HOW TO START BUSINESS ENTERPRISE

Prepared By:

NORTH EASTERN DEVELOPMENT FINANCE CORPORATION LTD.

NEDFi House, G.S.Road, Dispur

Guwahati

TABLE OF CONTENTS

STARTING A BUSINESS

Entrepreneur should undertake the task of preparing the business plan personally. Although outsiders - consultants, accountants, and lawyers - should be tapped for their advice and expertise, the promoter or the initial top management team should be responsible for the writing. Personally drafting the plan will enable the entrepreneurs to think through all aspects of the proposed business and ensure that they are familiar with all the necessary details, for they will have to make decisions about the new venture and be responsible for those decisions.

1 Creating a Business Plan

The business plan can personally benefit the entrepreneurial team. Usually a great deal of money is at stake, and the consequences of poor decisions can affect many people for a long time. In developing and writing a business plan, the entrepreneurial team reduces these anxieties and tensions by confronting them in advance. By projecting the risks of the new venture into the future, the team comes to grips with potential negative outcomes and the possibility of failure.

Every business plan should include:

- **Profile of the company's management** - Listing the names of top executives and their qualifications and industry experience.
- **Kind of Business** - A brief description of the industry your firm is focusing on or the new venture’s strategy.
- **Objectives** - The short term and long term objectives of the new business venture.
- **Financial requirements** - Briefly state how much finance is required indicating the degree of flexibility you are willing to show in case the investor suggests any changes in your plan.
- **Budget allocations** - How you will be using the finance.
- **Market Analysis** - The business plan should dwell upon the prevailing competitive environment with a view to convincing the investor that his/her

product/service is a niche product or service with substantial prospects for growth and capable of attaining a competitive position in the market.

- **Environmental Influences** - The impact of the environmental influences such as political, economic, technological, socio-demographic and ecological factors that affect your area of business.
- **Quality** - The quality control measures to be put into place for ensuring quality of the product/service.
- **Marketing** - Identify the target market which should be substantiated by a thorough market research. Once the target market has been identified, focus on the communication strategy including advertising, branding, packaging etc.
- **Sales Forecast -** Sales forecast is primarily dependent on three factors - size of the market, fraction of the market you will be able to capture as a result of your marketing strategy and the pricing strategy.
- **Financial Plans** - A new venture must show projected profit and loss statements and cash flow statements.
- **Human Resources** - Make an organisation chart with details of key executives and profiles of individuals likely to be hired.
- **Form of Business** - Describe the legal form of your business - whether it is a sole proprietorship or a partnership, public limited co., private limited co. or society, etc.
- **Critical Risks** - As a legal and moral obligation, the entrepreneur must, in the business plan, envision risks the investor would be undertaking in case he makes a choice to invest in your business. This will protect you from civil and criminal liability.

2 Choosing a form of Business Organisation

The right choice of the form of business is very crucial because it determines the power, control, risk and responsibility of the entrepreneur as well as the division of profits and losses.

The choice of the form of business is governed by several interrelated and interdependent factors:-

- The nature of business is the most important factor. Businesses providing direct services like tailors, restaurants and professional services like doctors, lawyers are generally organised as proprietary concerns. While, businesses requiring pooling of skills and funds like accounting firms are better organised as partnerships. Manufacturing organisations of large size are more commonly set up as private and public companies.
- Scale of operations i.e. volume of business (large, medium, small, micro) and size of the market area (local, national, international).
- The degree of control desired by the owner(s).
- Amount of capital required for the establishment and operation of a business.
- The volume of risks and liabilities as well as the willingness of the owners to bear it.
- Comparative tax liability.

Some of the forms of business organizations are:

- **Sole Proprietorship** - It is a one-man organisation where a single individual owns, manages and controls the business. This form of organisation is suitable for the businesses which involve moderate risk, small financial resources, capital requirement is small and risk involvement is not heavy like automobile repair shops, small bakery shops, tailoring, etc.
- **Partnership firm** - A partnership is formed by an agreement, which may be either written or oral. When the written agreement is duly stamped and registered, it is known as "Partnership Deed". Ordinarily, the rights, duties and liabilities of partners are laid down in the deed. But in the case where the deed does not specify the rights and obligations, the provisions of the **THE INDIAN PARTNERSHIP ACT, 1932** will apply. Partnership is an appropriate form of ownership for medium sized business involving limited capital. This may include small scale industries, wholesale and retail trade; small service concerns like

transport agencies, real estate brokers; professional firms like chartered accountants, doctors' clinic, attorney or law firms etc.

- **Co-Operatives** - Co-operative organisation is a society which has as its objectives for promotion of the interests of its members in accordance with the principles of cooperation. It is a voluntary association of ten or more members residing or working in the same locality, who join together on the basis of equality for the fulfillment of their economic or business interest. It is subjected to the provisions of the Co-Operative Societies Act, 1912 or State Co-Operative Societies Act.
- **Private Limited Company** - A private limited company is a voluntary association of not less than two and not more than fifty members, whose liability is limited, the transfer of whose shares is limited to its members and who is not allowed to invite the general public to subscribe to its shares or debentures. A private company is preferred by those who wish to take the advantage of limited liability but at the same time desire to keep control over the business within a limited circle and maintain the privacy of their business. The state of Sikkim has not ratified the Indian Companies Act, 1956 and therefore, Registrar of Companies does not have their presence in the state. However, for the limited purpose of registration and other statutory requirements Sikkim Companies Act of 1961 and Registration of Companies Act of Sikkim 2007 are in force in the state.

And other forms of business organizations are:

- Public Limited Company (PLC).
- Hindu Undivided Family Business (HUF).
- Limited Liability Partnership (LLP).
- Societies.

3 Naming and Registering a Business

All the business must be named and registered with the competent authorities as below:

- **Sole Proprietorship** - The registration can be done at District Industries Centre (DIC), Gangtok for North and East Districts and Jorethang for South and West Districts.
- **Partnership firm** - The registration can be done at Registrar of Firms, District Administrative Centre, Gangtok.
- **Co-Operatives** - It must be registered with the Registrar of Co-Operative Societies.
- **Private & Public Limited Company** - Registrars to be done under Sikkim Companies Act 1961, amended as Registration of Companies Act of Sikkim, 2007. It must be registered with Department of Law, Government of Sikkim, The Secretariate, Gangtok.
- **Societies** – It must be registered with the Registrar of Firm & Societies, Law Department, The Secretariate, Gangtok.
- **Hindu Undivided Family Business** – It comes into existence by the operation of Hindu law and not out of contract. The rights and liabilities of co-parceners are determined by the general rules of the Hindu law. Registration is not necessary, but the rights of its members to sue third parties for claims of debt remain unaffected.
- **Limited Liability Partnership (LLP) –** To be registered on the website of Ministry of Corporate Affairs, developed for LLP services i.e; www.llp.gov.in.

4 Making a Product Choice

The choice of a particular product or service to be manufactured by the firm can be done by analyzing the following:

- Assessing the size and structure of the market for the products.
- Determining the future demand pattern for each of them.
- Comparing their competitive positions in the market.
- Graphing the life cycle of each product.
- Finding the shelf life of each product.
- The ease of availability of raw materials.

- Technology for production.
- Manpower.
- Government policies, regulations and incentives by both state and central government.

List of some of the important organizations who can help in obtaining an idea about the products and services that can be produced are:

- North Eastern Industrial & Technical Consultancy Organisation Ltd. (NEITCO).
- North Eastern Handicraft & Handlooms Development Corporation Ltd. (NEHHDC). (http://www.nehhdc.com/)
- North Eastern Regional Agricultural Marketing Corporation Ltd. (NERAMAC). (http://www.neramac.com/)
- Entrepreneurship Development Institute of India (EDI). (www.ediindia.org/)
- Micro, Small & Medium Development Institutes (MSME-DI). (http://dcmsme.gov.in/)
- Khadi and Village Industries Commission / Board (KVIC / KVIB).
- National Bank for Agriculture and Rural Development (NABARD). (www.nabard.org/)
- Small Industries Development Bank of India (SIDBI). (www.sidbi.in/)
- North Eastern Development Finance Corporation Ltd. (NEDFi). (www.nedfi.com/)
- State Financial Corporations (SFCs).
- Department of Industrial Policy and Promotion in the Ministry of Commerce and Industry. (http://dipp.gov.in/)
- District Industries Centre (DIC) located at each district of the state.

5 Choosing the location of the Industry

Location of the business is the most important factor influencing its success or failure. It is a long-term decision which should take into consideration not only the present requirements of the organisation but also its future expansion plans. Hence, the most advantageous location is that at which the cost of gathering material and fabricating it plus the cost of distributing the finished product to the customers will be at a minimum.

The choice of location depends on several important factors:

5.1 Factors affecting selection of a region-

- Availability of required raw materials.
- Availability of required grade of labour i.e. skilled, semi-skilled or unskilled.
- Proximity to the product market.
- Availability of transport facilities
- Adequate supply of power and fuel.
- Climatic factors based on the product types.
- Government regulations and policies.
- Law and order situation.
- Existence of complementary and competitive industries

5.2 Selection of the exact site-

- The price and size of land.
- Disposal of liquid waste requires proper sewer-connections or river outlets, while disposal of solid waste needs availability of a dump or an extra piece of land for the purpose.

6 Setting up Infrastructure

Setting up of basic infrastructural facilities for commencing business operations involves:

- **Land and Construction of Building** – For acquisition of the plot of land, the entrepreneur must approach the concerned authority (Municipality, Land Revenue & Settlement Department). The architectural design of the factory must be approved by the concerned authority before starting the construction of the building.

- The site must be well connected to the nearest transport network i.e. rail, road or port.
- The availability of the basic amenities like, water, power supply is equally essential.
- Setting up of a good telecom facility for the industry is necessary for the growth and expansion of the business.

The State and Central Government offers incentives like land and building tax concessions, providing land at cheaper rates through the Government Agencies to new and existing entrepreneurs. It also offers concessions in water tariff, power subsidy, subsidy on generating sets, capital investment subsidy, transport subsidy, insurance subsidy, incentive for pollution control and quality equipment depending on the location, size of investment and category of the industry.

7 Sourcing Process, Raw Materials, Machineries and Equipments

The next important step is to select appropriate technology and equipment to produce the same. In addition to this, the source of raw material has to be decided upon. The requirements of all these can either be met through domestic sources or can be imported subject to the regulatory requirements of the Government.

7.1 Process Selection:

While choosing the process technology, following considerations are essential:-

- The level of skilled workers or complex machines required by the process.
- The quantity of water and / or power required.
- If any process or product patent is needed in order to utilize the selected process technology.
- Any special Pollution or Environmental regulation is to be followed.
- The appropriateness of the technology to the Indian environment and conditions.

7.2 Raw Materials:

Proper planning of raw materials is essential because non-availability of the required raw material may result in production hold-ups, idle machinery and manpower. On the other hand if too much is ordered too soon, considerable amount of working capital gets locked up. All this will lead to increased production costs. But proper inventory management can lead to manageable cash flow situations. For imported raw material whose lead time are large, proper planning is all the more essential.

Key issues to be considered by the entrepreneur regarding sourcing of raw material are:

- Identify the raw material required for manufacturing the desired product.
- Whether locally available in sufficient quantity and quality or has to be sourced from outside.
- Price trends, demand & supply of critical raw materials.
- Products whose production is subject to seasonality of supply. Continuity of supply to be assessed.
- Compare the prices and get quotation from atleast 3-4 places and also check whether price is inclusive or exclusive of transportation costs.
- Arrangements for procurement.
- Transportation to the site with respect to cost, wastage / damage during transportation, etc.
- Whether raw materials can be purchased on credit, cash or advance.

7.3 Machinery and Equipments:

The machinery and equipments required may be either domestically available or imported from abroad. The imports are regulated by the Foreign Trade (Development and Regulation) Act, 1992. Generally, technology or process provides with the necessary specifications relating to machinery and equipment required. Otherwise, an extensive techno-economic survey of the available machinery and equipment may be carried out.

An entrepreneur can avail advice of the following organizations for identifying correct machinery and equipments:

- Micro, Small and Medium Enterprises Development Institutes (**MSME-DIs**) formerly known as SISIs. For more details, refer the website of Ministry of MSME i.e; http://dcmsme.gov.in/

8 Pricing your Product

Fixing the right price for a product is the most difficult task as it affects the volume of sales of the product of the firm as well as the profits of the firm. Prices are set by a firm by taking into consideration factors like costs, profit targets, competition and perceived value of products. Taking into account the various factors, the steps generally followed in setting the price of a product are:-

- Setting the pricing objective of the firm.
- Determining the demand for the product.
- Estimating the cost of operation and profit margin.
- Determining the competition for the product.
- Considering the governmental regulations on taxation.

9 Financing a Business

A business firm requires finance to commence its operations, to continue its operations and for its expansion and growth. Hence, a financial plan needs to be prepared, which indicates the requirements of finance, sources for raising the finance and the application of funds. Financial planning for starting a business begins with estimating the total amount of capital required by the firm for the various need of the business.

9.1 Methods of Raising Capital and its Sources:

Institutions comprising of banks, financial institutions, non banking financial companies and venture capital companies cater to the diverse financial needs of the industry. Various schemes are being implemented by various banks and financial institutions to cater to the financing needs of the MSMEs. A firm may raise funds for different purposes depending on the time periods ranging from very short to fairly long duration and the business can be financed by the following means:

- **Investment of own savings.**
- **Raising loans from friends and relatives.**
- **Loans from commercial banks** - Medium-term loans can be raised from commercial banks against the security of properties and assets. Funds required for modernisation and renovation of assets can be borrowed from banks.
- **Loan from financial institutions** - Long-term and medium-term loans can be secured from financial institutions (FIs). Loans agreed to be sanctioned must be covered by securities by way of mortgage of the firm's property or assignment of stocks, shares, gold, etc.
- **Public deposits** - Companies often raise funds by inviting their shareholders, employees and the general public to deposit their savings with the company. The Companies Act permits such deposits to be received for a period up to 3 years at a time. Public deposits can be raised by companies to meet their medium-term as well as short-term financial needs.
- **Reinvestment of profits** - Profitable firms do not generally distribute the whole amount of profits as dividend but, transfer certain proportion to reserves. As these retained profits actually belong to the shareholders of the firm, these are treated as a part of ownership capital. Retention of profits is a sort of self financing of business.
- **Issue of shares** – There are two types of shares :-
  - **a)** Equity shares: The rate of dividend on these shares depends on the profits available and the discretion of directors. Hence, there is no fixed burden on the company. Each share carries one vote.
  - **b)** Preference shares: dividend is payable on these shares at a fixed rate and is payable only if there are profits. Hence, there is no compulsory burden on the company's finances. Such shares do not give voting rights.
- **Issue of debentures** - Companies generally have powers to borrow and raise loans by issuing debentures. The rate of interest payable on debentures is fixed at the time of issue and is recovered by a charge on the property or assets of the company, which provide the necessary security for payment. The company is liable to pay interest even if there are no profits. Debentures are mostly issued to

finance the long-term requirements of business and do not carry any voting rights.

- **Trade credit** - Firms buy raw materials, components, stores and spare parts on credit from different suppliers. Generally suppliers grant credit for a period of 3 to 6 months, and thus provide short-term finance to the firm.
- **Factoring** - The amounts due to a firm from customers, on account of credit sale generally remain outstanding during the period of credit allowed i.e. till the dues are collected from the debtors. The book debts may be assigned to a bank and cash realised in advance from the bank. Thus, the responsibility of collecting the debtors' balance is taken over by the bank on payment of specified charges by the company.
- **Discounting Bills of Exchange** - Widely used for raising short-term finance. When the goods are sold on credit, bills of exchange are generally drawn for acceptance by the buyers of goods. Instead of holding the bills till the date of maturity, firms can discount them with commercial banks on payment of a charge known as bank discount. The rate of discount to be charged by banks is prescribed by the Reserve Bank of India from time to time. The amount of discount is deducted from the value of bills at the time of discounting.
- **Bank overdraft and Cash Credit** - It is used for meeting short-term financial requirements. Cash credit refers to an arrangement whereby the commercial bank allows money to be drawn as advances from time to time within a specified limit. This facility is granted against the security of goods in stock, or promissory notes bearing a second signature, or other marketable instruments like Government bonds. Overdraft is a temporary arrangement with the bank which permits the firm to overdraw from its current deposit account with the bank up to a certain limit. The overdraft facility is also granted against securities. The rate of interest charged on cash credit and overdraft is relatively much higher than the rate of interest on bank deposits.

9.2 Approaching a Bank / Financial Institution

Some of the important information that has to be provided when approaching the banks/financial institutions for financial assistance of a new / existing business venture:

- Letter of Introduction
- Profile of the promoters setting out the educational achievements, professional training, qualifications, employment record and achievements, Networth, etc.
- Details of existing business, if any.
- Detailed report of the proposed business plan with product details.
- Organisation structure & its management.
- Bank and other technical references.
- Proof of firm's ownership or Registration.
- Audited Balance Sheet, Profit-and-Loss Account, and Cash-Flow Statement of existing business or associate firms.
- Proposed financial estimates.
- Marketing and selling arrangement.
- Raw materials, consumables and utilities.
- Cost of the project.
- Means of finance.
- Techno-Economic Feasibility study of the proposed project.
- No objection / Certificate / Status of Clearances from various authorities.
- Guarantees or Collateral being offered.

If it is an existing business, audited Balance Sheet, Profit and Loss Account and Cash Flow Statement of the business or associate firms are to be furnished. Companies registered under relevant acts should produce the Memorandum and Articles of Association which contain the above information in detail.

10 Managing Human Resources

The idea of Human Resource Management strategy is that of development of innovation skills and aptitude, improve quality of performance of employees and to reduce costs in an organisation by motivating workers to work harder, applying their best efforts, skills and knowledge towards their work and organisation.

Some important aspects of human resource management are:

- Orientation or Induction programme for newly appointed employees.
- Good health and safety environment for the employees.
- Systematic and scientific training of employees.
- Employee benefits such as wages, voluntary retirement services (VRS), bonus, leave, social security, etc.
- Work-Life balance.

11 Policies and Regulations

Once an entrepreneur has taken all the important decisions relating to starting a business, he/she has to take into account the basic regulatory requirements which are to be followed for setting up the organisation.

Policies are issued by both, the Central Government and State Governments. Policies can range from being relevant to a multitude of sectors, as well as being specific to a single sector. Policies are of extreme importance as they can determine the growth potential as well as the ease of doing business in a particular industry. Therefore, entrepreneurs should pay close attention to the Government (both Central and State) policies.

The most important policies and regulations are:

11.1 Central Government-

- North East Industrial and Investment Promotion Policy (NEIIPP) 2007. (http://dipp.gov.in/)
- The Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 (http://www.and.nic.in/C_charter/indust/msmeact2006.pdf)
- The Companies Act, 1956 which regulates all the affairs of a company. (www.mca.gov.in)
- The Industrial Disputes Act, 1947 is the legislation for investigation and settlement of all industrial disputes. (http://labour.nic.in/)

- The Trade Unions Act, 1926 which deals with the registration of trade unions, their rights, liabilities and responsibilities as well as ensures that their funds are utilized properly. (http://labour.nic.in/)
- Laws relating to Intellectual Property Rights (IPRs)
- Environmental regulations administered centrally by Ministry of Environment and Forests (MoEF) and State Pollution Control Board at state level
- Export and Import (EXIM) Policy for foreign trades
- Labour policy, occupational health and safety of workers. (http://labour.nic.in/)
- Competition Act, 2002. (http://www.cci.gov.in/)
- Tax Law and Rules. (http://www.incometaxindia.gov.in/)
- Excise and Customs Act. (http://www.cbec.gov.in/)

12 Brief features of North East Industrial and Investment Promotion Policy (NEIIPP), 2007:

Introduction:

The Government has approved a package of fiscal incentives and other concessions for the North East Region namely the '**North East Industrial and Investment Promotion Policy (NEIIPP), 2007',** effective from 1.4.2007**,** which cover units located anywhere in the 8 states of NER including Sikkim. All new units as well as existing units which go in for substantial expansion will be eligible for incentives **for a period of ten years** from the date of commencement of commercial production.

The Fiscal Incentives include:-

(1) Excise Duty Exemption:

Excise Duty exemption is made available on finished products manufactured in North-Eastern Region based on duty payable on value addition undertaken in the manufacture of such goods. For details including stipulated rate of value addition may please refer to the notifications of Department of Revenue, Ministry of Finance, Govt. of India.

(2) Income Tax Exemption:

100% Income Tax exemption will continue under NEIIPP, 2007.

(3) Capital Investment Subsidy:

Capital Investment Subsidy of 30% on the investment in plant and machinery will be eligible for following categories -

(A) Manufacturing Sector

(B) Biotechnology Industry

(C) Power Generating Industries for

Capital Investment Subsidy - 30% on cost of construction of building (excluding the cost of land) for following sevice sector activities:

(i) Hotels (Not below "Two Star" category)

(ii) Adventure and leisure sports including ropeways

(iii) Nursing Homes (with a minimum capacity of 25 beds)

(iv) Oldage Homes

(v) Vocational Training Institutes for:

  a. Hotel Management
  b. Catering and Foodcraft
  c. Nursing and Paramedical
  d. Civil Aviation related training
  e. Fashion
  f. Design
  g. Industrial training

(4) Interest Subsidy:

Interest Subsidy is available @ **3% on working capital loan** under NEIIPP, 2007.

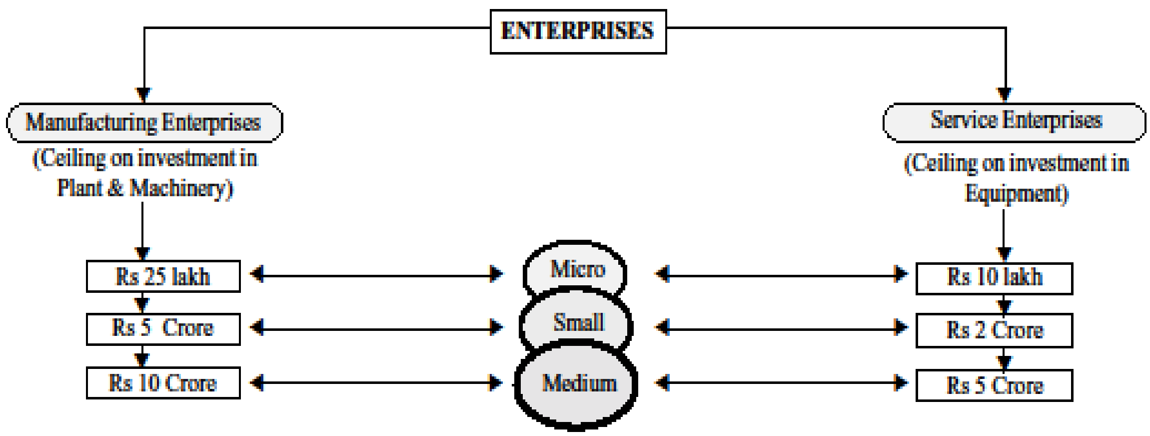
(5) Comprehensive Insurance:

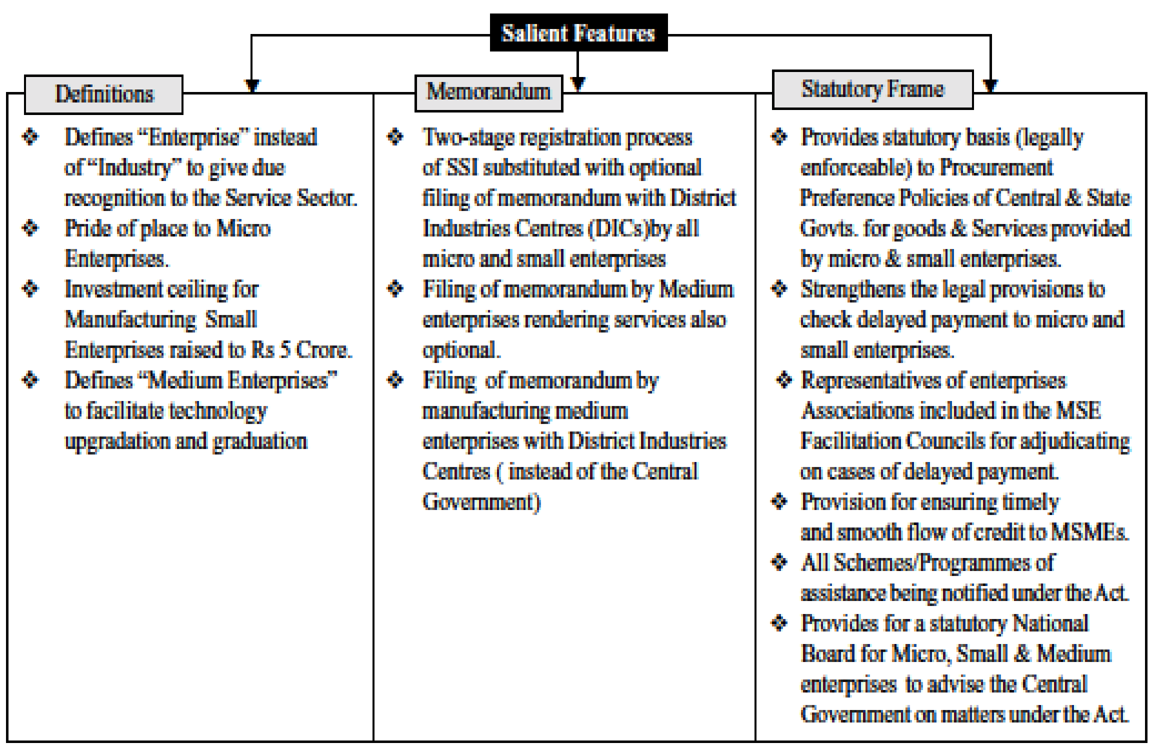
New industrial units as well as the existing units on their substantial expansion will be eligible for reimbursement of 100% insurance premium.

*** For details on eligibility may please refer to the guidelines/circular issued by DIPP, Ministry of Commerce from time to time.**

The Service Sector defined under MSME Act-2006 is different from the Service Sector covered under NEIIPP-07. The entrepreneurs are requested to check eligibility of the activity under NEIIPP-07 before taking up a project.

The Classification of Service Sector & Manufacturing Sector as per MSME Act is mentioned below for reference only.





13 INCENTIVES AVAILABLE FOR ENCOURAGING ENTREPRENEURSHIP UNDER DIFFERENT SCHEMES OF GOVERNMENT OF INDIA

1. Tea Board extends support towards plantation, irrigation, transport vehicle, exhibitions, advertisement etc. for details please visit http://www.teaboard.gov.in
2. Coffee Board extends support towards replantation, water augmentation, quality upgradation etc. for details please visit http://www.indiacoffee.org/
3. Coconut Development Board provides financial support for production & distribution of planting material, integrated farming for productivity improvement, market promotion, coconut palm insurance scheme etc. for details please visit http://coconutboard.nic.in/
4. Coir Board provides financial support for skill upgradation, organising workshop & seminars, exposure tour and quality improvement programme. Mahila Coir Yojana (MCY) is the first woman oriented self employment scheme by giving subsidy of 75% of the cost of purchase of ratts to the trained women artisans. For details please visit http://coirboard.nic.in/
5. Ambedkar Hastshilp Vikas Yojana (AHVY) wherein the main thrust is on a projectised, need based approach for integrated development of potential handicrafts clusters with participation of the craft persons at all stages for implemenation of the scheme. AHVY extends financial support for development & supply of improved modern tools, design & technical development workshops, training, organising seminar & exhibitions etc. For details please visit http://handicrafts.nic.in/ahvy/ahvyscheme.doc
6. Market Access Initiative (MAI) scheme is an Export Promotion Scheme formulated on focus product- focus country approach to evolve specific strategy for specific market and specific product through market studies/ survey. MAI provides financial support for opening showroom & warehouses, display in international departmental stores, publicity campain and branch promotion etc. For details please visit http://commerce.nic.in/trade/mai_guide.pdf
7. Agricultural and Processed Food Products Export Development Authority (APEDA) mission is to develop agricultural commodities and processed food to promote exports. APEDA provides financial support for packaging development, export

promotion and market development etc. For details please visit http://www.apeda.gov.in

8. Ministry of Food Processing Industries (MoFPI) covers setting up technology upgradation, modernization of food processing industries in fruits & vegetables, pulses etc. The scheme provides 25% of the cost of plant & machinery and technical civil works subject to a maximum of Rs.50 lakhs in general areas and 33% up to Rs.75 lakhs in difficult areas like NER. For details please visit http://indarun.gov.in/htm/foodprocessing/decentral.pdf
9. National Horticulture Board (NHB) provides financial support for land development, cultivation expenses, poly house or shade nets, farm tools etc. For details please visit http://nhb.gov.in/

-xxx-