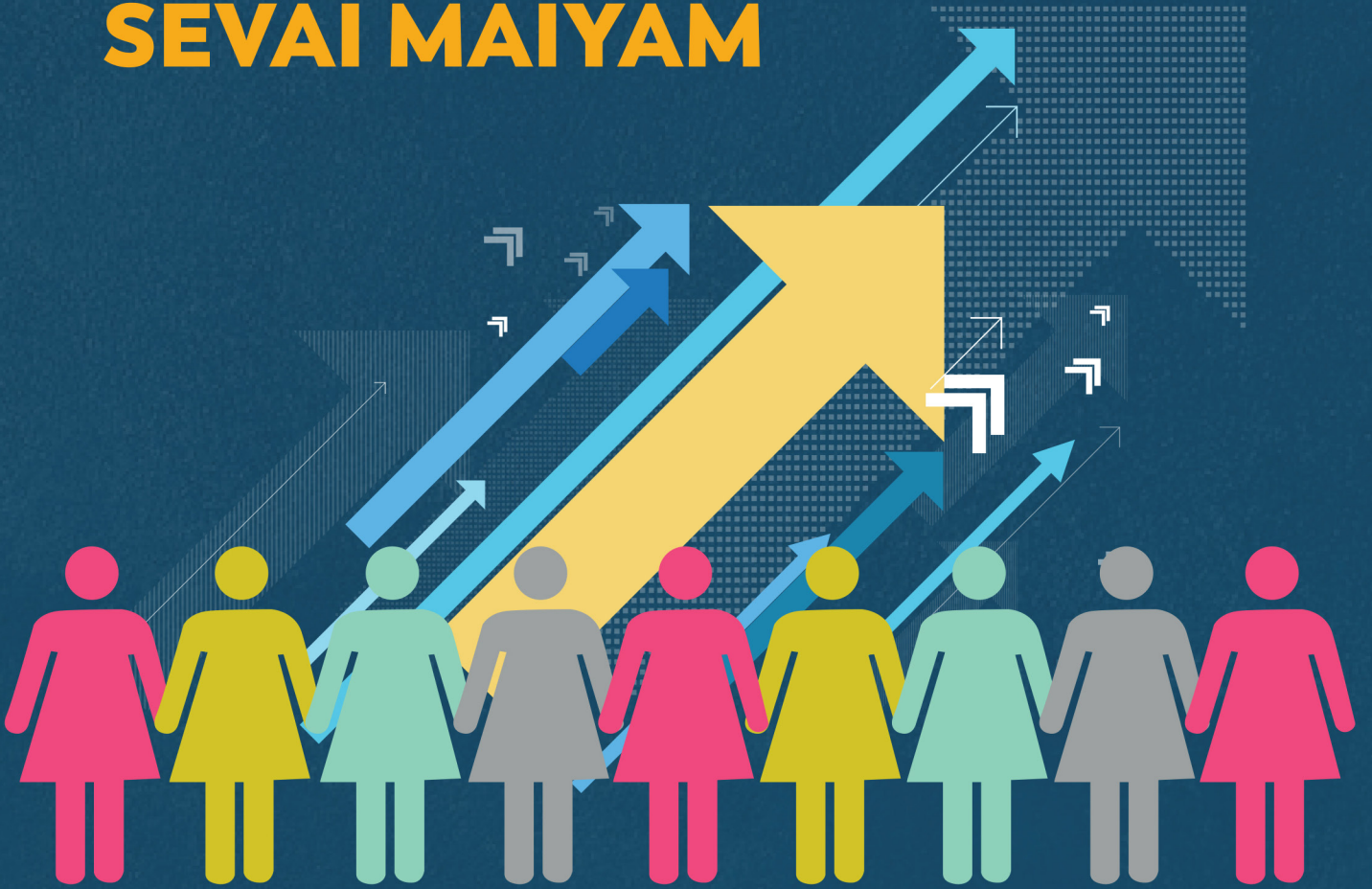




MAGALIR VAAZHATHARA SEVAI MAIYAM



TOOLKIT

MAGALIR
VAAZHVADHARA
SEVAI MAIYAM

TOOL KIT
Version 0.2

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ANSWER

Question 1



**Why am I not getting enough customers?
How can I get enough customers
to buy my products and services?**



**Enterprise Stage
Solve**



**Viability Category
Customers and
Competition**

Points to be kept in mind while answering the question

A question such as this one will often have more than one possible answer. It is recommended that you discuss each of the answers below with the entrepreneur without prejudice and discover the root causes of the problem through a frank discussion. It is only after establishing the possible causes, suggest an appropriate action mentioned in the answers.

Summary of the answer

There may be several reasons for the observed problem of, an insufficient number of customers buying the business' products and services. An entrepreneur should create and follow a clear communication plan to inform potential customers about the products and services her business offers. She also needs to pay attention to the quality of the products and services and make sure that it is better or as good as that of the competitors' products and services. The prices should be set in such a way that the customers will find them affordable, comparable to those of the competitors, and yet at levels that should make the business profitable. In addition to these points, if the products and services are chosen while keeping in mind customers' needs and the market size, the business will be able to attract a sufficient number of customers.

Detailed answer

There is more than one possible answer to this question. These are arranged from "most likely" to "least likely" sequence:

- It is possible that the potential customers are not aware of the business products and services. In such cases, the entrepreneur should think about simple ways of communicating about the products and services through text messages, pamphlets, etc.
- Sometimes, competitors offer incentives such as free gifts, discounts etc. which customers enjoy and hence they prefer buying from competitors. In such cases, the entrepreneur could come up with similar or better incentives while keeping in mind the costs of doing so.
- Sometimes, a business sells products or services which are much more expensive than competitors' products and services even

though the quality is comparable. Customers then tend to prefer competitors' products and services. In such cases, the entrepreneur should do a survey to understand competitors' prices and based on the findings, lower the prices to attract customers. While doing so, the entrepreneur must examine her costs so that the business does not incur a loss later.

- Sometimes, competitors offer better quality products and services and comparable (or even less) prices. In such cases, the customers tend to prefer competitors' products and services. The entrepreneur should study the quality and price of the competitors' products, and then make changes in the production and service processes to match or offer even higher quality. While doing so, the entrepreneur must keep in mind the costs so that the business does not incur a loss later.
- In some cases, businesses create products or services without fully considering what

the customers need. In such cases, the customers are not interested in buying such products and services because they do not see any benefit from them. If this is the case, then the entrepreneur should first understand the needs of potential customers and then re-design the products and services to suit those needs.

f) In some cases, the market size is not large enough so that there are not enough customers who would like to buy a business's products and services. When this is the case, it is better to move away from such products and services. Instead, the entrepreneur should understand the various needs of the potential customers and come up with products and services for which there is adequate market size.

More information

To understand more about how to communicate about products and services with customers, please view -

*presentation "NRETP-F6 - Understanding-Customers" slides 59-71

To understand more about discounts and free items, please view -

*a short film "27 Giving Discounts"

To understand more about how to price products and services, please view -

*presentation "NRETP-F8-Pricing Products and Services", all slides

*a short film "26 Setting a price

To understand more about how to be better than the competition, please view -

*presentation "NRETP-F6 - Understanding-Customers", slides 35-41

*a short film "17 Understanding Competition"

To understand more about customer needs, please view -

*presentation "NRETP-F6 - Understanding-Customers", see slides 11-25

*a short film "15 Understanding Customers"

To understand more about market size, please view -

*presentation "NRETP-F6 - Understanding-Customers", slides 44-58

*a short film "18 Market Size and Market Share"

Important keywords and key phrases

Communication, Competition, Customer needs, Customers, Discounts, Market size, Pricing, and Quality.

Links to resources referred in the answer - Short Films

27 Giving Discounts

26 Setting a price

17 Understanding Competition

15 Understanding Customers

18 Market Size and Market Share

Links to resources referred in the answer - Presentation

NRETP-F6 Understanding Customers

NRETP-F8 Pricing Products and Services

Related questions



Question 5

How can I make more customers aware of my products and services?

Question 19

Due to new competitors, my customers have reduced. How do I get my customers back?

Question 20

What should I do to increase the revenue of my business?



Question 2



Customers are complaining about poor quality of products and services. How do I address this situation?



Enterprise Stage
Solve



Viability Category
Customers and
Competition

Points to be kept in mind while answering the question

Entrepreneurs often define quality of their products and services from their own point of view and not from the customers' point of view. This can lead to confusion as the entrepreneur is not able to understand which aspects of quality needs improvement. Hence it is important to make them realize that the quality of their products and service is defined by their customers and not by themselves.

Summary of the answer

Quality doesn't just happen! Every entrepreneur must build quality in her products and services. Quality is experienced and hence defined by the customers. The three quality standards are Functionality, Attractiveness, and Safety. When customers complain about quality, the entrepreneur must first understand which quality standards require addressing. She must then list changes to raw material, equipment, skills, etc. needed to fix quality issues. These changes are likely to impact cost and capital. If the impact is reasonable, and the benefits of higher quality to the business are adequate, then she should make the required changes to address the situation. Finally, the entrepreneur must check with customers whether they are satisfied with the improved quality of the product or service.

Detailed answer

A good Quality product meets or exceeds the customer needs, consistently. Customers expect quality in the product or the service they pay for. Quality is important because without it, the products may remain unsold, business may end up with a reputation for "bad-quality" products and services, and in some cases, products may not meet legal and certification requirements.

In general, there are three types of quality standards :

1. **Functionality related quality standards** - In a food business, this standard for customers would mean "Good taste". For a bath soap business, this could mean "does not dissolve quickly in water".
2. **Attractiveness related quality standards** - For customers, this means how appealing the product is to the senses. So, for a bath soap, this could mean "nice smell". In a restaurant, it could mean serving tea in a clean and nice-looking cup.

3. **Safety related quality standards** - For customers, these standards indicate if the products will do any harm to them. For example, in restaurant business, this could mean "food safety certificate". For a bath soap business, this could mean not using chemicals that will cause a rash on the skin.

When customers complain about quality, they could be complaining about one or more of the above not meeting their expectations. It is important for any entrepreneur to check if the complaint is from just one or two customers, or from many. If many customers are complaining, then there is definitely a problem related to the quality.

It is also important for the entrepreneur to understand that price of a product and quality standards have a relationship. Customers expect a certain level of quality depending on the price they pay. For example, the average price of a bath soap is Rs. 25. A business keeps the price of its soap at Rs. 40 because it is a scented soap.

Customers will expect a significantly higher quality because the price is much higher.

To address quality related issues, the entrepreneur must follow these steps:

1. She should first talk to a few customers, hear their point of view, and understand which quality standards require addressing according to the customers.
2. Identify what needs to be changed such as equipment, raw material, skills, etc. to achieve the expected quality standard.

3. Understand the impact of those changes on the cost and the capital required.
4. If the impact is reasonable and if the improvement in quality can lead to either higher price and/or higher sales volume, then make the required changes.
5. Test the quality in the products and services and also get feedback from the customers to see if they feel that the quality has improved.

More information

To understand more about "quality, its importance, and its standards", please view -

*presentation "NRETP-F6-Understanding-Customers" slides 26-33

*short film "16 Understanding Quality"

Important keywords and key phrases

Quality, Quality standards

Links to resources referred in the answer - Short Films

27 Giving Discounts 26 Setting a price

17 Understanding Competition

15 Understanding Customers

18 Market Size and Market Share

Links to resources referred in the answer - Presentation

NRETP-F6 Understanding Customers

Related questions



Question 7

The Quality of my products and services is good, but I am not making profit. How do I make my business profitable?



Question 3



How much inventory should I keep in my business? How do I clear unused inventory in my business?



Enterprise Stage
Ideate and Solve



Viability Category
Capabilities

Points to be kept in mind while answering the question

This question is applicable to production and trading businesses. While the answer gives a number of ways in which an entrepreneur can reduce the excess inventory, it should also be emphasized that the entrepreneur should focus on maintaining just enough inventory so that the situation of excess inventory does not arise.

Summary of the answer

Inventory is of three types – raw material, work-in-progress, and finished goods. Businesses maintain inventory of finished goods so that they can quickly respond to customer needs but inventory also locks the business' working capital. Sometimes businesses have excess inventory due to high levels of production or stocking of goods. Excess inventory can be reduced by offering discounts, free gifts, special offers, sales incentives to others, and sales on credits. In case of retail businesses, negotiating with suppliers to take back the excess inventory is also possible. Ideally, businesses must maintain just enough inventory to take care of sudden demand for products, but while ensuring that a lot of working capital is not stuck in it.

Detailed answer

There are three types of inventories:

1. Raw Materials – These are those items which are used to make products.
2. Finished goods - Articles that are sold to the customer are called Finished Goods.
3. Work-In-Progress - When Raw Material is in the process of being converted into Finished Goods, the material is called Work-In-Progress or WIP.

A trading business such as a grocer shop might invest its own money in buying bags of rice or dal, bars of soap etc. A production business, for example a pickle making business, might invest its own money in buying raw materials such as mangoes and oil, and bottles for packaging the pickle. Businesses invest their own money to buy raw material and make finished goods; hence, we say that the business's money is locked in the inventory. If the inventory levels are too high, there will be less working capital money to run the

business. When there is less inventory in a business the sales activities may reduce. How much inventory should be kept depends on the cost of inventory, cost of transportation and costs of storage. So, entrepreneur must choose the right level of inventory without having to spend too much money on it.

An entrepreneur must estimate the expected number of customers who are likely to be interested in buying products in a week or in a month. This will help the entrepreneur decide the required level of inventory. Often while starting a business, these estimates are difficult to make. Hence during the early phase of a business, it is a good idea to have small quantities of raw material and finished goods and replenish them more frequently. After a couple of months, based on the initial experience, an entrepreneur will be able to estimate the required inventory better.

Sometimes a business may have too much inventory due to high levels of production or stocking of goods (in case of retail businesses)

when the demand for those products is not very high. In such cases, there are a few things an entrepreneur can do:

1. Offer discounts and free items – By giving discounts on the products which have excess inventory, or by offering these as free items when customers buy other products, will help a business reduce the inventory
2. Create special offers of high inventory items such as "Buy "x" number of items and get 1 item free".
3. Give incentives (in the form of commission) to other shops and business who can sell your products.

More information

To understand more about "inventory and the different types of inventory", please view -

*presentation "NRETP-F7 Making Products and Services" slides 4 - 8

*a short film "22 Types of Inventory"

To understand more about "how to price products and services", please view -

*presentation "NRETP-F8-Pricing Products and Services", slides 28 - 35

*a short film "27 Giving Discounts"

To understand more about ""inventory and how much inventory a business should have"", please view

*presentation "NRETP-F7 Making Products and Services" slides 41 - 47

*a short film "23 Key inventory related decisions"

Important keywords and key phrases

Credit, Customer needs, Discounts, Finished goods, Free items, Inventory, Raw material, Working capital, and Work-in-progress.

4. Increase credit sales of high inventory items and encourage customers to buy more and allow them to pay later for those items.
5. In case of trading businesses, negotiate with suppliers to see if you can return the excess items.

While an entrepreneur can use one or more of the above methods to reduce inventory, it is better for her to learn from these mistakes and hence going forward maintain minimal levels of inventory.

Links to resources referred in the answer - Short Films

27 Giving Discounts 26 Setting a price

17 Understanding Competition

15 Understanding Customers

18 Market Size and Market Share

Links to resources referred in the answer - Presentation

NRETP-F7 Making Products and Services

NRETP-F8 Pricing Products and Services

Related questions



Question 5

How can I make more customers aware of my products and services?



Question 4



How do I select the appropriate sales channel for my business?



Enterprise Stage
Ideate



Viability Category
Customers and
Competition

Points to be kept in mind while answering the question

There are different sales channels available for an entrepreneur. Before choosing a channel, an entrepreneur must first understand different channels, their suitability for different types of products and services, their advantages and disadvantages, and finally their impact on the profitability of a business.

Summary of the answer

There are different sales channels available for an entrepreneur to sell her products and service. The five commonly used channels are - Selling to customers in their homes, Selling to customers directly in a shop, Selling to customers on eCommerce platforms, Selling to retailers, Selling to Institutions and wholesalers, and Selling through exhibitions. Not all channels are suitable for all products and services. Also, each channel has its own advantages which help in increasing revenues and its disadvantages which may increase costs. A choice of a channel is based on the type of products and services, customers' preference for a channel, and its impact on the profits of the business. It is a good idea for an entrepreneur to consider using more than one channel to reach different customers and to broaden the ways in which a business can earn revenues.

Detailed answer

Sales is about contacting potential customers, convincing them to buy the product or service, and then collecting money once they have bought it. Different sales channels can be used by a business.

Here are the details on the most commonly used sales channels:

1. **Selling to customers directly by visiting them in their homes** - This channel is suitable for small products such as jeweler, snacks, pickles, or packaged foods. A major advantage is that the entrepreneur can interact directly with customers and develop a relationship for repeat sales. The main disadvantages are high efforts and that the reach is limited to a few customers in a day.
2. **Selling to customers directly in a shop** - This channel is suitable when there is a large variety of products, or if the products are difficult to carry, or if equipment is needed to deliver services. The main advantage is

the convenience in serving customers. A disadvantage could be higher costs due to the shop's rent.

3. **Selling directly to customers on eCommerce websites** - This channel is suitable if the business has the capabilities of packaging and sending items by post or courier. The major advantage is the reach of the channel where there are no geographical limitations. The disadvantages are higher packaging costs and cost of adhering to websites standards such as delivery methods.
4. **Selling to retailers** - This channel is suitable for production businesses which make items such as snacks, pickles, etc. and do not have selling skills. The main advantage for the entrepreneur is that her products can reach many more customers through managing just a few retailers. Major disadvantages include lower profit margins and pressure on the working capital of the business as retailers often ask for a credit period.

5. **Selling to Institutions and wholesalers** - This channel is suitable for production businesses which make items such as snacks, pickles, etc. and which can be sold in bulk. The main advantage is that revenue target for a business is easier to reach due to a few transactions but each involving large amounts. Also, such customers often buy the same product repeatedly and sometimes packaging and marketing costs are saved. The main disadvantages include lower profit margins, longer credit periods, high dependency on a few customers, and in some case higher transportation costs.
6. **Selling through exhibitions** - This is a suitable channel for production businesses (especially with seasonal items such as lamps, candles, etc.) The main advantage is reach to a large number of customers who later can become repeat customers. The main disadvantages

are high costs due to participation fees, storage costs, and transportation costs.

An entrepreneur must choose a channel based on the following:

1. The nature of the products and services of the business
2. The channel from which the target customers prefers to buy such products and services, and hence which will give as much revenue as possible to the business
3. The cost of selling through the channel which includes storage cost, transportation cost, etc. and hence the impact on profits of the business

It is a good idea for an entrepreneur to consider using more than one channel if they are cost-effective since different channels offer interaction with different types of customers and hence broaden the ways in which a business can earn revenues.

More information

To understand more about sales channels, please view -

*presentation "NRETP-F9-Selling products and services", slides 15 - 27

*a short film "29 Sales Methods"

Links to resources referred in the answer - Short Films

NRETP-F9-Selling products and services

Important keywords and key phrases

Credit period, Customers, Margins, Marketing, Revenues, Sales, and Sales channels. Links to resources referred in the answer - Short Films

29 Sales Methods

Related questions



Question 11

Is it a good idea to establish a shop at a fixed location or should it be a mobile shop (e.g., push cart or auto)?



Question 5



How can I make more customers aware of my products and services?



Enterprise Stage
Ideate



Viability Category
Customers and
Competition

Points to be kept in mind while answering the question

There are different communication methods available for an entrepreneur. Before discussing the pluses and minuses of various communication methods, the OSF staff should request the entrepreneur to clearly state the objective of the communication. They should also ask the entrepreneur about the target audience for the communication and the key message to be given.

It would also be useful for the OSF staff to understand communication activities that the entrepreneur has undertaken in the past, and their outcome.

Summary of the answer

To stand-out amongst many competitors, an entrepreneur must make efforts to make potential customers aware of her business' products and services through a communication. She must first decide on the objective of the communication, then understand the target audience and determine the message, and finally design and send the communication using one or more mediums. There are many mediums available such as customer referrals, posting on social media, leaflets, posters, and doing demos. Each medium requires effort and costs money. Hence an entrepreneur must choose the right one which is likely to generate revenues for the business but which does not cost much.

Detailed answer

Businesses have to make efforts to make potential customers aware of their products and services and also to make existing customers aware of any new product or service that the business has introduced. To stand-out amongst many competitors, an entrepreneur must carefully select the message she wants to communicate, and ensure that the communication is attractive and eye-catching.

There are three important steps for effective communication that an entrepreneur must take:

1. **Decide on the objective of the communication**
- The entrepreneur should be clear about why she is communicating. For example, does she want to increase sales of new products or services by making current customers aware about those, or does she want to increase sales of existing product by telling customers about the benefits of the product, or get rid

of excess inventory by informing potential customers that it is available at a discount.

2. **Understand the target audience and determine the message** - If the entrepreneur doesn't understand the target audience and their needs, then she may use a wrong way to communicate or may talk about wrong benefits. She must also understand in what way her product or service is better than competition.
3. **Design and send the communication** - In this step, the entrepreneur needs to decide on the medium of communication and then send the message out.

Let's look at the medium of communication mentioned in the third step more closely. There are many mediums available for communication to an entrepreneur:

1. **Getting satisfied customers to refer us to others** – This is the cheapest and the most

effective medium to make potential customers aware of the business' products and services. But this also requires the entrepreneur to remind the satisfied customers to spread the word.

2. **Sending text messages, images and short videos showcasing products and services to potential customers and posting through social media and whatsapp** – This is a very cost-effective way to reach potential customers who could be friends and families of existing customers. But this requires getting their contact information from the existing customers and they may not be willing to share those details. Such messages and images can also be posted on social media platforms at reasonable costs.
3. **Distributing leaflets in public places and through newspapers** – This is another good way of communication, leaflets can contain detailed information describing products and services. Such leaflets can be distributed in busy areas of the town such as bus stations, railway station, shopping areas etc. They can also be distributed through newspaper agents. But this medium can have high cost

due to printing of the material and the fees the agents charge.

4. **Displaying posters about products and services** – An entrepreneur can contact other friendly (usually which are not direct competitors) businesses, shops, and institutions and request them to put posters in their premises. This is useful when the potential customers are likely to be other business' customers.
5. **Conducting demos and offering free samples** – Setting up demonstration stalls in exhibitions or on street corners is a useful medium as such places usually have large crowds and many will be attracted to the free samples. This is a very useful medium for businesses which make snacks, soaps, incense sticks, etc. It should be noted that there are high costs associated with this method of communication too.

Each medium we looked at takes a lot of effort and costs money. So, it is very important for an entrepreneur to choose the right one which is likely to generate revenues for the business but which does not cost much.

More information

To understand more about how to communicate about products and services with customers, please view-

the presentation "NRETP-F6-Understanding-Customers" slides 59 - 71

Important keywords and key phrases

Communication, Costs and Customers.

Links to resources referred in the answer - Short Films

15 Understanding Customers

Links to resources referred in the answer - Presentation

NRETP-F6 Understanding Customers

Related questions



Question 17

Should I sell new products or should I look at attracting customers from new markets?

Question 47

Do I need to get my brand registered?



Question 6



If I sell products to my customers, will they start making products on their own and stop coming to my business?



Enterprise Stage
Ideate



Viability Category
Customers and
Competition

Points to be kept in mind while answering the question

Before starting a business (and sometimes even when the business is an existing one), entrepreneurs often think about this risk. But when they realize that customers buy products and services because they are convenient and they save time, effort, and money for the customers, they begin to develop confidence in their business.

Summary of the answer

Every business faces this risk to some extent. But when an entrepreneur has such a doubt, she must remind herself about some of the reasons why customers buy products and services from a business. These include convenience of not having to make things on their own - it is often cheaper and less time-consuming to buy a product than to make it oneself, and finally making products or delivering services often require equipment which the customers may not have access to. So, if products and services have been designed with customer needs in mind and if they are reasonably priced, this risk becomes insignificant.

Detailed answer

Many businesses sell very common products and services which most of us can make (in case of products) or carry out (in case of services) on our own. Some examples are those businesses which sell tea, coffee, snacks, pickles, ironing services, etc. And yet, most of us regularly buy these products and services from such businesses.

There are a number of reasons why we continue to buy such products and services even though we can make them or can deliver them ourselves:

1. We like and prefer the convenience of not having to make things on our own since we don't want to spend extra effort in addition to our daily work.
2. It is often cheaper to buy a product than to make it oneself, especially if the ingredients needed for products are numerous and can't be bought in very small quantities such as those for a cup of tea.
3. It is usually less time-consuming to buy a product than to make it oneself. Buying a cup

of tea from a corner tea shop takes 2 minutes but to make tea at home may take 10 minutes.

4. Making products and delivering services often require equipment which we may not have access to.

It is important for an entrepreneur to understand that if she has designed and chosen products and services with customer needs in mind and if they are reasonably priced, then such a risk in any business is not significant at all.

More information

To understand more about "customer needs", please view -

- * the presentation "NRETP-F6-Understanding-Customers", slides 11-25
- * the short film "15 Understanding Customers"

Important keywords and key phrases

Customer needs, and Customers.
29 Sales Methods

Links to resources referred in the answer - Short Films

15 Understanding Customers

Links to resources referred in the answer - Presentation

NRETP-F6-Understanding customers

Related questions



Question 19

Due to new competitors, my customers have reduced. How do I get my customers back?



Question 7



The quality of my products and services is good, but I am not making profit. How do I make my business profitable?



Enterprise Stage
Solve



Viability Category
Customers and
Competition

Points to be kept in mind while answering the question

A problem such as this one will often have more than one possible answer. It is recommended that you discuss each of the answers below with the entrepreneur and discover the root causes of the problem through frank discussion. Only after establishing the possible causes, suggest an appropriate action mentioned in the answers.

Summary of the answer

Profits of a business can be found out by subtracting costs from revenues. A business can make losses even when the quality of its products and services is very good. When a business makes a loss, it means costs are more than revenues. In such cases, the entrepreneur can increase revenues or reduce costs or do both. Revenues can be increased by selling more volumes or by increasing prices (if the increase is acceptable to customers). Both fixed and variable costs can be reduced by making certain changes in the business to lower the cost of raw material, salaries, rent, transportation etc. But while doing so, the entrepreneur must ensure that the quality does not go down.

Detailed answer

Profits of a business can be computed by subtracting costs from revenues. A business can make losses even when the quality of its products and services is very good. When a business makes a loss, it means costs are more than revenues. There are a number of possible situations when this may happen. Let's look at a set of situations (with the most likely ones at the top of the list) and which strategies an entrepreneur can use to address those situations:

1. Economies of scale has not been achieved due to high fixed costs. The phrase "economies of scale" means that the per unit cost of making a product or a service comes down when a business makes and sells higher volume. In this situation, the entrepreneur must increase sales volumes.

This can be achieved by:

- a. Selling more of existing products and services to existing customers.

- b. Finding new customers who will buy existing products and services.
 - c. Selling new products and services to existing customers
2. Price of the products and services may be at levels lower than the levels needed to overcome high fixed and variable costs. Hence, the entrepreneur needs to increase those prices in order to make a profit.

More information

To learn more about selling existing products to existing customers, please view -

- * the presentation "NRETP-G3-S1-Sell-more-to-existing-customers"

- * the short films -

105 Business Overview of Growth Strategy One,
106 Analysis of Growth Strategy One

107 Financial Impact of Growth Strategy One

108 Growth Strategy One - Creating Growth Plan Part 1

109 Growth Strategy One - Creating Growth Plan Part 2

To learn more about selling existing products to new customers, please view -

- * the presentation "NRETP-G5-S3-Sell-to-new-customers"
- * the short films -

115 Business-Overview Growth Strategy Three

116 Analysis of Growth Strategy Three

117 Financial Impact of Growth Strategy Three

118 Growth Strategy Three - Creating Growth Plan Part 1

119 Growth Strategy Three - Creating Growth Plan Part 2

To learn more about selling new products to existing customers, please view -

- * the presentation "NRETP-G6-S4-Sell-new-products-services-to-existing-customers"
- * the short films -

120 Business-Overview Growth Strategy Four

121 Analysis of Growth Strategy Four

122 Financial Impact of Growth Strategy Four

123 Growth Strategy Four - Creating Growth Plan Part 1

124 Growth Strategy Four - Creating Growth Plan Part 2

To learn more about selling at higher prices to existing customers, please view -

- * the presentation "NRETP-G4-S2-Sell-to-existing-customers-at-higher-prices"
- * the short films -

110 Business-Overview Growth Strategy Two

111 Analysis of Growth Strategy Two

112 Financial Impact of Growth Strategy Two

113 Growth Strategy Two - Creating Growth Plan Part 1

114 Growth Strategy Two - Creating Growth Plan Part 2

Important keywords and key phrases

Costs, Economies of scale, Fixed costs, Profits, Revenue, and Variable costs.

Related questions



Question 4

How do I select appropriate sales channel for my business?

Question 20

What should I do to increase revenue of my business?

Question 50

Will adding a new business help increase profit?



Links to resources referred in the answer - Short Films

105 Business Overview of Growth Strategy One

106 Analysis of Growth Strategy One

107 Financial Impact of Growth Strategy One

108 Growth Strategy One - Creating Growth Plan Part 1

109 Growth Strategy One - Creating Growth Plan Part 2

110 Business-Overview Growth Strategy Two

111 Analysis of Growth Strategy Two

112 Financial Impact of Growth Strategy Two

113 Growth Strategy Two - Creating Growth Plan Part 1

114 Growth Strategy Two - Creating Growth Plan Part 2

115 Business-Overview Growth Strategy Three

116 Analysis of Growth Strategy Three

117 Financial Impact of Growth Strategy Three

118 Growth Strategy Three - Creating Growth Plan Part 1

119 Growth Strategy Three - Creating Growth Plan Part 2

120 Business-Overview Growth Strategy Four

121 Analysis of Growth Strategy Four

122 Financial Impact of Growth Strategy Four

123 Growth Strategy Four - Creating Growth Plan Part 1

124 Growth Strategy Four - Creating Growth Plan Part 2

Links to resources referred in the answer - Presentation

NRETP-G3-S1-Sell-more-to-existing-customers

NRETP-G4-S2-Sell-to-existing-customers-at-higher-prices

NRETP-G5-S3-Sell-to-new-customers

NRETP-G6-S4-Sell-new-products-services-to-existing-customers

Question 8



Should I have different prices of my products and services for different customers?



Enterprise Stage
Ideate



Viability Category
Customers and
Competition

Points to be kept in mind while answering the question

The answer to this question depends on whether the entrepreneur is running (or starting) a trading business, a production business or a service business. In a trading business (for instance, a grocery shop), it is unlikely that the prices will be different for different customers as the prices are usually equal to maximum retail prices (MRP) printed on products. Even then, the entrepreneur may give a small discount on prices if someone buys a large volume. For production and services business, the prices can be different for different customers depending on the volume purchased, credit period, and any minor customization done to the product (such as a special packaging made for large quantities, or a slightly different taste of pickle from the standard taste to suit the needs of a bulk buyer etc.).

An additional point to note for any business is that there should be a clear logic for why the price is lower (or higher) for a particular customer, and the entrepreneur should be able to explain this to other customers.

Summary of the answer

Profits of a business can be found out by subtracting costs from revenues. A business can make losses even when the quality of its products and services is very good. When a business makes a loss, it means costs are more than revenues. In such cases, the entrepreneur can increase revenues or reduce costs or do both. Revenues can be increased by selling more volumes or by increasing prices (if the increase is acceptable to customers). Both fixed and variable costs can be reduced by making certain changes in the business to lower the cost of raw material, salaries, rent, transportation etc. But while doing so, the entrepreneur must ensure that the quality does not go down.

Detailed answer

Price is the amount of money a customer must pay for the product or service which the business sells. While setting a price for the products or services of a business, an entrepreneur needs to consider three things (in the sequence given below):

1. **Competitors' prices** – Other businesses are likely to sell the same product or service. Customers often compare prices and choose a business that offers lowest price as long as they feel that there are only minor variations (if any) in a product or a service. So, unless there are major differences in the type of product or service offered, a business should not set a price which is very different from that of competitors.

2. **Affordability for the customers** - If customers can't afford to pay the price, then they may never buy the product or service or may buy only occasionally. Hence the price must be affordable for the intended customer for the sustainability of the business.
3. **Level of profits the business is likely to make at a particular price** - At the price which a business sets, it must make profits based on the estimated sales volumes. At that price, if profits are expected to be low or losses are likely, then either cost of product or service needs to be reduced, or the price must be increased.

Based on these considerations, a business should set the price of a product or a service. This price remains the same for an average customer. But a

business may have some special customers and the entrepreneur may choose to offer different prices to those customers. Given below are three situations in which an entrepreneur may decide to change the standard price that she is charging her customers:

1. **Large volumes bought by a customer or a repeat customer** – If a customer wants to buy large quantity or if a customer is a repeat customer who buys frequently, then the entrepreneur may consider lowering the price for that customer.
2. **On the spot payment or a shorter credit period than usual** – If the business usually offers a credit period to its customers but a customer is willing to pay cash on the spot, then the entrepreneur may consider lowering the price for that customer.

3. **Minor customization made to the product or a service** – Sometimes a customer wants a small change in the product or a service, then the entrepreneur may consider charging a slightly higher price for that customer. An example could be that of a customer who wants extra oil and chilies in the pickle and may be willing to pay a slightly higher price. Another example is when a customer would like the grocery shop to deliver certain items to the home of the customer's elderly parents and will be comfortable paying slightly higher prices.

As we saw above, an entrepreneur may decide to charge different prices to different customers but the logic behind it must be very clear to the entrepreneur as well as to the customers. Otherwise, those customers who pay regular prices will be unhappy and this will impact the business negatively.

More information

To understand more about how to price products and services, please view -

- * the presentation "NRETP-F8-Pricing Products and Services", all slides
- * the short film "26 Setting a price"

Important keywords and key phrases

Competitors, Credit period, Customers, Price, and Sales volume.

Links to resources referred in the answer - Short Films

26 Setting a price

Links to resources referred in the answer - Presentation

NRETP-F8-Pricing Products and Services

Related questions



Question 16

At what price should I sell my products or services?





How do I reduce sales on credit?



Enterprise Stage
Solve



Viability Category
Customers and
Competition

Points to be kept in mind while answering the question

Before answering this question, it is a good idea for the OSF staff to understand how much revenue is coming from credit sales and how much is coming from cash sales. Further it is good to understand why the entrepreneur would like to reduce credit revenue. If a substantial portion of revenue is credit revenue and it is putting a lot of pressure on the required working capital then it is a good idea to discuss how to reduce credit revenue. But if that is not the case, then one has to be careful about it since if credit period or the amount of credit is reduced, some customers may not buy from the business.

Summary of the answer

It is natural for most businesses to sell products and services on credit. But credit sales increase the need for working capital in a business. To reduce the amount of working capital required in a business, an entrepreneur should reduce credit sales and increase cash sales. There are three main ways in which this can be done. A business can offer a discounted price on cash sales and also on those orders with high volumes. The second way is by making credit sales to only regular customers who do not delay payments. Finally, a business can collect a partial payment in cash on the spot and allow the balance as a credit amount to be collected later. These help to improve cash flows and reduce pressure on the working capital.

Detailed answer

For any business, the best approach is to avoid giving credit to customers. But it is not always possible since customers expect it and without it, they may buy from competitors.

When a business decides to give credit, then it must:

1. Set a credit policy by identifying which customers will get credit, how much, for how long, etc.
2. Understand the impact of credit policy on the required working capital. If the entrepreneur does not have access to sufficient working capital, then she should reduce the amount and duration of the credit allowed.
3. Track credit so that the entrepreneur knows exactly who has taken credit, how much of it, and for how long. She should then ensure timely payment.

It is easier for businesses to set customers' expectations about credit policies when the customer relationship is relatively new. This is the preferred way to reduce sales on credit and increase cash sales. For an existing business, it is harder but not impossible to reduce credit sales and increase cash sales by doing one or more of the following things:

1. **Offer discounted price for cash sales** – To those customers who buy on credit, the entrepreneur can offer a reasonably attractive discount to encourage them to make cash payments.
2. **Limit credit to only regular customers who pay timely** – The entrepreneur can extend credit to only those who have been buying regularly and have also been paying on time or earlier than the credit period.
3. **Collect partial payment in cash and keep the balance on credit** – Most customers who buy

on credit do not mind when entrepreneur asks them for a partial payment (for instance, 20-30%) on the spot and the remaining amount on credit. Partial payments reduce the pressure on required working capital significantly.

An entrepreneur should consider moving credit sales to cash sales in a planned manner. Every quarter, it is a good idea to inform a handful of customers that they would have to pay on the spot from the next quarter but they will get a discount on the price. This prepares customers mentally so that they get used to the idea.

More information

To understand more about giving credit in the business, please view -

- * the presentation "NRETP-F9-Selling products and services", slides 34-44
- * the short film "30 Customer Credit Policies"

Important keywords and key phrases

Cash sales, Credit, Credit policy, Credit sales, Customers, Discounts, and Working capital.

Links to resources referred in the answer - Short Films

30 Customer Credit Policies

Links to resources referred in the answer - Presentation

NRETP-F9-Selling products and services

Related questions



Question 39

My business has profit but no cash. How can I fix this situation?





How do I sell my product and services to institutional customer?



Enterprise Stage
Ideate



Viability Category
Customers and
Competition

Points to be kept in mind while answering the question

It is important to understand the entrepreneur's motivation and purpose behind wanting to sell to institutional customers. The advantage of selling to institutional customers is a higher sales volume. But then they often require higher credit amounts and longer credit periods. This can put a lot of pressure on the required working capital. As long as the entrepreneur understands this risk, it is worth pursuing sales to institutional customers.

Summary of the answer

Unlike individual customers, institutional customers buy in large quantities. They expect discounted price, (sometimes) customization of products and services, and a credit period for payments. Hence an entrepreneur should sell to institutional customers only if her business has sufficient working capital and if the discounted price will not push the business into loss. The entrepreneur should first identify the right person who is a decision-maker within the institution. She should present some free samples of products and clearly state the benefits her business can offer such as discounted price, credit period etc. But she should be ready for some negotiations and should ask for some advance payment in return for lower prices or longer credit period. This often takes time and the entrepreneur needs to be patient. Once the institutional customers are convinced then they usually give repeat orders and hence it is worth investing time and effort to cultivate such customers.

Detailed answer

Institutional customers are not individuals but these are entities that represent a group of people. For example, a hospital buying a nutritional drink for its patients from a business is an institutional customer. A school buying snacks for its annual day function from a snack shop is another example.

Institutional customers usually buy products and services in large volumes. Hence, they expect one or more of the following:

1. Discounts due to bulk purchases
2. Longer credit period than those offered to individual customers
3. Minor customization (including packaging and delivery) to the products and services to suit their needs

An entrepreneur should consider selling products and services to institutional customers as long as she is ready to meet the above expectations.

Selling products and services to institutional customers require the following steps:

1. The entrepreneur should first identify the right person who is a decision-maker within the institutional customer's organization. Often this step takes a long time since many people who claim that they make decisions are not always the decision-makers. The entrepreneur may need to meet and assess a number of such people before she can talk to the person who is the real decision-maker in the system.
2. Once such a person or persons have been identified, the entrepreneur should present some free samples of products and clearly

state the benefits her business can offer such as discounted price, credit period etc.

3. The third step involves serious negotiations. The entrepreneur must anticipate this and should begin with a slightly higher price and then bring it down through negotiations. A higher price usually needs a longer credit period to attract customers. A lower price can be offered for either a payment on the spot or at least a part of the payment up-front while the rest can be on credit. If the customer is adamant about a long credit period or a lower price, then the entrepreneur must ask for 10-20% of the bill in advance payment. These negotiations often take time and the entrepreneur needs to be patient. She must

expect to hear from the customer that she is not the only supplier and the customer may choose another supplier who gives better price and credit terms. Often this is a tactic used for negotiations. The entrepreneur must be on her guard and should never accept those terms which will push the business into loss and/or put pressure on working capital.

4. Once these negotiations are complete, the entrepreneur must very closely watch the payment cycles as she delivers products and services. If the customer delays the payment, then the entrepreneur must stop the supply immediately and take up the issue with the buyer so that further losses can be avoided.

More information

To learn more about "selling to institutions or other businesses and wholesalers", please view-

- * the presentation "NRETP-F9-Selling products and services", slides 19-20
- * the short film "29 Sales Methods"

Important keywords and key phrases

Credit, Credit policies, Competition, Customers, Price, and Suppliers.

Links to resources referred in the answer - Short Films

29 Sales Methods

Links to resources referred in the answer - Presentation

NRETP-F9-Selling products and services

Related questions



Question 34

How do I negotiate bulk deals with customers?





Is it a good idea to establish a shop at a fixed location or should it be a mobile shop (e.g., pushcart or auto)?



Enterprise Stage
Ideate



Viability Category
Customers and
Competition

Points to be kept in mind while answering the question

There are different sales channels available for an entrepreneur. Before making the decision to select a particular channel, an entrepreneur must understand the different channels she is considering, their suitability for different types of products and services, their advantages and disadvantages, and finally their impact on the profitability of a business.

Summary of the answer

A business may choose different sales channels to sell its products and services. A fixed location shop or a mobile shop are types of sales channels. There are other sales channels too, each with its own advantages and disadvantages. It is good for an entrepreneur to know the different sales channels, evaluate each of them for its suitability to her business and then choose one or more sales channels. A choice of a channel is based on the type of products and services, customers' preference for a channel, and its impact on the profits of the business. Another factor to consider is whether a business is new or an existing business which is seeking to grow.

Detailed answer

Sales is about contacting potential customers, convincing them to buy the product or service, and then collecting money once they have bought it. Different sales channels can be used by a business, and hence the entrepreneur must understand and evaluate each sales channel before making a decision.

An entrepreneur must choose a channel based on the following:

1. The nature of the products and services of the business
2. The channel which the target customers prefers to buy such products and services from, and hence which will give as much revenue as possible to the business
3. The cost of selling through the channel which includes storage cost, transportation cost, etc. and hence the impact on profits of the business

The entrepreneur must understand the advantages and disadvantages of the door-to-door sales

method (mobile shop) and evaluate whether this is suitable for her business :

This channel is suitable for small products such as snacks, pickles, or packaged foods. A major advantage is that the entrepreneur can interact directly with customers and develop a relationship for repeat sales. It helps the business in getting useful feedback about the quality of the product or service and price directly from the customer. If the business is new, it helps the entrepreneur create awareness among customers about the products or services. It also helps the entrepreneur avoid the cost of renting or buying a shop.

The main disadvantages are high physical effort and that the reach is limited to a few customers in a day. Also, the salesperson can carry only a limited number of products, whether in a bag, a pushcart or in an auto.

Similarly, the entrepreneur must evaluate the advantages and disadvantages of selling through a shop at a fixed location :

This channel is suitable when there is a large variety of products, or if the products are difficult

to carry, or if equipment is needed to deliver services. The main advantage is the convenience in serving customers – it saves the effort of contacting customers individually. It offers an opportunity to keep more and different types of products or services, customers may like the variety. It also helps the business in getting useful feedback about the quality of the product or service and price directly from the customers.

A disadvantage could be higher costs due to the shop's rent, and the cost incurred for running the shop (electricity, water, generator, etc.). The business will need to attract people to the shop, and even if only a few customers come to the shop, the rent and other fixed costs will still be incurred. If the location of the shop is not correct (away from the main road), customers may not come, but getting a shop on the main road can be expensive.

Another option for the entrepreneur is to buy the shop instead of running it but this needs to be thought out carefully. Taking a loan to buy a shop is not recommended as it will only increase the cost and may affect the profits.

In addition, the entrepreneur should consider a few more points related to the category of her business (production/service/trading), and whether the business is new or old.

- **Production business:**

In the case of a new business in production category, it is recommended that the entrepreneur choose the door-to-door sales method or any other sales method such as sales to institutions/retailers/exhibitions. After some time of operation (this could be a few months or even a few years), she may consider selling through a shop if she has developed relationship with a large enough number of target customers who will visit the shop regularly, and she thinks she can reach more new customers through the shop. However, before starting a shop at a fixed location, she must analyze the viability of the shop.

In the case of an existing production business, if the business has been doing well, the entrepreneur can consider setting

up a shop if the business is confident about attracting a large number of customers, and the entrepreneur thinks that the business will be able to generate enough revenue to meet the increased cost (rent, electricity, water, etc.).

- **Trading business :**

In case of a new trading business, the entrepreneur can consider starting her own shop if she thinks she can mobilize the initial investment. Starting her own shop will help her to offer a variety of products. She must consider the viability, though – it may take her a couple of years before she starts generating enough revenue to meet her costs.

In case of an existing trading business where the entrepreneur already has a shop, it is recommended that to grow her business she can consider choosing door-to-door sales method to sell in the new market.

- **Service business :**

In case of a new service business, the entrepreneur should choose a selling method depending on the needs of the target customer segment in the area. For instance, if young women prefer beauty services at home or parents prefer tuitions at home, delivery at home will be effective. In case the business is offering mobile repair service, customers may prefer going to a shop.

In case of an existing service business, if there are already enough number of customers, a business such as a beauty parlour or tuition centre can consider starting a shop.

Overall, for any business (production/service), it is good for the entrepreneur to start with door-to-door sales. Once the business is doing reasonably well, if the entrepreneur thinks that starting a shop can attract more customers, she can do so in order to grow the business. However, she must proceed with the awareness that starting and running a shop at a fixed location will require higher capital and cost, hence first she must analyze the viability of a shop.

More information

To understand more about ""sales channels"", please view -
* the presentation "NRETP-F9-Selling products and services", slides 15-27
* the short film "29 Sales Methods"

To understand more about ""production business"", please refer to -
* the presentation "G7-S5-Sell-existing-products-and-services-in-a-new-market"
* the short films
125 Business Overview Growth Strategy Five
126 Analysis of Growth Strategy Five
127 Financial Impact of Growth Strategy Five

To understand more about ""trading business"", please refer to -
* the presentation "G5-S3-Sell-to-new-customers"
* the short films
115 Business Overview Growth Strategy Three
116 Analysis of Growth Strategy Three

Important keywords and key phrases

Customer needs, Profits, Revenue, Sales, Sales Channel, Target customers, and Variable costs.

Links to resources referred in the answer - Short Films

29 Sales Methods
125 Business Overview Growth Strategy Five
126 Analysis of Growth Strategy Five
127 Financial Impact of Growth Strategy Five
115 Business Overview Growth Strategy Three
116 Analysis of Growth Strategy Three

Links to resources referred in the answer - Presentation

NRETP-F9-Selling products and services
NRTEP- G5-S3-Sell-to-new-customers
NRETP-G7-S5-Sell-existing-products-services-in-a-new-market

Related questions



Question 4

How do I select appropriate sales channel for my business?



Question 12



Should I open a branch of my business?



Enterprise Stage
Grow, Engage



Viability Category
Customers and
Competition

Points to be kept in mind while answering the question

A question such as this one requires a detailed discussion with the entrepreneur to understand the reasons why she is considering opening a branch. It is recommended that you discuss each of the points below with her, understand the specific implications of each for her business, and then help her take the decision.

Summary of the answer

At some point in its lifecycle, a business can face this question of whether to open a branch or not. Opening a branch will mean setting up a physical office, hiring staff, etc. Hence, typically, this question is more relevant for very large and growing businesses.

Sometimes, a small – but – growing business will consider this option too. Setting up a new branch is difficult and complicated; hence the entrepreneur must carefully think through all aspects of this decision. She must consider the size of the new market and what market share her business could obtain, the needs and behaviour of customers in the new markets, and also the capabilities of the business – skills, time and staff required. Since her objective is to achieve maximum profits, she will have to calculate the effect on her revenue and costs and also see where the capital can be brought from. Only if a detailed analysis shows that opening a new branch is profitable, then she should prepare a proper plan to start the branch.

Detailed answer

Once an entrepreneur's business has grown to a particular size (in terms of revenue) in an area or market, sometimes she may consider setting up a new branch as an extension of the existing one in order to sell existing products and services to new customers in a new market. However, setting up a new branch is difficult or complicated, it is as if the entrepreneur is starting from scratch once again.

Before setting up a new branch, the entrepreneur must understand whether it is profitable to set up the new business. For this, it is necessary to think about the following points :

- The entrepreneur must think about whether the new market is big enough to generate substantial revenue. She should proceed only if the market size is big enough and she is confident of getting a good share of the market. As it is a new market, she will need to understand her competitors in greater detail.
- It is important for the entrepreneur to check whether the needs of new customers in the new market are the same as the needs of the old customers in the existing market. Only if the needs are the same, will the business be able to sell the same products/services in the new market. There may be minor differences in the needs of the customers and the entrepreneur may want to make adjustments to the products/services offered accordingly.
- The entrepreneur has to think about the additional capabilities that will be needed – new skills to make the new product, the time and extra cost required for this and new office or production space that may be needed. As the products/services may not be vastly different, the skills and equipment required are likely to be similar, but she will need much more time. This means that she will probably need to hire more workers.

Once the above steps are completed, the entrepreneur has to understand the impact on revenues, costs, working capital and fixed capital of her business. There will be initial capital required to set up a branch. She will have to think about the means of mobilizing the fund for the capital.

If the analysis shows that it is profitable to start a new branch, then the entrepreneur should prepare a plan for implementing this.

More information

To understand more about "setting up a new branch" better, please refer to -

- * the presentation "NRETP-G7-S5-Sell-existing-products-services-in-a-new-market"

- * the short films

"125 Business Overview Growth Strategy Four"

"126 Analysis of Growth Strategy Four"

To understand "the impact on financials" better, please refer to -

- * the presentation NRETP-G7-S5-Sell-existing-products-services-in-a-new-market

- * the short film "127 Financial Impact of Growth Strategy Five"

To understand "selling existing products in a new market" better, please refer to

- * the presentation NRETP-G7-S5-Sell-existing-products-services-in-a-new-market

- * the short films

"128 Growth Strategy Four - Creating Growth Plan Part 1"

129 Growth Strategy Four - Creating Growth Plan Part 2"

Related questions



Question 21

What strategy do I adopt to offer my services in a new market?



Important keywords and key phrases

Business viability, Market share, Market size, Product portfolio, and Variable costs.

Links to resources referred in the answer - Short Films

125 Business Overview Growth Strategy Five

126 Analysis of Growth Strategy Five

127 Financial Impact of Growth Strategy Five

128 Growth Strategy Five - Creating Growth Plan Part 1

129 Growth Strategy Five - Creating Growth Plan Part 2

Links to resources referred in the answer - Presentation

NRETP-G7-S5-Sell-existing-products-services-in-a-new-market

Question 13



Is it better to do business all day or during limited hours in the morning and in the evening? What should be working hours of the business?



Enterprise Stage
Start, Solve



Viability Category
Customers and
Competition

Points to be kept in mind while answering the question

This question is applicable to the businesses that sell through own shop or deliver products and services at customers' doorstep.

Summary of the answer

There are several points an entrepreneur must consider before deciding the working hours for her business - customer needs, competitors' business hours, cost and revenue, and own capabilities.

Businesses that sell through own shops can choose to keep the shop open during certain hours in a day. These hours may be the time when most customers visit the shop. More the number of customers visiting during the limited hours, more are the chances of sales maturing during that time. Similarly, in the case of the businesses that use door-to-door sales, customers may prefer visits during certain hours of the day when they are relatively free to see and buy products or receive services. Hence, the business can choose to work during limited hours.

In the case of established and growing businesses, keeping the shop open throughout the day will make sense.

Detailed answer

An entrepreneur can select the working hours for the business based on certain considerations. These considerations may be:

1. **Customer needs** - Time when most of the customers come to the shop.

More sales means more revenue for the business. Hence, the shop must be open or the entrepreneur must be available to provide the product or service when the customers visit to buy such products or services. If most customers come to the shop during morning and evening, the shop must definitely stay open during those times.

In case customers keep coming in throughout the day, the shop must stay open accordingly. However, if very few customers visit during certain hours in a day like in the afternoon, the business can choose to close the shop for a short while.

Similarly, in the case of the businesses that use door-to-door sales, customers may prefer visits during certain hours of the day when they are relatively free to see and buy products or receive services. Hence, the business can choose to work during such limited hours.

2. **Competitor's business hours** - In case a competitor in the neighborhood opens the shop an hour earlier than the entrepreneur and closes the shop an hour later than her, the entrepreneur may want to assess if she is losing customers to the competition during those two hours. If the answer is 'yes', the business must change its working hours.

3. **Cost and Revenue** - A business must also consider the costs it is incurring and the revenue it is generating by staying open all through the day. Keeping it open all through the day will require the business to keep additional staff and incur other overheads

like electricity. These mean additional cost. If the costs are higher than the revenue, the business can consider working during the specific hours when maximum sales occur.

4. **Own capabilities** - An entrepreneur is sometimes guided by her own time constraints as she has to manage her household tasks also. However, it is recommended that the entrepreneur be advised to fix the working hours of the business on the basis of above three considerations. Business should be run according to sound business logic.

More information

None

Important keywords and key phrases

Capabilities, Competitors, Costs, Customer needs, and Revenue.

Links to resources referred in the answer - Short Films

None

Links to resources referred in the answer - Presentation

None

In case of established and growing business, keeping the shop open during the entire day will be the right decision

Related questions



Question 24

Is it a good idea to have a weekly holiday or should I take extra staff so that the business is open throughout the week?



Question 14



Is it better to sell just 2-3 items which are popular or to offer a lot of variety to customers? Should the business sell a great variety of products / services?



Enterprise Stage
Solve



Viability Category
Customers and
Competition

Points to be kept in mind while answering the question

This question is applicable to any business that is selling a variety of products and offering different services to its target customers. However, the question is more relevant to businesses that have been running for some months or years now.

Summary of the answer

Any business needs to decide what type of products to sell or what type of services to offer to its target customers. It also needs to decide the variety of products and services to sell. These decisions affect the viability of a business. Hence, a business must continuously evaluate the variety of products and services it is offering. Before taking a decision, the entrepreneur must consider the impact on number of customers, variable costs and capacity. For the entrepreneur running a production or service business, it may make sense to focus on 2-3 items that are popular and are generating 80% of the target revenue in a month. However, for the trading businesses, the entrepreneur may want to continue keeping 2-3 popular items and also some of the other items. Variety is important in a trading business like a kirana shop.

Detailed answer

In order to decide on whether to sell 2-3 popular items or to sell a range of items to the customers, the entrepreneur must consider the following points:

1. Number of customers :

The entrepreneur may be able to attract more customers by focusing on selling popular items. Often, by focusing only on selling popular items, the business will be able to generate 80% of the target revenue in a month. Thus, there will not be an adverse impact on the profits of the business.

The entrepreneur must take care that by reducing the variety of items offered by the business currently, she does not lose too many of her target customers. This will be more relevant in the case of trading businesses where target customers may prefer

variety of products in the shop. Hence, the entrepreneur must carefully reduce the variety she is offering now.

2. Variable costs :

By reducing the variety of items, the entrepreneur may be able to manage her variable costs more efficiently.

3. Capacity :

By reducing the variety of items, the capacity to make and deliver the popular items improves significantly.

Only after considering the above points, an entrepreneur can make the choice that will work for her business.

For the entrepreneur running a production or service business, it will make sense to focus on 2-3 items that are popular and are generating 80% of the target revenue in a month.

However, for the trading businesses, the entrepreneur may want to continue keeping 2-3 popular items and also some of the other items. Variety is important in a trading business like a kirana shop. Still, it is a good idea to stop keeping items that just don't sell in a kirana shop.

More information

None

Important keywords and key phrases

Profits, Target customers, Target revenue, and Variable cost.

Links to resources referred in the answer - Short Films

None

Links to resources referred in the answer - Presentation

None

Related questions



Question 15

To grow my business now, is it a good idea to offer premium products such as designer blouses?

Question 17

Should I sell new products or should I look at attracting customers from new markets?



Question 15



At what price should i sell my products or services?



Enterprise Stage
Solve



Viability Category
Customers and
Competition

Points to be kept in mind while answering the question

This question is applicable to any type of business (production/trading/service). Engage in a conversation with the entrepreneur and ask probing questions to help her arrive at an answer. It is advised that the OSF personnel keep a list of equipment suppliers and skill training providers in hand while answering this question.

Summary of the answer

An important decision that a business makes is about the type of products or services to sell. Such decisions affect the viability of a business. Hence, a business must think and plan before taking decisions on the products. An entrepreneur may want to make and sell premium products which no other competitor offers, such as designer blouses in a tailoring business. This is called product differentiation. Any decision on introducing differentiation must be evaluated carefully.

The entrepreneur can choose to introduce premium products after analyzing the market size, market share, capabilities, impact on the cost, revenue, and profitability aspects.

Detailed answer

The entrepreneur should take any decision carefully on making and selling products or offering services.

She must consider the following questions before taking the decision :

1. Are there enough potential customers for the new premium product in the market?
2. Can she sell to enough of these potential customers so that it is worth making the new product?
3. Does she have the capabilities to produce, or to buy and sell, the new product?
4. Does she think that the chosen product or service will help the business to make profits consistently year after year?

In case the answers to all four questions is 'Yes', the entrepreneur can definitely consider it a good idea to sell premium products, for e.g. designer blouses in a tailoring business.

However, it is quite unlikely that the response to all the four questions will be yes.

If the response to the first two questions is 'Yes', the entrepreneur may consider it a good idea. Thereafter, she should think about the market size and market share.

The third question focuses on the capability aspect. It requires the entrepreneur to think about the skills, equipment and time required to make premium products. Often, the entrepreneur would require additional training to make and sell the product or service, and some new equipment. In such situations, the OSF staff can help by guiding her to the relevant skill-training program and equipment supplier.

The fourth question requires the entrepreneur to focus on costs, revenue, break-even analysis, and profitability. The fourth question is a complicated one and there is a high possibility that the entrepreneur would not have clarity on the answer. She might have to revisit the concepts, think through these points and carefully estimate the profits.

Based on the analysis of the four questions, the entrepreneur can decide to go ahead and prepare a business plan.

More information

To understand more about “the criteria for selecting a product or service”, please refer to - the presentation “NRETP-F6-Understanding customers”, slide 48

To understand more about “when and how to sell new products and services to existing customers”, please refer to -

- * the presentation “NRETP-G6-S4-Sell-new-products-services-to-existing-customers”
- * a short film “121 Analysis of Growth Strategy Four” (to analyze the method of selling new products and services)

To understand more about “the impact on costs, revenue, breakeven analysis and profitability”, please refer to

- * the presentation “NRETP-G6-S4-Sell-new-products-services-to-existing-customers”
- * a short film “122 Financial Impact of Growth Strategy Four”

To understand more about “the components of a business plan”, please refer to

- * the presentation “NRETP-G6-S4-Sell-new-products-and-services-to-existing customers” - “NRETP-G6-S4-4” and “NRETP-G6-S4-5”
- * the short films
“123 Growth Strategy Four - Creating Growth Plan Part 1”
“124 Growth Strategy Four - Creating Growth Plan Part 2”

Related questions



Question 17

Should I sell new products or should I look at attracting customers from new markets?



Important keywords and key phrases

Profits, Target customers, Target revenue, and Variable cost.

Links to resources referred in the answer - Short Films

120 Business-Overview Growth Strategy Four

121 Analysis of Growth Strategy Four

122 Financial Impact of Growth Strategy Four

123 Growth Strategy Four - Creating Growth Plan Part 1

124 Growth Strategy Four - Creating Growth Plan Part 2

Links to resources referred in the answer - Presentation

NRETP-F6-Understanding Customers

NRETP-G6-S4-Sell-new-products-and-services-to-existing customers

Question 16



At what price should i sell my producer services?



Enterprise Stage
Ideate



Viability Category
Customers and
Competition

Points to be kept in mind while answering the question

The steps mentioned here can be used in production and service businesses. However, in the case of trading businesses, it is recommended that the entrepreneur looks at the MRP of the products and then set the retail price at which the business makes profit on that product.

Summary of the answer

Price is the amount of money a customer has to pay for the product or service which the business is selling. Every entrepreneur needs to set a price for the products she is making and selling or the services she is offering.

An entrepreneur can set the right price by following certain steps. These steps are the following :

1. Find out the prices of similar products or services that are bought by the target customers
2. Check whether target customers consider the new product or service to be better, same, or worse than that of competitors.
3. Then, the business must set the price for the product or service depending on whether it is better, worse, or same as the products of competitors.

To verify that the price she has set is the right one, the entrepreneur should check two points:

1. Check whether the price that has been set is affordable for potential customers
2. Check whether the business will make profits at the set price. While it seems quite straightforward, there are several things to think about at each step in this process.

Detailed answer

Arriving at the right price is a complicated process. An entrepreneur can follow three key steps to set a price. These steps are the following:

1. The business must find out the prices of similar products (or services) that are bought by its target customers.

While doing so, the entrepreneur must carefully think about which products (or services) can be considered similar to those offered by her business, from a customers' perspective.

2. The business must check whether target customers consider the new product (or service) to be better, same, or worse than that

of competitors. Then, the business must set the price for the product or service depending on whether it is better, worse, or same as that of the products of competitors.

At this stage, it would be best for the entrepreneur to seek opinions from a few customers or potential customers directly – would they assess the entrepreneur's product (or service) to be better than, same as or, not as good as competitors' products (or services).

3. After completing steps 1 and 2, the entrepreneur must then select a price for the product relative to the competitor's product or service.

If customers believe that her product or service is better than competitors', she can set a price higher than competitor's price; if they believe it is worse, she must set a price lower than competition. If customers feel that her product is the same as competition, she should select a price that is the same as that charged by competitors. After setting the price in this manner, the entrepreneur must complete two steps to confirm that the price which she has set is the right one.

4. She must check whether potential customers consider this to be an affordable price and would be willing to buy regularly at this price.
5. She must check whether the business will make profits at the set price.

If the answer is 'Yes', she should set that as the final price. In case the answer is 'No', she

has two options – she can consider reducing the costs, or she can improve the quality and increase the price. Reducing costs is often easier for a business to achieve, but she must be careful about doing so in a way that does not affect the quality of the product as perceived by the customers. If she improves the quality and increases the price, she must repeat steps 2 and 3 again, and check on affordability to customers.

An entrepreneur must understand that arriving at the right price is a process. In case of a new business, the entrepreneur may consider giving price discounts or free items for a short duration in the beginning to attract customers. Also, in the case of trading businesses, competitors may offer a further discount on the MRP. It will be important for the business to set the retail prices of the products accordingly.

More information

To understand more about "setting the price for a product", please refer to -

- * the presentation "NRETP-F8-Pricing Products and Services"
- * the short film "26 Setting a price"

Important keywords and key phrases

Competition, Discounts, Price, Pricing products and services, Profits, and Target customers.

Links to resources referred in the answer - Short Films

26 Setting a price

Links to resources referred in the answer - Presentation

NRETP-F8-Pricing Products and Services

Related questions



Question 8

Should I have different prices of my products and services for different customers?



Question 17



Should I sell new products or should I look at attracting customers from new markets?



Enterprise Stage
Grow



Viability Category
Customers and
Competition

Points to be kept in mind while answering the question

There are five methods which can be used to grow a business by increasing the revenue significantly, the entrepreneur is trying to select one out of these. It is recommended that you discuss each of the suggested methods with the entrepreneur. The entrepreneur must understand that the methods suggested have different levels of difficulty in terms of understanding, planning and implementing them. The entrepreneur should select the most appropriate method, from amongst these, considering the business and its situation.

Summary of the answer

While wanting to grow her revenue, an entrepreneur may face a dilemma – whether to sell new products in existing market or to sell existing products to new customers in new market. To make a choice, an entrepreneur must carefully analyze each method and select the one that is appropriate for her business situation. From the point of view of planning and implementing, the first approach is easier.

Detailed answer

Ways to increase revenue

There are five methods that the entrepreneur can consider to increase her business' revenue. These have been listed below in an order where the easiest possible method is listed first and the most difficult method is listed last.

- **Method 1** - Sell more existing products/services to existing customers

In this method, the entrepreneur is trying to meet unfulfilled demand for her products and services. The entrepreneur continues to focus on the market where the business is currently located but looks for opportunities to sell more of existing products and services to existing customers. This is useful when an entrepreneur has not been encouraging customers to buy enough things from her. Another situation where this method makes sense is when customers are willing to buy more of existing product but the business is not able to produce enough.

- **Method 2** - Sell at higher prices to existing customers

This method makes sense when the existing customers of the business are willing to pay a higher price for its products and services. This is the case when the products and services offered by the business are better than competitors' products but are priced lower.

- **Method 3** - Sell existing products/services to new customers

In this case, the entrepreneur continues to focus on the market where the business is located but looks for new customers. This makes sense if there are many potential customers who have not heard about the business' products and services, and hence when they get to know about them, they may be willing to buy them.

- **Method 4** - Sell new products/services to existing customers

Here, the focus of the entrepreneur continues to be on the market where the business is

located, but she looks for providing new products and services to existing customers. This makes sense if there are some needs of existing customers which the business has not considered in the past. Hence the customers are likely to buy those new products and services if these satisfy the overlooked needs.

There will be an increase in the costs in this case, and the entrepreneur should ensure that target revenue is significantly high in order to ensure that profits do not drop.

More information

To understand more about "methods to grow a business", please refer to -

- * the presentation "NRETP-G2-Strategies-for-growing-a-business"
- * the short film "103 Strategies to grow a business "

To understand more about "selling more to existing customers", please refer to -

- * the presentation "NRETP-G3-S1-Sell-more-to-existing-customers"
- * the short films
"105 Business Overview of Growth Strategy One"
"106 Analysis of Growth Strategy One"

To understand more about "selling at higher prices to existing customers", please refer to -

- * the presentation "NRETP-G4-S2-Sell-to-existing-customers-at-higher-prices"
- * the short films
"110 Business Overview of Growth Strategy Two"
"111 Analysis of Growth Strategy Two"

To understand more about "selling products to new customers", please refer to -

- * the presentation "NRETP-G5-S3-Sell-to-new-customers"
- * the short films
"115 Business Overview of Growth Strategy Three"
"116 Analysis of Growth Strategy Three"

To understand more about "selling products to existing customers", please refer to -

- * the presentation "NRETP-G6-S4- Sell-new-products-to-existing-customers"
- * the short films
"120 Business Overview of Growth Strategy Four"
"121 Analysis of Growth Strategy Four"

- Method 5 - Sell existing products/services to new customers in new markets

In this method, the entrepreneur takes her business to new markets. She will sell existing products to new customers. She is looking towards expanding into new markets where the customers will obviously be new. This method is meaningful when a business is well-known in one market and that fact can help it advertise about its products and services effectively in the new market. Another situation where this makes sense is when the business' existing capacities can be used for achieving even higher economies of scale.

To understand more about "selling products to new customers in markets", please refer to -

- * the presentation "NRETP-G7-S5-Sell-existing-products-in-a-new-market"
- * the short films
"125 Business Overview of Growth Strategy Five"
"126 Analysis of Growth Strategy Five"

Important keywords and key phrases

Increasing revenue, Customers, Customer needs, Market share, and Scheme.

Links to resources referred in the answer - Short Films

- 103 Strategies to grow a business
- 105 Business Overview of Growth Strategy One
- 106 Analysis of Growth Strategy One
- 110 Business Overview of Growth Strategy Two
- 111 Analysis of Growth Strategy Two
- 115 Business Overview of Growth Strategy Three
- 116 Analysis of Growth Strategy Three
- 120 Business Overview of Growth Strategy Four
- 121 Analysis of Growth Strategy Four
- 125 Business Overview of Growth Strategy Five
- 126 Analysis of Growth Strategy Five

Links to resources referred in the answer - Presentation

- NRETP-G2-Strategies for growing a business
- NRETP-G3-S1-Sell-more-to-existing-customers
- NRETP-G4-S2-Sell-to-existing-customers-at-higher-prices
- NRETP-G5-S3-Sell-to-new-customers
- NRETP-G6-S4-Sell-new-products-services-to-existing-customers
- NRETP-G7-S5-Sell-existing-products in-a-new-market

Related questions



Question 20	<i>What should I do to increase revenue of my business?</i>
Question 21	<i>What should I do to increase revenue of my business?</i>
Question 49	<i>Will adding a new business help increase profit?</i>
Question 50	<i>Will adding a new business help increase profit?</i>





I am doing reasonably well in my business. I have happy repeat customers. I also want to grow. How should I grow my revenue from existing customers?



Enterprise Stage
Grow



Viability Category
Customers and
Competition

Points to be kept in mind while answering the question

This question is applicable to any type of business (production/trading/service).

There are five methods which can be used to grow a business by growing the revenue significantly. Out of these, three methods relate to growing revenues from existing customers; it is recommended that you discuss each of the suggested methods with the entrepreneur. The entrepreneur must understand that the methods suggested have different levels of difficulty in terms of understanding, planning and implementing them. The entrepreneur should select the most appropriate method, from amongst these, considering the business and its situation.

Summary of the answer

An existing business that is doing well would want to grow revenues year after year. If the business has a good number of customers who keep coming back to the business, then the entrepreneur can grow the business in three ways - by selling more, by selling at higher prices or by selling new products or services to the existing customers.

Detailed answer

This question is specific to an existing running business. A new business may take some time to establish itself and is likely to have this question only after a few months (or even a few years).

If the entrepreneur is running an existing business that has good revenue and many repeat customers, then she can follow any of the methods below to grow revenue from these customers. The methods are given below in the order of increasing level of difficulty in implementing – the first method is the easiest and the last method is the most difficult.

- **First method** - Sell more of existing products or services to the existing customers

In this method, the entrepreneur is trying to meet unfulfilled demand for her products and services. The entrepreneur continues to focus on the market where the business is currently located in but looks for opportunities to sell more of existing products and services to existing customers. This is useful when an entrepreneur has not been encouraging customers to buy enough things from her.

Another situation where this method makes sense is when customers are willing to buy more of existing product but the business is not able to produce enough.

- **Second method** - Sell at higher prices to existing customers

This method makes sense when the existing customers of the business are willing to pay a higher price for its products and services. This is the case when the products and services offered by the business are better than competitors but are at lower prices. The entrepreneur can be advised that increasing prices is not always easy as the business may lose the target customers to the competition if the prices are high.

- **Third method** - Sell new products/services to existing customers

Here, the focus of the entrepreneur continues to be on the market in which the business is located, but she looks towards providing new products and services to existing customers. This makes sense if there are some needs of existing customers

which the business has not considered in the past. Hence, the customers are likely to buy those new products and services if they satisfy the overlooked needs.

There will be an increase in costs in this case, and the entrepreneur should ensure that target revenue is significantly high in order to ensure that profits do not drop.

The entrepreneur can grow her revenue from the existing customers by any of these three methods.

More information

To understand more about "selling products or services to the existing customers", please view -
 * the presentation "NRETP-G3-S1-Sell-more-to-existing-customers,"
 *the short films

"105 Business Overview of Growth Strategy One"

"106 Analysis of Growth Strategy One"

To understand more about "selling to existing customers at higher prices", please view -

* the presentation "NRETP-G4-S2-Sell-to-existing-customers-at-higher-prices"

* the short films

"110 Business Overview of Growth Strategy Two"

"111 Analysis of Growth Strategy Two"

To understand more about "selling new products to existing customers", please view -

* the presentation "NRETP-G6-S4-Sell-new-products-to-existing-customers"

* the short films

"120 Business Overview of Growth Strategy Four"

"121 Analysis of Growth Strategy Four"

The first method will be easiest to implement. Before using the second method, the entrepreneur must carefully consider her product's quality and prices compared to competition, and customers' willingness to buy at increased prices. Implementing the third method is more difficult than the first two methods. However, it must also be considered if the business has already exhausted the first method of selling more.

Important keywords and key phrases

Capabilities, Customers, and Customer needs, and Scheme.

Links to resources referred in the answer - Short Films

105 Business Overview of Growth Strategy One

106 Analysis of Growth Strategy One

110 Business Overview of Growth Strategy Two

111 Analysis of Growth Strategy Two

120 Business Overview of Growth Strategy Four

121 Analysis of Growth Strategy Four

Links to resources referred in the answer - Presentation

NRETP-G3-S1-Sell-more-to-existing-customers

NRETP-G4-S2-Sell-to-existing-customers-at-higher-prices

NRETP-G6-S4-Sell-new-products-services-to-existing-customers

Related questions



Question 15	<i>To grow my business now, is it a good idea to offer premium products or services?</i>
Question 17	<i>Should I sell new products or should I look at attracting customers from new markets?</i>
Question 20	<i>What should I do to increase the revenue of my business?</i>
Question 21	<i>What strategy do I adopt to offer my services in a new market?</i>
Question 49	<i>What can I do to grow my business?</i>
Question 50	<i>Will adding a new business help increase profit?</i>





Due to new competitors, my customers have reduced. How do I get my customers back?



Enterprise Stage
Solve



Viability Category
Customers and
Competition

Points to be kept in mind while answering the question

This question is applicable to any type of business. This is a situation that businesses face often. It is recommended that you discuss the details of the business situation with the entrepreneur and help her understand why customers have started buying from competition – there can be many reasons for this. Only after establishing the underlying reason, suggest an appropriate action as mentioned in the answers.

Summary of the answer

Any business can face the challenge of losing their customers to the competitors because of different reasons. To attract the customers back, a business must understand the reasons behind losing customers to the competitors and then find the solution to address them. In most cases, there will be a need for improvements in quality of product / service and range. A business cannot implement all the improvements as they involve higher costs; it must choose those that meet the essential needs of the target customers.

Detailed answer

An entrepreneur must understand that competition will always be there. A business' customers may begin to buy from competitors for any of the following reasons:

1. Competitors' price may be lower for products / services that are similar to those that the entrepreneur is selling.
2. Competitor may offer better quality products or services.
3. Competitor may have a wider range of products. This is most relevant in case of trading businesses such as a kirana shop.
4. The competitor may be offering a better buying experience for the customers.

Hence, it is important that the entrepreneur first identify the reason why her customers have gone to the competitors.

A new competitor often starts selling in a market by offering products and services at lower prices. If the reason that customers have started buying from competitors is that the competitors offer products / services at a lower price, then the entrepreneur should not worry too much.

The entrepreneur can consider offering discounts or free items for a short period to see if the customers come back. It is likely that a few customers will come back.

To retain the target customers for a longer time, the entrepreneur should try to understand the quality, range and buying experience offered by the competitors. She can do this by collecting feedback from the customers who have started buying from the competitors. Or she can purchase and try the products or services of the competitors herself to understand the difference, if any. There is a possibility that any one of these aspects is better for the competitor. Then the entrepreneur can focus on improving that aspect in her product or service offering. Improving that aspect will help the entrepreneur to be better than the competition, which in turn, will help the business to attract the customers.

It must be noted that significant improvements in quality, range or buying experience will mean higher costs. Hence, the entrepreneur must focus on only those improvements that are important to the target customers and meet their essential needs.

More information

To learn more about “understanding customer needs”, please view -

- * the presentation “NRETP F6-Understanding Customers”, slides 37-41
- * the short film “Understanding Competition”

Important keywords and key phrases

Competition, Essential needs, Quality, and Target customers.

Links to resources referred in the answer - Short Films

17 Understanding Competition

Links to resources referred in the answer - Presentation

NRETP-F6-Understanding Customers

Related questions

Related questions



Question 6

If I sell products to my customers, will they start making products on their own and stop coming to my business?





What should I do to increase revenue of my business?



Enterprise Stage
Grow



Viability Category
Customers and
Competition

Points to be kept in mind while answering the question

In the following answer we list five methods that an entrepreneur can choose from, to achieve increase in revenue. These methods involve large-scale changes to her business, and not just small changes. These should be applied in the case of an existing business which already has a steady revenue.

The question is about ways of increasing the revenue. The most appropriate method, from amongst the five described in the answer, should be selected considering the business and its situation. Please remember that the methods suggested have different levels of difficulty in terms of understanding, planning and implementing them.

Summary of the answer

Growing a business means bringing about big changes in the way the business is done, with a view to increasing the profits from the business substantially. In the context of small rural businesses, the best way to increase profits will be to increase revenues, as reducing costs is likely to be difficult.

In order to increase revenues, the entrepreneur needs to focus on what she can do in terms of selling more to her existing customers, or get them to pay a higher price for her products or services. She will need to see if she can sell her existing products or services to new customers or sell new products or services to existing customers. She may also look at selling existing products or services in an altogether new market.

An entrepreneur can achieve an increase in revenue for her business by using any one or a combination of more than one of these methods.

Detailed answer

Ways to increase revenue

There are five methods that the entrepreneur can consider to increase her business' revenue. These have been listed below in an order where the easiest possible method is listed first and the most difficult method is listed last.

- **Method 1** - Sell more existing products/ services to existing customers

In this method, the entrepreneur is trying to meet unfulfilled demand for her products and services. The entrepreneur continues to focus on the market where the business is currently located but looks for opportunities to sell more of existing products and services to existing customers. This is useful when

an entrepreneur has not been encouraging customers to buy enough things from her. Another situation where this method makes sense is when customers are willing to buy more of existing product but the business is not able to produce enough.

- **Method 2** - Sell at higher prices to existing customers

This method makes sense when the existing customers of the business are willing to pay a higher price for its products and services. This is the case when the products and services offered by the business are better than competitors' products but are priced lower.

- **Method 3** - Sell existing products/services to new customers

In this case, the entrepreneur continues to focus on the market where the business is located but looks for new customers. This makes sense if there are many potential customers who have not heard about the business' products and services, and hence when they get to know about them, they may be willing to buy them.

- **Method 4** - Sell new products/services to existing customers

Here, the focus of the entrepreneur continues to be on the market where the business is located, but she looks for providing new products and services to existing customers. This makes sense if there are some needs of existing customers which the business has not considered in the past. Hence the customers are likely to buy those new products and services if these satisfy the overlooked needs.

More information

To understand more about "methods to grow a business", please refer to -

- * the presentation "NRETP-G2-Strategies-for-growing-a-business"
- * the short film "103 Strategies to grow a business"

To understand more about "selling more to existing customers", please refer to -

- * the presentation "NRETP-G3-S1-Sell-more-to-existing-customers"
- * the short films
"105 Business Overview of Growth Strategy One"
"106 Analysis of Growth Strategy One"

To understand more about "selling at higher prices to existing customers", please refer to -

- * the presentation "NRETP-G4-S2-Sell-to-existing-customers-at-higher-prices"
- * the short films
"110 Business Overview of Growth Strategy Two"
"111 Analysis of Growth Strategy Two"

There will be an increase in the costs in this case, and the entrepreneur should ensure that target revenue is significantly high in order to ensure that profits do not drop.

- **Method 5** - Sell existing products/services to new customers in new markets

In this method, the entrepreneur takes her business to new markets. She will sell existing products to new customers. She is looking towards expanding into new markets where the customers will obviously be new. This method is meaningful when a business is well-known in one market and that fact can help it advertise about its products and services effectively in the new market. Another situation where this makes sense is when the business' existing capacities can be used for achieving even higher economies of scale.

To understand more about "selling products to new customers", please refer to -

- * the presentation "NRETP-G5-S3-Sell-to-new-customers"
- * the short films
"115 Business Overview of Growth Strategy Three"
"116 Analysis of Growth Strategy Three"

To understand more about "selling products to existing customers", please refer to -

- * the presentation "NRETP-G6-S4-Sell-new-products-to-existing-customers"
- * the short films
"120 Business Overview of Growth Strategy Four"
"121 Analysis of Growth Strategy Four"

To understand more about "selling products to new customers in markets", please refer to -

- * the presentation "NRETP-G7-S5-Sell-existing-products-in-a-new-market"
- * the short films
"125 Business Overview of Growth Strategy Five"
"126 Analysis of Growth Strategy Five"

Important keywords and key phrases

Customers, Customer needs, and Revenue.

Links to resources referred in the answer - Short Films

- 103 Strategies to grow a business
- 105 Business Overview of Growth Strategy One
- 106 Analysis of Growth Strategy One
- 110 Business Overview of Growth Strategy Two
- 111 Analysis of Growth Strategy Two
- 115 Business Overview of Growth Strategy Three
- 116 Analysis of Growth Strategy Three
- 120 Business Overview of Growth Strategy Four
- 121 Analysis of Growth Strategy Four
- 125 Business Overview of Growth Strategy Five
- 126 Analysis of Growth Strategy Five

Links to resources referred in the answer - Presentation

- NRETP-G2-Strategies for growing a business
- NRETP-G3-S1-Sell-more-to-existing-customers
- NRETP-G4-S2-Sell-to-existing-customers-at-higher-prices
- NRETP-G5-S3-Sell-to-new-customers
- NRETP-G6-S4-Sell-new-products-services-to-existing-customers
- NRETP-G7-S5-Sell-existing-products in-a-new-market"

Related questions



Question 15	<i>To grow my business now, is it a good idea to offer premium products or services?</i>
Question 17	<i>Should I sell new products or should I look at attracting customers from new markets?</i>
Question 18	<i>I am doing reasonably well in my business. I have happy repeat customers. I also want to grow. How should I grow my revenue from existing customers?</i>
Question 21	<i>What strategy do I adopt to offer my services in a new market?</i>
Question 52	<i>What can I do to grow my business?</i>
Question 53	<i>Will adding a new business help increase profit?</i>



Question 21



What strategy do I adopt to offer my services in a new market?



Enterprise Stage
Grow



Viability Category
Customers and
Competition

Points to be kept in mind while answering the question

This question is specific to a service business. However, the strategy can be applied in the case of production and trading businesses as well.

The answer below includes 10 questions which the OSF staff must discuss in detail with the entrepreneur and help her answer.

Once the questions have been answered, the OSF staff should also check two points, (a) whether the business is currently doing well and is known in its area, and (b) whether it has unused capacities (for example, more time in hand to deliver a service, or a production unit that is not fully utilized etc.). If the answer to both these questions (a) and (b) is found to be 'Yes', then the entrepreneur can be advised to consider selling existing products or services in a new market. If either of these is a 'No', then the entrepreneur should be advised to reconsider using this strategy.

Summary of the answer

There are five strategies that an entrepreneur can choose from, to achieve an increase in revenue. One strategy is to get revenue from a new market by selling existing products and services in that location. This should be applied in the case of an existing business which already has a steady revenue from one location or market.

Detailed answer

One of the strategies which an entrepreneur can use to achieve an increase in revenue is to offer existing products and services in a new market. The entrepreneur should first be sure that she has a steady revenue from the existing location/market, before focusing on the new one. She must also think carefully about answers to a list of 10 important questions before implementing this strategy.

Sell existing products/services to new customers in new markets. In this method, the entrepreneur can take her business to a new market. As she is looking at expanding into new market, the customers there will obviously be new for her business.

This method is meaningful when a business is well-known in one market and that fact can help it advertise about its products and services

effectively in the new market. Another situation where this makes sense is when the business' existing capacities are not fully utilized and hence, they can be used for achieving even higher economies of scale.

Implementing this strategy is not an easy process and requires a lot of careful thinking. It is important for the OSF staff to have a discussion with the entrepreneur and ensure she thinks carefully about the answers to the following questions before proceeding further :

1. What is the type of business?
2. How long has it been in existence?
3. What are the products and services that the business offers?
4. Is the business doing well and is known in its area for the quality of products/services?
5. Why is the business considering selling in a new market? (It is very important to

understand the entrepreneur's reason. It must make business sense to consider selling in a new market.)

6. Who are the target customers in the new market? Who are the competitors? (Customers and Competition)
7. Where is the new market that the business is considering? (focus on the location)
8. Does the business have the unused capacities that it wants to utilize to sell in the new market? (Capabilities)
9. What will be the impact of selling in a new market on the revenue, direct costs, indirect costs, and capital?

More information

To understand more about "sale in a new market", please refer to -

* the presentations

"NRETP-G2-Strategies for growing a business", slides 21-22

"NRETP-G7-S5-Sell-existing-products-services-in-a-new-market"

* the short films,

"125 Business-Overview Growth Strategy Five"

"126 Analysis of Growth Strategy Five"

To understand more about "the impact of selling in a new market on the revenue, direct cost, indirect costs, and capital and breakeven analysis", please refer to -

* the presentation "NRETP-G7-S5- Sell-existing-products-services-in-a-new-market"

* the short film "127 Financial Impact of Growth Strategy Five"

10. Has the entrepreneur done the breakeven analysis?

It is important that the entrepreneur answer all the questions above before proceeding towards implementing the strategy. The last question on doing the breakeven analysis is very important as the entrepreneur must not lose focus of achieving the breakeven revenue while trying to sell in a new market.

If the answers to both question numbers 4 and 8 are 'yes', the entrepreneur can consider selling existing products or services in a new market. If not, it would be better for the entrepreneur to focus on selling in the current location/market.

Important keywords and key phrases

Breakeven, Capabilities, Competitors, Costs, Customers, Market share, Market size, Revenue, and Scheme.

Links to resources referred in the answer - Short Films

125 Business-Overview Growth Strategy Five

126 Analysis of Growth Strategy Five

127 Financial Impact of Growth Strategy Five

Links to resources referred in the answer - Presentation

1. NRETP-G2-Strategies for growing a business
2. NRETP-G7-S5-Sell-existing-products-services-in-a-new-market

Related questions



Question 17	<i>Should I sell new products or should I look at attracting customers from new markets?</i>
Question 20	<i>What should I do to increase revenue of my business?</i>
Question 49	<i>What should I do to increase revenue of my business?</i>
Question 50	<i>Will adding a new business help increase profit?</i>



Question 22



Is it a good idea to take on a partner for this business or it is better to do it alone?



Enterprise Stage
Engage, Ideate



Viability Category
Capabilities

Points to be kept in mind while answering the question

This is a very subjective question, and the answer to this question would vary from case to case, depending upon what the entrepreneur wants to achieve by bringing in partner(s) in the business. It is recommended that you lay down all the pros and cons of having a partner, in front of the entrepreneur. These are mentioned in the answer below.

Summary of the answer

In most cases, an entrepreneur needs a partner for the want of investment and/or capabilities. While it is good to have a partner, finding a suitable one is not an easy task! It is very important that you define the profile you are looking for that meets the requirement of your growing business and is in line with the business model. A good partnership is based on complementary profile and compatible personalities. Another factor for success is shared vision.

There are, however, pros and cons of a partnership that an entrepreneur must be prepared to deal with. For instance, while having a partner can really help the entrepreneur with necessary investment to start and/or grow the business, to bring in complementary skills etc., it would also mean profit sharing and diluting the decision-making powers.

Detailed answer

An entrepreneur might want to bring a partner into the business for several reasons. These are mentioned below :

If the business is an existing one:

1. **Financial reason** – While financial need can also be met by taking a business loan, it will have an implication for the P&L and future cash flows. Whereas, this can be avoided if the investment is coming from a partner, in the form of equity.
In some cases, business might need investment in kind. For example, if an entrepreneur is planning to open a shop in the main market, she can have a partnership arrangement with the owner of the shop. This way, she does not need to pay rent.
2. **Capability reason** – While the required skill set can also be obtained by hiring an employee, the commitment to the business will always be more from a partner as compared to an

employee. For example, an entrepreneur (who is also a homemaker) may have some limitation in travelling outside her town and may want to have a partner to complement her on this front – rather than employing somebody and having to monitor him.

To start a new business: For a new business, in addition to the above two points, partners can play a great role to motivate/support each other during the lean phase of the business. This may not sound like a big reason in theory, but in real life many entrepreneurs give up on their business because they did not have necessary emotional support at the time.

However, the entrepreneur -whether starting a new business or running an existing business – must also be aware that there are certain disadvantages in having a partner. Financially, one implication is profit-sharing. Operationally, an important implication is dilution of the decision-making powers of the entrepreneur, and this can often cause huge disagreement.

More information

To understand more about “meeting financial needs”, please refer to the presentation “NRETP-F11-Introduction to Capital”, slide 48.

Important keywords and key phrases

Capabilities, Capital, Cash balance, and Equity.

Links to resources referred in the answer - Short Films

None

Links to resources referred in the answer - Presentation

NRETP-F11-Introduction to Capital

Related questions



Question 23

If there is more than one owner, how should we split profits and make decisions?



Question 23



If there is more than one owner, how should we split profits and make decisions?



Enterprise Stage
Start



Viability Category
Capabilities

Points to be kept in mind while answering the question

There are various kinds of business partnerships. For this question, we are assuming that the entrepreneur is talking about 'Partnership Firm', a legal form of business entity. It is recommended that the OSF probes this further and confirm before answering the question.

Summary of the answer

At the time of registering a Partnership Firm, partners mutually decide on the roles & responsibilities of each partner and the profit-sharing. These decisions are recorded in the Partnership Deed.

Detailed answer

In business, you do not leave things to chance. You try to foresee things and plan for them. Therefore, the question above is better asked before starting a partnership.

It is the sole discretion of the partners/owners to decide the profit-sharing ratio. At the time of registering a partnership firm [read more about partnership firm here -<https://cleartax.in/s/partnership-registration-india-explained>], one key document that needs to be prepared/submitted is a 'Partnership Deed' [an example of partnership

deed -<https://cleartax.in/s/partnership-deed-format-download>] – an agreement between partners that outlines the terms and conditions. It is in this document that the partners clearly define their individual roles and responsibilities, and the ratio in which profit (and losses, if so decided) will be shared.

Therefore, to avoid any future conflicts, it is recommended that all the partners discuss and come to a mutual agreement on these issues beforehand.

More information

None

Important keywords and key phrases

Capabilities, Partnership deed, Partnership firm.

Links to resources referred in the answer - Short Films

None

Links to resources referred in the answer - Presentation

None

Related questions



Question 22

Is it a good idea to take on a partner for this business or it is better to do it alone?





Should a business work on all days of the week? Is it a good idea to give the employees a weekly holiday or should the business hire extra staff so that the business is open throughout the week?



Enterprise Stage
Ideate



Viability Category
Capabilities

Points to be kept in mind while answering the question

This question is more relevant to service and trading businesses than to production related. We need to ask further questions of the entrepreneur to check if there is a demand for the business to be opened throughout the week. The important thing to consider is – to keep the business open throughout the week would mean either the entrepreneur is working extra hours or the business has to hire additional staff. This would result in more costs.

Summary of the answer

As per the government regulations, a worker needs to be given a weekly off. Therefore, if you are considering opening your business throughout the week, you will need to either hire more people or work the extra hours yourself. There is a cost of doing this.

Therefore, before taking a decision on this, the entrepreneur needs to check the additional revenue that she will get by opening the business for one extra day, and how that revenue amount would compare with the associated costs for keeping the business running that extra day.

Detailed answer

Before starting a business, we should check if the efforts we put in are worth the profits, we get from it. This what we know to be, the viability check. The same can be applied to check the viability of a particular business decision.

It is usual that the businesses give their workers one day holiday each week, which may be Sunday or any other day of the week depending on case to case. Therefore, to answer this question, the entrepreneur needs to calculate the additional profits–by opening the business for one extra day, Revenue is one part of the profit calculation. She must keep in mind two points while considering how much extra revenue she may earn by keeping the business open throughout the week.

1. **Customer habits and buying behaviour** – She should estimate how many additional customers she may get if she keeps the business open one additional day. More sales means more revenue for the business.
2. **Competitor's business schedule** - In case a competitor, in the neighbourhood, keeps the

business open all week, the entrepreneur's business may want to assess if it is losing customers to the competitors during that day. If the answer is 'yes', the business must stay open throughout the week.

Against this additional revenue, consider the following efforts/costs.

1. **Additional staff** – to open the business throughout the week would require additional staff. This is since, as per the labour laws, the business must provide a weekly day off to the workers. There might also be some additional running cost, if the business is to be kept open on for an extra day. Compare these against the projected additional revenue and take a decision accordingly.
2. **The entrepreneur working throughout the week** – in this do consider that employees working on all the days will exhaust the worker, and may not be advisable in a long run.

More information

To understand more about Opportunity Cost, please view -
* presentation "NRETP-F3-Introduction to Business" slides 40-43

Links to resources referred in the answer - Presentation

NRETP-F3-Introduction to Business

Important keywords and key phrases

Business Viability, Opportunity Cost, Labour Laws

Links to resources referred in the answer - Short Films

None

Related questions



Question 13

Is it better to do business all day or during limited hours in the morning and in the evening? What should be working hours of the business?

Question 25

Should I expand my current shop by adding more employees?





Should I expand my current shop by adding more employees?



Enterprise Stage
Grow



Viability Category
Capabilities

Points to be kept in mind while answering the question

This question is more relevant to service and trading businesses than to production related businesses. We need to ask further questions of the entrepreneur to check if there is a clear understanding that there is a lot more customer demand today, that cannot be served in the business with the current employees.

If that is indeed the case, that there is more demand and therefore more revenue possibilities, then the current business should consider adding more employees.

The important thing is to balance future additional revenues with the increased costs in employing more people.

In certain situations, a business may bring on more employees, even if they do not have the additional demand for its services. This is only if the entrepreneur feels the new employee, or employees, bring in additional skills that are critical for the running of the business. In such a case, the skills of the employee, or employees, will help create future demand for the business, and will lead to increased profits in the future.

Summary of the answer

The entrepreneur needs to check the additional revenue that she will get by employing an additional employee, and how that revenue amount would compare with the costs for paying the salary and bearing any other associated costs for the additional person.

In some situations, the skills of the employee, or employees, will help create future demand for the business, and will lead to increased profits in the future.

In both situations, employees should be brought in an organisation if it helps the business be more profitable, and therefore more viable in the long run.

Detailed answer

There are some good reasons why any enterprise should bring on more employees. Having more employees can benefit the business since more services may be provided. This may positively influence the revenue of the business and may help the owner in making more profits.

But the owner should also consider the additional costs involved in adding an employee to the business. What would happen if the additional employee is brought into the business, and yet, the revenues do not increase?

The owner must be able to justify that the increased revenues and increased profits will be much more than the additional costs of an additional employee. Here, the owner cannot look at short

term gains, she will also have to assess the business situation in the long term.

In some cases, new employees bring new capabilities to a business. In such situations the addition of a new employee for the skills she brings, may be essential and key to the viability of the business. In some other cases, an additional employee may help serve more customers during peak business periods. Here the additional resource may be recruited on a temporary basis, so that the increased expenses is kept to a minimum. Therefore, it is recommended that an owner lays down all the pros and cons, of having an additional employee, before making a decision. Only if the owner is convinced of the overall benefits and the revenues increase, should she bring in a new employee.

More information

To understand more about Opportunity Cost, please view -
* presentation "NRETP-F7-Making Products and Services" slides 60-65
* a short film "Understanding Capabilities"

Important keywords and key phrases

Business Viability, Capabilities

Links to resources referred in the answer - Short Films

25 Understanding Capabilities

Links to resources referred in the answer - Presentation

NRETP-F7-Making Products and Services

Related questions



Question 24

Should a business work on all days of the week. Is it a good idea to give the employees a weekly holiday or should the business hire extra staff so that the business is open throughout the week?





Is it better to keep two part-time helpers who will come at different times rather than one full-time help?



Enterprise Stage
Start



Viability Category
Capabilities

Points to be kept in mind while answering the question

There are advantages and disadvantages in keeping two helpers for shorter periods of time, instead of one employee over a longer period of time. There is no easy answer, as choosing one option over the other has both

Summary of the answer

Having two part-time helpers may prove to be cheaper for a business, and may allow a good balance of skilled persons to come and work in the business.

However, we must consider the disadvantages of having two part-time workers instead of one full-time employee. More part-time workers would mean more coordination for the business owner, and would result in some process inefficiencies and poorer quality services.

Detailed answer

There are advantages and disadvantages in keeping two helpers for shorter periods of time, instead of one employee over a longer period of time.

The advantage is that having two employees for shorter duration in a part-time mode may be cheaper for the business. The employment costs for two persons with each person employed for 3 hours at a stretch will be cheaper than paying one person for 8 hours in one entire day. This would make sense if in the business, the demand for a service rises during different times in a day, and falls during the remaining times. Especially if the employees are paid at the same hourly rate.

The other advantage could be that the business may find better skilled workers who can only make themselves available during certain hours in a day. In such situations, where skilled workers are only available during a few hours, the business owner may distribute the work in such a manner where the bulk workload is achieved by skilled workers, and the remaining work which may not require the best of skills, are done by the other workers during the remaining parts of the day.

Splitting the workload amongst two people may help from a financial inclusion perspective as there are now 2 people who will earn money from the business, so financial needs of more people are being met by a business.

Employing two part-time helpers comes with some challenges. There needs to be better coordination amongst the workers, which means exchanging information about the state of business between people who are not always available to work with the business owner. The business owner may be burdened by having to deal with two different individuals which means more communication and instructions.

This could lead to an inefficient way of working in the business, longer time for a worker to pick up skills. Some customers may have a poorer experience when interacting with different business workers at different times. If in a hair-cutting saloon, a long-time customer prefers to get her hair cut from one particular service lady, then she would not want different part-time workers providing that haircut. In this case, the long-time customer would like the full-time employee available to her during the entire day, so that she gets the service whenever she wants a haircut.

The other aspect to consider is that the part time workers may be lesser motivated in the success of the business. The part time engagement may reduce the sense of ownership for the employees on the work to be executed. This could in the long term reduce the quality of work performed by the part time employees

More information

To understand more about "Capabilities", please view -

- * presentation "NRETP-F7-Making Products and Services" slides 60-65
- * a short film "Understanding Capabilities"

To understand more about "quality, its importance, and its standards", please view -

- * presentation "NRETP-F6-Understanding-Customers" slides 26-33
- * a short film "Understanding Quality"

Important keywords and key phrases

Capabilities, Quality

Links to resources referred in the answer - Short Films

25 Understanding Capabilities

16 Understanding Quality

Links to resources referred in the answer - Presentation

NRETP-F6-Understanding-Customers

NRETP-F7-Making Products and Services

Related questions



Question 24

Should a business work on all days of the week. Is it a good idea to give the employees a weekly holiday or should the business hire extra staff so that the business is open throughout the week?

Question 25

Should I expand my current shop by adding more employees?





How do I get more workers to meet increased demand for services during peak season?



Enterprise Stage
Ideate



Viability Category
Capabilities

Points to be kept in mind while answering the question

The recruitment of skilled workers for a business is a difficult task. This becomes more difficult if the workers are only being sought for a temporary need or, for a brief duration. Non-skilled workers may be easier to recruit to work on production or services related businesses during the peak seasons.

Summary of the answer

If the business needs unskilled workers, to service the high customer demand during peak periods, then the business should be able to recruit employees by word of mouth. The recruitment of skilled workers for a business is, however, a difficult task.

If the requirement to have more staff engaged during peak periods, and the business is looking to engage skilled workers, then the business may have a challenge in getting the right workers for the high demand period.

In such situations the business should look at the existing staff, train them in the needed skills and then, engage unskilled workers to do the activities that were previously done by the existing staff.

Detailed answer

We shall assume that the business owner has done the financial calculations and is clear in her mind that the livelihoods business stands to earn more revenue and earn more profit during the peak demand season.

Here we should point out that more sales (revenue) do not always translate into more profit. This could be the case when the business is selling more, but the costs have increased significantly to the extent that the profits actually reduce with more sales. This is why it is important to work out the financials before the business decides to tackle the problem of creating more products or services during peak demand periods.

Once the business decides to go with increased production, then the next tasks relate to finding out skilled people who can work in the business during peak periods. We can safely say that the business will need more skilled workers only in preparation for the peak demand period. These additional workers will be released by the business, once the

peak demand period is over, since it does not make any business sense to engage additional workers and to pay their salaries when the revenues are back to normal non-peak levels.

Now, in most cases the business will find it a challenge getting skilled workers. Skilled workers will already be engaged in other work for other businesses. Some of these other businesses will be competitor businesses. Which makes the recruitment and engagement of temporary workers who are skilled a very difficult task.

In such situations the best option is for the business to recruit temporary seasonal workers who can take up activities which do not require more skills. The business should then re-skill existing workers in the business, so that they are able to do the difficult and skilled work. By training existing workers and giving them more skilled work, the employees will benefit as this will provide more earnings potential to these workers. These newly skilled workers will be happy to work in their new assigned responsibilities as they see their value and importance in the business increase. At

the same time when transitioning into new responsibilities, the workers will also have to train and mentor the temporary seasonal workers in their less-skilled roles.

Once the peak demand period is over, the business can release the temporary seasonal workers, and reassign the tasks of the business amongst the existing workers.

More information

None

Important keywords and key phrases

None

Links to resources referred in the answer - Short Films

None

Links to resources referred in the answer - Presentation

None

Related questions



Question 25

Should I expand my current shop by adding more employees?

Question 26

Is it better to keep two part-time helpers who will come at different times rather than one full-time help?





How do I come up with new styles regularly as that is what young college girls are demanding?



Enterprise Stage
Solve



Viability Category
Capabilities

Points to be kept in mind while answering the question

This question may arise in beauty parlour and fashion related businesses (e.g. tailoring business, readymade garments, artificial jewellery etc.) where the needs and wants of customers keep changing as per the current trends in the market

Summary of the answer

Fashion industry is ever changing! To keep up with it, entrepreneurs need to keep themselves up-to-date with the current trends. There are multiple ways of doing that, some important ones are - reading fashion magazines, watching movies and TV shows, following celebrities online, etc.

One important point to always remember is that understanding customer needs are important. Wearing clothes in the latest styles is an essential need for the customers. This activity needs to be given a lot of importance.

Detailed answer

A hairstyle that is very popular today may not be so once a Bollywood heroine is seen with a different hairstyle. So how do you keep up with it? The entrepreneur will need to keep herself informed about the current trends.

One way to do that is by subscribing to fashion magazines and paying attention to current movies and TV shows. The entrepreneur can also follow some of the famous Bollywood heroines on social media.

The other, and a simpler one, could be to have an arrangement with a training institute (preferably from where the entrepreneur got her training) and/or with another beauty parlour which is situated in a bigger city, to share trendy styles with you.

Some of the ways to keep up with the fashion industry, in general

- Subscribe to best fashion magazines
- Follow the celebrities/designers online

- Following haircare and make-up brands on social media such as Instagram and YouTube
- Go window-shopping every now and then
- Watch out for new trends in the streets
- Attend beauty or apparel related events in the nearby cities
- Attending exhibitions, fashion shows or college festivals in the nearest city

More information

None

Important keywords and key phrases

Customer needs, Essential needs

Links to resources referred in the answer - Short Films

None

Links to resources referred in the answer - Presentation

None

Question 29



Due to new competitors, my helpers have left. What can I do to get them back?



Enterprise Stage
Solve



Viability Category
Capabilities

Points to be kept in mind while answering the question

This question will typically apply to all types of businesses. The matter becomes very important when the employees who have left are skilled and their leaving for a competitor business threatens the viability of the owner's business.

There may be many reasons why an employee leaves, and it may not be possible to address all these reasons by a small business. Which is why the main focus in answering this question should be on reasons the business can directly influence.

Summary of the answer

When an employee leaves a business, and joins a competitor business, it may seem that the easiest way to bring the employee back into the owner's business, would be to pay more money to the employee and get her to re-join. But this is not the best course of action.

Paying more money to an ex-employee to make it an attractive choice for her to re-join, has hidden challenges. It sets up the wrong example for other employees in the business, who would then expect more salary. The business owner must therefore look at other options of convincing ex-employees to join back. The business owner may put in some preventive actions so that skilled employees do not think of leaving her business.

Detailed answer

When new competitors enter an area, they need to hire helpers with experience of making/selling the product or service. In such situations, they often hire the employees of an established business in the same area, as those employees have already been trained. Many entrepreneurs face this problem, and it is a very frustrating one – to lose a helper whom she has spent time and effort training.

Every entrepreneur in such a situation will think about how to bring back the helpers who have left and joined the competitor. However, bringing them back may have different repercussions to the business. Please consider the following scenarios:

Setting a wrong precedent (example) – Often businesses bring their employees/helpers back by offering better remuneration or other benefits (higher salary, or bonus, or lower working hours, some other perks etc.). However, by doing this,

businesses end up setting up a wrong example for others. Since such details of paying more to attract an employee back into the business cannot be hidden in smaller organizations, other helpers will soon believe they are worth more than the salary they earn, and will try to pressurize the business by following the same method to get better salary and / or other benefits for themselves.

Therefore, either the entrepreneur does not bring the helpers back, or she brings them back on her terms.

The first thing she should do is assess whether the helpers who have left are critical employees for her business. If they are not critical employees, rather than spending her time and money to bring them back, the owner should find new employees. Thus, one solution to this problem might be to hire new employees / helpers. This will also give a good lesson to the remaining employees.

If the helpers are critical for her business, she should get a sense of the real situation in their new organization before reaching out to them. Many times, when employees/helpers leave their current employer for better remuneration, they do not find themselves happy in the new organization. They may not like the new boss, organization culture etc. In such situations, it may be possible to convince them to come back. The entrepreneur can tell them that she will forgive them for having left the business. This way, if they come back, it will be a learning for others.

If the helpers are critical for the business, and the entrepreneur has invested in their training etc., it is even better if she takes pro-active steps to ensure that they do not leave to join the competitor. She should work on her HR policies and ensure that her helpers are happy and content. The owner may also get other employees to build their skills so that others can do the key work, and the business is not overly reliant on one or two key workers. Doing this might add some extra cost to business, but it will be worth it!

More information

None

Important keywords and key phrases

Capabilities

Links to resources referred in the answer - Short Films

None

Links to resources referred in the answer - Presentation

None

Related questions

None

Question 30



How do I identify supplier who can give me material or equipment at lower rate?



Enterprise Stage
Start, Solve



Viability Category
Capabilities

Points to be kept in mind while answering the question

This type of question might come all kinds of businesses. For such questions, OSF can direct the entrepreneur to a pre-curated list of suitable vendors in the area. However, before doing so, it is important to explain the following to her.

Summary of the answer

Managing costs in a business is an important action, because lower costs mean higher profits. The livelihoods business should use all information sources available to find out the prices of materials and equipment.

To reduce the costs, the livelihoods business should benchmark the costs they pay their suppliers with external data, available on the web. The entrepreneur can also look for similar products online, and do price quality comparison. It is very easy these days; since there are so many online portals that sell materials and equipment online. Another approach is to talk to any existing user/buyer, as they will be able to share information on their prior experiences. Business people are willing to share information, if the receiver is not seen to be a competitor, or a threat to their businesses.

In all cases an entrepreneur must do her research to identify different suppliers of materials/equipment and the quality, prices and credit terms they offer. Only then, the most effective source of material/equipment can be decided. Care must be taken to buy good quality materials. Many businesses reduce their costs by purchasing low quality substitute products. Please consider the long-term impact of buying a cheaper material or equipment. While the business may save some money now, but it might end up hurting the reputation of the business.

Detailed answer

Managing costs in a business is an important action, because lower costs mean higher profits. Every business should try to reduce their costs, by negotiating the costs of the raw materials, the costs of labour, and by trying to run their business with the necessary, but not excessive, equipment.

Here are a few points to consider on procuring materials at lower cost.

1. **Lower rate often means lower quality** – this may be more so in case of purchase of smaller quantities. Therefore, the entrepreneur must consider the long-term impact of buying cheaper equipment. She must spend some time evaluating the quality of what she is buying against equipment sold by other

suppliers. If she simply decides to buy cheaper equipment, she may save some money now, but she might end up spending more on the maintenance and repair of the asset. She will also lose on the opportunity cost for the time when the asset is under breakdown.

2. **Online check for product/price comparison** – The entrepreneur can also look for similar products online, and conduct a price-quality comparison. It is very easy these days since there are so many online portals that sell equipment online.

[E.g. online portals such as India Mart <https://www.indiamart.com/great-value-trademart/> can be useful].

3. **Talk to an existing user/buyer** – Especially when the entrepreneur is buying an equipment/machine, she should consider speaking to previous users of the machine. Perhaps, she can also make a visit to a business where the supplier has installed this machine.
4. **Sometimes a supplier will be willing to sell at a lesser price**, if the entrepreneur would like to buy the material in bulk. Therefore, the business owner should check with possible suppliers, whether they can reduce the price for larger purchases. Here in such situations, the business owner must understand that buying in bulk, at a lesser rate, will only be a good option if she can use the material

quickly. In other words, the inventory she buys should be consumed quickly. She must also ensure after making a bulk purchase, she should still have enough working capital to be able to run her business on a day-to-day basis.

5. **By providing a supplier good credit term**, may convince her to reduce the price of materials. In this case the business owner will promise to provide the supplier quicker payments of money, and because of this the supplier will reduce her costs.

More information

Online portals such as

India Mart <https://www.indiamart.com/great-value-trademark/> can be useful

Important keywords and key phrases

Costs, Profits, Discounts

Links to resources referred in the answer - Short Films

14 Cash and Profits

Links to resources referred in the answer - Presentation

None

Related questions



Question 35

How do I negotiate bulk deals with suppliers?



Question 31



How can I utilise idle capacity of my plant?



Enterprise Stage
Start, Solve



Viability Category
Capabilities

Points to be kept in mind while answering the question

This type of question is more likely to come from an existing production business. But there may be some other cases, in trading or services businesses, where an asset is not being utilized fully.

This aspect, of assets such as plants and machines, not being utilised fully, may not be a problem by itself. In general, the more an asset is used, the more there are opportunities for the business to generate revenue or reduce costs. On the other hand, just because a machine is not being used, does not mean the business has to try and use the machine over a longer duration. Since having machines operational, more than what is needed, means additional costs for the business. A right balance of how much to use a machine, or not to use a machine, needs to be assessed.

OSF Personnel will need to discuss this with the entrepreneur, find out the reasons for the unutilized plant capacity and then suggest a course of action.

One thing to keep in mind is that in practice the entrepreneur will never be able to use her plant capacity to 100 percent. The idle capacity may also vary from season to season, if the production is linked with seasonality of raw material and/or the demand for final product.

Summary of the answer

OSF Personnel will need to discuss this with the entrepreneur, find out the reasons for the unutilized plant capacity and then suggest a course of action.

One thing to keep in mind is that in practice the entrepreneur will never be able to use her plant capacity to 100 percent. The idle capacity may also vary from season to season, if the production is linked with seasonality of raw material and/or the demand for final product.

Detailed answer

There could be various reasons for a machine/plant capacity not being fully utilized; Some of these reasons are given below:

1. **Demand side** – if the plant is idle because there is not enough demand for the business' products, the entrepreneur can try to increase the demand. This can be done by deploying suitable marketing strategies to improve revenue opportunities
2. **Supply side** – if the issue is availability of raw material, e.g. raw material is available seasonally and the plant is idle in the non-season, the entrepreneur may want to diversify her product portfolio to mitigate
3. **Taking on job work** – if the above two are not possible, another quick and easy fix to utilize the capacity optimally, is for the entrepreneur to take on job work. There might be other similar businesses that do not have any production facility of their

this. Take the example of a Dal Mill, which is processing Toor Dal. This mill might have idle capacity during the off-season. In an effort to use the mill for a longer duration of time, the business should try to mill other lentils. More revenue could be earned by doing this if there is a demand for the newly milled lentils product

More information

None

Important keywords and key phrases

Job work, Revenue

Links to resources referred in the answer - Short Films

None

Links to resources referred in the answer - Presentation

None

Related questions



Question 32

How do I increase my production capacity?



Question 32



How do I increase my production capacity?



Enterprise Stage
Start, Solve



Viability Category
Capabilities

Points to be kept in mind while answering the question

Typically, an entrepreneur thinks of increasing production capacity because there is unfulfilled demand. The OSF must discuss the demand situation with the entrepreneur in detail and confirm that there is sufficient unfulfilled demand in the area.

There is a significant cost implication to increasing production capacity. Hence, the OSF must ensure that the entrepreneur has considered all the pros and cons of the decision.

Summary of the answer

The production capacity should only be increased if the business is unable to meet the customer demand, or if the business realises that there will be an increase in demand in the near future.

It is not good when customers are willing to pay money for a product or service, and then finds out that because of shortages in products or service providers, there is no way they can purchase what they want.

In such situations, the lack of product is a problem, and the amount of money that the customers were willing to spend to buy the products or services is 'lost sales'.

To prevent such 'lost sales' a business will need to increase its production capacity.

This can be done by employing more people, buying new machinery, or by subcontracting some of the production work to other organisations

Detailed answer

Typically, an entrepreneur thinks of increasing production capacity because there is unfulfilled demand. There are several methods to increase the production capacity of a business.

Before selecting any method of expanding production capacity, the entrepreneur should first ensure that her current operations are optimal. She should check whether there is any scope of improvements, and if that can take care of the increased demand. If not, then she can evaluate the following methods for increasing production capacity.

1. **Employing more people or working overtime**
 - The most common strategy to meet the increased demand is to work overtime. While this could be a quick- fix, it is not a viable option in a long term. A tired workforce

is more likely to make mistakes and lose morale. Therefore, the entrepreneur could also consider adding more workers and doing more shifts.

2. **New machine or enhancing the capacity of the existing machine** – A long- term fix, in order to increase the production capacity of a business, is to add new machinery. Purchasing new machinery is costly, however, and the entrepreneur should carefully check that the volume of unfulfilled demand is worth the investment.
3. **A combination of the above two** – adding a new machine might also need more people to operate it. Therefore, a combination of the above two may be required.
4. **Subcontracting** – Another short-term fix to enhance the production capacity of the

business is to outsource work to other organizations that may be able help achieve the business' production goals [See question 31 - How can I utilize the idle capacity of my plant?]. There are businesses that have unutilized plant capacity. Outsourcing your production to such businesses can be win-win for both the parties. However, in case of outsourcing to another organisation, you have to clearly communicate the quality standards that you require to be followed.

More information

None

Important keywords and key phrases

Production

Links to resources referred in the answer - Short Films

None

Links to resources referred in the answer - Presentation

None

Related questions



Question 31

How can I utilise idle capacity of my plant?



Question 33



How do I improve my packaging?



Enterprise Stage
Start, Grow



Viability Category
Capabilities

Points to be kept in mind while answering the question

This question may have come from a customer's specific feedback on product packaging. The OSF should have a conversation with the entrepreneur to find out what is the problem or dissatisfaction with existing packaging. The solution to improving packaging can then address that particular problem.

Summary of the answer

There are certain legal requirements that packaging needs to fulfill, especially for food products. Once the legal requirement is fulfilled, the entrepreneur should find out which aspect of packaging the customer is dissatisfied with, and attempt to improve that. The primary functional role of packaging is to protect the product from physical damage/spoilage and to preserve the quality of the product. A packaging must meet these requirements.

In addition, customers prefer packaging that looks neat and attractive too.

Depending on whether the problem area of the packaging is related to functionality, regulatory requirements or attractiveness, different solutions can be suggested

Detailed answer

Packaging must meet the legal requirements of safety and hygiene. This is particularly important if the business is dealing with food products. Once the legal requirement is met, the entrepreneur should further improve packaging as per the convenience of the customers.

Therefore, it is critical to get the right feedback from customers. If there have been complaints about packaging from a few customers, the entrepreneur can ask them for more details about it. She should find out whether the issue is with the primary packaging or the secondary packaging.

There is a 3P formula (protection, preservation, and presentation) that can be followed to improve the packaging:

- **Functional, Protection** – One role of packaging is to ensure that the product is safe from physical damage/spoilage. While making packaging related decisions, the entrepreneur must keep in mind the situations her product will be going through during the various points in the supply chain.
- **Functional, preserving** – This is to ensure the shelf life of the product. The entrepreneur should choose the primary packaging material keeping this in mind. E.g. has she considered protecting against the effects of temperature and humidity?
- **Presentation** – Attractive and informative packaging can make customers choose the entrepreneur's product over the competition. Customers believe that better presented packaging implies better quality. Developing such packaging, however, depends on the following:
 - o How well does the entrepreneur know her demographic?
 - o Who is the end user of her product?
 - o Is the packaging of her product informative?

More information

To understand more about "legal requirements of safety and hygiene"

- Please refer to the Packaging and Labelling Regulations – 2011

Important keywords and key phrases

Labelling and packaging act

Links to resources referred in the answer - Short Films

None

Links to resources referred in the answer - Presentation

None

Related questions

None

Question 34



How do I negotiate bulk deals with customers?



Enterprise Stage
Start, Solve



Viability Category
Capabilities

Points to be kept in mind while answering the question

Customers of any business will typically be bargain hunters. The average customer would like to buy products and services at the lowest price point.

It will need some careful planning and preparation on the part of the livelihoods business to understand how to negotiate with customers.

The benefits customers would want, are lower prices, the provision of credit and extending credit over a period of time.

The livelihoods business should make a case-by-case assessment of the customer and the customer order, before taking any action that reduces the business profitability, or the working capital funds

Summary of the answer

While deciding on her business' credit policy, for customers, there are five parameters that the entrepreneur needs to consider:

- How much the business wants to sell on credit
- Whom does the business want to give credit to
- Credit limit for each type of customer
- Duration of credit
- Penalties or consequences

Detailed answer

A business is likely to have two kinds of customer segments; the first type of customers are retail or individual customers who usually buy in small quantities. These retail customers are often frequent or repeat customers. The second type of customers are customers like institutions, businesses and wholesalers who usually buy in large quantities.

While we can say that for any business, the best approach is to avoid giving credit to customers, it is often not practical to do so. Receiving credit is an incentive for customers to buy from a business. The retail customers often struggle to pay immediately and hence they

tend to buy more if a business gives them credit. Bulk buyers buy in large quantities, but expect even

longer credit periods for their purchase. When retail customers and large buyers do not receive any credit from a business, these customers may choose to buy from competitors and not from the business.

Therefore, a practical approach for a business is to define credit policies for customers, and then track credit given so that the repayments are timely. Without clear credit policies, a business is likely to suffer in three ways. First, it may end up losing money to customers who do not pay back at all. Second, it may end up giving credit to customers who take too long to pay back. Finally, the business may give away too much credit to the customers, which will adversely affect the working capital of the business. Hence, thinking carefully and adopting good customer credit policies helps businesses stay financially healthy.

While deciding on her business' credit policy, for customers, there are five parameters that the entrepreneur needs to consider:

- **(How much the business wants to sell on credit)** – A business needs to decide on the maximum amount, of its total revenues, that it wants to come from credit sales. Often at the start of a business, the owners may decide to be aggressive and give credit liberally. In such cases, the owners may often choose to have 40-50% of the total revenue to come from sales on credit. Sometimes it also depends on the nature of the business. In those businesses where the cost of making a product is very high or a cost of delivery of the service is very high, then a business may choose to accept very small revenues from credit. In fact, the business may ask for advances from its customers in such cases. For example, if a school places a large order of snacks for an event, then the shop owner might insist on 50% amount in advance and the remaining payment upon delivery of the snacks thereby offering no credit. Therefore, while it is difficult to generalize, a good rule of thumb is that the credit revenues should not be more than 25 to 30% of the overall revenue.
- **Whom does the business want to give credit to** – A business needs to decide upon which type of customers will be given credit, and which ones will not. It is a good idea for a business to offer credit only to those who are long-time or repeat customers. A new customer should not be given credit unless he or she has become a regular customer. A business should consider giving credit to those who buy in bulk because they are likely to provide high revenues for a long period. However, sometimes it is a good idea to offer such bulk customers a discount instead of credit.
- **Credit limit for each type of customer** – It is critical that the entrepreneur decide on the amount limit, for each type of customer. Businesses work in a competitive environment. Hence, an entrepreneur must consider what other businesses similar to hers practice when it comes to providing credit to customers. It is a good idea to use the same rule-of-thumb that competitors use ; though a business may offer a bit more credit than competitors if it helps getting

additional market share. Another important consideration is how much credit the business can afford to give. This will depend on the working capital available for the business. If there is not enough working capital available, then the credit amounts should really be very small.

- **Duration of credit** – Once again, it is important that the entrepreneur follows what is considered to be a normal practice in her type of business. For example, if most grocery shops in the area are offering credit for seven days, then a new grocery shop in the village should follow the same duration. The other important consideration is for how long the business can afford to wait for the payment. If there is not enough working capital to pay day-to-day costs comfortably, then the credit period should be as short as possible.
- **Penalties or consequences** – This parameter of the credit policies is the toughest to decide as well as to implement. It is about penalties or consequences in case of delayed payments or non-payments. The most practical approach is to negotiate some immediate payment with the customer, even if it is a partial payment. It is a good idea to contact regularly based on the agreed-upon follow-up dates. In case of delays, the business owners must not hesitate to take a step of immediately stopping delivery of products or services to the customer until all the due payments are cleared. As a last resort, the entrepreneur may consider including penalties in credit policies. However, this is difficult to implement and may lead to spoiling of the relationship. Therefore, it is better to focus on the first four parameters of the credit policies because they are preventive measures that are easier to implement.

It is important to note that credit policies are not static in nature. As a business undergoes changes and as its owner becomes more experienced, she must change the customer credit policies to help the business grow. It is also not necessary to have only one set of customer credit policies for a business. For seasonal businesses, it is a very good idea to have one set of customer credit policies during the period of high demand of products and services and another set during periods of low demand.

More information

None

Important keywords and key phrases

Credit, Credit Policy, Credit Period

Links to resources referred in the answer - Short Films

27 Giving Discounts

Links to resources referred in the answer - Presentation

NRETP-F8-Pricing products and services NRETP-F9-Selling products and services

Related questions



Question 9

How do I reduce sales on credit?





How do I negotiate bulk deals with suppliers?



Enterprise Stage
Start, Solve



Viability Category
Capabilities

Summary of the answer

Bulk orders are all about purchasing large quantities, so most suppliers would indeed be happy to receive bulk orders.

Suppliers may agree to reduce prices, discounts, or provide favourable credit and a longer credit period, in their efforts to win a bulk order.

Entrepreneurs should use their placing bulk orders, to the advantage of the business

Detailed answer

Bulk orders are all about purchasing large quantities, so most suppliers would indeed be happy to receive bulk orders.

The benefits of negotiating bulk orders are many. Bulk orders help in reducing the prices of goods. Bulk orders may be used as an incentive for the livelihoods business to receive the delivery of materials quickly, or for the business to be designated a preferred customer.

For bulk orders, when negotiating with Suppliers on costs, it will be important to know what Suppliers want from their customers.

In general suppliers want a long-term relationship with their customers. They also like repeat and frequent orders from their customers. Many suppliers prefer large orders and are prepared to provide discounts for such orders. Since managing cash and working capital is important, the suppliers also like quick payments from their customers.

While choosing a supplier, businesses should not only negotiate for lower prices, and ask for discounts, but also for a favourable credit period. Most business owners understand the importance of a discount since you get lower price, the benefit is immediate and very tangible.

But credit is also important for a business. As a business owner, the entrepreneur knows that her customers ask for discounts and credit, especially if they are bulk buyers. If she sells on credit while buying the raw material on cash, soon her business is going to feel the crunch of working capital. Therefore, it is very critical that her suppliers also give her credit. After all, for her supplier, the entrepreneur is a customer!

From a business' point of view, its supplier credit policies have three important parameters. The first parameter is about the amounts for which the supplier extends the credit. The second is the duration of the credit. Finally, the third parameter is about the penalties or consequences in case the business delays payments or does not make payments at all.

Let us look at these parameters closely:

- **Credit Amount** – Usually suppliers give credit to long-time or repeat consumers. New customers do not get credit immediately; they need to build a relationship, with the suppliers, by making timely payments for some time. As a customer, the entrepreneur may be tempted to ask for a lot of credit, it is not a good idea to do so. Taking credit only defers the payments to a later date and hence can put pressure on

future cash flows. A business must look at the amount of credit it has given to its customers and try to negotiate a similar amount from its suppliers. This way, the cash inflow and the cash outflow amounts will match or be as close as possible to each other.

- **Duration of Credit** – like credit amount, the entrepreneur may also be tempted to ask for a very long payment term. However, as in the previous parameter, this simply postpones the payment to a later date. Depending on what is happening in the business at that time, it could create a lot of pressure on cash outflows. Here too, a business should try to match the duration of credit given to its customers with the duration of credit taken from its suppliers.
- **Penalties or Consequences** - Most suppliers are persistent, and they visit or call customers

frequently to collect delayed payments. Therefore, usually businesses have little choice in the matter. An important point every business owner must keep in mind is that if she delays the payment or refuses to pay a supplier, then her reputation in the market is tarnished. If that happens, then most other suppliers will not be willing to give raw material or service. Moreover, if they do agree, then they may ask for an advance or an immediate payment. Hence, for every business, it is good to know what the supplier is charging as penalties, but it is best not to let things reach that point!

Keeping all of these in consideration, it would be good for new and existing businesses to use a combination of these factors such as long-term relationships, frequent orders, large orders favourable duration of credit and credit amounts, to negotiate bulk deals with suppliers.

More information

None

Important keywords and key phrases

Price, Credit, Credit Period

Links to resources referred in the answer - Short Films

None

Links to resources referred in the answer - Presentation

None

Related questions



Question 30

How do I identify supplier who can give me material or equipment at lower rate?





Should I draw a monthly salary or is it better to take profits out every month? How will the entrepreneur withdraw money from the business for own use?



Enterprise Stage
Start, Ideate



Viability Category
Costs and Profits

Points to be kept in mind while answering the question

While answering such a question, one needs to strike a balance between the requirement of the entrepreneur against the need of the business. Where personal needs require frequent withdrawal, it will affect the cash situation of the business, and may lead to working capital shortage. This in turn will require that the entrepreneur arranges for more capital to be brought into the business. On the other hand, if the entrepreneur's specific need is of urgent nature, then she has no other place to withdraw money from other than her business. So before providing a specific answer, it is important to ask some questions that clarify the context or situation where the entrepreneur is coming from.

Summary of the answer

An entrepreneur is setting up or running a business with an inherent expectation that her anticipated income will be generated through the day-to-day operations. She must identify what this sum of money is and accordingly set a norm as to how she will receive that money from the business. She will often play dual role, that of an owner as well as a worker in her own business. The first will allow her rights to profits in the business while the latter entitles her to salary or wages. Besides these, there might be times when she needs to urgently withdraw money to meet her personal requirement. However, one must also consider that it is possible that a business may not make a profit every month.

Detailed answer

There is more than one possible answer to this question. In that sense, the answers below are arranged as "most preferred" to "least preferred":

- i. Ideally, the entrepreneur can set a monthly salary/wage for efforts she puts into the business. This will allow her to meet her ongoing personal expense requirements smoothly. This amount can be what she reasonably expects a helper to be paid if doing the same work in her place. This is also least likely to impact the working capital requirement of the business operations as it is already accounted for as a direct or an indirect expense while estimating working capital.
- ii. The entrepreneur may withdraw a fixed amount from the business each month out of any profits that are generated. However, if this is being done to meet a regular personal expense, then she should be aware that it is possible that there may be no profit in some months. So, if the personal need is of recurring nature, she may want to consider option 1 listed above.
- iii. It is also possible that there is a situation where the entrepreneur has an emergency or is in urgent need of money. In such cases, she may withdraw a large sum of money from the business on a one-time basis. For example, there may be damage to her house due to rains or floods, and she requires money for urgent repairs. From a business perspective, this will create an unexpected cash outflow thereby putting a strain on the cash position of the business. In such a case, the entrepreneur must also evaluate more options to meet her personal need, in case the business does not have ample funds to cover her one-time withdrawal.

(On a separate note, recurring or one-time withdrawals from the business will reduce the owner's equity she has brought into the business. So, she must be aware that the withdrawals may create a requirement to bring back money into the business so that there is adequate capital to meet the requirements of the business.)

More information

None

Important keywords and key phrases

Capital, Cash balance, Cash flow statement, Costs, Owner's drawings, Owner's salary, and Working capital.

Links to resources referred in the answer - Short Films

None

Links to resources referred in the answer - Presentation

None

Related questions



Question 23

If there is more than one owner, how should we split profits and also make decisions?



Question 37



Should the bank loan be for a short period (e.g. about a year) or for a long period (e.g. about 3 years or more)? What factors should the entrepreneur consider while deciding loan tenure?



Enterprise Stage
Ideate, Grow



Viability Category
Costs and Profits

Points to be kept in mind while answering the question

The key aspect to consider while answering the question is that the entrepreneur may look at a loan as something to be repaid as quickly as possible. The impact of this however, is that this will create a cash outflow burden on the business, if repaid sooner than loan tenure ends.

Summary of the answer

While taking a loan, entrepreneurs often think that the shorter the duration, the better it is for the business as it doesn't need to carry the liability for a longer period. However, if this is examined from the perspective of cash flow impact, then shorter tenure loans create higher requirement for working capital as repayment amounts by way of EMIs are higher, than in a loan with longer tenure. So rather than looking at a loan as a liability alone, there is merit in seeing the ease a loan creates for the business in managing the cash flow and working capital requirements.

Detailed answer

A bank loan will typically have 3 aspects to consider: loan amount called "principal", duration or term of the loan, and interest rate. Monthly amount paid back to the bank includes some portion of principal to be repaid along with interest. Together, this monthly payment is called Equated Monthly Instalment or EMI. Usually, longer the tenure of the loan, more is the interest paid, but EMI is lower. The example below will help illustrate this:

An entrepreneur is borrowing Rs.1,00,000 from the bank. We will consider 3 scenarios where the interest rate and tenure are different.

If the entrepreneur had considered the view that shortest tenure of a loan is better, then she is required to pay an EMI of Rs. 8,833 for 12 months.

Although interest rate and amount are lowest, she needs to make a higher provision of working capital for those 12 months.

However, if she considers Loan 2, then the EMI payment is Rs. 4,750 for 24 months, and in Loan 3, EMI comes down further to Rs. 3,444 for 36 months. Even though interest burden increases in Loans 2 and 3, it creates drastically lower working capital requirement for the business. Having lower working capital requirement across 24 or 36 months, will allow the business to operate and generate more revenue.

Hence, while considering loan tenure and interest, the beneficial impact that a loan creates on cash flow and working capital requirement for the business, must also be considered, rather than only looking at liability and repayment.

	Loan Amount	Duration	Annual interest rate	Annual interest amount	Monthly interest (A)	Monthly repayment (B)	EMI (C=A+B)
Loan 1	₹ 1,00,000	1 year	6%	₹ 6,000	₹ 500	₹ 8,333	₹ 8,833
Loan 2	₹ 1,00,000	2 year	7%	₹ 7,000	₹ 583	₹ 4,167	₹ 4,750
Loan 3	₹ 1,00,000	3 year	8%	₹ 8,000	₹ 667	₹ 2,778	₹ 3,444

If the entrepreneur had considered the view that shortest tenure of a loan is better, then she is required to pay an EMI of Rs. 8,833 for 12 months. Although interest rate and amount are lowest, she needs to make a higher provision of working capital for those 12 months.

However, if she considers Loan 2, then the EMI payment is Rs. 4,750 for 24 months, and in Loan 3, EMI comes down further to Rs. 3,444 for 36 months. Even though interest burden increases in

Loans 2 and 3, it creates drastically lower working capital requirement for the business. Having lower working capital requirement across 24 or 36 months, will allow the business to operate and generate more revenue.

Hence, while considering loan tenure and interest, the beneficial impact that a loan creates on cash flow and working capital requirement for the business, must also be considered, rather than only looking at liability and repayment.

More information

To learn more about “managing loans in business”, please view -

- * the presentation “NRETP F11-Introduction to Capital in the section on Managing Loans Using EMIs”, slides 60 to 65
- * the short film “35 Managing Loans”

Important keywords and key phrases

Capital, Cash flow statement, Costs, EMI, Interest, Loan tenure, and Working capital.

Links to resources referred in the answer - Short Films

35 Managing Loans

Links to resources referred in the answer - Presentation

NRETP F11-Introduction to Capital

Related questions



Question 42

What sort of information will the bank need when I apply for a loan?





How does keeping records help the entrepreneur in taking business decisions?



Enterprise Stage
Solve, Start



Viability Category
Costs and Profits

Points to be kept in mind while answering the question

While answering this question, it is important to emphasize that availability of regularly updated records of the business is the key factor in making operational and strategic decisions in a business. In addition, keeping a regular record of activities ensures that the entrepreneur has ready records available for submission when she has to apply for loan or government scheme or while paying taxes.

Summary of the answer

An entrepreneur has to make several decisions in a business on a daily basis for which different kinds of information must be easily available. For example:

1. The quantum of inventory available helps in deciding how much more raw material is to be purchased
2. How much credit has been given to customers helps decide when to follow up with them to recover the dues
3. Knowing how much revenue is generated and what costs are incurred will be useful when estimating working capital required in the business.

Keeping records of business via financial statements such as P&L account, Cash Flow Statement and Balance Sheet also helps the entrepreneur to know the health of the business. These records are also useful when interacting with banks or government agencies while applying for loans or paying taxes.

Detailed answer

Business is a recurring economic activity with an aim to make profits. There are several transactions that happen in a business every day. Some of these transactions are related to revenue such as selling products, or are related to costs such as purchasing raw material, or related to capital such as taking a loan, or about cash flow such as collecting cash for products sold on credit to customers. All of these transactions are linked to one or more of the three financial statements which are Balance Sheet, P&L statement and Cash Flow statement.

In a typical business such as a grocery shop or a tea shop, there can be thousands of transactions every year. For larger businesses, the numbers will be very large. Unless the entrepreneur records these transactions regularly, it will be very difficult to create financial statements. Keeping updated financial statements will allow the entrepreneur to

understand how the business is performing, and hence to decide how to improve or grow the business. It is also helpful while obtaining bank loans or government scheme benefits.

Key types of business records are:

1. **One-time data for a business:** This record consists of one-time information about business such as name, location, type, capital invested etc. It is a good idea to complete this record at the start of the business. But sometimes a business has already begun before the owner starts keeping records. In such a case, the one-time data for business should record at least those major transactions which have taken place in the past but have a significant impact on the business going forward.
2. **Loans, Assets and Deposits Register:** This register helps track changes in what the

business owes others in the form of loans, what it owns which are called assets, and also any deposits that the business might have taken and given.

3. **Day-book:** This record keeps track of daily transactions in a business. As the name suggests, the business owner must maintain this record every day.
4. **Month-book:** This is where we record information for a period of one month. It has aggregate or total value of transactions for a month from the corresponding Day-books.
5. **Credit Given and Credit Taken Registers:** A business may often sell products or services to a customer who will promise to pay at a later date. In such cases, we say that a business has given credit to that customer and this transaction is recorded in the Credit Given Register. Sometimes a business may buy raw material and promise to pay a

supplier at a later date. When this happens, we say that the business has taken credit from that supplier and this transaction is recorded in Credit Taken Register. Keeping record of such credit transactions accurately, will allow the business to keep track of who owes how much to the business, and how much the business owes to others.

6. **Balance sheet, Profit & Loss Statement, and Cash Flow Statement:** These can be created from the Month-book. Hence it is important that the records of a business should be kept regularly and accurately.

Well-kept records or information also help business owners analyze and make important decisions to improve performance of the business as well as to grow the business. Hence it is important that these are regularly updated and checked for accuracy.

More information

To learn more about "Keeping records in a business", please refer to -

- * the presentation "NRETP-F4-Keeping Records in a Business"
- * the short film "9 Records to be kept"

Important keywords and key phrases

Balance Sheet; Cash Flow Statement; Costs; Credit Given Register; Credit Taken Register; Day book; Loans, Assets and Deposits register; Month Book; P&L Account; and Profits.

Links to resources referred in the answer - Short Films

9 Records to be kept

Links to resources referred in the answer - Presentation

NRETP-F4-Keeping Records in a Business

Related questions



Question 40

Are there any government schemes available for this type of business?

Question 42

What sort of information will the bank need when I apply for a loan?





What would be my working capital need if I plan to increase my revenue?



Enterprise Stage
Solve, Start



Viability Category
Costs and Profits

Points to be kept in mind while answering the question

While answering this question, it is important that the entrepreneur is asked to bring along records of the business so that actual data can be looked at, in the form of financial statements or day-book or month-book. Without the data, answering this question will be hypothetical and won't let the entrepreneur see the actual reasons for the situation her business is in, i.e., why there is profit but no cash in the business.

Summary of the answer

Cash received by the business may not necessarily be the same as profits in the business. This is due to the presence of credit transactions such as accounts payable or accounts receivable in the business. Accounts payable is where raw materials are purchased now (expense incurred now), but the entrepreneur promises to pay the supplier at a later date (cash to be paid later). Similarly, accounts receivable is when the product or services are sold now (revenue earned now), but the customer promises to pay the entrepreneur at a later date (cash to be received later). Another reason due to which cash and profit are not same is depreciation, which is recorded as an expense for the used value of the asset every year. There is no actual cash outflow, but this is recorded as a notional expense. Therefore, cash position does not change but profit reduces.

Detailed answer

The main reasons why cash received by the business may not match the profits of the business are mentioned below:

1. **Accounts payable:** Let's take a look at Maya's fruits and vegetable shop. At present, she is mainly selling bananas. In April, revenues were Rs.50,000 and she paid salaries and other costs such as rent for the shop, electricity bill, and transportation costs. The business has a cash balance of Rs. 20,000. Note that this is not her profit. Maya had been buying fruits and vegetables on credit for the whole month, and needs to make a payment of Rs. 25,000 to the wholesaler. This is accounts payable. To make this payment, Maya ends up putting Rs.5,000 from her own savings. So, although there was Rs. 20,000 cash available, the business actually made a loss of Rs.5,000. This is a situation where business has enough cash but does not make a profit.
2. **Depreciation:** Sundari runs a tailoring shop where she stitches salwar kurtas and skirts for women and schoolgirls. The customers bring cloth to the shop and the business stitches clothes using that cloth as per the customers' measurements. When Sundari prepared a P&L statement for the first year of the business, the revenues were recorded at Rs. 2 lakhs, and after deducting all costs including salaries, raw material costs, interest on loans, etc., the P&L statement shows a loss of Rs. 7,000. There is Rs. 5,000 cash balance available in the business. Sundari notices that one of the costs that the P&L subtracted from the gross profits was depreciation which was Rs. 5,000. Since depreciation is a non-cash expense, it reduces the business' profits but does not reduce the cash that the business has. This is the other reason why a business may have cash but no profits.
3. **Accounts receivable:** Ramu runs a tea shop on a highway where he makes and sells tea,

coffee and snacks to travelers on the highway as well as customers from nearby villages. At the end of July, he creates a P&L statement using data from the day-book. The business had revenues of Rs40,000 for the month. Ramu's records show that the total costs including his salary, raw material etc. were Rs. 36,000. So, the net profits are Rs.4,000. However, there is no cash left in the cash box, there is no balance in the bank account and on-line wallets are empty. Ramu realizes that three days ago, there was a large order for snacks for the local school's function. The amount for that order was Rs. 4,000 and the school principal promised to pay that amount after 10 days. This is accounts receivable. While Ramu's business has made a profit of Rs. 4,000 in that month, the business does not have this profit available as cash due to accounts receivables.

To ensure that the business has adequate cash balance, it is essential that all credit transactions are recorded on a daily basis. This will allow for timely collection from customers to whom products were sold on credit. Also, it will allow the entrepreneur to be aware of upcoming dues to be paid to the supplier, so the business can make provision for it in advance. The other thing to consider is whether it is possible to increase cash sales as opposed to credit sales in the business. However, if common market practice followed by competitors is to offer credit to customers, then the entrepreneur cannot change the ongoing policy, as she would lose customers. Therefore, regular follow-up and collection of dues from customers is the only way to improve cash position of the business.

More information

To learn more about finance and profits, please view -

- * the presentation "NRETP-F5-An Overview of Financial Statements", slides 67-70
- * the short film "14 Cash and Profits:"

Important keywords and key phrases

Accounts payable, Accounts receivable, Costs, Credit, Credit policy, Credit sales, and Depreciation.

Links to resources referred in the answer - Short Films

14 Cash and Profits

Links to resources referred in the answer - Presentation

NRETP-F5-An Overview of Financial Statements

Related questions



Question 20

What should I do to increase revenue of my business?

Question 42

What would be my working capital need if I plan to increase my revenue?





Are there any government schemes available for this type of a business?



Enterprise Stage
Start, Ideate



Viability Category
Capital

Points to be kept in mind while answering the question

While responding to such a question, it is important that one understands the nature of business for which government benefit is being sought, the location where the business operates, socio-economic status of the entrepreneur, tenure of the business (whether new or established), or whether the business sells a particular product or service that is considered popular or prominent in that region. Also, there might be a situation where there is a government project for which products or services from local entrepreneurs may be sought. It is important to maintain an updated list of schemes so that these can be referred to while responding to the entrepreneur's question.

Summary of the answer

At any given point of time, there might be various government schemes that are on offer to help entrepreneurs start a business or expand it. These schemes may be commonly offered as some form of subsidy, grant or low-interest loans, but may also be in the form of other specific concessions applicable to women entrepreneurs, tax incentive, or access to business experts.

Detailed answer

It is important to consider various aspects of government benefits or schemes available to entrepreneurs.

1. Each state has some schemes to promote setting up and growth of businesses. For example, Tamil Nadu State Government has a website where several such schemes are listed. This website lists several loan schemes available via district and cooperative banks in the state, as well as loans for specific enterprises in animal husbandry, fisheries, tea plantation, poultry, etc.
2. There might be other central government schemes such as Pradhan Mantri Mudra Yojana which offer lending up to 10 lakhs to micro enterprises.
3. There are other types of schemes to cover equipment purchase, working capital requirements, business loans, or finance against bills of sale, etc.
4. Separately, there will be some schemes that are created to extend benefit to business in

certain sectors or a specific location. For example, there are interest subsidy schemes for micro enterprises in Gujarat. There are capital subsidy benefits available to business involved solar lighting and small capacity PV systems for special category states like Sikkim, J&K, HP and Uttarakhand.

5. There are also specific schemes focused on women entrepreneurs (Women Entrepreneurship Platform) or self-employed individuals (Self Employment Lending Scheme).

Just like bank loans, while applying for government schemes, it is advisable that the entrepreneur has already prepared the detailed business plan including financial statements, as this is the most basic set of documents that will be required while seeking benefits under any government scheme.

More information

To learn more about "Business plans", please view -

- * the presentation "NRETP F13-Business Plan Template"
- * the short film "41 Overview of a Business Plan"

Important keywords and key phrases

Capital, Grant, Incentive, Interest, Loan tenure, Scheme, and Subsidy.

Links to resources referred in the answer - Short Films

41 Overview of a Business Plan

Links to resources referred in the answer - Presentation

NRETP F13-Business Plan Template

Related questions

None

Question 41



Should I rent or buy an asset (shop, furniture, machine, etc)?



Enterprise Stage
Start, Grow



Viability Category
Capital

Points to be kept in mind while answering the question

While answering this question, one must enquire with the entrepreneur and obtain as much information about the business as possible, so that various factors can be taken into account while making a decision whether to buy or rent an asset.

The asset may be in the form of a shop to sell from, some furniture, machinery or other equipment, the points to be considered before making the buy or rent decision are the same.

Summary of the answer

To answer this question, we must first check what is the nature of the asset – whether it is productive or ancillary. A productive asset helps generate revenue for the business across several years. We also need to take into account whether the asset is required throughout the year or only for some months as in a seasonal business. The other thing to take into consideration is the repair and maintenance costs that might be incurred where the asset is old and used, hence increasing the costs to the business. And finally, one must take into account the access to the capital that the entrepreneur has, which will determine if she is able to have adequate funds to buy an asset.

Detailed answer

There are several points which the entrepreneur must consider while making a decision whether to purchase an asset or take it on rent. Those points are given below, all of them must be considered while making the decision:

1. The first thing to consider is whether the asset is productive or ancillary to the business.
 - a. Productive assets help generate revenue in a business on an ongoing basis. Examples are: sewing machines in a tailoring business or cooking equipment in a restaurant or snack stall, or refrigerators in a milk vending business. All of these are essential to the main activity of the business and hence must ideally be purchased.
 - b. Ancillary assets are ones that don't directly impact revenue, and hence entrepreneur can exercise discretion on whether to buy these or get them on rent.
2. Another factor to consider is the seasonality of the business.
 - a. If the asset is going to be used only for a few months, then it is worth considering if it is available on rent so that it does not remain unused when the season is over. If the asset is not available on rent and has to be purchased, it means the entrepreneur may need to find other ways to utilize the idle capacity of the asset during the off-season. This can be done by taking up contract work or giving the asset on rent, where possible.
 - b. If the business is of ongoing nature, then buying the asset might prove to be a better option.
3. Repair and maintenance for an asset is another factor to take into account during a "buy or rent" decision. Assets on rent may be used and old, and hence undergo frequent breakdowns. So even though it may be cost-effective to get it on rent, the repair costs may

outweigh the benefits of getting it on rent. For example, in a business such as tailoring, the entrepreneur cannot afford for the sewing machines to break down regularly as it directly impacts the productive capacity of the business. However, furniture such as wooden tables or chairs or storage cupboards may not have much wear and tear on a daily basis, and could be bought on rent if available.

4. Availability is another factor that can impact a "buy or rent" decision. There might be times where the asset is not available on rent, and

hence there is no other option but to purchase it outright.

5. Ability of the entrepreneur to raise adequate capital will also have to be considered. If the entrepreneur is not in a position to bring in adequate capital required to buy an asset, then renting is the only option available. It is also possible that capital may be available in the form of loan but at a very high interest rate, which might deter the entrepreneur from buying the asset.

More information

None

Important keywords and key phrases

Ancillary, Business viability, Capital, Costs, EMI, Leasing an asset, and Revenue.

Links to resources referred in the answer - Short Films

None

Links to resources referred in the answer - Presentation

None

Related questions

None



What sort of information will the bank need when I apply for a loan?



Enterprise Stage
Start, Grow



Viability Category
Capital

Points to be kept in mind while answering the question

While answering this question, one has to ask specific questions that help narrow down the purpose of taking the loan. This is also what a bank will ask the entrepreneur when she applies for loan, hence it is best to ask about how the loan will be used, what is the plan of repayment, revenue projections etc., many of these topics will be covered if the entrepreneur has created a business plan with forecasted financial statements.

Summary of the answer

Information sought by banks while giving a loan will differ by location and purpose of loan. At a minimum, if the entrepreneur intends to buy an asset, then a quotation from a dealer is needed. If the loan is for working capital needs - such as paying salary, buying raw materials or paying electricity bills etc. - while receivables from customers are awaited, then an estimate of working capital for a year or so, must be kept ready before applying for a loan.

Detailed answer

To begin with, information required while applying for a loan will differ from bank to bank. However, by and large, the following documents are most likely to be requested by most banks (the entrepreneur should check for a more accurate list with the bank that she has applied to for a loan):

1. Detailed business plan
2. Financial statements of the business (for the last 2 years in the case of an existing business, or, projected statements for 2 years, if it is a new business)
3. Filled in application form specifying purpose of loan
4. Estimates or quotes for purchase of assets (machinery, equipment, furniture, etc.)
5. Detailed estimate of working capital requirement if applying for working capital to continue running the business or to start the business
6. Set-up or ownership documents of the business
7. Any annual tax return filed in the last 2 years
8. I.d. proof and address proof of loan applicant

More information

To have a general idea about business planning and finance, please view -

* the presentations -

NRETP F13-Business Plan Template

NRETP F13-Financial Statements Format for Business Plan NRETP F13-Starting a Business

* the short film-

41 Overview of a Business Plan

Important keywords and key phrases

Business viability, Capital, Financial statements, Loan tenure, and Working capital.

Links to resources referred in the answer - Short Films

41 Overview of a Business Plan

Links to resources referred in the answer - Presentation

NRETP F13-Business Plan Template

NRETP F10-Preparing Financial Statements

NRETP F13-Starting a Business

Related questions



Question 37

Should the bank loan be for a short period (e.g. about a year) or for a long period (e.g. about 3 years or more)? What factors should the entrepreneur consider while deciding loan tenure?





What sort of information will the bank need when I apply for a loan?



Enterprise Stage
Grow, Solve



Viability Category
Capital

Points to be kept in mind while answering the question

The key aspect to remember is that an existing business already has a certain level of working capital requirement to run it on an ongoing basis. Aiming to increase revenue, therefore, will increase working capital requirement. This needs to be worked out by estimating all the incremental costs and purchases required to meet the increased revenue target. While doing that, timing and amount of new cash flows need to be taken into account so that we don't end up overestimating or underestimating the working capital requirement.

Summary of the answer

To start with, the entrepreneur needs to estimate the increase in revenue as compared to current revenue generated by the business. Further, keeping in mind the selling price per item, or sales generated per household/customer, the entrepreneur must estimate how many additional items need to be sold, or how many more customers/households need to be sold to. This can then be used to analyse the incremental costs the business will have to incur to meet the incremental revenue target.

Once the incremental costs are estimated, these can be used to estimate cash outflows versus inflows thereby providing a clear view of the incremental revenues against incremental costs. This also includes any purchase of assets or equipment that might be required to be brought into the business to achieve the increased revenue aspirations. An estimate of additional working capital required to meet increased revenue can now be created by considering the net cash outflow of the business, along with the timing of the cash flows.

Detailed answer

The following steps need to be followed while estimating working capital need on account of increased revenue target:

1. **Identify the direct and indirect costs that will be additionally incurred by the business.**

Let's take the example of Leena's pickle business to understand this further.

- a. **Direct costs:** A higher revenue target will usually lead to an increase in raw material costs. Besides raw mango, she may use oil and spices to make the pickle, and these will be mixed in certain proportions. Leena must calculate the increase in quantity to arrive at increase in the raw material costs. Also, she may want to include additional transportation

costs or more wages as she may have to pay helpers to produce more pickle. Additionally, if there is any fuel or electricity cost, then that must be added. All of these put together will constitute the additional direct costs that will be incurred due to the higher revenue target.

- b. **Timing of costs and revenues:** Leena will also need to take into account the timing of the costs. For example, she may be buying the material by paying cash upfront to the supplier every month. The wages to the helpers are being paid at the end of every 2 weeks, whereas transportation cost to bring in raw materials is being incurred at the start of the month. She will have a 2-week period in processing raw mangoes so that the pickle is ready to sell. In this instance, she will need to split her

estimation of working capital on a 2-week basis, so that payment for raw materials and transportation are accounted for in the first half of the month, and revenues and wage payments are accounted for in the second half of the month. Instead, if she estimated these on a 1-month basis, it would seem like additional revenues are adequate to cover additional costs, but she would not have made a provision for raw materials and transport costs to be paid at the start of the month.

2. **Costs related to machinery or equipment:** If additional revenue requires that some

machinery or equipment be purchased, then repairs/maintenance costs would need to be added to the working capital calculations. Similarly, if the machinery/equipment is available on rent, then that will need to be added to our calculation.

Once each of these elements are added up, we will have our working capital requirement based on increased revenue target. Bear in mind, that we must estimate this correctly based on the timing of the cash flows, so there are no surprises of having to provision for cash for expenses payable upfront.

More information

To learn more about “capital and revenue”, please refer to -

* the presentations

NRETP-G3-S1-Sell-more-to-existing-customers – Slides 35 to 38

NRETP-G4-S2-Sell-to-existing-customers-at-higher-prices – Slides 30 to 34

NRETP-G5-S3-Sell-to-new-customers – Slides 32 to 35

NRETP-G6-S4-Sell-new-products-services-to-existing-customers – Slides 40 to 48

NRETP-G7-S5-Sell-existing-products-services-in-a-new-market – Slides 48 to 52

* the short films

107 Financial Impact of Growth Strategy One 112

Financial Impact of Growth Strategy Two 117

Financial Impact of Growth Strategy Three 122

Financial Impact of Growth Strategy Four 127

Financial Impact of Growth Strategy Five

Important keywords and key phrases

Capital, Costs, Financial statements, Price, and Revenue.

Links to resources referred in the answer - Short Films

107 Financial Impact of Growth Strategy One

112 Financial Impact of Growth Strategy Two

117 Financial Impact of Growth Strategy Three

122 Financial Impact of Growth Strategy Four

127 Financial Impact of Growth Strategy Five

Links to resources referred in the answer - Presentation

NRETP-G3-S1-Sell-more-to-existing-customers

NRETP-G4-S2-Sell-to-existing-customers-at-higher-prices

NRETP-G5-S3-Sell-to-new-customers

NRETP-G6-S4-Sell-new-products-services-to-existing-customers

NRETP-G7-S5-Sell-existing-products-services-in-a-new-market

Related questions



Question 20

What should I do to increase revenue of my business?





Do I need shops and establishment license for this business?



Enterprise Stage
Start, Grow



Viability Category
Environment

Points to be kept in mind while answering the question

The legal framework that governs small businesses can be quite daunting for rural entrepreneurs. Ignorance of the laws or lack of knowledge about them often lead entrepreneurs to face difficult consequences. It is important that the OSF stays conversant with the laws and rules that are applicable to small businesses.

As per the provisions of the Tamil Nadu Shops and Establishment Act all businesses are required to be registered. Most entrepreneurs will need assistance in complying with the registration requirements and compliance with the records to be maintained by registered businesses. The OSF will need to provide such support.

Summary of the answer

The Shops and Establishment Act is applicable to all businesses that operate from any premises. It is likely that many small businesses do not register themselves under the Act. For a very small business, this may not be much important. However, if the enterprise is poised for growth and the entrepreneur is desirous of expanding her business, it is advisable that the registration is obtained. Online registration facility is available in Tamil Nadu.

Detailed answer

Applicability

The Shops and Establishment Act is applicable to:

Shop: Shop means any premises where goods are sold, either by retail or wholesale, or services are rendered to customers. It includes an office, a store-room, a godown, warehouse, or workplace, whether on the same premises or otherwise, used in connection with such trade/ business. A shop however does not include a factory or a commercial establishment.

Commercial Establishment: Commercial establishment means a premise where any trade, business, profession or any work is undertaken, which may include society, charitable or another trust, journalistic and printing establishments, contractors' and auditors' establishments, educational institutes, premises where the business of banking, insurance, stocks, and shares and brokerage is undertaken, restaurants and

eating houses, residential hotels, clubs, theatres and other places of public amusement or entertainment.

Each State in India has enacted its own Shops and Establishment Act.

Registration

Registration of shops and establishments is done by the State Department of Labour. The district labour officers will appoint inspectors for granting certificates of registration. Moreover, the owners of shops or commercial establishments will be expected to submit an application in the specified form to the Inspector in charge along with specified fees within 30 days from the date of commencement of operation.

The Labour Department has online facility for registration.

Benefits from registration

Registration under the Act is beneficial for an enterprise for the following reasons.

- Registration is a proof of legal entity and allows the entity to conduct business within limits of the particular state.
- The proof as a legal entity helps in opening a business bank account.
- It will be helpful for obtaining various benefits under schemes of State and Union Governments.

More information

To learn more about “Establishment for business purposes”, please refer to the documents -

1. Tamil Nadu Shops and Establishments Act
2. Tamil Nadu Shops and Establishments Rules
3. Online registration manual of Labour Department. This is available at <https://labour.tn.gov.in/services/users/login> <https://labour.tn.gov.in/pdf/registration-manual.pdf>

Important keywords and key phrases

Business viability, and Customers.

Links to resources referred in the answer - Short Films

None

Links to resources referred in the answer - Presentation

None

Related questions



Question 45

Do I need a food license for this business?





Do I need a food license for this business?



Enterprise Stage
Start



Viability Category
Environment

Points to be kept in mind while answering the question

The FSSAI covers almost every aspect of the food business – production, sales and transportation. It is advisable that all entrepreneurs who are dealing with food are motivated to obtain FSSAI registration. The OSF can support in this.

Summary of the answer

All food businesses are required to be compliant with the provisions of the Food Safety and Standards Authority of India (FSSAI). For small businesses, with annual turnover of up to 12 lakh, only registration under FSSAI is required. It costs ₹ 100 every year and can be done online. Provision of Food Safety Mitra (FSM) has been made to support entrepreneurs in complying with FSSAI norms. For businesses with turnover more than ₹ 12 lakh per annum, licensing is necessary, either under State license or Central license, as per the norms.

Detailed answer

The Food Safety and Standards Authority of India known in short as FSSAI is the legal entity that governs all those who are in the food business, including those involved in manufacturing, processing, storage, distribution, sale, and import of food.

The purpose of this law is to ensure that certain set standards and guidelines that are scientifically based are followed by all food businesses, to ensure that food product is hygienic, has met the quality standards and can be safely consumed by humans.

There are two provisions under FSSAI – Registration and Licensing. Registration is applicable to mostly small businesses, classified as Petty Food Business Operators (PBO). Typically, the PBO will have annual turnover less than ₹12 lakh.

PBO include:

1. Those who manufacture or sell food items either themselves or via a retailer, hawker, itinerant vendor or a temporary stall owner.
2. Those who distribute food, which also includes, in any religious or social gathering except a caterer.
3. Other food businesses including small scale or cottage industry or such other industries relating to food businesses or tiny food businesses with an annual turnover not exceeding ₹ 12 lakhs and those whose:
 - Production capacity of food, other than milk and milk products and meat and meat products, does not exceed 100 kg or litre per day.
 - Procurement or handling and collection of milk is up to 500 litres of milk per day or up to 2.5 metric ton (MT) of milk solids per annum.
 - Vegetable oil processing units, including units that are producing vegetable oil by the process of solvent extraction and refineries including oil expeller unit with a turnover of up to 100 kg or litre per day.
 - Meat processing units with a production of more than 100 kgs per day or 30 MT per year.
 - Slaughtering capacity is 2 large animals or 10 small animals or 50 poultry birds per day or less.

- All food processing units other than mentioned above including re-packers with a capacity of up to 100 litre or kg per day.
- Cold storage including the Storage Excluding Controlled Atmosphere+ Cold as well as cold and refrigerated storage and cold storage which is temperature controlled, each having a turnover of up to ₹12 lakhs per annum.
- Wholesalers, retailers, distributors, and suppliers having an annual turnover of up to Rs 12 lakhs.
- Dhaba owners and other food vending establishments along with clubs and canteens having up to Rs 12 lakhs turnover per annum.
- Hotels and Restaurants with a turnover of up to ₹ 12 lakhs per annum.
- Transporters with an annual turnover of up to ₹ 12 lakhs.

For bigger food businesses, licensing has to be obtained, either with the State Government or Union Government.

Documents required for Registration Certificate

- Photo of the entrepreneur
- Government issued Photo ID such as AADHAAR, PAN, Voter ID etc., of the entrepreneur
- Proof of Address of business (if address is other than as mentioned in Photo ID Card)

Registration fees is ₹100 and has to be renewed every year.

Food Safety Mitra

FSSAI has made provision for appointment of Food Safety Mitra (FSM) to support entrepreneurs to comply with the FSSAI requirements. Contacts of FSM in Tamil Nadu can be accessed here: https://fssai.gov.in/mitra/statewisefsm?state_code=TN

More information

1. List of Food Safety Mitra in Tamil Nadu - https://fssai.gov.in/mitra/statewisefsm?state_code=TN
2. Link for registration under FSSAI - <https://fosc.fssai.gov.in>
3. Document - FSSAI Business eligibility and fees

Important keywords and key phrases

Food businesses, Food Safety, FSSAI, Registration

Links to resources referred in the answer - Short Films

None

Links to resources referred in the answer - Presentation

None

Related questions



Question 44

Do I need a shop and establishment license for this business?





What are the tax rules applicable to my business?



Enterprise Stage
Start



Viability Category
Environment

Points to be kept in mind while answering the question

Tax rules can be very difficult to understand for small entrepreneurs. The OSF will need to support the businesses and entrepreneurs to be on the right side of law. There are many fears about tax laws due to ignorance. This has to be addressed. Registration under relevant tax provisions and compliance with the rules will be an essential condition if the business wants to grow and expand its market.

The OSF should prepare a list of tax advisors/consultants who can provide services to the entrepreneurs in the Block. There should be an agreement with a pool of such empanelled service providers, for fixing rates for their services and ensuring that the entrepreneurs are provided services in a timely and proper manner.

Summary of the answer

There are two types of taxes that are likely to be applicable for a business.

- If the personal income of the entrepreneur, from business and other sources, exceeds ₹ 25,000 per month
- If the total turnover of the business exceeds ₹ 3.5 lakh per month or if the business sells goods or services to customers outside the State.

Obtaining an Income Tax Permanent Account Number (PAN) is necessary in both cases. It is advisable to obtain PAN for the entrepreneur (in case of an individual business) or the firm (in case of a group/partnership business), irrespective of whether tax provisions are applicable now.

Detailed answer

There are two types of taxes that the entrepreneur should know about.

- Income tax, that the entrepreneur has to pay based on the income she earns from the business
- Goods and Services Tax, that the business has to pay based on the revenue it earns. These two taxes have different bases and applicability to the business.

Income tax

As per existing rules, the entrepreneur will be required to pay income tax if her taxable income exceeds ₹2.5 lakh. The taxable income is arrived at after considering deductions that are allowed under the law.

The entrepreneur should be concerned about income tax if her income, total from the business and other sources, if any, is more than ₹25,000 per month. There are ways to save on income tax, by investing in National Savings Scheme, purchase of life insurance policy etc. She will need the services of an advisor to help her with planning and filing of her annual returns. She may also be required to deposit advance tax based on her income.

Goods and Services Tax

The Goods and Services Tax is commonly known as GST. It is the most important tax that citizens of India pay. In earlier days this used to be known as sales tax or value added tax (VAT).

The business will be paying GST on most purchases that are made from suppliers. The rate of GST

varies between 5%, 12%, 18% and 27% depending on what goods or services are being purchased.

If the annual turnover of the business exceeds ₹40 lakh (in case of businesses selling goods) or ₹20 lakh (in case of businesses selling services), the entrepreneur is required to register her business under GST. Also, if she runs a business that sells goods or services outside her own State, she will be required to obtain GST registration compulsorily.

Once the business has a GST registration, it will be required to charge GST (at the rate applicable for the goods/service being sold) from all its customers. The entrepreneur will be required to

provide invoices in the format approved under GST, maintain books of accounts as per the rules and file monthly/quarterly and annual returns.

She will need the services of an advisor to help her with compliance with GST norms.

Income Tax PAN

The Personal Account Number (PAN) is a very important document that the entrepreneur needs to have. It is advisable to obtain her PAN Card irrespective of her income being within the taxable limit. The PAN is also necessary for registration under GST.

More information

The PAN can be obtained using the online services. Links to the two services are given below. <https://www.onlineservices.nsdl.com/paam/endUserRegisterContact.html> <https://www.pan.utiitsl.com/PAN/newA.html>

Important keywords and key phrases

Business viability, Financial statements, Price, Pricing products and services.

Links to resources referred in the answer - Short Films

None

Links to resources referred in the answer - Presentation

None

Related questions

None



Do I need to get my brand registered?



Enterprise Stage
Start / Grow



Viability Category
Capabilities

Points to be kept in mind while answering the question

Trademark registration may be necessary for businesses that have already established a unique brand identity in the market or are desirous to do so, as part of their growth strategy. It is a cumbersome process and involves time and money. The OSF should advise the entrepreneur considering the costs and benefits and also make sure that proper technical help is obtained by them through accessing services of a trademark agent.

Summary of the answer

A trademark registration is necessary if the entrepreneur has made efforts to build a brand identity for her business and wants to protect it being copied or used by others. Such registration involves a cumbersome process, involving substantial cost. If she thinks the business will benefit in the long run, from having its brand registered, she should do it as early as possible.

Detailed answer

What is trademark registration?

A trademark is a brand or a logo that a business uses to distinguish its product from those of its competitors. A trademark is typically a name, word, phrase, logo, symbol, design, image or a combination of these elements. A trademark identifies the brand owner of a particular product or service. Trademark Registration is a legal procedure provided under the Trademarks Act, 1999. Through trademark registration or logo registration/brand registration, an entrepreneur can protect her business' brand or logo by restricting other people from using the same.

How is it done?

Typical steps involved in getting trademark registration are :

- The entrepreneur has to decide on which Name/ Logo she wants to register as a trademark
- To Search and ensure that there aren't any similar trademarks already registered. This would help her to overcome any grounds of refusal for rejection of a Trademark

application. This search can be done at <https://ipindiaonline.gov.in/tmrpublicsearch/frmmain.aspx>

- A trademark application is to be made with the Trademark Registry. This application can be done offline (at the Trademark Offices) or through Online Mode.

Once the application is made, the Examiner of Trademarks will carry out the necessary scrutiny. This may take between 12 to 18 months. After this the trademark will be published in the trademark journal to elicit any objection others may have. Three to four months after the publication, the trademark registration certificate will be issued by the Trademark Office.

Current fees for trademark registration for small businesses or individuals is ₹4500 through online mode and ₹5000 if physical application is made. The actual cost will be higher considering that the services of a trademark agent will be needed to handle the entire process. A list of approved agents can be found at the link provided.

More information

To learn more about trademarks, please refer to -
* Trademark search portal - <https://ipindiaonline.gov.in/tmrpublicsearch/frmmain.aspx>
* List of trademark agents - <https://ipindia.gov.in/trade-mark-agents.htm>

Important keywords and key phrases

Brand, Capabilities, Competition, Logo, and Trademark.

Links to resources referred in the answer - Short Films

None

Links to resources referred in the answer - Presentation

None

Related questions



Question 17

Should I sell new products or should I look at attracting customers from new markets?





Should I set up this business or should I look for a job?



Enterprise Stage
Ideate, Solve



Viability Category
Customers and
Competition

Points to be kept in mind while answering the question

The entrepreneur will need to be very careful while deciding whether to start a business or not. Running a business is only one of the options before her – to make productive use of her time and earn income that will be sufficient for her now and in the coming days.

The OSF should be able to provide proper guidance to an aspiring entrepreneur. The answer given below is a very general one to help you guide a person. The OSF will need to engage with her more intensively, understand her aspirations and constraints, examine the business idea she has for viability and help her decide if she should start a business.

Summary of the answer

An entrepreneur should consider starting a business instead of looking for a job if:

- She thinks she has a business idea that is likely to succeed and provide her sufficient income now and in future
- She has the ability to absorb differences in income flow from the business between months and between years, including the likelihood of no income for short or not-so-short periods
- The estimated income from the business is higher than what the job will provide

Detailed answer

In order to choose between a business or a job, there is a need to compare what a business offers with what a job offers. An entrepreneur should consider three points for this comparison.

First, an entrepreneur should look at whether she can get sufficient income. Income from a business may not be sufficient to meet her needs in the early days. However, a business is likely to provide her with income that grows over a period of time. She may be able to find a job that gives her an adequate salary sufficient to meet her income needs. But, growth in her income from a job is likely to be limited.

Then she should look at whether she gets guaranteed income. She cannot assume that the business will provide her assured income every month. There will be ups and downs and variations between months due to seasonality of the business. A job, on the other hand, is likely to give her a guaranteed income every month.

Let us consider how much control the entrepreneur will have over her own time. Running a business, it is likely that she will have more control over how her time is used. However, this may not be true in the early days when she is struggling to set up a strong business. Most jobs require a person to work fixed hours and she is likely to have more control over her time outside the fixed working hours.

Finally, the question of social status. As an entrepreneur, if she becomes successful, she is likely to have better status in her society – among family, friends and her community. Further, if she is able to set up a successful business, providing jobs to others, her status will go up further. In a job, a person is employed by someone else and is not likely to have a very high social standing.

How to decide to take up a business?

Business is a recurring economic activity of selling goods and/or services after making or buying or

delivering them, with the aim of making profits after having invested money in it. A recurring economic activity means that the activity is done regularly and not just once or twice. Investing money means that the person who is performing this activity has put some of her own money into it. The objective of doing a business is to make profits. But it is in the nature of business that the profit is not guaranteed. Hence taking up a

More information

To understand more about "what a business is", please watch a short film "1 What is business".

To understand more about "the fluctuations in the business, giving rise to the risks", please watch a short film "4 Fluctuations in a business".

To understand more about opportunity costs, please view -

- * the presentation "NRETP-F3-Introduction to Business", slides 39-48
- * the short film "6 Opportunity Cost".

business means taking up the risk of not getting the desired result – the profit, in this case.

The best way for an entrepreneur to make the decision is to check what the opportunity cost of starting the business will be. Opportunity cost is the amount of money she will have to let go if she takes up the business and does not turn to other opportunities.

Important keywords and key phrases

Business viability, Competition, Costs, Customers, and Opportunity cost.

Links to resources referred in the answer - Short Films

- 1 What is business
- 4 Fluctuations in a business
- 6 Opportunity Cost

Links to resources referred in the answer - Presentation

NRETP-F3-Introduction to Business

Related questions

None



What can I do to grow my business?



Enterprise Stage
Grow, Solve



Viability Category
Customers and
Competition

Points to be kept in mind while answering the question

The question is about growing a business. This is different from improving a business. By growth, we mean that the entrepreneur wants to make large scale changes to her business and not just minor changes to bring about small differences. Given the context of the businesses the OSF will be supporting, it may be important to focus on increasing revenues as the way to grow a business. In the following answer we list five methods that an entrepreneur can choose from, to achieve growth. The most appropriate method, from amongst these five, should be selected considering the business and its situation. Please remember that the methods suggested have different levels of difficulty in terms of understanding, planning and implementing them.

Summary of the answer

Growing a business means bringing about big changes in the way the business is done, with a view to increasing the profits from the business substantially. In the context of small rural businesses, the best way to increase profits will be to increase revenues, as reducing costs is likely to be difficult. In order to increase revenues, the entrepreneur needs to focus on what she can do in terms of selling more to her existing customers, or get them to pay a higher price for her products or services. She will need to see if she can sell her existing products or services to new customers or sell new products or services to existing customers. She may also consider selling existing products or services in an altogether new market. For your business, growth may be achieved using any one or a combination of more than one of these methods.

Detailed answer

What do we mean by growing a business?

When we say "Growing a business", it means making large-scale changes. Growth must result in increasing profits of the business substantially. Profits can be grown substantially in three ways. The first way is for an entrepreneur to increase revenues substantially. The second is for her to reduce costs substantially. And the third way involves combining the first two ways.

That is by making large scale changes so that revenues increase substantially and costs reduce substantially.

In the context of most rural small businesses, we define growth as substantially increasing revenues. Why do we define growth as increasing revenues and not as reducing costs? It is not very practical

for most businesses to reduce costs substantially every year. The reason is that the owners usually have already made enough efforts to keep the costs in the business as low as possible. Hence it is not realistic to expect large reductions in costs in a business. This does not mean that the owners should not think of ways to reduce costs. It is just that our focus is on increasing revenues when we talk about growing a business because that is something that many businesses can achieve realistically.

Ways to grow a business

Having defined growth as increasing revenue, we can consider at least five ways to achieve this. These have been listed in an order where the easiest possible method is listed first and the most difficult method is listed last.

- **Method 1** - Sell more existing products/services to existing customers

In this method, the entrepreneur is trying to meet unfulfilled demand for her products and services. The entrepreneur continues to focus on the market where the business is currently located but looks for opportunities to sell more of existing products and services to existing customers. This is useful when an entrepreneur has not been encouraging customers to buy enough things from her. Another situation where this method makes sense is when the business is not able to produce enough using existing capabilities even though customers want to buy more.

- **Method 2** – Sell at higher prices to existing customers

This method makes sense when the existing customers of the business are willing to pay a higher price for its products and services. This is the case when the products and services offered by the business are better than competitors but are at lower prices.

- **Method 3** - Sell existing products/services to new customers

In this case, the entrepreneur continues to focus on the market where the business is located but looks for new customers. This makes sense if the potential customers have not heard about the business' products and

services and hence when they get to know about them, they may be willing to buy them.

- **Method 4** - Sell new products/services to existing customers

Here, the focus of the entrepreneur continues to be on the market where the business is located, but she looks for providing new products and services to existing customers. This makes sense if there are some needs of existing customers which the business has not considered in the past. Hence the customers are likely to buy those new products and services if these satisfy the overlooked needs.

- **Method 5** - Sell existing products/services to new customers in new markets

In this method, the entrepreneur takes her business to new markets. She will sell existing products to new customers. She is considering expanding into new markets where the customers will obviously be new. This method is meaningful when a business is well-known in one market and that fact can help it advertise about its products and services effectively in the new market. Another situation where this makes sense is when the business' existing capabilities can be used for achieving even higher economies of scale.

More information

To understand more about Growth, please refer to
* the presentation "NRETP-G1-Growing a Business"
* the short film "101 What is Growth"

To understand more about ways to grow a business, please view -
* the presentation "NRETP-G2-Strategies for growing a business"
* the short film "103 Strategies to grow a business"

Important keywords and key phrases

Business viability, Competition, Customers, Revenue, and Sales.

Links to resources referred in the answer - Short Films "101 What is Growth

103 Strategies to grow a business

Links to resources referred in the answer - Short Films

NRETP-G1-Growing a Business

NRETP-G2-Strategies for growing a business

Related questions



Question 15	<i>To grow my business now, is it a good idea to offer premium products or services?</i>
Question 17	<i>Should I sell new products or should I look at attracting customers from new markets?</i>
Question 18	<i>I am doing reasonably well in my business. I have happy repeat customers. I also want to grow. How should I grow my revenue from existing customers ?</i>
Question 20	<i>What should I do to increase revenue of my business?</i>
Question 21	<i>What strategy do I adopt to offer my services in a new market?</i>
Question 50	<i>Will adding a new business help increase profit?</i>



Question 50



Will adding a new business help increase profit?



Enterprise Stage
Grow, Solve



Viability Category
Customers and
Competition

Points to be kept in mind while answering the question

When we refer to a new business, in the context of small rural entrepreneurs, we are referring to one of the following two options:

- Selling new products or services to existing customers.
- Selling existing products or services to new customers in a new market.

If the question is about the first option, please refer to the answer given in Question 54 -Should I make new products or services? In this answer, we will focus on how to assist an entrepreneur set up her business in a new market to sell existing products/services to new customers.

Summary of the answer

Setting up a new business should mean adding new products/services to sell to existing customers or, selling existing products/services to new customers in a new market. Selling new products/services to new customers in a new market may seem like a good idea to the entrepreneur, but she must be very careful about this. It is advisable that she does this only if either of the earlier two options are not possible and she is very confident about managing a completely new business.

Making new products or services to cater to existing customers is a meaningful way of growing one's business. The entrepreneur can refer to the answer under Question 54 - Should I make new products or services? for support on this.

Selling to new customers in a new market is not easy to do, but if planned and executed well, it will help the business achieve its growth objectives. There are several points the entrepreneur must consider – the market share she could obtain, needs and behaviours of customers in the new market, the capabilities of the business, effects on the revenues and costs and estimated profitability. If the analysis shows that the new product/service will be profitable, then she has to put in place a proper plan to make sure that the product/service is introduced in the new market successfully.

Detailed answer

For an entrepreneur, setting up a new business as an extension of her existing one – selling existing products/services to new customers in a new market – is difficult and complicated. It is as if she is starting from scratch once again.

She will have to do the following, in order to understand if it is profitable to set up the new business:

- Understand if the new market is big enough to generate substantial revenue. She should proceed only if the market size is big enough

and she is confident of getting a good share of the market. As it is a new market, she will need to understand her competitors in greater detail.

- Since the products/services are the same, the entrepreneur may think that the needs of the customers that the business will be serving in the new market are likely to be similar. It is important to verify if this assumption is correct. There may be minor differences in the needs of the customers and she may want to make adjustments to the products/services offered accordingly.

- She has to think about the additional capabilities that will be needed – new skills to make the new product, the time required for this and, new equipment that may be needed. As the products/services may not be different, the skills and equipment are likely to be similar, but she will need more time. This means that she will need to hire more workers.

More information

To understand more about adding a new business, please refer to the presentation “NRETP-G7-S5-Sell-existing-products-services-in-a-new-market”.

To understand more about the steps to determine if setting up a new business would be profitable, please view the two short films -
 “125 Business-Overview Growth Strategy Five”
 “126 Analysis of Growth Strategy Five”

To understand the role of financials better, please watch the short film, “127 Financial Impact of Growth Strategy Five”.

To understand more about the steps involved in growing the business, please view the two short films -
 “128 Growth Strategy Five - Creating Growth Plan Part 1”
 “129 Growth Strategy Five - Creating Growth Plan Part 2”

Related questions



Question 17	<i>The quality of my products and services is good, but I am not making profit. How do I make my business profitable?</i>
Question 18	<i>I am doing reasonably well in my business. I have happy repeat customers. I also want to grow. How should I grow my revenue from existing customers?</i>
Question 20	<i>What should I do to increase revenue of my business?</i>
Question 52	<i>Should I make new products or services?</i>



Once the above steps are taken care of, the entrepreneur has to understand the impact on revenues, costs, working capital and fixed capital of her business. If the analysis shows that it is profitable to introduce the product, then a plan for implementing this has to be prepared.

Important keywords and key phrases

Business viability, Competition, Customers, Market share, Pricing products and services, Product portfolio, and Sales.

Links to resources referred in the answer - Short Films

- 125 Business-Overview Growth Strategy Five
- 126 Analysis of Growth Strategy Five
- 127 Financial Impact of Growth Strategy Five
- 128 Growth Strategy Five - Creating Growth Plan Part 1
- 129 Growth Strategy Five - Creating Growth Plan Part 2

Links to resources referred in the answer - Presentation

NRETP-G7-S5-Sell-existing-products-services-in-a-new-market

Question 51



Should I make value-added products and services?



Enterprise Stage
Grow, Solve



Viability Category
Customers and
Competition

Points to be kept in mind while answering the question

Value-added products are those where the business adds new value to an existing product. This will most likely be applicable for businesses that are dealing with farm products (fruits, vegetables, grains etc.) or products made from other natural resources (like bamboo). The approach for introducing value-added products will be very similar to that of making new products for the existing customers of a business.

The entrepreneur may be thinking of value-added products to help her business grow. By growth, we mean that the business wants to increase its profits substantially. Very often, small rural businesses can achieve this by increasing their revenues. Making/buying and selling new products for existing customers is one way for a business to increase revenues. The answer below will help you guide the entrepreneur to decide if she wants to make new products. The videos to which links have been provided use the example of a sample business

– Garment business – to illustrate how to plan for making new products and the salient points that need to be kept in mind. You may want to go through the slides from the relevant ppt to help understand the steps involved in greater detail."

Summary of the answer

Value-added products are new products made out of existing products that a business sells currently. The addition of value will help increase revenue for the business, either by selling to existing customers or to new ones. It may be wiser for the entrepreneur to consider selling the new product to her existing customers, if such a need exists for them. She can think of expanding it to new markets and customers later.

A value-added product is a new product. Even if the entrepreneur is confident that she can make the new product, she will first need to understand if the market in which her business is located is large enough for the new product. She should look at the unmet needs of her existing customers and also their attitude towards the new product that she will offer. She should also take into consideration how far the value-added product will eat into the sales of her existing basic product - it will hardly be a sound business proposition to sell the value-

added product and incur lessening sales of the basic product. It is equally important to look at capabilities – skills that are needed, time that can be spared and new equipment or technology that will be needed for the new product. Since the entrepreneur's objective is to increase the profits of her business, she will have to calculate the effect on her revenue and costs and also see from where the additional capital can be sourced. If the analysis shows that the new product will be profitable, then she has to put in place a proper plan to make sure that the new product is introduced.

Detailed answer

If the entrepreneur is selling primary products – fruits, vegetables, grains, products made from bamboo etc. – she may think that value-addition

will help her make more profits. For example, instead of selling tomatoes, she can think of making tomato sauce. Instead of selling raw honey, she can think of purifying and packaging honey

and selling it in small packages. If she sells bamboo products, she can think of making and selling decorative materials, in addition to making and selling bamboo mats or winnows.

If the entrepreneur thinks such an opportunity for a value-added product exists, she is essentially thinking of introducing a new product to her existing customers. This may be a better way than thinking of the new product for an entirely new market and new customers. New products for new customers or in new markets is much more difficult and complicated and should be attempted only after she proves that the new product is profitable in her existing market. If she is sure that she wants to look at a new market, she should refer to the answer to Question 52 - Will adding a new business help increase profit?

Making new products to cater to existing customers is not easy to do, but if planned and executed well, it will help the business achieve its growth objectives. The entrepreneur should take several deliberate actions to get going about new product.

1. She should first understand if there is a big enough market for the new products she plans to create and sell to the existing customers.
2. She has to think about existing customers' behaviour, preferences, and attitude towards new products.
3. She has to think about the additional capabilities that will be needed – new skills to make the new product, the time required for this and, new equipment that may be needed.

Once the above steps are taken care of, the entrepreneur has to understand the impact on revenues, costs, working capital and fixed capital of her business.

If the analysis shows that it is profitable to introduce the product, then a plan for implementing this has to be prepared.

It must be remembered that planning for a new product can be as complicated and difficult as planning for a new business itself. The entrepreneur does not want to invest her money, time or effort into something that will not help her achieve her growth objective.

More information

To understand more about the steps involved in selling value-added products, please go through the presentation "NRETP-G6-S4-Sell-new-products-services-to-existing-customers."

To understand more about "selling a new product", please watch the short films - "120 Business Overview Growth Strategy Four" "121 Analysis of Growth Strategy Four"

To understand the "impact on revenues" better, please watch a short film "122 Financial Impact of Growth Strategy Four".

To understand more about "the steps involved in the implementation of a new product", please watch two short films - "123 Growth Strategy Four - Creating Growth Plan Part 1" "124 Growth Strategy Four - Creating Growth Plan Part 2"

Important keywords and key phrases

Competition, Customers, Product portfolio, Revenue, Value-added products, and Value-addition.

Links to resources referred in the answer - Short Films

- 120 Business Overview Growth Strategy Four
- 121 Analysis of Growth Strategy Four
- 122 Financial Impact of Growth Strategy Four
- 123 Growth Strategy Four - Creating Growth Plan Part 1
- 124 Growth Strategy Four - Creating Growth Plan Part 2"

Links to resources referred in the answer - Presentation

NRETP-G6-S4-Sell-new-products-services-to-existing-customers

Related questions



Question 14	<i>Is it better to sell just 2-3 items which are popular or to offer a lot of variety to customers? Should the business sell a great variety of products / services?</i>
Question 15	<i>To grow my business now, is it a good idea to offer premium products such as designer blouses?</i>
Question 51	<i>What can I do to grow my business?</i>
Question 50	<i>Will adding a new business help increase profit?</i>





Should I make new products or services?



Enterprise Stage
Grow, Solve



Viability Category
Customers and
Competition

Points to be kept in mind while answering the question

This question is relevant for an existing business that is desiring to grow. By growth, we mean that the business wants to increase its profits substantially. Very often, small rural businesses can achieve this by increasing their revenues. Making/buying and selling new products or services for existing customers is one way for a business to increase revenues. The answer below will help you guide the entrepreneur to decide if she wants to make new products or services. The videos to which links have been provided use the example of a sample business – Garment business – to illustrate how to plan for making new products or services and factors that need to be kept in mind.

Summary of the answer

Making new products or services to cater to existing customers is a meaningful way for an entrepreneur to grow her business. This is not easy to do, but if planned and executed well, it will help the business achieve its growth objectives. The entrepreneur should look at the market in which her business operates and see if it is large enough for new products/services. She should look at the unfulfilled needs of her existing customers and also their attitude towards the new product/service that she will offer. It is equally important to look at capabilities – skills that are needed, time that can be spared and new equipment or technology that will be needed for the new product/ service. Since her objective is to increase the profits of her business, she will have to calculate the effect on her revenue and costs and also see where the capital can be brought in from. If the analysis shows that the new product/service will be profitable, then she has to put in place a proper plan to make sure that the new product/service is introduced successfully.

Detailed answer

Making new products or services to cater to existing customers is a meaningful way of growing one's business. This is not easy to do, but if planned and executed well, it will help the business achieve its growth objectives. It should be remembered that that new products and services should be considered for the business' existing customers in the market in which the business is currently operating. Thinking about new products or services for new

customers or in new markets is much more difficult and complicated and should be attempted only after the entrepreneur proves that the new product/ service is profitable in her existing market.

The entrepreneur should take several deliberate actions to get going about new product/service; these are mentioned below :

1. She should first understand if there is a big enough market for the new products or services she plans to create and sell to the existing customers.
2. She has to think about existing customers' behaviour, preferences, and attitude towards new products/services.
3. She has to think about the additional capabilities that will be needed – new skills to make the new product/service, the time required for this and, new equipment that may be needed.

Once these above steps are taken care of, she has to understand the impact on revenues, costs, working capital and fixed capital of the business.

If the analysis shows that it is profitable to introduce the product / service, then a plan for implementing this has to be prepared. The steps involved in doing this plan are explained in these two videos.

More information

To understand more about “the steps involved in selling value-added products”, please go through the presentation “NRETP-G6-S4-Sell-new-products-services-to-existing-customers.”

To understand more about “selling a new product”, please watch the short films - “120 Business Overview Growth Strategy Four” “121 Analysis of Growth Strategy Four”

To understand the “impact on revenues better”, please watch a short film “122 Financial Impact of Growth Strategy Four”.

To understand more about the steps involved in “the implementation of a new product”, please watch two short films - “123 Growth Strategy Four - Creating Growth Plan Part 1” “124 Growth Strategy Four - Creating Growth Plan

It must be remembered that planning for a new product or service can be as complicated and difficult as planning for a new business itself. The entrepreneur does not want to invest her money, time or effort into something that will not help her achieve her growth objective.

Part 2”

Important keywords and key phrases

Business viability, Competition, Customers, Pricing products and services, Product portfolio, Revenue, Sales, and Scheme.

Links to resources referred in the answer - Short Films

- 120 Business Overview Growth Strategy Four
- 121 Analysis of Growth Strategy Four
- 122 Financial Impact of Growth Strategy Four
- 123 Growth Strategy Four - Creating Growth Plan Part 1
- 124 Growth Strategy Four - Creating Growth Plan Part 2

Links to resources referred in the answer - Presentation

NRETP-G6-S4-Sell-new-products-services-to-existing-customers

Related questions



Question 15	<i>To grow my business now, is it a good idea to offer premium products or services?</i>
Question 17	<i>Should I sell new products or should I look at attracting customers from new markets?</i>
Question 20	<i>What should I do to increase revenue of my business?</i>
Question 21	<i>What strategy do I adopt to offer my services in a new market?</i>
Question 49	<i>What can I do to grow my business?</i>
Question 50	<i>Will adding a new business help increase profit?</i>





Is this a good business to start?



Enterprise Stage
Engage



Viability Category
Customers

Points to be kept in mind while answering the question

This question should be a good starting point to find out more about the needs of the entrepreneur, and why she is wanting to start a business.

The question requires further checks on whether it is a well-planned approach or a hasty decision to start a business.

A proper evaluation of the business opportunity will need the adoption of a methodical approach in establishing the case for the business.

The most trusted way of establishing the chances of success for the business is to do a 'Viability' check on the business opportunity

Summary of the answer

If it is the entrepreneur approaching the OSF, then the OSF team members will need to do a primary analysis covering aspects of running a viable business, namely, establishing the potential Customers and Competition, Capabilities, Costs and Profits, Capital for starting a business and the overall Environment considerations.

On the other hand, if it is the ECP bringing the business opportunity to the OSF offices, then a formal business plan is required to be shared. This business plan will become the basis for evaluation

The OSF should build a view of what non-farm business opportunities there may be in a certain area and use this to evaluate the business opportunity.

Detailed answer

The entrepreneur should be able to clearly list out the reasons why she wants to start a business. This will provide more opportunities for the OSF to establish the rationale and the validity of the motives of the entrepreneur.

The following aspects will need to be reviewed with the entrepreneur

- Why does the entrepreneur look to be self-employed?
- What was the origin of the business idea?
- Is there any other business started by another person, that is successful and has prompted the idea of doing a similar business using that as a model?

To establish the probability of success of the new business would need the OSF office to review the following five factors.

These five factors are key to establishing a Viability test for the business opportunity

1. Customers and Competition

Customers are those who pay money directly to the business for its products or services. The OSF will help the business to identify its potential customers. The OSF will also help the entrepreneur establish the competition for the business. Competitors of a business are any other business which sells the same or similar products or services

2. Capabilities

The Capabilities of a business are used to deliver the products and services that customers want. They represent what a business can do. Skills, equipment, and time available to engage on the business are capabilities every business requires.

3. Costs, Revenue and Profits

By doing some basic calculations on the Revenues, costs, and profits for the business, will the OSF be able to assess the chances of the business being viable over a period of time

4. Capital required

The total amount of capital needed will need to be calculated.

The first component of Capital would be fixed capital, which is the money used to buy assets such as machinery, Land and Buildings, Storage etc.

The second component would be the amount of working capital needed. This is the amount of money needed to run the business on a day-to-day basis

5. Environment

All external factors that influence the business will need to be considered to establish whether the business idea will work or not

These 5 factors will help the OSF engage and discuss the business opportunity with the entrepreneur.

One important consideration to be taken into account is whether the business opportunity is brought to the OSF by the ECP members.

If the business opportunity is brought to the OSF by a ECP person,

In such a situation the expectation is that the ECP members will be using a prescribed template to come up with the business case for the business opportunity.

More information

To understand more about business viability, please view -

- presentation "NRETP-F3-Introduction to Business" slide 26
- a short film "5 Business Viability Framework"

Important keywords and key phrases

Business Viability

Links to resources referred in the answer - Short Films

5 Business Viability Framework

Links to resources referred in the answer - Presentation

NRETP-F3-Introduction to Business

Related questions



Question 48

Should I set-up this business or should I look for a job?





What are the skills the entrepreneurs have?



Enterprise Stage
Engage



Viability Category
Capabilities

Points to be kept in mind while answering the question

This is an important question to ask entrepreneurs who are starting production and services business. Services businesses use the skills of the entrepreneur in providing a desirable service to the customers. The answers will help the OSF team understand whether the entrepreneur has the basic skills needed for the business.

The point to not here is also that, just having the skills does not translate to a successful and viable business.

One other assessment to make is if the entrepreneur is over optimistic in her assessment in having the right skill levels for the business. Any incorrect assessment of her skills will be detrimental to the business.

Summary of the answer

Skills are needed in starting and running all types of businesses.

The skills play a more prominent part in the Services and production businesses.

Without having the right skills, it will not be possible for a business to make and deliver the products and services a customer needs. To create a quality product, the business will need to have good skills to meet the customer requirements.

Detailed answer

Skills are needed in starting and running all types of businesses.

The skills play a more prominent part in the Services and production businesses.

Without having the right skills, it will not be possible for a business to make and deliver the products and services a customer needs. To create a quality product, the business will need to have good skills to meet the customer requirements.

When assessing the viability of a business, one of the factors that come into consideration for assessment, is the Capability of the business.

The Capabilities of a business are used to deliver the products and services that customers want. They represent what a business can do. Skills, equipment, and time available to engage on the business are capabilities every business requires.

Of the three types of capabilities, Skills is the most important. The availability of skills is often what differentiates a successful company from an unsuccessful one. Skills have a direct relationship with the viability of the business

The challenges many businesses have is that they do not have the right skills, or, the needed skills are not available. Very often skilled employees leave businesses for better employment elsewhere. Often it takes time to build skills in a business.

For all such reasons, it is a good advantage for a business that the entrepreneur has the right skills she can use in the business.

More information

To understand more about Capabilities, please view -

* presentation "NRETP-F7-Making Products and Services" slides 60-65

* a short film "25 Understanding Capabilities"

Important keywords and key phrases

Business Viability, Capabilities

Links to resources referred in the answer - Short Films

25 Understanding Capabilities

Links to resources referred in the answer - Presentation

NRETP-F7-Making Products and Services

Related Questions

None



What are you doing to earn money now? What are Your Sources of Income? If you want to start a business, how much money will you invest in the business?



Enterprise Stage
Engage



Viability Category
Capital

Points to be kept in mind while answering the question

This question will help in establishing the financial position of the entrepreneur. If the entrepreneur is giving up a steady source of income for an entrepreneurial venture, the decision to start a business should only be made, if in the long run, the business provides more income to the entrepreneur, when compared to the money she earns today.

Which means that the decision to start a business will need to be done after calculating the opportunity cost of starting a business.

If the decision is to start a business, it would be good if the entrepreneur could somehow have the financial security of one other source of income in the family

Alternately, she could attempt to start her business on the side, as a trial effort, before she gives up her current line of work

Summary of the answer

When engaging with the entrepreneur it would be good to ascertain the savings of the entrepreneur, as well as how she is currently earning money.

Starting a business will involve investing money, and there should be a clear idea of how much money is needed for the business being planned.

Once we know how much money is required to start the business, the entrepreneur must have a good estimate of how much money she would be prepared to spend to have her business started.

Spending a significant amount of life savings may be risky, as there is always a risk that the business may fail, leading to a loss of all invested savings.

Detailed answer

For any rural entrepreneur wanting to start a business, there are important considerations around how much money she can invest in her business.

We know that the first thing the entrepreneur should do is to assess the viability of the business idea.

This would require understanding the amount of money, the capital needed, to invest. The viability check will also help in understanding the expected costs and revenues and profits of the business.

These financial figures are important, as they provide a guide to how much money the entrepreneur will need to kick off her business.

Now, where will the entrepreneur get this money from?

Starting a business involves the entrepreneur spending a good portion of her money from her savings.

Which is why the entrepreneur needs to look at the Opportunity Cost of the business.

She should ask herself "If I am going to spend so much money, is it worth starting the business? Or, Should I continue earning the money I currently do, without taking on the additional risk of starting a business"

This is why we should understand, "how much is she earning now? In what way is she currently earning money? How much can she really spend on a new business?"

There are some other important considerations as well.

When the business starts operations, it may take time for the entrepreneur's business to reach large revenue numbers and achieve the desired profit.

During this initial period, when the business is commencing, the revenues coming into the business will be at a slow rate. The business will have to establish a customer base, its products and services will need to be appreciated by customers, and all of this takes time.

More information

To understand more about "business viability", please view -

- the presentation "NRETP-F3-Introduction to Business" slide 26
- a short film "5 Business Viability Framework"

To understand more about "Opportunity cost", please view

- * presentation "NRETP-F3-Introduction to Business" slides 40-43
- * a short film "6 Opportunity Cost"

This would mean financial pressures for the entrepreneur, and it is key that the entrepreneur should be able to support herself financially during these initial months.

Without a backup revenue or income stream, it makes it even more critical that the entrepreneur has a good business plan, with the viability of the business checked by experienced people.

Also, it would be good if the entrepreneur could somehow have some backup income streams, some financial security of one other source of income within the family

Important keywords and key phrases

Breakeven, Business Viability, Opportunity Cost, Revenues, Profits

Links to resources referred in the answer - Short Films

- 5 Business Viability Framework
- 6 Opportunity Cost

Links to resources referred in the answer - Presentation

"NRETP-F3-Introduction to Business"

Related questions



Question 48

Should I set-up this business or should I look for a job?

Question 53

Is this a good business to start?





How much time are you prepared to spend on this new business?



Enterprise Stage
Engage



Viability Category
Capabilities

Points to be kept in mind while answering the question

This question is important as the women may be engaged in different types of activities such as income-generating activities, or household tasks, or self-help group related tasks. Doing a new business or growing an existing business will demand more time and effort. Hence, it is a good idea to make the entrepreneur(s) assess the total time they are currently spending on different activities in a day. This will help them figure out how much additional time they have available to spend on the new business on a daily basis. Further, remember that the entrepreneur may not really understand how much additional time the business she/they have selected would require. So, understand the type of business she is talking about, time the business would require, compare it with the time the entrepreneur can give, and then advise her.

Summary of the answer

Businesses are mostly of three types. Each type has different activities and needs different skills, equipment, and amount of time to do well.

In the rural context, to start a new non-farm business or grow an existing business means having a good understanding of the nature of the business, the amount of time and involvement that is needed from the entrepreneur so that the business could be successful, and the available time the women entrepreneurs can actually devote to the business after all her other daily activities. This understanding will help the entrepreneur to know whether she can do the new business.

In case the entrepreneurs are not able to give as much time as required by the business to grow, they can prepare in advance and think of strategies such as proper allocation of tasks, hiring additional staff, etc.

In certain cases, they can even choose not to start the new business if the time required is much more than what they can give. In these cases, they can choose a different business for which they have the required skills and enough time in hand.

Detailed answer

In the rural settings, women are engaged in different activities. These are income-generating activities such as farming, harvesting, animal rearing, MGNREGA, weaving, etc. In addition, they also manage almost all the household tasks such as cooking, child care and elderly care. As an SHG member, they also regularly participate in the group meetings.

This question will help them to think about the time they can give to the business after doing all

the other tasks. This is important to understand for the following reason.

Businesses can be categorized in three groups- production, trading, and service. Each category of business has different set of activities and requires different skills, equipment, and duration of time to do well. Work hours can be different in a production or a trading or a service business. A production business like a medium-size garment making unit may have work hours from 9 am to 5 pm, a big retail shop may need to be kept open till 8-9 pm, etc.

Once the entrepreneur understands the type of business, the time it requires, and the time available with her to do the new business, she will get a clear idea whether she can actually do the new business.

If the time available with an entrepreneur is less, she can choose to do the following.

One, leave the new business idea and instead select the type of business for which she has the skills and time.

Two, she can consider delegating some tasks to an additional staff. She must take a decision on hiring

an additional staff only after analysing the impact on profitability.

Third, if there are other members in the enterprise, they can consider redistributing the tasks in a manner that every member is able to spend the required time.

If the time available with the entrepreneur is enough, for the business she is thinking of doing, she can go ahead after analysing other viability aspects.

More information

To understand more about the types of businesses, please view -

- presentation "NRETP-F3-Introduction to Business" slides 7-10
- a short film on types of businesses

To understand more about business viability, please view -

- presentation "NRETP-F3-Introduction to Business" slide 26
- a short film on Business Viability framework"

Important keywords and key phrases

Types of businesses, Business viability

Links to resources referred in the answer - Short Films

5 Business Viability Framework

3 Types of Businesses

Links to resources referred in the answer - Presentation

NRETP-F3 Introduction to Business

Related questions

None





How much money are you prepared to invest in this business?



Enterprise Stage
Engage



Viability Category
Capital

Points to be kept in mind while answering the question

In most cases, the beneficiary/entrepreneur will not be aware of the total money required to start the business she is considering. She may also not be aware of the extent of how much to invest from her savings in the new business, or the arrangements of taking loans. This question should help her/them to think about all these aspects. While engaging with the beneficiaries/entrepreneurs, the staff must be understanding and show compassion to their realities.

Also, please note that DAY-NRLM promotes enterprises in the rural settings by providing a dedicated fund that the entrepreneurs can avail as loans through their SHGs or CBOs. It will be good to have an understanding of the different schemes and fund availing process and guidelines.

Summary of the answer

Rural women are likely to be engaged in multiple income-generating activities. Hence, they may or may not have savings to invest in a new business. This question will help them to think about different aspects- total money required to start the new business, the amount of their own money they can put in the business, and the amount of loan they would need to take to start the business.

Money or capital is required for different purposes. Capital is of two types- fixed and working capital. Estimating the total capital required for a new business is an important step. It will help in understanding the amount of loan the business would require after deducting the savings, if any, put in by the entrepreneur.

Detailed answer

In the rural reality, women are engaged in different activities. These may include income-generating activities such as farming, harvesting, animal rearing, MGNREGA, weaving, etc. Often, a few women from the self-help group(s), when they come together to start a new business, may have some personal savings to invest in the new business. Even those who are not members of any self-help group may have some savings from their other income-generating activities.

This question will help any beneficiary/entrepreneur to think about three important aspects. One, the total money the new business would require. Second, any money they already consider they would invest in the new business. Third, the amount of loan they would need to take. Guide them that money or capital is required by any business for different purposes. This can be

fixed capital that is needed for buying the equipment, land, sewing machines, etc. Second is working capital which is needed for paying for the day to day expenses when running the business. Expenses such as rent for the hired space, if any, paying wages to the staff, if any, buying raw material, transporting the raw material or finished goods, preparing pamphlets, etc.

Once the beneficiary/entrepreneur understands the total capital required for starting or growing a business, she can then figure out how much additional money she will need after deducting the savings from the total capital required. This is an important step in understanding the amount of loan required.

Next, the beneficiary/entrepreneur can be guided on how she/they can avail loan/credit through SHGs/CBOs/banks.

More information

To understand more about the types of capital, please view -

- presentation "NRETP-F3-Introduction to Business" slide 37
- a short film on "32 Understanding capital"
- a short film on "33 Forecasting capital"

Important keywords and key phrases

Capital, Fixed capital, Working capital

Links to resources referred in the answer - Short Films

32 Understanding capital

33 Forecasting capital

Links to resources referred in the answer - Presentation

NRETP-F3-Introduction to Business

Related questions



Question 43

What would be my working capital need if I plan to increase my revenue?





What is the opportunity cost of the business?



Enterprise Stage
Engage



Viability Category
Customers

Points to be kept in mind while answering the question

The beneficiary/entrepreneur is not likely to be familiar with the concept of opportunity cost. Hence, care should be taken to make the beneficiary understand the same.

Summary of the answer

"Before starting any business, the opportunity cost of doing the business is carefully considered. Opportunity cost is defined as the amount of money an entrepreneur is willing to let go if she decides to start a business. It is a question similar to "What other money-making opportunities will I give up or lose if I take the decision to start a business"

Sometimes, by choosing to do a business a beneficiary/entrepreneur may generate income lesser than doing any other activity. It must also be noted that starting a business involves taking risks. These risks are more than the risks of many other income-generating activities. Hence, an entrepreneur must compare the expected annual income from all the possible income-generating activities and then select the one that is likely to higher income.

Detailed answer

Opportunity cost is an important point that must be definitely considered before starting or growing any business. Opportunity cost is the amount of money one lets go if he/she does a business and does not take up any other work opportunity.

It is important to understand the concept for the following reasons

- It is possible that the income from doing any other activity (farming/MGNREGA/keeping a fixed deposit/others) is significantly more than the income generated from doing own business
- It will take time before a business can start generating revenues and become profitable.
- Working in a secure well-paying job may provide more stable source of income

Because of all the three reasons, the opportunity cost of doing a business can be high. Hence, it is important to advise the entrepreneur to do the following.

- **First**, prepare a list of all the possible income-generating opportunities.
- **Second**, calculate the expected total annual income from each-of-the-above listed opportunity
- **Third**, compare the total annual income and choose the opportunity that is likely to give higher income.
- **Lastly**, assess the risk of all these income-generating opportunities, and check how comfortable the entrepreneur is in taking the risk of starting a business.

More information

To understand more about the types of capital, please view -

- presentation "NRETP-F3-Introduction to Business" slide 40-48
- a short film on "Opportunity cost"

Important keywords and key phrases

Opportunity Cost

Links to resources referred in the answer - Short Films

6 Opportunity Cost

Links to resources referred in the answer - Presentation

NRETP-F3-Introduction to Business

Related questions



Question 48

Should I set up this business or should I look for a job?

Question 53

Is this a good business to start?





Will your family members be supporting the business? At present are they earning money for the household?



Enterprise Stage
Engage



Viability Category
Capabilities

Points to be kept in mind while answering the question

The beneficiary/entrepreneur is not likely to be familiar with the concept of opportunity cost. Hence, care should be taken to make the beneficiary understand the same.

Summary of the answer

The purpose of this question is to help the entrepreneurs understand that running any business requires the execution of different activities. Further, for the first-time business owners, doing all the activities alone, by herself, is not possible.

There are different ways to distribute the activities. One of the ways is to take support from one or more family members in doing specific activities. An entrepreneur can choose the right way based on its impact on the profitability. Sometimes, when family members support the business owners, payment for the work done by them is not accounted for. This is not a right practice. These family members must be paid from the business.

If family members are already earning money by working elsewhere, their income can help run the household, till such time the new enterprise becomes profitable

Detailed answer

Every business needs to execute different activities to achieve its objectives.

Different types of businesses have different types of activities. A production business can have activities such as purchasing, making a product, and distributing the product for sale. A trading business will focus on activities such as the purchase and sale of products. A service business can have activities such as capacity planning, purchase of raw material, and delivery of the service.

Starting or growing an enterprise is a first-time-in-life activity for several beneficiaries. This question is important to help the beneficiaries understand the following.

- **Firstly**, to help them appreciate that running any business requires the execution of different activities

- **Second**, to make the first-time business owners aware that business owners, cannot execute all the activities by themselves.

Hence, it is recommended to help the business owners adopt different approaches of distributing the business activities. This can be done by hiring additional staff, or working with one or more other self-help group members.

The business owner may also consider taking support from one or more family members in doing specific activities such as purchase and distribution.

The engagement of family members, or other self-help group members will have an impact on the profits of the business.

In the case of support staff, such as self-help group members, it becomes necessary to pay these members for the activities they work on.

Sometimes, when family members support the business owners, payment for the work done by

them is not accounted for. This is not a right practice. The business owner must be advised that if the family members supporting the business be paid from the business. This payment must be taken into account at the time of calculating the profit.

Sometimes, it may make sense not to employ family members.

Especially if they are already earning money and bringing in the cash into the family. If they are

employed in another business, or are running their own enterprise, the money received by them can act as a backup source of money, if the livelihoods business that is planned to start does not become profitable. in such situations the household can be run on the income of the second source.

It is always good for a family to have two or more sources of income.

More information

None

Important keywords and key phrases

None

Links to resources referred in the answer - Short Films

None

Links to resources referred in the answer - Presentation

None

Related questions

None

Question 60



What financial goals are you trying to achieve? In what time frame



Enterprise Stage
Engage



Viability Category
Costs and Profits

Points to be kept in mind while answering the question

The beneficiary/entrepreneur is not likely to be familiar with the idea of setting financial goals. Hence, please review the underlying concepts and then help the beneficiary understand the same.

Summary of the answer

Financial goals are the objectives that any business hopes to achieve in a given period.

These goals need to be specific and realistic. Before starting a business, an entrepreneur must define these goals for the business as it will give her a clear direction and focus. She must first understand her expectation from the business and then define specific goal for a period of time. Next, she must assess whether the goal can be realistically achieved, and if that is not practical or achievable, make necessary changes to ensure that the goals are realistic.

The defined financial goals, will help the entrepreneur assess whether running the business is a good investment of her time and money.

The financial goals will also help the business owner make good and meaningful checks, on whether the Opportunity Costs of the business is such that it no longer makes sense in running the business.

Detailed answer

The primary objective behind doing any business is to make profits because an entrepreneur invests time, money, and efforts, and also takes risks in doing a business. These profits will help the entrepreneur to take home an amount as salary that will help him/her meet the daily and monthly expenses.

Hence, a business must state its objectives in the beginning itself. Financial goals are defined as the objectives that a business hopes to achieve in a given period.

These goals must be specific. Specific means that the objective must clearly state how much profit the business wishes to make in a given period.

Let us take an example- If the beneficiary is only doing business and no other income-generating activity, in very simple terms, her business will need to make a net profit of at least Rs. 1,20,000 in

a year to help her take a salary of Rs 8000-9000 every month. In this example, the financial goals are clearly stated objectives. To achieve a profit of Rs 1,20,000/- in the duration of one year.

However, achieving this may not be possible for all types of businesses in the first year.

Hence, the objectives must be realistic. Realistic means that it must be possible for the entrepreneur to achieve the objective with reasonable efforts. In the example given above, it may be possible for the business to achieve a net profit of Rs. 72,000 in the first year. This may assure a monthly take-home salary of Rs. 4000-5000.

The example given above is used to only explain the idea of financial goals and realistic financial objectives.

The purpose of this question is to help the entrepreneur define the financial goals for her proposed business.

An entrepreneur must be guided to define her expected monthly take-home salary from the business she is considering. This is her personal financial goal. Understanding this will help her to define the target net profit (specific financial goal) for her business for one year.

Once the financial goals are set as objectives to be achieved, an evaluation must be done if the proposed business will be able to generate the target net profit and expected take-home salary in the first year. If the target net profit cannot be achieved in the first year, help her to check whether it can be achieved in the second year or the third year or the year after. This will give her a realistic picture of what can be achieved in the first year,

More information

To understand more about the "Business Objectives", please view -

- presentation "NRETP-F3-Introduction to Business" slide 15-18
- a short film on objectives of the business

To understand more about "Opportunity cost", please view

- the presentation "NRETP-F3-Introduction to Business" slides 40-43
- a short film "6 Opportunity Cost"

Important keywords and key phrases

Business objectives, Opportunity Cost

Links to resources referred in the answer - Short Films

2 Objectives of a business

6 Opportunity Cost

Links to resources referred in the answer - Presentation

"NRETP-F3-Introduction to Business"

Related questions

None

second year, and so on. Then, she can define realistic target net profit (financial goal) for the business for different years.

Setting financial goals will help an entrepreneur to stay focused and guide her to adopt strategies to achieve them.

The defined financial goals, will help the entrepreneur assess whether running the business is a good investment of her time and money.

The financial goals will also help the business owner make good and meaningful checks, on whether the Opportunity Costs of the business is such that it no longer makes sense in running the business.

Without financial goals, the entrepreneur may lose the enthusiasm to run and grow a business.

Question 61



What are the different business ideas you are considering?



Enterprise Stage
Engage



Viability Category
Customers

Points to be kept in mind while answering the question

This question is more relevant in the case of entrepreneurs who are willing to start a business, and have one or more business ideas in mind.

The entrepreneur should be able to explain the possible different business ideas, and he/she should decide to do a specific business after analysing its viability

A proper evaluation of the best business opportunity will need the adoption of a methodical approach in establishing the case for each of the business ideas.

The most trusted way of establishing the chances of success for the business is to do a 'Viability' check on the business opportunity.

Evaluate the completeness of the work done by the entrepreneur in establishing the different business ideas, and find the viability of each business.

The level of detail provided by the entrepreneur will help the OSF understand how well she has understood the challenges in starting a business, and why one business is better than the other

Summary of the answer

The process of identifying a business to start is important. The best method used to evaluate the suitability of a business to start is by doing a 'Viability' check.

When questioning the entrepreneur, it will be good to hear her talk about the different opportunities she has thought of.

The more details the entrepreneur will provide indicates more in-depth preparations.

In all the different business opportunities the entrepreneur considers, there should be a good level of work done to understand the business possibilities.

For each business opportunity, the entrepreneur will need to apply proper viability checks. The comparing and contrasting of business opportunities will also help confirm which business is the best to start, from the viability point of view.

Detailed answer

When an entrepreneur is considering many business idea, advise her to assess the viability of the idea and then proceed further.

There are five aspects that an entrepreneur can consider to check if the new business or an existing business is viable, which means it will make profits. These aspects are

1. Customers and Competition
2. Capabilities
3. Cost and Profit
4. Capital
5. Environment of the Business

Based on an understanding of its target customers, its competitors, its capabilities, cost involved, target profit, capital required, breakeven calculation,

and environment of the business, an entrepreneur will get an idea which business will be right for him/her.

There is one other consideration that needs to be kept in mind.

Before starting a new business or growing an existing business, the entrepreneur must be clear about the objectives of what she wants to achieve from the business.

It is for these reasons, the entrepreneur should take the best business idea, which is the most viable business opportunity, and evaluate the business with the objectives of starting a business.

These objectives should guide the decision on which business will be best to start

(Please refer Slide Number 25-38 in Module NRETP-F3- Introduction to Business and NRETP-Foundation module videos on Business Viability Framework for clear understanding of each aspect)

More information

To understand more about "Objectives of a business", please view -

- * presentation "NRETP-F3-Introduction to Business" slides 15-18
- * a short film "2 Objectives of a business"

To understand more about "Business Viability", please view -

- * presentation "NRETP-F3-Introduction to Business" slides 15-18
- * a short film "5 Business Viability Framework"

Important keywords and key phrases

Business viability

Links to resources referred in the answer - Short Films

- 2 Objectives of a business
- 5 Business Viability Framework

Links to resources referred in the answer - Presentation

NRETP-F3-Introduction to Business

Related questions



Question 53

Is this a good business to start?





For the business you would like to start, how many such similar businesses are operational in your village or neighbouring villages?



Enterprise Stage
Engage



Viability Category
Customers

Points to be kept in mind while answering the question

Tell the entrepreneur that there can be businesses that sell the same or similar product or service as theirs. These businesses are called competitors. Competitors can be in the same village, in the adjoining village or any other region. Before making a decision to start or grow a business, an entrepreneur must carefully understand all the aspects about competitors.

Summary of the answer

Any business, new or existing, can have a competitor. Competitors can be in the same village, in the neighbouring village, or any other region. Competitors may be present now or they can come up in the future.

Any business needs to be prepared to face the competition. This is more important when the competitors sell the same or similar products and services to the same target customer group. Hence, a business must first understand who the competitors are in the region where it is planning to sell its products or services. Then, it must understand the target customer groups targeted by the competitors.

Establishing or growing a new business in an environment where there already are a good number of competitors is not easy. It requires detailed planning.

Detailed answer

Any business, new or existing, is likely to face competition at the time of starting or later. Competitors are any other business which sells the same or similar products or services as the entrepreneur's business.

At the time of starting or growing a business, an entrepreneur must define target profit or target revenues.

Next, it should look at how much sales volume it will need to target in order to achieve its targeted revenues and profits. Based on the target sales volume, a business can choose to sell to target customers in the same village or in the neighboring villages, or in the block, or in all these regions.

To make the decision, a business will need to look at following aspects.

- Who are its competitors in the region it is planning to sell its products or services?

- Are the target customers of the competitors same as that of the business?
- Does the business have the capabilities to offer products or services better than that of competitors?
- What is the Market Size of the products or services?
- What is the Market share of the products or services?

Competitors can be businesses based in the same village, or in the neighbouring villages. Competitor businesses will try to sell the same products and services to the customers, as does the new business

Hence, a new business must plan how it can offer products or services better than that of competitors and then proceed further. In case there are no competitors in the beginning, the business must realize competition can come up in the future.

The notion of market size is important to know the maximum number of customers who are present and who could, in theory, possibly buy the product or service.

Only one fraction of this market size will actually become customers for the new business. The

revenue numbers obtained by selling products and services to this fraction of the market size is called Market Share.

If the Market share for the new business is less than the Targeted revenue, then the new business may have a problem in making profits.

More information

To understand more about "Competitors", please view -

- * presentation "NRETP-F6-Understanding Customers" slides 35 - 41
- * a short film "17 Understanding Competition"

To understand more about "Market Size", please view -

- * presentation "NRETP-F6-Understanding Customers" slides 49 - 56
- * a short film "18 Market Size and Market Share"

Important keywords and key phrases

Target Customers, Profit, Target Revenue, Capabilities, Market Share, Market Size

Links to resources referred in the answer - Short Films

17 Understanding Competition
18 Market Size and Market Share

Links to resources referred in the answer - Presentation

NRETP-F6-Understanding Customers

Related questions



Question 1

Why am I not getting enough customers? How can I get enough customers to buy my products and services?

Question 19

Due to new competitors, my customers have reduced. How do I get my customers back?



GLOSSARY

S.No.	Term	Definition
1	Marketing	Marketing is an important business function. Marketing is about thinking of a right product or service based on customer needs and then generating interest about it. In a small business, the same person may be responsible for both marketing and sales.
2	Sales	Sales is an important business function. Sales is about contacting potential customers, convincing them to buy the product or service, and then collecting money once they have bought it. In a small business, the same person may be responsible for both marketing and sales.
3	Sales volume	In the case of a production or trading business, the number of units sold of each SKU of a product is called its Sales volume. In the case of a services business, the sales volume for a particular service equals the number of times the service is given to a customer.
4	Customers	Customers are those who pay money directly to the business for its products or services.
6	Customer needs	Customer needs are defined as the reasons that motivate a customer to buy a product or service from a business. Simply put, customer needs are the things (features, benefits) that customers require when purchasing a product or service. Businesses must find out about their customers' needs in order to be successful.
7	Essential needs	The Essential needs of a customer are those which are very important to them and without which they are not willing to buy a product or service. If the product or service sold by a business does not meet the customers' essential needs, they may buy from a competitor instead. Hence, an entrepreneur must spend time and energy understanding her customers' essential needs.
8	Target customers	A business cannot meet the needs of all its customers, hence it has to choose the customer segments to focus on. The focus segments are called 'Target customer segments'.
9	Competition, or competitors	Competitors are any other business which sells the same or similar products or service as ours.
10	Communication	In a business context, Communication is a process of business ('Sender') giving 'information' related to products and services to the customer (receiver).
11	Price	The Price is the amount of money a customer must pay for the product or service which the business is selling.
12	Pricing products and Services	All businesses have to decide the price at which to sell their products or services. The process to do this is called 'Pricing' products and services.
13	Discounts	A Discount is a temporary reduction in price, given to increase revenue in the short-term.
14	Free items	Sometimes, in order to persuade more customers to buy, a business may offer a small quantity of the same product without charging a price for it (e.g. extra shampoo sachet given free to customers who buy a bottle of shampoo), or offer a small quantity of a different product (e.g. small Medimix soap free to customers who buy a bottle of shampoo). These are called Free items.

15	Product or Service Margin	Product or Service Margin is the difference between the per unit cost which the business spent on buying or making a product (or delivering a service) and the price at which it sold that product or service to the customer. Margin = [Unit Selling Price of the product/service – Unit Cost of Making/Buying the product/service]
16	Credit	To sell on Credit means to sell goods or services to a customer without accepting immediate payment, based on the trust that payment will be made in the future.
17	Credit sales	Sales that are made to a customer without immediate payment, but with the expectation of future payment, are referred to as Credit Sales.
18	Cash sales	When goods or services are sold to customers who pay money immediately, the sales are called Cash Sales.
19	Credit period	The Credit period is the amount of time (usually measured in days or weeks) that the business gives the customer to pay for the goods or service purchased. The concept is important because it affects the amount of working capital that a business needs to invest in its accounts receivable in order to generate sales.
20	Credit policy	A Credit policy defines when and how much a business will sell on credit. It mentions which customer types the business will give credit to, how much credit will be given to each and for what credit period, the penalties of delayed payment, and the maximum total amount that the business can sell on credit.
21	Sales Channel	A Sales channel is a method of selling to the customer. Selling door-to-door, selling through retailers, selling in exhibitions etc. are all examples of sales channels. Each sales channel has its own advantages and disadvantages and an entrepreneur must carefully select the right one for her business.
22	Market size	The Market size represents the number of customers who could possibly buy the product or service of a business. It is calculated as the number of potential customers in the area in which the business will sell its products or services.
23	Market share	The Market share represents the proportion of the total money value of market size that a business could obtain. To calculate the market share, a business must first estimate the market size, then calculate the money value of market size, and then consider competition and carefully estimate what share of the total opportunity it will be able to get.
24	Quality	Quality is defined as the extent to which a product or service meets the needs as stated from the customers point of view. A good quality product meets or exceeds the customers needs, consistently.
25	Quality standards	For every parameter of quality, an entrepreneur must define a measurable level she wants her product / service to achieve. These are called the Quality Standards. For some parameters, these may be defined by government rules and regulations.
26	Inventory	A common word for Inventory is 'stock', the quantity of any product that a business has on-hand.

27	Types of Inventory	There are 3 Types of inventory that a business has to consider – Raw Material, Finished Goods and Work – In – Progress (or WIP).
28	Raw material	For a production business, Raw materials are those items which are used to make products. For example, for a mango pickle making business, oil, spices and raw mangoes could be Raw Material. For a services business, Raw Material could be items that are used in the activity to deliver the service.
29	Finished goods	Articles that are sold to the customer are called Finished Goods. For example. for a mango pickle making business, Finished goods could be pickles sold in glass bottles and pickles sold in small plastic packets.
30	Work-in-progress	When Raw Material is in the process of being converted into Finished Goods, the material is called (Work-in-progress)(WIP). Work in Progress inventory is inventory that is being converted into Finished Goods, but is not in a state to be sold yet. For example, for a mango pickle making business, Work-In-Progress (WIP) could be mangoes cut into small pieces.
31	Revenue	Revenue (also called Sales) is the money that a business earns by selling its products or services.
32	Target revenue	For a particular time period (a month, a quarter, or a year), the revenue that the entrepreneur wishes to achieve (or sets as her aim) is called the Target revenue.
33	Costs	Costs in business is the money spent on buying/making and selling its products or services. Costs also include things such as paying interest on loans taken by the business.
34	Net Profits	Net Profit is the gain made by the business after total costs are deducted from total revenue. Net Profit is calculated as follows: $\text{Net Profit} = \text{Revenue (Sales)} - \text{Total Cost}$ Net Profit is always calculated for a particular time period, i.e. considering revenues and costs over the same time period.
35	Economies of scale	The phrase “Economies of scale” refers to the cost advantage businesses experience when they increase their level of output. It means that the per unit cost of buying/making a product or a service comes down when a business buys/makes and sells a higher volume.
36	Fixed costs	Fixed costs are those costs in the business which do not change when the sales volume changes. This means that even if a business sells no products or services, it still has to pay fixed costs! Some examples of Fixed Costs are rent, salaries, interest on loans etc.
37	Variable costs	Variable costs are those costs which change with a change in the sales volume. That means they increase when the volume increases and they decrease when the volume decreases. Some examples of Variable Costs are: Cost of raw Materials, and Sales commission paid for every piece that is sold.
38	Break-even	Breakeven is defined as when the business neither makes profits nor does it make losses. Breakeven is given by that level of revenue which is equal to the sum of total fixed costs of the business and total variable cost of the business.

39	Working capital	Working capital is the amount of money required by the business to run day-to-day operations, for instance, to pay for activities such as buying materials, paying wages, paying salaries, etc.
40	Capabilities	Capabilities define how a business is able to perform its operations. Capabilities consist of skills, equipment and time available to work in the business.
41	Capital	Capital is the total amount of money needed to start, run and grow a business. Capital in business consists of Fixed Capital and Working Capital. Fixed capital is the amount of money required to buy productive things (assets) such as machinery, Land and Buildings, Storage etc.
42	Equity	<p>Equity represents an owner or partners' stake in the company, identified on a company's balance sheet.</p> <p>On the balance sheet, Equity is calculated as the value that would be returned to a company's owners or partners if all of the assets were liquidated and all of the company's debts were paid off.</p> <p>When a business needs to raise capital, the owners of a business have two choices. One of these is for the owners to invest their own money in the business. For their equity investment the owners get a share in the profits of the business. They also make important decisions in the business.</p>
43	Partnership firm	<p>A Partnership Firm is a legal form of business entity. A partnership firm is where two or more persons come together to form a business and divide the profits in an agreed ratio. The persons who come together to form the partnership firm are known as partners.</p> <p>The partnership business includes any kind of trade, occupation and profession. The Indian Partnership Act, 1932 governs and regulates partnership firms in India.</p>
44	Partnership deed	<p>The partnership firm is formed under a contract between the partners. The contract between the partners is known as a Partnership deed which regulates the relationship among the partners and also between the partners and the partnership firm.</p> <p>It is in this document that the partners clearly define their individual roles and responsibilities, and the ratio in which profit (and losses, if so decided) will be shared</p>
45	Business viability	<p>Business is said to be Viable if the efforts and money we put in are worth the profits we get from it. A business is viable where it is generating net profits that are sufficient to provide a return to the business owner.</p> <p>Before starting a business or even for an existing business, we must assess if the business will be viable or not.</p> <p>There are 5 aspects that one must consider to understand if the business will be viable or not, the 4C+E framework summarises these aspects.</p>
46	Opportunity cost	<p>For an entrepreneur, Opportunity cost can be defined as "How much money will you make if you do something else instead of this business?" It is the amount of money she lets go if she takes up the business and does not take other opportunities.</p> <p>Opportunity cost should be considered not just while starting the business but also while running it (especially seasonal ones).</p>

47	Labour Laws	Labour Laws are laws relating to the rights and responsibilities of workers.
48	HR policies	HR is short for Human Resources. HR policies are the formal rules and guidelines that businesses put in place to hire, train, assess, and reward the members of their workforce.
49	Product portfolio	A Product portfolio is the complete collection of all the products or services that a business sells.
50	Portfolio Diversification	Portfolio diversification is a business strategy which involves selling a new line of products or services.
51	Leasing an asset	To rent an asset to another business for a defined time period in exchange for a fee. The term 'Leasing an asset' may be applicable in several scenarios. A small business that needs more equipment may consider renting equipment (i.e. leasing an asset) instead of buying it. An established business with unutilised capacity may consider leasing part of their production capacity to a smaller business for a fee.
52	Job work	Job work means undertaking any treatment or process on goods belonging to another registered taxable person / business. The business who is treating or processing the goods belonging to the other person / business is called 'job worker' and the person to whom the goods belongs is called 'principal'. A business may take on 'job work' for other businesses when it has some idle plant capacity.
53	Subcontracting	Subcontracting refers to the practice of bringing in an outside company or individual to perform specific tasks or activities. In most cases, a company subcontracts another business to perform a task that cannot be handled internally. Sometimes, when a firm needs to expand its production capacity but is not sure of demand, it may subcontract manufacturing to another firm as a short-term solution – that is, it may pay the other firm for manufacturing a specific quantity of the product.
54	Idle plant capacity	Production capacity that is not being used by the business is called 'Idle' plant capacity. Note that this term is typically used for capacity that has not been used for a lengthy period of time, such as weeks or months.
55	Labelling and packaging Act	The labelling requirements for packaged commodities in India are governed under the Legal Metrology Act, 2009 and the Legal Metrology (Packaged Commodities) Rules, 2011. Labelling of food products are governed under the Food Safety and Standards Act, 2006 and the Food Safety and Standards (Packaging and Labelling) Regulations, 2011. A product's packaging and label must fulfill the norms given in these acts, otherwise it can attract a monetary penalty.
56	Shelf life	A product's Shelf Life - literally the "life of the product on the shelf" -generally means the length of time that a product can be stored without becoming unfit for sale, use, or consumption. This length of time varies, depending on the type of product, how it is used, and how it is stored.
57	Cash balance	Cash balance is the amount of money a business has at hand or in its bank account.

58	Owner's salary	<p>An entrepreneur will often play dual role, that of an owner as well as a worker in her own business. Her role as a worker entitles her to salary or wages. So, she can set a monthly salary/wage for efforts she puts into the business, this amount is known as 'Owner's salary'. This will allow her to meet her ongoing personal expense requirements smoothly.</p> <p>This amount can be what she reasonably expects a helper to be paid if doing the same work in her place.</p>
59	Owner's drawings	<p>An entry for "Owner's drawing" in the financial records of a business represents money that a business owner has taken from the business for personal use. An entrepreneur must be aware that withdrawals from the business will reduce the owner's equity she has brought into the business.</p>
60	Interest	<p>The Interest rate is the amount a lender charges a borrower and is expressed as a percentage of the principal – the amount loaned. Interest is additional money that must be repaid in addition to the principal (original loan amount).</p>
61	Loan tenure	<p>When an entrepreneur borrows from a financial institution or any other entity / person, the period within which she is liable to repay the loan along with interest is known as the Loan tenure. Borrowers repay the loan as EMIs throughout the tenure.</p>
62	EMI	<p>A business which has taken a loan has to make a periodic payment to the lender, often monthly. This monthly amount is called an Equated Monthly Instalment, or EMI.</p> <p>The EMI amount includes some of the loan amount repaid and some of the interest.</p>
63	Loans, Assets and Deposits register	<p>This is a record of what the business owns (assets and deposits) and what it owes others (loans). This must be updated as and when an asset is bought or sold or a loan is taken or repaid.</p>
64	Day-book	<p>Day-book contains a daily record of transactions of a business including income and expenditure. An entrepreneur must update a day-book every day.</p>
65	Month book	<p>The Month book is a record of total value of transactions for a month from Loans, Assets, & Deposits register, and Day-book. An entrepreneur must update this record every month.</p>
66	Credit given register	<p>This register has information about how much credit and for how long has been given to customers. An entrepreneur must update this record on a daily basis.</p>
67	Credit taken register	<p>This register has information about how much credit and for how long has been taken from suppliers. An entrepreneur must update this record on a daily basis.</p>
68	P&L statement (Profit & Loss)	<p>'P&L' is short for 'Profit & Loss'. The P&L statement for a business shows how much profit or loss a business has made over a specific period of time. Typically, this period is three months or one year.</p>
69	Balance sheet	<p>The Balance Sheet is a summary of all that the business owns (assets) and all that it owes to others (liabilities), as on a particular date (typically 31st March of a year), and what is left for the business owners. Balance Sheet gives a financial state of the business at a specific point by taking into account what the business has done over the years from its starting day onwards up to that specific date on the Balance Sheet.</p>

70	Cash flow statement	The Cash Flow Statement of a business helps us understand the cash situation of a business for a period of time (typically a month or a year). It is a record of all the transactions of a business (cash inflow as well as outflow).
71	Accounts payable	When the business buys on credit (means they take the items from suppliers but promise to pay later) then the amount the business owes to supplier is called Accounts payable or AP in short.
72	Accounts receivable	When customers buy on credit (means they take the items but promise to pay later) then the amount they owe the business is called Accounts receivable or AR in short.
73	Depreciation	Depreciation is a cost which indicates how much of a machine or a building's value has been reduced because the business used these during the period of the P&L statement.
74	Scheme	<p>Banks often have Schemes to provide loans to small businesses. They require a business plan to approve the loan, as well as some security or collateral to safeguard the loan.</p> <p>The Indian Government, at national and state levels, also announces schemes to help entrepreneurs start a business or expand it. These schemes may be commonly offered as some form of subsidy, grant or low-interest loans, but may also be in the form of other specific concessions applicable to women entrepreneurs, tax incentive, or access to business experts. Similar to bank loans, the government also requires entrepreneurs who wish to avail of a scheme to have their business plan and financial statements ready.</p>
75	Incentive	<p>An Incentive is a thing that motivates or encourages someone to do something.</p> <p>Similarly, in business, an Incentive is a payment or concession to encourage someone (or a business) to do something. For example, an entrepreneur running a mithai – making business may tell her employees that she will to give them an incentive (that is, pay them extra) for working longer hours during the festive season. Or the government may announce that it will give companies tax concessions (that is, lower tax rates) as an incentive for setting up factories in certain areas.</p>
76	Subsidy	A Subsidy is a form of financial aid support given to an individual, business, or institution, usually by the government. The subsidy is typically given to remove some type of burden. For a business, subsidies come in various forms such as interest free loans, low interest loans, tax breaks, a reduction in the price of some input etc.
77	Grant	<p>A Grant is a fund given by an entity – often a public body, charitable foundation, or a specialised grant-making institution – to an individual or another entity for a specific purpose linked to public benefit.</p> <p>An example in the business context could be the government or a charity may give a grant to entrepreneurs starting businesses in certain sectors or in certain areas to encourage them to start up.</p>
78	Ancillary	Ancillary assets are ones that don't directly impact revenue, but provide necessary support to the primary activities or operation of an organization.

79	Financial statements	<p>Financial Statements are a set of 3 records that tell us about the health of business. These are :</p> <p>a) Profit and loss statement b) Cash flow statement c) Balance sheet</p>
80	Brand	<p>Brand A Brand is a combination of name, sometimes a term, a sign, and design to identify the goods or services of one business and to differentiate them from those of competitors. A brand's meaning however, expands to more than just a name and a symbol. A brand is essentially a seller's promise to consistently deliver a specific set of features, benefits and services to its buyers.</p> <p>Small businesses often do not need to build a 'brand' with registration of name and design to identify them. Their image, or promise to the customer, is built on the basis of the quality of product or service, their interaction with customers, and the customers' usage experience. Only some businesses (typically those that are large and sell products for consumers) build brands.</p>
81	Logo	<p>A Logo is a symbol, stylized name, or drawing, or the combination of all of these, which is used by a company to mark its business's identity. It helps the customers to identify and remember the business, and the product and quality of its offering.</p>
82	Trademark	<p>A Trademark is a word, phrase, symbol or design, or a combination of these elements, that a business uses to distinguish its product from those of its competitors. A trademark identifies the brand owner of a particular product or service.</p>
83	Value addition	<p>'Value added' is the extra value created over and above the original benefits of a product or service. Value additions make a product or service more attractive to customers. These help a business differentiate itself from other businesses.</p>
84	Value added products	<p>Value-added products are those where the business adds new value to an existing product to make it more attractive to customers. For example, selling cloth with some design embroidered on it instead of plain cloth, selling tomato sauce instead of tomato, selling sugarcane juice instead of sugarcane etc.</p> <p>This concept will most likely be applicable for businesses that are dealing with farm products (fruits, vegetables, grains etc.) or products made from other natural resources (like bamboo).</p>
85	FSSAI	<p>FSSAI is short for the Food Safety and Standards Authority of India. FSSAI is a legal framework that regulates all those in the foods business. It has been created for setting science-based standards for articles of food, and to regulate their manufacture, storage, distribution, sale and import to ensure availability of safe and wholesome food for human consumption. All food businesses are required to be compliant with the provisions of the Food Safety and Standards Authority of India (FSSAI).</p>

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VAAZHNDHU KAATTUVOM PROJECT

Department of Rural Development and Panchayat Raj

5th Floor, Tamilnadu Small Industries Development Corporation Limited,
Thiru Vi Ka Industrial Estate, Chennai 600 032

(044) 434 43200 | tnrtpstate@gmail.com | www.tnrtp.org



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