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MANAGING MONEY

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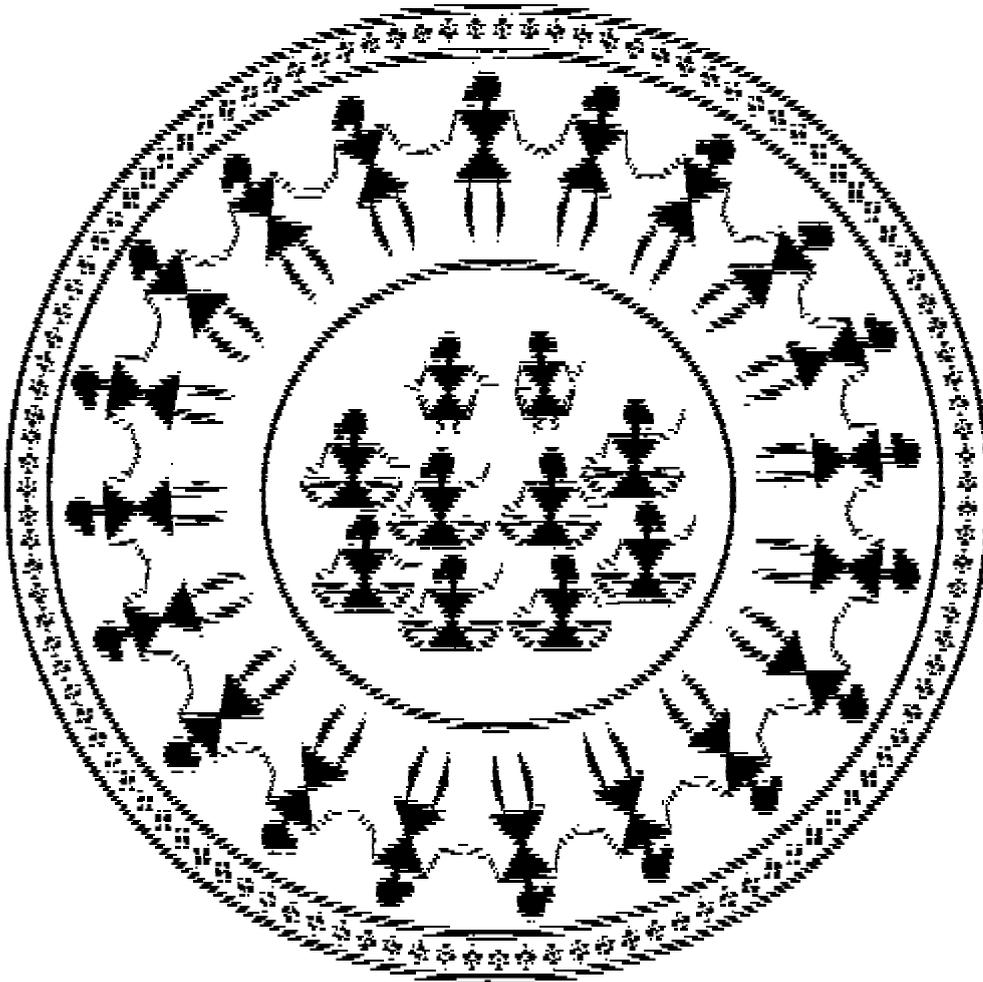
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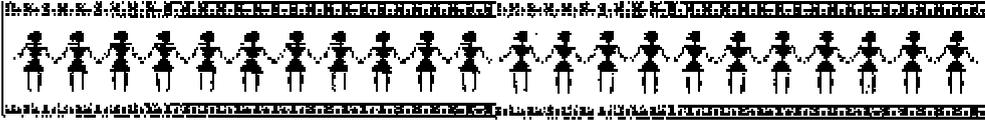
BLOCK INTRODUCTION

This Block provides you with an overview of managing money in the running of an enterprise. We explore the feasibility of an enterprise – how do we judge whether an enterprise is feasible or not? How do we perform a SWOT analysis? What is the importance of business plan formulation? We need to understand the management of working capital, to know the principles of costing and pricing. We also need to understand the principles and procedures involved in inventory management – managing an inventory of items/materials required for production or preparation or rendering a service. Budgeting and budgetary control are also very crucial aspects.



Managing Money

Feasibility of an Enterprise



General Objective

After studying this Unit, you should be able to help participants in your training session to explain the importance of selecting an enterprise based on a feasibility study.

Specific Objectives

This Training Unit will help you to enable trainees to:

- Discuss the purpose and benefits provided by the Feasibility Study;
- Describe when and under what conditions a formal Feasibility Study is required and when it is NOT required;
- Experience the execution of the processes necessary to conduct the feasibility study;
- Describe techniques for identifying problems in the current business processes;
- Recommend the best alternative;
- Check whether the enterprise could be earning profit; and
- Plan a business and guide its operation.

Planning

Time : One hour thirty minutes

Training Methodology : Group exercise, case study and discussion

Training Materials : Case on “Manukaria and her New Shop”, Chart Papers, Markers

Trainer’s Preparation : Read the Case on “Manukaria and her New Shop”

Background Material

Introduction

The failure of many microenterprises for women in the rural areas has been explained by many reasons. These are broadly pointed out as being: difficult access to markets, strong competition from already established business, lack of access to credit, lack of access to capable support services, lack of or inappropriate technology, lack of management and production skills, or even complex government regulations. The importance of feasibility studies is in the context of these problems. Feasibility study enables one to assess the chance for business success in the light of the above-mentioned barriers. The outcome of the feasibility study if positive does not necessarily guarantee that the enterprise activity will be a success. But conducting such a study clearly indicates the potential of that enterprise.

After a preliminary selection of the product it is necessary to assess the feasibility of the product from various angles. By scanning the environmental factors like market, technical and commercial viability one can be reasonably sure of attaining success.

The Feasibility Study assesses business problems, presents alternative solutions, and outlines the impact. The goal is not necessarily a single answer, but it helps in providing the entrepreneur with a sound basis for a decision.

In conducting feasibility studies the participants will have to apply most of the material already taught to them. A feasibility study on any business activity basically answers three questions:

1. Do the women have the time and skills to initiate a business activity?
2. Will they be able to sell this product or service?
3. Will the sale of this product or service fetch them any profit? Revenue and expense information is then incorporated in a cash flow projection, which gives a measure of the feasibility of the venture.

A positive answer to the above three questions does not indicate that the business will succeed, because it is not possible to predict all factors involved in running an enterprise. However, if the answer to any one of the three questions is negative, the entrepreneur should not carry out the business idea of a product or service.

Conducting a feasibility study need not be a difficult or an expensive activity, but the most important aspects should all be taken into account to ensure that potential problems are addressed. The following are some questions and the activity, which must follow to answer that question that can be addressed by a feasibility study.

1. Is there a demand for the produce? Find out the characteristics required of the product and the size and value of the market.
2. Who else is producing similar products? Determine the number and type of competitors.

3. What is needed to make the product? Find the availability and cost of staff, equipment, services, raw materials, ingredients and packaging.
4. What is the cost of producing a product? Calculate the capital costs of getting started and the operating costs of production.
5. What is the likely profit? Calculate the difference between the expected income from sales to an estimated share of the market and the costs of production.

No matter what is the enterprise selected, most women have one thought in common. They are looking at a suitable market to market their products. Whether or not the market will absorb these products depends upon several factors, like:

- the product/service produced;
- the number of women involved in the enterprise;
- the volume produced;
- operating capital requirements;
- competition in the marketing system;
- efficiency of competitors.

All these factors are addressed in feasibility studies. Simply stated, a feasibility study is a structured way to efficiently organize the information you need for confident decision-making. The information included in the study will help you plan for the facilities, the financing, and the operations necessary to the proposed venture's success.

Steps to Conduct a Feasibility Study

1. Select a business idea for the study.
2. Answer Question 1 – Do the women have the skills and the time to run the business?
3. Answer Question 2 – Can the product/service be sold in the market?
4. Answer Question 3 – Can the product/service be sold for a profit?
5. Arrive at a decision on whether a business is feasible or not, based on the answers to the above procedure.

Case of Manukaria and her tea-cum-grocery shop

Manukaria stays in a village called Burapati, which is about 45 kms from the nearest township. The village is inhabited by approximately 200 households. The men work as labour in agriculture and mining or as construction labour in a tyre factory that is coming up some 30 kms away. The women are also seasonal labour and also grow a few vegetables in the area surrounding their huts. They do not possess skills in any craft, nor are any resource materials available to start an enterprise.

However, the proximity of Burapati to the main town has facilitated the inhabitants to be exposed to the developments, which are taking place in the market in the town. Moreover, since the village also has electricity, people are aware and have their horizons widened by being exposed to a daily dose of commercials on the TV.

Some men are seen using razor blades and brylcreem rather than utilizing the services of the local barber. Women, not wanting to be left behind, have begun wearing synthetic sarees and using plastic buckets and other kitchen items like sieves, mugs, containers, cups made of plastic. Some homes are even seen decorated with plastic flowers! The children also demand the new varieties of biscuits and candies and the young girls, wanting to not lag behind the city-bred girls, demand 'Fair and Lovely' creams and shampoos.

However, a lack of employment potential has kept the inhabitants, particularly women, in the grip of poverty and they are wondering as to what activity to take up to earn or increase their living standards. Manukaria is one such woman who has had the opportunity to visit the town several times, knows how to write her name and read prices on products and is sufficiently motivated to improve her livelihood levels. The TV commercials and serials have brought to her household the rich styles of living and she is eager to buy some of the products she has seen being advertised. But what does she do to bring that extra money to provide to her family? She and two of her friends meet at the only shop in the village, every day. They are witness to the rising number of products, which this shopkeeper is displaying, and, while they walk back to their respective huts they wonder if they could also not start something like a shop – but with a difference! They could add a small tea counter and make tea. Manukaria had heard from her husband that people really wanted a convenient tea shop. But who would make the tea? For Manukaria and her friends this was not a task that women would be permitted to do in this tradition-bound village. Well, one of the husbands could be involved in this activity came the response from one of the friends.

They have been thinking and discussing the issues for a week now and today they have arrived at a decision that they would open a small tea making cum grocery shop near the bus stop in the village.

They have also identified a place, which is lying vacant, and are confident that they would be able to get it for this purpose.

This is step one – a business idea that has emerged from the women themselves. The next step is to answer the question – will they be able to sell the product?

Manukaria and her two friends have done a market survey in the village and have come up with a list of products, which have a demand and can be sold easily in the village. Some of the items short listed include matchboxes, laundry soap, bathing soaps, shampoos and other toilet items, kerosene, Vaseline, sugar, spices, pickle, papads, cooking medium like oils, plastic bowls/plates/buckets/mugs and even flowers, biscuits and candies, ready made dresses for small children and various kinds of cleaning agents. Most of these items are fast moving consumer goods and it did make sense to Manukaria they would be able to sell them. There was only one other shop that was selling some of these items and it was located at the other end of the village. Most people obtained these items whenever they had an opportunity to go to the town.

They also thought of the **prices** at which to sell these products – which obviously could not be very different from the prices charged by the other shop.

How would they **promote** this shop? Well, one of them said that they would display the goods well in a window – just like they had seen in some of the commercials on TV. Advertising for this service over the local channel was a bright idea, which crossed Manukaria's mind. The others said that they would initially sell at a price lower than the other shop, but made sure that they still made a profit. Of course keeping the shop neat and clean and also providing the customers the facility of sitting down over a fresh cup of tea (and may be hot snacks later on) were definitely advantages that they thought they could cash on.

However, they had to make a number of calculations before they could initiate this activity to be sure that their business was a success.

To begin with they had to assess the demand for the products. Interviewing people could do this. They began with the requirement of laundry soap.

Sample of Feasibility Study

Households	Total number interviewed
Moderately poor	25
Poor	30

Households	Demand per month	Total demand per month	Price	Total
200	2 pieces	400	12.00	4800.00

It was obvious to Manukaria that she would be able to meet part of the demand for laundry soap; the other shop was already meeting the other part. There also did not appear to be competition to her shop as her planned location was near the bus stop and far away from the other shop.

Having sorted out the problem of demand and location, the question now was how will she **organize and manage** the shop?

She had to go through the following steps.

1. *Activities and time needed for each of them*

Activities	Time Required
Selecting proper location	One day
Negotiating and finalizing place	Seven days
Acquiring place	Two days
Purchasing stock	Two days every month
Making minor construction, show window etc.	Ten days
Shop keeping and tea making	26 days in a month. (Four weekly off days)

2. Identifying People with Technical and Business Skills

Technical Skills

Constructing	Mason, materials
Purchase of items from nearby town	Manukaria and her friend
Organizing items/groceries/tea accompaniments	Manukaria and her friend
Tea making	Manukaria’s husband

Business Skills

Maintaining stock register	Manukaria
Recording daily sales	Manukaria’s friend
Maintaining stock register	Manukaria
Accounting daily cash	Manukaria
Costing and pricing	Manukaria
Adopting techniques for increasing sales	Manukaria and her friend

It can be observed that this activity is more or less an individual activity. A number of tasks and responsibilities are involved in running this kind of an enterprise, but Manukaria does not wish to employ more women till the time she is sure of the sales and profit. If business expands, she may have to keep one more friend to manage the shop while she explores possibilities of securing material at cheaper rates, or buying different items from different wholesalers.

The trainer has to now present the business expenses incurred by Manukaria and the projections of profit. The decision of whether she should initiate this activity will depend on these calculations. This is what is termed as a Feasibility Study. Consequently, the next step is to estimate the **Business Expenses**.

3. Estimating Business Expenses

Activity	Expenses in Rs.
1. Construction/repair of already identified space	10,000
2. Operating expenses for procurement of products	20,000
3. Credit expenses (on loan of Rs 40,000)	1,000
Total	31,000

Sales Income over a period of one month. This is on the assumption that Manukaria will have 25 % of the market share of products she has in stock in her shop. This does not include the daily sales and profit from tea and hot snacks.

4. Estimating Sales Income

Products	Income from sales
A list of items may be prepared by participants with the help of the trainer, such as soap, plastic buckets, biscuits etc. and sales income from individual items can be presented. In this example the total amount is mentioned.	42,000
Tea and hot snacks	6,000

Now comes the crucial question of whether or not Manukaria should start the shop. For this another calculation has to be made as follows:

5. Calculating Profits

Calculation of Profit over a period of one month

Sales income	42,000
Business expenses	20,000
Proportional expense on building renovation over 5 years	200
Interest	1,000
Profit per month	20,200
Additional income from tea and hot snacks	2,000

The trainer assists the participants to answer the three questions.

1. Can Manukaria run the business? *Participants' response is Yes*
2. Will she be able to sell the products? *Participants' response is Yes, but*
3. Will Manukaria be able to make a profit? *Participants' response is Yes.*

As indicated earlier, if the response to these questions is YES, the woman should take up the enterprise.

However, the trainer may point out that an additional market survey is essential to establish the market potential and also a survey of why others did not venture to start a shop in the area so easily identified by Manukaria.

The trainer also needs to inform the participants the need and format of a survey to be carried out by Manukaria. She needs to assess:

1. What is the requirement of an individual?
2. What prices does the other shop charge for various products, how much is the requirement met by her etc. ?

A Survey can include the following questions:

1. How many kgs. of sugar do you buy in one month?
2. What kind of biscuits do your children prefer?
3. Make a list of items and ask how many, on an average, is bought by them in a month. Also what prices do they pay for it?
4. Do they buy all these items in Burapati?

Managing Money

5. How many and what items are bought from the nearby town?
6. What are the items they buy only weekly, monthly, and annually?
7. Personal data – number and age of children, (girls/boys) close to or far from established shop, proposed shop etc.

A second survey on the existing shopkeepers may include the following questions:

1. Where do you buy the products?
2. What items sell in the village?
3. What items move slowly? Why?
4. Are there any items that you don't keep and which are in demand?
5. What are the costs involved in maintaining a stock?
6. At what prices do you buy these products? (Maybe make a list of products as follows)

Toilet soap	
Bathing soap	
Antiseptic soap	
Sugar	
Kerosene	
Face Cream A	
Face Cream B	
Hair oil	
Plastic mug	
Cooking oil	

7. What are the techniques employed to attract customers?
8. How do you travel to the nearby town?
9. What mode of transport do you use to bring the products to the village?
10. Are there cheaper sources from where you could procure the products?
11. Do you procure all the products from one place or do you have to go to different wholesalers for different products?
12. How often do you have to replenish your stocks?