Chapter : 5
Starting a New Business

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Analysis for Selecting Right Location

In considering the possibilities of establishing a new enterprise, one should recognize that he will have more freedom of choice in defining the nature of the business than if he purchases an existing firm. It should be remembered that there are both pluses and minuses in choosing this alternative. One should view a particular business in terms of whether it will enable him achieve his personal objectives. Also, how do the advantages and disadvantage of this option compare with those of entering the on-going business? In there – on this basis – a reasonable opportunity for success?

5.1 Reasons for and against Starting a New Small Business

Starting a business from the scratch has both good as well as bad points. One who starts a business can promote, design, organize, direct and run the same as he desires it be. But there are risks of failure because of wrong selection of activity, site, strategy and the like. Presented hereunder some reasons for and against starting a business from the scratch:

Reasons for Starting	Reasons against Starting
1. Freedom to plan the SB as the owner desires	1. Risk of unproven operations
2. Can create the type of physical facilities as per preference of the owner	2. Problems associated with assembling the composite resources- including location, equipment, material, and personnel.
3. Select the strategies to overcome competitive environment	3. Problems in establishing the basic accounting & controls
4. Can make impressions & goodwill	4. May suffer from improper or inadequate planning
5. Need not carry any past odds & liabilities	5. Difficulty of building contacts with suppliers, clients, bankers, etc.
6. Can recruit skill & professionally oriented office staffs.	6 No past knowledge of the reactions of the competitors
7. Can take advantage of the latest technology in selecting equipment, materials and tools.	7. Need to undergo a difficult process of selecting and training a new workforce
8. Can utilize the most recent processes and procedures	8. Lack of an established product line
9. Enjoy profit of justified operation – not to be shared.	9. Risk of unproven operations.
10. Can procure fresh inventory at a competing price	10. Production problems associated with the start up of the new business
11. Can freely design preferred management information system	11. There may be lack of an established market and channels of distribution
12 Select right market & clientele	12 May suffer from inexperienced employees in addition to bear the cost training the new recruits

5.2 Essentials of Starting a Business

Starting a new business gives the owner the pleasure of creation. And when the initiative succeeds it yields much more pride & pleasure. But to be successful through starting a new business, an entrepreneur comply with the essentials as under:

(i) The entrepreneur should be fully conversant with the product line. It is not enough that he knows the method of manufacture, he has to know how to operate the machines, etc.
(ii) He should have adequate shop floor experience to guide the machine operators in tool techniques or the die-maker on the specific needs of his press tools.
(iii) He should know how to ensure the stipulated quality of his product.
(iv) He should be well versed in taxation and other laws governing small-scale industries.
(v) He should be willing to put up with polluted environment, and small inconveniences.
(vi) He should be willing to put up with bureaucratic regulation and insult, and move with the wind.
(vii) He should know how to avail himself of the various benefits available for the small-scale industry.
(viii) He should possess the following qualities- experience, shrewdness, resourcefulness and most important, perseverance. There is no substitute for hard work.
(ix) He should have the guts to withstand the polluted climate in which he has to build his unit.
(x) He should be familiar with the raw materials he requires, their specifications, how to ensure their quality and where to get them at reasonable prices.
(xi) He should know how to keep accounts, how to maintain stores, how to prepare the balance sheet, etc.
(xii) He should have knowledge of marketing channels, distribution network agency practices packaging.

5.3 Evaluating the Start-up Business Opportunity

A critical task of starting a new business enterprise is solid analysis and evaluation of the feasibility of the product/service idea getting off the ground. Entrepreneurs must put their ideas thorough this analysis in order to discover if they contain any fatal flaws.

Asking the Right Questions:

Many important evaluation-related questions should be asked. Ten sets of preliminary questions that can be used to screen an idea are presented here.

1. Is it new product/service idea? Is it propriety? Can it be patented or copyrighted? Is it unique enough to get a significant head start on the competition? Or can it be easily copied?
2. Is the product or service easily understood by customers, bankers, venture capitalists, accountants, lawyers, and insurance agents?
3. What is the overall market? What are the market segments? Can the product penetrate these segments? Can any special niches be exploited?
4. Has market research been conducted? Who else is in the market? How big is the market? How fast is it growing? What are the trends? What is the projected life cycle of the product or service? What degree of penetration can be achieved? Are there any testimonials from customers and purchasing agents? What type of advertising and promotion plan will be used?
5. What distribution and sales methods will be used-jobbers, independent sales representatives, the company sales force, direct mail, door-to-door sales, supermarkets, service stations, company-owned stores? How will the product be transported: company-owned stores? How will the product be transported: company owned trucks, common carriers, postal service, or air freight?
6. How will the product be made? How much will it cost? For example, will it be produced in-house or by others? Will production be by job shop or continuous process? What is the present capacity of company facilities? What is the break-even point?
7. Will the business concept be developed and licensed to others or developed and sold away?

8. Can the company get- or has it already lined up – the necessary skills to operate the business venture? Who will be the workers? Are they dependable and competent? How much capital will be needed now? How much more in the future? Have major stages in financing been developed?
9. Has a prototype been tested by independent testers who try to blow the system or rip the product to shreds? What are its weak points? Will it stand up? What level of research and development should it receive over the next five years of it is a service, has it been tested on guinea pig customers? Will they pay their hard-earned money for it?
10. Has it been taken to trade shows? If so, what reactions did it receive? Were any sales made? Has it been taken to distributors? Have they placed any orders?

5.4 Variables in New-Venture Creation

A new enterprise has to arrange three sets of required variables: firstly, variables related to the individuals starting the venture, secondly, those related to the organization under planned development and lastly, the variables with regard to the environment in which the new unit is in the process of starting. These may be seen from the chart as under:

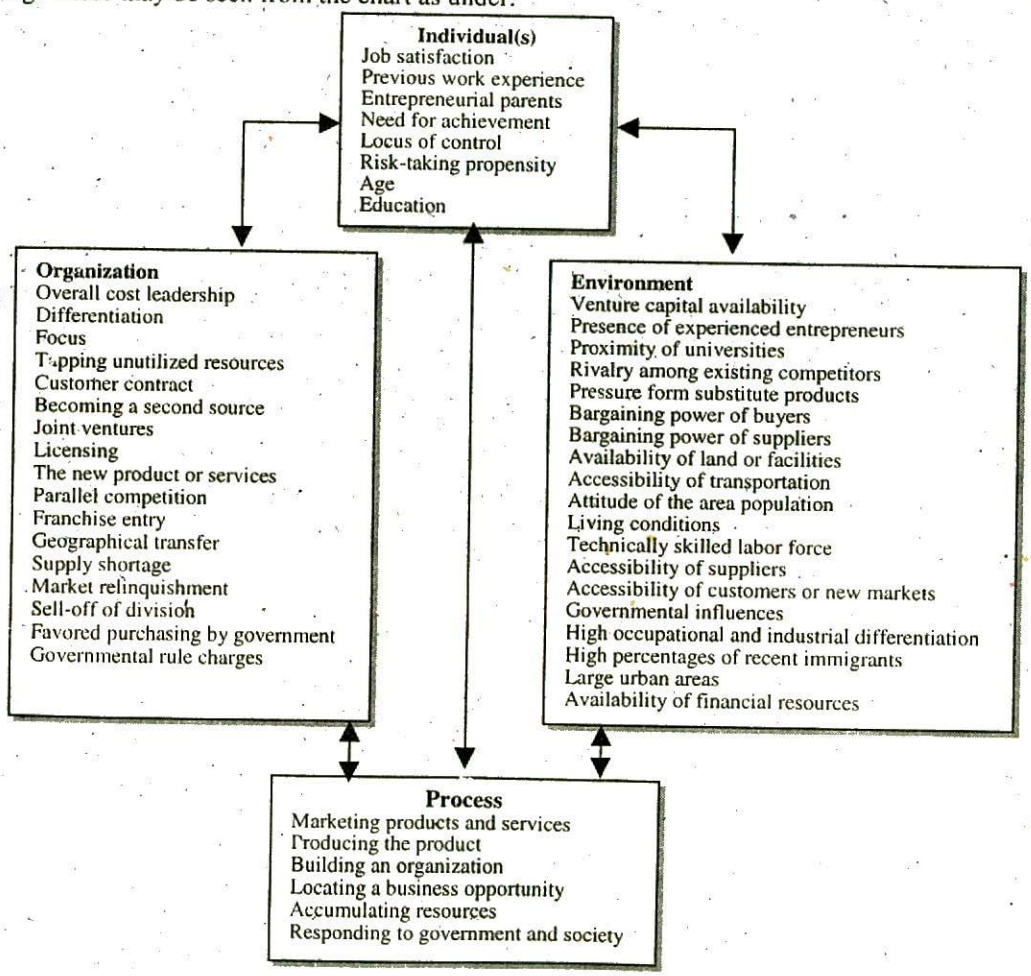


Figure – 5A: Variables in New-Venture Creation

5.5 Stages of Actions for Starting a Small Business.

After all the initial formalities are completed, the entrepreneur is expected to proceed step by step in order to start the business. Important points & steps should include a clear time frame, setting objectives, designing an organization structure, type & number of skilled personnel required, physical facilities needed for the proposed plant, market plan, needed finance & its sources. Implementation of these be done in a planned way with logical sequence:

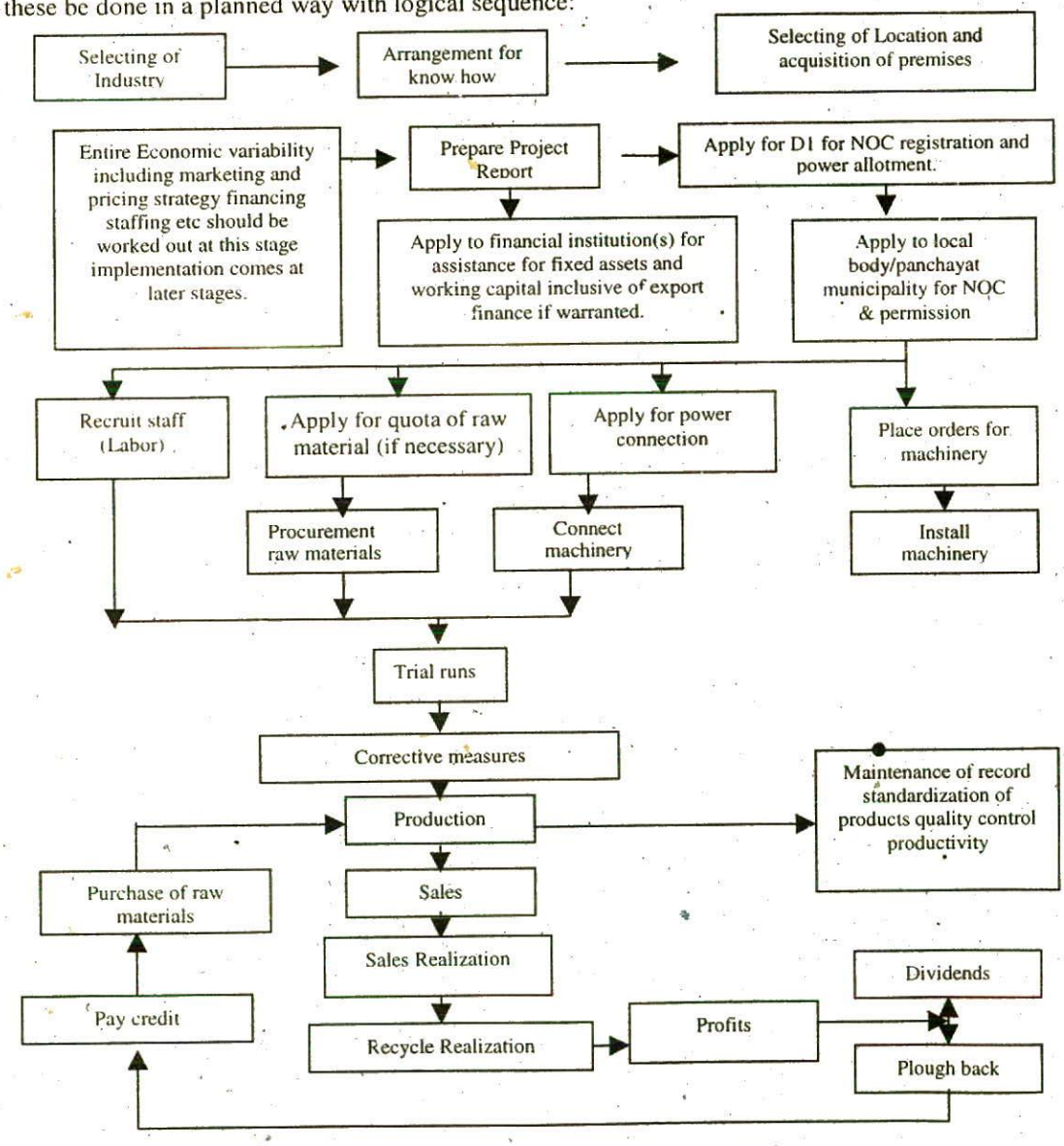


Figure – 5B: Stages of Actions for Starting a Small Business.

5.6 Selecting a Location

The process of site selection varies because each venture is unique. The site considerations of a manufacturing unit will differ from those of a retail store, a show room, a service center and the like. The location of business facilities should provide the most advantageous balance of nearness to markets, availability of resources, utilities & services, and favorable civic and legal conditions. Different types of businesses are influenced by different factors in selecting side for their businesses. An example of to this effect may be seen as under:

Location Factor	Kinds of Business Most Concerned
Market and Customers	Products of perishable products, such as bakeries, producers of products that are expensive to transport, such as road surfacing tars, asphalt, and concrete, or businesses that depend upon consumers traffic, such as banks and retail stores.
Transportation	Products of goods that are relatively heavy in weight and low in price, such as bricks and roofing shingles, or costly to ship in relations to their value, such as beer cans and soft drink bottles.
Labor supply	Business that require a highly educated and/or skilled work force such as electronic design systems and research and development laboratories.
Raw materials	Business that depend largely upon raw materials that are costly to ship, like comment and steel plants, or whose raw materials are perishable, like food packing plants.
Taxes	Business that have great investments in facilities and other fixed assets such as chemical plants and real estate developments.
Community attitudes	Businesses operating processes that are likely to pollute, like chemicals and bleaching plants, whose products are dangerous, like insecticides and explosives, or whose products have an odor, like rayon, paper, and rubber.
Land	Business that need large acreage of land for cultivation (growers of large crops of tomatoes, lettuce, onions, and so on), such as paper and forest products, or for processing operations, like steel mills and petroleum plants.
Climate	Businesses that require optimum conditions of temperature, humidity, and rainfall, such as farming or aircraft manufacturing.
Utilities	Businesses that require large amounts of power or water, like aluminum and paper plants.

Considerations of site selection as stated earlier differ from lines of activity. A simple difference between a manufacturing unit from a retail store can be seen :

A Manufacturing Unit	A retail Store
❖ Transportation: Will there be quick access to an interstate high-way that allows that overnight delivery to markets far from the site? ❖ Labor force: Does the labor supply have the skills needed to run the plant productivity? ❖ Community size: Should the entrepreneur locate in nonmetropolitan area? What is the standard of living in the area? What is the quality of life?	***On the City*** ❖ Breakdown by age, income, and occupation? ❖ How many similar stores are there now in the city? Where are they located? ❖ Is the city growing? If so, how fast? ***On an Area Within the city*** ❖ What do area consumers buy when they go to such a store? ❖ What is the area's population? Is it growing?

A Manufacturing Unit	A retail Store
❖ Water pollution: What minimum levels of water pollution control must the entrepreneur adhere to? ❖ Land: How much land will be needed not only for making the product buy also for parking and for air pollution control equipment? Should the entrepreneur buy more land than he or she needs at present to provide for future expansion and as a hedge against the upward trend in land price? ❖ Fuel and Power: Will there be ample sources of energy available now and in the future? ❖ Air Pollution: What kind of equipment must be installed to treat emission of air pollutants? ❖ Taxes: What effect will state and local tax structures have on the cost of manufacture? ❖ Financing Opportunities: Will the community or the state help finance the plant? This is of questions is by no means complete. But it does underline the complexity of picking the right, location for a manufacturing plant. Although expensive, consultants are available to help the entrepreneurs choose a plant location. An example illustrates how the process of site selection might work.	❖ Are they mostly white-collar workers, laborers, or retired persons? ❖ What is the average family income? What is their total buying power? ❖ How many other similar stores are located in the area? How successful are they? ***On a Specific Site Within the Area*** ❖ How close is the nearest competing store? ❖ Is the site surrounding by well-kept homes? ❖ Is there a steady flow of foot traffic by the site? ❖ What is the floor area? Is there any room to expand? ❖ Can deliveries be made from the rear? ❖ Will nearby stores draw customers to the site? ❖ Is the appearance of the site pleasing? Will customers want to shop there? ❖ Is there a divider on the road that may discourage some potential customers? ❖ Is there plenty or parking space available next to or near the site? ❖ Is the site accessible by bus? ❖ What zoning requirements must be met? ❖ How far will customers have to travel to shop in the store?

Choosing the best location calls for painstaking attention to detail. Entrepreneurs should narrow their choices to the most likely sites and then dig out the facts about each one. The process of deciding where to locate a manufacturing plant is more complex and requires painstakingly thorough marketing research compared to a retail store.

To find the right location for their plants, entrepreneurs generally should try to balance three site factors:

- ❖ Transportation costs
- ❖ Potential sales revenues
- ❖ Manufacturing costs

These factors vary in importance, depending on the entrepreneur's marketing area. For example, if planning to sell their product to customers within a narrow geographic area, entrepreneurs should attempt to minimize transportation costs in relation to customers and ignore the location of rivals.

Before selecting a site, the entrepreneur first must find the answer to various relevant questions. That area can be ranked in order of magnitude and importance such as the following:

Rating Sheet on Sites

Grade each factor: 1 (lowest) to 10 (highest)

Weigh each factor: 1 (least important) to 5 (most important)

Factors	Grade	Weight
1. Centrally located to reach the target market.	--------	--------
2. Raw materials readily available.	--------	--------
3. Quantity of available labor.	--------	--------
4. Provision for future expansion	--------	--------
5. Tax burden.	--------	--------
6. Topography of the site (steppe and foundation)	--------	--------
7. Quality of police and fire protection	--------	--------
8. Transportation available	--------	--------
9. Labor rate of pay/estimated productivity.	--------	--------
10. Adequacy of utilities (sewer, water, power, gas)	--------	--------
11. Local business climate.. Housing availability for workers and managers	--------	--------
12. Environmental factors (school, cultural, community atmosphere).	--------	--------
13. Estimate of quality of this site in year.	--------	--------
14. Estimate of this site in relation to my major competitor.	--------	--------
Total		

5.7 Selling Business

An owner if does not want to run or switch over to another may sell the business that he of his own started in the recent past. In doing a planned sell of his enterprise, the owner needs to proceed through eight steps. These are :

Step for Selling a Business

There are normally eight steps for the proper preparation, development, and realization of the sale.

STEP 1: Prepare a Financial Analysis: The purpose of such an analysis is to define priorities and forecast the next few years of the business. These fundamental questions must be answered:

- If the market potential is so limited that goals cannot be attained, should we plan an acquisition or develop new products to meet targets for sales and profits?
- What will executive and other workforce requirements be, and how will we pay for them?
- Must we raise outside capital for continued growth? How much and when?

STEP 2: Segregate Assets: Tax accountants and lawyers may suggest the following step to reduce taxes:

- Place real estate in a separate corporation, owned individually or by members of the family.
- Give some or all of the owner's share to heirs when values are low, but have the owner retain voting rights. Thus when a sale is made, part or all of the proceeds can go directly to another generation without double taxation.
- Holds management's salaries and firing benefits at reasonable level to maximize profits. Establish a leasing subsidiary with title to machinery and rolling stock. You can then lease this property to the operating company.

STEP 3: Value the Business: Obviously, establishing the valuation of a company constitutes a most important steps in its sale.

STEP 4: Appropriate Timing: Knowing when to offer a business for sale is a critical factor. Timing can be everything. A few suggestions follow:

- Sell when business profits show a strong upward trend.
- Sell when you are convinced that your company's future will be bright.
- Sell when the management team is complete and experienced.
- Sell when the business cycle is on the upswing, with potential buyers in the right mood and holding excess capital or credit for acquisition.

STEP 5: Publicize the Offer to Sell: A short prospectus on the company that provides enough information to interest potential investors should be prepared. This prospectus should be circulated through the proper professional channels: bankers, accountants, lawyers, consultants, and business brokers.

STEP 6: Finalize the Prospective Buyers: Inquiries need to be made in the trade concerning the prospective buyers. Characters and managerial reputation should be assessed in order to find the best buyer.

STEP 7: Remain Involved Thorough the Closing: Meeting with the final potential buyers helps to eliminate areas or misunderstanding and to negotiate the major requirements more effectively. Also, the involvement of professionals such as attorneys and accountants usually precludes any major problems arising at the closing.

STEP 8: Communication after the sale: Problems between the new owner and the remaining management team need to be resolved in order to build a solid transition. Communication between the seller and the buyer and between the buyer and the current management personnel is a key step.

In addition to these eight steps, an entrepreneur must be aware of the tax implications arising from the sale of a business. For professional advice, a tax accountant specializing in business valuations and sale should be consulted.

The steps provide a clear framework within which entrepreneurs can structure a fair negotiation leading to a sale. If the purpose of a valuation is to sell the business, then the entrepreneur must plan ahead and follow through with each step.

5.8 Providing Physical Facilities

The physical facilities normally required in operating a beginning small business include at least one building and some equipment and tooling. This chapter will present not only the various factors that a prospective entrepreneur must consider in acquiring the appropriate physical facilities, but also the problem of layout to make most effective use of these facilities.

The Building

A new venture usually involves the purchase or an existing building. The alternative to acceptance of an existing building is to design and construct a new building.

To Lease or to Buy

Both leasing and buying a business building present certain advantages. The advantages of one are typically the disadvantages of the other. Among the advantages of leasing are:

1. Avoidance of a large cash outlay for purchase of a building. This reduces the initial capital investment or provides more working capital than would be the case if a building were purchased. Thus, by leasing, the small entrepreneur can minimize financing problems.

2. Avoidance of danger of loss due to fire, tornado, hurricane, flood, and explosion.
3. Reduction of risk of decline in property values caused by urban blight, the moving of a highway, etc.
4. Deductibility for income tax purposes of lease rentals paid (typically a larger expense item than allowable building depreciation).

Spatial Requirements

The building should be large enough to house the projected business and, typically, should include some space for future expansion.

Functional Requirements

The general suitability of a building for a given type of business operation is important. The floor space of a restaurant, for example, should be on one level rather than divided among the floors of a four-storied building.

Constructional Requirements

A structurally sound building may look out of date. Its architecture may identify it with a bygone era – a matter that is more or less serious depending upon the type of business.

Building Interior. A good color combination in the plant might include white ceilings, light green upper walls, darker green lower walls and machine bases, and bright orange moving machine parts.

Building Exterior. The outside appearance of a building is important because of the impression it makes on customers and others. This is obviously more important to a store or restaurant than to a manufacturer, wholesaler, or plumbing repair shop.

Entrances and Exits. Entrances and exits should facilitate the flow of people into and out of the building. Anything interfering with easy access should be avoided.

Building Installations and Service Facilities. A small business cannot allow itself to be outclassed in provisions for customer and employee comfort if it is to be directly competitive one should certainly never go "second class" merely because the business is small.

Air Conditioning. Air conditioning is more typically required in retail and service firms than in factories.

Lighting and Wiring. In both factory and store, the electric wiring must be adequate.

Sanitary Facilities. Sanitary facilities include lounges, rest rooms, washrooms, and drinking fountains. These must be conveniently located for the use of employees and customers. Sterilization devices may also be required in cafeterias, dairies, hospitals, laundries, dry cleaning shops, and food processing plants.

Equipment and Tooling

The small business must consider initial cost, cost to maintain the equipment, allowable depreciation, and length of life, together with the conversion cost per unit of product resulting from the use of its equipment. The risk that invention will make a machine functionally obsolete before its normal replacement date may be eliminated by leasing the equipment. Moreover, achieving economy of repair service and reducing the variety of supplies required for machine servicing depend on having standardized equipment.

Factory Equipment

Machines in the factory may be either general-purpose or special purpose in character. General-purpose machines for metalworking include lathes, drill presses, and milling machines.

Retail Store Equipment

Small retailers must have merchandise display counters, storage racks, shelving, mirrors, seats for customers, customer push carts, cash registers, and various items necessary to facilitate selling. Such equipment may be costly, but is usually less expensive than equipment for a factory operation.

Office Equipment

Both stores and factories require office equipment for typing, billing, bookkeeping, and other clerical tasks. The increased use of computerized record keeping systems, even among smaller firms, adds to the investment required for the most efficient office equipment.

5.9 Layout of the Business

Layout involves the logical arrangement of the physical facilities of a business in order to provide efficiency of operations. What is efficient and logical depends to a considerable extent upon the type of business. In order to avoid makeshift arrangements, the inexperienced entrepreneur should obtain the services of an architect, an engineer, or one who is sufficiently skilled to make an effective arrangement of the available facilities.

Factory Layout

Factory layout presents a three-dimensional space problem. Over head space may be utilized for power conduits, pipelines for exhaust systems, and the like. A proper design of storage areas and handling systems makes use of space near the ceiling.

Process and Product Layouts: Two contrasting types of layout are used in industrial firms. One of these is called process layout and has similar machines grouped together.

Tools for Planning Layout: Three tools available for planning layouts deserve special attention.

Layout of Work Stations: The work space allocated to any given machine and operator must itself be properly laid out, with standard positions for all tools, parts, supply items, packaging items, and the like.

Layout of the Office: The layout of the general office may be a problem in the new small factory. Its location relative to the rest of the factory is perhaps more important than the internal arrangement of its physical facilities.

5.10 Consideration in Factory Layout

Factory layout is very important to save costs, saving time in movement, reducing accident and the like. But layout be done in a planned way. Some factors are to be considered for the purpose.

While choosing the layout for a factory, the following factors should be taken into consideration.

1. Factory Building: Ideally, a building should be built to suit the best factory layout. But in practice the layout might have to be modified to fit a given building. The covered area, the number of stories, elevators and stairs, parking and storage area all affect the layout. The plant site should also be considered in choosing the layout for a factory.
2. Volume of Production: Normally high volume manufacturing requires product layout and low volume job production needs process layout.
3. Materials Handling: The pattern of layout depends to a great extent on the nature of materials and the materials handling plan. It is necessary to provide adequate space for storage and adequate space for free movement of materials.
4. Type of Equipment: Specifications of machinery and equipment are a prime consideration in factory layout. General purpose machines need a different layout than specialised machines. Adequate space must be provided for the location and movement of all machines and equipment.
5. Lighting and Ventilation: In laying out a factory adequate provision must be made for lighting ventilation and heating. These are essential for the health, comfort and productivity of workers.

6. Service Facilities: The layout of a factory must include proper service facilities required for the comfort and welfare of workers. These include canteen, lockers, drinking water, toilets, first aid, fire escapes, etc.
7. Nature of Product: The type of product to be manufactured affects plant layout in several ways. Small and light products can be moved easily to the machines whereas for heavy equipment requires assembly bays. One or a few standardized products can better be produced through product layout while process layout is more useful for producing a large variety of non-standardized products. Quality and fragility of the product also influence the layout.

5.11 Major Legal Concepts and Entrepreneurial Ventures

The important thing that an entrepreneur needs to guard against is that there should not be any task in the process of starting the enterprise which is not allowed by the law of the land. Illegal or unauthorized initiatives are blocked in the mid time, facing law suits either by the government or even by some competitors, hence to remain careful. To be care one potential entrepreneur while going to start the new venture should be aware about the legal concept as under:

I. Inception of Entrepreneurial Venture
   - A. Laws governing intellectual property
     1. Patents
     2. Trademarks
     3. Copyrights
   - B. Forms of business organization
     1. Sole proprietorship
     2. Partnership
     3. Corporation
     4. Franchise
   - C. Tax considerations
   - D. Capital formation
   - E. Liability questions

II. An Ongoing Venture: Business Development and Transactions
   - A. Personal law
     1. Hiring and firing policies
     2. Collective bargaining
     3. Equal Employment Opportunity Commission
   - B. Contract law
     1. Legal contracts
     2. Leases
     3. Sales contracts

III. Growth and Continuity of a Successful Entrepreneurial Venture
   - A. Tax considerations
     1. National , state, local
     2. Incentives
     3. Payroll
   - B. Governmental regulations
     1. Zoning (property)
     2. Consumer law
     3. Administrated agencies (regulatory)

Bad laws are the
Worst sort of tyranny
-Burke

C. Continuity of ownership rights
   1. Property laws and ownership
   2. Bankruptcy
   3. Wills, trusts, estates

An entrepreneur need not be a lawyer. He can consul the lawyer on fees. He can have a legal consultant to whom matters relating contract, big money deal, big purchase may be referred for a scrutiny from the legal point of view. And the legal opinions must not be overlooked but be taken seriously for required adjustment or modification.

5.12 Feasibility Study Checklist

A feasibility study is similar to a personal financial plan. Individuals need to assess their total incomes and to allocate their expenses to keep within them. Many people will spend a considerable amount of time developing a personal or family budget.

A well prepared feasibility study contains at least six major sections:

1. Introduction, preface, or general overview,
2. Marketing,
3. Accounting, finances and taxes
4. Management
4. Legal aspects.
6. Appendix

I. Introduction, Preface, or General Overview
---------- Objective of feasibility study
---------- History (if you are purchasing an ongoing concern)
---------- Overview of the industry
II. Marketing
---------- Objective and supporting strategies
---------- Price determination: competition's prices, price list with profit margin
---------- Promotion : specific detail plan (how, when, where, and cost); personal selling, mass selling, sales promotion
---------- Product description: goods and / or service explained in detail.
---------- Identify target market, who where and how many
---------- Place: location, size, traffic counts, channel or distribution
III. Accounting, Finance and Taxes
---------- Start-up or turnkey cost (itemized)
---------- Equity, or unencumbered cash
---------- Collateral
---------- Credit references
---------- Loans: amounts, types, and conditions
---------- Proforma income statement (profit and loss statement)
---------- Proforma balance sheet
---------- Ratio analysis
---------- Provision for taxation
---------- Projected cash flow
---------- Working capital
---------- Break-even analysis
IV. Management
---------- Personal expertise
---------- Organizational structure
---------- Personnel management (wage and salary administration)
---------- Policies (general and departmental)
---------- Inventory control
V. Legal Aspects
---------- Contracts, licences and other legal documents
---------- Business structure
---------- Insurance: types and costs
---------- Provision for business termination
---------- Type: sole proprietorship, partnership, corporation etc.
---------- Conditions and terms: responsibilities, liabilities and compensation of principals
VI. Appendix
---------- Working papers
---------- Diagrams
---------- Layouts
---------- Resumes
---------- Charts
---------- Graphs
---------- Others

5.13 To Get a Successful Starting

At the last stage of the Chapter, one can find the chart provided for the potential entrepreneur to see the minimum number of the matters in order to be successful in starting the new enterprise. These 9 [nine] areas include multidimensional factors:

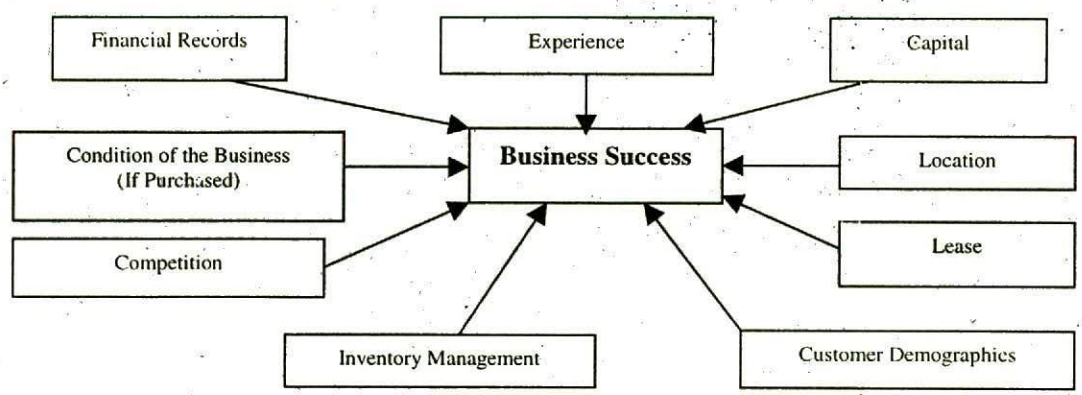


Figure- 5C: Factors Required for Starting a Business

5.14 Summing Up

Starting an new business from the scratch gives owner immense pleasure of creation. But it is not always an unmixed blessing. Many such entrepreneurs face multidimensional problems and leave the initiative half the way through. As such while starting a new firm the entrepreneur should approach to make a comprehensive Feasibility Study in order to :

i. Make a through analysis of the available relevant adequate information before finally deciding the line activity to be chosen, the location where to set up the business, the type of machinery & equipments needed and from where to procure those, the raw materials – sources & prices, skill and work force needed, etc.

ii. The number of competitors in the target market - their strengths, manageable market share, location of the show rooms, channels of distribution, sales force available etc.

iii. The entrepreneur should estimate a realistic sales volume over the period of initial 3 years, estimate chargeable prices, realizable profit estimate be made after careful apportionment of judiciously estimated fixed as well as variable costs that likely to occur in the process.

iv. The entrepreneur should proceed step by step in order to establish the business: a realistic time schedule of each and every work involved be chalked out marking when to do what, setting an appropriate organization structure, recruitment & training of personnel, starting production, setting sales force, arranging fixed and working capital in right proportion and at right time , etc.

v. Needed physical facilities, infrastructural arrangements, layouts of machine, office equipment & office furniture be scientifically planned besides making provision for maintenance & repair.

Model Questions

Broad Questions

1. What is the meaning of new venture? Describing the different phases of starting a new business
2. What are the essentials of starting a business? Briefly trace out the advantages of new business.
3. Sketch the feasibility study checklist. What are the stages for starting a small business – show it by providing a flow chart?
4. Narrate the different considerations in selecting a business location. Observe two businesses within your community: one, where you feel the location is poor and another, where the location seems proper. Comment on why you would declare the one location acceptable and the other unacceptable.
5. What is meant by selling business? How to get a successful start of selling a business?
6. What physical facilities should be developed if you decide to start a new business? Explain the necessity of designing an appropriate layout of the business.
7. Evaluate the three major forms of organization from the standpoint of management control by the owner and of sharing the firm's profits.
8. How much would you plan on as your profits before taxes and as a return on your investment if you started a new small firm today? Give logic.
9. Where can people who plan to start a new firm find some statistics to guide their planning?
10. Why is the location of the right site so important? Why is it more important in case of some industries than in others? Explain giving two examples.
11. How would you go about selecting a site for your own venture? In locating a manufacturing plant, what site factors should an entrepreneur try to balance?
12. Do you believe that within a generation or two, most manufacturing will take place in industrial parks? Give logic in favor of your answer.
13. How can starting a new firm have advantages over buying an existing business?
14. Location brings customers- explain. In locating a retail store, what site factors should a small shop- keeper try to balance?

Short Questions

1. Define new venture.
2. Briefly trace out the advantages of new business.
3. What are the reasons for starting a new small business?
4. What are the reasons against starting a new small business?
5. Show the flow chart of actions of stages for starting a small business.
6. Make a layout of the business.
7. Why are the effects of a location decision so permanent?
8. Why does the site factors differ for a wholesaler and a retailer?

Money is a good servant, but a poor master.
- Dominique Bougours

Appendix – 5 A
Analysis for Selecting Right Location

Assume you are in the process of opening a small retail hardware store. Choose a site location in your community, and then answer the following questions about the community, potential customers, competition, and location.

Potential of the Trading Area	[Tick , count and put weight]	
1. How big is the trading area?	sq. mile.	
2. What is the customer potential within five miles?	customers	
3. What is the density of population?	people per sq. mile.	
4. Is transportation adequate for supplies?	yes	no
5. What is the income level of the trading area?	per capita	
6. What is the local employment pattern, based on number of people employed?	% people employed	
7. What is the general makeup of the community? residential	old	growing
8. What are the trends in population and income?	up	down
9. Is new construction on the increase?	yes	no
10. Are school enrollments up?	yes	no
11. Are retail sales on the increase?	yes	no
12. Have average business improvements been made recently?	yes	no
13. Does business property have a high vacancy rate?	yes	no
14. Have shopping patterns changed drastically in recent years?	yes	no
15. Are customers moving to or away from the potential location?	to	from
16. What are present zoning restrictions?		

Can Customers Get to the Location?		
1. Is the area served by adequate public transportation?	yes	no
2. How broad an area does the transportation service encompass?	sq. mi.	
3. Is the generally attractive to shoppers?	yes	no
4. Can it be easily reached by automobile?	yes	no
5. Is public parking adequate and relatively inexpensive?	yes	no
6. How many spaces in the available nearby parking lot are taken up by all-day parkers?	many	few
7. If located on a highway, is location easily accessible from the main traffic flow?	yes	no
8. What are restrictions on signs and store identification?		
9. If the location is on a limited access road, how close is the nearest interchange?	miles	
10. Is the location accessible to delivery trucks?	yes	no
11. Is the traffic speed too fast to encourage entrance by automobile?	yes	no
12. Are most customers who drive past the location on their way to work or on shopping trips?	on way to work	on shopping trips
13. Will nearby stores help you? Are the other stores in the shopping center, neighborhood, or highway location of a nature that will attract customers who also will become patrons of your store?	yes	no
14. What are the prospects for changes in traffic flow in the near future?	May be slight	likely likely
15. Will anticipated changes improve or damage the location?	improve	damage
16. Are zoning changers planned that would affect accessibility of the location?	yes	no

Judging the Competition

1.	How many other businesses of the same kind exist between the prospective location and the most highly populated area?	stores	
2.	Is this spot the most convenient store location in the area?	yes	no
3.	How many other stores of the same kind are in this trading area?	stores	
4.	How many of them will compete with you for customers?	stores	
5.	Do these other stores have better parking facilities?	yes	no
6.	Do these other stores offer the same type of merchandise?	yes	no
7.	Do you consider these other stores more aggressive or less aggressive than your own operation will be?	more	less
8.	What other competing stores are planned for this trading area in the near future?		
9.	Are other potential sites that are closer to the majority of customers likely to be developed in the near future?	yes	no
10.	Are your major competitors well-known, well-advertised stores?	yes	no
11.	Does a need for another store of this kind in the area actually exist?	yes	no
12.	How well is the demand for this product being met in the area?	very well	moderately well
13.	If any empty stores or vacant lots are near the location, is a competitive store planned for them?	yes	no

Can the Location Attract New Business

1.	Is the location in an attractive district?	yes	no
2.	Do numerous stores exist that will draw potential customers for you into the area?	yes	no
3.	Is the location near well-known and well-advertised stores?	yes	no
4.	Is this location the most attractive one in the area?	yes	no
5.	Is the location on the side of the street with the busiest customer traffic?	yes	no
6.	Is the location nearer to the general parking area than locations of competing firms?	yes	no
7.	Is the location in the center of or on the fringe of the shopping district?	center	fringe
8.	Is it near common meeting places for people, such as public offices?	yes	no
9.	Are most of the people passing the store prospective customers?	yes	no
10.	Are the people who pass usually in an hurry, or are they taking time to shop?	in a hurry	taking time to shop

Cost of the Location

1.	What will your rent by?	$	per month
2.	Who will pay the utility costs?	you	others
3.	Who pays additional costs, such as taxes, public services, and costs of improvements?	you	others
4.	What are the possibilities for eventual expansion?	good	poor
5.	Are good employees available?	yes	no
6.	Will your potential income justify your costs?	yes	no

Based on your analysis, is this a good community in which to open a retail hardware store? Explain.

Chapter : 6

Franchising

6.1 Meaning of Franchise
6.2 Purposes of Franchising
6.3 Types and Arrangements of Franchise
6.4 Benefits and Problem of Franchise
6.5 Favor obtainable from the Parent Company
6.6 World Famous Franchise Business
6.7 Points about Which to Remain be Careful
6.8 Procedure for Evaluating Franchise opportunities
6.9 Franchise Agreement
6.10 Cost of Franchise
6.11 When Owning a Small Business Through Franchise is Not Advisable?
6.12 Franchise as a Last Form of Business
6.13 Checklist for Evaluating a Franchise
6.14 Summing Up

Franchising emerges as a format of mutual dependence which allows both the franchisor and the franchisee realize profits & benefits to each other's mutual and, at best, equal advantage. The franchisor is able to expand without further investment and, though the return is obviously lower than from expansion by ownership, he does receive an income from the franchisee as well as getting both an outlet for his product and more muscle in negotiating the purchase of materials and equipment. The franchisee, on the other hand, is able to concentrate his entrepreneurial skills at the sharp end of sales and customer service, while the administrative headaches of setting up the business are mitigated by the uniform nature of the format. By the same token, he is saved, through feedback to the franchisor of the accumulated experience of other franchisees, from making the errors to which businesses are prone in their early, most vulnerable stages. This relationship is expressed in agreements; the purchase agreement and the franchise agreement. It naturally follows that a prospective franchisee must satisfy himself that the franchise on offer is a sound investment. Close questioning of both the franchisor and existing franchisees along the lines of the points raised in this section will help with this appreciation.

6.1 Meaning of Franchise

Franchising is fundamentally and normally a system for distributing products or services through independent resellers. The franchise consists of granting a right, or rights, which entitles the franchise or holder of the license, to perform or use something that is the property or right of the franchiser.
Franchising is a system used by a company (franchisor) that grants others (franchisees) the right and license (franchise) to market a product or service under the franchiser's trade names, trademarks, service marks, know-how, and method of doing business.
"Franchising occurs when the franchisee markets a product or service developed by the franchisor under an agreement and license to do so."

------ Arnold S Goldstein, 1983.