives
- Identify other user roles

Example: Cloud Fire, was a photo and video sharing service targeted at parents. The “first-time moms with kids under the age of three”. Lean Canvas - Problem and Customer Segments

Problem Business Models need to be more portable Measuring progress is hard work Communicating learning is critical Existing alternatives: Intuition, business plan, spreadsheets	Solution Key Metrics	Unique Value Proposition	Unfair Advantage Channels	Customer Segments Startup Founders (Creators) Advisors/Investors (Collaborators) Early Adopter: Familiarity with Lean Startups, Customer Development, Business Model Canvas
Cost Structure		Revenue Streams		

Lean Canvas is adapted from The Business Model Canvas (<http://www.businessmodelgeneration.com>) and is licensed under the Creative Commons Attribution-Share Alike 3.0 Un-ported License.

Unique Value Proposition

Dead-center in the Lean Canvas is a box for Unique Value Proposition (UVP). This is one of the most important boxes on the canvas and also the hardest to get right.

“Unique Value Proposition: A single, clear compelling message that states why you are different and worth buying.”

The UVP is hard to get right because one have to distil the essence of the product in a few words that can fit in the headline of landing page.

Additionally, UVP also needs to be different and that difference needs to matter.

How to Craft a Unique Value Proposition

- Be different, but make sure your difference matters
- Target early adopters
- Focus on finished story benefits

So for instance if one is building a résumé-building service:

- a feature might be *“professionally designed templates”*
- the benefit would be an *“eye-catching résumé that stands out”*
- but the finished story benefit would be *“landing your dream job”*.
- Pick your words carefully and own them
- Answer: What, Who, and Why
- Study other good UVP
- Create a high-concept pitch

Examples:

- YouTube: “Flickr for video”
- Aliens (movie): “Jaws in space”
- Dogster: “Friendster for dogs”

Case Study: Lean Canvas - Unique Value Proposition

In the case of startups and business models, while Lean Canvas might provide an immediate benefit of offering a better process for testing business models, the finished story benefit is finding a business model that works and eventually building a successful product.

Problem Business Models need to be more portable Measuring progress is hard work Communicating learning is critical Existing alternatives: Intuition, business plan, spreadsheets	Solution	Unique Value Proposition Helps startups raise their odds of success. High level concept:	Unfair Advantage	Customer Segments Startup Founders (Creators) Advisors/Investors (Collaborators)
	Key Metrics	Github Meets Weight-watchers for business models. Startup report card.	Channels	Early Adopter: Familiarity with Lean Startups, Customer Development, Business Model Canvas
Cost Structure			Revenue Streams	

Lean Canvas is adapted from The Business Model Canvas (<http://www.businessmodelgeneration.com>) and is licensed under the Creative Commons Attribution-Share Alike 3.0 Un-ported License.

Solution

As all we have untested hypotheses, we don't recommend getting carried away with fully defining a solution just yet. Rather simply sketch out the top features or capabilities next to each problem.

Bind a solution to the problem as late as possible.

Case Study: Lean Canvas - Solution for each of the problems outlined earlier, here is a feature or capability that solves the problem:

Problem: Business Models need to be more portable

Solution: Use the Lean Canvas format for capturing hypotheses on 1 page

Problem: Measuring progress is hard work

Solution: Provide a simple way to “dashboard” experiments

Problem: Communicating learning is critical

Solution: Need a sharing feature to facilitate sharing lessons learned

Case Study: Lean Canvas

Problem Business Models need to be more portable Measuring progress is hard work Communicating learning is critical Existing alternatives: Intuition, business plan, spreadsheets	Solution Lean Canvas Progress Dashboard Sharing Learning Key Metrics Create Lean Canvas Track Experiment Invite Collaborator	Unique Value Proposition Helps startups raise their odds of success. High level concept: Github Meets Weight-watchers for business models. Startup report card.	Unfair Advantage Personal Authority "Expert" endorsements Channels 1. Blog/Book/Workshops 2. Startup Accelerators / Investors	Customer Segments Startup Founders (Creators) Advisors/Investors (Collaborators) Early Adopter: Familiarity with Lean Startups, Customer Development, Business Model Canvas
Cost Structure Hosting Costs - heroku (currently \$0) People Costs - 40hrs * \$65/hr = \$10K/month Break-even point: 743 customers		Revenue Streams 30-day Free Trial @ \$14/mo (1 private canvas / 3 collaborators)		

Lean Canvas is adapted from The Business Model Canvas (<http://www.businessmodelgeneration.com>) and is licensed under the Creative Commons Attribution-Share Alike 3.0 Un-ported License.

Channels

The good news is that following a “Customer Discovery/Interview” process forces us to build a path to customers early. Unfortunately, unless we are in a direct sales business, that path may not scale beyond Problem/Solution Fit.

In addition to defining the right product to build, it’s just as critical to start finding, building and testing a significant path to one’s customers from day one.

While there are a plethora of channel options available, some channels may be outright inapplicable to your startup, while others may be more viable during later stages of startup.

Case Study: Lean Canvas - Channels

Problem Business Models need to be more portable Measuring progress is hard work Communicating learning is critical Existing alternatives: Intuition, business plan, spreadsheets	Solution Lean Canvas Progress Dashboard Sharing Learning Key Metrics	Unique Value Proposition Helps startups raise their odds of success. High level concept: Github Meets Weight-watchers for business models. Startup report card.	Unfair Advantage Channels 1. Blog/Book/Workshops 2. Startup Accelerators / Investors	Customer Segments Startup Founders (Creators) Advisors/Investors (Collaborators) Early Adopter: Familiarity with Lean Startups, Customer Development, Business Model Canvas
Cost Structure		Revenue Streams		

Lean Canvas is adapted from The Business Model Canvas (<http://www.businessmodelgeneration.com>) and is licensed under the Creative Commons Attribution-Share Alike 3.0 Un-ported License.

Revenue Streams and Cost Structure

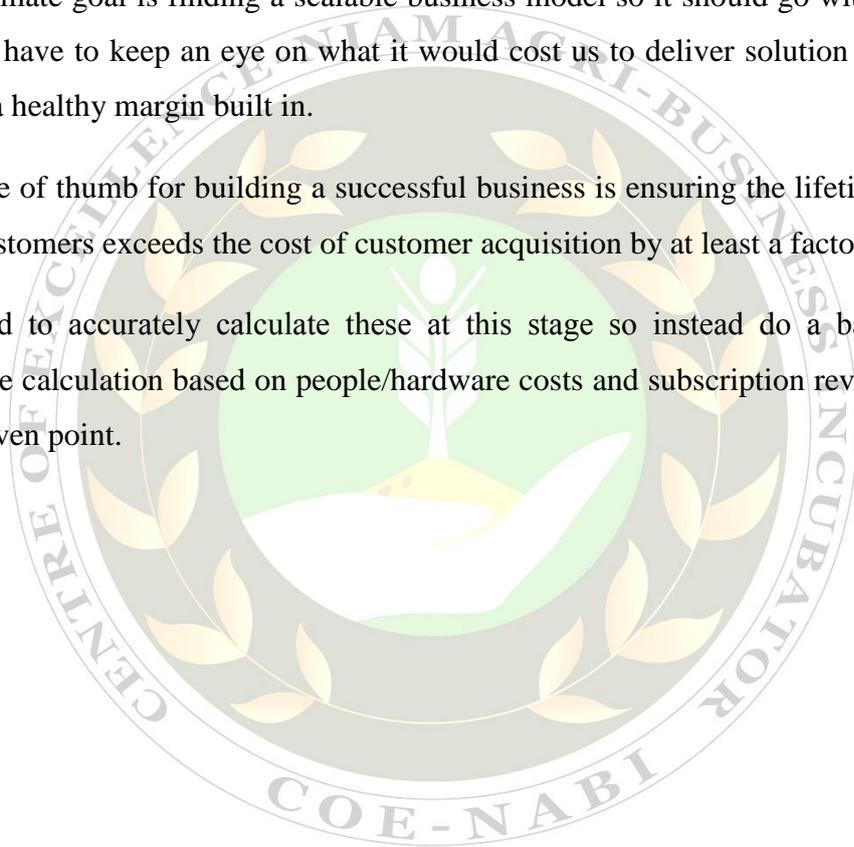
A lot of startups choose to defer the “pricing question” because they don’t think their product is ready. Something it is heard a lot that a minimum viable product is by definition embarrassingly minimal.

First, a minimum viable product is not synonymous with a half-baked or buggy product. MVP should address the top problems customers have identified as important to them. By that definition, it should deliver enough value to justify charging.

The ultimate goal is finding a scalable business model so it should go without saying that we have to keep an eye on what it would cost us to deliver solution and have to ensure a healthy margin built in.

One rule of thumb for building a successful business is ensuring the lifetime value of your customers exceeds the cost of customer acquisition by at least a factor of three.

It’s hard to accurately calculate these at this stage so instead do a back-of-the-envelope calculation based on people/hardware costs and subscription revenue to find break-even point.



Chapter-4

PRODUCT-MARKET FIT

1. INTRODUCTION

Here we will study the models of finding a customer-validated market orientation in Small-sized startup businesses. This iterated, systematically established point where the business can be started to scale up is called the product/market fit. The product/market fit is an outcome of continuous engaging of customers throughout the product development cycle as well as testing, pivoting, and applying the Lean Canvas Strategy in order to maximize the efforts for speed, learning and focus. The product/market fit is also a valuable breakthrough in order to raise funding for a Venture. The start-up marketing and product development strategies of placing a “Minimum Viable Product” and, unique value proposition, as well as finally reaching product/Market fit are to be studied here.

2. STARTUPS

First, it's by all means necessary to define the meaning of a startup company. A startup is a relatively new term that established itself around the 1990's and early 2000's as the Internet got widely adopted in the world. It can be stated that some of the very early startups have been such companies as Ford Motors or Hewlett-Packard, as they did apply some of the frameworks, practices and processes of building a business that have later been documented and presented as models for building a startup business. From this perspective, startups have existed for many decades or even centuries, but only with the recent research and knowledge we have been able to define the meaning of the term. Surprisingly enough, no clear and simple definition for a startup is stated in the academic literature. The definition of a startup has to be drawn from business literature. Two well renowned and greatly appreciated thought leaders, Steve Blank and Eric Ries, have defined startup in ways that function as a definition for the term “startup company” or “startup” in this module. **Blank (2012)** defines a startup as a temporary organization in search for a scalable, repeatable and profitable business model. **Ries (2011)**, on the other hand, acclaims that a startup is a human organization to deliver a product or a service under conditions of extreme uncertainty. Based on these two definitions, the following definition of a startup can be framed:

Startup is a temporary human organization searching for a scalable, repeatable and profitable business model for a product or a service, under conditions of extreme uncertainty. In addition, it is important to note that every startup has a founding team consisting of one or more founders.

Startups do share the following main characteristics:

1. Youth and immaturity
2. Limited Resources
3. Multiple Influences
4. Dynamic Technologies and Markets (Sutton, 2000).

A major amount of startups are relatively young and only possess a small amount of experience but many startup founders do have relevant business experience from their pre-startup careers (Sutton, 2000). Some founders of startups have founded several previous startups and pursued different goals, and their career consists of building companies again and again. This form of being a startup founder, yet not unusual in the industry, lacks an academics definition and can be seen more as a way of life than a definitive profession. The usual expression for these startup founders is “a serial entrepreneur”. The relatively limited resources of startups are typically concentrated on outbound activities: product release, product promotion and building strategic partnerships (Sutton, 2000). Scarce human resources of startups also limit their abilities to invest in product research and development, as well as in customer involvement methods. In its early stage, a startup can be very sensitive to various influences from outside of the venture; such as potential investors and venture capitalists, as well as customers, partners and competitors (Sutton, 2000). The inconsistency of such influencers can cause business strategy -related problems. Proactive listening of outside collaborators can be valuable, but experts argue that the founders usually do know the best what they are to do next with their respective venture. The high amount of uncertainty and the lack of knowledge on market segments and customer needs often characterize a typical startup. Startups are often backed by venture capitalists and share the following characteristics:

1. New, non-existing market
2. New business

3. Breakthrough product
4. Opportunity to start small and grow
5. Dynamic business model
6. High growth potential. (Watts, 2001)
7. Shorter time to market than non VC-backed companies (Hellman & Puri, 2000).

These types of characteristics of startups can potentially result in discontinuous innovations. Discontinuous innovations can be radical innovations or absolutely new innovations

3. WHAT IS PRODUCT-MARKET FIT?

Here we will essentially study the process of finding the product/market fit, a critical stage in the lifecycle of a startup company that enables the venture to start scaling - expanding the business in found segments with relevant problems to be solved and needs to be met. Before the process of finding product/market fit can be looked into, the concept of product/market fit needs to be defined. A straightforward, universal definition that would be mutually agreed by academic scholars and scientific researchers remains to be unfound. One reason to this might be the relatively young age of many concepts and terms in the startup business world. One of the most prominent experts in this field, Marc Andreessen, has however attempted to define product/market fit and his 2007 definition is widely accepted in the particular field of study of startup businesses. **Andreessen (2007)** claims that in the broad range of startups in different industries, there is great variation in the levels of success and competitiveness and a vast diversity of calibres and qualities of startup teams, products and markets. He states that the mentioned three terms are the core concepts needed to understand in order to effectively look into the meaning of product/market fit. He defines them in the following way:

- The caliber of a startup team can be defined as the suitability of the CEO, senior staff, engineers, and other key staff relevant to the opportunity in front of them.
- The quality of a startup's product can be defined as how impressive the product is to a customer or a user who actually uses it.
- The size of a startup's market is the number, and growth rate, of those customers or users for that product (**Andreessen, 2007**).

Obviously, the perspective on the order of importance of these three factors is different depending on who is being asked from. Many will say that team is the most important factor because after all everything comes down to the people behind the startup, but for instance an engineer's perspective on the issue could as well be more product concerned. (Andreesen) nevertheless, strongly claims that market is the most important factor because in a great market with plenty of customer potential, the market pulls the product out of the startup. He sees the market - the customers' needs - as an organism that has an inevitable need to be fulfilled by the first viable product possible, whatever the need is. The market has zero interest on how good the team behind the product is as long as the solution works. Conversely, in a horrible market the entrepreneurs can have the best product in the world created by the best possible team, and the venture will eventually fail. Market consists of the customers and the customers have to exist in order for the business to bloom.

Andreesen famously quoted the founder of the American venture capital firm Benchmark Capital, **Andy Rachleff**, presenting Rachleff's Law of Startup Success, which has then been cited frequently in startup-related blog posts and conversation:

1. When a great team meets a lousy market, market wins
2. When a lousy team meets a great market, market wins
3. When a great team meets a great market, something special happens
(Andreesen,2007).

Andreesen describes Rachleff more or less stating that **the lack of market is the primary death cause of many startups**. Therefore, one can fail on a great market but when equipped with a decent product and a competent team, a good market will tend to lead to success and poor market will tend to lead to failure. Likewise, neither a superb startup team nor a magnificent product will bloom on a poor market. Markets that don't exist don't care how smart you are, Andreesen concludes. Rachleff's Corollary of Startup Success, withdrawn from his Law of Startup Success, is that **the only thing that matters (in a startup's success) is getting to product/market fit (Andreesen, 2007). Most of ambitious startup ventures fail before product/market fit ever is found, so startup companies should focus solely on finding product/market fit before scaling the business.** A startup's life can be defined into two parts: before and after product/market fit. Here we will concentrate

mainly on the actions performed before finding the product/market fit, and the following definition by Marc Andreessen is found to be applicable on the aspect: **Product/market fit means being in a good market with a product that can satisfy that market (Andreessen, 2007).**

4. HOW TO APPLY LEAN CANVAS AS A TOOL FOR FINDING THE PRODUCT-MARKET FIT?

We have discussed Lean Canvas in previous written handout of Business canvas and Lean Canvas. So here we are starting with its application. There are obviously multiple theories and sets of principles available for startup founders to gain knowledge on how to successfully establish a realistic roadmap on how to find the product/market fit. **Ash Maurya**, one of the very prominent experts on the field of building a startup, has created the concept of **“Running Lean”**, a dynamic combination of Eric Ries’s Lean Startup, and Steve Blank’s famous Customer Development Approach. Maurya’s Running Lean offers a modern framework to establish customer-validated product/market fit in startups with high uncertainty and limited access to capital in the beginning of the company’s history-to be.

To find a Product/Market Fit via. Lean Canvas following steps are included:

1. Documentation of “Plan A”
2. Identification of the plan’s riskiest parts
3. Customer interviews
4. Getting to the MVP release
5. The MVP launch
6. Feature development

1. Documentation of “Plan A”

Many people with entrepreneurial mind-sets are driven by passion and determination, but the passion-driven visions cannot reach their full potential without solid and constant documentation of facts. Without proper testing of assumptions and hypotheses and multiple experiments, the venture is danger of becoming a faith-based passion project without a systematic roadmap. This being said, the first absolute step is writing down the vision and sharing it with other people. The traditional way of

doing this would be to invest a decent amount of time and effort to write an average 60-something page business plan. The traditional plan, though, tends to be very static and rigid and therefore doesn't suit well for many startups in need for rapid iteration loops and continuous experimentation. The form of choice of Running Lean is Lean Canvas - a flexible one-page business plan. Lean Canvas helps the entrepreneurs to deconstruct their business model into nine distinct parts that can be systematically tested.

2 Identification of the plans riskiest parts

2.1 Prioritizing where to start

Risk with prioritizing:

Incorrect prioritization is one of the top contributors of waste - the very possible outcome is to end up making only marginal progress and get stuck in the later phase. Startups are generally very uncertain, but uncertainty is not equivalent to risk. Uncertainty is the lack of complete certainty - the existence of more than one possibilities. Risk, however, is a state of uncertainty where some of the possibilities involve a loss, catastrophe or another undesirable outcome (**Hubbard, 2011**). When applied, the Lean Canvas model captures uncertainties and risks - but not all of the risks are equal to each other and therefore have to be quantified. Business model risk ranking is a key step in the process, as without any know-how on the scale of the possible outcomes of each risk, determining where to start and what to avoid is highly difficult. The probabilities of a specific outcome have to be compared to the associated loss if the risk realizes, and the payoff if it doesn't. Maurya (2012) divides the risks of a startup into three categories:-

1. Product risk: getting the product right
2. Customer risk: building a path to customers
3. Market risk: building a viable business.

Tackling all of the mentioned simultaneously is a difficult task, so they have to be ranked, based on the stage of the product, and tackled systematically.

Business model ranking:

A highly important stage is laying the Lean Canvases created next to each other, and prioritize which of the models is the one to start with. The basic objective is to find a big enough market that can be reached with customers who need the product, and so can be built a business around. A systematically ranking of the models can be done by investigating the relevant perspectives on the Lean Canvas segments, and prioritizing them. The segments thought to be the most important ought to stand on the top of the list.

Maurya uses the following weighting order:

1. Customer pain level (the Problem segment): who needs the product most?
2. Ease of reach (the Channels segment): if one of the models definitely has an easier path to customers than the other models do, it should be taken into serious consideration.
3. Price/gross margin (the Revenue Streams and Cost Structure segment): if one of the models is expected to maximize the margins compared to the others, it has to be noted - the fewer customers needed to reach breakeven, the better.
4. Market size (the Customer Segments box): which of the models have the biggest potential market given the objectives of the business?
5. Technical feasibility (the Solution segment): which one of the models has the most feasible solution from investment perspective?

External advice:

Another effective technique for risk control is simply seeking external advice. Hubbard (2011) refers to this with the method of “Instinctive Bayesian Approach”. The Running Lean methodology heavily relies on fast learning via customer interviews, but when prioritizing risks advisor advice can also play a major role in finding the right course. Customers tend to have the right questions, advisors might have the right answers -their knowledge could emerge valuable in broadening or narrowing down customer segments and refining or out righting business plans. An advisor could, for instance, be a potential investor or another entrepreneur with specific expertise. When interacting with advisors, specific open questions often

produces the most applicable information: what does the advisor consider to be the riskiest part of the plan? Have they confronted similar risks and problems? How would they test these risks and who would they recommend talking to next? The information produced by advisor interviews should not be considered as absolute validation or judgment - the founder has to maintain the ownership of the business plan and he or she is the one responsible of synthesizing the advisor intelligence into a coherent whole.

2.2 Preparing for experimentation: The problem/solution team

The original Lean Startup philosophy by Eric Ries sees traditional business departments as causes of unwanted friction. Instead, a problem team and a solution team should be formed. The problem team engages with the outside world - conducts customer and advisor interviews, runs experiments et cetera. The solution team is responsible of the in-house activities such as code writing, design development and so on. Obviously, heavy cross-functionality and good communication between teams is required. Together, they form the problem/solution team that is in charge of and accountable for the business development of a startup. The ideal problem/solution team in the early stage would be two to three people - that's when communication stays fluent and the staff costs reasonable. More important than the number of the members is, though, that the right talent is accessible at all times. A startup can well be built alone, but this requires active "work hacking" - schedule control and timetable management. Maurya (2012) states that the most important areas of expertise needed in the early stage are development, design and marketing:

- The development expertise is heavily measured with prior experience in business development, along with skills in the respective technology
- The design expertise consists of expertise in aesthetics and usability. A product is a collection of user experiences, and when function could beat form in some markets, how things look and feel are becoming increasingly important.
- Everything else is more or less marketing. Marketing drives the external perception of a product: good copywriting skills along with solid understanding of metrics, positioning, pricing and channels is vital when measuring relevant marketing expertise. Outsourcing some activities is an option, but should be

examined with great doubt and careful consideration as that may tie the founders to certain third-party schedule restrictions and therefore slow down the iteration cycle.

2.3 Effective experimentation

The objective of a startup is to reach the product/market fit before running out of resources, and in the core of this process are speed, learning and focus, when moving forward and being focused, but not constantly learning, the risk is that the venture is basically just going in circles. When focused on the correct things and learning effectively but lacking speed, the business is at risk of getting outpaced by competition of running out of resources. With the very same logic, learning a lot in fast speed when not staying focused could result in premature optimization: thinking that the product is viable when the product/market fit isn't yet reached. The product/market fit is found by constant and effective experimentation. An effective experiment tends to focus on the key metric wanted to achieve or the key takeaways wanted to be learned. These, obviously, vary by the stage and nature of the product. Multiple goals and metrics can be tackled in the same experiment, but this can lead to confusion and waste. Experiments should also be as simple as possible – experiment formulation should follow the simplest possible framework in order to test the hypothesis at hand.

Falsifiable Hypotheses

The Lean Startup method is heavily based on scientific methods that require more falsifiable or confirmable hypotheses than pure assumptions. A falsifiable hypothesis is a statement that can be clearly proven wrong (Maurya, 2012). When this step is ignored, it's tempting to convince oneself

that the hypothesis is correct, even when it should by all means be declared false.

Qualitative validation, quantitative verification

The terrain before reaching Product/Market fit is filled with extreme uncertainty. This is not only a challenging setup, but also a starting point full of opportunities. Having a lot of uncertainty at a moment, not a vast amount of data is needed to rapidly reduce it by a significant amount (Hubbard, 2011). This is an advantage for an early stage

startup. The initial objective is to generate and identify strong enough signals that do not require a large sample size. A strong negative signal is a message that a hypothesis does not work, and has to be refined or abandoned. A strong positive signal, however, doesn't necessarily indicate that the hypothesis could be scaled immediately - it only presents a clearance to move on forward so that the hypothesis at hand can be verified in the later phases with data gained by quantitative examination. This order of validation of hypotheses - first qualitatively and then quantitatively - is a key principle of Running Lean. Another highly important perspective to the business development of a startup is absolute transparency of dashboards within the team. The objectivity brought by running experiments with company-wide access to data is vital (Stack, 1992).

Constant communication of learning

It's also of extreme importance to periodically communicate the learning progress produced by the various experiments - Maurya (2012) recommends a weekly cycle with the inner team and a monthly cycle with external advisors and investors. This allows the entrepreneur(s) to reflect on findings with the team and prepare better for the next round of experiments. Ries (2011) calls this innovation accounting.

The iteration meta-pattern in risk control

The experiments are key to tackling different risks. Some of them can be mitigated, but seldom completely eliminated through a single experiment. A lot of startups either pivot or abandon further examination because of the discouragement suffered by negative learning, or get overoptimistic from positive experiences and ignore further testing required to build a viable business. The product/market fit is about more than "building the right product" - in the core of it lies the scalability of the business model. Startups cannot blindly run experiments with aimless learning in mind - risks are only tackled via additive learning from staged iteration. The starting point is the Lean Canvas - the plan that should work. Methodical running of iterative experiments in each box of the canvas define the business development. With the following roadmap the risks can be tackled:

1. Understand the problem: Conducting customer interviews to find out whether the problem is worth solving, why so, for who and how is it solved at the moment?

2. Define the solution: Building a demonstration for visualizing the solution and testing it to learn if it works, who is satisfied and who isn't and what would they be willing to pay for it?

3. Qualitative validation: Building an MVP (Minimum Viable Product) and soft-launching it to early adopters of the product - can the UVP (Unique Value Proposition) be realized and does it generate revenue?

4. Quantitative verification: Launching the product to a larger audience - is the product something that the people want to have, do sales scale up and is the business viable?

The same roadmap can be viewed via the risk categories examined earlier - the product, customer and market risks:

Product risk: Product development

1. Ensure you have a problem worth solving
2. Define the MVP
3. Build and validate the MVP at small scale (demonstrate UVP)
4. Verify it at larger scale

Customer risk: Building a path to customers

1. Identify who needs or wants the product
2. Narrow the segment down to early adopters that need or want the product at the very moment
3. Outbound sales
4. Scalable sales via inbound channels

Market risk: Building a viable business

1. Identify the competition and set a reasonable price tag
2. Test pricing first via getting qualitative feedback
3. Test pricing in a larger scale and make interpretations from quantitative metrics
4. Cost structure optimization to ensure profits (Maurya, 2012)

The Unfair Advantage segment is truly not validated before facing competition, so before Product/market fit it's highly difficult to test.

3. Customer interviews

In Lean Startup business development, the swiftest way to accelerate learning is to talk to customers - customer interviews. This does not refer to surveys for various focus groups, but hands-on, face-to-face interviews with potential prospects in customer segments. The surveys tend to require a ready-made set of questions, which is problematic for early-stage startups as they normally do not know the correct questions to ask. In addition, conducting surveys also requires a prefabricated set of answers and formulating answer alternatives is impossible when not knowing the questions. Surveys lack the element of live interaction, which eliminates the possibility to examine body language and other comparable external indicators. Crafted surveys bring their value in later phases, such as validating hypotheses quantitatively. Maurya (2012) has laid out some principles for an effective customer interview. He strongly highlights the importance of few notes - building an interview framework around asking open questions instead of a sales pitch, sticking to a script, picking a neutral location and asking for enough time. He also recommends face-to-face interviews without providing incentives to customers interviewed, not recording them, and documenting the results immediately after an interview. Taking someone along to the interview ensures that nothing vital in the answers is missed.

3.1 Finding prospects to talk to

Knowing the interviewee already makes the situation more comfortable, so first-degree contacts that fit the target group should be the people to start with. Later, it's crucial to expand the network of interviewees by asking for introductions. The "local card" might help as well - people generally like to talk to people they can identify with. One effective technique could be creating a "teaser page" with the initial UVP and collecting email addresses or other contact details via subscriptions, but a lot of entrepreneurs prefer or have to stick to "traditional" channels such as cold calling, LinkedIn and cold emailing.

3.2 Different types of interviews

The problem interview

In the problem interview, the goal is to understand the customers' views of the world and validate hypotheses related to problem- and customer segment boxes of the Lean

Canvas. From the risk tackling perspective, the relevant questions attempted to get answers to are such as:

- What is the customer problem that you should be solving (product risk)?
- What are the existing alternatives and what's the competition environment like (market risk)?
- What kind of people need or want the product most (customer risk)?

In order to clearly document the results, falsifiable hypotheses on these questions need to be formulated. A sequence for a problem interview could be of following structure:

1. Welcome: brief the interviewee
2. Collecting demographics: asking introductory questions in order to identify which customer segment the interviewee represents
3. Telling a story: setting a problem context
4. Problem ranking: laying out different problems and asking them to be ranked
5. Testing the problem by exploring the customer's worldview: how do they address the problems at the moment?
6. The wrap-up: asking for a permission to follow-up, ensuring the interviewee maintains interest in the issue, and asking for introductions of referrals to find more potential prospects to be interviewed
7. Documenting the results: each of the interviewers independently document the information gathered in the interview and de-brief later on. When the problem interview loop is running, results should be reviewed on a weekly basis to refine the problems. The problem interview stage is finished when three criteria are met: the entrepreneur is able to identify the demographics of an early adopter, a must-have problem and can describe the existing alternatives currently available.

The solution interview

After the problem interview stage, it's vital to start collecting data to formulate a viable solution.

The idea is to test the solutions with a demo before starting to build an actual product. At this point, the entrepreneur has a clear image on the problem and the product's existing alternatives (information from the problem interviews), so next questions to tackle would be:

- Who are the early adopters (customer risk)?
- How will the company's product solve their problems identified (product risk)?
- What should be a sustainable pricing model to ensure revenue stream (market risk)?

With a demo, the objective is to validate that the solution will solve their problem. The demo later defines the development of an MVP. The demo needs to be realizable and real-looking, but easy to build and quick to iterate. Possible mediums for a demo could be, for instance, videos or mock-ups when building a software product or other intangible form of service, and sketches, CAD-models or early prototypes when building physical products. Testing the pricing model is an important step in the solution interview. When it could be tempting to simply ask what the prospect would be ready to pay for a product, this approach is puzzling because usually the economic justification of a non-existent product is difficult to designate. Maurya (2012) states that in the solution interview stage it's smart to mix up the old prospects that fit the early adopter demographic from the problem interview stage and have agreed with a follow-up actions, with new ones.

A solution interview formula could be for instance the like of a following one:

1. Welcome: brief the interviewee
2. Collecting demographics: introductory questions to further qualify the early adopter segment
3. Telling a story: setting a problem context
4. Demonstrating the solution carefully: finding out which parts of the demo resonate the most, what is not that important and what features are clearly missing
5. Pricing test: beginning with a starting price and making notes on possible hesitation, reluctance or direct approval

6. The wrap-up: follow-up permission, possible concrete commitments and potential referrals on future interviewees
7. Result documentation

As with the problem interview cycle, weekly reviews ought to lead to killing or adding features, confirming or starting over with hypotheses and refining the pricing model. The solution interview stage is done when the entrepreneur is able to (still) identify the demographics of the early adopter segment, still has a must-have problem to solve, can define the minimum features needed for the solution, has a price in mind that the customers would be willing to pay and, therefore, can think of building a viable business around it.

4. Getting to the MVP release

This thesis, exploring the Lean Startup philosophy and the Running Lean method, has a strong emphasis on constant learning in business development. Most of this learning happens after the MVP (Minimum Viable Product) release, so getting to this stage shouldn't take too much time from the start. The learning cycles related to the MVP release should begin as soon as possible after the pre-MVP interview stages. The first step required to be taken is to reduce the form of the MVP to the product's pure essence- when crafting the MVP a startup has to be building the smallest possible version of the product. Each feature has to justify its existence in the MVP. The UVP (Unique Value Proposition) makes a promise on solving the customers' most important problem, and the MVP is to deliver only on that promise, not anything else. In short, the potential features can be labelled as "must have -features", "nice to have -features" and "not needed features". Obviously, the not needed features have to be eliminated immediately, the nice to have ones archived to backlog (unless the feature happens to be a requirement for a must have -feature), and the must have -features to be concentrated in. Feature related, possible specific customer requests brought up in the interviews should naturally be considered as well. Maurya (2012) recommends a trial period, for example 30 days. This gives the entrepreneur extra time to worry about merchant accounts and other technicalities related to billing and payment collection. He also states that instead of wasting time on mere optimization, the focus in MVP release should be on accelerated learning, which the trial period allows (the optimization can be done when charging for the product).

4.1 Activation flow

After deciding on a trial period and distilling the features list, an activation workflow needs to be constructed. The activation flow is essentially a funnel that describes the path customers take from the first signup to the first gratifying user experience. The activation flow should contain only the critical steps of gathering information on leads. A simple enough activation flow allows the entrepreneur to spot where the prospects drop off if they do, and enables effective troubleshooting.

4.2 The marketing website

The purpose of the marketing website is to sell the product. It's the most crucial acquisition driver. In its essence, the marketing website consists of a landing page that is followed by other pages constructed to encourage an unaware site visitor to move forward in the funnel and turn to a interested prospect. The landing page focuses on the UVP supported by visuals, with a straightforward call-to-action. The calls-to-action are vital on every page in order to drive traffic forward. Primary calls-to-action lead to the next funnel stage, secondary ones could produce extra information on the product. Other highly important pages on a marketing website are the "About" -page and the "Terms of Service / Privacy Policy" -page. The About page contains information on the company, tells its story and allows for the customers to connect; its idea is to provide a compelling reason to not explore the competitors' alternatives. Terms of Service and the Privacy Policy have to be adequate to meet the regulatory requirements, to avoid legal collisions. Some products, having technical information that the early adopters could find interesting, could benefit from a tour page as well. The tour page provides specifications and details on the product.

4.3 Measurement preparation

When the customer lifecycle is successfully visualized and the marketing website is built up, the need to define metrics to investigate after MVP release emerges. The terrain before product/market fit consists mostly of qualitative learning, but some actionable metrics have to be followed in order to efficiently measure what the customers do. The goal of the measurement is not to optimize conversion rates, but to identify problematic spots that the prospects get stuck with and then troubleshoot them. An actionable metric is a metric that ties specific and repeatable actions to

observed results (Maurya, 2012). The opposite of an actionable metric is a vanity metric, which only documents the current state of the product but does not give information on why the state is such and how to iterate forward. Examples of vanity metrics are the number of website visitors or number of downloads of a piece of content. Alone, they might keep growing continuously but do not provide relevant insight into the business development without the other metrics around them. In addition, effective interpretation of metrics demands active communication with customers. When disappointed with a user experience, customers rarely report on that proactively but rather just abandon the product and forget its existence. They have to be reached out to find out why they were not satisfied. After the MVP launch, the startup loses control on who uses its product. This is why segmentation preparation is vital too; the product might summon target groups not yet identified and business-wise unnecessary traffic (i.e. bot traffic) as well. To avoid errors in metrics interpretation, these segments have to be divided from each other and their metrics treated differently. Because of all the mentioned reasons, a solid conversion dashboard for exploring metrics and making conclusions based on them is needed.

4.4 The MVP interview

Before launching the MVP, it's advisable to seek confirmation for the development from early adopters face-to-face. After learning from them, design, positioning and pricing can still be refined for the proper MVP launch. The marketing website, conversion dashboard and the MVP itself are all needed for a proper set of MVP interviews. The goal is to sign the prospect up for the product or the service, and whilst doing that, test messaging, price point and activation workflow. It's particularly vital to conduct these interviews in person. In an MVP, the risk control questions the entrepreneur is looking for answers to are following:

- Does the landing page get noticed, do customers fluently get through the activation funnel, are there usability flaws and does the MVP demonstrate and deliver on the Unique Value Proposition (product risk)?
- Are the chosen channels going to generate the revenue stream targeted (customer risk)?
- Is the price point on a correct level (market risk)?

A following framework of an MVP interview is workable for getting these answers:

1. Welcome: the brief
2. Showing the landing page: finding out if the product promise is clear and if the call to-action click is the natural next step
3. Showing the pricing page: finding out what the interviewee thinks about the price point
4. Signup and activation workflow: making sure that the prospect navigates through the funnel correctly
5. The wrap-up: what did the customer think about the process, what can be improved and is he or she aware what will happen next?
6. Result documentation

4.5 Customer lifecycle validation

The last step before the MVP launch is to validate the customer lifecycle and improve all the steps needed to ensure that the MVP really works when it's launched. In other words, the customer lifecycle needs to be validated onwards. Firstly, giving and receiving feedback from customers has to be made effortless. Easy to-use feedback channels give the customers the picture that they are being cared about. The amount of feedback or support likely won't, at this early stage, cause a scaling problem of too many contacts. In addition, tech support is a good channel of gaining feature feedback and, at its best, can accelerate learning on technology-related issues of the product. It also offers an opportunity to ask questions from interested prospects and increase commitment, referral and goodwill - tech support is a marketing channel as well. If a trial period is being used, active troubleshooting should be applied immediately when possible. First objective is to reduce churn and abandonment on acquisition and activation paths, moving then on to increasing retention and engagement, getting paid, and collect favourable customer testimonials.

Validating and troubleshooting the acquisition and activation paths

The primary objective of validating and troubleshooting the acquisition and activation paths is to make sure enough traffic is driven to keep the learning cycle running. Examining the possible flaws in the process allows the entrepreneur to find out where the users drop off the acquisition / activation funnel if they do - and more importantly,

where it happens the most. One should try to identify certain patterns in this; for instance do certain types of users (e.g. mobile / desktop platform users) have higher drop-off rates than others? When the problematic user groups have been specified, the next step is to extract a list of users that experienced the most failures at particular steps in the funnel and contact them. Only by reaching out to them and finding out why this happened, needed correcting operations can be done and the errors fixed.

Validating and troubleshooting the retention path

The priority when validating and troubleshooting the retention part of the funnel is to get users to really use the product during the trial period. Email is a viable channel for such reminders as it can be automated, tracked and measured and reaches out to largely everyone. Email optimization can be applied for instance in a marketing automation platform to automatically send correct types of messages depending on the prospect's stage in the funnel. Other important aspect of this is to reach out and follow up with the early adopters and get their qualitative feedback on the service.

Validating and troubleshooting the revenue path

The goal of validating and troubleshooting the revenue part of the funnel is to ensure that the entrepreneur is getting paid by the users. This in mind, a payment system has to be implemented at the latest in this stage. Reaching out to paying customers and talking to them is vital in order to figure out details such as how they heard about the product, why they did the purchase and what could be improved further on. Contacting the "lost sales" leads is equally important, from the learning perspective and as well because they could be talked over.

Validating and troubleshooting the referral path

In this last part of the funnel, the idea is to get customer testimonials to be used as third-party recommendations on the marketing website. Short paragraphs by happy customers on positive experiences are sufficient enough.

5 The MVP launch

Maurya (2012) determines that the product is ready for the MVP launch, when at least 80% of the early adopter group consistently makes it through the conversion funnel. More specifically, they should be able to fluently understand the Unique Value Proposition (UVP), sign up successfully, accept the pricing model, make it all the way

through the activation workflow and provide positive feedback when asked. Right before the launch (when being confident that the MVP works), the entrepreneur's final step is to revisit the acquisition channels to make sure a constant stream of potential prospects are entering the conversion funnel. This is not, however, the best time for channel optimization. The primary channels can be supplemented by secondary channels, if needed - the goal is to establish just enough traffic to learn more after the launch and then validate the next steps to reach the Product/Market fit. If one has managed to establish a large pool of warm prospects, early access signups can be attempted to acquire from these leads before the actual MVP launch.

6 Feature iteration towards the product/market fit

The product/market fit can only be reached via systematically iteration and validation. After the MVP has been launched, various procedures are yet to be made in order to find the optimal scaling point. These steps mainly follow the learning-based iteration process introduced in this thesis.

6.1 Feature development

In a great market - a market with plenty of real potential customers, the market pulls the product out of the startup without unnecessary feature-pushing (Andreesen, 2007). After the launch, usually feature requests start to pour in and the customers have different desires and expectations concerning the product development. The obvious reaction of a startup is to build more features, but that is usually not the smartest road to take. Too much features quickly make the MVP complicated and software development of new features takes time compared to troubleshooting the errors identified. Future feature ideas should be treated like experiments - kept in the backlog until further priority has been determined. Building and validating multiple features can become an "addiction" of a kind and lead to waste (Yoskovitz, 2009). Maurya (2012) recommends an 80-20 -rule in feature development - 80% of the entrepreneur's time should be concentrated to measuring and improving existing features, whereas 20% of energy and time should go on developing new ones. A good practice for constraining the features pipeline is to use the classic Kanban board system. A Kanban board is a workflow visualization tool that gives a good chance to optimize the flow of work (Leankit, 2017). Simply enough, the Kanban cards are moved in the board from left to right as they reach a new stage of development.

Kanban board (Denver Peak Academy, 2015)

A Kanban board helps with feature tracking very much in the same way that a conversion dashboard helps with marketing metrics. In this context, the buckets could be such as “Backlog”, ”In Progress” and ”Done”. All potential features (improvements to existing features, customer feature requests, own feature wishes such as nice-to-haves identified earlier) start from the backlog, which should be in decent priority order all the time. Before going any further, it’s important to analyse whether the feature is important enough in the first place to be implemented. One method for measuring this is to think it through the concept of a “Minimal Marketable Feature”, MMF. Minimal Marketable Feature is the smallest portion of work that provides value for customers - if it’s remarkable enough to cause a need for any marketing, it’s remarkable enough to be implemented (Denne & Cleland-Huang, 2003). A good test to find out whether the feature is an MMF or not is to think about whether it’d be worthy enough for announcing it in a blog post, newsletter, video or such. Features too tiny to mention are not worth developing. From the backlog the features move on to the “In Progress” stage. The “In Progress” -stage obviously holds in multiple of sub-steps, such as coding and deploying. The idea of the Kanban board is that it only allows a certain number of projects to fit in a certain stage, allowing to maximize throughput while minimizing waste. Maurya (2012) sees that a suitable size for the “In Progress” -bucket in the early stage would be one feature per founder / team member. The work-in-progress -limit effectively maintains the need for thorough examination of feature requests, as they have to be carefully prioritized from the MMF perspective. In the ”In Progress” -stage, developing features that are customer-initiated starts with contacting the customer and ensuring that the problem is correctly understood on the both sides of the table. This serves for finding the root cause of the problem – though the customer might be asking for a specific solution, a more effective way of solving the problem could also exist. Also, making the customer to sell the need for the problem helps to distinguish the nice-have -features from the must-have -ones. Internal feature requests are not to be treated any differently; in this context the other team members will do the work introduced in the previous paragraph. The features that are really worth solving, move on to the mock-up -stage in which a sketch of the solution is conducted. After the mock-up is ready, an interview resembling the Solution interview takes place and validates the solution

through the iteration process. Only after this validation the building of the feature, such as coding, takes place. When the feature is ready and established, it's moved to the "Done" -bucket and released. Partial rollout is a smart move deployment -wise, as it allows for A/B -testing with a few target groups: do customers really act differently with the feature or without it and what is the effect on the workflow or metrics such as revenue? These results might as well vary depending on the customer segments. The final validation is made through usability interviews similar to the MVP interview to correct errors and make final changes before full-on feature rollout. Quantitative verification is needed in the feature development as well, so after the full rollout the metrics need to be compared in a larger scale.

6.2 Feature request prioritization

Upon arrival, the feature requests have to be carefully analysed to determine what should be done with them. The first phase is to compare the request against the product's immediate needs and priorities; whether it's the right time for this specific action or not. After that, it's vital to consider whether the feature requested is essentially a minor bug or a more relevant MMF. Emergency situations, such as workflow crashes, obviously ought to be fixed right away - the others will go to the backlog bucket of the Kanban board.

5. REACHING THE PRODUCT/MARKET FIT

Via constant learning, rigorous iteration, careful validation and hard work, the startup finally begins to get closer to the Product/Market fit - the point where scaling of the business could start. The first step in defining when this point has been reached is to set a metric to measure it. Only with a decisive metric the founders can systematically iterate toward achieving the Product/Market fit. **Andreesen (2007)** defined Product/Market fit widely by being in a good market fit a product that can satisfy that market, but more concrete goals have to be set to measure the Product/Market fit. The American entrepreneur, angel investor and startup advisor Sean Ellis has a viable model for this, in the form of a qualitative survey to find out if the product has enough traction. The very key question in this survey is "How would you feel if you could no longer use the product?", in which the customers have following alternatives to answer with:

1. Very disappointed
2. Somewhat disappointed
3. Not disappointed (it isn't really that useful)
4. N/A - I no longer use the product

If the finding is that more than 40% of users say that they will be “very disappointed” without the product, there’s a great chance a sustainable and scalable customer acquisition growth can be built (Ellis, 2010). Ellis determined the 40% benchmark by comparing the results of hundreds of startups. He concluded that the startups reaching results above 40% in this survey generally are able to scale the business, whereas companies with results under 40% consistently struggle with scaling issues. The test requires the results to be of statistical significance, so a large enough sample size has to be formed - with various customer segments represented. When close enough to the Product/Market fit, the test helps the validation, but until then more iteration is needed.

Steering the product toward Product/Market fit

Iteration toward Product/Market fit happens by following the customer lifecycle conversion metrics. The two key metrics to measure are activation and retention, which together make up the value metrics. The revenue metric, as valid as it is in many ways, does not necessarily correlate well with the Product/Market fit because of multiple simple reasons. Someone else might be paying for the product on behalf of the customer, or they might as well just forget to cancel the subscription. The customers surprisingly often do keep paying for products they don't use. While revenue is the first form of validation, retention is the ultimate form of validation (Maurya, 2012). Furthermore, in one-time products that are bought without a subscription, the revenue will follow the Product/Market fit whereas in multiple- use products it will follow activation and retention. In short, decent revenue is a result of finding the Product/Market fit, not vice versa. Maurya (2012) recommends a following iteration framework in order to determine if

Product/Market fit has been reached:

1. Conversion dashboard results need to be reviewed as frequently as on a weekly basis

2. The feature development backlog has to be effectively prioritized
3. Formulating bold hypotheses and testing them with the smallest things possible to build to run the experiment
4. Reviewing all the features constantly to ensure that they have a positive impact (the features that don't have to be reworked upon or killed)
5. Monitoring the value metrics - activation and retention - and making sure they grow steadily
6. Running the Sean Ellis test when the retention numbers approach 40% the early traction exit criteria are:
 - 40% retention of users
 - Passing the Sean Ellis test.

When these two criteria have been met, the Product/Market fit has been found.

6. CONCLUSION

Finding the Product/Market fit is the first significant milestone and an invaluable achievement in the lifetime of a startup, because it allows the company to start scaling. Before achieving sustainable growth, for instance churn and cost of customer acquisition as well as viral coefficients and customer lifetime value -related metrics still probably have to be concentrated in, but the real remarkable accomplishment is to build something that the people want to buy and credibly confirm it. When demonstrated, this early traction - the Product/Market fit - gives the entrepreneur a permission to shift toward achieving sustainable growth via a scalable business model. When reaching Product/Market fit, at least some level of success is almost guaranteed and with continuous tuning of growth engines a startup is able to cross the chasm between early adopters and mainstream customers. The key is to build a culture of constant learning and follow the framework in a thorough manner. No methodology can promise absolute success, but the Lean Startup and Running Lean philosophies provide a repeatable process and an actionable model for building products that achieve the Product/Market fit and then can be scaled to produce prominent revenue.



Module 4

MANAGEMENT

ACCOUNTING, COST

ACCOUNTING, INCOME

TAX AND GST



NIAM Agri-Business Incubator (NABI)

Ch. Charan Singh National Institute Of Agricultural Marketing (CCSNIAM)
(An Organization of Ministry of Agriculture & Farmers' Welfare, Government of India)
Kota Road, Bambala, Pratap Nagar, Jaipur – 302033, Rajasthan
Website: www.ccsniam.gov.in

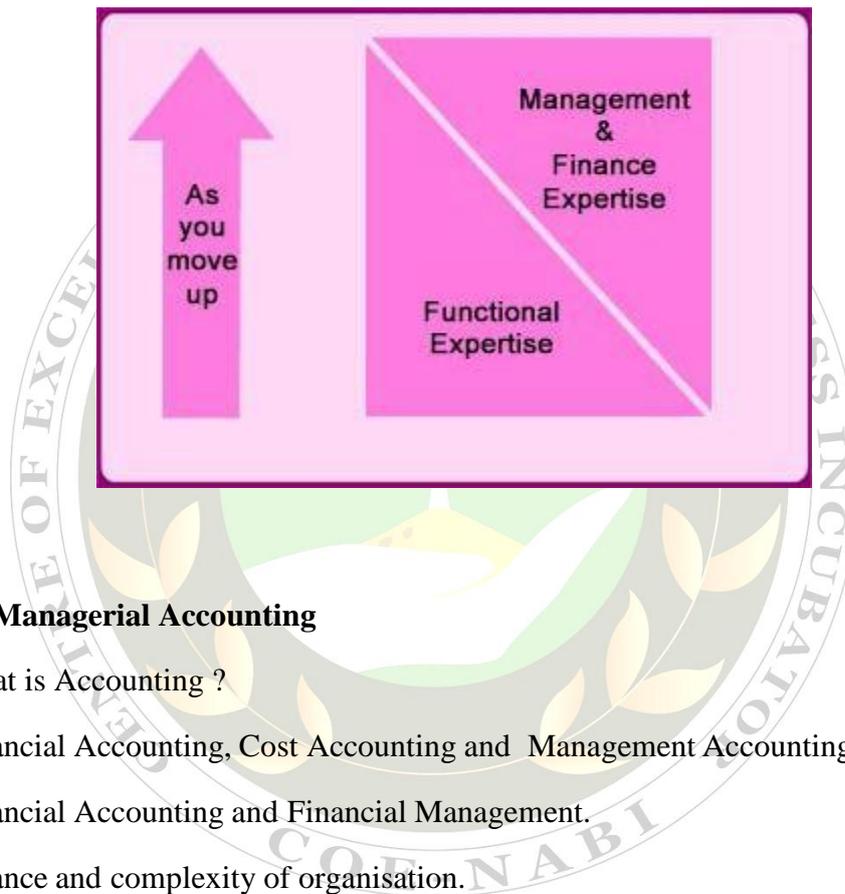
Chapter-1

FUNDAMENTALS OF MANAGEMENT ACCOUNTING

Need to Know About Accounting:

“Why do I need to learn about finance ... I am very good in my own area of specialization” How would you react to the above statement?

The job content



About Managerial Accounting

- What is Accounting ?
- Financial Accounting, Cost Accounting and Management Accounting.
- Financial Accounting and Financial Management.
- Finance and complexity of organisation.

Accounting

- Language of Business.
- Performance is reported and evaluated in financial terms.
- Knowledge is useful for personal investment and tax planning as well. It is not necessary to become accountant.
- But its very useful if every one understands the accounting and financial concepts and terminology properly.

Need to Learn Accounting

- It assists in management.
- Will help in planning, organisation and control of business.
- Leads to increase in efficiency of business.
- Profit maximization.

Streams of Accounting

- Financial Accounting,
- Cost Accounting and
- Management Accounting.

Let us understand the similarities and difference in these three streams of accounting.

Financial Accounting

Recording of Financial Transactions. Reporting of Financial Results. Preparation of Financial Statements. Targeted to External Users.

Cost Accounting

- Recording of Costs. Analysis of Costs.
- Preparation of Cost Statements.
- Targeted to Internal Users.

Management Accounting

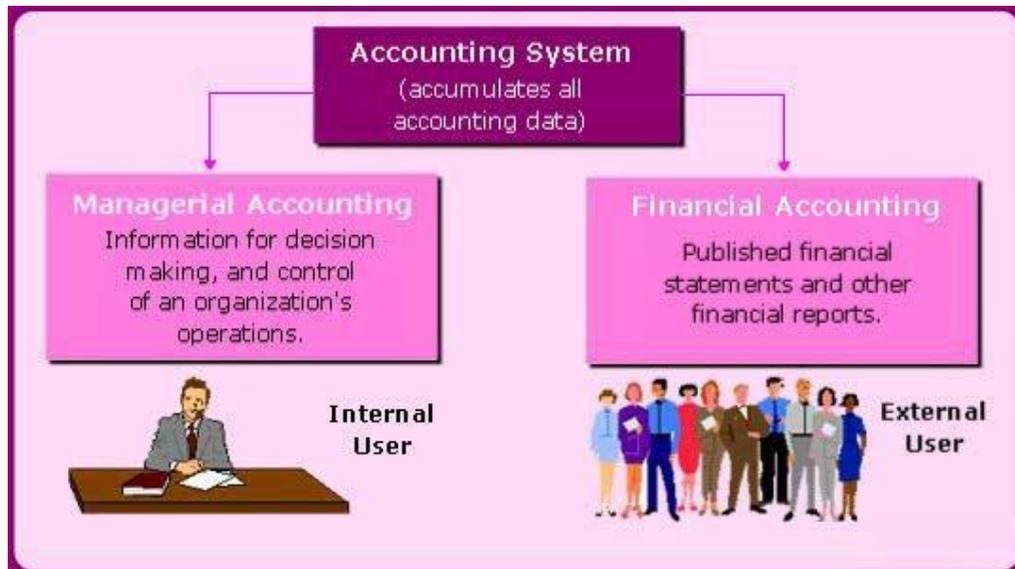
- Recording of Financial & other data. Analysis of Financial and other information. Preparation of Statements for Managerial Decisions.
- Targeted to Internal Users - All levels of Management.
- This is a broader concept encompasses Financial and Cost Accounting.

Financial Management

- Financial Accounting, Managerial Accounting and Financial Management: Relationship. Financial Management deals with raising and utilization of funds.
- Raising of funds may include Cost of Capital, Capital Structure decisions, Capital Markets, IPOs and so on.

- Financial Management deals with raising and utilization of funds. Utilization of funds may include Capital Budgeting, Portfolio Management, Working Capital, Management and so on.

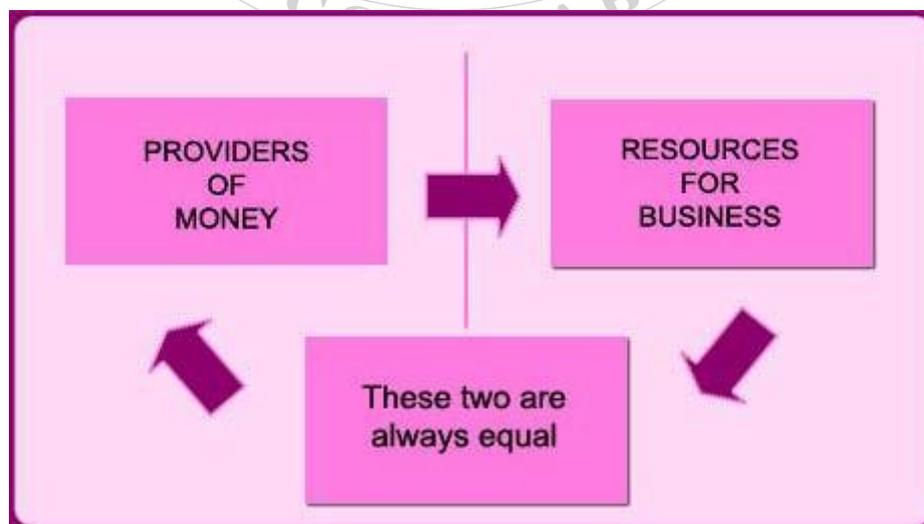
Managerial V/s Financial Accounting



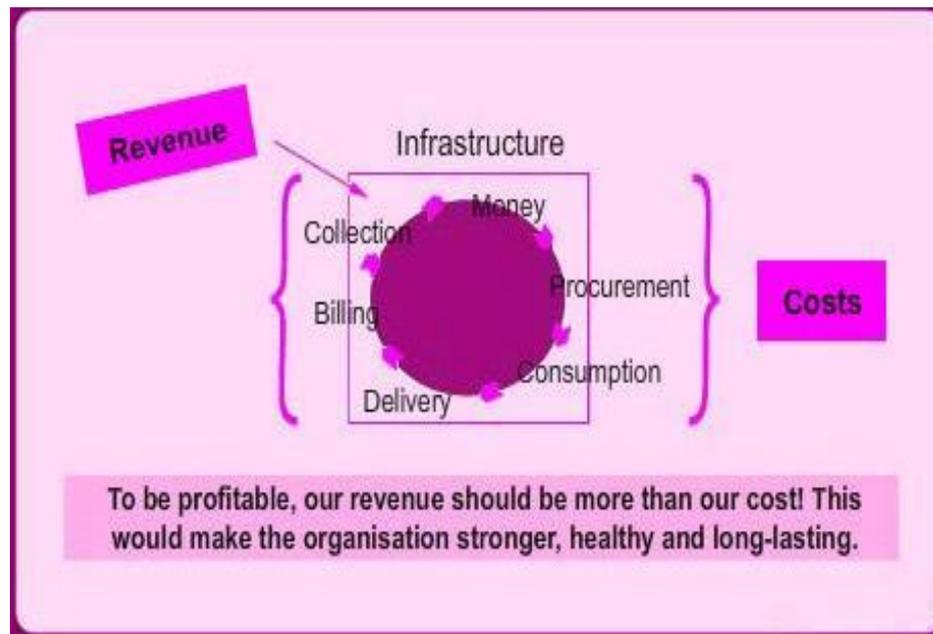
Complexity of Organization

- Finance and complexity of organization. As the organizations grow, they become complex. Ownership and Management are separated. Ownership is widespread.
- This increases the importance of Finance function.

Company or Organization



The Basic Business Model



Accounting Concepts :

Money Measurement Concept

Money is the medium of exchange and the standard of economic value. Hence money measurement concept requires that only those transactions which are capable of being measured in terms of money are to be recorded in books of accounts. Transactions that cannot be expressed in terms of money are not recorded in books.

Example1

Successful meeting with a prospective customer may be very important but can not be recorded in the books of accounts.

Example2

Employees are the valuable resources of the organisation but their measurement in monetary terms is not possible therefore, not recorded in books.

Double Entry

- Dual aspect concept is the core of double entry book-keeping system.
- According to it, every transaction has two aspects and both aspects are to be recorded in the books of accounts.

- Double entry system of book-keeping means that all transactions are recorded in two aspect one involving the receiving benefit and other giving benefit in the accounts system.

For instance, buying a machinery for Rs.25,000 would be entered as a decrease in the cash account, and as an increase in the ‘machinery’ account.

- The advantage of a double entry system is that it is comprehensive.
- It will give you an accurate picture of your true financial position, not just your cash position. As non-cash transactions can be huge, this is extremely important for robust financial management.
- The disadvantage of double entry bookkeeping is that it needs significant details for regular maintenance of books and not always easy to use. It generally needs a qualified accountant to run it.

Every transaction has two aspects:

- it increases one asset and decreases other asset.
- it increases an asset and increases other liability.
- it decreases an asset and decreases a liability.
- it decreases one liability and increases other liability.

Single Entry: It is difficult to define single entry system because, in fact, there exists no system like single entry system. Broadly speaking, it is a defective double entry system. Any system that falls short of complete double entry method is called single entry system. Under this method, sometimes both the aspects of transactions are recorded, sometimes only one aspect is recorded or sometime no aspects of transactions is recorded in the books.

In short single entry system may be called a mix of double entry, single entry and no entry. For instance, buying a Machinery for Rs.25,000 would be entered as a payment in a cashbook. It has the advantage of being simple, and spontaneous to use. However, it may not account for non-cash (or non-bank) transactions. These are transactions that will have a significant effect on the accounts, but do not immediately cause a change on the cash or bank accounts.

Example

Goods sold on one months credit are not be recorded in the system at the time of sale of goods. This will create a situation where a businessman can not anticipate exact cash position of the particular month and therefore wrong planning.

Example of a non-cash transaction is ordering a Machinery for Rs.25,000. The machinery might take a month to arrive. During that month, a single entry system would not record the transaction on the formal accounts. This would mean that the accounting system has not shown liability of Rs.25,000 payable to machinery suppliers: a dangerous situation.

Forms of Business Organization

- Sole Proprietorship
- Hindu Undivided Family
- Partnership
- Limited Liability Partnership
- Company
- Co-operative Society

Sole Proprietorship

It is a business owned and usually carried on by a single person known as proprietor. When the ownership and management of business are in control of one individual, it is known as sole proprietorship.

Hindu Undivided Family

Hindu Undivided Family (HUF) business is a form of business organisation found only in India. In this form of business, all the members of a Hindu undivided family own the business jointly. The affairs of business are managed by the head of the family, who is known as the “KARTA” (can be male or female).

HUF business comes into existence as per the Hindu Inheritance Laws of India. The membership is limited up to three successive generations. Thus, an individual, his child(ren), and his grandchild(ren) become the members of a HUF by birth. They are called Co-parceners. A daughter can also be a coparcener.

Partnership

- A partnership is a relationship between the persons who have agreed to share the profits. It is a business owned and carried on by a group of people.
- Each member of such a group is individually known as partner and collectively the members are known as a partnership firm.

These firms are governed by the Indian Partnership Act, 1932. Registration of partnership is not compulsory. But since registration entitles the firm to several benefits, it is considered desirable.

Limited Liability Partnership

Limited Liability Partnership (LLP) can be formed by any two or more person, associated for carrying on a lawful business with a view to profit, may by subscribing their names to an incorporation document and filing the same with Registrar.

- Limited Liability Partnership (LLP) is a separate legal entity.
- Liability of the partners is limited to their agreed contribution in the LLP.
- A firm, private company and unlisted public company is allowed to be converted into LLP in accordance with Provisions of the LLP Act 2008.
- The Indian Partnership Act 1932 is not applicable to LLPs.

Company / Corporation

Company form of business organisation is a voluntary association of persons to carry on business. Normally, it is given a legal status and is subject to certain legal regulations. It is an association of persons who generally contribute money for some common purpose. The money so contributed is the capital of the company.

- The persons who contribute capital are its members. The proportion of capital to which each member is entitled is called his share, therefore members of a joint stock company are known as shareholders and the capital of the company is known as share capital.
- The companies are governed by the Indian Companies Act, 1956. The Act defines a company as an artificial person created by law, having separate entity, with perpetual succession and a common seal.

Co-operative Society

Any ten persons can form a co-operative society. It functions under the Co-operative Societies Act, 1912 and other State Co-operative Societies Acts. A co-operative society is entirely different from all other forms of organisation discussed above in terms of its objective. The co-operatives are formed primarily to render services to its members.

Every member has a right to take part in the management of the society. Each member has one vote. Generally the members elect a committee known as the Executive Committee to look after the day to day administration and the said committee is responsible to the general body of members.

- The liability of the members is limited to the extent of capital contributed by them.
- Registration of a society under the Co-operative Societies Act is a must. Once it is registered, it becomes a body corporate and enjoys certain privileges just like a joint stock company.

Stakeholder

Stakeholder is a person who has a legitimate interest in an entity.

- Investors.
- Management of enterprise.
- Creditors / Lenders.
- Government.
- Employees.

Investor

Investor study the Financial Statement of the company before deciding upon whether to buy or not a business or shares.

If they intend to buy, then the fair value of business or shares is also determined on the basis of the detailed analysis of the Financial Statement. Prospective investors make use of financial statements to assess the viability of investing in a business.

Management

Managers are the main users of the Financial Statement. They use the financial statement.

- To make the inter firm and inter period comparison.
- To study trends in sales, expenses etc.
- To understand the relationship among various items of financial statement.
- To understand the relationship among various items of financial statement.
- To know movement of funds through Fund Flow Analysis.

Creditors/ Lenders

Creditor or Lender study the Financial statement of the borrower before advancing credit or loan. Thereafter also the creditors and lenders analysis the Financial statement to find out whether the business is solvent (in position to repay the loan).

Government

The amounts payable by concern by way of taxes levied by Government such as Income Tax, Sales, Tax, Excise etc. are examined on the basis of the data in Financial Statement.

Employees

Employees also use Financial Statements in making collective bargaining agreements with the management, in the case of labour union or for individuals in discussing their compensation, promotion and rankings.

Chapter–2

FINANCIAL STATEMENTS

Financial statements are records that provide an information of an individual's, organization or business financial status. They are normally prepared for general or specific purposes.

General Purpose Financial Statement:

- Balance Sheet
- Profit and Loss A/c
- Cash Flow Statement
- Fund Flow Statement
- Segment Revenue Report

Specific purpose Financial Statement:

- Departmental Budget.
- Computation prepared for Income Tax Purpose.

Balance Sheet

Balance Sheet portrays value of economic resources controlled by an enterprises and the way they are financed.

A balance sheet or statement of financial position is a summary of the financial balances of an entity on a particular point of time. i.e. summary of organization's assets, liabilities and equity as of a specific date.

Balance Sheet (Format)

Liabilities	Rs.	Assets	Rs.
Owners Fund	XX	Fixed Assets	XX
Non Current Liabilities	XX	Non current Investments	XX
Current Liabilities	XX	Current Assets	XX

Every balance sheet shall give a true and fair view of state of affairs of the company as at the end of financial year.

	Particulars	As at	As at
		CY	PY
I	EQUITY AND LIABILITIES		
1	Shareholder's Funds		
	(a) Share Capital	-	-
	(b) Reserves and Surplus	-	-
	(c) Money received against Share Warrants	-	-
2	Share Application Money pending allotment	-	-
3	Non-Current Liabilities		
	(a) Long-Term Borrowings	-	-
	(b) Deferred Tax Liabilities (Net)	-	-
	(c) Other Long Term Liabilities	-	-
	(d) Long-Term Provisions	-	-
4	Current Liabilities		
	(a) Short-Term Borrowings	-	-
	(b) Trade Payables	-	-
	(c) Other Current Liabilities	-	-
	(d) Short-Term Provisions	-	-
	TOTAL	-	-
II.	ASSETS		
1	Non-Current Assets		
	(a) Fixed Assets		
	(i) Tangible Assets	-	-
	(ii) Intangible Assets	-	-
	(iii) Capital work-in-progress	-	-
	(iv) Intangible assets under development	-	-
	(b) Non-Current Investments	-	-
	(c) Deferred Tax Assets (Net)	-	-
	(d) Long-Term Loans and Advances	-	-
	(e) Other Non-Current Assets	-	-

2	Current Assets		
	(a) Current Investments	-	-
	(b) Inventories	-	-
	(c) Trade Receivables	-	-
	(d) Cash and Cash Equivalents	-	-
	(e) Short-Term Loans and Advances	-	-
	(f) Other Current Assets	-	-
	TOTAL	-	-

Elements of Balance Sheet

- Assets,
- Liabilities,
- Owners Fund.

Assets

- Probable future economic benefit.
- What is owned or controlled.

Examples

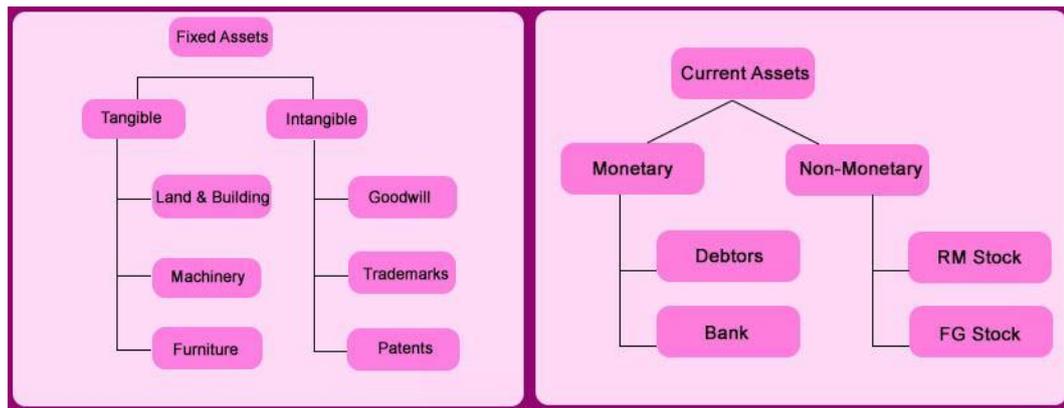
- Cash.
- Land and Building. Investments.
- Machinery.

An asset is a resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise.

Resource must have a cost or value that can be measured reliably.

Types of assets

- Fixed Assets.
- Current Assets.



Liabilities

- A liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow of a resource embodying economic benefits.
- A liability is an existing obligation based on the evidence available on balance sheet date.
- A liability is recognised when outflow of economic resources in settlement of present obligation can be anticipated and the value of outflow can be reliably measured.

Long-Term Liabilities

Long-term liabilities are a company's debts or obligations that are to be repaid or performed beyond one year.

Source of fund

Examples:

- Bank Loan
- Loan from Financial Institution
- Debentures

Current Liabilities

Current liabilities are a company's debts or obligations that are to be repaid or performed within one year.

Emerge from normal business.

Examples:

- Creditors (Accounts Payable)
- Outstanding Expenses
- Interest accrued but not due on Loan. Provision for Tax
- Bank Overdraft

Provision:

Provision means any amount retained by way of providing for any known liability of which amount cannot be determined with substantial accuracy. Provision refers to an amount set aside for meeting claims which are admissible but the amount whereof has not been confirmed.

Examples

- Provision for payment of electricity charges (but bill is not yet received).
- Provision for taxes (till final amount is assessed by authorities.).
- Provision for bonus.
- Amount set aside for writing off bad debts.

Contingent Liability

Contingent liability can be defined as

- A **possible** obligation that arises from past events and the existence of which will be confirmed only by occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise.
- A **present** obligation that arises from past events but is not recognised because it is not probable that an outflow of resources consisting economic benefits will be required to settle the obligation or a reliable estimate of the amount of the obligation cannot be made.

Owners Fund

Owners fund is defined as residual interest of an enterprises after deducting all its liabilities. Owners fund is the excess of aggregate assets of an enterprises over its aggregate liabilities.

Balance Sheet Equation : Assets = Liabilities + Owners Fund

Therefore,

Owners Fund= Assets – Liabilities

Owners Fund= Capital + Retained Earnings

$$A = L + O$$

Profit and Loss Account

Profit and loss account discloses the result of the working of an entity during the accounting year. Profit and loss account measures the income generated by the entity.

Elements of Profit and Loss Account

- **Income**
- **Expenses**

Profit & Loss A/c (Simple Format)

Particulars	Amount
Sales	XX
Cost of Goods Sold	(XX)
Gross Profit	XX
Other Expenses	(XX)
Tax	(XX)
Net Profit	XX

	Particulars	Year Ended	Year Ended
	<u>(format as per revised schedule VI)</u>	XXXX	XXXX
I.	Revenue from Operations	-	-
II.	Other Incomes	-	-
III.	Total Revenue (I + II)	-	-
IV.	Expenses:		
	Cost of Materials Consumed	-	-
	Purchases of Stock-in-Trade	-	-
	Changes in Inventories of Finished Goods, Work-in-Progress and Stock-in-Trade	-	-
	Employee Benefit Expenses	-	-
	Finance Costs	-	-

	Depreciation and Amortization Expense	-	-
	Total Expenses	-	-
V.	Profit before Exceptional and Extraordinary Items and Tax (III - IV)	-	-
VI.	Exceptional Items	-	-
VII.	Profit before Extraordinary Items and Tax (V - VI)	-	-
VIII.	Extra Ordinary Items	-	-
IX.	Profit before Tax (VII - VIII)	-	-
X.	Tax Expense:		
	(1) Current tax	-	-
	(2) Deferred Tax	-	-
XI.	Profit/ (Loss) for the period from Continuing Operations (IX - X)	-	-
XII.	Profit/Loss from Discontinuing Operations	-	-
XIII.	Tax Expense of Discontinuing Operations	-	-
XIV.	Profit/(Loss) from Discontinuing Operations (after Tax) (XII - XIII)	-	-
XV.	Profit/ (Loss) for the Period (XI + XIV)	-	-

Income

Income is the increase in economic benefits during the accounting period in the form of inflows or enhancement of asset or decreases of the liability. The definition of income encompasses revenue and gains.

- Revenue is an income that arises in the ordinary course of activities. e.g. sales.
- Gains are income, which may or may not arises in the ordinary course of activities. e.g. profit on sale of fixed asset.

Expenses

Expense is the decrease in economic benefits during the accounting period in the form of outflows or depletion of asset or incurrence of the liability.

- Expense arises in the ordinary course of activities. e.g. wages.

- Losses may or may not arise in the ordinary course of activities. e.g. loss on sale of fixed asset.

Entity Concept

The Entity concept of an accounting practice states that the business enterprises is a separate identity apart from its owner.

- Business transactions are recorded in the books of business books of accounts and owners transactions in his personal books of accounts.
- This concept helps in keeping business affairs free from the influence of the personal affairs of the owner.
- Entity concept means that enterprises are liable to owner for capital investment made by the owner.
- Since the owner invested capital, which is also called risk capital he claims on the profit of the enterprise.

Accrual Basis of Accounting

- Transactions are recognised as soon as they occur, whether or not cash is actually received or paid.
- Accrual basis ensures better matching between revenue and cost of the enterprise during an accounting period.
- Accrual means recognition of revenue and cost as they are earned or incurred and not as money is received or paid.
- Revenues may not be realised in cash.
- Cash may be received simultaneously or before/after revenue is created.
- Expense may not be paid in cash.
- Cash may be paid simultaneously or before/after expense is made.

Matching Concept

The matching concept is an accounting practice whereby expenses are recognized in the same accounting period when the related revenues are recognized.

The matching concept thus helps avoid misstating earnings for a period. Reporting

revenues for a period without reporting the costs of producing those revenues would result in overstated profits.

Prepaid and outstanding Expenses:

Matching concept is based on the accrual concept as it considers the occurrence of expenses and income and do not concentrate on actual inflow or outflow of cash. This leads to adjustment of items like prepaid and outstanding expenses.

Realisation Concept

Any change in the value of an asset is to be recorded only when the business realise it. When an asset is recorded at its cost of Rs. 15 Lakhs and even if its current cost is Rs. 45 Lakhs such change is not counted unless there is certainty that such change will materialise.

However, we follow a more conservative path. We try to cover all probable losses but do not count any probable gain. That is to say, if we anticipate decrease in value count it, but if there is increase in value ignore it until it is realised.

Operating Profit

Operating activities are principal revenue producing activities of the enterprise.

Operating profit is the figure obtained after subtracting personnel, depreciation and other expenses. Operating profit is the surplus generated by the operations.

Profit before Interest & Tax

The company irrespective of method of financing, earns this amount. The only other expense to be met at this stage, is the interest expense.

This is the measure of the operational efficiency of the company. This is usually referred as Earnings before Interest and Tax.

Profit before Tax

Profit before Tax is the surplus after meeting all expenses, including interest.

This is the profit available to company as a result of both its operating as well as financing performance.

Profit after Tax

Profit after Tax is the net amount of surplus earned by the company during the accounting period.

This is the amount available to the company for appropriation. This amount can either be distributed to owners or retained in the business as retained earnings. Not distributing the profit to owners increases the owners' investment in the business.



Chapter–3

RECORDING FINANCIAL TRANSACTIONS

Rules of Journal Entry

1. **Personal Account:** “Debit the receiver and Credit the Giver”.
2. **Real Account:** “Debit What Comes In and Credit What Goes Out”.
3. **Nominal Account:** Debit All Losses and Expenses and Credit All Gains and Incomes”.

Journal

The transactions are first recorded in the book to show which accounts are effected. This book is called as “Journal”. Recording of transaction in journal is termed as journalizing the entries.

- Entries are recorded chronologically to maintain the records in an orderly manner. Journal entries are very important and form basis for all further records.

Ledger

The Ledger is the chief book of accounts, and it is in this book all the business transactions would ultimately find their place under their accounts in a classified form. Thus, the book which contains all categories of accounts (Personal, Real and Nominal accounts) is known as ledger.

Subsidiary Books

- purchase, sales, cash etc. Journalization of each of these transactions separately is laborious and time-consuming.
- To solve this problem subsidiary books are prepared.
- Subsidiary book is a book of original entry generally maintained by large organisation wherein cash and cash transactions are directly recorded avoiding cumbersome process of Journalization without sacrificing the fundamental principle of double entry book keeping system.

Normally, the following subsidiary books are used in business :-

- **Cash book:** To record cash, bank and discount transactions.
- **Purchase book:** To record transaction relating to credit purchases of goods in trade.
- **Sales book:** To record transaction relating to credit sales.
- **Purchase return book:** To record transaction relating to purchase return.
- **Sales return book:** To record transaction relating to sales return.
- **Bills receivable book:** To record the receipts of the promissory notes or hundies.
- **Bills payable book:** To record the issue of the promissory notes or hundies.
- **Journal proper:** To record other transactions for which no specific book is maintained, and for recording entries to rectify mistakes in books of accounts.

System of Accounting

Accounting system is followed majorly in two ways :

- Cash
- Mercantile

Cash system

Definition and Explanation:

- It is a system in which accounting entries are made only when cash is received or paid. No entry is made when a payment or receipt is merely due.
- Government system of accounting is mostly on the cash system.

For example :

The salary for December 2018 has not been paid till 5th Jan. 2019. Under cash basis, Salary expense for the month of December will not be recorded as payment has not been made.

Mercantile system

Definition and Explanation:

- It is a system in which accounting entries are made on the basis of amount having become due for payment or receipt.
- This system recognizes the fact that if a transaction or an event occurred, its consequences cannot be avoided and therefore, should be brought into book in order to present a meaningful picture of profit earned or loss suffered.
- The mercantile system is also known as the **accrual** system.

Difference between cash and mercantile system of accounting

- Under **cash basis accounting**, Revenues are recognized and earned only when cash is received irrespective of when and how the services were performed or goods delivered.
- To put it in different terms, the cash basis of accounting takes into consideration all those incomes/gains that have been received and expenses/losses that have been paid during the accounting period in consideration.

Under **accrual or mercantile basis accounting**, Revenues are recognized and earned when they are realized or realizable irrespective of when the cash is received.

To put it in different terms, the accrual basis of accounting, records all incomes/gains and expenses/losses pertaining to the accounting period under consideration, irrespective of receipt or payment.

Share Capital

- Total capital of the company is divided into a number of small indivisible units of a fixed amount and each such unit is called a share.
- As the total capital of the company is divided into shares, the capital of the company is called 'share capital'.

- The fixed value of a share, printed on the share certificate is called nominal/ par/ face value of a share.
- A company can issue shares at a price different from the face value of a share; this is issue price of share.

Types of share

Shares issued by a company are divided into two categories:

Preference Shares:

The shares which are assured of preferential dividend at a fixed rate during the life of company and carry a preferential right over other shareholders to be paid first in case of winding up of company.

Equity Shares:

Equity shares are those shares, which are not preference shares. It means that they do not enjoy any preferential rights in the matter of payment of dividend or repayment of capital.

Issue of share capital

The shares can be issued by company either for cash or for the consideration other than cash. A public company issues a prospectus inviting general public to subscribe for its shares. On the basis of prospectus, application are deposited in a scheduled bank by the interested parties along with the amount payable at the time of application in cash which is called as application money.

Company reserves the right to reject or accept an application fully or partially. Successful applicants become shareholders of the company and are required to pay the second installment which is known as allotment money. Subsequent installments, if any, to be called by the company are known as calls.

Debentures

Issuing debt instruments by offering the same for public subscription is one of the sources of financing the business activities. Debt financing does not only help in reducing the cost of the capital but also helps in designing appropriate capital structure of the company.

Debenture is one of the most commonly used debt instrument issued by the company to raise funds for the business.

A **debenture/ bond** is the a security issued by the company under its seal, acknowledging a debt and containing provisions as regards repayment of the principal and interest.



Chapter 4

DEPRECIATION & INVENTORY

Concept of Conservatism

- Conservatism states that the accountant should not anticipate income and should provide for all possible losses.
- As per conservatism concept, it is not prudent to count unrealised gain but it is desirable to guard against all possible losses.
- When there are many alternatives values of an asset an accountant should choose the method which leads to lesser value.

For conservatism, there should be three qualitative characteristics, namely

- Prudence, i.e., judgment about possible losses which are to be guarded, as well as gains which are uncertain.
- Neutrality i.e., unbiased outlook is required to identify and record such possible losses and to exclude uncertain gains.
- Faithful representation of alternative values.

Example

1. Closing stock is valued at Cost or market price whichever is lower.
2. Depreciation is charged every year even though cost of the asset has not decreased.

Depreciation

Fixed assets like plant and machinery etc. are used in the business for the purpose of production or providing services. With the passage of time and utilisation, value of such fixed assets decreases. Value of portion of fixed assets utilized for generating revenue must be charged during a particular accounting year to ascertain the true cost. This portion of cost of fixed asset allocated is called depreciation.

Depreciation means reduction in value of asset or in the utility due to passage of time, natural wear and tear, exhaustion of the subject matter.

Causes of Depreciation

- Lapse of time.
- natural wear and tear.
- exhaustion of the subject matter. Obsolescence of technology.

Objectives of Providing for Depreciation

- To ascertain the true results of operations.
- To present true and fair value of the fixed asset.
- To accumulate funds for the replacement of the asset.

Factors in measurement

- Estimation of exact amount of depreciation is not easy.
- Generally following factors are considered in calculation of depreciation.
 1. Cost of asset including expenses for installation etc.
 2. Estimated useful life of the asset.
 3. Estimated scrap value (if any) at the time of useful life of the asset.

Methods of providing depreciation

1. Straight Line Method (SLM).
2. Reducing Balance Method (RBM).

Straight Line Method

In this method, an equal amount is written off every year during the working life of the asset to nil or its residual value at the end of its useful life.

SLM: The underlying assumption of this method is that the particular asset generates equal utility during its lifetime.

$$\text{Depreciation} = \frac{\text{Cost of Asset-Scrap Value}}{\text{Useful Life}}$$

Example

Cost of machinery: 18000

Installation Charges: 2000

Useful Life of Asset: 5 Years

Calculate Depreciation as per SLM

$$\text{Depreciation} = \frac{20000-0}{5 \text{ years}}$$

Depreciation = 4000 p.a.

Reducing Balance Method

Under this method, a fixed percentage of diminishing value of the asset is written off each year. The annual charges of the depreciation decrease from year to year.

Written Down Value (WDV) = (Acquisition Cost – Depreciation)

Depreciation = WDV * Depreciation Rate

RBM: The main advantage of this method is that total charge to total revenue is uniform when the depreciation is high, repairs are negligible and as the repairs increases the burden of depreciation gets lesser and lesser.

RBM:

For First Year Depreciation = Acquisition value * Rate

For Second Year on words

Depreciation = Written down value * Rate

Example

Cost of machinery: 50000

Scrap Value of machine: 5000

Useful Life of Asset: 10 Years

Depreciation %: 15% p.a.

Calculate Depreciation as per reducing balance method for first 2 years

RBM: For First Year

Depreciation = $50000 * 15\% = 7500$

For Second Year

Depreciation = $42500 * 15\% = 6375$

Inventory

- Inventory is tangible current asset.
- It includes finished goods, work in progress, and raw materials.

Inventories include assets held for sale in the ordinary course of business (finished goods), assets in the production process for sale in the ordinary course of business (work in process), and materials and supplies that are consumed in production (raw materials).

Inventory Valuation

Valuation of inventory is crucial because of its direct impact in measuring profit/loss and also on financial position.

Inventory Cost

Cost of inventories should include only those cost which are expected to generate future expected benefits. Such cost include the cost of acquisition and cost that change either:

- i. Location of the inventory e.g. freight, carriage, import duty or
- ii. Condition of the inventory, e.g. costs incurred to convert the raw materials into finished goods.

Cost should include all:

- Costs of purchase (including taxes, transport, and handling) net of trade discounts received. Costs of conversion (including fixed and variable manufacturing overheads) and
- Other costs incurred in bringing the inventories to their present location and condition.

Inventory Valuation

Inventories should be valued at cost or net realisable value whichever is lower. This is based on view that no asset should be carried at a value which is in excess of the value realisable by its sale or use. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and estimated cost necessary to make sale.

Techniques of Inventory Valuation

- Specific identification method
- First in First Out (FIFO)
- Last in First Out (LIFO)
- Weighted Average Price
- Adjusted selling price

Specific Identification Method

- Pricing under this method is based on actual physical flow of goods. It attributes specific cost to identified goods.
- This method is generally used to ascertain the cost of inventories of items that are not ordinarily interchangeable or having high value.
- Cost of inventory will be determined on the basis of their specific purchase price or production cost

FIFO

The goods are assumed to be issued from the earliest lot on hand. The stock of goods on hand therefore, consist of the latest purchases.

LIFO

Under this method good issued are valued at price paid for the latest lot of the goods. In other words stock of goods on hand will be valued at a price paid for earliest lots. LIFO method is based on an irrational assumption that entering last in stores are consumed first.

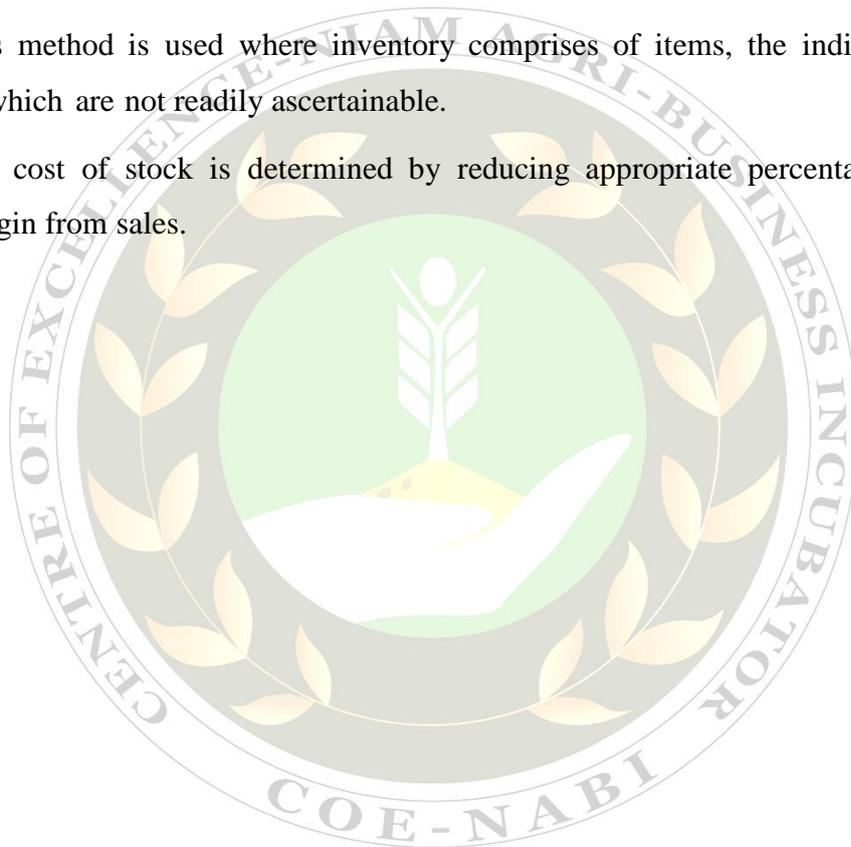
Weighted Average Price

Under this method value of inventory is determined by weighted average price per unit. Weighted average price is calculated by using quantity purchased in a lot as weights.

$$\text{Weighted Average price per unit} = \frac{\text{Total cost of goods available for sale during the period}}{\text{Total number of units available for sale during period}}$$

Adjusted selling price

- This is also known as retail inventory method.
- This method is used where inventory comprises of items, the individual costs of which are not readily ascertainable.
- The cost of stock is determined by reducing appropriate percentage of gross margin from sales.



Chapter–5

CASH FLOW

Traditional financial statement fails to inform the way enterprise has generated cash and were utilised in the accounting period. The need for inclusion of cash summary was therefore recognised.

Meaning

The summary of cash transactions (receipts and payments) during an accounting period is called Cash Flow Statement. The transactions are categorised as Operating, Investing and Financing.

Accounting Standard

The 'Accounting Standards' are issued to establish principles and policies which have to be complied by the business entities in preparing the financial statement.

AS-3

AS-3/IAS-7/IndAS-7 deals with preparation of Cash flow Statement. AS-3 applies to the enterprises:

- Having turnover more than Rs. 50 Crores in a financial year. Listed companies

Cash and Cash Equivalents

Cash:- Cash in hand and deposits repayable on demand with any bank or other financial institution.

Cash Equivalents:- Short term, highly liquid investments, that are readily convertible into known amounts of cash and are subject to insignificant risk/change to value.

Meaning of Cash Flow

- Cash flows are inflows (i.e. receipts) and outflows (i.e. payments) of cash and cash equivalents.
- Movement in cash and cash equivalents are not cash flows.

Types of Cash Flow

The cash flows generated through various activities are classified as:

Operating cash flow.

Investing cash flow.

Financing cash flow.

Operating Activities

These are principal revenue producing activities of the enterprise. Examples:

- Cash receipts from sale of goods or rendering services.
- Cash receipts from royalties, fees, commissions and other revenue. Cash payments to suppliers of goods and service.
- Cash payments to and on behalf of employees.

Reporting of Cashflow from operating activities

It can be derived either from direct method or indirect method.

- **Direct method:** In this method, gross receipts and gross payments of cash are disclosed.

Direct Method	Amount
Cash receipts from customers	XX
Cash paid to suppliers	XX
Cash paid to employees	XX
Cash paid for other operating expenses	XX
Cash generated from operation	XX
Income tax paid	XX
Net cash from operating activities	XX

- **Indirect method:** In this method, profit and loss account is adjusted for the effects of transaction of non- cash and non-operating nature .Cash flow statement of listed companies shall be presented only under the indirect method as prescribed in AS 3.

Indirect Method	Amount
Retained Earning	XX
Add: Dividend paid	XX
Income Tax	XX
Net Profit Before Tax	XX
Add: Depreciation	XX
Loss on sale of Asset/Investment	XX
Interest Paid	XX
Provision for Bad debts	XX
Less: Interest/ Dividend Received	XX
Profit on sale of Asset/ Investment	XX
Funds from operations	XX
Add: Decrease in Current Asset	XX
Add: Increase in Current Liabilities	XX
Less: Increase in Current Asset	XX
Less: Decrease in Current Liabilities	XX
Cash generated from operation	XX
Income Tax Paid	XX
Net Cash flow from operating activities	XX

Investing Activities

- The activities of acquisition and disposal of long term assets and other investments not included in cash equivalent are investing activities.
- It includes acquiring and disposal of debt and equity instruments, property and fixed assets etc.

Examples:

- Cash payments for purchase of fixed assets.
- Cash receipts from disposal of fixed assets.
- Cash payments to purchase shares, or debt instruments of other companies.
- Cash receipt from disposal of above investments.

Financing Activities

- Those activities that result in changes in size and composition of owners capital and borrowing of the organization.
- It includes receipts from issuing shares, debentures, bonds, borrowing and payment of borrowed amount, loan etc.

Example:

Issue of equity shares.

Buy back of equity shares.

Issue/ Redemption of preference shares. Issue / redemption of debentures.

Long term loan / payment thereof. Dividend / interest paid.

Interest Received

- Received on investment – it is investment inflow.
- Received from short term investment classified, as cash equivalents should be considered as cash inflows from operating activities.
- Received on trade advances and operating receivables should be in operating inflows. For financial enterprises – in operating inflow.

Interest Paid

- On loans/debts is financing activities.
- On working capital loan or loan taken to finance operating activities are included in operating inflows.

Dividend Received

- For non-financial enterprises – investing inflow.
- For financial enterprises – operating inflow.

Dividend Paid

- Always classified as financing inflow.

Foreign currency transactions

- The effect of change in exchange rate in cash and cash equivalents held in foreign currency should be reported as separate part of the reconciliation of cash and cash equivalents.
- Unrealized gain and losses arising from changes in foreign exchanges rates are not cash flows.

Extraordinary items

The cash flows associated with extraordinary items should be classified as arising from Operating, Investing or Financing activities as appropriate and separately disclosed.

Example:

- Insurance claim received against loss of stock or profits is extraordinary operating cash inflow. Insurance claim received against loss of fixed assets is extraordinary investing cash inflow.

Treatment of tax

- Cash flow for tax payments / refund should be classified as cash flow from operating activities.
- Tax deducted at source against income are operating cash outflows if concerned income are operating.
- Cash flow for tax payments identified with a specific investing or financing flow should be classified as investing or financing flow respectively. E.g. Dividend Tax is recognised as financing flow.

Investments in subsidiaries/ associates

- Only the cash flow between enterprise itself and the investee is required to be reported. Example: Cash flow relating to dividends and advances.

Acquisitions and disposals of subsidiaries/other businesses: Cash flow on acquisition and disposal of subsidiaries and other business units should be : Presented separately, Classified as investing activities.

Total purchase and disposal should be disclosed separately. The position of the purchase/disposal consideration discharged by means of cash and cash equivalents should be disclosed separately.

Non-cash transactions

- These should be excluded from the cash flow statement.
- These transactions should be disclosed in the financial statements.
- Examples: Acquisition of assets by assuming directly related liabilities. Acquisition of an enterprise by means of issue of equity shares. Conversion of debt to equity.

Disclosures of cash and cash equivalents

- The components of cash and cash equivalents should be disclosed.
- Reconciliation of the amount in the cash flow statement with the equivalent items reported in the balance sheet.
- The amount of cash and cash equivalent balance held by the enterprises that are not available for use (with explanation by management).
- The amount of undrawn borrowing facilities that may be available for future operating activities (indicating any restriction on use of these facilities).

Chapter–1

INTRODUCTION TO COST ACCOUNTING

Cost Accounting

Cost accounting involves recording, controlling estimating and reporting for costs. Cost accounting process begins with the recording of expenditure or the bases on which they are calculated and ends with the preparation of statements for ascertaining and controlling costs.

Objectives:

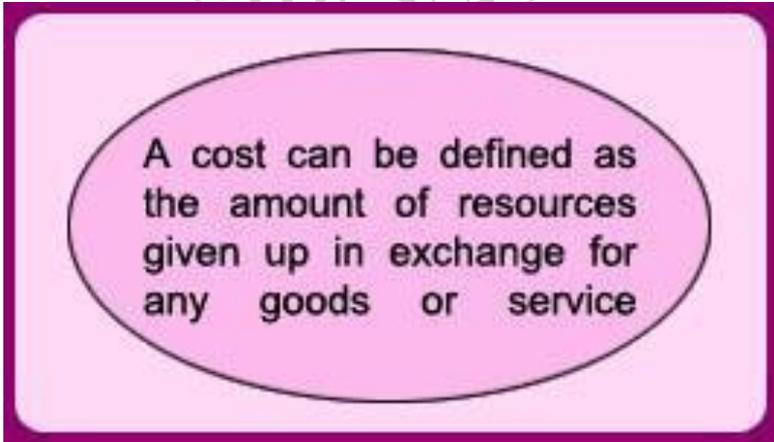
The main objectives of Cost Accounting are as follows:

1. Ascertainment of cost.
2. Cost control and cost reduction.
3. Assisting management in decision-making including pricing, profit planning, budgeting.

Advantages

1. Helps in identifying unprofitable activities, losses or inefficiencies in any form.
2. Application of cost reduction techniques, operation research techniques and value analysis technique.

WHAT IS COST?



A cost can be defined as the amount of resources given up in exchange for any goods or service

Cost

Anything incurred during the production of the good or service to get the output into the hands of the customer. e.g. Material cost, Labour cost, electricity cost, fuel cost etc.



Capitalised Cost:

The cost incurred on fixed assets are capitalised cost. E.g. cost incurred to purchase machineries. These cost are not covered here, except which is subsequently treated as expenses (depreciation).

Cost Classification

- By nature or elements.
- By function.
- As direct and indirect.
- By variability.
- By controllability.
- By normality.
- By relevance.

By Nature or Element

Under this classification the costs are divided into three categories i.e. material cost, labour cost and expenses.

Material

The cost which is incurred on physical substance or thing. e.g. Components or raw materials purchased.

Labour

The cost incurred on human efforts. e.g. Salary, Wages, Bonus, Incentives, Retirement Benefits, Perquisites.

Expenses

The cost incurred for services. Expenses are other than material and labour are covered here. e.g. Electricity expenses, Rent, Telephone.

By Function

In this classification costs are divided according to the function for which they have been incurred. e.g. production cost, office & administration cost, selling & distribution costs.

Production cost: materials, direct labour, stores overheads etc.

Office & administration cost: cost of formulating policy, directing the organisation and controlling the operations. e.g Rent of Office, Depreciation of Office equipments, Salary to Office staff, Director Fees, Remuneration to CEO.

Selling and distribution expenses or marketing cost: expenditure incurred generating demand, on moving articles to prospective customers etc.



DIRECT COST

Direct costs are costs which can be easily attributed to a particular cost center/product.

e.g.- the cost of hard disks while assembling an PC.

INDIRECT COST

Cost that must be allocated in order to be assigned to a product or department. This cannot be assigned directly to any particular cost centre. e.g. Costs incurred by the computer maintenance and support group, wages paid to security staff, storage cost of units produced.

By Variability

According to variability classification cost are classified into three groups viz. fixed, variable and semi-variable.

VARIABLE COST

Variable Costs are those costs that vary directly and proportionately with the output. There is a constant ratio between the change in cost and change in the level of output. Examples of variable cost are direct wages, direct material, Petrol cost for vehicle.

FIXED COST

Fixed Cost is a cost which does not change in total for a given time period despite wide fluctuations in output or volume of activity. Examples are rent, property, taxes.

FIXED AND VARIABLE COSTS

Cost	In Total	Per Unit
Variable	Changes as activity level increases.	Remains constant as activity level increases
Fixed	Remains constant as activity level increases	Reduces as Activity level increases

Semi-variable Cost

These costs contain both fixed and variable components and thus partly affected by fluctuation in the level of activity. Examples of semi variable costs are telephone bill, electricity, Maintenance.

By Controllability

Costs here may be classified as controllable and un- controllable cost. Controllable costs are the cost which can be influenced by an action of the specified member of the undertaking. Uncontrollable cost are those which are not controllable. The distinction between controllable and uncontrollable costs is not very sharp. Infact no cost is uncontrollable; it is only in relation to a particular individual that we may specify a particular to be either controllable or uncontrollable.

For example, expenditure incurred by tool room is controllable by foreman in- charge of that section but share which is apportioned to machine shop can not to be controlled by machine shop foreman.

By Normality

According to this basis cost may be categorized as normal Cost and abnormal cost. Normal cost is normally incurred at a given level of output under the conditions in which that level of output is normally attained and cost which is abnormally incurred is called as abnormal cost. e.g. cost of material which is evaporated is normal loss where as goods lost by fire or theft is treated as abnormal loss.

By Relevance

Relevant costs are those future costs which differ between alternatives. Relevant costs may also be defined as the cost which are affected and changed by a decision. Sunk costs are all costs incurred in the past that cannot be changed by any decision made now or in the future. Sunk costs should not be considered in decisions. e.g. cost incurred on research of a product will be irrelevant while making decision whether to undertake production or not, in make or buy (the raw materials) decision cost of the material, wage rate will be relevant on the other hand factory rent will be irrelevant.

DIFFERENTIAL COSTS

Differential cost is the difference between any two alternatives. Differential costs are equal to the additional variable expenses incurred in respect of the additional output, plus the increase in fixed costs if any.

OPPORTUNITY COSTS

Opportunity cost is the cost of opportunity lost. It is the cost of selecting one course of action in terms of opportunity which are given up to carry out that course of action. Opportunity cost is the benefit lost by rejecting the best competing alternative to one chose. The benefit lost is usually the net earnings or profit that might have been earned from rejected alternative. For example if we invest 1 lakh in a business then the opportunity cost would be the amount of interest that money would have earned if it was in bank.

An individual is earning Rs. 2.5 lakhs in year, now if he think to start his own proprietary business of computer maintenance, his opportunity cost will be 2.5 lakhs per annum.

MARGINAL COSTS

Marginal cost is the extra cost incurred to produce one additional unit.

AVERAGE COSTS

Average cost is the total cost to produce a quantity divided by the quantity produced.

PRODUCT COST

Product Cost is the cost incurred to make or manufacture the product and sell it. These are also known as inventoriable costs. e.g. Direct Material, Direct Labour, Direct Expenses, Power (if Identifiable to product).

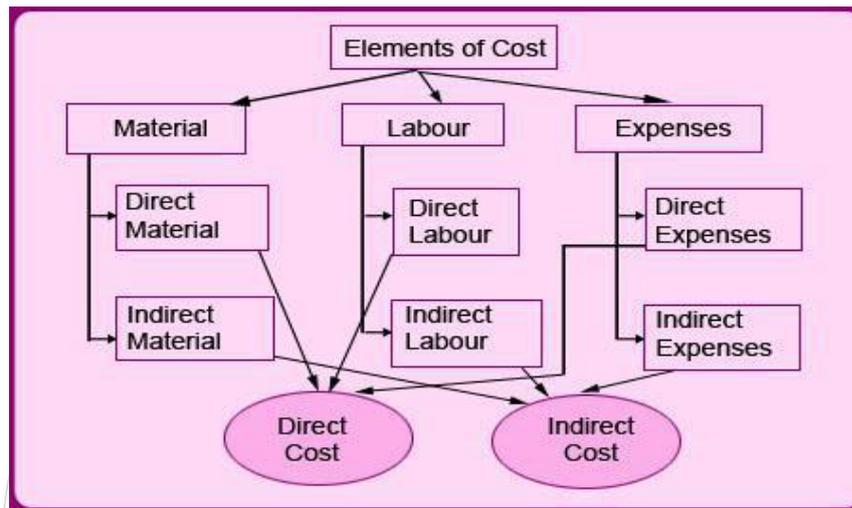
PERIOD COSTS

Period Costs are the costs which are charged as expenses against the revenue of the period in which they are incurred. These costs are not assigned to product/ project, but are treated as expenses of the period in which they are incurred. e.g. Factory Rent, Security Charges, Maintenance, Factory Manager's salary.

Chapter–2

COST ACCUMULATION

Cost Accumulation:



Direct Costs

A cost that can be directly traced to a particular department or other subunit of an organization is called a direct cost. e.g.: The cost of materials required for a particular product is a direct cost because it can be directly traced to the product.

Direct Expenses

It includes all expenses other than direct material or direct labour which are specially incurred for a particular cost object and can be identified in an economically feasible way.

Indirect Costs

An indirect cost has no convenient or economical trace from the cost to the cost pool (the meaningful groups into which the jobs are often collected) or from the cost pool to the cost object (any product, service, customer, activity or organizational unit to which costs are assigned for some management purpose).

Indirect Material Cost

Refers to the cost of materials used in manufacturing that are not physically a part of finished good. e.g.: supplies used by manufacturing employees, materials required by machines such as lubricants.

Indirect Labour cost

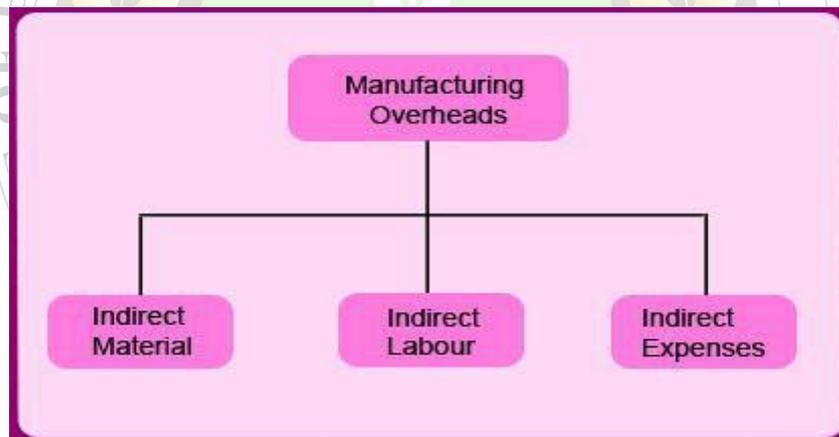
Includes the costs associated with quality control, supervision, support cost associated with manufacturing, inspection, purchase and receiving costs.

Indirect Expenses

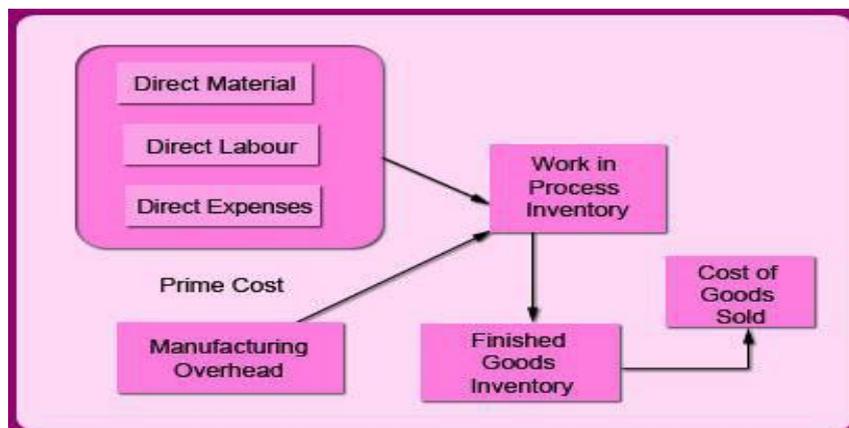
Other Indirect Expenses include depreciation on machines and plant, property taxes, utilities, carriage outward, etc.

Manufacturing Overheads

All indirect factory costs are commonly combined into a single cost pool called manufacturing overhead. In a manufacturing firm, it is also called **factory overhead**.



MANUFACTURING COST FLOW



Chapter–3

PRODUCT AND PROCESS COSTING

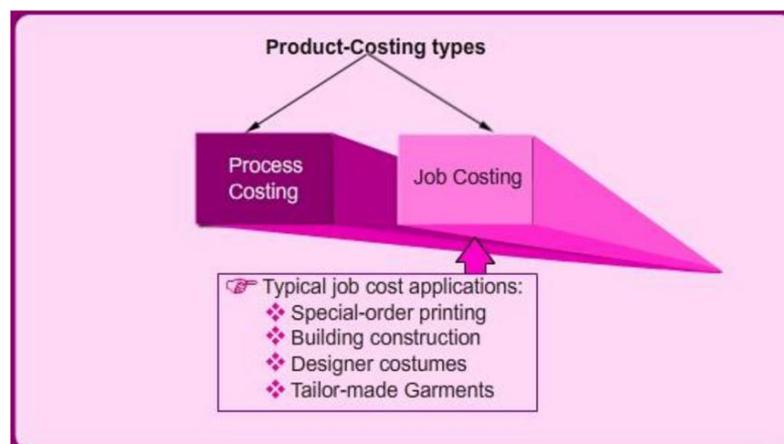
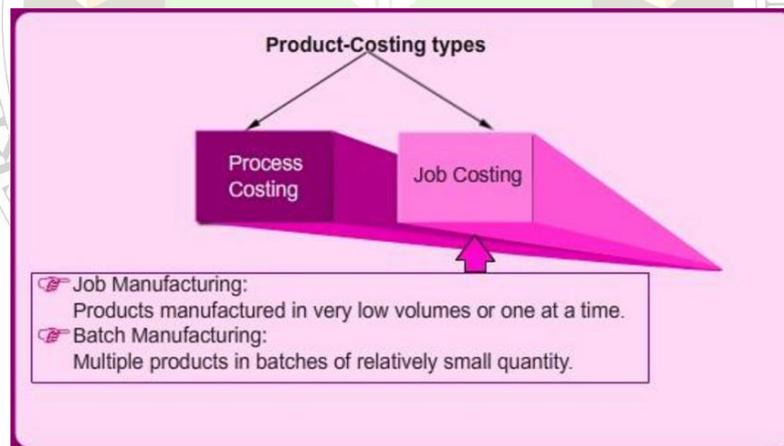
PRODUCT COSTING

Financial Accounting

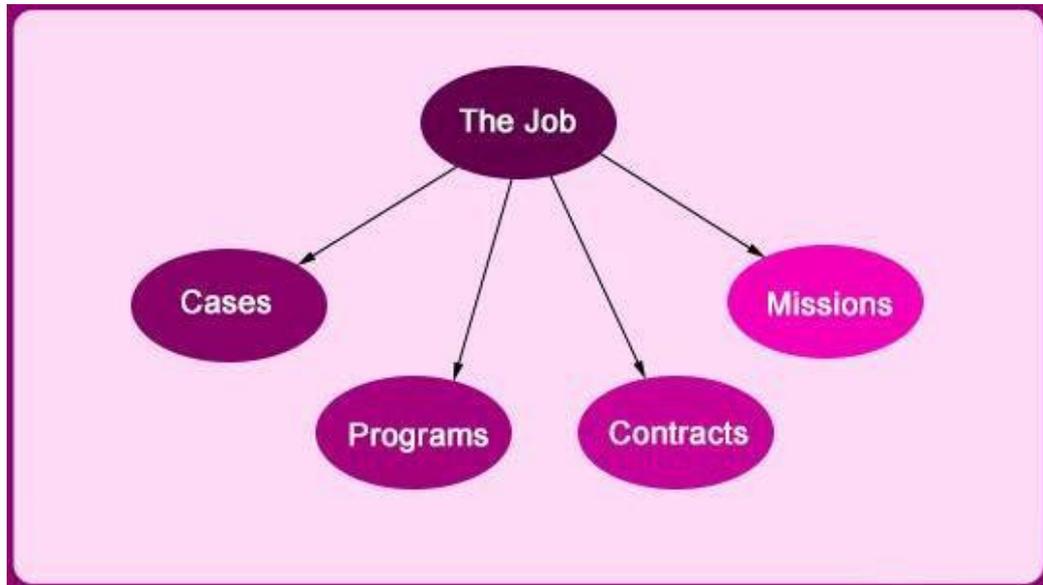
Product costs are used to value inventory and to compute cost of goods sold.

Cost and Managerial Accounting

- Product costs are used for planning, control, directing, and management decision making.
- The product costs for a manufacturing firm include only the costs necessary to complete the product.
- The product inventory for a manufacturing firm is treated as an asset until it has market value and is sold.



Job Costing in Non-manufacturing Organizations:



Process Costing

Usually Process Accounts are prepared for some period to record and report the costs.

The cost of each process comprises the cost of:

1. Direct Material.
2. Direct Labour.
3. Direct Expenses.
4. Production Overheads.

Equivalent Units

Thus, in Process Costing

Cost per unit = Cost/Output Units

What can be done when partially produced units remain in stock ?

To ascertain the cost of each completed unit it is necessary to ascertain the cost of work in progress in the beginning and at the end of the process. Hence the method of converting partly finished units to equivalent finished units is used. Equivalent production means converting the incomplete production units into their completed units.

Example: 100% of materials may be present in the product, but only 50% of the conversion work (labor and overhead) may have been done.

Conversion costs added continuously: Conversion costs are usually added continuously throughout the process.

Example: If 100 units are 60% of the way through the process, 60 equivalent units have been produced. Notice that none of the units are completed—the firm is said to have done the work equivalent to manufacturing 60 finished units.

Direct material added at specific points: Direct materials are usually added at discrete points in the process in text problems.

Consider when material added: When considering materials, determine at what point the ending in-process costs are and evaluate whether or not the materials have been added.

Once added 100% complete: If added, the units are 100% complete with respect to materials; if not, the units are 0% complete.

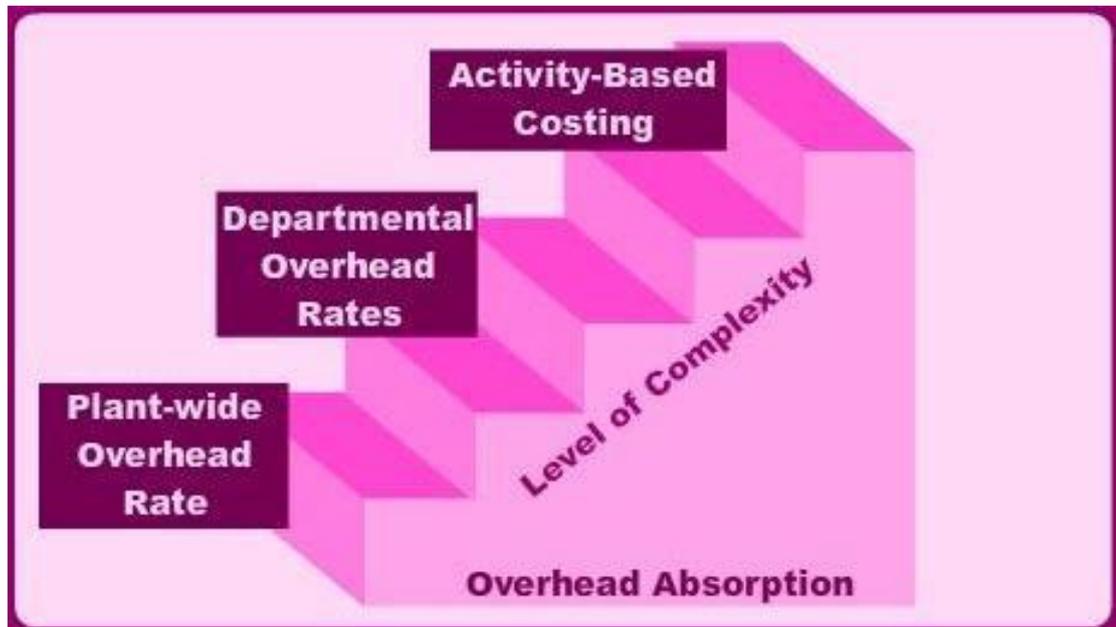
Unit cost based on equivalent units: When computing the cost of a unit, the related calculations are based on equivalent units, not physical units. The procedure states fully-completed units on the same measurement scale as partially-completed units, thus avoiding the addition (combination) of "apples and oranges."

Next divide costs by equivalent units: Next, the cost of direct materials and conversion is divided by the proper number of equivalent units for each of these production elements.

Chapter-4

ACTIVITY BASED COSTING

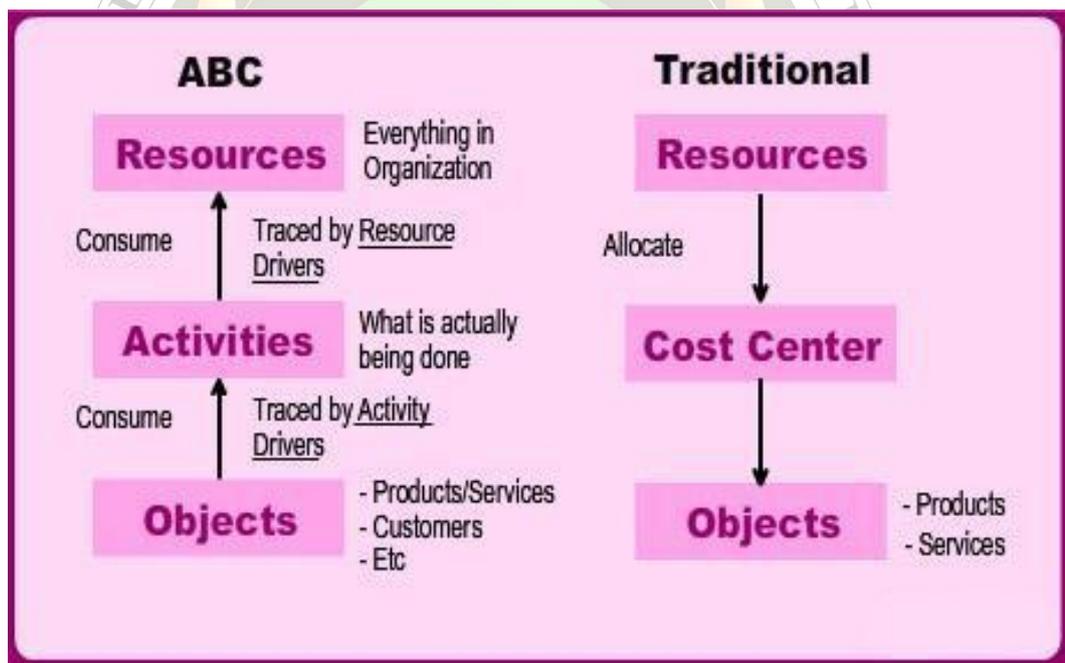
The Concept of ABC



Introduction

- ABC is a costing system, which focuses on activities performed to produce products.
- ABC relates cost (resources consumed) to work accomplished (outputs produced).
- ABC is a management tool that provides better allocation of resources.
- The ABC or unit cost goal is a benchmark that represents an expectation of the cost incurred for the production of an output.
- ABC aligns costs to outputs thereby increasing cost visibility, and is useful in forecasting financial baselines.

Traditional Costing V/s ABC



ABC's Basic Premise

- Cost objects consume activities.
- Activities consume resources.
- This consumption of resources is what drives costs.
- Understanding this relationship is critical to successful budget management.

ABC's Basic Steps

- Analyze activities.
- Gather cost data.
- Trace costs to activities.
- Establish output measures.
- Analyze costs.

ABC's Basic Benefits

- Makes it possible to determine production cost traced to outputs.
- Targets areas needing management attention.
- Encourages the consideration of alternative methods of production.
- Highlights operational efficiency.
- Identifies financial benchmarks for activity performance.
- Generates more information to measure and reward performance, and prioritizes activities for cost reductions.
- Provides a common managerial framework among support activities.

Limitations of ABC

- Trade-off between expense and accuracy.
- Need for more precise data.
- Need of full support of top level management, and support of ABC based performance review. Cases of overstated costs and under-stated margins and mistakes in pricing and other critical decisions.

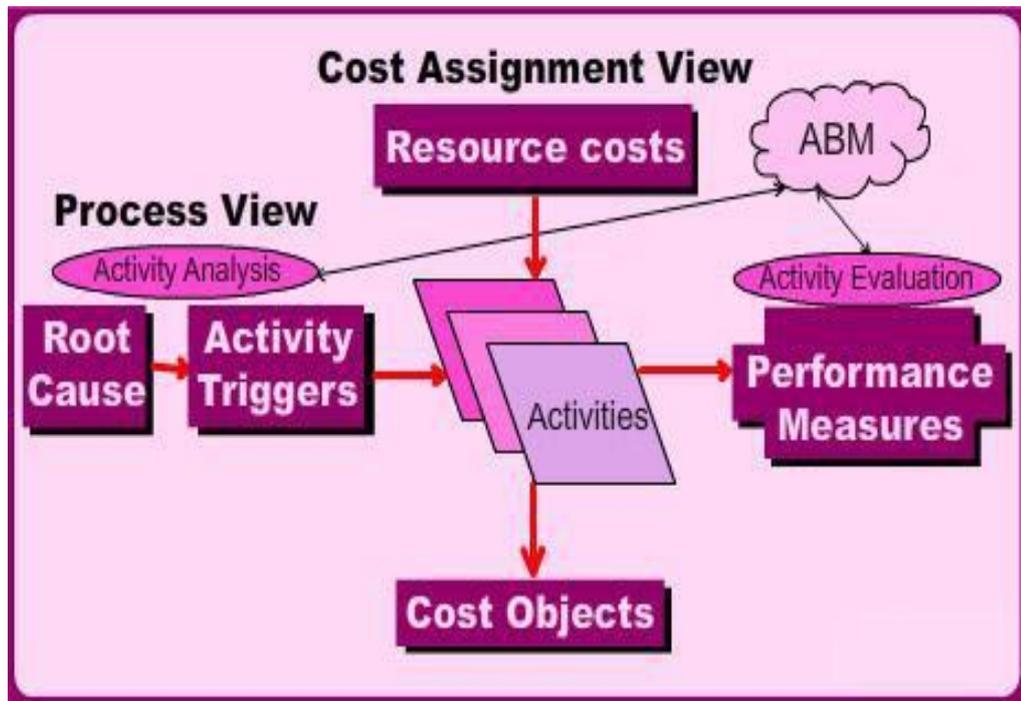
Activity Based Management

Activity based management involves any use of ABC information to support the organization's strategy, improve operations, or manage activities and their resulting costs.

Activity Based Costing

Establishes relationships between overhead costs and activities so that we can better allocate overhead costs.

Relation ABC and ABM



Chapter–5

COST VOLUME PROFIT ANALYSIS

CVP Analysis

CVP analysis is the analysis of three variable viz. cost, volume and profit. Such analysis explores the relationship existing amongst costs, revenue, activity level and resulting profit. It aims at measuring variation of cost with profit.

Fixed Cost

These are the costs which incurred for a period and which within certain output and turnover limits, tend to be unaffected by fluctuations in the levels of activity (Output or turnover).

For example: Rent, insurance of factory building etc. remain the same for different levels of production.

Variable Cost

These costs tend to vary with the volume of activity. Any increase in activity results in an increase in the variable cost and vice versa.

For example: Cost of direct labour, direct material, etc.

Semi-Variable Cost

These costs contain both fixed and variable components and thus partly affected by fluctuation in the level of activity.

Examples of semi variable costs are telephone bill, gas and electricity etc.

Cost-Volume-Profit Analysis

CVP analysis:

Takes into account:

- the total costs (fixed and variable)
- the total sales revenues
- desired profits vis-a-vis the sales volume

It is used for forecasting or predicting how the changes in costs and sales volume affect profit. It is also known as 'Break-Even Analysis'.

CVP analysis could be helpful in the following situations:

- Budget planning: for forecasting profit by considering cost and profit relation, and volume of production volume. This will help in determining the sales volume required to make a profit.
- To make decisions regarding pricing and sales volume.
- Determining the sales mix of different products, in what proportions each of the products can be sold.
- Preparing flexible budget considering costs at different levels of production.

Objectives of CVP Analysis

Understand the interaction among

- Prices of products.
- Volume or level of activity.
- Per unit variable cost.
- Total fixed cost.

Assumptions of CVP Analysis

Expenses can be classified as either variable or fixed.

- CVP relationships are linear over a wide range of production and sales.
- Sales prices, unit variable cost, and total fixed expenses will not vary within the relevant range.
- Volume is the only cost driver.
- The relevant range of volume is specified.
- Inventory levels will be unchanged.
- The sales mix remains unchanged during the period.

Calculations

Profit Equation and Contribution Margin

1. Profit = Sales - Total costs
2. Profit = Sales - Total variable costs - Total Fixed costs
3. Contribution margin = Total revenue – Total variable costs

BEP analysis

- Breakeven analysis is used to find the minimum level of production required.
- Evaluates both fixed and variable costs.

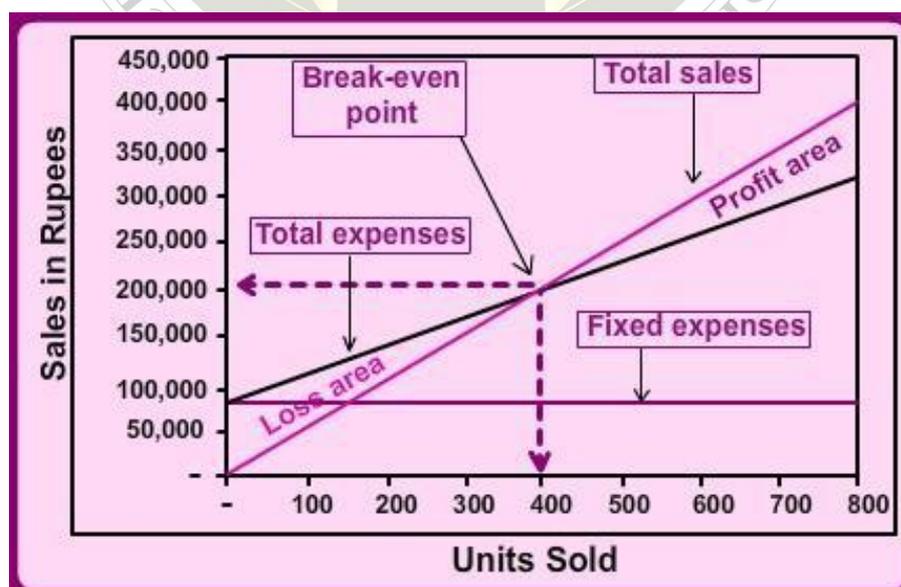
Uses:

1. To find a suitable product mix.
2. To find the sales required to reach a desired revenue.
3. The profits at certain price level and sales.

Break even Point (BEP)

- A CVP analysis can be used to determine the BEP, or level of operating activity at which revenues cover all fixed and variable costs, resulting in zero profit.
- In other words this is the point where no profit or losses have been made.

Cost-Volume-Profit Graph



Chapter 6

RELEVANT COSTS IN DECISION MAKING

Relevant Cost

Cost which are relevant for a particular business decision. They are not historical cost but future costs to be associated with different inputs and activities related a particular business decision.

Relevant cost is expected future cost which differs for alternative course. Usually variable costs are relevant while fixed cost are non-relevant.

Ex. Make or Buy, Special Pricing.

However, It is not essential that all variable cost are relevant and all fixed cost are irrelevant. Fixed or variable costs that differ for various alternatives are relevant costs.

Relevant costs draw our alternation to those elements of cost which are relevant for decision.

e.g. 1) Fixed Cost for project X is Rs. 5 lakhs and for alternative project Y it is 7 lakhs.

therefore fixed cost is relevant in this example.

E.g. 2) Direct material under alternative I- Rs. 150 per Kg.

Direct material under alternative II- Rs. 150 per Kg.

therefore variable cost is not relevant in this example.

SUNK COSTS

Sunk costs are all costs incurred or committed in the past that cannot be changed by any decision made now or in the future. Sunk costs should not be considered in decisions. e.g. cost incurred on research of a product will be irrelevant while making decision whether to undertake production or not. Sunk costs have been incurred and cannot be reversed. Historical costs are sunk costs. They play no role in decision making in the current period.

Sunk Cost do not affect future costs and cannot be changed by any current or future action, hence these costs are irrelevant in decision making.

Ex. Spending on advertising during product launching is sunk for taking a decision on continuance of product.

Make / Buy

Very often make-or-buy decision is the act of making a tactical choice between producing an item internally and buying it from an outside supplier.

Elements of the "make" analysis include:

- Incremental inventory-carrying costs.
- Direct labor costs. Incremental factory overhead costs.
- Delivered purchased material costs.
- Incremental managerial costs.
- Any follow-on costs stemming from quality and related problems.
- Incremental purchasing costs.
- Incremental capital costs.

Cost considerations for the "buy" analysis include :

- Purchase price of the part.
- Transportation costs.
- Receiving and inspection costs.
- Incremental purchasing costs.
- Any follow-on costs related to quality or service.

Shutdown Cost

Some times it becomes necessary for a company to temporarily close down the factory or unit because of trade downturn with view to reopening it in the future. In this situation decisions are based on the variable cost analysis. If selling price is above the variable cost then it better to continue because the losses are minimized.

By closing the manufacturing activity, some extra fixed expenses (e.g. Security) may be incurred and certain fixed expenses can be avoided (e.g. maintenance cost of plant). Such costs are also relevant. The decision is based on as to whether the contribution is more than the difference between fixed expenses incurred in normal operation and the fixed expenses incurred when the plant is shut down.

Introducing new Product

There are two reasons why a commercial enterprise should undertake the time, effort, and expense of introducing a new product or service:

1. customers have shown interest.
2. demand is sufficient and sustainable enough for the proposed product to make a profit.

In other words, successful enterprises sell what customers want to buy rather than what the entrepreneur wants to sell.

All relevant costs should be recovered over a period of product life.

Joint Product

When two or more products of equivalent importance are produced simultaneously, they are termed as joint products. In other words two or more products separated in course of the same processing operation, each product being in such proportion that no single product can be designated as a major product. Joint Products usually require further processing.

Joint Products in Coke production, Coal is raw material with Coke, Sulfate of ammonia, light oil as joint products. e.g. Refining Process, where crude oil is raw material gives Petrol, Diesel, Gas as Joint Products.

By Product

By Product is product of relatively small total value that is produced simultaneously with a product of greater total value. The product with the greater value (Main product), is usually produced in greater quantities than the By Product.

In other words, when two or more products are separated in course of the same processing operation, where one of the products being in such proportion/ value that it can be designated as a Main product, while others are considered as By Products.

ex. of By-products in coke manufacture - gas and tar in lumber mills - sawdust cotton cleaning process - cotton seed coconut oil industry - coca shells.

Joint Product Process:

A process that results in production of two or more products, which are termed as joint products.

Joint product cost:

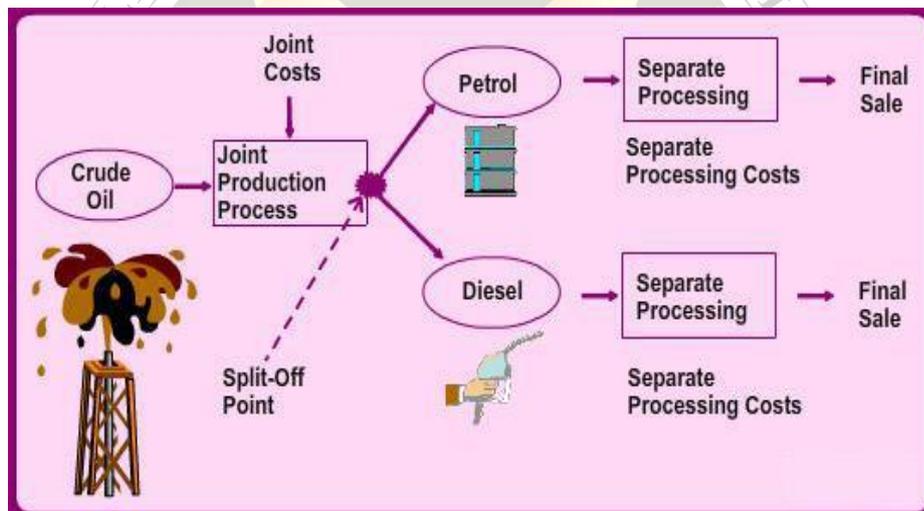
The cost of the raw materials/input and the joint production process.

Split Off Point:

The point in the production process where the individual products become separately identifiable.

Joint Cost Allocation: Methods

- Physical units method.
- Relative Sales Value Method.
- Sale value at split off point.
- Net Realisable value method.



Chapter 7

BUDGETING

Budget

Budget refers to an estimated statement. It is prepared by companies as well as government. It is for the purpose of attaining some goal. Budget can be defined as a financial and / or quantitative statement prepared and approved prior to a defined period of time of the policy to be pursued during that period for the purpose of attaining a given objective. It may include income, expenditure and employment of capital. It is often used for control purpose.

Budgetary Control

It is a process in which budget is set and actual is compared with budget to analyse variances. It means the establishment of budgets relating the responsibilities of executives to the prerequisite of policy and the continuous evaluation of actual with budgeted results either to secure by individual action the objective of that policy or to provide a base for its revision.

Planning

A set of targets/goals is often essential to lead and focus individual and group actions. Planning not only motivates the employees but also improves overall decision making.

Directing

Business is very complex and requires more formal direction and coordination. Once the budgets are in place they can be used to direct and coordinate operations in order to achieve the stated targets.

Controlling

The actual performance can be compared with the planned targets. This provides prompt feedback about performance. budget also prevents unplanned adhoc expenditure.

Advantages of Budgetary Control System

Enables the managers/ administrators to conduct activities in efficient manner. Provides yardstick for measuring and evaluating the performance of individuals and their departments.

- Reveals the deviations, from the budget by comparing with actuals; Helps in prompt review process.
- Creates suitable conditions for the implementation of standard costing system.
- Acts as systematic base for framing future policies and targets.
- Inculcates the feeling of cost consciousness and goal orientation.
- Leads to effective utilization of various resources, as the activities are planned and executed effectively.

Components of Budgetary Control System

The policy of a business for a defined period is represented by the master budget, the details of which are given in a number of individual budgets called functional budgets. These functional budgets are broadly grouped as physical, cost and profit budgets.

Physical Budgets-

Those budgets which contains information in terms of physical units about sales, production etc. for example, quantity of sales, quantity of production, inventories and manpower budgets are physical budgets.

Cost budgets-

Budgets which provides cost information in respect of manufacturing, selling, administration etc. for example, manufacturing cost, selling cost, administration cost and research and development cost budgets are cost budgets.

Profit budgets-

Budgets which enables in the ascertainment of profit, for example, sales budget, profit and loss budget, etc.

Types of Budget

- Fixed Budget.
- Flexible Budget.
- Master Budget.
- Functional Budget.
- Long Term Budget.
- Short Term Budget.
- Current Budget.

Fixed Budget

A fixed budget is the budget designed to remain unchanged irrespective of level of activity actually attained. Such budget is suitable for Fixed Expenses. It is also known as Static budget.

A fixed budget is not suitable in dynamic environment and for a longer period because of its rigidity. It is not suitable where labour cost, material cost and other factors are constantly changing.

Flexible Budget

Flexible budget show the expected results of responsibility centre for several activity level. Flexible budget is the series of static budgets for different level of activity. While preparing flexible budget the revenues and expenses are classified into Fixed, Variable and Semi-variable categories.

In most cases, the level of activity during the period varies from period to period due to change in demand or seasonal nature or changing circumstances. In such industries/ government organisations flexible budget is suitable.

Functional Budget

Budgets which relate to the individual function/task in an organisation are known as Functional Budgets. For example, purchase budget, sales budget, production budget, plant utilization budget, cash budget.

Master Budget

It is a consolidated summary of the various functional budgets. It is based on goals set. It serves as the basis upon which budgeted P & L A/c and forecasted Balance Sheet are built up.

Long-Term Budget

The budget which are prepared for periods longer than a year are called long-term budget. Such budgets are helpful in business forecasting and strategic planning. E.g. Capital expenditure budget, Research and Development budget.

Short-Term Budget

Budgets which are prepared for periods less than a year are known as short term budgets. e.g. Cash Budget. Such budgets are prepared regular comparison and action to bring variation under control.

Current Budget

A budget which is established for use over a short period of time and is related to the current conditions is called current budget.

Zero Base Budgeting (ZBB)

It refers to budgeting from scratch. ZBB is a method of budgeting which requires each cost element to be specifically justified, as though the activities to which the budget relates were being undertaken for the first time.

To receive funding during budgeting process, each activity must be justified in terms of continued usefulness. Under ZBB, the budget for virtually every activity is initially set to zero.

Advantages

- Provides a systematic approach for evaluation of different activities and ranks them in order of preference for allocation of scarce resources.

- Ensures that the every activity/ function undertaken is critical for the achievement of objectives. Provides an opportunity to allocate resources for various activities/functions only after having a thorough cost benefit analysis.
- Wasteful expenditure can be easily identified and eliminated.



Income Tax

Taxes in India can be categorized as direct and indirect taxes. Direct tax is a tax you pay on your income directly to the government. Indirect tax is a tax that somebody else collects on your behalf and pays to the government eg restaurants, theatres and e-commerce websites recover taxes from you on goods you purchase or a service you avail. This tax is, in turn, passed down to the government. Direct Taxes are broadly classified as :

1. **Income Tax** – This is taxes an individual or a Hindu Undivided Family or any taxpayer other than companies, pay on the income received. The law prescribes the rate at which such income should be taxed.
2. **Corporate Tax** – This is the tax that companies pay on the profits they make from their businesses. Here again, a specific rate of tax for corporates has been prescribed by the income tax laws of India.

31 January	31 March	31 July	Oct – Nov
Deadline to submit your investment proofs	Deadline to make investments under Section 80C	Last date to file your tax return	Time to verify your tax return

Income Tax Basics

Everyone who earns or gets an income in India is subject to income tax. (Yes, be it a resident or a non-resident of India). For simpler classification, the Income Tax Department breaks down income into five heads:

Head of Income	Nature of Income covered
Income from Salary	Income from salary and pension are covered under here
Income from Other Sources	Income from savings bank account interest, fixed deposits, winning KBC
Income from House Property	This is rental income mostly
Income from Capital Gains	Income from sale of a capital asset such as mutual funds, shares, house property

Income from Business and Profession	This is when you are self-employed, work as a freelancer or contractor, or you run a business. Life insurance agents, chartered accountants, doctors and lawyers who have their own practice, tuition teachers
-------------------------------------	--

Taxpayers and Income Tax Slabs

Taxpayers in India, for the purpose of income tax includes:

- Individuals, Hindu Undivided Family (HUF), Association of Persons(AOP) and Body of Individuals (BOI)
- Firms
- Companies

Each of these taxpayers is taxed differently under the Indian income tax laws. While firms and Indian companies have a fixed rate of tax of 30% of profits, the individual, HUF, AOP and BOI taxpayers are taxed based on the income slab they fall under. People's incomes are grouped into blocks called tax brackets or tax slabs. And each tax slab has a different tax rate. In India, we have four tax brackets each with an increasing tax rate.

For Assessment Year 2019-20 -

Income Range	Individuals (Aged below 60 years)	Senior Citizens (Aged 60 years and above but below 80 years)	Super Senior Citizens (Aged 80 years and Above)
Up to Rs.2,50,000	Nil	Nil	Nil
Between Rs 2.5 lakhs and Rs 3 lakhs	5%	Nil	Nil
Between Rs 3 lakhs and Rs 5 lakhs	5%	5%	Nil
Between Rs 5 lakhs and Rs 10 lakhs	20%	20%	20%
Above 10 lakhs	30%	30%	30%

Residents and non residents:

Levy of income tax in India is dependent on the residential status of a taxpayer. Individuals who qualify as a resident in India must pay tax on their global income in India i.e. income earned in India and abroad. Whereas, those who qualify as Non-residents need to pay taxes only on their Indian income. The residential status has to be determined separately for every financial year for which income and taxes are computed.

Defining Income

Income has been very widely defined in the Income-tax Act. In simple words, income includes salary, pension, rental income, profits out of any business or profession, any profit made out of the sale of any specified asset, interest income, dividends, royalty income etc. The law classifies income under 5 major heads as already mentioned above.

- Salary Income
- House Property income
- Profits and Gains from Business or Profession
- Capital Gains
- Income from other Sources

The law also allows a taxpayer to claim deductions specific to each such income and hence to avail the appropriate deductions, it is important that you classify income under the right heads. Eg. A salaried taxpayer can claim a standard deduction of Rs 40,000 while a taxpayer having rental income from a flat can claim municipal taxes as a deduction.

Income Tax deductions

There are broad themes to what the government incentivizes. These are either in the form of:

1. Various deductions available under Section 80 of the Income Tax Act which can be claimed from the Total Income or
2. Deductions that are specific to each source of income.

Some of the key deductions have been discussed here:

Home ownership

- Stamp duty and Registration under Section 80C
- Home loan principal and interest

Deduction on	Maximum allowed (for self-occupied house property)	Maximum allowed (for property on rent)
Stamp duty and registration + principal	Rs.1,50,000 within the overall limit of Section 80C	Rs.1,50,000 within the overall limit of Section 80C
Deduction on home loan interest under Section 24	Rs.2,00,000	No cap (but rental income must be shown in the income tax return) Further, maximum loss from house property capped at Rs 2 lakhs

Home renting

- **House Rent Allowance or HRA** (for salaried only) Given how many Indians move cities for work, this is a common allowance most salaried individuals can find in their payslips. If you are renting an apartment, be sure to claim this in your tax return.
- **Section 80GG** (if you are renting and don't get HRA) If you are not salaried, or you are still salaried, but don't get HRA, then you can claim deduction for rent under Section 80GG. Learn more.

Health

- Life insurance premium under Section 80C
- Medical insurance under Section 80D
- Preventative health checkups under Section 80D
- Medical bills (for salaried only)(replaced with standard deduction of Rs 40,000 effective 1 April 2018)

Long-Term Savings

Employee provident fund (for salaried only) Companies cut 12% of your basic salary and put it in a fund managed by EPFO.

Public provident fund: Individuals can open a PPF account from a post office or a public sector bank like State Bank of India and ICICI Bank. All of these allow you a deduction under Section 80C upto RS 1.5 lakhs.

Contribution to NPS is also another tax saving avenue for claim of deduction under Section 80CCD

Business profits

Running a business and wondering how to go about your taxes? It is simple. Take your gross receipts from your business and reduce various business related expenses from it eg telephone, internet, salary you pay to people you have hired, depreciation on the items that you use for your business like computer etc. What you are left with are your profits that you need to offer as your **Income from Business**. Similar is the method of computing your taxable profits if you are carrying out a profession too. But make sure you maintain proper books of accounts recording all your business transactions as law mandates that you do do. However, if you do not want to maintain books, you may opt for Presumptive taxation scheme where you will have to offer a fixed percentage of your gross receipts as your income.

Tax Credits

Income of certain nature will suffer a Tax Deduction at source itself. Eg salary, interest, rent, commission etc. The person in charge of paying such income will have to mandatorily deduct taxes before making the payment subject to certain conditions. Similarly, one may be liable to pay advance taxes if taxes payable after reducing TDS is Rs 10,000 or more. After TDS and advance tax, if there still tax to be paid, the same would be paid in the form of Self Assessment Taxes. All of the above taxes paid i.e. TDS, Advance Tax and Self Assessment Tax would reflect in Form 26AS of the taxpayer which is a significant document one needs to rely on while filing the return of income. This Form 26AS is called the tax credit statement that contains all the tax credits lying against you PAN for any given financial year.

Income Tax Calculation

Every income that you receive should form part of your income tax return. Of course, the law does provide for exemption of certain incomes eg. dividend income from an Indian company, LTCG on listed equity shares upto Rs 1 lakh in any financial year etc. Therefore, here is a quick guideline you can probably follow to compute taxes due on your income:

- List down all your income – be it salary, rental income, capital gains, interest income or profits from your business or profession.
- Remove incomes that are exempt under law.
- Claim all applicable deductions available under every source of income . eg claim standard deduction of Rs 40,000 from salary income, claim municipal taxes from rental income, claim business related expenses from your business turnover etc.
- Claim all applicable exemptions under every head of income eg. amount reinvested in another house property can be claimed as exemption from capital gains income etc.
- Claim applicable deductions from your total income eg the 80 deductions like 80C, 80D, 80TTA, 80TTB etc.
- You will now arrive at your taxable income. Check the tax slab you fall under and accordingly arrive at your income tax payable.

The government keeps introducing and altering tax slabs, schemes and tax benefits, so it's a good idea to keep up with the Budget.

Income Tax Payment

The Government collects income tax from three channels:

- TDS
- Advance tax
- Self Assessment tax

TDS

- TDS exists to help government get tax throughout the year. There's a prescribed table on how much tax deducted under what circumstances.
- Your employer cuts TDS based on the information available to him about you. So if you've made investments, but have not declared or if you live in a rented house, but have not shared rent receipts, your finance department will have no choice but to deduct tax based on only thing they know – your CTC.
- This is why the investment proofs deadline in your office is super important. Save yourself some headache and submit your investment proofs on time.
- Banks don't know if you're working in a company or if income from fixed deposits is what you solely rely on. So they deduct a standard 10% tax before they give away the interest. Now if you fall in the 20% or 30% bracket, it's on you to pay the remainder of the income tax. That's why sometimes you may find yourself paying some tax at the time of filing a tax return.
- Make sure banks have your PAN number. They deduct 20% tax if they don't have your PAN in their records.
- Anyone who's receiving an income of a specified nature say salary, interest, commission, rent, professional income etc. will have some percentage of tax withheld as prescribed by the government.

Advance Tax

Self-employed people must do the calculation themselves and pay the tax to the Government periodically every quarter. The deadlines are:

Due Date	Advance Tax Payable
On or before 15th June	15% of advance tax
On or before 15th September	45% of advance tax
On or before 15th December	75% of advance tax
On or before 15th March	100% of advance tax

To calculate your advance tax:

- Add up all the invoices received and include future payments you will be receiving till March 31 to estimate your taxable income.
- Deduct expenses directly related to your business, and any investments you have made under Section 80C in order to arrive at your taxable income.
- Determine your tax liability for the year.
- Reduce the Tax already deducted at source from your tax liability as determined above.
- If the remaining tax payable is greater than Rs 10,000 you will have to pay advance taxes based on the rates prescribed in the above table.
- Use the Income Tax Calculator to determine your tax liability.

Self Assessment Tax

When you are filing a tax return and you find out that you need to pay additional tax, you'd be paying self assessment tax. Another way to think about this would be.

- if you are paying tax for a financial year after the deadline has ended, you will pay self assessment tax.
- if you are paying tax for a financial year during the financial year, you will pay advance tax.

Payment of TDS Advance Tax and Self Assessment Tax:

TDS is deducted by the payer himself and remitted to the government by him. Hence the taxpayer need not worry about this part of his tax liability. As regards advance tax and self assessment tax, the same can be discharged online using Challan 280.

Income Tax Return

An Income Tax Return is a form where a taxpayer discloses details of his income, claims applicable deductions and exemptions and taxes that are payable on the taxable income. Further, details of taxes paid also reflect in the return. Any excess tax paid for a year will be claimed as a refund in the return of income.

Some taxpayers who are into any business or profession disclose details of such business or profession like turnover, expenses relating to business, profits from business etc. All the above information, put together, form part of your return and is filed with the Income Tax Department.

Income Tax Return Filing

Filing of income tax return online has been made mandatory for all classes of taxpayers barring few exceptions :

- Taxpayers aged 80 and above need not file return online.
- Taxpayers having an income less than Rs 5 lakhs and not claiming a refund need not file return online For the rest, online filing is mandatory.

Do note that deadlines for filing of returns have also been prescribed. For most individual taxpayers, the due date for filing return of income is 31 July immediately following the concerned financial year. If you do not file on time, here are some disadvantages:

- You will be denied carry forward of losses (except house property loss) to future years.
- Delay processing of refund claims, if any.
- Difficulty on getting home loans.
- Levy of late filing fee upto Rs 10,000 under Section 234F.
- Levy of interest under 234A if there are taxes due as on 31 July.

Documents Required for ITR Filing

Form 16, Form 26AS, Form 16A, proof of tax saving investments made, bank account details etc are some of the crucial details / documents that you need to be ready with before filing your return. Further the documents you are going to need to file your tax return are largely going to depend on your source of income. Here is our detailed article on documents you need for filing of your return of income.

Income Tax Faqs

- **When it is mandatory to file return of income ?**

It is mandatory to file return of income for a company and a firm. However, individuals, HUF, AOP, BOI are mandatorily required to file return of income if the income exceed basis exemption limit of Rs 2.5 lakhs. This limit is different for senior citizens and super senior citizens.

- **Can i file return of income even if my income is below taxable limits ?**

Yes, you can file return of income voluntarily even if your income is less than basic exemption limit.

- **What documents are to be enclosed along the return of income?**

There is no need to enclose any documents with the return of income. However, one should retain the documents to produce before any competent authority as and when required in future.

- **Should I disclose all my income in the return even if it is exempt?**

Yes. Income from every source including exempt income must be disclosed. The same can be shown under the Schedule EI.

Income Tax Glossary

Form 26AS

Form 26AS is a tax summary statement that contains all the tax payments you've made yourself (self-assessment tax/ advance tax) or tax someone deducted (TDS) on your behalf. You're going to need this document when you are doing your income tax e-filing. Form 26AS can be downloaded from www.incometaxindiaefiling.com

Form 16

If you need to know whether or not your company has given you some tax allowance like your offer letter says, or want to see how much tax has been deducted throughout the year, or need to see EPF contributions, wouldn't it be easier if you could see them all in one place? That's your Form 16. Form 16 has:

- a summary of all the tax deducted by each quarter
- all the tax benefits and allowances you've availed as a salaried individual
- Section 80C deductions you've claimed through your employer
- and your taxable income after allowances and Section 80C deductions

This is a super important document for all salaried individuals. And having a Form 16 makes e-filing your income tax return very simple. You can upload your Form 16 and e-file your income tax return. No income tax login required.

Form 16A

Form 16A is very similar to a Form 16 in that it contains how much tax was deducted over what income. So how's Form 16A different? Form 16A will never be issued by an employer. They're usually given to you by a bank that's deducting TDS, or a company that's deducted tax on your freelancing service.

Investment submission proof deadline

Depending on how large your company is, you might have two deadlines related to investment proofs. There's one in the beginning of the year (April) that needs you to just declare how much money you're planning to invest in Section 80C. This will give an indication on how much they need to deduct in TDS. Again in the last quarter (roughly between December and February), you will be asked to submit investment proofs. This is when you need to submit all your rent receipts, medical bills (if you're getting medical reimbursement), investments under Section 80C, 80D.

Assessment Year/ Financial Year

Financial Year runs between April 1 and March 31 of each year. Income tax is calculated for this period. Income tax returns are assessed the year after the financial year has finished. So that's your Assessment Year. During the assessment year, taxpayers file their income tax return. Income tax return and refunds are processed by the I-T Department that year.

Challan 280

Challan 280 is the slip that you will use for online income tax payment. Follow this guide to learn how to pay tax due. This is the link to the Income Tax Department website. If you are a taxpayer, you're going to need to use for:

- Getting your tax credit statement Form 26AS
- Getting your tax records for home loan or visa application
- Verifying your income tax return after ITR submission

Tax proposals 2019-2020 at a glance for Individuals

1. Income Tax slabs will remain the same for FY 2019-20.
2. No tax on notional rent of second Self-occupied House under “Income from House Property” i.e. up to two self-occupied house properties to be considered for exemption.
3. Tax Rebate Limit under 87A increased from Rs. 3.5 lakhs to Rs. 5 lakhs for taxpayers. The maximum limit of the tax rebate increased to Rs.12,500 from the present limit of Rs. 2,500.
4. TDS limit under Section 194A hiked from Rs 10,000 to Rs 40,000 on Post Office Savings and Bank Deposits.
5. Standard Deduction for the salaried class increased from Rs 40,000 to Rs 50,000.
6. Section 54 exemption now available on the second house property, provided the capital gains is less than or equal to Rs. 2 crores – to be availed only once in a lifetime.

Tax proposals 2019-2020 at a glance for Businesses, MSME & Real estate

1. Benefits under Section 80-IBA to be extended for one more year – to the housing projects approved till 31 March 2020.
2. Period of exemption from levy of tax on notional rent, on unsold inventories is extended from one year to two years, starting from the end of the year in which the project is completed.
3. SMEs with earnings below Rs 5 Crores will soon file GST returns only once in 3 months.
4. MSMEs and Traders to note that GST Registered SME units will get 2% interest rebate on an incremental loan of Rs. 1 Crore.
5. The requirement of sourcing from SMEs by Government enterprises has been increased to 25% with 3% reserved for women-owned SMEs.
6. A scheme of ‘Business loans up to Rs. 1 crore in 59 minutes’ will be implemented.
7. Limit to deduct TDS on Rent under Section 194I has been increased from Rs 1,80,000 to Rs. 2,40,000.

Measures for the poor and backward class

1. 60,000 crores are being allocated for MGNREGA in Budget Expenditure 2019-20. Additional amount would be provided if required.

Women Empowerment

1. Providing cleaner fuel for rural women – out of the 8 crores promised free LPG connections, 6 crore is already delivered under Ujjwala Yojana and remaining will be delivered in the coming year.
2. More than 7,000 beneficiaries of PM Mudra Yojana are women. 15.56 crore loans of ₹7.23 lakh crore disbursed under MUDRA Yojana.
3. Benefits of maternity leave of 26 week have provided support to women.

Banking Reforms & Insolvency and Bankruptcy Code (IBC)

1. Outstanding loans of public sector banks increased from Rs 18 lakh crore to Rs 52 lakh crore. Under the clean banking initiative, the 4R approach i.e. Recognition, Resolution, Recapitalisation and Reforms is being followed.
2. 3 banks namely Bank of India, Bank of Maharashtra and Oriental Bank of Commerce are out of Prompt Corrective Action (PCA).
3. 8 public sector banks still remain within PCA framework which imposes restrictions on lending and expansion.
4. IBC has instituted a resolution-friendly mechanism to speed-up recovery of NPAs. Consequently, Rs 3 lakh crore has already been recovered to this effect.
5. A sum of Rs 2.6 lakh crore has been directed towards recapitalisation of Public Sector Banks (PSBs).
6. Amalgamation of banks in place to avail economies of scale, better capital and wider geographical coverage

Positive disruptions in Pension Sector

1. Benefits to 10 crore workers in the unorganised sector as part of the Mega Pension Yojana.
2. Contribute Rs. 55-100 per month and govt will contribute the same – to get Rs. 3000 pension monthly post 60.

3. Over Rs. 35,000 crore has been allocated under the 'One Rank One Pension' scheme for Defence personnel.
4. Rs. 500 crore allotted for pension schemes for individuals in other sectors.
5. NPS rules amended in December are implemented – with increased Government contribution from 10% to 14%.

Agriculture Reforms

1. Minimum Support Price (MSP) fixed at 50% more than the cost for all the 22 crops.
2. Pradhan Mantri Kisan Samman Nidhi (PM-kisan) to benefit around 12 crore small and marginal farmers with a direct income support of Rs 6000 annually. Rs 75,000 crore has been allocated towards this.
3. The amount of interest subvention has been doubled and crop loans to farmers increased to Rs 11.68 lakh crore.
4. Allocation for Rashtriya Gokul Mission increased to Rs 750 crore. Rashtriya Kamdhenu Aayog has been established to genetically upgrade cow resources.
5. Under Kisan Credit Card scheme, farmers pursuing animal husbandry and fisheries will get 2% interest subvention. An additional 3% interest subvention will be provided for timely loan repayment.
6. Under National Disaster Relief Fund (NDRF), farmers affected by natural calamities will get 2% interest subvention. A prompt repayment incentive of 3% will be given for entire loan reschedulement period.

GOODS AND SERVICES TAX (GST)

GST in India

GST is one of the biggest tax reforms in India aiming to integrate State economies and boost overall growth by creating a single, unified Indian market to make the economy stronger. GST is a comprehensive destination based indirect tax levy of goods as well as services at the national level. Its main objective is to consolidate multiple indirect tax levies into a single tax thus subsuming an array of tax levies, overcoming the limitations of existing indirect tax structure, and creating efficiencies in tax administration.

GST is a consumption or destination based tax levied on the basis of the “Destination principle.” It is a comprehensive tax regime covering both goods and services, and be collected on value-added at each stage of the supply chain. Further, GST paid on the procurement of goods and services can be set off against that payable on the supply of goods or services. Simply put, Goods and Services Tax is a tax levied on goods and services imposed at each point of supply. Such GST is on entire goods and services, except some exempted class of goods or services or a negative list of goods and services on which GST is not levied. GST is a national level tax based on value added principle just like State level VAT which was levied as tax on sale of intra-state goods.

The essence of GST is in removing the cascading effects of both Central and State taxes by allowing setting-off of taxes throughout the value chain, right from the original producer and service provider's point up to the retailer's level. GST is thus not simply VAT plus service tax, but a major improvement over existing system of VAT and disjointed Service Tax ushering in the possibility of a collective gain for industry, trade and common consumers as well as for the Central Government and the State Governments.

GST, as a well-designed value added tax on all goods and services, is the most elegant method to eliminate distortions and to tax consumption. Taxes proposed to be subsumed under GST are as follows:

Central Excise Duty	Central Sales Tax
Duties of Excise (Medicinal and Toilet Preparations)	Purchase Tax
Additional Duties of Excise (Goods of Special Importance)	Luxury Tax
Additional Duties of Excise (Textiles and Textile Products)	Entry Tax (All forms)
Additional Duties of Customs (commonly known as CVD)	Entertainment Tax (except those levied by the local bodies)
Special Additional Duty of Customs (SAD)	Taxes on advertisements
Service Tax	Taxes on lotteries, betting and gambling
Cesses and surcharges insofar as they relate to supply of goods or services	State cesses and surcharges insofar as they relate to supply of goods or services

Levy under GST Regime

The structure provided under GST is dual in nature and under this, the Centre and the States will simultaneously levy tax on a common base. The GST levied by the Centre on intra-State supply of goods and / or services would be called the Central GST (CGST) and that levied by the States / Union territory would be called the State GST (SGST)/ UTGST. Similarly, Integrated GST (IGST) will be levied and administered by Centre on every inter-state supply of goods and services.

GST -----Intra State-----CGST and SGST

GST -----Inter State-----IGST

Liability under GST

Under the GST regime, liability to pay tax arises when a person crosses the turnover threshold of ` 40 lakhs (` 20 lakhs for North Eastern & Special Category States) except in certain specified cases where the taxable person is liable to pay GST even though he has not crossed the threshold limit. The CGST / SGST is payable on all intra-State supply of goods and/or services and IGST is payable on all inter-State supply of goods and/or services.

A Composition Scheme, which is mainly devised for small taxpayers, provides concessional rate of tax and filing of quarterly returns instead of monthly return. To be eligible for registration under Composition scheme it is required that the aggregate turnover of a registered tax payer should not exceed Rs. 1,00,00,000/- in the preceding financial year. A lower limit for GST composition scheme turnover limit will be applicable to the North Eastern States and hill states such as Sikkim or Himachal Pradesh which is yet to be confirmed.

Registration

In any tax system, registration is the most fundamental requirement for identification of tax payers ensuring tax compliance in the economy. Registration of any business entity under the GST Law implies obtaining a unique number from the concerned tax authorities for the purpose of collecting tax on behalf of the government and to avail Input Tax Credit for the taxes on his inward supplies. Without registration, a person can neither collect tax from his customers nor claim any input Tax Credit of tax paid by him

Persons Liable to register

Section 22 of the CGST Act, 2017 specifies the list of persons liable for registration and section 24 of the CGST Act, 2017 lists categories of persons who are required specifically to take registration even if they are not covered under section 22 of the Act. Following is a summarised list:

- **Supplier:** Supplier of taxable goods or services or both exceeding the specified threshold limit of Rs. 10 lakhs (for special category States) and Rs. 20 lakhs for other states and Union territories

- **Licensee:** Every person who is a registered licensee or holds a license under an existing law, on the day immediately preceding the appointed day i.e 1st July 2017.
- **Transferee:** Where a business, which is carried by a taxable person is transferred as a going concern shall be liable to be registered with effect from the date of such transfer or succession.
- **Transferee under a scheme:** Transfer pursuant to sanction of a scheme or an arrangement for amalgamation or, as the case may be, demerger of two or more companies pursuant to an order of a High Court, Tribunal or otherwise, the transferee shall be liable to be registered, with effect from the date on which the Registrar of Companies issues a certificate of incorporation giving effect to such order of the High Court or Tribunal.
- **Interstate supplier:** An interstate supplier is compulsorily required to get registered under GST.
- **Casual Taxable person:** A person who occasionally undertakes transactions involving supply of goods or services or both in the course or furtherance of business, whether as principal, agent or in any other capacity, in a State or a Union territory where he has no fixed place of business is termed as a casual taxable person.
Such persons if making taxable supply of goods or services or both comes under the ambit of taxable persons.
- **Payer of Reverse charge:** Persons who are required to pay tax under reverse charge shall get registered under GST.
- **Person under Section 9(5) of CGST Act, 2017:** As stated in section 9(5) of CGST Act, 2017, the Government may, on the recommendations of the Council, by notification, specify categories of services, the tax on intra-State supplies of which shall be paid by the electronic commerce operator if such services are supplied through it, and all the provisions of this Act shall apply to such electronic commerce operator as if he is the supplier liable for paying the tax in relation to the supply of such services.
- **Non-resident:** A non-resident taxable person making taxable supply.

- **Deductor of tax at source:** Persons who are required to deduct tax under section 51, whether or not separately registered under this Act.
- **Supplier on behalf of another person:** Persons who make taxable supply of goods or services or both on behalf of other taxable persons whether as an agent or otherwise.
- **Input Service Distributor:** Whether or not separately registered under this Act.
- **Supplier through Electronic Commerce Operator:** Persons who supply goods or services or both (other than supplies specified under sub-section (5) of section 9), through such electronic commerce operator who is required to collect tax at source under section 52.
- **Supplier of online information:** Every person supplying online information and database access or retrieval services from a place outside India to a person in India, other than a registered person.
- **Any other person:** Any other person or class of persons as notified by the Government on recommendations of the Council.

Persons not liable for registration

The following persons have been specifically kept out of the purview of registration under GST:

- Person supplying exempted goods or services or goods or services which are not liable for tax under GST.
- An agriculturist, to the extent of supply of produce out of cultivation of land.

GSTIN

GST Registration Number is 15 digits- PAN based number- called GSTIN, as under-

State Code		PAN										Entity Code	Blank	Check Digit
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15

Taxable event under GST

Under the previous regime taxable event for various taxes were different. For example, for excise duty the taxable event was manufacture or production of goods in India. Similarly, for services the taxable event was when a service was provided or agreed to be provided. Under CST and VAT it was sale of goods. Thus, all this led to lot of confusion in determining taxes to be paid. To replace such multiple taxable events, GST has brought a single and uniform taxable event, which is, supply and tax will accrue to the taxing authority which has jurisdiction over the place of consumption and will be the place of supply in most cases.

Supply has been very subjectively and inclusively defined in the Act. The types of supply identified under the Act are:

- Schedule I activities (whether or not for consideration) like transfer of goods from principal-agent transaction etc.
- Supply which are made or agreed to be made for a consideration by a person in the course or furtherance of business.
- Schedule II activities (activities to be treated as supply of goods or supply of services).
- Import of services which are for consideration (whether or not in the course or furtherance of business).

There are few activities which are specifically not to be considered as SUPPLY

And these are:

1. Schedule III activities which includes

- Services from an employee to employer.
 - Services by any court or Tribunal.
- (a) functions performed by members of Parliament, member of State Legislature, member of Panchayats, member of Municipalities and members of other local authorities.
- (b) the duties performed by any person who holds any post in pursuance of the provision of the Constitution in that capacity or

(c) the duties performed by any person as a Chairperson or a Member or a director in a body established by Central Government or a State Government or local authority & who is not deemed as an employee before the commencement of this clause.

- Services of funeral, burial, crematorium or mortuary.
- Sale of land subject to Schedule II(5)(b), sale of building.
- Actionable claims, other than lottery, betting and gambling.

2. activities or transactions undertaken by the Central Government, a State Government or any local authority in which they are engaged as public authorities, as may be notified by the Government on the recommendations of the Council.

Time of Supply

Point of taxation means the point in time when goods have been deemed to be supplied or services have been deemed to be provided. The point of taxation enables us to determine the rate of tax, value, and due dates for payment of taxes. Under GST the point of taxation, i.e., the liability to pay CGST / SGST, arises at the time of supply as determined for goods and services. CGST Act, 2017 states provisions to determine time of supply of goods under section 12 and time of supply of services under section 13 of the Act.

<i>Time of Supply of Goods</i>	
Type	Goods (Sec 12)
General provision (sub section 2)	(Earliest of the three) <ul style="list-style-type: none"> • date of issue of invoice • last date when invoice is required to be issued (sec 31(1)) • receipt of payment
Excess amount amount received is up to Rs. 1000 in excess to the amount indicated in tax invoice	(at the option of supplier) date of issue of invoice (with respect to such excess amount)

<p>Here “supply” shall be deemed to have been made to the extent it is covered by the invoice or, as the case may be, the payment and “the date of receipt of payment” shall be the earliest of the following: date on which the payment is entered in the books of account of the supplier or the date on which the payment is credited to his bank account.</p>			
<p>Reverse Charge Basis (sub section 3)</p>	<p>(Earliest of the three)</p> <ul style="list-style-type: none"> • the date of the receipt of goods • the date of payment as entered in the books of account or payment is debited in his bank account whichever is earlier • the date immediately following thirty days from the date of issue of invoice or any other document 		
<p>where it is not possible to determine the time of supply the date of entry in the books of account of the recipient of supply.</p>			
<p>Vouchers (sub section 4)</p>	<ul style="list-style-type: none"> • the date of issue of voucher, if the supply is identifiable at that point or • the date of redemption of voucher, in all other cases 		
<p>Where it is not possible to determine the time of supply under the provisions of sub-section (2) or sub-section (3) or sub-section (4), the time of supply shall— in a case where a periodical return has to be filed, be the date on which such return is to be filed; or in any other case, be the date on which the tax is paid.</p>			
<p>The time of supply to the extent it relates to an addition in the value of supply by way of interest, late fee or penalty for delayed payment of any consideration shall be the date on which the supplier receives such addition in value.</p> <p><i>Time of Supply of Services.</i></p> <table border="0" style="width: 100%;"> <tr> <td style="text-align: center;">Type</td> <td style="text-align: right;">Services (Sec 13)</td> </tr> </table>		Type	Services (Sec 13)
Type	Services (Sec 13)		

<p>General provision (sub section 2)</p>	<p>(Earliest of)</p> <ul style="list-style-type: none"> • date of issue of invoice if issued within time prescribed under (sec 31(2)) or date of receipt of payment whichever is earlier or • date of provision of service if invoice not issued within time prescribed under section 31(2) or the date of receipt of payment, whichever is earlier or • date of receipt as entered in the books of account, in other cases
<p>Excess amount amount received is up to Rs. 1000 in excess to the amount indicated in tax invoice</p>	<p>(at the option of supplier) date of issue of invoice (with respect to such excess amount)</p>
<p>Here “supply” shall be deemed to have been made to the extent it is covered by the invoice or, as the case may be, the payment and “the date of receipt of payment” shall be the earliest of the following:</p> <ul style="list-style-type: none"> • date on which the payment is entered in the books of account of the supplier or • the date on which the payment is credited to his bank account. 	
<p>Reverse Charge Basis (sub section 3)</p>	<p>(Earliest of the following)</p> <ul style="list-style-type: none"> • the date of payment as entered in the books of account or payment is debited in his bank account, whichever earlier • the date immediately following sixty days from the date of issue of invoice or any other document
<p>Services by associated enterprises: Where the supplier of service is located outside India, (earlier of the two)</p> <ul style="list-style-type: none"> • the date of entry in the books of account of the recipient • the date of payment 	
<p>Vouchers (sub section 4)</p>	<ul style="list-style-type: none"> • the date of issue of voucher, if the supply is identifiable at that point or • the date of redemption of voucher, in all other cases

Where it is not possible to determine the time of supply under the provisions of sub-section (2) or sub-section (3) or sub-section (4), the time of supply shall—

- in a case where a periodical return has to be filed, be the date on which such return is to be filed; or
- in any other case, be the date on which the tax is paid.

The time of supply to the extent it relates to an addition in the value of supply by way of interest, late fee or penalty for delayed payment of any consideration shall be the date on which the supplier receives such addition in value.

Nature of Supply

GST is a destination based tax i.e consumption tax, which means tax will be levied where goods and services are consumed and will accrue to that state thus, it is of immense importance that the place of supply of any transaction is determined correctly. To determine the correct place of supply, it is important that the nature of supply be understood first. Following table list provisions as contained in IGST Act, 2017, to know whether a supply will be treated as Inter State or Intra State supply.

The following services shall be treated as inter state supply:

Inter State Supply (Sec 7)		
Supply of	Goods	Services
Location of the supplier and the place of supply are in	two different States; two different Union territories; or a State and a Union territory	two different States; two different Union territories; or a State and a Union territory,
Import	till they cross the customs frontiers of India	No specific requirement (all services imported will be treated as inter state supply)

supplier located in India and the place of supply is outside India
to or by a Special Economic Zone developer or a Special Economic Zone unit
in the taxable territory, not being an intra-State supply and not covered elsewhere in this section

Intra State Supply		
Supply of	Goods	Services
Location of the supplier and the place of supply are in	same State or same Union territory	same State or same Union territory
Following will not be considered as Intra State Supply		
	supply of goods to or by a Special Economic Zone developer or a Special Economic Zone unit goods imported into the territory of India till they cross the customs frontiers of India supplies of goods made to a tourist as referred to in Section 15	

Place of Supply

Place of supply is important to determine the nature of sale (inter-state, intra-state, import or export) and the State where State component of GST will accrue.

Place of Supply of Goods

Section 10 of the IGST Act, 2017, specifies place of supply of goods, other than supply of goods imported into, or exported from India.

- **movement of goods** (whether by the supplier or the recipient or by any other person) - location of the goods at the time at which the movement of goods terminates for delivery to the recipient.
- **Delivery of goods** (by the supplier to a recipient or any other person on the direction of a third person) either by way of transfer of documents of title to the goods or otherwise - principal place of business of such person.
- **Supply not involving movement of goods** (whether by the supplier or the recipient) - location of such goods at the time of the delivery to the recipient.
- **Installation/Assembling** of goods - place of such installation or assembly.
- Goods supplied **on board a conveyance** - location at which such goods are taken on board.

Place of Supply of Services

Section 12 of the Integrated GST Act, 2017 lists place of supply of services, where location of supplier and recipient is in India.

(Sub Section) Applicability	Type	Place of Supply of Service
(2) General Provision	Made to a registered person	location of such person
	Made to unregistered person	- location of recipient where address on records exist - location of the supplier of services in other cases

Value of Supply

Value of taxable supply under GST is the transaction value. Transaction value means the price actually paid or payable for the said supply of goods or services or both where the supplier and the recipient of the supply are not related and the price is the sole consideration for the supply.

Value of Supply		
Includes	Excludes Discount	
any taxes, duties, cesses, fees and charges levied under any law for the time being in force other than GST Act	Before or at the time of supply: if discount has been duly recorded in invoice.	After the supply: established in terms of an agreement and specifically linked to relevant invoices input tax credit, attributable to discount have been reversed by recipient.
any amount that the supplier is liable to pay in relation to such supply but which has been incurred by the recipient of the supply and not included in the price actually paid or payable		
incidental expenses		
interest or late fee or penalty for delayed payment of any consideration for any supply		
subsidies directly linked to the price		

Input Tax Credit

Input Tax Credit (ITC) is considered as a cornerstone of GST. In the previous tax regime, there was a non-availability of credit at various points of supply chain, which led to a cascading effect of tax and increased the cost of goods and services. This flaw has been removed under GST and a seamless flow of credit throughout the value chain will be provided which will help in reducing the cascading effect of tax.

Under GST, Input tax, means the central tax (CGST), State tax (SGST), integrated tax (IGST) or Union territory tax (UTGST) charged on supply of goods or services or both made to a registered person and includes taxes paid on input goods, input services or both. To avail the benefit of ITC it is required that the person availing such benefit is registered under GST. An unregistered person is not eligible to take the benefit of ITC.

Section 16 of the CGST Act, 2017, states the condition and eligibility to obtain ITC. Following four conditions are required to be fulfilled by a registered taxable person:

- he should be in possession of tax invoice or debit note or such other tax paying documents as may be prescribed;
- he should have received the goods or services or both;
- the supplier should have actually paid the tax charged in respect of the supply to the government; and
- he should have furnished the return under section 39.

(where the goods against an invoice are received in lots or installments, the registered person shall be entitled to take credit upon receipt of the last lot or installment).

Availability of ITC to recipient has been made dependent on payment of tax by supplier. Thus, even if the receiver has paid the amount of tax to the supplier and the goods and/or services so procured are eligible for ITC, no credit would be available, till the time tax so collected by the supplier is deposited to the Government. Also if a recipient fails to pay the amount of

supply along with tax payable thereon within 3 months from the date of issue of invoice, the recipient will be liable to pay along with the output tax liability an amount equal to the input tax credit availed by the recipient along with interest thereon.

Tax invoice, Credit and Debit notes

Whenever a transaction takes place, different kinds of documents are issued under different circumstances, like invoice, credit note, debit note and bill of supply.

Invoice

An invoice indicates what must be paid by the buyer to the seller. On every sale/purchase an invoice is issued by the supplier i.e person making the sale. An invoice provides a detailed account of the products or service along with details of supplier, purchaser, tax charged and other particulars such as discounts, terms of sale etc.

Invoice for goods is required to be raised before or at the time of

- removal of goods for supply to the recipient, where the supply involves movement of goods; or
- delivery of goods or making available thereof to the recipient, in any other case.

A registered taxable supplier of services, is required to raise invoice at the following timeline:

<p>General provision</p>	<p>In case of taxable supply of services, invoice shall be issued within a period of thirty days from the date of supply of service (In case the supplier of services is an insurer or a banking company or a financial institution, including a non-banking financial company, the invoice shall be issued within 45 days of supply of service)</p>
--------------------------	--

Continuous Supply of service	before or at the time each such statement is issued or, as the case may be, each such payment is received
Continuous supply having ascertainable due date	on or before the due date of payment
Continuous supply having unascertainable due date	before or at the time when the supplier of service receives the payment
Continuous supply where the payment is linked to the completion of an event	on or before the date of completion of that event
When contract ceases before completion of supply	at the time when the supply ceases and such invoice shall be issued to the extent of the supply made before such cessation

Where the goods being sent or taken on approval for sale or return are removed before the supply takes place, the invoice shall be issued before or at the time of supply or six months from the date of removal, whichever is earlier. Here, "tax invoice" shall include any revised invoice issued by the supplier in respect of a supply made earlier. The Government may, on the recommendations of the Council, by notification, specify the categories of goods or services in respect of which a tax invoice shall be issued or any other document issued in relation to the supply shall be deemed to be a tax invoice.

A revised invoice can be issued by a registered person, within one month from the date of issuance of certificate of registration.

Although all GST taxpayers are free to design their own invoice format., it is required that certain fields as mentioned in the invoice rule be incorporated in all invoices. A draft template of invoice (GST INV-1) under GST is given.

Bill of Supply

Where a supplier is not required to charge any tax, he shall raise a bill of supply instead of invoice. Bill of supply will be raised by

- a registered person supplying exempted goods or services or both or
- a registered person paying tax under the provisions of Section 10

Receipt voucher

When an advance payment is received with respect to any supply of goods or services or both, a receipt voucher is required to be issued by the registered person. Further, if no supply is made and no tax invoice is issued after the issue of receipt voucher, the said registered person may issue to the person who had made the payment, a refund voucher against such payment.

Credit note and debit note

A registered person is required to issue credit note or debit note under certain circumstances. Following table summarizes such situations:

Delivery Challan

Invoice Rules list few situations where a delivery challan, serially numbered, will be issued instead of invoice. Such situations are as follows:

- supply of liquid gas where the quantity at the time of removal from the place of business of the supplier is not known
- transportation of goods for job work
- transportation of goods for reasons other than by way of supply, or
- such other supplies as may be notified by the Board

Returns

As per law, a taxpayer is required to file a document with the administrative authority which is commonly known as a “return”. There are various types of returns under GST like the Monthly return, Return for Composition Scheme, TDS return, Return for Input Service Distributor Annual return and final return. Under GST, everything is online and is updated regularly.

Due dates for All GST Returns

These returns are as per the CGST Act*

Return Form	Particulars	Frequency	Due Date
<u>GSTR-1</u>	Details of outward supplies of taxable goods and/or services affected	Monthly	11th* of the next month with effect from October 2018 *Previously, the due date was 10th
<u>GSTR-2</u> Suspended	Details of inward supplies of taxable goods and/or services affected claiming the input tax credit.	Monthly	15th of the next month
<u>GSTR-3</u> Suspended	Monthly return on the basis of finalization of details of outward supplies and inward supplies along with the payment of tax.	Monthly	20th of the next month
<u>GSTR-3B</u>	Simple Return in which summary of outward supplies along with Input Tax Credit is declared and payment of tax is affected by taxpayer	Monthly	20th of the next month
<u>GSTR-4</u>	Return for a taxpayer registered under the composition levy	Quarterly	18th of the month succeeding quarter
<u>GSTR-5</u>	Return for a Non-Resident foreign taxable person	Monthly	20th of the next month
<u>GSTR-6</u>	Return for an Input Service Distributor	Monthly	13th of the next month
<u>GSTR-7</u>	Return for authorities deducting tax at source.	Monthly	10th of the next month

<u>GSTR-8</u>	Details of supplies effected through e-commerce operator and the amount of tax collected	Monthly	10th of the next month
<u>GSTR-9</u>	Annual Return for a Normal Taxpayer	Annually	31st December of next financial year*
<u>GSTR-9A</u>	Annual Return a taxpayer registered under the composition levy anytime during the year	Annually	31st December of next financial year*
<u>GSTR-10</u>	Final Return	Once, when GST Registration is cancelled or surrendered	Within three months of the date of cancellation or date of cancellation order, whichever is later.
<u>GSTR-11</u>	Details of inward supplies to be furnished by a person having UIN and claiming a refund	Monthly	28th of the month following the month for which statement is filed

* Subject to changes by Notifications/ Orders

Payment

As India is moving towards digitisation, GST have provided an easy and simple way of payment of taxes. Under GST regime, all the taxpayers will get three electronic ledgers namely E-cash Ledger, E-credit Ledger & E-liability Ledger through their GST profile.

E-cash ledger: The electronic cash ledger under sub-section (1) of section 49 shall be maintained in FORM GST PMT-05 for each person, liable to pay tax, interest, penalty, late fee or any other amount, on the Common Portal for crediting the amount deposited and debiting the payment therefrom towards tax, interest, penalty, fee or any other amount. Thus, Payment can be made in

cash by debiting the e-cash ledger maintained on the common portal. Money can be deposited in the Cash Ledger by different modes, namely, E-Payment (Internet Banking, Credit Card, Debit Card); Real Time Gross Settlement (RTGS)/ National Electronic Fund Transfer (NEFT); Over the Counter Payment in branches of Banks Authorized (for deposits upto ten thousand rupees per challan per tax period, by cash, cheque or demand draft) to accept deposit of GST. A challan in FORM GST PMT-06 is required to be generated and the details of the amount to be deposited towards tax, interest, penalty, fees or any other amount will be entered in the challan. Challan in FORM GST PMT-06 generated at the Common Portal shall be valid for a period of fifteen days.

E- debit or credit ledger: Every registered taxable person is required to record and maintain an electronic liability ledger in Form GST PMT- 01 and all amounts payable will be debited in the said register. The electronic credit ledger shall be maintained in Form GST PMT-02 for each registered person eligible for input tax credit under the Act on the common portal & every claim of input tax credit under the Act shall be credited to the said ledger.

Payment of every liability by a registered taxable person can be made by debiting the e liability ledger or e-cash ledger.

Accounts and Records

A registered person is required to maintain proper accounts and records and keep it at his registered principal place of business. If there is more than one place of business specified in the certificate of registration, the accounts relating to each place of business shall be kept at such places of business. To facilitate digitisation, there is a facility to maintain accounts and other records in electronic form under GST. List of account to be maintained is as follows:

- production or manufacture of goods;
- inward and outward supply of goods or services or both;
- stock of goods;
- input tax credit availed;
- output tax payable and paid; and
- such other particulars as may be prescribed.

Owner or operator of warehouse or godown or any other place used for storage of goods and every transporter, irrespective of whether he is a registered person or not, shall maintain records of the consigner, consignee and other relevant details of the goods in such manner as may be prescribed.

The time duration for retention of accounts and records under GST is seventy-two months from the due date of furnishing of annual return for the year pertaining to such accounts and records. A registered person, who is a party to an appeal or revision or any other proceedings before any Appellate Authority or Revisional Authority or Appellate Tribunal or court, whether filed by him or by the Commissioner, or is under investigation for an offence under Chapter XIX, shall retain the books of account and other records pertaining to the subject matter of such appeal or revision or proceedings or investigation for a period of one year after final disposal of such appeal or revision or proceedings or investigation, or for the period specified above, whichever is later.

Benefits of GST

GST will bring numerous benefits to all stakeholders viz industries, government and citizens. Some of these benefits are listed below:

Seamless Flow of Credit: GST will facilitate seamless credit across the entire supply chain and across all States under a common tax base.

Elimination of Cascading effect: Goods & Service Tax would eliminate the cascading effects of taxes on production and distribution cost of goods and services. The exclusion of cascading effects i.e. tax on tax will significantly improve the competitiveness of original goods and services in market will lead to beneficial impact to the GDP growth of the country. It is felt that GST would serve a superior reason to achieve the objective of streamlining indirect tax regime in India which can remove cascading effects in supply chain till the level of final consumers.

Revenue Gain: Revenue will increase under GST regime because of widening of the dealer base by capturing value addition in the distributive trade and increased compliance.

Enhanced Transparency: GST regime shall enhance transparency in the indirect tax framework and is expected to bring down the rate of inflation.

Zero rated Exports: Under the GST regime, exports will be zero rated in entirety unlike the present system where refund of some taxes is not allowed due to fragmented nature of indirect taxes between the Centre and the States. All taxes paid on the goods or services exported or on the inputs or input services used in the supply of such export goods or services shall be refunded.

GST will boost Indian exports, thereby improving the balance of payments position. Exporters will be facilitated by grant of provisional refund of 90% of their claims within seven days of issue of acknowledgement of their application, thereby resulting in the easing of position with respect to cash flows.

Increased Uniformity: Uniform GST rates will reduce the incentive for evasion by eliminating rate arbitrage between neighbouring States and that between intra and inter-State sales. Harmonization of laws, procedures and rates of tax will make compliance easier and simple.

There would be common definitions, common forms/formats, common interface through GST portal, resulting in efficiencies and synergies across the board. This will also remove multiple taxation of same transactions and inter-State disputes like the ones on entry tax and e-commerce taxation existing today.

Increased Certainty: Common procedures for registration of taxpayers, refund of taxes, uniform formats of tax return, common tax base, common system of classification of goods or services along with timelines for every activity will lend greater certainty to taxation system.

Increased Digitalisation: GST is largely technology driven. The interface of the taxpayer with the tax authorities will be through the common portal (GSTN). There will be simplified and automated procedures for various processes such as registration, returns, refunds, tax payments, etc. All processes, be it applying for registration, filing of returns, payment of taxes, filing of refund claims etc., would be done online through GSTN. The input tax credit will be verified online. Electronic matching of input tax credit across

India will make the process more transparent and accountable. This will encourage a culture of compliance. This will also greatly reduce the human interface between the taxpayer and the tax administration, leading to speedy decisions.

A list of goods, where the incidence of tax under GST is lower than the present tax incidence, as released by CBEC is as under:

S. No.	Description of goods
	Food & Beverage
1.	Milk powder
2.	Curd, Lassi, Butter milk put up in unit container
3.	Unbranded Natural Honey
4.	Ultra High Temperature (UHT) Milk
5.	Dairy spreads
6.	Cheese
7.	Cashew nut
8.	Raisin
9.	Spices
10.	Tea
11.	Wheat
12.	Rice
13.	Flour
14.	Soyabean oil
15.	Groundnut oil
16.	Palm oil
17.	Sunflower oil
18.	Coconut oil
19.	Mustard Oil
20.	Sunflower oil
21.	Other vegetable edible oils
22.	Sugar
23.	Palmyra jaggery
24.	Sugar confectionery
25.	Pasta, spaghetti, macaroni, noodles
26.	Fruit and vegetable items and other food products
27.	Pickle, Murabba, Chutney
28.	Sweetmeats
29.	Ketchup & Sauces
30.	Mustard Sauce
31.	Toppings, spreads and sauces
32.	Instant Food Mixes
33.	Other pulses bari (mungodi)
34.	Mineral water
35.	Ice and snow



Module 5

Legal Compliances



NIAM Agri-Business Incubator (NABI)

Ch. Charan Singh National Institute Of Agricultural Marketing (CCSNIAM)
(An Organization of Ministry of Agriculture & Farmers' Welfare, Government of India)
Kota Road, Bambala, Pratap Nagar, Jaipur – 302033, Rajasthan
Website: www.ccsniam.gov.in

LEGAL REQUIREMENTS

Chapter-1

APPROPRIATE BUSINESS FORM FOR STARTUP (TYPE OF ENTITY)

I. Formation of a Company in India

The law of companies in India is governed by the Indian Companies Act, 2013 ("companies act") which is a comprehensive legislation, in relation to the erstwhile Companies Act, 1956, and provides for provisions relating to all phases of a company's life, i.e. incorporation, management, mergers, winding up.

A Registrar of Companies ("RoC") is appointed under the act for designated regions, who is the nodal authority for affairs related to companies in that particular region.

II. Types of Companies in India

Any person can choose to incorporate either a company with unlimited liability or one with liability limited either by shares or guarantee. An incorporated company may take one of the following three forms:

II.1. Private Company

With restrictions on transfer of shares, and limited number of members a private limited company enjoys greater flexibility, less legal formalities, and the small shareholders body facilitates prompt decisions. A private company must have a minimum of two directors. A private company may be converted into a public company for raising capital from the public, if need arises, by completing certain legal formalities as specified in the companies act.

II.2. Public Company

Public companies are subject to stricter legal formalities. However, the free transferability of the shares of a public company and unlimited membership provides a larger base for raising of capital. Shares of a listed public company can be traded on stock exchange, which may open it to the scrutiny and watch of Securities and Exchange Board of India. A public company must have a minimum of seven members

and three directors, Public limited companies must have at least one third of the total number of directors as independent directors out of which one director has to be a woman.

Minimum authorized and paid up share capital requirement of a private and public company: The criteria of having minimum paid up share capital for both private public company, as stated in the erstwhile Companies Act, 1956, has been omitted in the revised companies act. This is a significant advantage to start-ups with respect to the requirement of maintaining minimum share capital under the Companies Act since inception.

II.3. One Person Company

This concept has been brought by the new companies act and states that one person company is in the nature of a private company which has only one person as its member/director

At the time of incorporation, the memorandum of association must name a nominee for the sole member of an OPC. The minimum number of directors for an OPC is also one, OPC provides the option of limited personal liability of proprietors (as opposed to unlimited liability in sole proprietorship).

Businesses which currently run under the proprietorship model could get converted into OPC's without any difficulty. The questions of consensus or majority opinions do not arise in case of OPCs, and is suitable for small entrepreneurs with low risk taking capacity.

III. Charter documents of a Company

III.1 Memorandum of Association

The MoA sets out the objects for which the company is proposed to be incorporated in the manner provided hereunder

- a. The first and foremost clause in MoA shall be the name of the proposed company suffixed with the words limited or private limited, as the case may be;
- b. The state where the registered office of the company shall be situated.

- c. The third clause contains the main objects for which the company is going to be formed/incorporated.

The MoA binds the area of operation of the company in respect to the objects mentioned therein and any decision or actions taken in contravention of the MoA shall be void. A company cannot run any business contrary to the main objects mentioned in their MoA.

The MoA and AoA of a company can be modified post incorporation in accordance with the applicable provisions of the Companies Act.

III.2. Articles of Association

The articles of a company contain regulations for the management of the company. This document is confined to the applicability of the provisions of the companies act, on private or public limited company, as the case may be.

IV. Legal formalities for incorporation of a company:

IV.1. Pre-incorporation formalities:

The below mentioned compliances are required to be carried out with regard to setting up of company in India:-

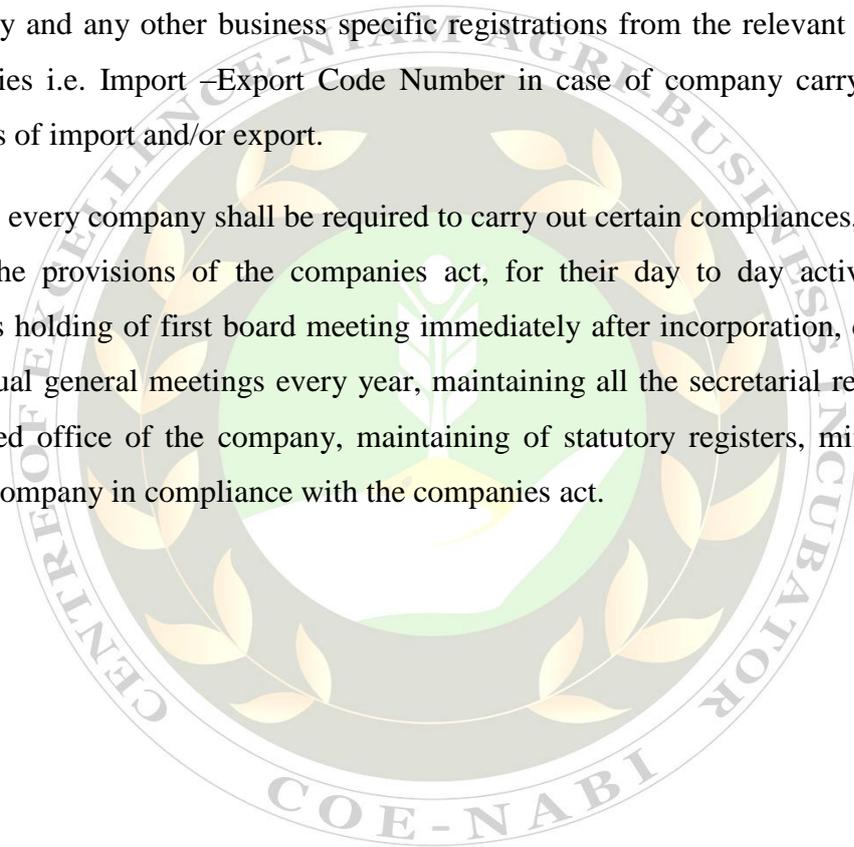
- a. Obtaining of Director's Identification Number ("DIN") and Digital Signature Certificates ("DSC") for the proposed directors of the company by preparing and filing of all the relevant forms and documents as required under the provisions of the companies act.
- b. Once the DIN and DSC are ready, the next step is filing of online application for the approval of name of the company, provided the name is not matching or similar with any other existing company.
- c. On approval of name by the registrar of companies, the drafting of the charter documents of the company needs to be carried out i.e. memorandum (MoU) and articles of association (AoA), which are the basic documents for any company.

Thereafter all the incorporation forms, shall be prepared and filed with the RoC for registration of company for the final step of the incorporation process and obtaining a certificate of incorporation of the company.

IV.2. Post incorporation formalities:

Once the certificate of incorporation has been issued by RoC, the company becomes a separate legal entity in the eyes of laws in India, and requires certain basic registrations to initiate the business which includes filing of application for obtaining a permanent account number and tax deduction account number on the name of the company and any other business specific registrations from the relevant government authorities i.e. Import –Export Code Number in case of company carrying out the business of import and/or export.

Further, every company shall be required to carry out certain compliances, as required under the provisions of the companies act, for their day to day activities which includes holding of first board meeting immediately after incorporation, carrying out the annual general meetings every year, maintaining all the secretarial records at the registered office of the company, maintaining of statutory registers, minutes books etc. of company in compliance with the companies act.



Chapter-2

FUNDING OPTIONS FOR STARTUP

Finance is the life blood of any business. In case the venture is self-funded there can be no better option than that. However, a Start-up is mostly the result of a novel idea that is the brainchild of its founder(s) and often than not funds is always a challenge.

For a first time business man the world of funding seems complex and challenging. Financing is generally of two types i.e. (a) equity financing; or (b) debt-financing;

A. Equity Financing

Start-ups are usually equity financed/funded by way of angel investors and/or venture capital/ private equity investors.

(i) Venture Capitalist/Private Equity

Venture capital ("VC") / Private Equity ("PE") is often the first large investment a start-up can expect to receive. Convertible instruments are usually the preferred option and most commonly used securities for VC/PE investment which includes compulsory convertible preference shares and compulsory convertible debentures. The investor and start-up will normally enter into a non-binding offer based on the preliminary valuation of the start-up usually followed with a financial, legal and technical due diligence on the start-up as required by the investors. Upon completion of due-diligence to the satisfaction of investor such investments involve execution of essentially following transaction documents between the investors and start-ups:

a. **Term Sheet / Letter of Intent /Memorandum of understanding; Set out the following:**

- Basic commercial understanding between the VC and the start-up; and
- Legal terms for the agreements to follow the due-diligence;

b. Share Subscription Agreement/ Debenture Subscription Agreement; usually captures the followings:

- The issuance of shares in the share capital or debentures at subscription amount determined based on the valuation of the start-up;
- Condition precedents to completion of transaction or conditions subsequent to be completed within the agreed time frame after the completion date;
- Sets of representation and warranties and indemnification resulting from due-diligence exercise or otherwise, etc.

c. Shareholders' Agreement; usually provides for the following:

- Nomination/representation rights on the board of investee;
- Information and reporting right and disclosure obligation of investee to the investors;
- Redemption rights on debenture or preference shares;
- Pre-emption rights, Right of First Refusal or Right of First Offer, Tag Along Right, Drag Along Rights, Lock-in-period for the investor or promoter's holding, put and call options, affirmative vote rights on certain reserved matters, anti-dilution provisions;
- Exit options to investors after the lock-in-period; etc.

Due-diligence will help the investors to finalize the representation and warranties and also to identify conditions precedents to the completion of investments and conditions subsequent in the aforesaid transaction documents.

(ii) Angel Investors

Angel investors are usually individuals or a group of industry professionals who are willing to fund your venture in return for an equity stake. Under the SEBI (Alternative Investment Funds) Regulations, 2012 which was subsequently amended in 2013, SEBI has made the following restrictions applicable to angel funds investing in an Indian company:

- a. An investee company has to be within 3 years of its incorporation, not listed on the floor of a stock exchange, and should have a turnover of less than INR 250 million and not be promoted by or related to an industrial group (with group turnover exceeding INR 3 billion).

b. The deal size is required to be between INR 5 million and INR 50 million. Separately, it is required that an investment shall be held for a period of at least 3 years.

B. Debt Financing

(i) Loan from Banks & NBFCs

Loans from banks and NBFCs help finance the purchase of inventory and equipment, besides securing operating capital and funds for expansion. More importantly, unlike a VC or angels, which have an equity stake, banks do not seek ownership in your venture. However, there are several drawbacks of such funding option. Not only do you pay interest on loan but it also has to be done on time irrespective of how your business is faring. They require substantial collateral and a good track record, besides the fulfilment of other terms and conditions and a lot of documentation as follows:

- a. Application for loan sanction by borrowers;
- b. Issue of sanction letter by the Bank;
- c. Agreement of Loan;
- d. Security/collateral documentation, such as (i) Deed of Mortgage; (ii) Deed of Hypothecation; (iii) Deed of guarantee; (iv) Share pledge agreement; (v) Memorandum of Entry; etc.

(ii) External Commercial Borrowings

External Commercial Borrowings (ECB) in form of bank loans, buyers' credit, suppliers' credit, securitized instruments (e.g. non-convertible, optionally convertible or partially convertible preference shares, floating rate notes and fixed rate bonds) can also be availed from non-resident lenders to fund the business requirement of a company. ECB can be accessed under two routes, viz., (i) Automatic Route; and (ii) Approval Route depending upon the category of eligible borrower and recognized lender, amount of ECB availed, average maturity period and other applicable factor.

ECB raised has also certain end use restrictions such as that it cannot be used for (a) on lending or investment in capital market; (b) acquiring a company in India; (c) real estate sector etc. Under ECB also the borrower needs to create certain charge on immovable assets, movable assets, financial securities and issue of corporate and / or personal guarantees in favour of overseas lender / security trustee, to secure the ECB

raised by the borrower, subject to compliance of certain conditions as prescribed under ECB guidelines framed by Reserve Bank of India. The documentation on similar lines as mentioned under bank loan section above will need to be executed.

(iii) CGTMSE Loans

Under the Credit Guarantee Trust for Micro and Small Enterprises scheme launched by Ministry of Micro, Small & Medium Enterprises (MSME), Government of India to encourage entrepreneurs, one can get loans of up to 1 crore without collateral or surety. Any new and existing micro and small enterprise can take the loan under the scheme from all scheduled commercial banks and specified Regional Rural Banks, NSIC, NEDFi, and SIDBI, which have signed an agreement with the Credit Guarantee Trust.

C. Once the start-ups achieve stable operations and revenue flows, it may consider the following option to raise the funds or increase the magnitude of the business operations:

(i) Initial Public Offering

During the IPO, the Company raises funds by offering and issuing equity shares to the public. An IPO allows a company to tap a wide pool of stock market investors to provide it with large volumes of capital for future growth. The existing shareholding will get diluted as a proportion of the company's shares. However, existing capital investment will make the existing shareholdings more valuable in absolute terms. Companies can also issue of American Depository Receipts ("ADRs") or Global Depository Receipts ("GDRs") to raise funds from international stock investors. The promoter has certain obligations such as (a) meeting minimum contribution requirements; and (b) is generally subject to a 3 year lock-in once the IPO is concluded.

Various parties such as investment bankers, underwriters and lawyers need to be engaged as part of procedure of IPO.

D. Unconventional modes of financing options which are now becoming popular in India:

(i) Crowd Funding

This is recent phenomena being practiced for getting seed funding through small amounts collected from a large number of people (crowd), usually through the Internet. Now we have companies existing in India which are specializing in "Crowd Funding".

The entrepreneur can get money for his venture by showcasing his idea before a large group of people and trying to convince people of its utility and success.

Wishberry.in and Catapooolt are a few among many such forums operating / present in India. The entrepreneur needs to put up on a portal his profile and presentation, which should include the business idea, its impact, and the rewards and returns for investors. It should be supported by suitable images and videos of the project.

SEBI in 2014, even rolled out a 'Consultation Paper on Crowdfunding in India' proposing a framework in the form of Crowdfunding to allow startups and SMEs to raise early stage capital in relatively small sums from a broad investor base. The Consultation Paper defined Crowdfunding as solicitation of funds (small amount) from multiple investors through a web-based platform or social networking site for a specific project, business venture or social cause. However SEBI till now has not issued any further regulations in this regard.

(ii) Incubators

These set-ups precede the seed funding stage and help the entrepreneur develop a business idea or make a prototype by providing resources and services in exchange for an equity stake ranging from 2-10%. Incubators offer office space, administrative support, legal compliances, management training, mentoring and access to industry experts as well as to funding through angel investors or VCs.

These are usually government-supported institutes like the IIMs or IITs, technical institutes or private business incubators run by industry veterans or companies. The incubation period can be 2-3 years and admission is rigorous. Some of the top options in India include IIM-Bangalore NSRCEL, Microsoft Accelerator and IIT-Kanpur SIIC and the famous Sriram College of Commerce (SRCC).

Chapter–3

TYPES OF AGREEMENTS

Now that you have finally decided to put your idea to test by setting up your start-up entity an important aspect which often remains unattended is putting in place formal Agreements.

Questions which often come to mind:

- Do we need formal written Agreements?
- If yes then what Agreements do we actually require?
- What should these Agreements provide for?

The simple answer to the above questions is that even though you can still operate and manage your start-up without any formal written Agreements, but there is always a risk in the long run, especially when differences arise between the founders with regards to running the business or any other account and at that point of time one always regrets not having executed written Agreements clearly spelling out the terms and conditions that we wish to put in place.

For your understanding in this section, we set out brief information about elementary Agreements which must be entered into between the concerned parties.

1. Joint Venture Agreements/ Agreement with Co-Founders

It could be quite possible that your start-up has been founded along with your friends or family members, if not a sole proprietorship. Mutual trust is one aspect, but when it comes to business, it is sensible that one must carefully draw basic understanding between themselves in order to operate and manage the business. These agreements should define roles and responsibilities of all stakeholders, capital contribution, governance, profit sharing, additional funding, mode and manner to settle disputes, exit clauses etc.

In case, a start-up decide to operate through a partnership, one must meticulously draft a partnership deed with an endeavour to encapsulate all situations beginning from the establishment up to the dissolution of the partnership.

Following are the important clauses which are generally provided for in joint venture agreement:

The Agreement constituting JV generally covers the below clauses:-

- a. Name/type of the entity;
- b. Mechanism for initial funding: share capital/ debt;
- c. Drafting of charter documents (i.e. memorandum and articles of association, or amendments thereto);
- d. Management of the entity: composition of board of directors, decision making at the board and shareholder level meetings;
- e. Additional funding requirements;
- f. Anti-dilution provisions, Transfer of shares/interest;
- g. Pre-emptive rights;
- h. Positive and negative covenants;
- i. Manner of preparing accounts and audit;
- j. Manner for dealing with Intellectual Property Rights
- k. Sharing of profits/ dividends;
- l. Confidentiality;
- m. Termination and Exit mechanism;
- n. Arbitration and dispute resolution;
- o. Non-compete and non-solicitation;
- p. Governing law.

2. Agreements with Employees

It is a standard practice with Indian entities to either issue letter of employment or execute employment agreement with their employees at the time of their engagement.

Such letter/agreement outlines terms and conditions of employment of the concerned employee and his key performance areas. It is quite often seen that entities use standard form of employment letters/ agreement irrespective of the nature of work and the position at which an employee is inducted, this often results in ambiguity and vagueness especially at the time when the employee is to be removed or a dispute arises with the employee. This should be avoided. One may have an agreed template

with certain standard conditions which will remain sacrosanct for every letter of employment/ agreements, however, while drafting and negotiating terms of employment with the prospective candidate , a careful thought must again be given to each and every term and condition and the same must be captured with modifications to suit the particular requirement.

Following are the important clauses which are generally provided for in a letter of employment/ employment agreement:

- a. Formal clause for offer of employment and acceptance of the terms of offer by the employee;
- b. Scope of services, duties and responsibilities;
- c. Remuneration;
- d. Incentives, bonuses and other perquisites, allowances etc. if any;
- e. Place of work and working hours;
- f. Leave and holidays;
- g. Manner of dealing with proprietary and confidential information and data protection (this is quite critical in the start-up possess critical intellectual and proprietary information);
- h. Non-compete and non-solicitation;
- i. Term of employment and termination provisions including age of retirement;
- j. Process of settlement of disputes; and
- k. Governing law

Many organizations also get a separate non-disclosure/confidentiality agreement signed from its employees. Please refer to next paragraph for more details on non-disclosure and confidentiality agreements.

3. Non-Disclosure/ Confidentiality Agreements

Generally, referred to as NDA (non-disclosure agreement) in legal parlance. This is an agreement through which a party who is disclosing any confidential information, which may be about its business strategy, financial projections, technical knowhow, trade secrets, details of clients, business ideas, pricing methodologies etc., tends to place strict conditions on the recipient of such information from any disclosure of the same to any third party.

Following are the important clauses which are generally provided for in NDA's:

- a. Definition of 'Confidential Information'. One need to carefully analyse such information and put under this definition;
- b. Terms and conditions of use of Confidential Information;
- c. Surrender of Confidential Information after termination of relationship, may be that of employer and employee or employer and independent contractor;
- d. Survival of conditions for confidentiality even after expire of the term of NDA;
- e. Conditions of care and diligence while handling Confidential Information;
- f. Permissible disclosures;
- g. Dispute resolution; and
- h. Governing law.

4. Consultant Agreements

Very often consultants are engaged by companies. In this case too it is advisable to have a 'Consultancy Agreement'; there is material difference between a letter of employment and a Consultancy Agreement. Consultant Agreements are generally entered into when any entity intends to engage any person or party for limited period or for a particular assignment and not as a regular employee.

There is no employer-employee relationship in this case and the consultant is not typically entitled to the benefits enjoyed by the employees, unless it is specifically mentioned and agreed upon in the agreement. Independent consultant agreements are quite prevalent in the industry and are extensively used.

Following are the important clauses which are generally provided for in consultant's agreement:

- a. Formal clause for offer and acceptance of the terms of engagement;
- b. Scope of work, duties and responsibilities;
- c. Fee- is fixed fee or lump sum or a combination of both;
- d. Incentives;
- e. Place of work;
- f. Provision of off-days;

- g. Manner of dealing with proprietary and confidential information and data protection;
- h. Non-compete and non-solicitation;
- i. Term of engagement and termination provisions;
- j. Process of settlement of disputes; and
- k. Governing law

5. HR Manual/ Handbook

Start-ups may not initially require a detailed HR manual/ handbook. But, gradually with progression in business and increase in number of head-count, it will be imperative to have a manual which will provide inter alia all human resources related policies applicable to different level of employees working in the organization.

HR policies are to be drafted and aligned with the State laws and local labour legislations applicable to the State where work place is located.

In India, every State has their separate labour legislations/rules/regulations; therefore, while drafting a HR manual and defining policies therein, one need to be familiarised with these applicable State legislations.

Following aspects/policies which are typically provided in the HR Manual:

- a. Code of conduct and standards;
- b. Non-discrimination;
- c. Policy prohibiting smoking and consumption of alcohol, drugs and other illegal items;
- d. Confidentiality;
- e. Harassment and bullying- including policy on prevention of sexual harassment;
- f. Grievances redressal mechanism;
- g. Disciplinary procedure;
- h. Policy on probation and confirmation to employment;
- i. Background Checks;
- j. Annual Performance Review;
- k. Employee Stock Options Plans;

- l. Training and Developments;
- m. Performance Appraisals;
- n. Location and transfer;
- o. Assignment of Intellectual Property Rights developed by an employee during the course of his work in office;
- p. Working hours and manner of dealing with absenteeism;
- q. Leave Policy: annual leave/sick leave/ maternity leave/ leave without pay etc.
- r. Dress code;
- s. Safety policy at work place;
- t. Resignation, Termination, Suspension from duties;
- u. Death- benefits to legal heir;
- v. Exit interview;
- w. Handover of company property;
- x. Lay off



CHAPTER-4

PROTECTION OF INTELLECTUAL PROPERTY

Intellectual Property Rights (IP Rights) are like any other property rights which are intangible in nature. The IP Rights usually give the creator an exclusive right over the use of his/her creation for a certain period of time. With the rapid increase in the globalization and opening up of the new vistas in India, the "Intellectual Capital" has become one of the key wealth drivers in the present era. There are different country specific legislations, as well international laws and treaties that govern IP rights.

Every start-up has IP Rights, which it needs to understand and protect for excelling in its business. Every start-up uses trade name, brand, logo, advertisements, inventions, designs, products, or a website, in which it possesses valuable IP Rights. While starting any venture, the start-up also needs to confirm that it is not in violation of the IP Rights of any other person to save itself from unwarranted litigation or legal action which can thwart its business activities. Further, start-up ventures should be proactive in developing and protecting their intellectual property for many reasons like improving the valuation of its business, to generate better goodwill, to protect its competitive advantage, to use intellectual property as a marketing edge and to use the IP Rights as a potential revenue stream through licensing.

IP Rights protect several aspects of a business and each type of IP Right carries its own advantages. The scope of IP Rights is very wide, but the prime areas of intellectual property which are of utmost importance for any start-up venture are as follows:

- Trademarks
- Patents
- Copyrights and Related Rights
- Industrial Designs
- Trade Secrets

Trademarks

The Trade Marks Act 1999 ("TM Act") provides, inter alia, for registration of marks, filing of multiclass applications, the renewable term of registration of a trademark as ten years as well as recognition of the concept of well-known marks, etc. It is pertinent to note that the letter "R" in a circle i.e. ® with a trademark can only be used after the registration of the trademark under the TM Act.

Trademarks mean any words, symbols, logos, slogans, product packaging or design that identify the goods or services from a particular source. As per the definition provided under Section 2 (zb) of the TM Act, "trade mark" means a mark capable of being represented graphically and which is capable of distinguishing the goods or services of one person from those of others and may include shape of goods, their packaging and combination of colours.

The definition of the trademark provided under the TM Act is wide enough to include non-conventional marks like colour marks, sound marks, etc. As per the definition provided under Section 2 (m) of the TM Act, "mark" includes a device, brand, heading, label, ticket, name, signature, word, letter, numeral, shape of goods, packaging or combination of colours or any combination thereof.

Accordingly, any mark used by the start-up in the trade or business in any form, for distinguishing itself from other, can qualify as trademark. It is quite significant to note that the Indian judiciary has been proactive in the protection of trademarks, and it has extended the protection under the trademarks law to Domain Names as demonstrated in landmark cases of *Tata Sons Ltd v Manu Kosuri & Ors* [90 (2001) DLT 659] and *Yahoo Inc. v Akash Arora* [1999 PTC 201].

Points To Consider While Adopting A Trademark

Any start-up needs to be cautious in selecting its trade name, brands, logos, packaging for products, domain names and any other mark which it proposes to use. You must do a proper due diligence before adopting a trademark.

The trademarks can be broadly classified into following five categories:

- a. Generic
- b. Descriptive
- c. Suggestive
- d. Arbitrary
- e. Invented/Coined

Generic marks mean using the name of the product for the product, like "Salt" for salt.

Descriptive marks means the mark describing the characteristic of the products, like using the mark "Fair" for the fairness creams.

Suggestive marks means the mark suggesting the characteristic of the products, like "Habitat" for home furnishings products.

Arbitrary marks means mark which exist in popular vocabulary, but have no logical relationship to the goods or services for which they are used, like "Blackberry" for phones.

The invented/ coined marks means coining a new word which has no dictionary meaning, like "Adidas". The strongest marks, and thus the easiest to protect, are invented or arbitrary marks. The weaker marks are descriptive or suggestive marks which are very hard to protect. The weakest marks are generic marks which can never function as trademarks.

India follows the NICE Classification of Goods and Services for the purpose of registration of trademarks. The NICE Classification groups products into 45 classes (classes 1-34 include goods and classes 35-45 include services). The NICE Classification is recognized in majority of the countries and makes applying for trademarks internationally a streamlined process. Every start-up, seeking to trademark a good or service, has to choose from the appropriate classes, out of the 45 classes.

While adopting any mark, the start-up should also keep in mind and ensure that the mark is not being used by any other person in India or abroad, especially if the mark is well-known. It is important to note that India recognizes the concept of the "Well-known Trademark" and the principle of "Trans-border Reputation".

Examples of well-known trademarks are Google, Tata, Yahoo, Pepsi, Reliance, etc. Further, under the principle of "Trans-border Reputation", India has afforded protection to trademarks like Apple, Gillette, Whirlpool, Volvo, which despite having no physical presence in India, are protected on the basis of their trans-border reputation in India.

Enforcement of Trademark Rights

Trademarks can be protected under the statutory law, i.e., under the TM Act and the common law, i.e., under the remedy of passing off. If a person is using a similar mark for similar or related goods or services or is using a well-known mark, the other person can file a suit against that person for violation of the IP rights irrespective of the fact that the trademark is registered or not.

Registration of a trademark is not a pre-requisite in order to sustain a civil or criminal action against violation of trademarks in India. The prior adoption and use of the trademark is of utmost importance under trademark laws.

The relief which a court may usually grant in a suit for infringement or passing off includes permanent and interim injunction, damages or account of profits, delivery of the infringing goods for destruction and cost of the legal proceedings. It is pertinent to note that infringement of a trademark is also a cognizable offence and criminal proceedings can also be initiated against the infringers.

Patents

Patent, in general parlance means, a monopoly given to the inventor on his invention to commercial use and exploit that invention in the market, to the exclusion of other, for a certain period. As per Section 2(1) (j) of the Patents Act, 1970, "invention" includes any new and useful;

- i. art, process, method or manner of manufacture;
- ii. Machine, apparatus or other article;
- iii. Substance produced by manufacture, and includes any new and useful improvement of any of them, and an alleged invention;

The definition of the word "Invention" in the Patents Act, 1970 includes the new product as well as new process. Therefore, a patent can be applied for the "Product" as well as "Process" which is **new**, involving inventive step and capable of industrial application can be patented in India.

The invention will not be considered new if it has been disclosed to the public in India or anywhere else in the world by a written or oral description or by use or in any other way before the filing date of the patent application. The information appearing in magazines, technical journals, books etc, will also constitute the prior knowledge. If the invention is already a part of the state of the art, a patent cannot be granted. Examples of such disclosure are displaying of products in exhibitions, trade fairs, etc. explaining its working, and similar disclosures in an article or a publication.

It is important to note that any invention which falls into the following categories, is not patentable: (a) frivolous, (b) obvious, (c) contrary to well established natural laws, (d) contrary to law, (e) morality, (f) injurious to public health, (g) a mere discovery of a scientific principle, (h) the formulation of an abstract theory, (i) a mere discovery of any new property or new use for a known substance or process, machine or apparatus, (j) a substance obtained by a mere admixture resulting only in the aggregation of the properties of the components thereof or a process for producing such substance, (k) a mere arrangement or rearrangement or duplication of known devices, (l) a method of agriculture or horticulture, and (m) inventions relating to atomic energy or the inventions which are known or used by any other person, or used or sold to any person in India or outside India. The application for the grant of patent can be made by either the inventor or by the assignee or legal representative of the inventor. In India, the term of the patent is for 20 years. The patent is renewed every year from the date of patent.

Use of Technology or Invention

While using any technology or invention, the start-up should check and confirm that it does not violate any patent right of the patentee. If the start-up desires to use any patented invention or technology, the start-up is required to obtain a license from the patentee.

Enforcement of Patent Rights

It is pertinent to note that the patent infringement proceedings can only be initiated after grant of patent in India but may include a claim retrospectively from the date of publication of the application for grant of the patent. Infringement of a patent consists of the unauthorized making, importing, using, offering for sale or selling any patented invention within the India. Under the (Indian) Patents Act, 1970 only a civil action can be initiated in a Court of Law. Like trademarks, the relief which a court may usually grant in a suit for infringement of patent includes permanent and interim injunction, damages or account of profits, delivery of the infringing goods for destruction and cost of the legal proceedings.

Copyright

Copyright means a legal right of an author/artist/originator to commercially exploit his original work which has been expressed in a tangible form and prevents such work from being copied or reproduced without his/their consent.

Under the Copyright Act, 1957, the term "work", in which copyright subsists, includes an artistic work comprising a painting, a sculpture, a drawing (including a diagram, a map, a chart or plan), an engraving, a photograph, a work of architecture or artistic craftsmanship, dramatic work (recitation, choreographic work), literary work (including computer programmes, tables, compilations and computer databases), musical work (including music as well as graphical notations), sound recording and cinematographic film.

In the case of original literary, dramatic, musical and artistic works, the duration of copyright is the lifetime of the author or artist, and 60 years counted from the year following the death of the author and in the case of cinematograph films, sound recordings, posthumous publications, anonymous and pseudonymous publications, works of government and works of international organizations are protected for a period of 60 years which is counted from the year following the date of first publication.

In order to keep pace with the global requirement of harmonization, the Copyright Act, 1957 has brought the copyright law in India in line with the developments in the

information technology industry, whether it is in the field of satellite broadcasting or computer software or digital technology.

Registration of Copyright

In India, the registration of copyright is not mandatory as the registration is treated as mere recordal of a fact. The registration does not create or confer any new right and is not a prerequisite for initiating action against infringement. The view has been upheld by the Indian courts in a catena of judgments. Despite the fact that the registration of copyright is not mandatory in India and is protectable through the International Copyright Order, 1999, it is advisable to register the copyright as the copyright registration certificate is accepted as a "proof of ownership" in courts and by police authorities, and acted upon smoothly by them.

Enforcement of Copyright in India

Any person who uses the original work of the other person without obtaining license from the owner, infringes the copyright of the owner. The law of copyright in India not only provides for civil remedies in the form of permanent injunction, damages or accounts of profits, delivery of the infringing material for destruction and cost of the legal proceedings, etc, but also makes instances of infringement of copyright, a cognizable offence punishable with imprisonment for a term which shall not be less than six months but which may extend to three years, with a fine which shall not be less than INR 50,000 but may extend to INR 200,000

For the second and subsequent offences, there are provisions for enhanced fine and punishment under the Copyright Act. The (Indian) Copyright Act, 1957 gives power to the police authorities to register the Complaint (First Information Report, i.e., FIR) and act on its own to arrest the accused, search the premises of the accused and seize the infringing material without any intervention of the court.

Industrial Designs

As per the definition given under Section 2(d) of the Designs Act, 2000, "design" means only the features of shape configuration patterns or ornament applied to any article by any industrial process or means whether manual mechanical or chemical separate or combined which in the finished article appeal to and are judged solely by

the eye. However, "design" does not include any mode or principle of construction or anything which is in substance a mere mechanical device and does not include any trademark as defined under the TM Act or any artistic work as defined under the Copyright Act, 1957. The total period of validity of registration of an Industrial Design under the (Indian) Designs Act, 2000 is 15 years.

Features of shape, configuration, pattern, ornament or composition of lines or colours applied to any article, whether in two dimensional or three dimensional or in both forms, can be registered under the (Indian) Designs Act, 2000. However, functionality aspects of a design are not protected under the (Indian) Designs Act, 2000, as the same are subject matter of patents.

Design of an article is not registrable in India, if it:

- is not new or original;
- has been disclosed to the public anywhere in India or in any other country by publication in tangible form or by use in any other way prior to the filing date or priority date of the application;
- is not significantly distinguishable from known designs or combination of known designs; or
- Comprises or contains scandalous or obscene matter.

Enforcement of Design Rights in India

The (Indian) Designs Act, 2000, only provides for civil remedies. Besides injunction, monetary compensation is recoverable by the proprietor of the design either as contract debt or damages. An action for infringement of design can only be initiated after the registration of the design; however, an action for passing-off is maintainable in case of unregistered design.

Trade Secrets

Trade secrets include any confidential business information which provides an enterprise a competitive edge over others. Trade secrets encompass manufacturing or industrial secrets and commercial secrets, formula, practice, process, design, instrument, pattern, commercial method, or compilation of information which is not generally known or reasonably ascertainable by other.

The unauthorized use of such information by persons other than the holder is regarded as an unfair practice and a violation of the trade secret. There are no specific statutes under the Indian law for the protection of trade secrets and the same are protectable under the common law rights.

Strategies for Protection and Exploitation of IPR for Start-ups

1. Make Intellectual Property protection a priority:

Start-ups cannot afford the complete protection available under the intellectual property regime. The first step for any start-up is to evaluate and prioritize the IP Rights involved in its business. Depending upon the type of industry involved, IP Rights play an important role. Failure to identify or prioritize IP Rights is likely to create problems for start-up's business, especially during negotiations with future investors or exiting its business. Sometimes IP Rights are the only asset available with a start-up.

2. Register Intellectual Property Rights:

It is important to note that certain IP Rights like patents and designs are required to be registered before claiming any protection under the respective statutes. On the other hand, certain IP Rights like trademark and copyright need not be mandatorily registered for protection under. Nevertheless, a registered IP Right carries a greater value and acts as evidence of use of the IP Rights before courts as well as enforcement agencies;

3. Due Diligence of IP Rights:

For any start-up, it is indispensable that it does not violate IP Rights of any other person. This will ensure safety from unwarranted litigation or legal action which can thwart its business activities. This makes it even more important for start-ups to make careful IP decisions in the initial phase and conduct proper due diligence of IP Rights, which it is using or intends to use.

4. Implement clear and effective policies and strategies for protection of IP Rights:

It is in the long term interest of start-ups to have an Intellectual Property Policy for management of various IP rights which may be presently owned, created or acquired in future by start-ups. The aim of such a policy is to ensure that there are no inter-se dispute between the promoters of the start-ups, which remains till date to be one of the main concerns for failure of start-ups.

5. Agreements related to Intellectual Property:

It is pertinent to note that having proper documentation in the form of agreements like non-disclosure agreements, agreements with employees or independent contractors, can make all the difference between the success and failure of start-ups. Usually, intellectual property is created either by the founders or some key employee or a third party. The intellectual property so created, must be protected through a proper agreement between the founder or key employee or a third party, as the case may be and the start-up. If the agreement, with founders or employees or a third party, , under which a novel idea was/is created, is overlooked, it could create bottlenecks later after such idea becomes successful. Accordingly, the start-ups need to ensure that anything created on behalf of the start-up, belongs to the start-up and not the Employee or a third party. Further, it is advisable to enter into elaborate assignments, licensing or user agreements, and care should be taken to make provisions for all post termination IP Right issues.

About the Authors



Mr. Manoj Agrawal , Chief Operating Officer, NABI is an Agri-business Professional with rich experience of 13 years in agri- business sector . He is having exposure to various domain in Banking like Project finance and credit lending to Micro, small and medium enterprises viz, agri-processing, trading and manufacturing enterprises. He has hands on experience in starting an enterprises viz. infrastructure set up, technical know-how, tax and legal framework, registration requirement for enterprise set-up, registration of trade mark and patents (intellectual property rights), networking and funding for scalability of business.
E-Mail Id:- manoj.agrawal@ccsniam.ac.in Mobile No. :-9982411115



Mr. Nitin Lahoti, Manager - Innovation Management, NABI has over 8 years of rich experience in entrepreneurship development, startup consulting, incubation and business mentoring. His core areas of expertise are of business coaching, technology commercialization, developing go-to-market strategies, business operation scaling and sustainable livelihood development. He has worked and managed large scale projects for MNCs, NGOs, Think Tanks and Startup Incubators.
E-Mail Id:- nitin.lahoti@ccsniam.ac.in Mobile No. :-9892784560



Ms. Kavita Sharma, Manager - Marketing & Communications NABI is a dynamic and enterprising professional in the field of Agri-business. Having a diverse industry experience of eight years in Agriculture Industry (Consultancy, Start-ups & Agri-preneurship Development, Market Research, Planning and Designing of Modern Wholesale Agriculture Markets, Post-harvest Infrastructure, Supply chain), she has worked on several prestigious projects within both government and private sector in the sphere of Agri-business which makes her competent with holistic understanding of the administrative, regulatory and business environment of the country.
E-Mail Id:- kavita.sharma@ccsniam.ac.in Mobile No. :-7838592537



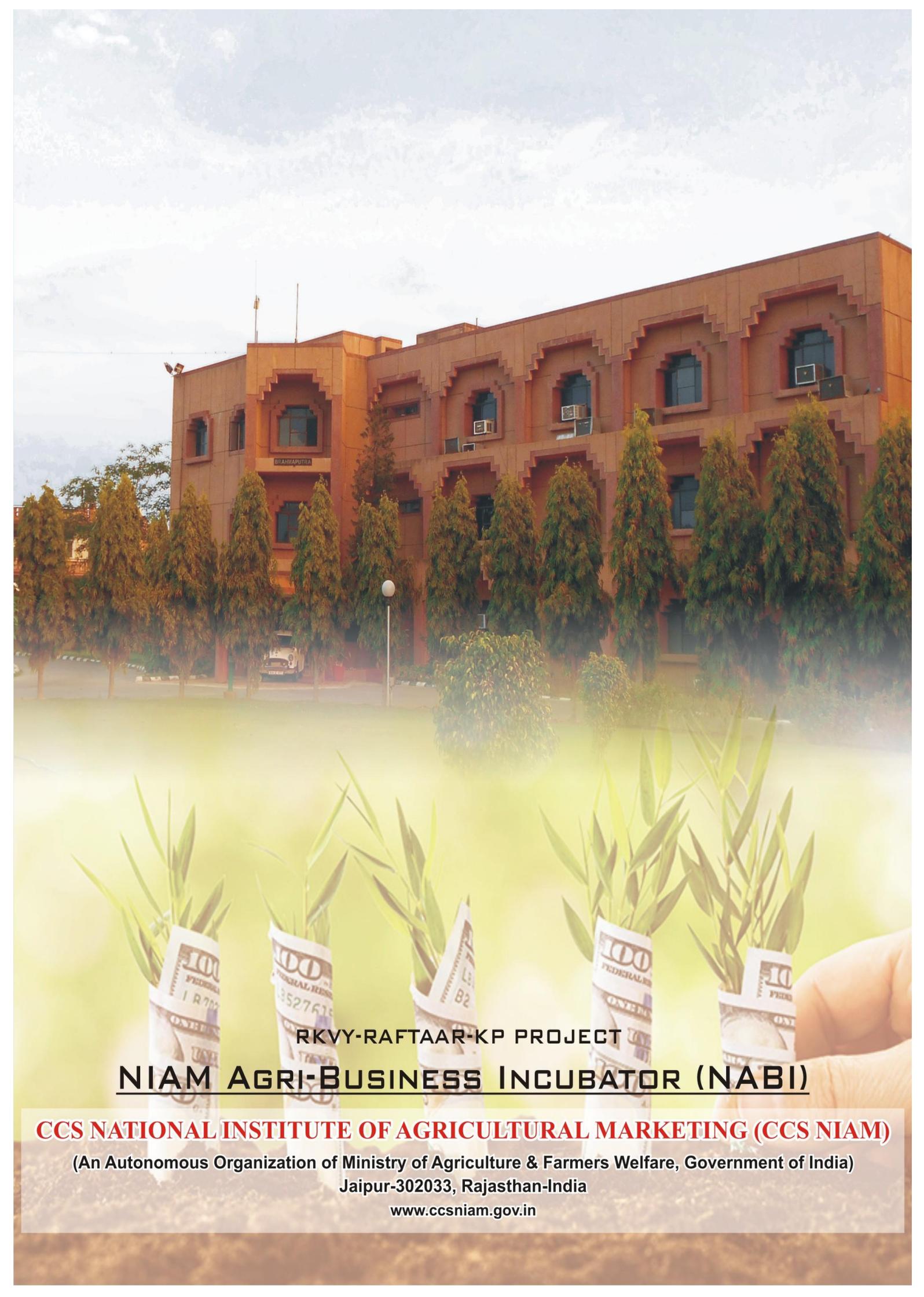
Mr. Abhishek Sharma , Manager Finance & ICT , NABI has over 8 years of experience in Due Diligence, Credit & Business Finance, Fund Raising, Risk Management, Strategic Planning, Taxation and MIS Reporting. He has the worked with various Agri-Startup Projects and has the capability in improving operations, enhancing business growth & maximizing profits through the achievements in finance management, internal controls, technological advancement & productivity improvements.
Email:- abhishek.sharma@ccsniam.ac.in, Mobile No. +91-9001556965



Mr. Karthik Sekar, Consultant NABI has vast experience in mentoring and developing entrepreneurs, responsible for ideation, design, preparation, writing and submission of project proposals; team building with different skill sets from scientific level to ad hoc appointments, monitoring and nurturing, reviewing and improvements, identification of partner / collaborator / evaluator and expert engagement, research compliance evaluation, budget development, funding source identification, preparation and submission of interim / management and exploitation, Intellectual property – technical, socio cultural and financial review, periodical report to board for guidance on work plan and policies in coordination with junior, peer level and senior colleagues.
E-Mail Id:- karthik.sekar@ccsniam.ac.in Mobile No. :-9443928573



Mr. Akhilesh Mishra, Legal Executive (IP), NABI is specialized in Intellectual Property Rights. Mr. Mishra has previously worked as an Examiner of Copyrights at Indian Copyright Office, New Delhi (Ministry of Commerce and Industry). He has acquired his LL.M in IPR from Hidayatullah National Law University Raipur, Chhattisgarh. He holds extensive experience in working in the most complex areas of Copyright and Trademark
E-Mail Id:- akhilesh.mishra@ccsniam.ac.in Mobile No. :-9452654456



RKVY-RAFTAAR-KP PROJECT
NIAM AGRI-BUSINESS INCUBATOR (NABI)

CCS NATIONAL INSTITUTE OF AGRICULTURAL MARKETING (CCS NIAM)

(An Autonomous Organization of Ministry of Agriculture & Farmers Welfare, Government of India)

Jaipur-302033, Rajasthan-India

www.ccsniam.gov.in