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Handbook for Micro Entrepreneurs



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Foreword

Micro-entrepreneurship is being increasingly recognized, both by Central and State Governments, as one of the prominent ways of poverty alleviation and income generation in this new economy. It reduces the burden on job creation and encourages self-sufficiency with the use of minimal resources. Technology now provides an opportunity for people anywhere in the world to monetize their passions. And it's not just the artists and under-employed, but professionals who seek a higher quality of life and greater flexibility. This new economy is built on the empowerment of individuals and the technology that enables this.

Few reasons which make micro-entrepreneurship so appealing:

- Having more flexibility in your schedule.
- The opportunity to spend more time doing what you love.
- Being able to cash in on the knowledge, skills and passions.
- Being your own boss.

The value proposition of self-employment is so compelling, but of course, as in every economy, the growth and survival of micro-entrepreneurship will be determined by the market. This handbook outlines key areas about starting a micro enterprise. I believe this would serve as a good starting point for aspiring micro-entrepreneurs to build knowledge and gear up for the challenges ahead.

SGhose

Sandip Ghose
Director, NISM



Preface

The OECD/INFE has created a dedicated working group to address the needs of Small and Micro-entrepreneurs. To support this agenda and in keeping with India's National Strategy for Financial Education (NSFE), the National Centre for Financial Education (NCFE) has developed this handbook to empower SMEs and potential entrepreneurs through financial literacy and financial inclusion.

The content of this handbook covers areas that relate specifically to micro-entrepreneurs such as developing a business plan, raising capital, building and managing a team, managing finances and dealing with customers, etc. It also covers case studies of successful entrepreneurs and gives details about various support networks for micro-entrepreneurs.

I am thankful to the members of the Core Committee of the NCFE for their continuous support and guidance which helped us in bringing out this handbook for micro-entrepreneurs.

I am thankful to Shri Manish Bansal, CEO of SME Value Advisors for his contributions in overall development of this handbook. I would like to appreciate the contributions made by the NCFE team comprising of Shri Sandeep K Biswal, Ms. Nidhi Murdia, Ms. Pragya and Shri Harshul Naggal for their valuable inputs on the content. The contributions made by Shri Dhananjay Devgadkar and Shri Jeetendra Solanki as visual graphic designers of the handbook are thankfully acknowledged. I also complement Ms. Anupma Diddi for her valuable contribution by proofreading the entire handbook and making it reader friendly.

A handwritten signature in black ink, appearing to read 'G P Garg'.

G P Garg
Head, NCFE

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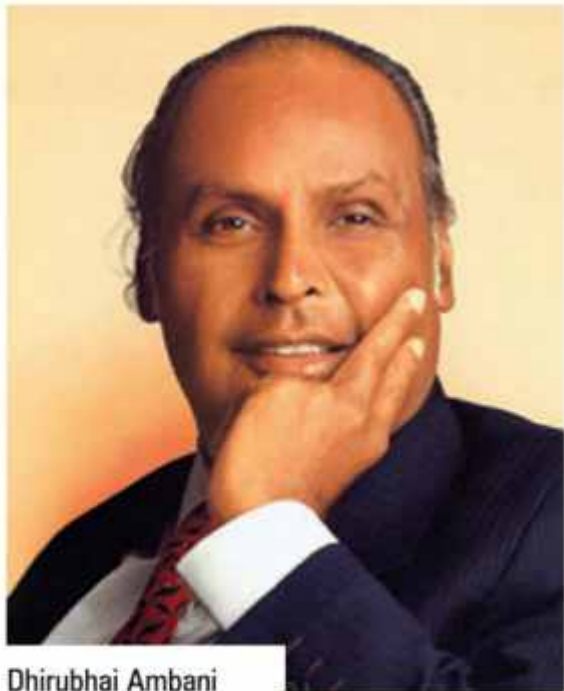


Chapter 01

Embarking on the Journey of Entrepreneurship

EMBARKING ON THE JOURNEY OF ENTREPRENEURSHIP

Entrepreneur - whenever we hear this word, our mind starts imagining a personality, a business tycoon like Dhirubhai Ambani, Ratan Tata, Kumar Mangalam Birla, Kiran Mazumdar Shaw among many others. In new generation entrepreneurs, we may think of Bansals (Flipkart), Kunal Bahl (Snapdeal) and Bhavish Aggarwal (Ola) etc.



Dhirubhai Ambani



Ratan Tata



Kumar Mangalam Birla



Kiran Mazumdar Shaw



Bansals (Flipkart)



Kunal Bahl (Snapdeal)



Bhavish Aggarwal (Ola)

This visualization is of a successful business personality, who has started small and grown the business in multiple dimensions across the geographies both in India and abroad, wherein turnover of the companies is in Millions or Billions of dollars and promoters are minting money. What you see in these businessmen is the ultimate level of entrepreneurship, which is achieved by very few entrepreneurs. In addition to these few big business houses/entrepreneurs, there are many micro (very small), small and medium size entrepreneurs, who continuously contribute towards making this world a better place to live in.

Most of the people generally think and believe that entrepreneurs are born and we are certainly not one among them. We believe that Entrepreneurship is an attitude; it is a way of thinking about value creation. When you take responsibility of your actions and actions of your team, when you start producing more than what you consume, when you start giving more than what you take, you automatically become Entrepreneur. **Objective of this handbook is to help you discover the entrepreneur in yourself by demystifying Entrepreneurship** in most simple words. This is achieved by answering the frequently asked questions on the subject:

- What is entrepreneurship?
- Who can be an entrepreneur?
- How can you start a business (sources of business ideas)?
- What are the myths of entrepreneurship?
- What is 'step by step' research process to business?
- How to write a simple business plan?
- Risks and rewards attached to entrepreneurship
- Who can help you in setting up a business?
- What are the sources of capital and how to become a deserving candidate for capital?
- What are the important dimensions of business (while running business) and how to handle them?
- How to scale up a business?

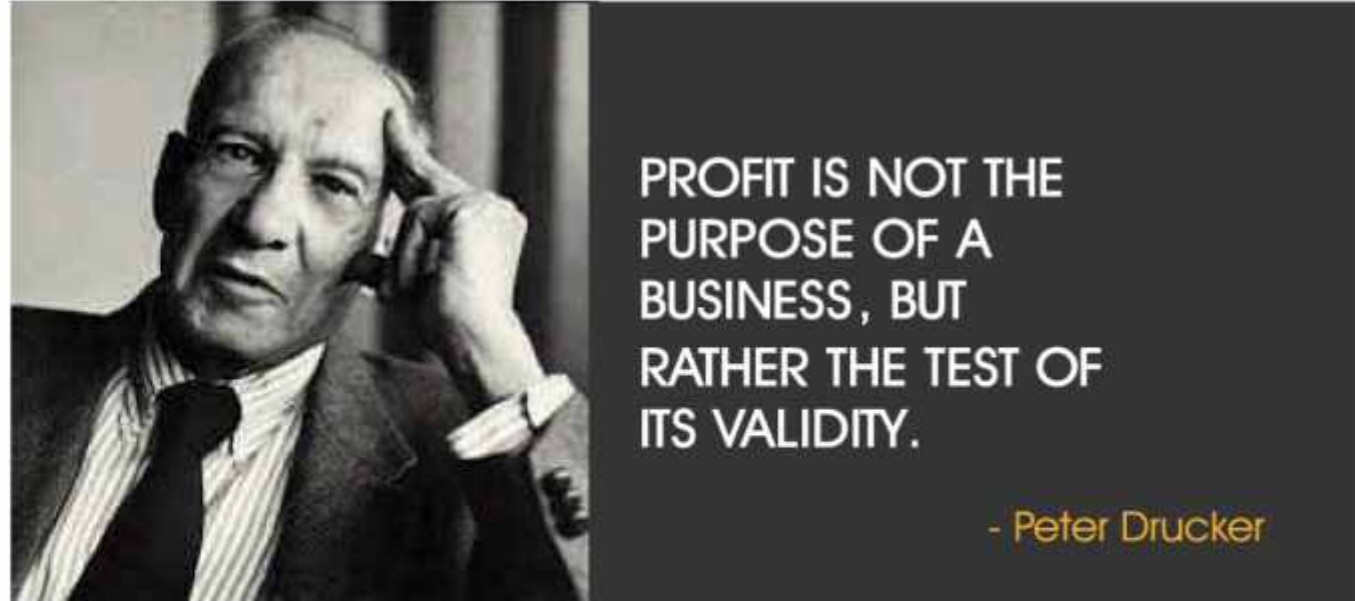
Entrepreneurs are not born, they are made:

"Bill Gates, Jeff Bezos, Larry Page, Sergei Brin, and Russell Simmons (Def Jam founder) were all first generation entrepreneurs. Their parents were academicians, lawyers, factory workers, priests, bureaucrats."

- Vivek Wadhwa

What is Entrepreneurship?

According to academicians or as per economics, "Entrepreneur is a person who organizes all the resources required to start and run a business". Any business whether small or big requires an idea (product or service), land of operation, quantum of capital, people, machines and tools and organizing capabilities to ensure that all the mentioned resources are put to best use to **serve customers and earn profit**. It must be clear that profit alone can't be the objective of a business. Indeed, businesses exist to serve a purpose, but, to sustain and grow, they do need profits.



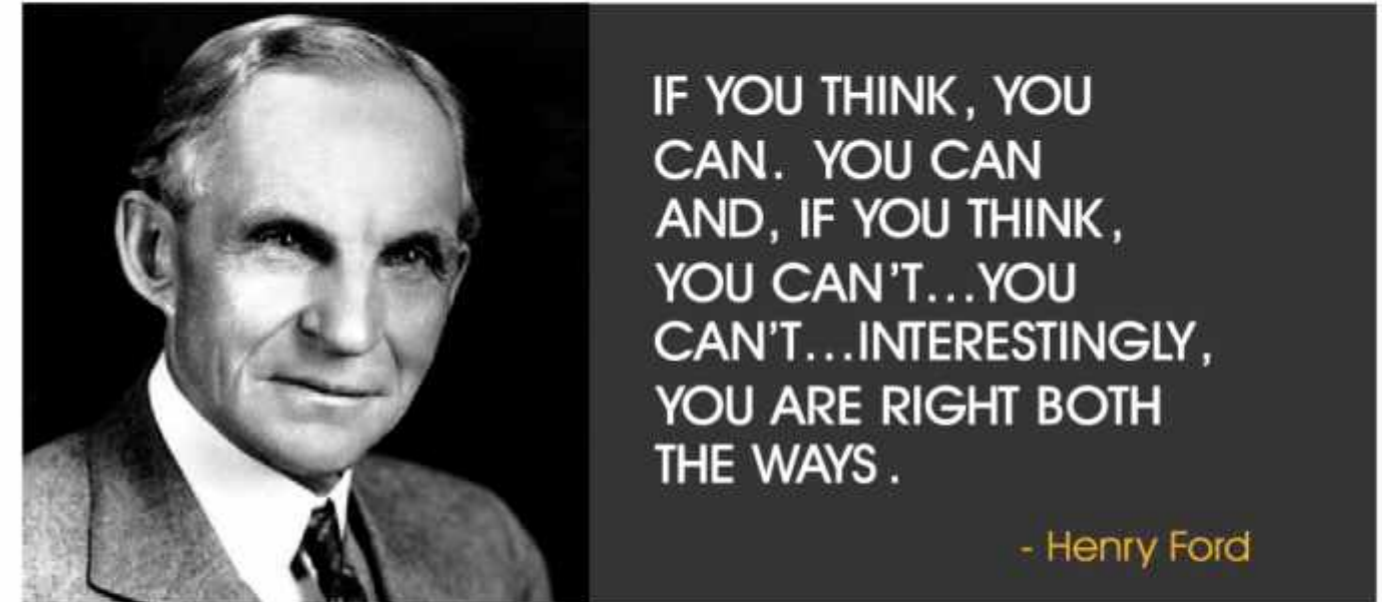
Further, while most of the businesses are started with an objective of profit, few are also running with an objective of charity/service. For example: Apna Sahakari Bhandar is a grocery departmental store which is promoted to provide quality grocery at a reasonable price to consumers; it also helps the farmers by offering them a share of profit from business and providing them a direct market for their produce.

Entrepreneurship can be in various forms and sizes [scale]. You can start a multinational joint stock company or you can start a small kirana store in your vicinity/village. The traditional successful model is to start a small business, improve it once it starts giving you profit and scale it up, take the help of the experts and convert it into a big company. **This form of starting small business is called micro entrepreneurship.**

Who can be an Entrepreneur?

Conceptually, Micro Entrepreneurs are the owners of small businesses. However, definition of micro entrepreneurs varies from country to country based on number of employees, turnover, capital investment etc. If you look around yourself, you will feel surrounded by these micro entrepreneurs. Pan Gala, tea stall, bakeries, beauty parlors, child care facilities, repair shops, roadside snacks stalls, auto rickshaw/ taxi driver etc. all are examples of micro entrepreneurship. So, if you believe you are not qualified to start a small business, look again, at these people. Are they qualified better than you? If they can start and manage a small business, so can you. Therefore, answer to the question "**who can be an entrepreneur**" is one word—**ANYBODY!**

Actually, there is only one category of people, who cannot become entrepreneurs; These people are those who believe that they cannot become entrepreneurs. Please remember what Henry Ford Said:



History has evidences that a person can become an entrepreneur or a businessman irrespective of his physical fitness, age, qualification, place of residence, family background, caste, creed or religion. For example:



Who does not know about the tech giant "Steve Jobs"? Steve is synonymous with "Apple". He was the adopted child of a working-class couple, who could barely afford his college. And, look what the man has done! Even after Steve is gone, his thought process continues to inspire millions of people across the world.

Another interesting example, we can think of is J. K. Rowling, the queen of the fantasy novels and author of the "Harry Potter" series. Her current net-worth is estimated to be more than \$1 billion. The writer has grown out of a humble background, where her single mother lived on welfare from Government. Rowling reveals that she even tried committing suicide at a time when she was broke and depressed. The celebrated author is a known name in most households today.



There are many many similar examples to inspire and motivate us to be an entrepreneur. Indeed, if you start looking around and initiate conversation with business people around you, you would discover an inspiring story in almost all of them.

How can you start a business?

Once you have decided to do something of your own, the first and foremost thing required is a business idea. Sources of business ideas are many and some of them are described below:

1) Personal Experience as a source of business idea

Number of times, when you face a problem and do not find solution, you turn to Entrepreneurship to address the problem. There have been several cases of this kind. For example:

a. Phanindra Sama, who used to travel to his native place from Bangalore after becoming an engineer, always faced difficulties in booking bus tickets for home during vacations. He started Redbus (An aggregator platform to find and book bus tickets).

b. Airbnb started in 2007 when Joe Gebbia and Brian Chesky, then both 27, were struggling to pay their rent. There was a design conference coming to San Francisco and the city's hotels were fully booked, so they came up with the idea of renting out three airbeds on their living-room floor and cooking their guests breakfast. The next day they created a website, airbedandbreakfast.com; six days later they had guests at home. Rest all is history. Airbnb was born.

Next time, if you are facing difficulty finding a product or a service in your area, do not get frustrated or worried. Be rest assured that if you are facing this problem, there must be many more like you who would be facing the similar problem. **And, there lies an opportunity, in problem, for you to turn ENTREPRENEUR!**

For example –With nuclear families and both husband and wife working in major cities like Mumbai and Delhi, there is a need to address a safe and learning environment for kids. There is an opportunity to start a business – crèche, play school etc. We see lots of such facilities mushrooming in each locality in Mumbai and other cities.

2) Other's experience as a source of business idea

It is not necessary that the pain must be felt by you to realize that there is a business opportunity. Other people's experience can also be observed and a business idea can come from it.

For example, when you hear that tragic deaths happen in villages because patients are not able to reach hospital in time, you can start a mobile hospital. In areas where ambulances take time to reach because of traffic congestion or bad road conditions, you can think of a bike ambulance as a business.

3) Other people's idea

As an individual, if you are alert and keep your eyes and ears open and update yourself about new developments, you can find lots of business ideas. If you find some of them relevant to your vicinity/neighborhood, you may replicate them in your geography/territory as well.

For example, compared to a normal destination pilgrimage tour, a new idea has hit the tourism industry. Tour operators are planning a recreation of the journey taken by mythological characters. They are offering the 'Ramayana Tour', in which your journey starts from Ayodhya, goes through the various destinations Lord Rama had stayed during his Vanvas of 14 years and ends in Srilanka.

Inspired by it, other tour operators have started pilgrimage-tour based on the stories of Pandvas in Mahabharata, Lord Mahavir etc.

4) Your passion as business idea

Like external observation, a business idea can also come from your inner self. If you have a passion towards a particular hobby, if you believe you are better than most at doing something or if you have been praised by others for any of your particular skill more than once, that can be your business idea.

For example, if you are good at making tea/coffee, and neighbors and relatives visit you just to have a cup of tea/coffee made by you, you can start a tea/coffee stall or a café depending upon your vicinity. If you are passionate about singing, dancing or art & craft, you can start a business around these activities. Start singing classes, dance classes or art & craft classes. If your passion turns into business, it is good for you and good for others as you would always produce or provide the best in the area of your passion.

5) Government Initiative as business idea

Various initiatives and schemes of Government can also provide you opportunities for new business. There are various examples of such ventures:

- In the fertile and water rich north east of India, particularly Sikkim, farmers are able to generate lot of income out of organic farm produce.
- Throughout India, the central government is providing soil health card which helps you understand and decide which crop to have and how many crops you can have during a particular year to optimize earnings of a farmer.

c. Many government agencies provide data and research on business opportunities and they suggest and support certain business activities.

Finally, if you are not able to think of any new business idea of your own, no friend is advising or suggesting anything and if you are not able to find out or copy other people's business ideas, you can visit specified Government offices (state or central) and ask them for suggestion, training and support.

At the end of this handbook, we have attached a list of government agencies, departments and schemes which support the cause of developing entrepreneurship.

To summarize this topic, **in order to find a business opportunity, you need to look both outward as well as inward. When you look outward, you start thinking on possible pain points of people to address. Then, you look inward to see whether you have capabilities/skills (knowledge and experience) to address one or more of those pain points. Once you are able to find a match between pain points and capabilities, there is an emergence of business idea. Similarly when you look inward...**

What are the myths of Entrepreneurship?

A business idea is often thought of as a new product or service(product/service innovation) or new market for existing products/services and viewed as something which can only be thought by highly qualified people. We believe that assumptions about new products/services/markets or qualifications as pre-requisites (eligibility criterion) for starting a business are myths. Let us address some common myths with regard to business ideas:

1) A business idea has to be a new product or services

While it may be desirable to offer a new product/service to address a specific problem of your target customers, it is not a pre-requisite to start a business. A pan shop, mobile recharge and repairing center, stationary shop, grocery shop or a snack stall are not new products/services by any standard; You will find every street being filled with these businesses. If someone starts a new mobile recharge and repairing center, stationary shop or a tea stall, he/she will probably find enough customers to survive and thrive. These are common man's needs and as long as you don't do something seriously wrong, you would probably do reasonably well.

For example, when Mr. Karsanbhai Patel wanted to sell Nirma washing powder in competition to Surf of Hindustan Unilever (HUL), he had nothing by his side. HUL's Surf was of good quality, reasonable rates, excellent distribution network, loyalty towards brands, legacy of sales, huge marketing budget and high economies of scale. All the above facts did not deter Mr Patel. He started selling door to door, positioned the brand of Nirma via direct communication with the housewives, who were the end users of detergent and gained market share quickly. Nirma became household name.

2) You need to be better than your existing competitors to start a business

Again, it is desirable that you provide something extra to your target customers (be it in terms of quality, price or facilities such as home delivery etc.) to do better than your competitors, however it is not customary for the survival. If there is need in your neighborhood for some product/service, you can probably survive even amidst competition. However, it is important to identify opportunities, evaluate them properly from customers' perspective and then start a business. Also, you should remember that over a period of time, relevant can become irrelevant and it would be essential for businesses to change.

For example, in small towns, cyber cafes have been existing for quite long time. While they emerged as centers for net-surfing, you can see them changing from just places for net-surfing to service centers for tickets booking (air, bus, train), hotels booking, centers for utility payments etc. This expansion clearly shows that a business needs to change with changing requirements of customers over a period of time.

For example, Colgate-Palmolive's Colgate toothpaste is a household name in India. Its presence in India is over 50 years. Brand awareness, distribution network, availability to the last mile, quality and rates are all more than competitive. A huge marketing budget over TV and other media sources ensures that customer loyalty is retained over 50+ years. Patanjali group started selling "Dantkanti" – a herbal toothpaste in India. Patanjali was not the first group to offer herbal option in toothpaste. Other Indian groups too had tried the same but only Patanjali got the success. They positioned their

products as Indian against an MNC's products. Further, appeal to the customers was not only for saving health from chemicals used in Colgate but also to benefit India (by not allowing profit to go out of India as dividend). The channels of marketing were yoga camps, small franchised stores and word of mouth. It took them some time to kick off but today it has become a threat for big brands. Indeed, Patanjali products in various categories are giving threat to various MNCs.

The message is that even if you are up against a giant corporation in competition, just focus on your strengths and right positioning. The market is too big (for most types of businesses) for a single or few players to dominate. You need not be better than your competition in all aspects. If you have only one significantly differentiating factor, you may be able to beat your competitors in certain areas.

3) High qualification and research is required to have a business idea

Academic Qualification of a person has no bearing on whether the business idea will come to him or not. Entrepreneurs, across the globe, have been possessing different levels of educational qualifications. Indeed, some of them have been college dropouts (Bill Gates, Steve Jobs etc.). **Most important qualification of an entrepreneur is his observation & problem solving capability.** They observe gaps between available products/services and needs/wants of people, find/develop solutions to fill those gaps and then reach out to customers in a courageous manner.

4) A business idea is only for a big business

Is a vadapaav stall, dosa center or a Jalebi store a big business idea? If you follow the recent news, Income tax department has raided some of the road side stalls of vadapaav and dosa centers in Mumbai to find that the income of some of these, so called small businesses, is more than Rs. 5 million per annum. It means, businesses can always start small and can grow over a period of time.

5) You need experience to start a business

Business experience in the desired domain is useful but not essential to start a business. Good news is that most of the businesses run on simple principles (as described in this handbook) unless they are technical in nature. If you are committed towards the business you want to start, tricks of trade can be learnt faster than you initially believed.

We have attached more than 60 activities which can be a business idea for you. You need to look at these and find if you can choose any. The list is big but not exhaustive, and can always be expanded.

What is 'step by step' research process to business?

Once you have sensed an opportunity (found a business idea) and want to do something about it, your next step should be to research to gain detailed insight/information on customers and competitors. Profiling potential customers and understanding strengths and weakness of competitors is important to craft your own value proposition. Your step by step approach to research should be as follows:

1) Define your industry

It may sound quite simple but it is not. Defining your industry clearly helps you identify your customers and assess market potential. This also helps you identify your competitors with clarity.

For example - If you are a cleaning contractor of societies/buildings in Metros or Towns, you are part of facility management Industry. Upon careful analysis, you will realize that facility management is a big opportunity both in residential and commercial space. And, there is room for many big and small players to sustain, survive and thrive simultaneously.

Within Industry, you can have sub industry or category as well. For example, if you are a small time civil contractor, you are part of construction industry, but within construction, you can be part of real estate or infrastructure industry depending upon whether you are constructing residential/commercial buildings or bridges and roads.

2) Identify your competitors and understand their strengths and weaknesses

There are generally two types of competitors in any business and can be illustrated as follows:

- a. Direct Competitors: Businesses, which deal in similar products/services as that of yours would be your direct competitors. For example, two vegetable vendors selling identical vegetables are direct competitors to each other. Two taxi rental agencies in a vicinity are direct competitors to each other.
- b. Indirect/Replacement Competitors: Businesses, which compete with you indirectly and not directly are your indirect/replacement competitors. When Reliance entered into telecom business via Reliance infocom, they took on Indian Postal System (which was alternate mode of communication at that time) as their competitor and not the existing telecom players like Bharti and Hutch. This helped them offer SMS services and low calling rates which were competitors to telegram and post cards.

Further, today, Airlines don't just compete with airlines, they also compete with other modes of transportation – Bus, Trains, Private Cars etc. Indeed, we would state that Airlines also compete with Telecom companies to certain extent because cost of telecom – phone calls and video conferencing etc. have reduced the need of travel.

Similarly, a taxi rental business competes with other taxi rental businesses, but it also competes with Auto rickshaws, city buses and local trains.

Similarly, we may state that grocery shop next to you is competing with other grocery shops in your vicinity. But, these shops are also competing with on-line market places.

Competition should be looked at in a very broad manner. You should also see who may emerge as your competitor in the future.

Further, every business has its own strengths and weaknesses. A shop might get the advantage of its central location or proximity to the locality. A special skill (technical skills, relationship management etc.), availability of capital, proximity to resources etc. are some factors which help a business to take advantage of or lack of these factors may put the business into a disadvantageous position. You should understand strengths of your competitors and try to match them. Further, you should understand where they lack and how you can address those issues. Clear understanding of strengths and weaknesses of your competitors would help you a lot in arriving at your value proposition to your potential customers.

3) Identify your potential customers and understand their expectations

Most important aspect of any business would be to understand its customers well. A business man should have a clear understanding of who are and can be potential customers for the business. Their population within the applicable geography, age group, income levels, buying behaviors and aspirations/expectations from the business need to be understood clearly.

For example - If you are planning to start a general garment shop in a locality, you must know the population (approximate) of the vicinity; understand their cultural background, their income levels and offerings of the existing shops. While, the age group of 40+ may be inclined to buy more traditional sarees and dress material within their budget, the millennial and young ones may not mind spending a bit extra to get a contemporary trendy outfit for self and kids. This new generation may also be fine to buy things on credit. Such understanding can be developed through a combination of various ways:

- Data on population may be collected from municipal department/ward etc.
- Observe day-to-day lifestyle of people for few days by frequently visiting the community shops
- Visit shops of competitors as a potential buyer and check their offerings
- Take up a job at one of the competitors for few days/months to gain complete insight of sales, purchases, inventory etc.

Let us conclude this chapter stating that you should spend significant time with your potential customers on their pain points, gaps between available products/services and their expectations, their aspirations etc. Further, more clear understanding of strengths and weaknesses of your competitors would help you arrive at your value proposition for your customers. Needless to state that more the research you do, better would be your conviction in your business idea. Having done the required research, you are ready for the next step – Development of Business Plan.



Chapter 02

Development of Business Plan

DEVELOPMENT OF BUSINESS PLAN

Entrepreneurship is a dream which an entrepreneur sees consciously with eyes wide open. It is not a dream in a sleeping state, it is a dream which does not let them sleep. Self-belief and courage to take uncharted territory are the biggest factors differentiating entrepreneurs from others.

Whenever you decide to start a business, you will be surrounded by people, giving opinion without being asked for. You will be questioned about your sanity, will be shown tens of example of some unsuccessful entrepreneurs, who had lost money and probably went back to job or did something worse. People would show you how comfort of a consistent income (Salary) in a job is a lot more valuable than the risk of entrepreneurship. Given all this, you may yourself look at your venture as a gamble then.

However, business is not a gamble (even though not all who start a venture become successful). It is different from gambling in two important ways - Firstly, business is a continuous activity, requiring a businessman to improve, excel on skills and out-manoeuvre competitors every day while gambling is a onetime activity; Secondly, gambling is a game more of a chance and less of skills. The only similarity between gambling and business is that the future of both is uncertain and there is risk of loss. But, risk in business is a calculated one and having assessed the risks in business, you need to continuously strive to minimize it.

As discussed in previous chapter, if you start observing existing products/services and problems people are facing in your own locality, you would start hitting business ideas. Business idea simply means that you start thinking of a problem and how to solve that problem. **If you can address an identifiable problem with a product/service and people are willing to pay for that, you are at a WOW moment!** Now, there could be several issues involved in your business idea, some, you may know upfront and some you may not. **As you research on various aspects of business, you may note down the outcomes. Research outputs, along with estimates of resources required and financial projections (operational targets), you will arrive at a document called "Business plan".** It gives you a holistic view of the business, enables you to identify and mitigate the risks, optimizes opportunity and resource utilization before the start of business. It is a blueprint of your project and it should help you give a broad sense of direction.

A business plan is a document demonstrating the feasibility of a prospective new business and providing a roadmap for its first several years of operation.

Following example would help you understand the process and importance of a business plan in details.

Suppose you are Shekhar Gawade, working as a senior draftsman, leading a team of 5 juniors with a drafting firm for some years in Mumbai. The government has started digitization scheme of all its documents like land records. With this information, you got the idea that you can start a drafting business of your own and deliver working from your village, as with electricity and internet, you can stay connected. You are also confident of training few villagers to work along with you. Everything is set when your mentor comes to you and asks:

Mentor : What's your business plan?

Shekhar : With due respect sir, I am not starting a petrochemical plant; it's a small drafting service firm and I am not MBA to prepare a business plan.

Mentor : How would you arrange the funds for Computers and Licenses?

Shekhar : I would apply for a Loan under Mudra scheme or reach out to any other cooperative bank. Government is supporting through various initiatives in providing funding to new businesses and I believe it would not be difficult to raise required resources. Further, I am not asking for crores.

Mentor: The first thing the bank or any other Government institution will ask for is a business plan.

Shekhar : In that case, I will take a loan from a friend or any private lender. I don't want to get into these formalities. I know drafting and that is the only thing I am good at.

Mentor: I know you are not saying it but you are afraid of preparing a wrong business plan. It's not as difficult as it seems. You said correctly that you are not starting a petrochemical plant so your business plan will also be very simple. It is simply putting all your requirements and objectives on a paper and looking at the entire business from the top angle

Shekhar looked confused and couldn't say anything.

Mentor : Relax, just write everything you need (your resource requirement), when and how much, every activity of yours and every possible outcome which you can envisage.

Things needed:

- A small office with a seating capacity for 10
- 10 Computers
- 10 AutoCAD licenses
- Internet connection
- Training for 1 month

Mentor smiled at this list, "You need to learn a lot now. Think of every step that is involved in a drafting process from receiving inputs to sending outputs and you will get your list. Have a relook at your requirements and put amount of money required for each of these activities. Also, divide the expenses in two categories – Capital Expenses (one time and majorly in fixed assets) and Revenue Expenses (recurring expenses over say one year period). Thereafter, estimate your revenues over say one year period month by month".

Shekhar observed in detail - Input receiving, production, output, quality check, printing and courier, maintaining a copy of the documents, communication with clients over phone, stationary etc. items he had forgotten to mention in his first list. The net list of expenses along with expected revenues emerged as follows:

Capital Expenditure Particulars	Amount in Rs
Office Deposit	25,000
Furniture	25,000
Chairs (10-12)	15,000
A3 Printer (1)	35,000
Computers (10)	200,000
AutoCAD License (10)	1,500,000
Inverter (1)	35,000
Router (1)	15,000
Cash in Hand	150,000
Total	2,000,000

Revenue Expenditure	Amount in Rs)
	(For 1 year)
Rent	60,000
Electricity Charges	36,000
Water Charges	12,000
Cleaning Charges	6,000
Salaries	1,200,000
Stationary	24,000
Tea/Snacks	36,000
Other Expenses	50,000
Total	1,424,000

Particulars	M1	M2	M3	M4	M5	M6 – M12
Revenue	0	0	0	100,000	150,000	200,000
Expenditure	118,667	118,667	118,667	118,667	118,667	118,667
Earnings	-118,667	-118,667	-118,667	-18,667	31,333	81,333

Above estimates revealed that Shekhar needed almost Rs 2 million as fixed investments. Further, as expenses would start from day one, while the money will come after four to five months, he will need another Rs. 0.5 million as working capital to meet monthly expenses in the first six months. Additionally, business plan shows losses for first 3-4 months.

"Have I made the right decision?", was the thought in Shekhar's head. Though the plan showed profits (more than double of his current salary) around 6th month onward, till then survival would be difficult and raising such big capital was almost impossible for him.

The mentor came to him and put his hand on his shoulder and said, "You look worried?"

Shekhar remarked, "Sir, seriously I didn't know that money requirement would be this high."

Mentor continued, "I still see gaps in your plan and you need to work further on it. You have not planned for any sales or marketing expenditure, without which you won't get business. What happens if for some reason this government project goes on hold or God forbid gets cancelled after few months? Always keep in mind that too much dependency on one client can kill a business any time. We will also have to budget for interest and Equated Monthly Installments – EMI, assuming we finance some portion of our capital and revenue expenses from loan. Further, what about your personal expenses for next few months?"

Shekhar expressed worriedly, "Sir, I thought Rs. 0.4-0.5 million will be sufficient to start the business. I had savings of Rs. 0.2 million and I could borrow Rs. 0.2-0.3 million from here and there. Now, you are saying that even Rs. 2.5 million is not sufficient to start the business. Please tell me what should I do now?"

Mentor, "Only you can answer that question; ask yourself. Once you are ready with some answers, we will discuss."

Shekhar, "To be honest sir, I don't have capacity to raise such large funds. Only thing I know is that I can build a team and produce quality drawings at a low cost (competitive advantage)."

Most of the entrepreneurs go through the same challenges as Shekhar experienced. Enthusiasm of entrepreneurship, many a times, does not let you see the realities of business. Remember, what Steve Jobs repeatedly said "Entrepreneurship is quite hard".

Based on understanding of this chapter and previous one, we can summarise that a business plan must answer following questions:

- What is my business?
- Which problem am I trying to solve?
- Who is my potential customer?
- Why should a customer come to me?
- Who are my competitors and what are their strengths and weaknesses?
- How do I differentiate myself from competitors?
- What are the inputs in the business?
- What are the outputs of the business?
- What are Government policies towards the opportunity zone/industry?
- What are processes/technology issues in the opportunity zone/industry?
- What are the resources required to start the business (fixed at initial level and to run for first few months till business starts generating cash flows)?
- What is expected/projected profit and loss for next few months (when do we break-even – position of no profit and no loss)?
- How would we fund the business along with repayment plan (in case of debt)?
- What are risks/downsides in the business and how to handle them?

Business plan is an opportunity to think hard, about your business, plan resources, understand your value proposition for customers and ultimately financial consequences.



Let us summarize above discussion on business plan:

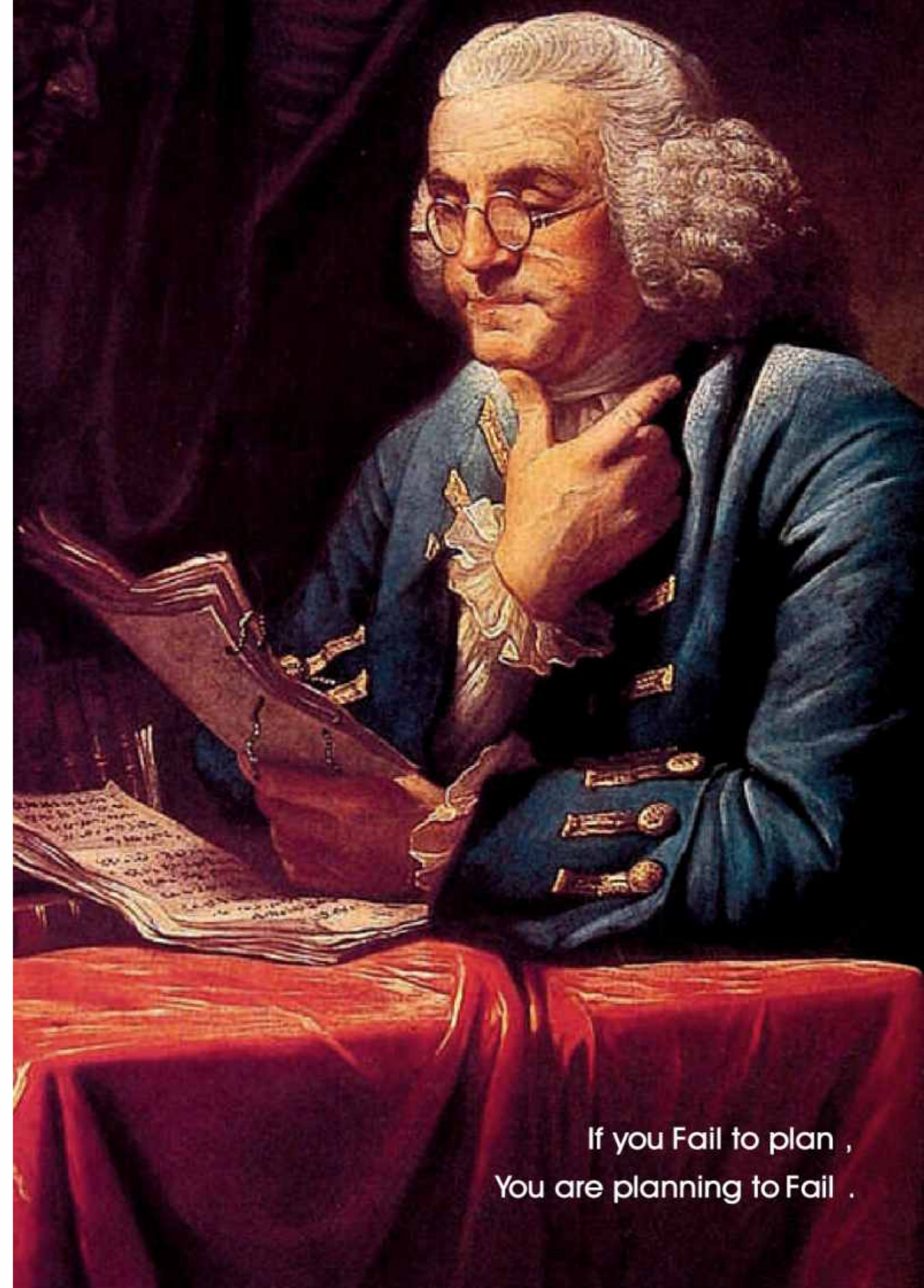
- You don't need to be a qualified management graduate to prepare a business plan
- Business plan of a small business can be a simple one
- Time frame of any business plan can vary from 6 months to few years, depending on nature of the business
- A business plan gives you a broad sense on resources required, revenues/expenses and cash-flows for the period and time needed to achieve success
- A realistic business plan would also capture potential risks/downsides in the business to help you avoid any emotional distress

Actually, every business plan raises some fundamental questions to the entrepreneur, "Am I making the right decision by starting this business? Is the business worth the efforts? Should I really get into this business? Is the risk too high for me to take here?". A business plan also tests your resolve to become an entrepreneur as it demands thinking, research and patience.

You may and will also come across few entrepreneurs, who will say that it is not necessary to prepare a business plan; they did not have one but they started business and are successful today. We are not saying that without a business plan business will not be successful. In other words, **while business plan may not guarantee any success, it can help you avoid mistakes by jumping on to something in an unplanned manner.** It is indeed an opportunity to think hard on your business, plan resources, understand your value proposition for customers and ultimately financial consequences.

We would like to caution, that everything in business plan is an estimate and we could be grossly wrong there. It is seen that people are quite optimistic while writing the plans. We would state that you need not be optimistic or pessimistic while writing business plan; you have to be realistic about business plan.

Further, a good business plan is only a starting point, as ultimately you will need to put in efforts and utilize your skills for best utilization of your resources and deliver to customers in quality and timely manner.



If you Fail to plan ,
You are planning to Fail .



Chapter 03

Nature of Organization

NATURE OF ORGANIZATION

In the previous chapters, we have touched upon on basics of entrepreneurship, how to start a business, research process for new business ideas and development of business plan. **Purpose and value creation is the core of every business.** Accordingly, first question every entrepreneur has to answer is **"why the planned business should exist"**. It is all about discovering the purpose of the business; It is about finding the relevance of the business. If you don't get a concrete answer to this question, clearly you need to rethink on your business idea.

Further, whichever business activity an entrepreneur decides to take up, it requires planning, resources – skills and capital etc., and, above all, basic managerial abilities to put these resources into action and continuously monitor the same in order to make the venture profitable and successful.

Micro businesses, as stated in previous chapters, are generally very small. Based on the size of business and resources required, these **businesses can be organized in various forms – Proprietary, Partnership or Company structure. These are called types of organizations.** This chapter would help you understand advantages and disadvantages of these organization types.

Let us take an example. If someone wants to start a Hair Salon (Barber shop) in a city, how would the person go about it? Along with hair cutting skills, person also needs to arrange for a shop (a place which can be owned or rented), needs to get basic furniture done, needs to buy basic tools (Iron & Curling Tongs, Massage Chairs, Face & Hair Steamers, Wax Heaters, Water Fountains etc.) and consumables (creams, oil, shampoo etc.) and employ one or two additional resources/people. He will also be required to go for registration of shop with local authorities. He also needs to create awareness amongst the locals regarding the upcoming salon through means like billboard, social media, brochures, pamphlets etc. Only upon doing these activities, he will be able to start his salon. In this case, **a single individual may be able to do the required and handle the requirement of necessary resources as it may not be large one. This business may be called a Proprietary Business.**

Let us assume, this salon starts doing well. Now, entrepreneur's aspiration may be to expand the business a bit by starting another salon in a nearby area. However, it may be difficult for this person to arrange for the required resources or manage both the salons simultaneously. In this case, he may look for a partner. This partner may bring in capital, required operational skills or managerial skills to run the salon. This partnership arrangement could vary from business to business. **This business, if has partners, will be called partnership business.**

After successful stint with two or three salons in a specific geography, aspirations of entrepreneur may further go high and he may think of a chain of salons across the city or geography of his operations. This, for sure, would require a lot more resources and man-power. Also, if operations spread over 10-15 salons, it would need different organizational set up even to run the business. **Jawed Habib, Enrich, Mint etc. are some of the examples of successful salon chains in Mumbai. These businesses, while started from one shop somewhere, are large organizations today with fully fledged corporate structures. Indeed, some of them have attracted institutional attention and money (private equity capital of Millions of Dollars). Also, as their scale moved from micro to small to medium and large organizations, they changed their type from proprietary business to partnership business to companies.**

First thing to understand is that **while you start the business, you and the business are not one and the same. You, as an individual, and your business are two different entities.** We may state that business is an artificial person, created by you. Now, **type of this artificial person (called organization type) could vary, based on the size of business and ownership structure. We must state that most of the micro businesses are either proprietary businesses or partnership firms.** Basic features of these two organization types are given below:

Sole Proprietorship or Proprietorship

Sole means "single" and proprietorship means "ownership". This means that in sole proprietorship, an individual owns the business and has accountability towards everything. In other words, **both owner and manager are the same in proprietorship businesses.** All the decisions are taken by the owner, who brings in resources, puts them to work, manages and monitors the growth of business. As she/he is the single owner and responsible person for everything, she/he enjoys full profit (if any) and/or bear losses (if any) that are generated by the business.



Flower shop as a Proprietorship business

Sole Proprietorship is the most common form of business organization, across the globe, because of its following characteristics:

- **Simple to form and wind up:** The legal formalities are the least while forming a sole proprietorship business. Also, winding up of sole proprietorship business is as easy as starting because of nearly nil legal formalities.
- **Complete Retention of Profits:** A sole proprietor retains all the profits generated by the organization and is highly motivated by the same. She/he also has to bear all the losses of the business, if any. This motivates/inspires him/ her to continuously improve and bring in efficiency in the business.
- **Personal Touch and adaptability:** Since the sole proprietor himself gets involved in every aspect of business, he develops better rapport with the customers, business partners (suppliers, manufacturers etc.) and employees. This also helps him to sense the need for change early and adapt quickly to sustain and grow.
- **Quick decision making and control:** A sole proprietor can quickly respond to various situations as he is the sole decision maker and need not follow hierarchy and protocols (as exist in larger organizations) while making decisions. This gives him agility in demanding situations. This also gives him the sense of being in full control of the business.

- **No sharing of business secrets:** The trade secrets and strengths of any business are best known to the owner himself. In proprietorship structure, as owner himself is the manager, there is very little risk of business secrets getting leaked to outsiders/competitors.

Above merits are significantly valued by the entrepreneurs and, may be, that is the reason why most of the micro businesses are in Sole Proprietorship structure. However, there are certain limitations/drawbacks of Proprietorship form of organization. These are:

- **Limited resources:** The biggest challenge for a sole proprietorship is the limitation of resources. For businesses, which require large capital investment (to the tunes of millions), proprietary form of organization may not work as a sole individual may not have large resources or may not be willing to commit large resources given the risks in any business.
- **Not suitable for large scale operations:** Even if the funds are available or accessible to an individual, businesses with large scale operations (For example, chain of stores across the countries, project based businesses with on-site requirements etc.) need strong managerial capabilities, where capabilities of one individual will not be sufficient.
- **Risk to personal property/assets:** One of the biggest risks in sole proprietorship is that there is no separation of ownership from management and owner is considered responsible for all business actions. In case of loss and payment defaults in the business, recovery can be made from his/her personal property/assets. In other words, owner carries all liabilities of business on his personal account as well. This deters a sole proprietor to dream big and scale up his business without changing the form of organization.
- **Lack of continuity:** The business is highly dependent on proprietor and his health, disability, insolvency or death can lead the business to a closure in no time. Generally, these businesses live and die with proprietors without any continuity.

Because of above mentioned limitations, a sole proprietorship business is not suitable and less preferred by entrepreneurs, who are starting a big project or a large scale business. However, **it is the most suitable form of organization for micro entrepreneurs as they get the opportunity to explore themselves in business with ease and speed without too much at stake in terms of time, resources and administrative/legal issues.**

In case of sole proprietorship, few things need to be clearly understood by entrepreneurs:

- A sole proprietor is the owner of business, he need not be the owner of the premise/property from where the business is being run.
- A sole proprietor retains the profits generated by the business and his/her efforts and rewards are directly linked to each other. However, a senior employee, whose salary is directly linked to sales or profit (in % terms), is not the proprietor or owner of the business.
- In most of the cases, the proprietor invests his own money. However, it is not compulsory and he/she may arrange the finance (part or full) from external sources/lenders. Lenders will earn interest on their money and will not have any share in the profits/losses of the business.

To conclude, we may state that **sole proprietorship is the most suitable form of organizations, where business ideas are new, market is localized, customers require personal attention, resource requirement is limited and skills/secrets cannot be easily shared with outsiders. Ease of start and closure, little or negligible legal requirements and commitment of small capital allows new entrepreneurs to experiment with their ideas through this form or organization.** We have no hesitation in stating that most of the businesses start as Proprietary Business. As they grow in their requirements and size, they evolve and take other forms of organizations. If you observe around carefully, you would find several micro businesses in the form of Proprietary firms - Snacks stall and Restaurants, Jewellery shops, stationery shops, grocery stores, fruits and vegetable vendors, tailors, bakers and other household service providers.

Partnership Firm

Let us read this small story. "Mujaffar and Nikhil are friends since childhood, have been to the same school and college and staying in the same society in Ahmedabad. Mujaffar is fond of bikes and cars; he is aware of most of the models available in India, knows their features and has learnt repairs and maintenance in his uncle's workshop in Mumbai. He wants to start a similar service station in Ahmedabad. However, to start a modern service station, capital requirement is high. Mujaffar is also not sure about his skills on managing business. He approaches Nikhil, who is a son of a businessman, has done graduation in business and finance and is looking to start something of his own. Both of them agree on following:

- Nikhil will arrange capital through his father, will work in the service station and take care of business, accounts/finance, cash and compliances.
- Mujaffar will take care of servicing of the automobiles – operations part.
- Profits will be shared equally between them."

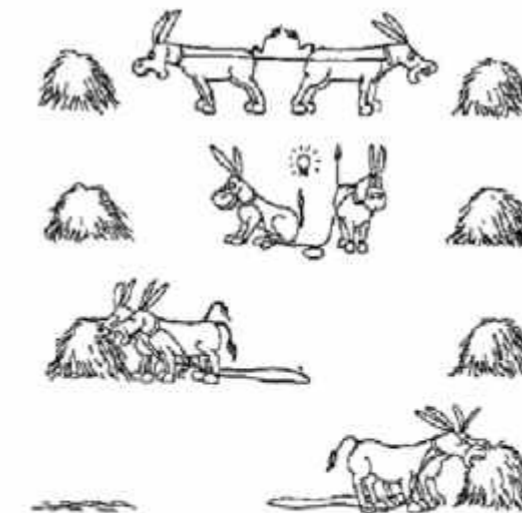


Evolution of businesses from micro to small to medium to big businesses

Simply stating, **Partnership is an association of two or more persons, who pool their resources – Financial and managerial, agree to carry a business jointly and share its profits/losses in proportion as mutually decided by them. The persons, who form a partnership are called partners, while the business is collectively called a Partnership Firm.** Best value from partnership can be produced only when partners put their thoughts together to support each other as depicted in the picture below.



A partnership is born between Nikhil and Mujaffar



Based upon the above definition, characteristics of partnership are illustrated below:

- a) **Two or more persons:** Partnership is an agreement between two or more persons. As per, new Companies Act 2013, maximum number of members in case of a partnership firm can be 100
- b) **Agreement:** There must be an agreement between partners, who are coming together to carry the business. The agreement between them can be oral or written. The relationship amongst the partners is contractual and they must be having the capacity to contract, should not be minor, lunatic or insolvent. Such an agreement, if in writing, is called partnership deed.
- c) **Share of Profits and Losses:** The share of profits and losses amongst partners must be clearly agreed. In case of no agreement, profits/losses are assumed to be shared equally. Only in specific cases (where it is expressed clearly), a partner will not share loss occurred in the business.
- d) **Agency Relationship:** A partner is an agent of the firm as his acts and decisions, done on behalf of the firm, are binding on other partners.
- e) **Voluntary Registration:** Registration of partnership firm is not compulsory in India, however, it is desirable that the registration is done in order to avoid future issues among the partners.

After proprietorship, the second most prevalent form of organization for micro entrepreneurs and startups is partnership because of the following merits:

- a) **Easy to form:** As mentioned above, there is no compulsory registration required to form a partnership and even a verbal contract between partners is sufficient. This makes it very easy to start a partnership business.
- b) **Availability of more resources:** In partnership, each partner may bring in resources, therefore, the business has access to relatively larger pool of resources compared to that of Proprietary businesses. A larger resource pool allows the business to start on a relatively larger scale.
- c) **Complimentary Skills:** In partnership, various partners bring together their own specific skills and relationship base, which are complimentary to one another. Technical skills of one partner get combined with managerial abilities of the second partner to make it a formidable combination, reducing risk of failure and increasing probability of success of the business.
- d) **Like Minded Team:** Generally, partnership occurs between known individuals, who vary in terms of their skills/relationships, but are like minded, when it comes to overall objective of the firm. Familiarity creates trust before the start of the business and gives confidence to each partner.
- e) **Sharing of risks:** Like profits and resources, losses are also shared among the partners. No individual partner bears the risk alone unless specified specifically.
- f) **Better Decision Making:** With different abilities and skill sets, partners can view a situation from different angles (compared to a sole proprietor), discuss the issues and make informed and thoughtful decisions. This results in better decision making.
- g) **Flexibility and personal touch:** Like proprietorship, even partnership offers partners a personal touch with customers and other business partners. Also, adaptability is quite high in partnership firms as learnings can be quickly reflected in business decisions by the partners.
- h) **Secrecy:** Business secrets are secured among partners.

Partnership firms also have certain limitations, which are described below:

- a) **Limited resources:** Even though the resources pooled in by partners are comparatively larger than those of sole proprietors, many a times, they are not sufficient for large scale businesses.
- b) **Unlimited liability:** Like sole proprietorship, partners are jointly and severally liable towards the business and their personal properties/assets can be used by law to pay off the debts and obligations of business, in case assets of the firm are insufficient. It means, partners carry all liabilities of business on their personal accounts as well. Given this feature, partners hesitate to scale up their business without changing the form of organization.
- c) **Differences among partners:** Every individual is different and therefore, difference in the view-points of people is bound to be there. Similarly, in case of partnership, where one partner sees an opportunity, other partners may be afraid of the risks involved. This may result in conflicting situation. Once these conflicts arise, it becomes difficult to make decisions in a firm.
- d) **Continuity:** The risk of continuity gets multifold in a partnership firm compared to a proprietary firm as the probability of illness, death or insolvency increases with the number of partners in the firm. Also, a partner may choose to exit/retire from the firm in an unpredictable manner and this may create problem for the continuity of the firm.
- e) **Transferability of shares:** A partner cannot transfer his shares in the firm to another individual without the consent of other partners of the firm. This creates issue of liquidity, in case a partner needs money in urgency. Indeed, exit of one partner may also create problem for other partners.

Types of Partnerships

Normally, in partnership, every partner brings financial resources and managerial ability to work together. However, in certain cases, a partner may contribute only one resource and may or may not have intention to contribute other resources. For example, a partner may invest fund in the business but may not have time to get involved in day to day operations. On the other hand, a person may have business ability but no funds to contribute to the business. In such cases, each partner is categorized based upon his contribution, participation and sharing of risks and profits.

While there are different kinds of partnerships, given the context, we would limit our discussion to only **Active and Sleeping (Passive) Partners**. An active partner is the face of the organisation to all the stakeholders. He deals with employees, vendors and customers and takes operational decisions for business. A sleeping or a dormant partner is mostly a capital contributor and a risk taker, who has faith in the active partner (partners) but stays away from the operations of the business. Passive partners are liable to third parties for the acts of the partnership firm.

As stated before, partners are jointly and severally liable towards the business and their personal properties/assets can be used by law to pay off the debts and obligations of business, in case the assets of the firm are insufficient to honor the business dues. To counter the limitations of unlimited liability of partners, a new form of business organization is allowed in India, which is called **Limited Liability Partnership (LLP)**. This form limits the liability of the partners in the firm to the extent of their capital contributions/investments in the business.

Partnership Deed

For any partnership to be successful in the long run, it is essential that the partners articulate their agreement covering most of the concerned matters and get the same document registered. **Such registered document detailing the terms of agreement between partners is called Partnership Deed**, which becomes a reference document in case of any dispute among partners. A Partnership Deed generally covers the following aspects of business:

- Name of the firm
- Name and address of partners

- Nature of business and place where it is situated
- Duties, powers and obligations of partners
- Capital contribution by each partner
- Profit Sharing Ratio among partners
- Interest on capital, if any
- Drawings allowed and interest on drawings, if any
- Salaries and commission payable to partners, if any
- Provisions about dissolution of partnership
- Expulsion of a partner

The above list is only indicative in nature and mutually agreed terms may be added to the deed.

Joint Stock Company

As discussed above, biggest limitation in starting any business is the availability of capital. Larger the capital required to start the business, larger the issue. For example, if someone wants to put up a large chemical plant or a large manufacturing factory, capital from even 20 partners may not be sufficient. In addition to larger capital requirement, the risk attached to the larger business also increases multifold. Single entrepreneur (proprietor) or a group of entrepreneurs (partners) may not be keen to take such high risk as their personal wealth can be at risk. **To overcome these limitations of capital and risk, one may look towards another form of organization called Joint Stock Company.**

To explain a Joint Stock Company in most simple terms, it is an expansion of partnership firm, where number of partners can exceed beyond limits as described above. Indeed, **there is no limit on the maximum number of partners in case of a Public Limited Company. In case of a Private Limited Company, the maximum number of shareholders allowed is 200.** The entire capital requirement is divided into a certain number of shares and one can buy desired number of shares and become a shareholder. Shareholders are eligible to share profits of the business as per the willingness of the management/directors.

The biggest advantage of a company is that it can raise capital in large amounts, thus, enabling a high investment business to run. Also, since the liability of a shareholder is limited to the extent of his investment/contribution towards share capital of the company, his personal property/assets are not touchable (appropriated / taken away) in case the company runs into losses or defaults on payments to any stakeholder.

Another advantage of company is separation of ownership from management. As the number of shareholders could be quite large in a joint stock company, not everyone can run its day-to-day management. Therefore, jointly, they appoint directors, who are experts in their respective areas and work for taking business to the next level. Directors take remunerations and are responsible for taking decisions on day to day basis to run routine operations. This allows the company to function as a separate entity, independent of shareholders, under the guidance of experts.

Unlike Proprietorship and Partnership, starting a company, private or public limited, is a relatively longer and expensive process. Registration of company with Registrar of companies (ROC) and other legal formalities may be expensive and time consuming. Post registration with ROC and receipt of certification of incorporation and business commencement, one needs to file timely returns/reports to various authorities - ROC, Tax authorities etc.

A micro entrepreneur is generally dependent upon his own skills and resources, while starting a business and large capital and specialist directors are not his requirements at the initial stage of business. Indeed, one will rarely see a micro business being in the company form. Therefore, given the scope of this handbook, we are not going into further details on company form of organization.

Apart from the above three, there could be some other unique forms of business organizations such as co-operative society and HUF (Hindu Undivided family) etc. Cooperative society is more suitable for non-profit oriented organizations and HUF involves generations of a family in the business. Again, **details on these types of organizations may not be relevant to micro entrepreneurs and hence not covered in this handbook.**

The above discussion on various forms of organization can be summarized in the below table:

Particulars	Sole Proprietorship	Partnership Firm	Joint Stock company
Preference by Micro Entrepreneurs	Most Preferred	Preferred in case of need	Least Preferred
No. of Owners	1	Upto 100	Unlimited, (Limited to 200 in case of Pvt. Ltd. Company)
Capital Availability	Small	Medium	Large
Interest on Capital contributed	Not Allowed	Allowed, if agreed among partners	Not Allowed
Transferability of Ownership	Only sale of business is possible	Non-transferable without the consent of other partners	Transferable without any issue
Sustainability of business	Dependent upon Proprietor's Health and Solvency	Dependent upon Partners' Health and Solvency	Perpetual without dependency upon health and/or solvency of any shareholder
Separation of Ownership and Management	No Separation	No Separation, however there can be active and passive partners	Clear Separation of Ownership and Management. Shareholders (owners) appoint directors to run the business
Ease of Formation	No Formality required	Verbal/written agreement among partners	Memorandum of Association (MOA), Articles of Association (AOA) and various other legal compliances required
Reward for Risk	Entire Profit	Share of Profit	Dividend (if declared)
Liability of Owner/ Partner	Unlimited Liability	Unlimited Liability, except in case of LLP	Limited to the extent of capital contributed
Risk to Personal Property/Assets	Personal property/Assets liable for business debts	Personal property/Assets liable for Firm's debts	Personal property/Assets of shareholders are not liable for Company's debts

Legal Aspects, Licensing, Tax Implications, and other local/statutory implications:

"**Ignorantia Juris Non Excusat.**" Indian legal system or any other democratic country's legal system is based upon this fundamental Latin Maxim (principle), which means that ignorance of law is not an excuse to a criminal (Also Civil) charge.

Indian business environment functions under the democratic structure of the country. Various authorities like Central Government, State Government and local Municipal Corporations (or Gram Panchayat in case of rural vicinity) and respective departments of these authorities are involved at different stages of business during incorporation, running of business and winding up. These departments take care of various things like record keeping of business, promoters and partners, safety and other requisite approvals, tax collections, labor law compliance and many more other aspects. **While business environment in India is continuously becoming more business friendly, compliance requirements with various laws is quite extensive for businesses.**

"**An entrepreneur is solely responsible for ensuring that his/her business complies with all the statutory approvals and requirements. Even if he is unaware of these statutes or has difficulty in understanding the complexities of them, he remains accountable for all the applicable compliances.** Few of such requirements are described below."



During incorporation stage, any business startup, be it a small or large scale business, has to undergo various legal formalities. For example:

- If you are starting a shop or any other business from a particular premise, you need to **register it under Shops and Establishment Act.**
- Based on nature of business, you may need to **take approvals from different authorities.** For example, if you are in food or medicine business, you may need to take approvals from FDA (Food and Drug Authority), Fire Department, Pollution control board etc.

- If you are a professional or a service provider, you need to **get registered with respective associations/institutions** - Lawyers with Bar Association, practicing Chartered Accountants (CAs) with ICAI, practicing Company Secretaries (CSs) with ICSI etc.
- You have to **secure Permanent Account Number (PAN), Director Identification Number (DIN), Tax Payer Identification Number (TIN)** etc.
- Services business beyond a size need to **secure Service Tax Number.**
- Businesses need to **register with provident fund, labor department etc. if number of employees exceed 10.**
- Export and Import businesses **need export/import licenses.**

Most of the above mentioned registrations are compulsory in nature. In addition, there could be other registrations, which are voluntary but advantageous. For example, registration with ministry of micro, small and medium enterprises is a voluntary registration but this registration may offer several advantages to your business. Similarly, registration with National Small Industries Corporation (NSIC) can offer a micro business significant benefits.

After incorporation, a business needs to comply with various tax laws as well. A businessman basically deals with two different taxes:

- **Direct Tax:** Direct tax or income tax is the tax which is paid by businesses and professionals on their earnings. However, there are various provisions regarding the inclusions and exclusions of income while calculating taxes, tax rates and slabs of taxes.
- **Indirect Tax:** Goods and Services Tax (GST) is a single indirect tax payable by businesses. Be it a service provider or a domestic trader or an importer or a manufacturer all have to pay GST at different rates under the new indirect tax regime.

Albert Einstein has once said, "The most difficult thing in the world to understand is Income Tax". However, all businesses must understand the applicable taxes and comply with the requirements on timely basis. **You should equip yourself with basic tax structure prevailing in the country.**

Further, if a business is not doing well and entrepreneur decides to shut the shop, one must be aware that **there are certain laws governing closure of company, dissolution of partnership firm, settlement to stakeholders and layoff compensation to employees** etc.

To conclude, we can say that in spite of the reduced number of regulations, a business is governed by various laws and statutes. An average entrepreneur may or may not be aware of all the applicable laws and even if he/she is aware, may not have the skills/time to comply with the norms. Therefore, **it is advisable that if you are having a business, you must take timely advice of some experts like Chartered Accountant, Company Secretary, Lawyer or Human Resource Consultant etc. to ensure that you are working as per the law and order of the country as violations of these norms may result in litigations, severe financial penalties and/or in some extreme cases a forced closure.**

Indeed, it costs to follow the law of the land, however, the risk of not following the law could be significantly larger. Fulfilling all the compliances in a timely manner definitely saves you both the precious resources - time and money. Remember, always, 'Ignorantia Juris Non Excusat'!

Chapter 04

Raising Capital – Deserve before you Desire



RAISING CAPITAL – DESERVE BEFORE YOU DESIRE

Capital is fuel for any business! And, this fuel is, unfortunately, always scarce. Competing projects need to push their benefits (How are they better than others) to justify why they should be funded over the competition. This problem of raising capital becomes more complicated when it comes to micro enterprises because they are:

- Generally unorganized
- Tiny businesses are like saplings with higher risk of mortality
- Primarily dependent on people around them (their relationships) for money with less availability of Institutional support

This chapter addresses the fundamental issues on capital raising by micro enterprises and make them aware about the available sources of funds in brief (capital raising part is discussed in greater detail in subsequent chapters). We must state that there is no short term quick fix on the subject.

Some of the available sources of funds for Micro Entrepreneurs are as follows:

- 1) First source of money for any business is own money of the entrepreneurs, which is mostly generated via their savings or personal loans against assets (bullion, jewellery, land or house etc.). This investment of own money into business first, brings commitment and gives confidence to others - lenders/investors. While investing in venture, it is also essential that entrepreneurs budget for and ensure that their day to day expenses are taken care of till they start generating profit and surplus cash-flows from the business.
- 2) Three Fs: Family, friends and fools are the second best source of capital for the business. Family members and friends, who have trust in your ability and credibility of the venture may lend you support. Fools are not literally fools but are (not your relatives or friends) the initial investors, who are ready to take risk in early stage of your venture.
- 3) Societal/Community Groups: Many religion based or cast based societies provide financial assistance to aspiring entrepreneurs. The amount of financial assistance may not be sufficient but can certainly help you to start. You must check the same with influential people in your community. For example, Jain International Trade Organization (JITO) gives business loans to Jain entrepreneurs to start/expand the business. Shettys and Sikhs also have various organizations, where community members can get loans for businesses like hotel, transport etc. Advantages of such sources are that these assistances are relatively easier to secure and carry subsidized rate of interest.
- 4) Micro finance Institutions: Micro finance Institutions provide business loans as low as Rs. 1,000 against very little documentation and mostly without collateral.
- 5) Government Organizations: Various center and state government schemes are there to encourage micro entrepreneurs in urban as well as rural areas. For example, Mudra Bank. One must check the web sites of government departments dealing with micro enterprises or visit their offices and inquire personally on their promotional schemes.

As described above, when people or institutions around give you money, they would either come as partners or lenders to the business. **When they give you money to share profit and loss (ups and downs) in the business, they are called partners or equity owners in the business; and, when they give you money for interest, they are called lenders.** In other words, **there are only two sources of funds – Equity or Debt.** For clarification, Banks are generally lenders (they give you money and charge interest on that) and not equity partners in the business. Important differences between equity and debt from your perspective can be summarized as follows:

	Equity	Debt
Nature of liability	Ownership	Creditor
Type of liability	Long term /perpetual	Money to be returned over specific period
Cost of funds	Implicit – expectations of investors on rate of return	Explicit – interest rates are clearly spelled out.
Ownership dilution	Yes	No
Pricing of instruments	Free pricing*	Free
Fixed Obligations to give return	No	Yes
Redemption pressure	No	Yes
Voting rights/Participation in management	Yes	No
Claim priority on liquidation	Last	Before equity holders
Collateral requirements	No	Lenders will generally ask for collateral

*There are some restrictions in case listed entity raises funds privately. Not relevant in context of micro businesses.

Above differentiation clearly spells out that ownership (equity) participation is quite different from that of lending participation. **While lenders look for capability of entrepreneur/business to repay the money, investors (ownership/equity owners) look for capability of entrepreneur/business to scale up.** Passion and fire in the belly of entrepreneurs are collateral for the investors.

We would like to state that at the initial stage, business has large risks, called business risk. Business risk simply means that business may not pick up and die down over a period of time. Also, there are many uncertainties around revenues and cash-flows both in terms of quantum and their timings given lower bargaining power of micro businesses. In such situation, **taking too much of debt will create a different sort of pressure on you. It is advisable to take partners in the business, who would bring in capital and share profit/loss (upside/downside) of the business (no fixed obligation of interest/principal repayment on business) and also bring in their competence and relationship base to take the business forward.** However, selection of partner should be done with careful analysis of like-mindedness, relevant competence and relationship base, forward looking and enterprising attitude and the contributions in terms of capital.

Indeed, there are several external sources of equity or debt capital (retail and Institutional; long term debt and short term debt etc.) and some of them are described in greater detail in this handbook in subsequent chapters.

Regarding raising of capital, we have generally heard entrepreneurs complaining about Bankers not ready to lend and private funding (equity or debt) not being available to micro businesses easily; and if private funding is available, it is very expensive. While, funding has always been a challenge for all businesses equally be it micro, small, medium or large, our questions to these entrepreneurs, in almost all the cases, are:

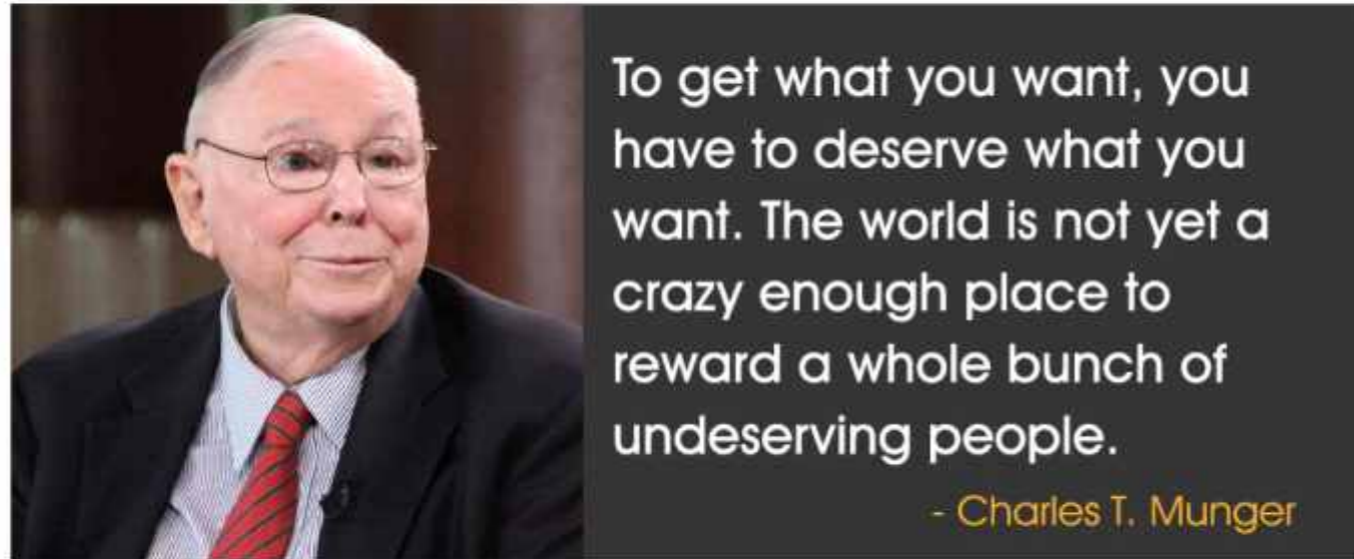
- What is your business and business model?
- How much money are you looking for?
- Are you looking for equity (partners) or debt (lenders)?
- What will you do if desired money comes in?
- How would your business change if money comes in?

- What are down sides/risks in the business?
- Why should someone give you money?

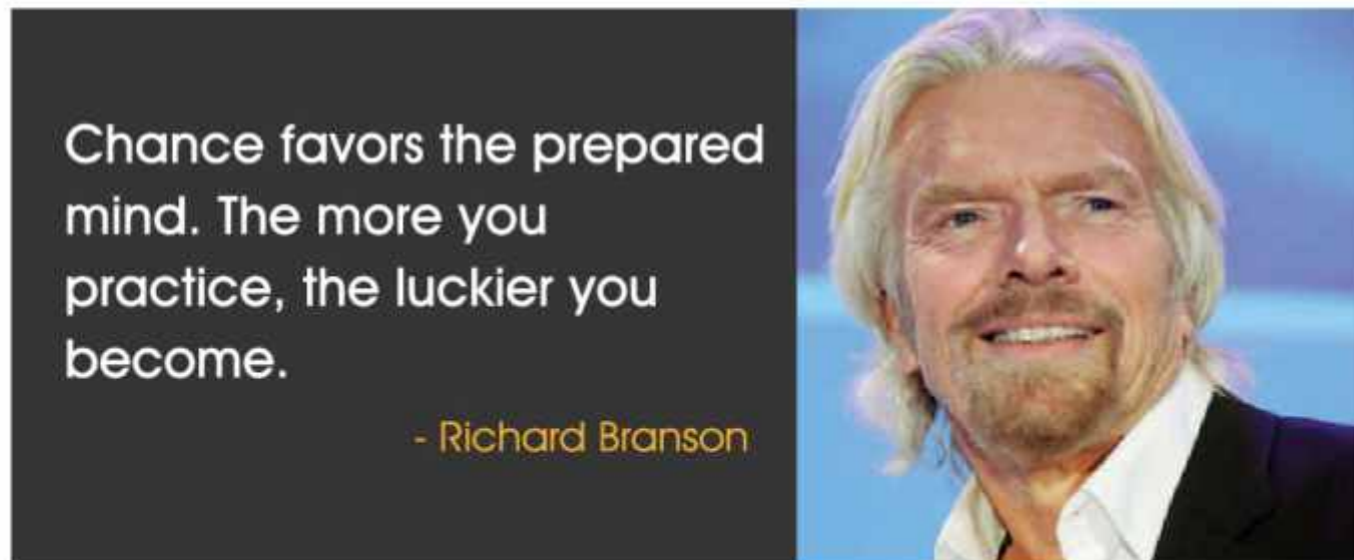
These are basic questions and everyone (potential lender or potential investor) is going to ask you these questions. But, unfortunately, answers to these questions, most of the times, are quite vague with little or no clarity. How do you expect people to give you money in such situation? Please remember, money is dear to everyone even though your potential investors/lenders have it in abundance; hence, expect them to be extremely cautious and calculated while making a new investment/lending decision. Therefore, ideally, all these questions should be answered and well documented in a basic document on the subject – ‘Business plan’. **Written document does many things:**

- Brings clarity to your own thought process as you progress in your journey
- You don't need to repeat your thought process again and again to different set of people. It saves your time and energy as you may share this document with any interested entity and then get to the dialogue.
- Written document shows your seriousness and preparedness.
- In the long run, it helps you by forcing you to focus and become efficient with your use of money.

Please remember what Charlie Munger, a brilliant intellect and partner at Berkshire Hathways, stated “Deserve Before you Desire”. Unfortunately, most of the times, entrepreneurs and businesses desire, desire and desire without ever asking the question whether we deserve what we are desiring.



We believe that **preparation is key to success anywhere so is the case with business**. Success is never an accident and is the result of sheer hard work, practice and patience. It would be relevant to quote here Richard Branson, a differentiated entrepreneur, who owns almost 300 different businesses under Virgin Brand, across the globe.



We need to understand that Banks can't survive without lending money and investors can't survive without investing. That is the very nature of their businesses. For businesses, there could be several alternatives to raise capital but for banks and investors, Their very business is to lend and invest respectively. So, why should they not lend to or invest money with you. **Important point is that we have to become DESERVING candidate for their money.** May we encourage you to ask following two questions:

- What do banks and investors look for in a business?
- How do we get to the required status?

Good news is that they (investors and lenders) look for similar characteristics in the businesses. Some of them may be stated as follows:

1. Well defined Business Model
 - Strength of business idea – solving a real problem. Business is addressing some unserved need of the market. Alternatively, it is doing something better, cheaper and/or in a differentiated manner.
 - Clearly defined revenue model.
2. Good team
 - Experience/track record of team.
 - Ability/competence of team.
 - Integrity, intelligence and energy of the team.
3. Cash flow stream to support repayment of debt and business operations (working capital).

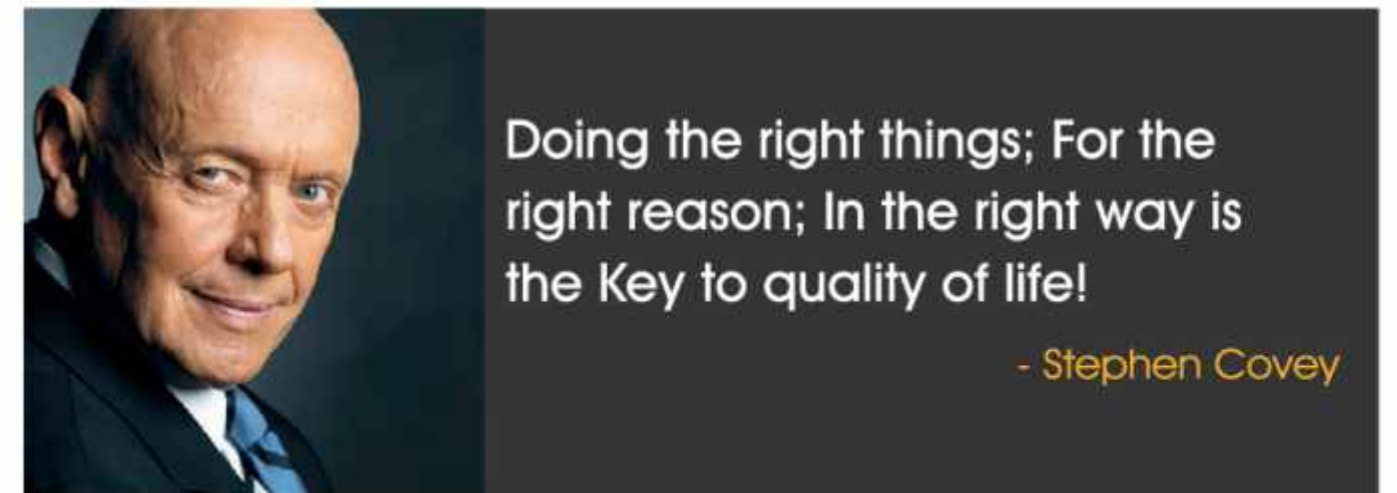
Given first point above, it becomes critical for you to **spend time thinking on how you are helping (creating value for) your potential customers**. Interesting way to ask this is “What differentiates us from our competitors?” or “Why would a customer come to us?” If you can answer these questions clearly, we think, you would be in a great shape.

Second challenge of “**Good Team**” is critical to success as ultimately, in businesses, “**TEAMS DELIVER**”. Attracting and retaining relevant people is certainly a difficult task. You should look for people around with relevant competence sets, honesty, intelligence and energy.

Third point means that **always think from the investors'/lenders' perspective**. You as business owners should think hard about “What are the risks in the business and how do you reduce them?” You should also be clear about “How would investors/lenders exit or get their money back?”

In other words, if you focus on putting your house in order, rest assured, capital would follow you.

Let us conclude this chapter with a wonderful saying by late Dr. Steven Covey, an eminent Management Thinker- “Right thing in life is to do Right Things”.





Chapter 05

Building and Managing team

BUILDING AND MANAGING TEAM

Every business starts with a dream, but it takes more than just a dream for a micro business to sustain and grow. As discussed earlier, entrepreneurs will always have many challenges both internal and external. Internal challenges are about putting in place decision making process, information systems, operations, parameters of dealing within the team and customers etc. While, external challenges are about attracting talent and building team, funding, buy-in from customers, regulatory and compliance challenges etc. This chapter deals with the challenge of building a team.

Once you have crossed the initial phase of zeroing in on an opportunity, putting a small business plan around your idea, thinking of a suitable structure (proprietary, partnership firm etc.), it is time for you to start building a team. While team building will continue to be there as an everlasting exercise in your journey of growth, the initial team is quite critical.

Teams deliver, not the individuals

You must recognize that no one can perform all the functions individually and you will be dependent on others for success. Let us take a simple example of our body. While it is a single unit, there are many parts; And, all the parts put together, working in tandem, deliver as a body. Nose has a function, so do ears and hands and legs. No single part, individually, has capability to deliver on its own. However, working with other parts of the body, it can deliver miracles. Similarly, no individual entrepreneur can deliver on his own; he/she has to build a team of relevant complimentary skills to deliver together as a unit.

Building a good team at the start/beginning of business is quite difficult. Business does not have enough resources to recruit highly experienced people. And, experienced people also perceive higher risk in working with start-up businesses. If you hire inexperienced people, learning curve is going to be longer. Also, some mistakes in the initial phase of business could prove to be quite expensive. Therefore, you as an entrepreneur would have difficult time building your start up team. Only good news is that most of the micro businesses do not really need very high level of talent.



Let us take an example. You want to build a business of serving healthy salads and sauces to IT professionals in Bangalore. This would need sourcing, logistics to move sourced items to the workshop, processing, order sourcing, packaging as per orders, logistics to deliver orders to the customers, collection of money, accounting etc. You would need at least the following resources:

- A procurement resource
- An operations head with one or two support staff
- Packaging resource
- Two or three logistics' resources
- One or two sales resource
- One finance resource to focus on collection and expenses, accounting/record keeping etc.
- One peon/office boy

While all the functions are critical in the business, procurement and sales/marketing are two most important functions facing external stakeholders - suppliers and customers. The other resources are more operational with less or no interaction with external stakeholders. Skills required to deal with external stakeholders are quite different and you should choose these resources quite carefully. It is observed that most of the times, entrepreneurs in micro businesses focus on these two functions themselves and slowly build their backup.

In the initial phase, it may also be prudent that people perform multiple functions at different times. For example, sourcing resource in the morning time may be busy sourcing and during the noon time and evening, he may be involved in operations or sales. Sales person may focus on sales as well as collection of money, given that he/she would have relationship with the customers.

While building team is a challenge at every stage and it continues for ever, initial hiring would be very critical. We encourage you to think on the following, when it comes to building team:

- How many people do we need and for what roles/functions?
- What skills are required for those roles/functions?
- Who would have required skills in our relationship? (hiring people from your known sources/relationships would be a lot more easier)
- What would the compensation structure be?

In micro businesses, people generally don't think on above issues, which are very important. Hiring relevant people is important and hiring them from your relationship base would be relatively easier. Defining compensation structure clearly may excite people as well as help as you avoid any conflict at the later stage. It is advisable to give small fixed money as salary and then link variable payouts to the performance. This will help them take care of their expenses from fixed payouts while continuing to get encouraged from the variable payouts.

Your most important role is to excite/encourage prospective candidates with the opportunity, clearly define their potential contributions and how your business would add value to them in terms of experience and money. People should be passionate, excited and see the purpose in their roles. It is critical for you as an entrepreneur to show the team meaning in what they would do.

When you begin, you should ideally be light on people side because salaries would be fixed expense and revenues may take some time. Accordingly, as a micro entrepreneur, you may think of leveraging on outsiders' competencies. For example, instead of building your own logistics team in given example, you could look for help from logistics' service providers. Similarly, instead of selling directly to customers, you may leverage on other specialized sales people/channel partners to market your product. You may also like to outsource the operations part to others and focus purely on purchase, sales and logistics. Similarly, accounting work can be outsourced to an external accountant. This all can help you convert your payouts from fixed to variable, purely linked to business. For example, if sales happen, you pay; when delivery happens, you pay etc.

Take care of your people to deliver to your customers

It is your responsibility as entrepreneur that you take care of your people. Mr. Vineet Nayar of HCL states "We influence customers and other stakeholders through our people. If our people are a happy lot, business is bound to grow." Think for a moment; you deal with a shopkeeper next to your home. His worker deals with you with significant respect, speaks politely, helps you take decision on the product you want to buy. Would you not visit the shop again? On the other hand, if this worker speaks rudely, tells you to decide fast or does not pay attention to you, how would you feel? Would you visit the shop again? Clearly NO. Therefore, team influences the business significantly.



It brings us to the point how do we nurture this team to influence the external stakeholders positively. Micro businesses may not have any provision for training but most important training would be the behaviour of the entrepreneurs themselves. Most of the times, your behaviour would become behaviour of your team. Your team would generally observe your behaviour and accordingly learn to behave. In a nutshell, you have to conduct yourself well and slowly and gradually that attitude would reflect in the conduct of your team.

Nurture the culture of honesty, sincerity and ethics in all dealings

Basic ethics like honesty, sincerity, punctuality etc. don't cost money and create significant value in the long run. In absence of these ethics, long term business can never be built. Mistakes may happen but we need to stand up, acknowledge mistakes and move ahead.

We must also understand that honesty and sincerity are also the function of whether basic requirements of the employees are satisfied. In micro businesses, it is seen that people become dishonest not because they derive pleasure out of it but because they have to survive. We urge micro entrepreneurs to take care of basic needs of their team members. Also, they should encourage their team members to ask for help, if needed. Open environment without fear would ultimately help you as an entrepreneur in delivering the product/services to customers and grow.

Let us conclude this chapter with following points:

- Everyone in the team should be clear about his/her role.
- People may undertake multiple functions at different times.
- Compensation structure should be spelled out clearly.
- Broad parameters of internal operations should be emphasized every day – sense of mutual respect in dealing with each other, deep rooted trust & honesty.
- Openness in internal dealing will help you resolve differences, if any.
- Your conduct as micro entrepreneur would ultimately become the conduct of your team.
- Take care of your people well to be able to positively impact your customers. If your team is motivated and happy, it would deliver happiness to customers.
- Never forget to appreciate good work done by your team member and do that when others in the team are around. This would not only encourage the person who did a good job but also others.
- Also, be prepared mentally to let go some team members as it is a natural process - some people will leave the organization and some new people will join the organization.



We must state that major reason of failure of startups is not external but internal. Vision is one thing; and, converting that into reality is absolutely different thing. Both these aspects demand different mind sets, competence and team levels. While vision may be an individualistic exercise with deep sense of thought/experience with a product/service, conversion of that into reality definitely demands execution skills and a team. Please remember that there beats the heart of a contributor in each one of us. Your team would support you, provided you support your team well.



Happy progress !



Chapter 06

Managing Inputs and Vendors

MANAGING INPUTS AND VENDORS

As discussed in the previous chapter, people are the first resource any business needs. Further, depending on the business, resource requirements could vary. For example, a vegetable shop would need vegetables. A tea shop would need inputs such as tea, coffee, sugar, some snacks (ready-made or to be made), energy/fuel etc. and expert brewers. A tailoring business would need clothes, machines, consumables like needles, buttons, threads etc. along with skilled tailors. These resources/inputs required to run the business are called raw material. Quality of inputs, particularly in a manufacturing or a process oriented business, decide the quality of output or the final produce/product. We may state inputs in various businesses as follows:

In case of manufacturing – raw material, power/fuel, people (example – A bakery, a restaurant, a tea/coffee stall)

In case of trading business – merchandise, people (example – any shop selling third party products such as stationery shop, grocery shop, vegetables and fruits shop etc.)

In case of service business – information, some consumables, skilled people (example – a barber shop, a small taxi fleet, security services provider, driver service provider etc.)

In a casual conversation with grandfather of a friend, who has been running few shops in Assam for almost forty years, he stated **“Most important thing in a business is right purchase - If you have bought right product at right price, you have already made money.”**He added **“Right product means what customer would like or buy and right price means you are competitive in the market place.”**His words appeared like valuable wisdom on any trading business. Accordingly, an entrepreneur must be extremely careful while procuring inputs for the business and must consider these points before making the choice:



1. Understanding of the customer requirement: A common error by micro entrepreneurs in input procurement process is that they start doing search and selection of suppliers/vendors even before understanding the customers' requirements thoroughly. This results in mismatch between what they offer and what customers need. For example, if you are situated in low income group vicinity, it does not make sense to have high end branded products. People there would be very price conscious and would choose cheaper products over a branded but more expensive product. Also, taste of product could vary a lot depending on the people you are going to serve. For example, in large cities, you may not see people liking very colorful clothes (they may like sober colors), but, in interiors/villages, we can observe people wearing very bright and colorful clothes.

2. Estimate the demand: Once you have understood the requirements of your potential customers and have decided to cater to their specific needs, you will be able to figure out the essential materials required for the same. After deciding on inputs, you need to estimate the demand for the same. Your requirement of inputs will essentially be based on your expected demand for the output in a given period. If the demand is cyclical or seasonal in nature, appropriate provisions should be made in your buying pattern.

For example: In a small Italian restaurant, if expected sale of Pizzas per week is 150 (assuming all to be of one size), the restaurant owner will need 150 Pizza Breads, vegetables, meat and other spices in proportion to the same. Further, if within 150, 50 pizzas are sold on weekends and 100 on weekdays, he would need to adjust his buying pattern of inputs accordingly.

3. Nature of Material: Nature of material (perishable or non-perishable) will also determine the quantity of inputs to be ordered and stored. In continuation of the above example, Pizza breads, Vegetable and meat being perishable in nature, can not be ordered in bulk as they would hardly last one week; on the other hand, spices can be ordered for the entire month or two in one go.

4. Cost of Material and storage/space: In a Sanitary ware/Hardware store, you will find lots of plumbing material of different shapes, sizes and brands on display, however if you order bulk quantity of any product, the shopkeeper will ask for some time for delivery as these stores generally do not maintain inventory of large quantities of products and order from their suppliers as and when needed. Two primary reasons for this are a) it becomes high investment and one needs space to hold all variants of a product and b) the requirement of customer may not be over-the-counter and he can probably wait for a day or two. Similar thing happens if you are looking for say tiles or some other material, while getting your home constructed/renovated.

5. Availability of material: One of the most important factors while deciding the procurement of raw material is how easily it is accessible and available to the business. For some seasonal goods like watermelon, demand is throughout the year but the production happens only in summer season. Suppliers of melon purchase the melon in very large quantity and store in cold warehouses to channelize supply in a stable manner. This practice is followed for several other seasonal products.

Based on above factors – nature of inputs, demand/supply dynamics, consumption pattern, variety of inputs, continuous availability etc. a business should take decisions on its procurements. **All these inputs procured for a business may be called its inventory. In a broader sense, inventory is defined as the total quantity (sometimes value) of raw materials, work in progress and finished products/output (which is maintained at shop/warehouse).**If inventory is not managed properly, business would have below mentioned disadvantages:

- **Cost of Carry:** Any unsold inventory blocks your capital, which has its own cost (most of the time interest cost). Also, unsold inventory requires space to be stored, which again has a cost in terms of rent, insurance and other maintenance expenses of the shop/warehouse. If inventory is perishable, it can also result in rotten products.
- **Blocks New Goods:** For any trader, success lies in how quickly he/she is able to churn his inventory. If businessman invests his limited capital in large inventory, he will not be able to procure new arrivals. Sometimes, even if capital is available, space could be a constraint for the businessman to procure new stocks.

- **Forced reduction of prices:** In case of failure (in sales) of one range of product, which is stuck as large inventory, trader may not be able to invest or store new goods, which results in lower sales. In such case, the trader may be under pressure to get rid of the material as soon as possible. This may sometimes force him to sell the inventory at a price without margin or even at a loss.

The fundamentals of any inventory system remain the same viz. to minimize the required level of inventory and to initiate procurement, whenever the requirement arises. Various techniques are being practiced, across the globe, for Inventory management. Most common among them is **JIT (Just in Time)**. Just in time is an evolved form of inventory technique, which ideally suggests that you start procurement of raw material, once the order is placed by the customer. A micro entrepreneur can create his own system for placing order at specific inventory levels, which can be as basic as a simple excel sheet or visual counting. Efficiency at the inventory level can contribute significantly to the success of a micro business.

In case of intellectual businesses, it is important for the professionals to continuously upgrade their inventory levels – Information and Knowledge. For example, lawyers at a small law firm, accountants at accountancy firm and doctors at a small clinic need to continuously upgrade themselves in terms of knowledge to add value to their customers. They need to continuously read to know the latest happenings in their respective fields and relevant case studies.

Managing inventory is one part of the business; managing suppliers of this inventory is another important aspect of running business. Your suppliers are your vendors. Indeed, in business, you are also vendor to your customers. For example, seed suppliers sell seeds to farmers, wholesalers supplying goods to retailers, manpower consultant supplying contract staff to a project based organization are various examples of vendors.

Importance of a reliable vendor can hardly be emphasized. For example, in case of a small construction contractor, he would have his vendors/suppliers such as plumber, carpenter, labor, electrician etc. If these guys don't show up on time or do not perform quality job with given specifications, there would clearly be a problem for the contractor. So is the case of other businesses. Hence, **like customers and employees, vendors are also an important pillar of business and if not managed well, can bring the business to a halt or to a crash.** Accordingly, they are rightly termed as partners of the business. Right vendors bring following advantages to any business:

- A business can enjoy uninterrupted supply of quality raw materials; this would prevent bulk/ quantity storage and costs.
- Uninterrupted availability of material in high demand season allows the business to flourish and enjoy the benefits of higher sales.
- Good quality of supplies will help in producing the best output, which again helps business in building trust and loyalty amongst its customers.
- Availability of timely materials gives the businessman confidence to get large orders and big size projects.
- Vendors may supply materials on credit and/or favorable credit terms. This will help micro business in reduction of working capital and improvement in cash flow.
- Vendors can also provide training/inputs to you on competitive information, positioning and sales process.
- Vendors may also offer you bulk/quantity discounts on large quantity purchases.

In nutshell, one can say that if your vendors are reliable source of inputs to you, your chances of growth get multiplied exponentially. Therefore, **it is critical for you to build and nurture relationship with your vendors/suppliers.** Indeed, suppliers management should be thought about properly and run as a process for success and growth. Few important steps to be kept in mind are:

Vendor/Supplier Selection: The first and foremost step in vendor/supplier management is selection of vendors/suppliers. Once the inputs are determined, businessman needs to figure out the list of potential suppliers. Such list can be prepared or obtained from various sources:

- Personal Contacts
- References
- Yellow pages

- Newspapers Advertisements inviting inquiries
- Industry Specific Magazines
- Data providing websites (Indiamart, Justdial etc.)
- Social Networking sites (LinkedIn, Whatsapp Professional Groups, Twitter etc.)
- General google search



Once this list is prepared, the next step is to shortlist the vendors. This short listing may be done by you based on several parameters such as:

- Does the vendor's offering matches with your requirements?
- Is the quality of the product/service acceptable to you and your customers?
- Is the vendor's pricing competitive?
- Is the vendor's capacity sufficient for your requirement?
- Vendor's history (Tenure in the business)
- Testimonials from other existing clients on quality, pricing, reliability, credibility etc.
- Will you be too big or too small for the vendor's customer portfolio?
- Is vendor financially stable?
- Location proximity (to head office and/or place of requirement)

These are sample parameters and not the exhaustive list for selection of vendors. Once you screen the potential vendors' list with the above information, you will be left with a shorter list. You may then discuss exact nature of requirement in terms of quantity and timelines and based upon best response on quality, cost and credit facility, the vendor (s) can be finalized.

One important thing to keep in mind is while you can start business with one vendor, you should develop a few vendors/suppliers over a period of time. The competition amongst vendors increases efficiency and helps you avoid dependency on any one vendor/supplier.

Vendor Development: Once a vendor is selected, he should be treated as a business partner and an extended team of your business. Very often we come across examples where businesses provide various facilities to their vendors/suppliers in order to enable them to provide a better service. For example:

- Automobile companies help their vendors set up their plants and facilities in the proximity to their manufacturing/assembly plant
- Large developers and civil contracting firms allow small consultants (engineers and others) to use their premises (head office and/or site) and resources (computers, softwares, printers etc.) to ensure smooth and fast coordination
- Large corporations sometimes provide advances to their vendors/suppliers
- Sometimes, businesses give minimum business commitment to their vendors/suppliers

One must invest time in continuously communicating with his vendors to ensure that they have fully understood the requirement and are working in the right direction. You should also understand and resolve vendors' problems, if any. Efforts should also be made in understanding the business of the vendor and their expectations from you. All this will help you, in short term - in proper transaction and in long term - in developing a healthy relationship.

Vendor Review: One must do a critical review of the performance of vendors in a timely manner. The factors to be considered while reviewing a vendor's performance are:

- Is vendor following a proper process in supplying the requirements?
- Issues with quantity, quality, pricing, timeliness etc., if any
- How the issues raised have been resolved?
- Is the vendor complying with the law of the land?
- Is the attitude of vendor professional?
- Is the vendor thinking of you as partner in his business?

The above factors will help you decide whether the selected vendor can be a long term partner to our business or not. It must be kept in mind that a trouble at vendor's end means a trouble to your business. A lapse or a delay in review may result in wrong supplies, high cost, last minute irritants and/or legal troubles, which can be detrimental to your business.

Build Reputation with Vendors: Your efforts in vendor management will help you build an effective relationship with your vendors. This relationship, if coupled with your reputation with them, can help you achieve desired sustainability and growth in your business. **It is important for you also to be a good customer to your supplier/vendor and earn his appreciation by following the correct business practices.** Some of the aspects, which can help you on that side are:

- **Continuous Business:** The implicit reason a vendor is doing business with you is to grow his business. However, if your size of orders is very small to the vendor, he may not give it much priority. Also, if your orders are cyclical/seasonal in nature compared to your peers, vendors may prefer to work with your peers, who provide regular orders even if your seasonal orders are large in size. It may be a good idea to **discuss your requirements clearly with your supplier/vendor to set right expectations.** This will help you avoid issues with supply later.
- **Regular Payments:** This is one of the make or break factors in relationship between vendors and clients. If you are not able to make timely payments to your vendors, be rest assured that you are not in his priority list of customers and he will be looking for the next opportunity to break all ties with you. By paying on timely basis, you earn a reputation, which nothing can replace. It is worth quoting an actual incident here. A small business owner has lost all his inventory in a fire mishap at his shop. He was in deep trouble because everything in the shop was lost. His suppliers not only supported him with delayed payment on prior inventory but also provided him fresh stocks at credit. They stood by him in times of his need. Business again flourished and he paid every supplier for fresh stock as well as old stock. It is a remarkable story of building reputation with your suppliers and they supporting you in the time of your need.
- **Reasonable Price / Margins:** A healthy professional relationship is the one where a deal is a win-win situation for both the businesses. Everyone in the market is there to make money. Sometimes, in your quest of lowest rate possible, you take the risk of vendor losing interest in the deal and you. It is a good practice to put yourself in the shoes of your vendor and think, whether you would have taken the deal if you were in his place. Leave some money for him to stay in the business. If your vendor does not make money and does not sustain, how would you grow?

- **Engage Vendor in Your business Strategy:** If you take inputs from a vendor towards your business strategy, he effectively becomes personally committed towards your organization. He also feels valued and would prefer working with you over others.
- **Personal Relationship:** Apart from the above transactional factors, you should also try and build a personal rapport with your vendors. Getting engaged with them socially and developing a personal relationship builds your network and helps you getting key information. This may also help you connect with other interesting people and expand your business in other directions and dimensions.

Let us conclude this topic by stating that while resources are important for a business, the resource providers i.e. suppliers/vendors are more important to a business (as much as the customers and employees). Therefore, entrepreneurs must put time and energy in selection, development and review of the vendors. **A delighted vendor, like a delighted customer, helps you sail through crests and troughs and gives you strength to start and grow your business.**

Happy nurturing relationships with your vendors!





Chapter 07

Managing Operations in Business

MANAGING OPERATIONS IN BUSINESS

A business, whether small or big, will involve multiple operations depending on its nature. In a manufacturing business, various operations can be as follows:

- Set up of plant/ machinery as per process requirement
- Procurement of raw materials
- Storage and warehousing of materials and tools
- Processing of raw materials into finished good
- Warehousing of finished goods
- Sales and Marketing
- Dispatch of finished goods as per client orders
- Collection of debts and cash handling
- General maintenance and administration of plant and office

While manufacturing set up could be quite elaborate, a trading setup will have fewer operational requirements compared to a manufacturing set up. For example:

- Set up of a retail store or shop from where trading can be done
- Procurement of goods to be traded
- Display and arrangement of goods as per standards and requirement
- Customer awareness and marketing
- Sales and collection
- Distribution and logistics
- General management and overall administration of the business premise

Similarly, if you are a service provider, you might need to do things differently compared to a manufacturer or a trader. A service provider will need to:

- Setup a premise/office from which the service can be provided. However, this premise may be a small one (work from home scenario is also possible)
- Maintain the documentation and files/records and their efficient retrieval
- Focus on Sales and marketing
- Focus on collection and accounting
- Take care of general administration of business/office premise

The above lists of operational aspects of manufacturing/trading/service businesses are broad and indicative in nature and can be much more detailed and specific, depending on the nature and scale of business. These micro businesses may have 2-10 people involved. Also, while some operational activities are generic in nature, few others may require technical expertise, which an entrepreneur might possess.

Each operation consumes resources like energy, manpower, time, materials etc. and adds to the cost of the business. **Resources are always scarce/limited and an entrepreneur must always ensure maximum output from each unit of input resource.**

In this chapter, we will understand the importance of various key operations and how an entrepreneur should endeavor to achieve the desired output efficiently and effectively.



1. Location Identification and Set up:

Whenever an entrepreneur decides to start a business, (unless it is a work from home job), he/she first needs to fix a location to start the business. Key factors, which a businessman must consider, while selecting the location of the business premises are as below:

Manufacturing	Trading Business	Services
Generally away from residential areas. Size of premise as per the type of produce and estimated production level	Generally near residential areas in the market place. Size of shop as per the type of business and business size	Is an office necessary? If yes, size of office based on no. of employees and visitors
Proximity to input resources, labor and electricity/water	Proximity to customers, major markets/mandis	Proximity to customers and skilled manpower
Machinery would be required	No machine may be required. However, basic office equipment may be necessary.	Office equipment would be required – printers, computers, scanners etc.

While working on setting up any business, it may be useful to take help from industry specialists. Given their experience, they can make the entire process faster and cost effective. While they may cost some money in terms of advisory fees, they can save significant money at various other fronts including your time.

Once the identification of location is finalized considering above parameters, next step is the setup of plant or shop. The key considerations / points, while setting up are:

- Process requirement
- Available size of premise
- Storage requirement
- Budget for set up/furnishing
- Maneuverability
- Appearance of plant/shop/office
- Whether customers visit the plant/shop/office
- Safety
- Compliance with legal norms (as applicable)

As per the business requirement, above factors may become primary or optional. For example, a shop in a premium urban area of a metro/town needs to be superior in appearance and maneuverability even if small in size; On the other hand, a chemical process business will focus more on the process requirement, safety and compliance.

2. Optimum use of available space/shelf space:

As we have mentioned earlier, an entrepreneur will have limitation of space as a resource and must focus upon using the same in the best possible manner. Various scientific studies have been made in shelf space utilisation and one must take a look at them, while designing their own business premise. For example:

- A plant should be designed in such a way that resources move in a sequence, saving time and avoiding accidents.
- In a super market or departmental store, items, which are attractive to kids should be stored lower, where they match the eyeline of kids.
- A kirana store should store fast moving items such as bread, biscuits and chocolates near the cash counter.
- A vehicle service station should create the set up keeping in mind the smooth movement of cars and bikes.
- New arrivals at a shop need additional promotional efforts and should be displayed in front compared to items, which don't need any sales promotion.

3. Proper Organization of Documents and Things:

Did you notice that when you go to a medical store and ask for a medicine prescribed by the doctor, chemist checks the name and quickly fetches the same from one of the hundreds of drawers in his store. Just think how chaotic or funny the scene would be if all the medicines are stored in one big cabinet and every time the chemist has to look at all the drugs available with him to search for the one, which he is looking for. The technique followed in above example is called classification. This classification can be done on the basis of:

- Type of goods
- Names (As per alphabetical order)
- Size of goods
- Frequency of requirement
- Any other parameter, clearly understood by the shopkeeper.

If goods are not classified and organized properly at initial stage of business, it would be next to impossible to retrieve them, when needed. Organizing things is a very important operation for any business. It may seem trivial, unnecessary at times, but saves you a lot of time, irritants and sometimes accidents. **Proper organization of things can help you become more efficient and effective. This can also help you improve your sales and reduce costs/wastages.**

Other important aspects of proper inventory management are:

- It will help you ensure that you don't lose the customer in absence of products required.
- This will also help you make sure you don't hold unnecessary products at your shelf space.
- You would also be able to identify what to put on sale, because expiry approaches fast and expired products become unsaleable after that.
- Appropriate inventory level would also ensure that your money is not excessively blocked in inventory.

Equally important is proper documentation and record keeping. **Proper documentation/keeping records definitely takes time but saves you the pain, which may come later at the year end, when you would need business records for accounting purpose and/or any investigation by any regulatory agency.** Good documentation of records will also help you handle customer complaints and other business conflicts with clarity. Proper Record keeping is a hygiene factor in any business and must be followed without any deviation.

4. Clearly define roles of team members

To make business operations efficient and effective, it is critical for entrepreneur to clearly define role of his each team member. Clarity of roles and proper coordination and cooperation among team members would ensure smooth functioning of the business. Also, people should be trained to handle alternative job/operation, in case a colleague is absent.

5. Use of technology in managing operations

In current business scenario, use of technology is not desirable but essential to weed out the deficiencies or inefficiencies in operations. In every core and non-core process, technology, particularly computer and internet, has helped the process become smoother, efficient and effective. Number of examples, we can see today in our day-to-day life, where use of technology has improved processes of micro entrepreneurs:

- The digital imaging and printing technology has shortened the photograph development time from minimum 1 day to 1 minute
- Canteen and restaurants using computers, hand held devices to record orders and to bill
- Medical stores using programs like Tally ERP to record and maintain inventory
- Even in remote villages, bus ticket agents have started using ticket booking softwares (Like Redbus) with real time update on the status of seat availability and bus route. A ticket booking process earlier required 1-5 calls and around 10 minutes for an agent, which is now reduced to 0 calls and 2 minute booking process.
- E-payment systems have helped create an entire new category of large no. of businessmen doing mobile recharge, utility bill payments and money transfer etc.

Thus we see that use of technology not only helps reduce the time and cost of operation, it also helps avoid duplication of activity, errors and accidents and, at times, can create an entire new opportunity for the businessman in consideration. There are various software programs and softwares available for almost every possible business process.

Process	Available Software Eg:
Vendor Data Management	MS Office
Procurement and sales order management	MS Office, Customised programs
Inventory Management	Tally ERP
Accounting and Debtor Management	Tally ERP
Human Resource Management	HRIS
Sales Team Management	Sales Force

Customization can be carried out in some of these software, if required.

While we are on the subject of technology, you should also put up a website for your business. This will help you create a wider reach and look professional in the eyes of your customers. This will also save your time as prior to meeting any potential customer, you may ask him/her to go through your website for products/services offering. Website can also be used to actively market yourself and generate business.

6. Data management and Risk control

Business generates data on continuous basis. This data may have lots of opportunities for building relationships and cross sell. You should start storing data and processing that to explore value from there. Also, while you store the customer data, it is also important to ensure safety of the same. If customer data gets leaked, it may result into criticism from customers.

Another aspect to pay attention to is risk control. Risks could be of various kinds – poor quality of product/service, lack of delivery on time, mishandling of customer etc. For example:

- A restaurant should pay attention to hygiene/cleanliness
- If you are delivering goods at home, they should reach on or before promised time
- While dealing with the customers, softness/politeness of staff is very critical.
- While providing accounting services or medical services, preciseness in operations is quite important.

Every business will have few critical functions; clear understanding of these and focused efforts on these functions would be important for avoiding the risk of loss and/or risk of losing customers. Never forget that getting customers is a challenge and retaining them is a bigger challenge.

Mentioned below is the list of few processes and their respective benchmarks, which can be compared by the businessman in order to ascertain whether his business operations are efficient or not.

Various Performance Benchmark	
Set up of plant or machinery as per process requirement	Budgeted Vs Actual, Competitors' Data, Industry Standards, Percentage of total investment
Procurement of raw materials	Purchase Requisition to delivery time, Procurement cost as a percentage of product cost, Inventory Turnover, Industry standards
Storage and warehousing of the materials and tools	Cost of carry, Spoilage cost, warehouse to plant/shop lead time
Process of Raw materials into Finished goods	Conversion time, Conversion cost, Industry Standards
Warehousing of Finished goods	Inventory Turnover, Cost of storage at warehouse, Pilferage, Average demand vs average inventory
Sales and Marketing	Sales and Distribution cost, industry standards, percentage of total cost
Collection of Debts	Debtor Turnover, Collection period, Bad debts to total debtors
Administration and Maintenance	Percentage to total cost, Industry standards
Display and Appearance of shop	Feedback from vendors, Customers, Footfall count

While conducting operations, a micro businessman must keep following two principles in mind:

- Time is money – Every operation will require time of either employees of the businessman or of the businessman himself. However, if operations are planned right and set up is designed to ensure the process completion in best possible time and no wastage, the time saved can be utilized somewhere else to create value. For example, if the businessman saves 1 man-day from his operational schedule, he can devote the same towards business development and can bring in more business.
- Money saved is money earned – In business, simply stating, there are two ways to increase your profit margins:
 - Increase sales – increase in sales price or keeping the price constant, increase in number of units sold.
 - Decrease in cost

Increase in sales price may not be achievable at the desire of the businessman as the market forces may not allow him to do so in a competitive market. If the businessman increases the price of his products or services, the consumers may start looking towards competitors for better offers and the entrepreneur may lose his customers on a permanent basis. Similarly, increasing the sale in terms of number of units may have its own constraints and challenges.

Therefore, the alternative available to the businessman is to have tight control over and/or decrease his costs. To decrease costs each operation has to be measured carefully to identify inefficiencies and redundancies and then corrective actions are required. It must be understood that if costs are kept under control, even in competitive market, business can emerge as winner.

To conclude, often operations are regarded as unimportant aspect of business and are given less weightage compared to sales and marketing, customer relationships etc. However, it is to be kept in mind that **operations are the backbone of any business and errors and deficiency there may cause as big a harm as losing a customer.** An entrepreneur must devote his time and energy in monitoring operations, especially, the critical ones. **Timely delivery of promised product/service is responsibility of operations itself.**

May your operations run efficiently and effectively to help you build a profitable business!



Chapter 08

**Building and Nurturing
Customer Relationship**

BUILDING AND NURTURING CUSTOMER RELATIONSHIP

Let us ask a question, "Why do some businesses thrive and others fail?" While there could be several reasons of success or failure of a business, such as wrong product, poor service quality, mispricing, poor reach/distribution network etc., one most important reason is poor customer interface. **Understanding customers, their psychology/behavior, their needs, their challenges/problems and offering them a solution in a friendly manner is what makes the biggest difference in any business.**

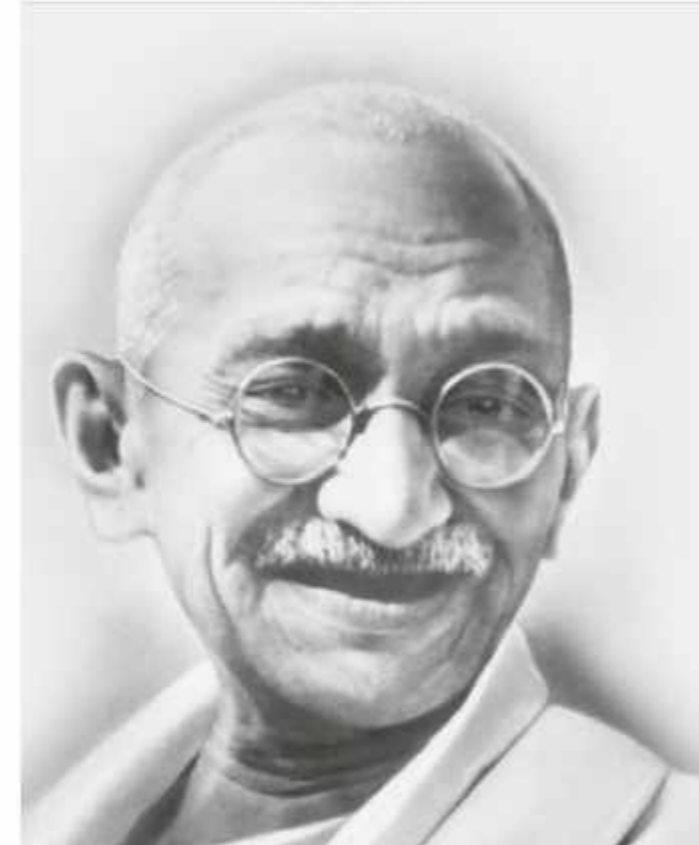
It may be relevant to share a recent interaction with one of my old students, who is busy setting up a micro business. We met in a social function. I asked "What is keeping you busy now a days, Akshay?". With lots of enthusiasm, he started sharing details of his new venture – Security systems for residential apartments. He asked "What do you think, sir? Any suggestion please?" I stated, "I have no suggestion, but few questions, if you kindly allow." "Please Sir" stated Akshay. I asked following questions:

1. Is your offering/product a need or a want (means, is it necessity or discretionary)?
2. Who is your potential customer?
3. Has your potential customer confirmed that he needs your product/offering?
4. Most important, even if he needs your product/service, is he willing to pay for that?
5. Who else is serving this need today? Why should customer chose you over his existing service provider?

Trust me, other than a reasonable certain answer to the second question above, Akshay was absolutely blank about the remaining ones. Is it not necessary for you to first answer "What is it that my customers want?, what mode of delivery, pricing point and level of competitive heat?" Is it not an irony that many of us commit resources (money, and more important time) to our ventures without getting a sense from potential customers, whether they need our offering at all? It is better to be late than wrong and there can't be any substitute to a validation of concept by potential customers themselves. As stated in the first few chapters of this handbook, **initial research on your offering is most critical for success in the business and you should spend lots of time there.**



'Customers' are the backbone of any business. They are the very reason, why a business exists. Satisfied, happy and loyal customers are real assets of the company as they bring in money again and again. They help the business conquer competition and sail through even in troubled times. Therefore, **it is of utmost importance that an entrepreneur directs his entire energy and resources towards satisfaction of his/her customers and maintains a healthy relationship with them to get repeat business.** Following quote from Mahatma Gandhi explains how important a customer is for a business and businessman and what should be the attitude of businessman towards his customers.



A customer is the most important visitor on our premises. He is not dependent on us. We are dependent on him. He is not an interruption in our work. He is the purpose of it. He is not outsider in our business. He is part of it. We are not doing him a favor by serving him. He is

doing as a favor by giving us an opportunity to do so.

- Mahatma Gandhi

Philosophy of Mahatma Gandhi is all about creating a "Customer Centric" business. All our thoughts, words and actions need to be directed to making customers happy, better to say delighted. And, if we live with this philosophy, there is no way, we would not create a successful business.

Primarily, the customers can be classified into two categories - Business to Business (B2B) or Business to Customers (B2C). In B2B businesses, customers are business organizations and not individuals (can be proprietor or partner in his individual capacity, though). Your output is input for the buyers, which will help them create a product or provide a service to the end user. Few examples of B2B businesses are as follows:

- Raw material suppliers selling to manufacturing companies
- Auto component manufacturers supplying to auto manufacturers
- Manufacturers selling to wholesalers
- Wholesalers providing goods to retailers
- Individuals/service providers providing various services to businesses

In B2C businesses, producers or sellers sell the goods/services to any person, whose purpose of purchase is consumption and not resell or further process. It means, there is direct interface of business with the end customers. Few examples of B2C businesses are as follows:

- A retail outlet directly selling goods to individual customers
- Vegetable seller sells to customers directly

- A saloon directly serves end customers
- A taxi service provider provides service directly to customers
- Banks serving to account holders

As everywhere, businesses are dealing with people, fundamentals of customer relationship remain the same for both the categories – B2B and B2C. It may be relevant here to quote a book by Rohit Bhargava, called “Likenomics”, which communicates that **people do business with you when they like you. I keep stating in customer meetings that we are doing business with you, does not mean that we are the best; it simply means that we are competent, competitive and most importantly, we know and like each other.**

Let us understand some specifics of relationship building in both the scenarios B2B and B2C.

Building relationship with Business customers:

As stated above, **businesses don't take decisions, people in businesses do.** Therefore, first point for you to find is Decision making unit (DMU) for your product/service and the relevant people in that decision making unit. Until you reach to DMU and decision makers therein, your efforts produce no results. Having identified people in DMU, you need to work on building and nurturing relationship with them to be able to succeed.

Some of the important points for your consideration are:

1. Identification of Target Customers and Market Segmentation

‘Who do you serve?’ is the first question to address with clarity. It is equally important for you to understand that not every user of your product/service is essentially your customer as his pricing point, quality description, location could be a constraint for you to serve him/her. Accordingly, potential customers within an industry can also be further segmented/categorized on the basis of their geographical location, price range, quality standards, types of their customers etc. Based on all these factors, you may like to define the segment, you would like to serve.

For example, if you are into embroidery of designer sarees, few retailers, who deal in designer sarees and are in your geographical location should be your first target customers. Once you make a hold in one geography, you may go to next one. It may be done slowly and gradually. Expanding customers list is important as dependency on few customers could be detrimental for any business.

Pareto's principal (80:20) is also applicable to B2B businesses, where 80% of your business/revenue will come from 20% of your clients. It means, if you have 10-12 customers at the end of first year, you will be amazed to find bulk of your orders coming from 2-3 of those 10-12 clients. These 2-3 clients become your key accounts and you must take great care in working with them to ensure their retention and optimization.

2. Understand customer needs and expectations and customize your offerings

Once you have identified the target customers and segmented the market, you should make efforts to understand the specific requirements of your potential customers. You should now get into details like delivery mode, credit facility, pricing and discount expectations, after sales support etc. This information is extremely crucial as it enables you to modify your offering and give you a firm standing in the market. Such information can be gathered through previous experience, observation, market research etc.

3. Customer opinion on current competitors

It could be an interesting idea to discuss with your potential customers on their existing suppliers. Understanding of competitors' current offerings, their strengths/weaknesses and issues, which your potential customers are facing. This could also give you good insights on modifying your offering.

4. Attract and Invite customers for the first experience

When you are new to the market, you first need to create awareness amongst your potential customers about your arrival and offerings. Mankind has a peculiar psychology towards anything new. They are curious to know more about it, but,

equally afraid to take the risk. Accordingly, whenever a new product is there in the market, they encourage you to test with a sample (generally, free) and/or small packet. You may have to follow the similar approach to get into the business.

For example, when Dhirubhai Ambani started producing polyester cloth and did not get support from the wholesalers of the industry, he went directly to retailers. He offered them a bulk quantity of material on sale-or-return basis. This enabled retailers (small ones) to have large inventory without any capital blocked and they were not worried about potential loss on unsold items, as the same could be returned any time.

Various techniques followed by various businesses to attract customers for first time usage are as follows:

- Free Sampling
- Pilot Run (Test Marketing)
- Heavy discount to first few customers
- Sale-or-return basis inventory
- Better credit facility
- Better logistical facility
- Long duration after-sale-service

One must be careful while adopting these techniques. Everything suggested above has a cost and if not done judiciously, can bring heavy losses to the business.

5. Start with few customers in hand

If you are starting a business, which is catering to another business, it is essential that you start with few customers, who are ready to try your product/service. Generally, the number of potential buyers in a B2B scenario are few and they take time and persuasion to switch to a new offering. They also need some testimonials and endorsement before adopting anything new. Few clients in hand ensure quick cash conversion of the investments, better trials and testimony building for the business, which helps in attracting more and more clients over a period of time. If you are taking names of some of your existing customers (as a testimony) to a potential customer, it may be advisable to take the approval from them in advance.

6. Build trust

In one of the conversations with a seasoned businessman, he stated **“We are not in business of goods/services. We are in business of building trust.”** Like any other relationship, business is also a relationship and the most important ingredient to sustain this relationship for a longer duration is trust. **Trust can be won only through doing the right things consistently for your customers.** A new customer would assess your trust-worthiness based on testimonials and reference by existing customers. **To build trust, you need to consistently work on your competence (Right Product/Service, Right Price, on time delivery as per promise, post sales service) and intentions (honesty and ethics in dealings).**

7. Continuous engagement with customers and use of social media

“Out of Sight, Out of mind”, You must have heard about this principal many times. In business scenario, it means that when the client has a requirement, your name (or your company's name) must be at their top of the mind recall to get an enquiry. Various methods to remain engaged and informed about the customers are as follows:

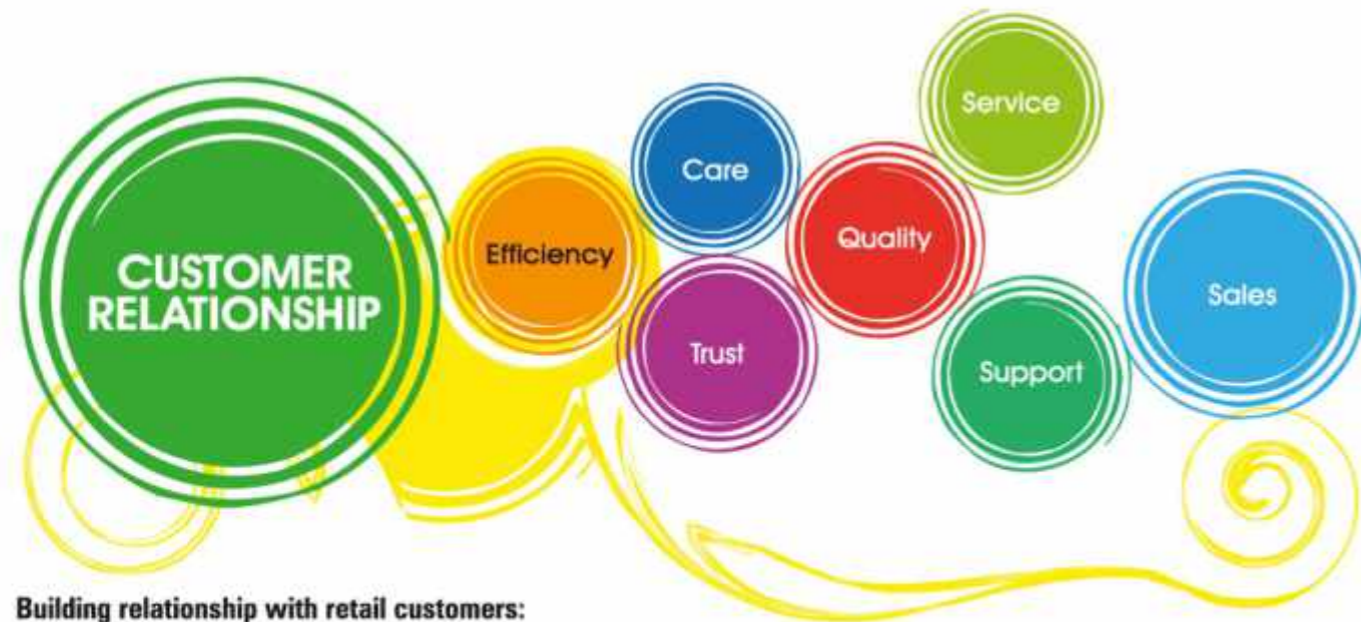
a. **Personal Meeting with Decision makers:** In any business, Owners, Directors, VPs, Project In charge, procurement/purchase manager, contracts manager etc are important decision makers; one must meet and introduce about one's business to these key people. One to one meetings establish trust and rapport.

b. **Emails:** Emails are also frequently used to remain engaged with potential customers. We can send our business profiles and brochures (soft copy) to clients on emails. Emails are considered non-intrusive as sending and receipt of email is done at respective party's convenience.

c. **Telephonic Conversation:** Continuous follow ups are important on sent proposals. Emails can get lost and it would be appropriate to talk on either phone or meet one to one.

d. Social Media: Use of social media sites like LinkedIn, Twitter is best suitable to reach and engage with desired person. You can search, connect, chat and promote yourself to any business in any part of the globe with the help of social media. This is helping even small businesses of town/rural areas to connect with business houses of metros and even overseas without spending any travel time or money.

To conclude, we can say that with the help of above techniques, a micro business can identify, invite, attract and retain customers for a longer duration. The techniques mentioned above are not difficult to learn or execute but require belief and continuous focus of the businessman to reap benefits.



Building relationship with retail customers:

Approach to building relationship with retail customers is not going to be very different from what is described above in case of B2B businesses. Some of the important points for your consideration are:

1. Target Customers, Market Segmentation and understanding customers

Approach to target customers, market segmentation and understanding customers remains similar here as in B2B case. Entrepreneurs have to:

- Identify potential customers, whom they look to serve.
- After identifying potential customers, they need to classify them into geographical/demographical (Age/Gender/Income Group/Education etc.) clusters.
- Choose segment/segments, you would like to serve.
- Understand deeper details on products, pricing and discount expectations, after sales support etc.

2. Awareness Creation

One of the most important tasks of a new businessman is to create strong awareness amongst the target population. As number of potential customers are generally large in retail, the ways to create the awareness can be different. A micro entrepreneur can take help of various tools depending upon the nature of his business, target market and capacity to spend/investment. Apart from usual free samples, discounts and sales announcement methods, some other useful measures are as follows:

- Attractive billboards
- Flyer and Brochure distribution
- Advertisement in Local Newspaper and local magazine
- Promotion on cable TV channels
- Use of social media

You may also organize some small event, where potential customers may come in and your existing customers may share their experience with them. For example, when a play school near our home wanted to promote itself, they organized a "Kids' Day". Kids along with their parents were invited there to have fun. This offered parents an opportunity to experience school and talk to some of the teachers/staff. Registrations at the school suddenly shot up.

3. Create Customer Delight

The earlier concept of customer satisfaction is replaced by customer delight, today. The concept of customer satisfaction provides that you deliver what the customer was expecting and what was promised by you. However, with increasing competition, the challenge to retain customer can be achieved only if you are able to provide more than what was promised. The relationship between the people has changed from transactional to relational. Various ways to create such customer delight are:

- Discounts, which were not committed during the deal
- Offering something extra with the same price (Free home delivery, Extra toppings, free gift wrapping etc.)
- Unique ways of serving/delivery (creation of unique ambiance, juggling tricks by a bartender)
- Delivery before committed timelines
- Recognize your customers, stand up, give a smile to make them feel nice/warm
- Remember names, if possible, to make them feel important

Small gift to the kids, even a candy, can do magic. You would have also seen when you go to some large stores, they offer you coffee/tea/soft drinks and candies/sweets to the kids. It is a small cost but can go a long way to create customer delight. Also, it creates a moral obligation on the part of customers to buy something for sure. They would find it difficult to step out without buying anything then. This is called 'Reciprocal tendency' in behavioral science.

4. Build trust and engage with customers:

In this era of overload of information and advertisement, remaining at the top of the mind recall is challenging for any entrepreneur. Customer delight will be successful in repeat sales only if customers are continuously engaged with. With the help of technology and social media, various businesses (small or big) are adopting techniques for continuous customer engagement. For example:

- Timely reminders sent by auto service stations or insurance agents
- Birthday and anniversary greetings by banks. Even small businesses can collect this data for their regular customers through social media and do the same
- New stock arrival messages and calls
- Sale announcement through emails and SMS
- Facebook page and LinkedIn page updates
- Initiate some loyalty programmes
- Feedback calls to the customers – Sincere efforts to learn from customers through feedback calls can be magical. Learnings can be executed to produce good results. This also makes the customers feel valuable.

The above steps, if executed well, will help in creating loyalty of customers - biggest asset for any business. This loyalty helps them scale through cycles and sustain for a longer period of time.

Let us conclude this topic by stating **"Only constant in the world is change". And, with change, all "Relevant" becomes "Irrelevant" over a period of time.** If you observe, you would find that landline phones have become irrelevant, telegram has become irrelevant, VCRs and data saving disks have become irrelevant etc. We can't shoot a moving target with a static gun position ever.

We are in a modern economy and only our strengths can protect us. **You should find your niche, focus on a segment, do better than the best there, keep your customers happy, change with their changing needs/demands.** And, never forget to ask intermittently, **"How do I stay relevant to my customers? Why a customer should come to me to do business?"** In the end, **"Business is all about change management and relationship management."**

May you build great relationship with your customers!



Chapter 09

Manging Finances in a Business

MANGING FINANCES IN A BUSINESS

All businesses are undertaken to, probably, make money. Word "Probably", is used here because, while the purpose of business is always way beyond making money, profitability ensures its sustainability and communicates that the business is relevant to the stakeholders.



Profitability of business validates a business idea.

Finance, arguably, one of the most important functions in any business, most of the times, is ignored by the businessman. Indeed, **every operation and activity of business involves finance. From inception of business to winding up, entrepreneurs keep dealing with money – Setting up facilities to purchase of inputs to processing to selling of final products/services, all the functions need interaction with money.** Entrepreneurs may be very good at doing what they do, but, lack of knowledge on finance either does not let them explore their full potential or pulls them back times and again. Therefore, it is critical for entrepreneurs to build relevant knowledge and skill set on the subject to secure success in business.

We can safely state that **finance is like blood in the veins of business**, which keeps the business alive. Chances of business sustainability/growth multiply, if entrepreneurs keep some fundamentals of finance in the mind to avoid any big mistake. Prudence at finance will ensure availability of timely capital at reduced cost, **proper deployment of funds in business, regular cash flows and cash management, value creation through good return on investments and ultimately a good reputation in the eyes of various stake holders.**

In an earlier chapter, we have discussed how to become a deserving candidate for others' money be it equity and/or debt. In this chapter, we will understand financial aspects of business in much more details. We will also learn few concepts and jargons of finance, which are important for any entrepreneur.

Let us start with - Where is money required in a business? **Every businessman needs money for two types of expenditure – capital expenditure and operational expenditure.**

Capital Expenditure: **Capital expenditure means setting up fixed infrastructure for the business operations.** Various items in capital expenditure may be:

- Purchase of Land
- Purchase and Installation of plant and machinery
- License Fee/Patent fee, if any
- Furniture and fixtures
- Purchase of vehicles - Car/commercial vehicle
- Computers/Printers/Telecom Equipment etc.

One can see that these expenses are non-recurring in nature (i.e. they are incurred only once and/or on repeated intervals), and produce benefits over a long period of time. Accordingly, **these expenses are viewed as investment in business assets. The amount involved in capital investment is large and long term.** These expenses (investments) are better financed by long term sources of money such as owner's capital and Long term loans.

Capital expenditure is the biggest deterrent for any new comer to the business as he may not have the required capital/money and it is not easy to raise the capital at the beginning. Therefore, it becomes essential that the entrepreneurs think creatively on the subject. **One option could be to take required assets on lease instead of buying them.** This may avoid the need of upfront money and also reduce the risk of investment – if business does not click, losses could be limited (If you had bought the assets, you would get stuck with them with limited or no liquidity of them).

Revenue Expenditure or Operational Expenditure: **Revenue or operational expenditure is an expense, which is recurring in nature.** Example of revenue expenses are:

- Purchase of raw material
- Rent and maintenance charges
- Payment for utilities
- Printing and stationary expenses
- Travelling expenses
- Promotional expenses
- Interest
- Salaries and Wages

All the expenses, above mentioned, occur continuously in a business at frequent intervals. **Such expenses are usually not of huge amount individually, but, collectively form a substantial quantum. These expenses are usually paid out of the revenues earned by the business.** However, in the initial stage, as revenues are low or not there, businessman has to make a provision for these expenses. It may be a prudent idea to make provision for these expenses for at least first 3-6 months of the business.

In addition to above stated planned expenditure – capital and revenue expenditure, there could arise several contingencies in the business. Some examples could be:

- Compensation to an injured worker/employee
- Penalties because of non-compliance of regulatory provisions/norms
- Changes in clients' requirements and reworking on product/service etc.

It may be prudent idea to allocate some money to meet with contingencies in addition to planned capital and revenue expenses as discussed above.

Next question is "where do we arrange the money to meet above mentioned expenses?". The requisite finance is raised through following sources:

1) Owners' Capital

Capital is the amount of money contributed by the entrepreneur himself or partners in combination. Capital contribution can be in cash or in kind (Personal assets/material introduced into business for business use). This is also called equity capital or owner's capital into business.

Entrepreneurs don't earn interest on the capital contributed by them. **Reward for capital contribution is share of profit or dividend (in case of a company).**

2) Loans or borrowings

Alternate source of funding to any business is loans or borrowed funds. Lenders (providers of loan) are not affected by the profits or losses generated by the business and their reward for providing money to business is interest. Lenders' risk is

comparatively lower as their investments are paid back in regular installments by the businessman and even in case of winding up of the business, lenders are given preference for payment over the capital contributors. Further, lenders may have collateral backing the loans and they may invoke the same in case borrower fails to repay the loan.

Such loans can be taken from Families and Friends, Banks, specialized Financial Institutions such as SIDBI, NABARD etc. In addition to supporting the limited capital of businessman, loans create value in following two ways:

- Interest payments can be claimed as expense by the business
- Regular payments of interest and EMIs (Equated Monthly Installments) bring discipline to a business

However, it is essential that an entrepreneur maintains a fine balance between capital and loans in the business. If not judiciously done, the entrepreneur can get affected with **"The Risk of Borrowing Too Much."** These risks are:

- If funds remain unutilized, they will make a dent on profitability of the business because of the fixed cost of interest.
- Excess loan and fund availability may create indiscipline or complacency in the mind of entrepreneur.
- The advantage of discipline because of fixed payouts on loans may become the biggest disadvantage, when the business is not doing well or sales are down.
- In cases of defaults in payments of interests or EMIs on any loan, the reputation of entrepreneur is tarnished. Once the news spreads in the market, all other lenders may ask for repayment at once and may bring down the business in no time.

In other words, **Debt is like sugar – it can add to the resources of entrepreneurs but excess of it can lead to the dangers.** Therefore, like every other decision of an entrepreneur, decision to borrow also needs to be taken keeping in mind the requirement, expected cash flows, cost of loan/funds and the risks attached. The standard prescribed by academicians is a Debt – Equity ratio of 2:1, i.e. for every Rs 2 borrowed, Rs 1 should be contributed by the entrepreneur as capital. However, this is not universally applicable and may differ subject to industry and company per se.

There could be some other creative ways to fund the business. For example, your creditors or your customers may be source of funding for you. Your creditors are basically suppliers of materials and services, who may allow you to pay the dues after some time (credit period). When they allow you credit, essentially, they are funding you. Similarly, your customers may give you money in advance, which you can use to buy raw material and use towards other expenses in producing the product. There could be some grants available from Government agencies, which can also be availed by you.

Having put up initial resources required for business in place, as a prudent entrepreneur, you should focus on following fundamentals of finance:

Focus on Working Capital and Monthly Cash Flows: Working capital in accounting terms may have quite complicated definition, but in layman's language, **it is the amount needed for smooth functioning of day-to-day operations of business.** In order to ascertain the required amount of working capital, we must make a list of current assets and current liabilities -

Current assets are assets, which are in cash or cash equivalent; And, current liabilities are liabilities, to be paid out in the next 6 months. Let us prepare a list of current liabilities or payouts for a timeline (say month/quarter). The indicative current liabilities list may be as follows:

- Procurement of raw materials / inputs/ consumables
- Utilities – water, electricity, telephone etc.
- Travel Expenses
- Printing and Stationery
- Salaries and Wages
- Interest Payment and EMIs
- Insurance Premium
- Rent and maintenance expenses
- Statutory Dues - Service Tax, VAT, Excise etc.
- Any special item which is non-frequent but anticipated in the upcoming month/quarter

Against Each item, we can put an amount which is accurate or estimated. The total of these amounts will be total payable over a period of time.

Once, we have ascertained the total payable amount, we can estimate the total current assets – cash and cash equivalents including receivable for the same period i.e. month/quarter. The indicative list of Current Assets may be as follows:

- Cash and investments in liquid assets such as Fixed Deposits or Liquid Mutual Funds
- Cash Sales expected
- Receivables due from debtors
- Interest on investments
- Refunds from tax authorities
- Repayment of short term credit made

The total of Current Assets needs to be subtracted from total Current Liabilities to arrive at working capital needed (if positive figure) for that particular time. A negative figure indicates that cash flow of the business is positive and it does not need any working capital. However, it is important for any businessman to assume that the actual payouts may turn to be more than anticipated/expected, while the receivables may fall short of expectations. Therefore, the businessman needs to make an additional provision for the working capital to take care of contingencies and unforeseen circumstances.

An entrepreneur must be aware of the working capital requirement for his business. Also, **increase or decrease in the requirement of working capital depicts inefficiency or efficiency in management of cash flows.**

Prudently price your products and services: Importance of right costing and pricing of products/services in a business can hardly be overemphasized. **Both direct (cost of raw material, transportation, utilities, labor etc.) and indirect costs (office expenses, sales expenses, interest cost etc.) should be considered, while pricing the products/services. In addition to costs of business, pricing has to take in to consideration several factors – differentiation in the product, competition level, ability and willingness of the customers to pay etc.** Let us discuss some of the standard techniques to price products/services:

Cost Plus pricing: It is the most common and easy to calculate form of pricing as all the cost data is available with the businessman. For example, a vegetable vendor can add all the direct costs - cost of vegetables, transportation etc. On direct cost, he can add his desired gross margins (including coverage for his indirect costs) and offer them to the buyers. **The advantage of this method of pricing is that there is monitoring of every transaction from profits' perspective. However, the biggest limitation of this strategy is that customers do not care what is your cost. They will not buy from you if competition is offering the same products/services at a cheaper price (even if competitors' margins are higher than that of yours).** For success under this competitive scenario, you would have to really work hard on keeping your costs as low as possible.

Lowest Pricing: If you are entering into a competitive market, you may need to offer your products at lower prices compared to competitors in order to attract the customers. It may mean lower margins or even selling products/services at lower than your cost. In this case, you would hope to make money once the sales grow and you are able to retain a reasonable market share with your rising prices.

While this could be a pricing strategy to enter into a competitive market place, limitation of this form of pricing is that your cash flows could be negative (if selling lower than the cost) and you would need deep pockets to sustain the business. This situation can be detrimental if the business is not adequately funded or the sales/revenues don't increase as desired, when you raise your prices.

Differential Pricing: If you are offering a unique experience through a differentiated product/service, you may price it substantially higher than your cost. Higher pricing may be supported by the unique experience customers are having and also by the fact that customers do not have any pricing benchmark in their minds.

Appropriate pricing methodology would, hopefully, ensure that business clicks. With sales, there would be cash flows. Let us go forward to managing receivables.

Focus on Receivables: Businesses don't essentially do cash sales. Many a times, they use credit sales as a tool for sales promotion, which may enhance firms' overall revenues and margins. However, **credit sales, if not judiciously done, may bring the business down in no time.** It is a common knowledge that new businesses attract some buyers, who are defaulters to existing businesses (competitors) and not able to purchase on credit. Therefore, if the businessman does not apply care and caution in giving credit to his customers, he may get trapped in bad debts (debtors not paying).

While certain credit may be essential to any business, a businessman must ask following questions before allowing credit:

- Will there be no sale if I do not allow credit?
- Is the buyer credit-worthy?
- Is the amount of credit too high for the buyer?
- What is the duration of credit period?
- Considering the cost of investment, is the deal worth?
- What is cost of collection?

An entrepreneur may use combination of following methods to ensure collection within time:

- Collect Post Dated Cheques in advance
- Take some collateral securities
- Continuous follow up over phone and/or in person

The most important aspect of receivable management is discipline by the businessman. The discipline required is to adhere to the decided credit policy and setting up timely reminders for collections. The entrepreneur also needs to be able to differentiate between the excuses and genuine reasons, given by the debtors, in case of delay. Cash is king to the business and the kingdom of business cannot survive long if the king is missing for a long duration.

Plan for cash deficits: As explained earlier, **cash deficits may arise in business any time, if receivables fall short of expectation and/or unforeseen cash outflows come up.** Certain ways to tackle cash deficits are:

- Overdraft and cash credit facility by Banks
- Family, friends and business network for short term loans
- Extension of credit by creditors
- Advance from customers etc.

Further, **it is important for a businessman to identify whether the deficit is temporary or permanent in nature.** Above mentioned solutions will be helpful in temporary situations only. If deficit is for a sustained period of time, businessman may need to think of capital infusion or revision of his credit policy and/or better receivable management.

Deploy cash surplus prudently to generate returns: When the business is running smooth and generating profits, additional cash will be generated assuming receivables are in order/good shape. In such scenario, **entrepreneur needs to ensure that the additional cash does not remain idle and is invested to bring in additional returns.**

Like cash deficit, it is also important to identify whether the cash surplus is temporary or long term in nature. The investment options will differ in case of both the scenarios.

Options to deploy Temporary Cash Surplus	Options to deploy Cash Surplus over a longer period
Increase inventory	Add additional range of products
Pay off creditors before due date and avail discounts	Increase sales through attracting new customers on credit sales
Give advance to creditors and command cash discounts	Pay off long term loans partially or in full
Invest in short term bonds or liquid securities with a maturity period of 3-6 months.	Invest in long term investment avenues
Pay off upcoming expenses(if discounts are available)	Invest funds in research and development

Pay attention to Liquidity: Liquidity in a business means cash or cash equivalent available to the businessman. This liquidity is crucial to any entrepreneur as it brings the following advantages:

- Liquidity allows the businessman to pay of the creditors in time and build trust, which in turn helps him become the preferred client of vendor
- This preference ensures reliable uninterrupted supply of materials/services to the business
- This reliability enables him to provide uninterrupted support to his customers in different seasons or cycles of business
- Enhanced trust of customers ultimately results in higher sales/revenues
- Liquidity also allows the businessman to tap the opportunities in a short-term window (For example, availability of bulk goods at a discount against cash payments, exclusive agreements with suppliers against cash payments or payment in advance)

One of the most important but intangible benefits of liquidity is that it gives the businessman the peace of mind to focus upon core functions instead of fund management.

Record all inflows and outflows: An entrepreneur must ensure that all the inflows and outflows of goods and cash are properly recorded. This record keeping would demand the following:

- All the expenses are paid against vouchers and bills
- Invoice is generated for each and every sales
- Debit and credit notes are prepared for return of goods
- Receipts and payments are duly accounted
- Receipts and Payments to be made via cheque or bank transfer to avoid cash to the extent possible

If the businessman feels that he lacks time or skills to do these functions, he may **take the help of an accountant on a part time/full time basis, depending on his need.** The use of computer and software in business ensures quick and accurate record keeping of the transactions, safety of the data recorded and quick retrieval of the information as and when required. **At initial stage of business, records can be maintained in the notebooks or on excel as well.**

Differentiate between Business and Personal Finance: Let us go over a small story. Usman started a small shoe store in a market of Aurangabad. As a proprietor, he ran business for one year with help of 2 employees, recording every transaction during the year. At the end of the year, he found that his expenses are more (by Rs 1.5 Lacs) than his revenues. He could not believe this as he had a feeling that business was doing well and it should have shown some good profit. He was in dilemma now, whether to continue or not. Confused and worried, he went to his uncle, who had a successful shoe business for past 25 years and had advised him to start the same.

His uncle listened to him and then asked him to show the accounts – list of all income and expenses during the year. The sales figures were good for a new store and he knew that Usman was a sharp boy. Once he checked the expenditures list, few things came to his notice:

- An expense of Rs. 1,00,000 towards haj pilgrimage for Usman's mother was mentioned as expense
- School and tuition fee of Rs. 25,000 each for two kids of Usman amounting Rs. 50,000 was another expense
- Usman had withdrawn Rs. 25,000 per month totaling Rs. 3,00,000 during the year for household expenses
- Insurance premium of vehicle, self and family (including medi-claim) amounted to Rs. 50,000.

With a smile and ever assuring voice, uncle told Usman – "Your business has made a profit. It is your personal expenditures and special drawings, which are recorded as expenses, giving you a wrong picture."

"But Uncle", Usman argued, "These expenses are necessary and are mine only. Haj expenses can be considered aberration but rest others are going to happen every year."

"There is a difference between business expenses and personal expenses. If you reconsider the above amounts as personal expenses, the business has given you a profit of Rs. 3.5Lacs. (Add all the personal expenses and subtract the loss). You need to decide whether this profit is fine with you or not. You may withdraw/spend as much amount from business as you wish, but, you cannot consider them as expenses for business." Uncle argued.

The above example illustrates the most common error of accounting made by micro entrepreneurs i.e. to mix personal and business expenses. **Intentionally or unintentionally, many entrepreneurs account personal expenses as business expenses. It is not only wrong from accounting perspective; even legally it is not allowed by income tax act.**

One thing **entrepreneurs must know and fully comprehend that business is an independent legal entity (different from proprietor/partners).** Indeed, capital introduced by entrepreneurs is also a liability to the business, which is payable back in case of its winding up. Similarly, expenses of business and personal needs to be segregated.

Prepare Profit and Loss statement and balance sheet every year: A businessman must prepare profit and loss statement and balance sheet (called together "Financial Statements") every year. These two statements are mirror of business performance during the period under consideration. Careful analysis of a profit and loss statement also helps a businessman in following ways:

- P&L statement shows the gross profit and net profit (sometimes loss) earned during the year.
- Every head of income and expense (in total) shows the contribution of individual sales/cost items to total sales/cost. For example, what is the total travelling/printing/salary cost of the business for the entire year?
- While preparing P&L, every account needs to be reviewed for balancing figures. This enables the businessman to review creditors, debtors and inventory account in detail to determine further action with them.
- Comparison of last year's figures with current year's figure helps in knowing whether the progress was made compared to the previous year or not.
- It also helps to know, whether the profit or loss for the entrepreneur is due to other income or due to core business activities.

Similarly, a balance sheet which shows the position of assets and liabilities on the given day, helps the businessman understand his strengths and weaknesses. Learnings from a balance sheet can be as follows:

- Total assets of the business
- Advise on applicability of tax
- On time filing of returns
- Total liabilities of the business
- Cash position of the company (total of cash and bank balance + debtors and short term investments)
- Total amount invested in fixed assets and their current depreciated value
- Creditors and external borrowings, which are to be repaid
- Capital employed in the business by proprietor/partners

Generally, accounting is done as per double entry book keeping system, however, if the businessman is unaware of doing the same, he can keep the records as per single entry system as well. **It may be prudent to hire some part time accountant for record keeping purpose.**

File statutory Returns on time: A businessman or a professional has to comply with the law of land and needs to file statutory returns (statement of particular details) to various authorities. Some of the returns are described below:

- **Income Tax Returns:** Any Indian or a person working in India and generating income in any form (salary, fees, business or windfall) has to file a statement detailing his income and expenditure (applicable to business or profession) during the year. This statement is called Income Tax return and is used to calculate the tax liability of the person. An entrepreneur needs to file it annually.
- **VAT Returns:** VAT is applicable for the entrepreneurs involved in trading of goods and services within the country.
- **Excise:** Excise is an indirect tax levied on manufacturers in India and is calculated as per the prevailing rates for the category of the goods and value of the goods produced.
- **Custom Duty:** Custom charges or import/export duty is applicable for businessman, who import/export goods from/to other countries.
- **Service Tax:** Service tax is levied on all the professionals and other service providers of the country with income more than a specified slab.

While the Income tax returns are compulsory for every entrepreneur, other returns are to be filed as applicable. It is best advised that every entrepreneur should take the help of a professional chartered accountant to file applicable returns. There could be several advantages of appointing a professional on the subject:

- Calculation of the precise amount as payable
- Calculation of tax credits and refunds
- Suggestion for ways to reduce tax liability

Timely and right filings of statutory returns is critical for avoiding any regulatory issues. This could be time consuming and costly, but non-compliances could be a lot more costly for any business. Businessman should consider these filings as an opportunity to get organized better, which is anyway critical for long term survival and growth of any business.

Take appropriate Insurance: "Belief in God and self is important but not planning for contingencies can result in disasters". The world around any entrepreneur is dynamic and is changing every second. Environmental factors, political turmoil, war and accidents and numerous similar incidents can happen any time and no business can remain immune to these situations. However, as a shrewd businessman you should anticipate the worst-case scenario and prepare your venture for it.

Insurance is one of the tools, which are used as a safeguard in business. Crop failure, theft of goods, accidents at plant or warehouse, loss of key employees/partners, drought or flood, fire and earthquake are some of the instances, which can bring huge loss to the business. To recover from the same, large amount of funds are required on urgent basis and if the same is not available, the entire business can come down.

There are various types of insurance available which an entrepreneur must consider. Few examples are as follows:

- Crop and Livestock insurance
- Keyman Insurance
- Theft/Burglary/Fire Insurance
- Goods in transit Insurance
- Indemnity insurance against service failures
- Third party loss insurance etc.

Details regarding the suitable insurance for your business should be taken from the agents/officers or websites of the insurance companies. Various terms and conditions need to be clearly understood before taking any insurance policies. **A small premium cost can save the business in case of eventualities and is always worth the cost.**

To summarize, we can say that it is not sufficient for an entrepreneur to excel in core skills only. Business is much more than core skills and financial prudence is its essential aspect. Factors like capital infusion, pricing, accounting, tax compliance and insurance have to be given due consideration and related decisions should be part of the overall business plan. **Understanding financial aspect is as important as understanding other business aspects – products, processes, customers, people etc.**

May financial prudence be with you, always!



Chapter 10

Charting out A Growth Trajectory

CHARTING OUT A GROWTH TRAJECTORY

You explored opportunities, started with an idea, worked hard on that, built product and team, reached out to customers with a value proposition and now business is running smooth. What a relief! Indeed, a good feeling of success. Do you stop here and live comfortably or explore opportunity to grow? Unfortunately or fortunately, a human being remains fit and active only till his internal growth is intact; as soon as growth stops, we start our journey towards death. Similarly, a business, which is not growing is a sign that there are problems with business and if not dealt with immediately, closure is nearby. Traditional school of thoughts have described the cycle of business in four stages:

1. Survival

This is the first stage of business and can also be termed as inception stage. When an entrepreneur starts a business, pooling in his resources, his first task is to ensure that it survives the initial periods. In this period, revenues are expected to be low (but growing) and profit may or may not happen. While there is no set period for survival stage, thumb rule can be taken as 1000 Days (followed by one of the most prominent business community in India) from the commencement of business. Logic behind 1000 days principle is that it is a long enough period to check whether your business returns are sustainable or not. 1000 days cover almost all seasons more than 3 times, giving entrepreneur enough time to do course correction and make a final decision.

2. Growth

This is the second stage of business. Once the business is set, brand name of the product or goodwill of the businessman is established, business can look to expand or scale up the activity. Business increases in size, volume and geography and it gets more stable.

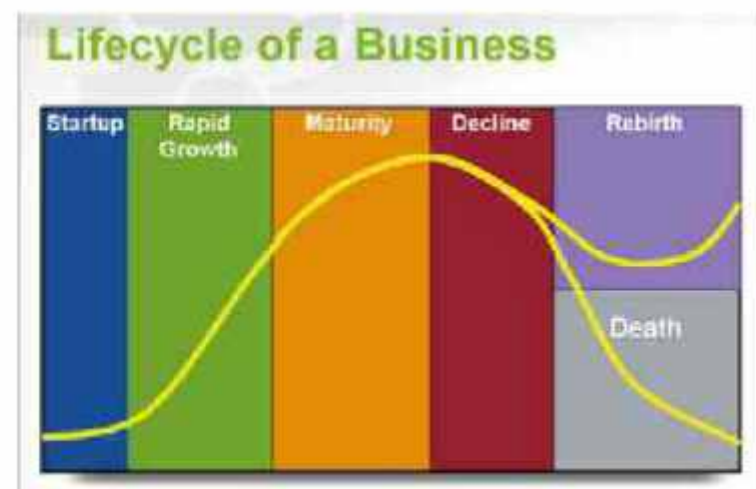
3. Maturity

In maturity stage, growth opportunities for the business start reducing and it almost runs on auto pilot. The focus of the businessman is to milk the market as much as possible before becoming obsolete or changing the course of business.

4. Decline

If the business is not able to find new avenues for growth, while the competitors start competing to get a better share of a stagnant market, the business starts declining. The decline can be due to lack of demand or availability of a substitute at a much lower price.

However, this need not be the end always. The timely intervention and course correction by the entrepreneur (business owner) can lead to the "rebirth" of the enterprise and flourish in some other area of business activity. Failure to do so, may lead to a certain "death" (either a takeover or an insolvency/bankruptcy filing or winding up of the business).



In this chapter, we deal with the growth paradigms of a business.

Indicators of growth

The growth of a business can be defined and measured in different ways, few of them are illustrated below:

- **Increase in total turnover of business:** Turnover means sales (Revenues). If total turnover of your business has increased compared to previous month/year or any consistent comparing period (for example: same quarter/month of the last year), it indicates that the business is growing. Generally, growth is measured in % growth over the preceding comparative period.

There is no set standard, which confirms that the X% growth achieved is healthy or not as this data is to be read along with other figures like the growth rate of the industry, growth rate of your competitors and your own growth rate during the earlier periods.

- **Increase in total volume of sales:** Assume, you are in gold jewellery retail sales and your total turnover has increase to Rs 2 Crore in 2012 from Rs 1.5 Crore in 2011. In % terms, this is approximately 33% growth compared to previous year's figures. However, if you were to be informed that gold prices during this year increased by more than 50%, you will find that the actual quantity of gold sold in this year is 15% less than that of previous year.

Effectively, it means, sales have actually dropped compared to last year. Growth of volume is as important indicator and gives a true picture in terms of increase/decrease in demand of the product/service. Increase in volume is always a healthy sign of growing demand for the product/service.

- **Increase in total profits:** Margin, profit or bottom line, whatever we may decide to call it, is an important parameter to measure the performance of business. Growth in profit often indicates a healthy condition of the business. One should also see whether this growth in profit is with increasing revenues or with decreasing revenues.

- **Same turnover/volume in a decreasing industry:** If the overall market is not favorable (For example, quarter of demonetization) but the turnover of your business has remained same or decreased only slightly, it indicates that your business operations are effective and reliable.

Apart from the above, there are growth indicators such as increase in number of employees, increase in capital/current assets, increase in material consumption etc. but they are not very relevant in context of a micro entrepreneur, therefore, we have avoided details of the same in this chapter.

You may have question on where to get the information on industry and other businesses (competitors). Industry data is available in various publications - newspapers, financial magazines, industry publications and online research databases. Data of other similar businesses, particularly small entrepreneurial ventures is difficult to obtain as it is not published. However, you can purchase their filed income tax returns copies from websites like Zauba Corp and Tofler at a small price. Ministry of Corporate Affairs (MCA) website also provides data on registered companies.

Why is growth necessary in a business?

As stated before, growth is the very nature of human psychology. From business perspective, growth may be required because of following reasons:

To survive

If we look around in our environment, we will understand that small creatures and plants generally have the shortest life span. They carry the risk of being eaten/crushed over by giants. Similarly, small businesses also have the risk of being bulldozed by the bigger players. It is easy to start a micro business but unless it grows to a decent size, the survival will always be uncertain.

- **To achieve operational efficiency (Economies of scale):** If you grow your business, you enjoy economies of scale. Your purchasing power increases as you can buy and store in bulk quantities and you can command better discount and favorable credit terms from your suppliers. With the same set of manpower resources, more operations can also be handled. The storage space and other resources are also utilized to capacity resulting in increase in profit without increase in fixed cost.
- **To take on competitors:** In any open economy, if you have a business with good profits, be rest assured, competitors will come and will force you to reduce your margins. Unless you have grown in size with first mover advantage, competing with new entrants will be challenging for your business. Even if your business is not new, competition levels will keep increasing and only if you are of reasonable scale and efficiency levels, you will be able to survive in the market.
- **To mitigate Inflation:** Inflation is a reality of any economy and to an extent a need also. The prices of inputs keep increasing because of inflationary pressures. In a competitive market, it will not be easy for you to pass on the burden of the increased cost to customers. So, if your volume doesn't increase, decreasing profit margin will put pressure on your overall profits.
- **Win confidence of society:** If your business has survived few cycles, shows continuous profit and is increasing in terms of turnover and manpower, it earns goodwill in the society. People start showing confidence in the business and it can enjoy better support (in terms of availability of resources, capital, manpower etc.) from the society.
- **To meet increasing personal expenses:** If you are a micro entrepreneur and have started business with limited resources, you must have put in all your expenses which were not urgent in nature, for future. However, these expenses cannot be avoided forever. Increasing age, increasing family size, rise in standard of living expenses, coupled with inflation, the need for higher income rises and can only be met by growing business.

With above illustrations, it is clear that any business, small or big in nature must focus towards growth as growth is not a desired state but a necessary condition for the business and businessman to sustain in long term.

When to look for growth?

Now that we have understood growth and defined it for our understanding, it is imperative for an entrepreneur to understand when he should look to grow his business. It becomes all the more important for a micro entrepreneur as his resources are extremely limited and growth stage requires investment on the part of entrepreneur into new capabilities and resources. If expansion of business is not well planned/thought off, business may get into trouble. If you make the investment, while the business is not ready and capable, returns on investment will not be desired and the entire efforts may become futile. On the other side, a delayed investment means a loss of opportunity and inadequate returns, when the actual investment is made.

While embarking on the growth journey, micro entrepreneur needs to observe and behave like a "Lion in hunt". In spite of being hungry, it will not rush towards a target in a hurry; the lion will spot the target, follow the target for some time, run towards it and then will take a leap to grab it. Applying similar analogy to business growth, micro entrepreneur also needs to identify areas of growth, follow them up collecting more information, analyze own strengths and weaknesses to be able to address the opportunity, build an action plan and capacity to expand (run up) and then take the leap of growth.

Even before you start thinking of growth, slow down and check whether you are really ready for the growth journey. Answering following questions, honestly, will help you in deciding the same:

- How old is your business?
- Are your products/services established and stable now?
- How many customers have you been able to serve (total no of individual customers) at least once over your entrepreneurial journey?

- How many of your customers are repeat customers?
- Why are the customers coming back (or not coming back) to you?
- What is the feedback from customers on your product/service offerings in relation to quality, price, presale and after sale service? If feedback is negative, have corrective actions been taken to fix the issues?
- Have you tasted profits?
- Is your operating cash flow positive (as explained earlier, profit and positive cash flows are not the same)?
- Is your business cyclical? (Yes/no). If yes, what is the time gap between two cycles and how many cycles of business have you seen?
- Is your competitor's business bigger in size/scale?
- What are your unique selling propositions (USPs) and/or differentiators- quality, price, personalized service, network, brand etc?
- Do you have reliable suppliers/vendors to support the growth?
- Are your operations efficient? Is there any advantage in operational efficiency if you scale up the activities of business?
- Will you be able to raise finances required for growth?
- Do you have a reliable partner/manager in the business ?
- Are your employees reliable (technically and otherwise)?
- Will the new talent (technical or managerial) be available which might be required in case of expansion of business?
- How much of your time is required by your existing business? Is your business running on auto pilot or requires too much of your time?
- Are you complying with all the rules and regulations of the law of the land and will you be able to adopt a governance model, which will be effective in case of growth?
- There are various stakeholders in a business like, Customers, Employees, Vendors, Lenders, government authorities and society as a whole; how much reputation do you enjoy amongst these stakeholders?

Above questions will help you understand your preparedness for growth journey. Further, what is the reason for you to chase growth should also be clear to you. This question should be answered clearly before you embark on the growth path. Do not plan growth just because everyone says so. Business of a higher scale requires a lot more energy and drive on part of the entrepreneur and if the motivation to put in hard work and effort is lacking, the growth plan is likely to fail in spite of availability of all other resources.

Where to look for growth?

Once you have established that required ingredients for growth are there, the next step in the growth plan is spotting the opportunity for growth. Some of the idea sources are:

- **Listen to your customers:** Customers are your biggest source of information and intelligence. They know exactly what they are looking for, have better information on how good or bad your product is, what alternatives are available in the market and their respective performance and what their wish from you is. If someone gives proper attention to customer feedback, he/she will find numerous opportunities and ways to grow.

For example, a new small restaurant near airport in New York serving fast food and dining options got most of their orders for quick bites (fast food) and that too for take away options. Upon close observation, business realized that the air travelers didn't like the food provided by the airlines and opted to carry their own food or have it just before flight. This information opened them the opportunity to become a catering supplier to various airlines and become successful. Subsequently, the same business became one of the biggest names in the hospitality industry called **Marriot Group**.

One important thing you always need to keep in mind is that your happy and regular customers will give you good information but your unhappy customers should be your biggest source of market intelligence. People generally do not like to spend much time with customers, whom they could not serve or who have left them for some other option, but, those customers can give valuable feedback on how to improve products/offering as they have information of your competitors as well.

- **Observe Competitors:** As explained in previous chapters, competition is omnipresent (present everywhere). If not in direct form, then, it will be in indirect form. Fortunately or unfortunately, your competitors are also facing similar challenges as you and their objective is also to grow. Therefore, if you observe few of your competitors as to what steps they are taking in their business, you will have crucial information for your decision making.

Some of the key things to be observed of a competitor are as follows:

- New clients/projects added
 - New arrivals in inventory
 - Change in display/layout of the premises
 - Addition/modification of services in their existing offerings (Eg: free delivery, credit/EMI, Own/Lease etc.)
 - Discounts and other schemes announced
 - Common customer's comments about them
- **General Market Intelligence:** In this era of easy access and high penetration of technology, right information is the key. You must be aware of the changes happening in and around your market, the way people have started changing their buying behaviors, new products etc. This information allows you to move quickly and better your offering to your customers. If done judiciously, growth can be easily achieved by continuously improving yourself.

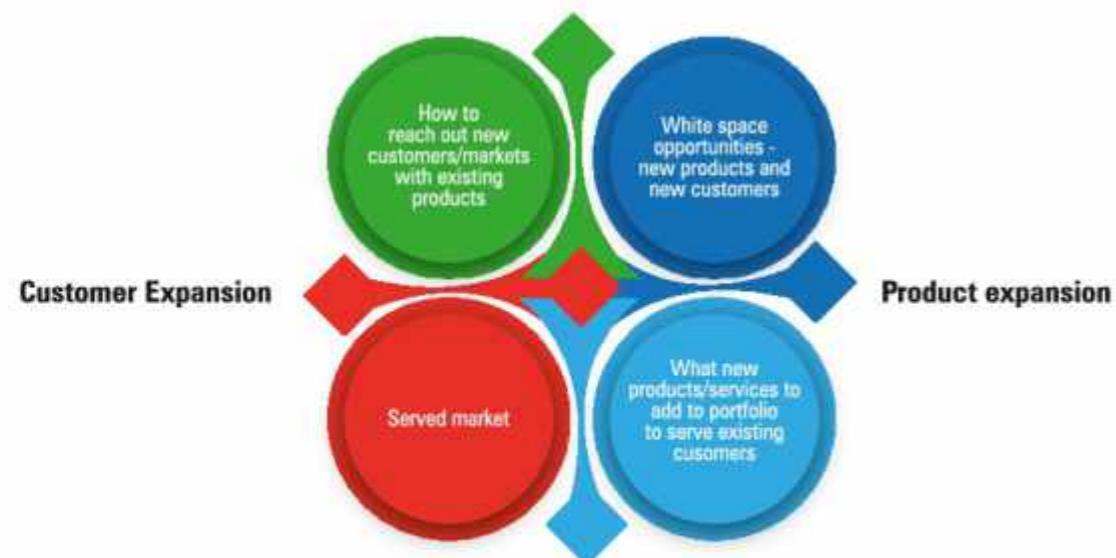
Subscribing to industry magazines may keep you updated in latest happening and business opportunities. For example, if you are a vendor to construction projects, subscription to online project alert will give you list of upcoming projects. Such information is useful in quickly approaching your potential customers for the business. This can help you grow your business.

Validate your information (inputs) for growth opportunities (Follow the Target): Once you have gathered any information where a competition is lacking or some other technological advancement in the industry, before you start developing plan for growth, validate your inputs with some more information. Some of the questions, you must ask regarding the inputs are as follows:

- Have you collected the information personally or is it hearsay?
- How reliable is your source of information?
- How many sources can substantiate the information?
- Is there anyone, who is also working on your information (please remember that most likely the information available to you will also be available to your competitors and they are also equally smart and hungry for growth). Check how are they reacting.
- Are there customers for your proposed plans and whether they would pay for the products/services?

How to grow - Product/customer matrix

Once you have established that there exists a growth opportunity, you need to decide how would you like to grow. Broadly there are only two ways to grow – customer expansion and product expansion:



- **Expand product/service offerings:** Expanding product/service offering to existing customers may be simple approach, you may like to adopt to grow your business. When customers are difficult to acquire, this approach could be an interesting one. If you have existing customers and may offer them with additional products/services, may be easier for you to grow your business.

For example, if you are a retail shopkeeper operating in a local vicinity, you can grow by adding more products to your inventory. Customers, who are satisfied and loyal with you are more likely to make additional purchases from you. If you are in business of children's clothes, you may add ladies' garment to the shop. Ladies are the buyers for garments for kids and they may tend to purchase something for themselves as well, if they are happy with your products for their children. Addition in your offerings will not only have existing customers buying more but will also attract new customers to your store. Please note that added products/services could be related or completely unrelated. However, they should serve to the needs of the potential customers.

Another example is that in rural areas and small towns, you will find that your local cable operator will be offering you mobile and DTH recharge and may also have a small shop for mobile repairing. Similarly, a fruit vendor adding vegetables into his cart/shop and further adding dry fruits is an example of expanding product offerings to ensure he/she gets the higher share of the pocket of the limited customers he caters to.

- **Expand customer base:** In a free economy, customers are never permanently loyal to you. As soon as they find a better alternative (better price, product or experience), they will leave you. Therefore, it is important that you keep expanding your customer base. This can be done in various ways, few of which are given below:

- The existing market in which you are operating, target to expand customers (footfall or subscriptions etc). This is generally achieved by more publicity, reduction in prices, giving discounts and other similar promotional schemes.

- If the existing market is stretched/optimized in your opinion, then, you can look to expand your geographical reach. For example, if you feel, you can have only a limited number of customers in a particular town, you can start operating in different towns. You can see that businesses start exporting their produce, if the demand in local market falls and they do not get a proper price/margin.

It may please be noted that above two approaches are not mutually exclusive and can be used in a combination also. All your other activities initiated to improve your services/offering are part of the above two approaches only. For example, if you change the appearance of your store or website, you want more footfalls. Any experiential service provided like free delivery, fun at store etc. is to ensure customer satisfaction and gather loyalty from existing customer and references for more customers to come to store.

How to approach growth?

Once the decision to grow is made and approach to growth is decided (product/customer expansion or both), the businessman needs to make plans (Run up to the hunt) and build capacities to handle growth. Unplanned growth can lead to inefficiency and ineffectiveness and ultimately losses and closure of business. It is important to plan well to ensure success and growth. Remember the quote: "If you fail to plan, you plan to fail."

The first step in the run up to growth is to identify and quantify the resources needed:

- **Physical resources:** If you are planning expansion of a shop, addition of inventory to the current offerings, you will need space for storage and display. If addition of products increases footfall of customers, more space will be needed to serve them. The size of shop, specification or dimensions, furniture, convenience to customers etc. are various factors, which need to be considered while planning physical resources.

If you are a small Business Process Outsourcing (BPO) business looking to scale up, you will need space, furniture and systems (computers, phone etc.) to enable more number of employees to operate. Availability of electricity, internet etc. also needs to be carefully looked into.

- **Manpower Resources:** Every human being has a time limitation for which he can work. On individual basis, a micro entrepreneur can only put in a limited number of hours into work. If he wishes to expand, particularly outside local vicinity, he will need human support. The businessman can get this support through employment, joint venture or partnership. However, adding a partner is a double edged sword as it can risk the entire business, if not done properly. In case of employees, hiring, retaining and monitoring becomes a challenge. This gets more complex, in case the manpower requirement is technical in nature and local vicinity does not have sufficient educational institutes to support it.
- **Financial Resources:** Every expansion has a cost and needs investment. A businessman must estimate the investment required for growth in terms of physical resources, human resources and cost of developing market for products/services. Provision for working capital also has to be made for new inventory, operating costs, credit to customers etc. The margin of safety for the estimates can also be added in order to avoid last minute hiccups. The amount so quantified must be available to the entrepreneur at a reasonable cost to expand the business.

The growth plan prepared by you has to be divided further into sub plans, jotted down to specific tasks. These tasks have to be set in a priority order and scheduled accordingly.

For example, installing a production machine has various tasks like selecting and procuring one, getting license, training in house people or hiring a trained operator, raising finance for the same, fixing a location for the machine and further logistical requirements needs to be finalized. All these actions would demand thinking and planning.

Similarly, if you are planning to expand in multiple locations in a year, you will need to plan as to how many stores/branches you will add every month/quarter, what would be resource requirement, where would these resources come from and how will you support and monitor the expansion.

Once the planning is finished, it is advised to quickly act on it (Final Leap to kill). All the activities decided have to be started and finished at the earliest to have the advantage of time. Time is essential and if saved, gives you a lead ahead of competitors.

What are risks in growth path?

As all the above planning is based on estimates made by the entrepreneur, he carries risk of not being right and needs to check on the potential dangers to which his business can succumb. Following highlights some of the potential risks in the business:

- **Risk of lack of demand:** The demand estimated by the businessman may be inflated or wrongly calculated. Lower demand may pose challenges to the expansion plan.
- **Unavailability of resources:** Resources, Physical and managerial may or may not be available at the same time.
- **Acquiring wrong resource:** If you lack the technical skill to check a highly complex machine, you might end up paying for something, which is much more than your actual requirement, might hire a inferior technical person at a wrong cost and all this may result in higher cost or lack of customer satisfaction.
- **Risk of borrowing too much:** If you rely too much on borrowed capital, you have the risk of getting into debt trap. Borrowed capital has a fixed cost of interest and it has to be repaid in a fixed time. The EMIs can have a pressure on the cash flow and might force the businessman to borrow more just to ensure adherence to repayment schedule. The additional cost eats into the profit margin and puts more stress on businessman.
- **Risk of Competition:** If you decide to expand your shop and add cost of land and labor, your competitor might decide to do the same and may nullify your advantage gained. Competition may also react by reducing prices in order to retain its market share and clients.
- **Risk of Technological Disruption:** In this continued age of technological advancement, we might see lot of jobs evaporate as automation has come in. For example, support vendors of all auto petrol/diesel cars will face serious challenges if electric cars become successful and cost efficient.

To conclude, growth path should be adopted by micro businesses carefully. It is critical to first stabilize the existing business before starting on any growth journey, otherwise, you may even jeopardize your existing business. Spending time identifying opportunities, analyzing them carefully, planning your resources and then executing in a seamless manner should be the approach. Also, with changing times, one would have to continuously change to stay relevant to the requirements of the customers. It is relevant to quote here "To go faster, one has to go slower".

Wish you a great growth journey!



Chapter 11

**Successful Entrepreneur
case Prem Ganapathy**

SUCCESSFUL ENTREPRENEUR CASE 1 – PREM GANAPATHY

Prem Ganapathy came to Mumbai for a job, when the person accompanying him from Chennai disappeared leaving him at Bandra station. Prem had no acquaintances, moreover, he did not know the language. One fellow Tamilian took pity on him and guided him to a temple and appealed to the sympathizers there to contribute money for his return ticket to Chennai.

But, Prem refused to go back and decided to work in Mumbai and started cleaning utensils in a restaurant. He appealed to his owner to let him become a waiter as he was class 10th pass. The owner refused because of regional politics and Prem bided his time till a neighbourhood dosa restaurant opened and offered Prem a job from a dishwasher to a tea boy.

Lesson – No situation is bad enough to prevent a person from bettering it. It requires diligence and positive attitude.

Prem became a huge hit with the customers because of his excellent customer service, initiatives and relationship and brought business of Rs. 1000 daily, almost 3 times to other tea boys. The life was good.

A customer made him an offer. He was planning to open a tea shop in Vashi in Mumbai. He wanted Prem to be his 50-50 partner, where the owner would invest the money, while Prem would run the shop. The shop started doing brisk business, when the owner became greedy. It hurt him to share 50% of the profit with Prem and he threw Prem out replacing with an employee.

Prem was made of different material and was never going to be defeated. He took a small loan from his uncle and opened his own tea stall. Unfortunately, the neighborhood residents objected. He then started a hand cart but that also did not work out. A bit disappointed, he found another spot and set up the south Indian stall. He did not know a thing about dosas and idli but learnt by observation and trial and error. The dosa stall was a huge hit and flourished in 5 years from 1992-1997. But, why was the tiny dosa stall so successful in spite of competition from ubiquitous Udipi eateries prevalent in Mumbai. According to Prem, it was its hygiene, proper appearances of the waiters and fresh ingredients, which stood out as a difference.

Lesson- if you are sincere, determined and patient, success will come to you.

He saved a couple of lakhs of Rupees and instead of saving and heading home, he took the biggest gamble of his life and opened a new shop near Vashi station and named it as "Dosa Plaza".

He also tried opening the Chinese plaza next to the Dosa Plaza, but, it flopped miserably and was shut down in 3 months. Undaunted, Prem realized that he at least learnt some lessons from it. He applied those lessons in making Chinese cuisine in his dosas, which worked very well. He got passionate and invented variety of dosas with Chinese style like American Chopsuey, Schezwan dosa, Paneer chilly, Spring roll dosa etc. The 108 types of Dosas in his menu gets him a lot of publicity.

A chance encounter with a customer, who was part of the team setting up a food court in a mall in New Bombay advised him to take a stall in the food court and again, Prem was ready and willing to grow and expand. His vision was to grow by better offerings and better customer service. He also went to an ad agencies to create the brand identity including the logo, brands, menu card, waiters dress etc.

Lesson - Focus and sacrifice for goals and an open mind will give you immense return.

He started getting lot of offers for franchising and had to find out the meaning of franchising and its modus operandi. To date, Dosa Plaza operates 45 outlets in India and seven international outlets in three countries i.e. the UAE, Oman and New Zealand. All the branches are connected and networked and there are training managers and proper manuals to maintain standard and uniform products and services.

Merit is the only criteria at Dosa Plaza and all the employees, regardless of the caste or region, are treated equally. They are loyal and have grown with the company. The original team of cooks, which was the part of first Dosa venture is still with Prem. Currently, he is also getting enquiries from US and Europe for franchisees.

Lesson - There can be millions of Prem Ganapathy. The only constraint exists in our mind. If we are willing to slug it out, success will come for sure.

Note - Credit of this story goes to <https://amritham99.wordpress.com/2011/11/03/dosa-plaza-success-story/>

Successful Entrepreneur Case 2 - Ramesh Babu

Leonard Willoughby said, "As you begin to live according to your own guidance and your own daring everything changes completely". Ramesh Babu, the barber, who became a millionaire, did exactly this when he was shaping his dazzling destiny. Stories of personal perseverance, the ones, where heroes overcome severe obstacles and achieve dizzying heights of success, have been around since the beginning of time, but, they never get old. They inspire us and inflame our passions, making us believe that we too can follow suit. **Ramesh Babu bought a Maruti Van with his meagre savings in 1994. By 2004, he had a fledgling car rental business with seven regular cars. In 2014, he has a fleet of 200 cars.** What is even more extraordinary is the 75 luxury cars on the fleet- a range of Mercedes, BMW's, Audi's, five and ten seater luxury vans and, his ultimate pride, a Rolls Royce.



Much of Ramesh Babu's early life was spent in a struggle for survival. Now, ensconced in the lap of success, he remains true to the vocation of his heart- a barber. Babu took up to sniping locks in high school, a profession, he inherited from his father, to keep his family afloat. It is one that, even now, he does with great aplomb. He charges only hundred rupees for his services. He has been featured in television channels and newspapers all over the country. His phenomenal success coupled with his disarming humility has earned him the moniker, 'Millionaire Barber'. It is the title, he used while giving a TED talk earlier this year. This has made him something of an urban legend. Here Ramesh Babu, the Millionaire Barber, shares his utterly inspiring story.

Difficult Beginnings:

I was born in a poor family. My father was a barber. He passed away in 1979, when I was just seven years old. My mother started working as a maid servant to make ends meet. My father had left behind a saloon business on Brigade road, which my uncle took to running. He would give us five rupees a day from that. Five rupees, even in those days a pittance, was too less to see to me and my brother and sister's physical and educational needs. We took to having one

meal a day so that we could survive. When I was in middle school, I took up various odd jobs to make a little extra cash. I would deliver newspapers and milk bottles and whatever else was convenient to ease my mother's load a bit. This way, I somehow managed to finish my tenth standard and continued my studies.

Breaking Point

Sometime in the nineties, my mother had a bitter fight with my uncle. He had simply stopped paying us any money. I told her, I should take over the saloon and run it myself. She was adamant that I prioritize my education, but, I started working at the salon too and learning the ropes of the business. In the mornings, I would be at the salon and evenings at college. Then again at night, I would return to the salon, which would remain open till 1 in the morning. Since then, I have been called a barber.

Breakthrough Idea

Later in 1993, I bought a used Maruti van. My uncle had bought a small car and petty pride made me buy one too. I pooled my tiny savings, took a loan and felt grim satisfaction at having bought a marginally grander vehicle than him. My grandfather had to mortgage his property to enable the loan. The loan interest was six thousand and eight hundred rupees and it was quite difficult to make this payment.

The lady, whose house my mother used to work at, Nandini akka as I like to call her, asked me - Why I don't rent out the car instead of it just lying around. She taught me the basics of doing this kind of business. She became like a sister to me and remains a big part of my life even today.

Building a successful business:

From 1994 onward, I seriously got into the car rental business. The first company I rented my car out to was Intel because that's where Nandini akka was working and she helped me to arrange it. Gradually, I started adding more cars to the fleet. Till 2004, I only had about five to six cars. I was focused on getting the salon business off the ground, so this was not my priority. The business was not doing well as the competition at this level was intense. Everyone had small cars. I thought of getting into luxury cars because that is something no one else was doing.

On Taking Risks:

When I was buying my first luxury car, in 2004, everyone told me that I was making a big mistake. Forty lakhs in 2004 for a car, even a luxury car, was a very big deal. I was extremely apprehensive, but simply had to take the chance. I told myself that I would sell off the car if worse came to worst. Fortunately for me, the risk paid off remarkably. No other car rental service had luxury cars of this stature. There were ones, who had purchased second hand models and the conditions of those cars were far from pristine. I was the first person in Bangalore to invest in a brand new luxury car and it did very well.



Lesson - If you want to do business, you must be willing to take risks.

When I bought my Rolls Royce in 2011, people warned me about the scope of failures against buying such a tremendously expensive car. I told myself that I had taken a risk in 2004, why can't I take one again almost a decade later? It cost me almost four crore rupees. But once again, it was a risk that paid off. It's been three years since, and it has proven to be tremendously popular.

Biggest Challenges:

Every business will face challenges and pitfalls. Last April, I had to pay over three crores in road taxes alone. I still don't know how I managed to pull the amount together. I borrowed from so many people and put up property documents to get the cash. Every business will have recurring formidable challenges. The idea is to embrace them wholeheartedly and tackle them vehemently. I had been in the red for a while with the road tax, but in another year or so, we will be free of that.

Message to Aspiring Entrepreneurs:

Ramesh Babu reiterated the simple message to entrepreneurs that he told students to follow in his TED talk.

"Work hard. Be Humble. Anything else is just luck."

Note – Credit of this story goes to <https://yourstory.com/2014/04/barber-rolls-royce-ramesh-babu/>

Annexure 1

Business options for Micro entrepreneur

Type of business	Capital Requirement	Ease of promotion	Risk of Business
Shoe Wash Company	Low	Easy	Low
Food Delivery Service	Medium	Easy	Low
Uniform – designing and tailoring	Low	Easy	Low
Facility and security management of Villas and mansions	Medium	Easy	Moderate
Phone based business consulting	Low	Easy	Moderate
Wedding Planning	Medium	Easy	Moderate
Concierge services - Babysitting, Nursing	Low	Easy	Low
Housekeeping services for hotels/corporate	Medium	Easy	Moderate
Pre recruitment assessment	Low	Easy	Low
Homemade chocolates, bakery products etc	Low	Easy	Low
Custom made festival gifts	Low	Easy	Low
Grocery Store	Medium	Easy	Low
Water Tanker Supply	Low	Easy	Low
Sale of SIM Card and Recharge	Low	Easy	Low
Gourmet (Snacks) Business	Low	Easy	Low
Alcohol Retailing	Medium	Difficult	Moderate
Ice cream parlour	Medium	Easy	Low
Restaurant	High	Difficult	Moderate
Lunch (tiffin) service for corporates/professionals	Low	Easy	Moderate
Retailing of Frozen food	Medium	Easy	Moderate
Meat mart/chicken shop	Medium	Easy	Moderate
Poultry Farm	Medium	Easy	Low
Fish Farming business	Medium	Easy	Low
Bookshop	Medium	Easy	Moderate
Retail Pharmacy Store	High	Difficult	High
Bakery and cake shop	Medium	Easy	Moderate
Hospital / Medical Care	High	Difficult	High

Business options for Micro entrepreneur

Type of business	Capital Requirement	Ease of promotion	Risk of Business
Maternity Center	High	Difficult	High
Veterinary Clinic	High	Difficult	Moderate
Elderly care Business	Medium	Easy	Moderate
Auto repair Garage	Medium	Easy	Moderate
Car Wash Business	Low	Easy	Low
Sale of Auto spare parts	Medium	Easy	Moderate
Sale of auto accessories	Medium	Easy	Moderate
Adult education center	Medium	Easy	Low
Consignment (Used stuff) store	Medium	Easy	Moderate
Landscaping Business	Low	Easy	Moderate
Lawn Care Service	Low	Easy	Low
Plumbing Business	Low	Easy	Low
Home Painting Business	Low	Easy	Low
Computer Repairing Business	Low	Easy	Low
Mobile Repairing Business	Low	Easy	Low
community vigilante group	Low	Easy	Moderate
Carpentry shop	Low	Easy	Low
Roof maintenance and restoration	Low	Easy	Low
Forex trading	High	Easy	High
Share Trading	High	Easy	High
Commodity trading	High	Easy	High
Cosmetic shop	High	Easy	Moderate
Motel and Lodge	High	Difficult	Moderate
Photography business	Low	Easy	Low
Event organising business	Medium	Difficult	Moderate
Barbing salon	Low	Easy	Low
beauty salon	Medium	Easy	Low

Business options for Micro entrepreneur

Type of business	Capital Requirement	Ease of promotion	Risk of Business
Spa and Massage center	Medium	Difficult	Low
Dog breeding business	Medium	Easy	Low
Fumigation (Pest Control) services	Medium	Difficult	High
Music café	Medium	Easy	Moderate
Cyber café	Medium	Easy	Low
Buy/sell on Ebay	Medium	Easy	Moderate
Electronic Repair Shop	Low	Easy	Low
Microbrewery	High	Difficult	High
Community bases Gym	Medium	Difficult	Moderate

Annexure 2

Support Network for Entrepreneurs

Website Links for Micro Small and Medium Enterprises

Topic	Website Link
Startup and MSME Registration	
MSME and its Role in Economy	www.msme.gov.in
Legal Framework - MSME Act etc.	www.dcmsme.gov.in/LegalFramework.htm
How to set up new unit	www.dcmsme.gov.in/howtsetup/getstart.htm
MSME Registration - Entrepreneurs Memorandum	www.dcmsme.gov.in/howtsetup/filing_of_EM.html
Form Format for MSME Registration	http://www.dcmsme.gov.in/publications/forms/forms.html
Annual Reports of Ministry of MSME	www.msme.gov.in/msme_ars.html
Central Government Schemes for MSMEs	
Forms for Various Govt Schemes	http://www.dcmsme.gov.in/publications/forms/forms.html
Various Schemes by Ministry of MSME	www.msme.gov.in/msme_allischemes.html
Schemes by Ministry of MSME	www.msme.gov.in/msme_ministry_schemes.html
Development Commission MSME (DC MSME)	www.dcmsme.gov.in
MSME Credit Monitoring Cell	www.dcmsme.gov.in/CreditMonitoringCell.htm
MSME Care Centres of Various Banks	www.dcmsme.gov.in/Banks_Link_MSME_Care_Centres.pdf
Information about Clusters and Cluster Development	www.indianclusters.org
MSME Cluster Development Program	www.dcmsme.gov.in/MSE-CDProg.htm www.dcmsme.gov.in/schemes/scuptech.htm
MSME Marketing Assistance Program	www.dcmsme.gov.in/MarketingAssistance.htm
Govt. Purchase and Price Preference Policy	www.dcmsme.gov.in/schemes/Purchase&PricePreferencePolicy.htm
Vendor Development Program for Ancillaries	www.dcmsme.gov.in/VDPA.htm
Schemes for Credit Access	www.dcmsme.gov.in/AccessToCredit.htm
Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) Scheme	www.dcmsme.gov.in/schemes/sccrguar.htm www.cgtmse.com
Technology Upgradation Scheme	www.dcmsme.gov.in/TechnologyUpgradation.htm
Credit Linked Capital Subsidy	www.dcmsme.gov.in/schemes/Credit_link_Scheme.htm
National Manufacturing Competitiveness Program	http://nmcp.dcmsme.gov.in/ www.dcmsme.gov.in/schemes/nmcp_scm.htm
Financial Assistance on Bar Code	www.dcmsme.gov.in/schemes/assist_bar_code.htm
Support For Entrepreneurial And Managerial Development Of Smes Through Incubators	www.dcmsme.gov.in/schemes/SUPPORTFOREMDTI.html
Scheme for Intellectual property rights	http://www.dcmsme.gov.in/schemes/IPRDetail.html
Lean Manufacturing Competitiveness Program	www.dcmsme.gov.in/schemes/lean-manufact.htm
Mini Toolroom and training centre under PPP mode	www.dcmsme.gov.in/schemes/MTRDetail.pdf
Design Clinic Scheme	http://www.dcmsme.gov.in/schemes/DesignClinic.htm
Marketing assistance and Technology Upgradation	http://www.dcmsme.gov.in/schemes/MarketingAss&Techup.htm
Technology and Quality Upgradation Support to MSMEs (TEQUP)	www.dcmsme.gov.in/schemes/TEQUPDetail.htm
Promotion of Information & Communication Technology (ICT)	www.dcmsme.gov.in/schemes/ICTDetail.html
ISO 9000 and ISO 14001	www.dcmsme.gov.in/emerget/iso.htm
Enterprise and Skill Development	www.dcmsme.gov.in/enterprise&skilldevelopment.htm
Schemes, policies, Acts, News – altogether	www.dcmsme.gov.in/publications/PoliciesSchemesProgramme.html
KVIC Schemes (Khadi & Village Industries Commission)	www.kvic.org.in

Topic	Website Link
NSIC Schemes (National Small Industries Corporation)	www.nsic.co.in
SIDBI Schemes (Small Industries Development Bank of India)	www.sidbi.com
Laghu Udyog Bharati schemes	http://lubindia.com/msme/msme-faqs/promotional-schemes/
Forms of Business Organisation	
Forms of Business Organisation	"http://download.nos.org/srsec319/319-2.pdf http://www.nos.org/media/documents/VocInsServices/m1-3f.pdf http://download.nos.org/srsec319new/319EL5.pdf"
Limited Liability Partnership	http://www.mca.gov.in/LLP/pdf/HowToIncorporateLLP.pdf
MSME Knowledge Forums and related websites	
SME Toolkit	www.india.smetoolkit.org/india/en
MSME Knowledge hub by SIDBI	www.sidbi.com/MSMEinformation.asp https://www.sidbi.in/Knowledge_Hubs.php
Maharashtra Industrial and Economic Development Association (MIEDA)	www.mieda.in
Small & Medium Business Development Chamber of India (SME Chamber of India)	www.smechamberofindia.com
Doing Business in Maharashtra	www.doingbusinessinmaharashtra.org
India International Trade Centre	www.iitcindia.com
Indian SME Knowledge Forum	www.smeknowledgeforum.com
SME World	www.smeworld.org
Stock Exchange	
National Stock Exchange (NSE)	www.nseindia.com
Bombay Stock Exchange (BSE)	www.bseindia.com
Metropolitan Stock Exchange of India Limited (MSEI)	www.mcx-sx.com
Commodity Exchanges	
NCDEX	www.ncdex.com
Multi Commodity Exchange	www.mcxindia.com
Regulators	
SEBI	www.sebi.gov.in
RBI	www.rbi.org.in
Credit Rating Agencies	
CRISIL	www.crisil.com
CARE	www.careratings.com
ICRA	www.icra.in
Fitch	www.fitchratings.com
SMERA (for MSME credit Rating)	www.smera.in
Other important Websites	
SME Export Promotion Council	www.smeepcofindia.com
India Brand Equity Foundation	www.ibef.org
Money Control (For financial information)	www.moneycontrol.com
CIBIL (for Credit information)	www.cibil.com
SEZ	www.sezindia.nic.in

Dos
Personal Traits
"Trust your gut feeling (but only when you have acquired good amount of information) An 'educated/informed' gut feel is superior to the 'blind' gut feel."
Deserve before you desire
Stay in the company of people better than you, this will give you motivation to learn and earn more
Invest in learning new technologies
Build a network of friends, family and mentors
Differentiate between calculated risk and blind gambling
Value yours and other's time
Preparation is key to success anywhere so is the case with business.
Business Traits
Look for the pain points of people around. There are opportunities in problems.
Start a business in area, where you have some experience. Familiarity with subject and relationships will improve probability of your success.
Read some good books/blogs on how small and medium entrepreneurs have become successful.
Invest time in reading and learning about market trends
Focus on your core strength and maximise it
Prepare a business plan. If you don't know how to prepare one, take help from some professional.
Focus on one business at a time and scale it up, every business has opportunity and money
Give some time for business to prosper
Be a good observer. Look for changes happening around for business ideas.
Have passion for the business
Always ask yourself after a defined time period, "Is this the place where you wanted to reach?"
Build a good team. Teams deliver not individuals.
To keep your customers happy, keep your team happy.
Business secrets are to be kept secret.
Approach government departments for suggestions. They work better than your perception about them.
Create special niche for your product/service and try for loyalty amongst customers
Value customer relationships, they are the very reason of your business existence.
Encourage customer feedback
Use social media to your advantage to expand your reach
Do keep your resolve, tough times will come for sure and will go for sure
Drop the word "Vendors" from your dictionary. Replace that with word "Partners" and see the difference.
Bring in clarity to people about their roles.
Leverage technology to create efficiency and effectiveness in business.
Ask intermittently, "How do I stay relevant to my customers? Why should a customer come to me to do business?"
Financial Traits
Spend money on well being of deserving employees, he will bring more business.
Earn Stakeholder's (Investor, creditors, customers, employees etc) trust. They are your real assets.
Always plan your personal finances required in case of business failure

Dos and Don'ts for entrepreneurs

Dos

Avoid high cost personal finance and opt for banks or institutional finance

Save every rupee which you can, otherwise you will have to earn it back

Be generous in sharing profits with stakeholders, they will value your relationship

Maintain accounts and records of every transaction. It creates discipline

Insure self and business adequately

Increase your awareness on legal and tax provisions applicable to your business

Fulfilling all the compliances in a timely manner definitely saves you both the precious resources - time and money.

Don'ts

Do not hesitate to try something new, if your current business is not satisfactory.

Do not try to make millions overnight. New business takes time and patience.

Do not make hasty decision to start business. Evaluate value proposition properly.

Do not ignore profit requirement of business.

Do not tolerate employees/partners who are unethical

Do not hesitate in asking for help.

Do not try to make money by evading taxes and duties through illegal means

Do not compromise on business integrity

Do not try to run away from difficult situations/questions

Do not borrow too much, easy credit is enemy of business efficiency

Do not form company for the glory of having a registered company, if not needed

Do not ignore receivables. Without cash flows, nothing will flow in business.