

Establishing Entrepreneurial Systems

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- * Search for a business idea
 - * Sources of ideas
 - * Idea processing and selection
 - * Input requirements – personnel, finance, information and intelligence
 - * Rewards and motivation
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An entrepreneur perceives an opportunity for marketing a product or service. Then he establishes a business unit on the basis of his/her perception. Finally, he manages his enterprise expanding, growing or diversifying over a period of time. In order to establish an entrepreneurial system, an entrepreneur needs to take the following steps :

1. Search for business ideas
2. Process the ideas
3. Select the best idea
4. Assemble the necessary inputs resources
5. Establish the enterprise

Search for Business Idea : The task of promotion begins with the search for a suitable business idea or opportunity. The idea may originate from various sources e.g., success story of a friend or relative, demand for certain products, chances of producing a substitute for an imported article, visits to trade fairs and exhibitions, study of project profiles and industrial potential surveys, meetings with Government agencies, etc. The idea may relate to the starting of a new business or to takeover of an existing enterprise. The idea should be sound and workable, so that it may be exploited. It should yield a reasonable return on investment and the one which can be converted into a business. The promoter has to be imaginative and foresighted to discover a business idea.

Sources of Ideas : A business idea may be discovered from the following sources :

- (i) **Observing Markets :** Careful observation of markets can reveal a business idea. Market surveys can also reveal the demand and supply position for

various products. It is necessary to estimate future demand and to take into account anticipated changes in fashions, income levels, technology, etc. In this connection, it will be useful to ascertain whether the demand is elastic or inelastic and whether the product is repeat purchase or not. Attempt should be made to determine the trend of demand and the composition and pattern of potential users of the product. A survey of the available channels of distribution should also be made so that the selling campaign can be properly planned well in advance of the production. Advice of professional experts like dealers, commercial consultants, bank managers, advertising agencies may also be obtained to supplement product analysis and market surveys.

Competition and price trends can also be found through market surveys. From the data collected through market observation, one can identify the products/industries which are in demand and which require increase in supply. A promoter can then find out the most profitable line of business. For example, the scarcity of edible oil prompted many firms to enter into the production/supply of edible oils in India.

(ii) *Prospective Consumers* : Consumer knows best what he wants and the habits/tastes which are going to be popular in the near future. Contacts with prospective consumers can also reveal the features that should be built into a product/service. These days good business firms generally conduct a survey among prospective consumers before choosing the product to be manufactured. These firms also conduct a market test of the prototype product before launching it into the market. The customer is the foundation of a business and it is he who keeps it going. Therefore, data on consumer needs and preferences must be collected. Initially, a new enterprise should concentrate on one or a limited range of products. More products can be added to complete the line later on as the business becomes well established.

(iii) *Developments in other nations* : People in underdeveloped countries generally follow the fashion trends of developed countries. For example, video, washing machines, micro ovens, etc. which are now the 'in things' in India were being used in the United States and Europe before the eighties. Therefore, an entrepreneur can discover good business ideas by keeping in touch with developments in advanced nations. Sometimes, entrepreneurs visit foreign countries in search of ideas for new products/processes. Trade delegations of various chambers of commerce, etc. visit foreign markets to explore foreign collaborations and other types of business ideas.

(iv) *Study of project profiles* : Various Government and private agencies publish periodic profiles of various projects and industries. These profiles describe in detail the technical, financial and market requirements and prevailing position. A careful scrutiny of such project profiles is very helpful in choosing the line of business. Technical and other types of experts may be employed to carry out a specialised study of project profiles and to suggest the most promising projects/industries for further evaluations.

(v) *Government organisations* : Several Government organisations nowadays assist entrepreneurs in discovering and evaluating business ideas. Development banks, state industrial development/investment corporations, technical consultancy organisations, investment centres, export promotion councils, etc. provide advice and assistance in technical, financial, marketing and other areas of business. Government also identifies the priority sectors for investment through five year plans, industrial policy resolutions and guidelines for industry. In this connection government publications on trade and industry can also be helpful in discovering business ideas. Items reserved for small sector will also indicate the potential areas.

(vi) *Trade Fairs and Exhibitions* : National and international trade fairs are a very good source of business ideas. At these fairs, producers and dealers in the concerned industry put up their products for display and/or sale. A visit to these fairs provides information about new products/machines. Negotiations for the purchase, production, collaboration, dealership, etc. may also be made at these fairs.

Trade Fairs have now become a regular feature. The Trade Fair Authority of India (TFAL) established in December 1976 is the apex agency for the organisation and control of trade fairs and exhibitions in India and abroad. It periodically organises trade/industrial fairs at Pragati Maidan in New Delhi. Trade fairs and exhibitions provide opportunities for.

- (i) Assessing the market trends in terms of demand potential and type of products required.
- (ii) Meeting a large number of buyers from different States/countries.
- (iii) Assessing the attitude of the competitors in a particular product or marketing area.
- (iv) Comparing the price and quality of similar products.
- (v) Establishing personal contacts with dealers/importers/customers.
- (vi) Projecting new ideas on commercial publicity for promoting sales in the country and abroad.

In addition to the above, business ideas can be discovered from other sources like a new invention awaiting commercial exploitation, an unexploited resource, an unsatisfied demand, an inferior product, etc. For example, housewives need a product that can tell them the quantity of gas left in the cylinder. But no such product is available in India at the moment.

IDEA PROCESSING AND SELECTION

1. *Preliminary Evaluation and Testing of Ideas* : Once business ideas are discovered, screening and testing of these ideas is done. The following considerations are significant in the evaluation and testing of business ideas.

(a) *Technical feasibility* : It refers to the possibility of producing the product. Technical feasibility of an idea is judged in terms of availability of

necessary technology, machinery and equipment, labour skills and raw materials. The advice and assistance of technical experts may be necessary to judge the technical feasibility of various business ideas.

(b) *Commercial viability* : A cost-benefit analysis is required to ascertain the profitability of the ideas. An elaborate study of market conditions and prevailing situation is made to assess the viability and prospects of the proposed project. This is known as feasibility study of the project. A number of calculations have to be made about the likely demand, expected sales volume, selling price, cost of production, break-even point, etc. The services of market analysts and financial experts may be necessary for this purpose.

There is a difference between a business idea and a business opportunity. While the idea for a product or service may be workable (technically feasible), the proposed business built on this may not be profitable. It is normal for an entrepreneur to have several ideas for business that have to be rejected before finding one that is not only workable but worth while. In order to judge the workability and profitability of the proposed business, feasibility analysis has to be conducted.

2. *Detailed Analysis* : After preliminary evaluation of the idea, the promising idea is subjected to a thorough analysis from all angles. Full investigation is carried out in the technical feasibility and economic viability of the proposed project. Financial and managerial feasibility of the idea are tested. At this stage a lot of information is required. Consultations with experts in various areas of the industry may be necessary to carry out the detailed analysis. Due care should be exercised at this stage because the idea is finally accepted or rejected at this stage.

After the evaluation of a business idea is completed, the findings are presented in the form of a report known as 'feasibility report' or 'project report.' This report helps in the final selection of project. It is also useful for procuring licenses, finance, etc. from governmental agencies.

3. *Idea Selection* : The feasibility report is analysed to finally choose the most promising idea. Generally, the following considerations influence the selection of idea for a product or service :

- (a) Products whose imports are banned or restricted by the Government
- (b) Products which can be exported easily and profitably
- (c) Products whose demand exceeds their supply so that there exists ready demand.
- (d) Products in which the entrepreneur has manufacturing and/or marketing experience.
- (e) Parent ancillary relationships i.e., the product is to be manufactured for a parent company.
- (f) Products which showed high profitability.
- (g) Products based on the expansion or diversification plans of existing firms of the family/friends/relatives.

- (h) Products which ensured specific advantages. The advantages might accrue because of the scale of the industry or the location of the factory or technology of manufacture.
- (i) Products favoured by the country's industrial/licensing policy e.g., delicensed industries.
- (j) Products for which incentives and subsidies are available.

While considering these various factors—market, own's own experience, policy and incentives—an entrepreneur would generally come across a mix of some encouraging and some discouraging factors with reference to every product. It therefore, becomes necessary to analyse and compare the pros and cons. A selection matrix may be prepared for this purpose. In the selection matrix given in Table 5.1, a comparison is made between Project A and Project B.

Table 5.1 : Entrepreneurial Selection Matrix

Data	Project A	Project B
1. Product	Priority industry	Reserved for small industry
2. Raw material required	Imported	Indigenous
3. Machinery	Imported	Indigenous
4. Market	Defence Ministry	Local
5. Technical Know how	Foreign trained personnel	Indigenous
6. Location	Free trade zone	Backward area
7. Profitability	High	Low

Source : H.M. Pathak—Project Planning in Uday Pareek and T.V. Rao—Developing Entrepreneurship, Learning Systems, New Delhi, 1971, 16.

Many more items can be added for such comparison. The matrix indicates the type of diverse data that needs to be collected for each project. It also throws light on how each item can hold out some encouraging and some discouraging factors. The entrepreneurial selection needs to take all these factors into account.

4. Input Requirements: (Assembling the Proposition) Once the promoter is convinced of the feasibility and profitability of the project, he assembles the necessary resources to launch the enterprise. He has to choose partners/collaborators, collect the required finances and acquire land and buildings, plant and machinery, furniture and fixtures, patents, employees, etc. Decisions have to be made about the size, location, layout, etc. of the enterprise. The form of ownership organisation has to be selected. According to Shubin "the firm is launched by assembling and organising the physical facilities, developing operation and production processes, advertising its product and initiating a sales promotion campaign, recruiting labour and accumulating inventories."¹

Assembling state is an important landmark in the entrepreneur's journey to establishment of an enterprise. The main inputs required for launching an enterprise are as follows :

1. John A. Shubin : Business Management, p. 55.

1. Information and Intelligence : In the turbulent business environment, information and intelligence have become the key input in entrepreneurial success. An entrepreneur requires relevant data on the following aspects :

- (a) Size and nature of demand for the product or service
- (b) Volume and sources of supply
- (c) Price cost volume relationship
- (d) Sources of raw material
- (e) Type and suppliers of technology, machinery and equipment
- (f) Number and type of personnel required and their sources
- (g) Amount and sources of funds required for the enterprise
- (h) Nature and degree of competition
- (i) Government policies and regulations concerning the industry
- (g) Export import conditions for the product/service.

Every entrepreneur has to develop a sound system for regular, collection, procuring and dissemination of the required information. Such a system is called management information system. A sound system supplies the right amount of information at the right time to the right persons. The use of computers helps to improve the effectiveness of management information system.

2. Finance : Finance is the lifeblood of business and it serves as the lubricant for the wheels of business machinery. A business enterprise requires finance for fixed assets (fixed capital) as well as for current assets (working capital). There are two main methods for estimating the funds required for an enterprise.

(i) **Cost Theory :** Under this method, financial requirements of an enterprise are the aggregate of fixed assets, current assets, intangible assets like goodwill, cost of promoting and establishing the business. The total outlay incurred on these items constitutes the capitalisation of the enterprise. This method is relatively simple and convenient for a new enterprise. But it may fail to reflect the earning power of the enterprise. Problems of over-capitalisation and undercapitalisation may arise.

(ii) **Earnings Theory :** In this method, the capitalisation of a company is equal to the capitalised value of its estimated earnings. If the average annual net profits of a company are estimated to be Rs. 50 Lakhs, and the return on investment in the concerned industry is 25 per cent, the amount of funds to be raised would be Rs. 200 lakhs ($50 \text{ lakhs} \times 100 \text{ over } 25$). This theory provides a more realistic basis but there are problems in correct estimation of future earnings particularly for a new enterprise.

Once the amount of funds required are estimated, the entrepreneur has to identify the sources from which the funds are to be raised. He has also to decide the relative proportion between the funds raised from different sources (e.g., Shares, debentures, loans, etc.). This decision is known as the capital struc-

ture. It is a very crucial decision because it influences the real worth of the enterprise and the return to the owners.

After deciding the capital structure, the funds are raised. Systems are created for the efficient management and control of working capital and earnings.

3. Personnel : People are the most valuable asset of an enterprise and this asset does not depreciate. An entrepreneur has to make the following decisions concerning the personnel.

- (i) Number of personnel required for management, technical and other positions in the enterprise
- (ii) Qualifications and experience required in the personnel to perform the jobs effectively
- (iii) Sources of recruitment from which the needed staff will be procured
- (iv) Procedure and methods of selecting the best candidates
- (v) Methods of orientation and training to be employed for the selected personnel
- (vi) System and criteria for evaluating the performance of employees
- (vii) Policies and procedures for the transfer and promotion of staff
- (viii) Policies and methods for remunerating the personnel
- (ix) Facilities to be provided for the safety, health, welfare of the staff
- (x) Participation of personnel in the management of the enterprise.

Rewards and Motivation

The hardships and risks which an entrepreneur faces are enormous. So are the rewards and benefits a successful entrepreneur can reap. The rewards of entrepreneurial success include the following :

1. Considerable wealth
2. Prestige and status in the society
3. Economic independence and power
4. Sense of achievement and pride
5. Satisfaction of providing employment to others
6. Career for children

The factors that inspire people to become entrepreneurs are many and varied. These factors include economic, social and psychological forces. These motivating forces for entrepreneurs have been described in detail in the previous chapter.

Role of Industrial Fairs

Industrial fairs are the fairs at which industrialists exhibit their products. These fairs are organised at regional, national and international levels. A large number of people from industry and trade visit these fairs. Such interaction

Growth of a Business Idea

Chapter Objectives

- To understand the importance of a business idea
- To explain the significance of a 'new' business idea
- To formulate a pre-selection process to precede the search for a business idea
- To list the possible source of business ideas
- To describe the process of researching a business idea
- To develop a comprehensive framework for evaluating business ideas

INTRODUCTION

Warren Buffer says, "Today's successful companies live and die according to the quality of their ideas."

You rarely come across an idea, plan a business around it and go ahead implementing your plan. In fact, it does not happen in the real world. Usually, you generate a bunch of ideas and evaluate them. At least some of them would have some business potential. You choose the one that seems the most promising and carry out the plan to convert it to a successful business. But there are also the entrepreneurs who have decided which business to start. All they have to do is decide on the details such as scale and location.

You do not have to come up with a totally new or unique business idea in order to succeed. Most new enterprises are similar to existing ones. You do not have to do a different thing to succeed, may be you just have to do the same things differently. I recall a private taxi owner who used to have daily newspapers and a bunch of fresh flowers in his car first thing in the morning. Nice touch.

Selecting a business can be done as haphazardly as tossing a coin or rolling a dice. On the other hand, a team of consultants may be hired to thoroughly analyse the situation and come up with recommendations. This book recommends a path that is somewhat in between these extremes.

NEW BUSINESS IDEA

It is important to stress that though a new or revolutionary business idea is not essential for new venture success, it helps. A new business idea greatly enhances the chances of success. It is much more desirable to spend time in devising a viable business plan around a new idea than to go about trying to do the same kind of business others are engaged in.

According to Peter Drucker, "Innovation is the specific instrument of entrepreneurs, the means by which they exploit change as an opportunity for a different business."

Creativity is all about thinking about new things, while innovation involves doing new things. It is argued that entrepreneurship is building a business around a new way of doing things. One can be creative by thinking differently about existing problems and situations. A creative approach will ultimately lead us to new ideas. That certainly does not mean that an idea is going to succeed only just because it is new. The idea has to be fundamentally sound and economically viable. The first mover in a market has a number of advantages but those following the first mover have a lot of advantages too.

First mover's advantages

- Has technological leadership. It can also lead to cost advantages and economies of scale.
- Can obtain and secure scarce resources before crowding.
- Can impose switching costs on buyers.

First mover's disadvantages

- The underlying business concept can be revealed.
- Others can try different resource combinations.
- Investments in resolving problems, others can benefit from learnings.
- Inertia makes it difficult to abandon the strategy that is no longer effective.

A lot many entrepreneurs have succeeded by not being the first but by doing it better. Microsoft was not the first software company and LN Mittal was certainly not the first steelmaker.

Exhibit 2.1 de Bono's Six Thinking Hats

This is adapted from the book *The Six Thinking Hats* by Edward de Bono. The book talks about six metaphorical hats that a thinker can put on or take off to indicate the type of thinking being used. This putting on and taking off is essential. The author does not use the 'hats' to categorize individuals.

White Hat Thinking

This covers facts, figures, information needs, and gaps. The thinker is looking at the database to build or refute an argument.

Red Hat Thinking

This covers intuition, feelings, and emotions. Usually, the feeling is genuine but the logic is questionable. The red hat allows a thinker to put forward his/her feelings on the subject.

Black Hat Thinking

This valuable hat is the hat of judgement and caution. The black hat is used to logically point out why a suggestion does not fit the available facts or the system in use. The black hat acts as the devil's advocate.

Yellow Hat Thinking

This hat is about pondering over the positive aspects such as why something will work and why it will offer benefits. It can be used in looking forward to the results of some proposed action, but can also be used to find something of value in what has already happened.

Green Hat Thinking

This is the hat of creativity and innovation. It presents an alternative way of looking at the situation, proposals, interesting aspects, provocations, and changes.

Blue Hat Thinking

This is the overview or process control hat. It looks not at the subject itself but at the 'thinking' about the subject. This hat decides which hat is to be put on at a point of time.

PRE-SELECTION PROCESS

This refers to a set of activities one may engage in before starting to look for ideas. The objective is to have a clearer notion of exactly what should you be looking for. We will now discuss the various steps in the pre-selection process.

Uncover Your Personal Traits

Take a close look at your personality. The kind of person you are, will go a long way in determining which business is likely to suit you.

There are many who propound the theory that you need to be a certain kind of person to be a successful entrepreneur. Typically, a successful entrepreneur is supposed to be intelligent, hard working, organized, charismatic, gregarious, risk taking, and above all a leader. There are very few entrepreneurs who are all of the above and in fact, many would be well below average on most of the above characteristics.

Identifying aspects of your personality is important to determine which sort of business or activity is more suitable for you rather than to determine whether you are likely to be a successful entrepreneur or not. Some of the more important aspects you should be looking out for are discussed below.

1. Look at how much do you enjoy meeting other people. There are a number of businesses that require people to be in touch with clients, suppliers and others for long periods of time, e.g. event management, training, broking, and placement services.
2. You should honestly look at your ability to work in an unstructured environment. There are many of us who have had situations laid out for us for most of our lives and we have operated only in our domain with the rest of things being taken care of by others. So, we may not have had an opportunity to develop a tolerance for ambiguity. Many entrepreneurial ventures may involve working in highly unstructured scenarios.
3. Very closely related to this is the ability to organize and structure. This has to do with paying attention to detail, ability to meet deadlines and liking to have a sense of completion.
4. There are many who may assume to have leadership qualities because of their seniority in an organization and having people reporting to them. Leadership qualities do not have too much to do with seniority in an organization, even though a position of responsibility can impart a limited set of leadership skills.
5. People differ in their appetite for risk. Businesses vary in terms of the risk the entrepreneur has to take. It is the responsibility of the entrepreneur to ensure that the business that has been selected matches his/her willingness to undertake risks.
6. There are many who have superior analytical skills characterized by their ability to come up with a deeper understanding of situations than most. They are also more likely to make better predictions about future trends

and events. It is a rare skill and someone possessing a fair amount of it should be in a position to utilize it effectively.

7. There are wide variances in the energy levels of individuals. Some are more comfortable with work that requires few periods of concentrated, exhaustive, high energy effort, whereas others are at home with situations that need sustained periods of moderately gruelling work.
8. There are those who prefer to concentrate their efforts on one particular job and are very thorough in its execution. On the other hand, there are those who do not wait for an activity to end before embarking on a new project. There are entrepreneurial opportunities suitable for both kinds of individuals.

Knowledge and Experience

You bring into your enterprise not only your personality and skills but also your knowledge and experience. The knowledge you possess is very closely linked with the experience you have acquired. Experience contributes to and sharpens one's knowledge. So, it is relevant to look at facets of experience and knowledge together.

Technical Knowledge

You acquire technical skills during formal or vocational education. This may be enhanced by regular refresher courses or training, which you may take during the course of your professional and job-related responsibilities. What you have learnt in theory or in the classroom gets validated or enhanced by actual experience in execution.

Domain Knowledge

This refers to the knowledge very specific to a certain industry or may be a region. For example, technical knowledge may refer to your knowledge of refrigeration systems but domain knowledge will refer to what you know about problems faced in refrigeration of ice cream in rural areas in central India.

Contacts

By virtue of having been involved in a particular field for many years, you tend to build up a number of professional contacts. These may be old colleagues, clients, or vendors. The quality, width and depth of your contacts is also something very important to your new business. The *width* refers to how many people you know and the *depth* refers to how strong is your relationship with

them. Quality refers to the ability and efficacy of the contacts with reference to their ability to positively impact your new business. For example, if you are planning to start a firm offering services to software firms, it is better to know five CEOs of software firms than to know only one. But the situation may be different if that one person is Azim Premji. But that again is not of any major use to you if you have met him in passing and he does not even remember your name.

Goals and Aspirations

Take some time to think about your short-term and long-term goals. Your short-term goals may be as mundane as getting enough money to pay for your day-to-day expenses and your long-term vision can be something as great as everlasting world peace.

The following things may be kept in mind when thinking of your vision for the business:

1. How important is the financial role of the business in your life? This in turn depends on what proportion of your total wealth have you staked on the business and what proportion of your income is derived from the business.
2. Think in terms of the scale and size of business you hope to achieve in the future.
3. Do you intend your business to be a cosy local bookstore or do you want to challenge Crosswords or Amazon.com?

For a business to be sustainable, it has to connect well with both your short-term and long-term goals. Either one is not enough by itself. There will be frustration if your short-term goals are being ignored by your business. Also, if you have not incorporated your long-term goals in your business planning, your interest will wane and you will be on the lookout for getting out as soon as possible.

SOURCES OF BUSINESS IDEAS

You may have decided that you want to do business but you are not sure which business you want to get into. Business ideas are all around us. There are many places to start searching for ideas. Sometimes, it is an ongoing process where we are generally on the lookout for great new ideas. Over a period of time, you may end up recording a number of good business ideas that we come across while going about our day-to-day life. You can then evaluate these ideas and when the time is ripe, these ideas can be taken further. Let us look at some good sources for ideas.

Past Work Experience

If you have been working somewhere for the past few years, you have obviously been doing something right to still be on the payroll. During this time, you have gained experience in your field and been professionally exposed to various other fields. You have developed contacts both within your company and also elsewhere in the industry. You have picked up skills and may also have received training in a specialized subject.

Now, figure out what have you learned in all those years and how does that help you to choose a good business to start. Analyse what did you do within the company and will you be get paid to apply the same skills and know-how independently outside the company? Also, find out what needs and lacunae were you exposed to, which you may be able to profitably address now.

Can you think of your former employer as a potential client? I know of many software professionals who split from their employers and their first job was work outsourced to them from their former companies.

When you start a business in some way connected to the work you used to do, you start off with a lot of advantages. You bring with you your experience, technical knowledge, contacts, etc. That is a huge plus in the uncertain world of business.

Hobbies and Interests

I envy professional athletes because they make a living out of what they love doing. John McEnroe made millions playing tennis and many more millions commenting on it and most of us have to pay to play tennis. Life can be very unfair.

Taking a good look at what you enjoy doing during your leisure time is a good way to look for business ideas. Hobbies are a means to avoid boredom and dissatisfaction at work. Explore both formal hobbies such as stamp collection, badminton, and classical music and also informal leisure activities such as walking, yoga, and cooking.

For example, if you are interested in cricket, you can start a sports goods shop specializing in cricket, manufacture protective gear, or start a local cricket magazine or even a cricket training camp. The possibilities are endless.

Strengths and Abilities

Be sure to allow your business to exploit your strengths and abilities and to steer clear of your weaknesses. List your strengths and weaknesses. Ask your friends and relatives to help you with the list.

There is an interesting exercise to list your strengths, which is given below:

1. List your top ten accomplishments.
2. List the skills and personal attributes you applied to achieve them.
3. The more commonly occurring ones are your major strengths.

You may surprisingly find out that you are good at compiling information or negotiating or working with animals.

Look at what you enjoy and what you are good at, and try combining them in the business you are going to start. If you love painting but are not good at it, do not become a painter but if you have great communication skill, you can think about starting a business selling works of new artists to hotels and offices.

Friends and Family

Consulting friends and family members can be a great idea to look for ideas. Those close to you might have also thought of starting a business. You can take advantage of their work experience and interests to generate ideas and they would also be useful in the analysis of these ideas. An interesting way to know their thoughts is to get them together in a focus group. A *focus group* is a group of people sitting together to discuss a specific topic. You can invite some other people with domain knowledge to join you in this. For example, if you want to discuss business opportunities in the automobile sector, invite someone you know who works for Maruti.

Exhibit 2.2 Brainstorming

Brainstorming is a group creativity exercise designed to come up with a number of solutions to a problem. This method was originated by Alex Osborn, who proposed that groups can double their creative output by using brainstorming effectively.

Even though there are a number of variations to the basic method, there are well-defined steps followed in most brainstorming sessions. These are discussed below.

1. Define the Problem

The problem must be clearly defined and captured in a question such as—‘what problems do you face while travelling by train.’ Sometimes, it might be a very big problem and may need to be broken down to component questions such as—‘what are the problems you face when trying to get into a train’. A well-defined question focuses the thinking of the group and increases the

quality of the ideas. For example, it might be easier to find a good answer to the question—'what business can I start with 10 lakh rupees' rather than with a vague question such as—'what business should I start.'

2. Select Participants

The participants selected should be from diverse backgrounds. That allows for fresh perspectives to be presented during the session. Participants should be eloquent and not very aggressive or very submissive. In case of a complex problem, it might be advisable to inform the participants of the topic well in advance.

3. Select a Leader

One person in the group should be selected to direct the flow of the conversation and act as a referee. It should not be an autocrat but rather a benevolent grandfather-like figure. The object is to keep the group productive and focus on the problem.

4. Set the Stage

Enough space should be there. The temperature and humidity should be at a comfortable level. The ambience should be conducive for the intense activity planned. Comfortable seating should be provided for all participants. Enough paper, pens, pencils, etc., to record their ideas should be close at hand. Mobiles should be switched off.

Rules

The 'rules' of brainstorming are framed to promote productivity in a harmonious atmosphere. Some of the important 'rules' are as follows:

1. *Focus on quantity.* The assumption is that the greater the number of ideas, the greater is the chance of finding good ideas.
2. *Postpone criticism.* Ideas are not to be criticized when they are presented. All ideas are to be recorded and judgement on their quality is reserved for later.
3. *Build on others' ideas.* Think about others' ideas and improve upon them. Several ideas can be combined to form one good idea.
4. *Encourage crazy ideas.* Unusual and strange ideas are welcome. They can open up new ways of thinking and can contribute to strengthening other ideas.
5. *Work with a deadline.* Without externally imposed deadlines, the group can disintegrate into aimless chatter. It is desirable to set a deadline for the group to come up with their ideas.

Even though brainstorming has its proponents, many researchers claim that brainstorming does not improve the quality of ideas. All agree that brainstorming can enhance the enjoyment of group activity and can be a valuable bonding exercise.

Distribution Channels

The retailers and the distributors are the people closest to the consumer. No one knows more than them, what the consumer wants and what is he/she getting right now. Most distributors deal with a wide variety of products so their experience may be across industries. They will be able to tell you which products are doing well in the market and what are the various problems in various industries. The retailer will be in a position to give you a first-hand report on consumer behaviour. Often distribution channel members can have suggestions for completely new products.

Travel

Ideas may develop when you travel to different parts of the country or to different countries and see different ways of doing things or products that may work at home. Travel makes you aware of the alternatives. When you visit a major city, it may be better for you to spend more time at the supermarkets gazing at amazing new products than at the traditional tourist places. A potential entrepreneur travelling to England would like to visit Harrods departmental store instead of visiting Madame Tussauds, where he/she can come across a great variety of processed and semi-processed foods and also see novel ways of dealing with queues and crowds. If you are from a small town, you can come across some new business ideas when travelling to Delhi, Mumbai, and Bangalore.

Books and Magazines

You can pick up a lot from business publications and periodicals. They write on current trends in industry, best practices, legal issues, and general business environment. Business magazines are good sources of knowledge but you can gain from reading general interest magazines too. They keep you in touch with the latest trends and happenings.

Current Trends

It is important to keep abreast of the current trends. Look at the world around you and see where it is headed. What new opportunity does this trend throw

up? Double income families may mean greater demand for crèches, home security, and ready-to-eat products. Keep your eyes and ears open for new trends and fads.

Research Organizations

Across the country, there are many research organizations and even some universities engaged in developing new technology and commercializing them. If you visit regional research labs, you would be surprised at the amount of relevant work going on there. Even better are some CSIR organizations that are smaller and usually more cooperative. All of them are interacting with the industry and have set procedures for transfer of technology. You can buy technology rather cheap but you have to be careful about what you are buying.

The Web

The Internet has today become the most important search tool. Where else will you find so much information literally at your fingertips? Good if you have a PC and an Internet connection at home, or else you may go to the neighbourhood Internet café. Use the search engines effectively and visit relevant sites. Get information in the virtual world and use it in conjunction with what you can gather in the real world. If you want to know about cup-filling machines, find a manufacturer of a cup-filling machine on the Net, get his/her contact numbers and address and meet him/her to find out what you want to know. The Net has made life a lot easier.

Exhibit 2.3 Mind Maps

A *mind map* is a diagram used to represent words, ideas, tasks, or other items. The components of a mind map are linked to each other and are usually arranged around one or few central terms or concepts. Many have likened mind maps to lists in a diagrammatic form. When ideas are put radially in a mind map, there is no implicit prioritization that comes from sequential listing. Grouping and summarizing can be reserved for later stages. Mind maps can be good tools to sort out complicated ideas.

Tony Buzan, who has extensively studied mind maps, suggests the following guidelines:

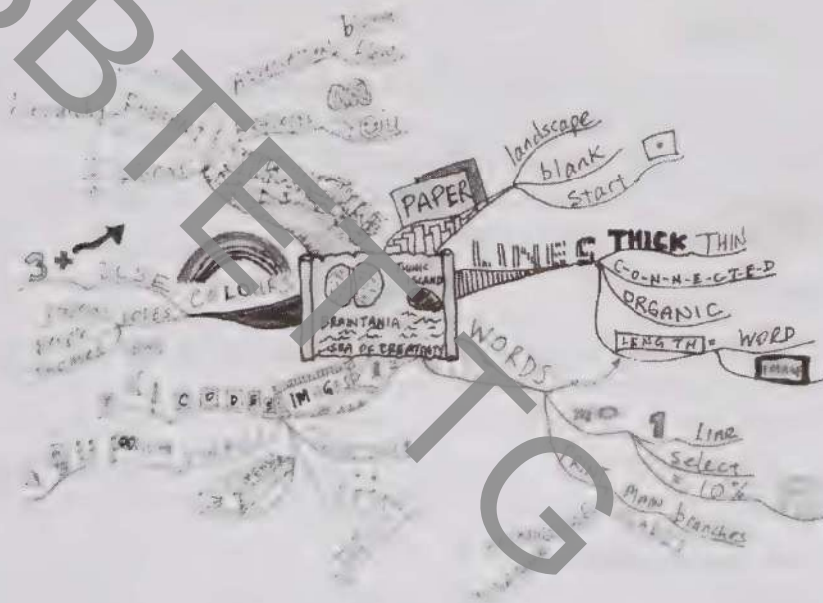
1. Start with the central theme at the centre of the sheet.
2. Show associations and use emphasis, where necessary.
3. Use different coloured pens for coding the mind map.

4. Use symbols, signs and images, where appropriate.
5. Construct it clearly and neatly so that it can be understood later.
6. Develop a style of presentation you are comfortable with.

A good mind map to start with is to use a mind map to plan what to pack for your next trip. Here are some examples of mind maps.



Source: Learning Centre at the University of New South Wales, Australia



Source: Tony Buzan Learning Centre

PRELIMINARY RESEARCH

Now that you have the outlines of a few business ideas, it is time to start researching those ideas. You have to know lots more about the business before you can decide on the business to start. Most of the research you carry out will be centred on the same sources of your business ideas.

You will have to go back to the same sources and also get in touch with lots of people who have had experience in the same and related industries. While researching the business opportunity, one should be careful to get as much information as possible in the key business areas discussed below.

Cost Structure

What are the main costs involved? One has to investigate seasonality of raw material prices, cost and feasibility of alternatives and variable costs of raw material and consumables as a proportion of total costs.

Market Structure

Look at trends in the selling price of the product, who are the dominant players in the market and is there any cartelization or a strong industry association. There will always be some part of the value chain, which will have better bargaining power than the others. It may be the manufacturer, distributor, retailer, or even the consumer.

Technology

If there has been a recent change in technology, it is unlikely that there will be another technology change in the near future. But this may not be true of some high-tech fields such as software and robotics.

It may be that some new technology has been implemented elsewhere but has not yet been imbibed by local industry.

HR Issues

You have to be particularly careful if the work is hazardous. You have to provide adequate safety measures and also be prepared for dealing with trouble in case something goes wrong.

If the industry is dependant on highly skilled labour, then you should have a well thought-out strategy for attracting them and keeping them with you.

Government Regulations

There may be some government regulations that may act as entry barriers in the industry. It may take a long time to get a certain clearance from some

government agency, or it may be very costly to comply with some industry standard. The cost structure of the bottled water industry was totally changed after stricter controls were introduced following the recent furore regarding contaminants in bottled water.

BUSINESS IDEA EVALUATION

Now, it is time to evaluate the business idea. For an idea to become a business opportunity for you, it should have the potential to be profitable and should be able to meet your personal goals. This section outlines a framework to evaluate business ideas. This framework is based on five questions. But actually, there are more than just five questions. The main questions help us to group together many more questions, which address a wide range of concerns.

The Five Questions

Q1 Which is The Market Segment Being Targeted?

Identify the important problem of the customer the business addresses. Think about the value the potential customer stands to gain. It is important to focus on the 'need' of the customer rather than on the attributes of the product or the service being sold. In case a problem of the customer is being addressed, it is important to analyse how painful is the problem. The market need has to be carefully assessed by consulting industry experts as well as potential customers.

Is there a market segment we can target by offering clear and compelling benefits at a price the customer is willing to pay?

The answer to this question would help you to identify the market segment you are targeting. The segment may be described in terms of demographic, geographic, or lifestyle factors.

An interesting way to answer this question is to describe your intended customer. This becomes even more important in case your intended customers are businesses. It is important to remember that in order to make a sale, you have to modify the current behaviour of your potential customer.

Q2 What is The Business Model?

A business model is a description of various aspects of business, such as operational processes, marketing programmes and organizational structures. To answer this question, you have to clearly outline how you intend to solve the customer's problem. This will include a detailed product description and an overview of how it is going to be produced and delivered to the target

customers. Can the business develop and employ superior organizational processes, capabilities, or resources compared to its competitors.

At the end of answering this question, you should have an idea about the profitability of the business. Does the business look to be economically viable? High margins are obviously better but very high margins are usually not sustainable or scalable. Margins can come down when we try producing in large numbers or when there is intense competition in the market.

Q3 *How Big is Your Market?*

This question can be broken down into several questions as given below:

How many total customers are there? This gives the size of the total market.

How many will buy from you? This gives your share in the market.

By now, you should have a mental picture of your first customer (besides your mother). Now, you have to figure out how many such customers can be convinced to switch to your product.

Also, think on whether you are looking at targeting a different profile of customers. In that case, you have to judge if you can effectively target different segments at the same time.

By answering the above three questions, you now have an idea of the kind of investment that is needed for the business. In case the money you can invest is not enough, are you willing to dilute your equity by bringing in partners who are willing to invest? Do you wish to borrow funds from banks or financial institutions, may be by putting up some asset as collateral? You should be comfortable with the investment requirements of the business before you decide to go ahead with it.

Q4 *How Can You Protect Your Business?*

How can you protect your business from other existing businesses and potential new entrants? Closely allied to the answer to this question is another question—why you think you are in a better position to do this business than anyone else. There has to be some strength that gives you an advantage. Business strengths can be as varied as a low-cost structure, superior product quality, dedicated channel members, or proprietary elements such as patents, copyrights, or trade secrets. It is even more advantageous to have a business strength that cannot be easily duplicated or imitated by competitors.

On the other hand, every industry has its own critical success factors. It is imperative to identify those success factors and to measure your ability to execute on those factors.

Furthermore, it is very important to know people in the industry. You and your team should have contacts among suppliers, competitors and customers. The number and quality of contacts up and down the value chain is an important determinant of eventual business success.

Q5 What Are You Getting Out of It?

The answer of this question may take you back to the previous questions. The business should be big enough to make it worth you to be part of it. It should be a business you are proud of running.

A vegetable vendor buys vegetables worth Rs. 50 daily and sells it for Rs. 150. Whatever is left over is consumed by the family. Great return on investment and great exit options but could this business be worth being taken up by you. Scale it up and then we could be talking of a viable opportunity.

Obviously, the business which makes more money is the better business. But one should not look at the total profits alone. It is also important to gauge the reliability of the profits. Profits may get adversely in case of bad debts or a change in the costs and prices of the products.

The payback period is the time it takes to get back the amount one has invested. Any business that gives you back your money within three years is good. The business that pays you back within a year is superb.

On the whole, this should be a business you are looking forward to being involved with for a long time.

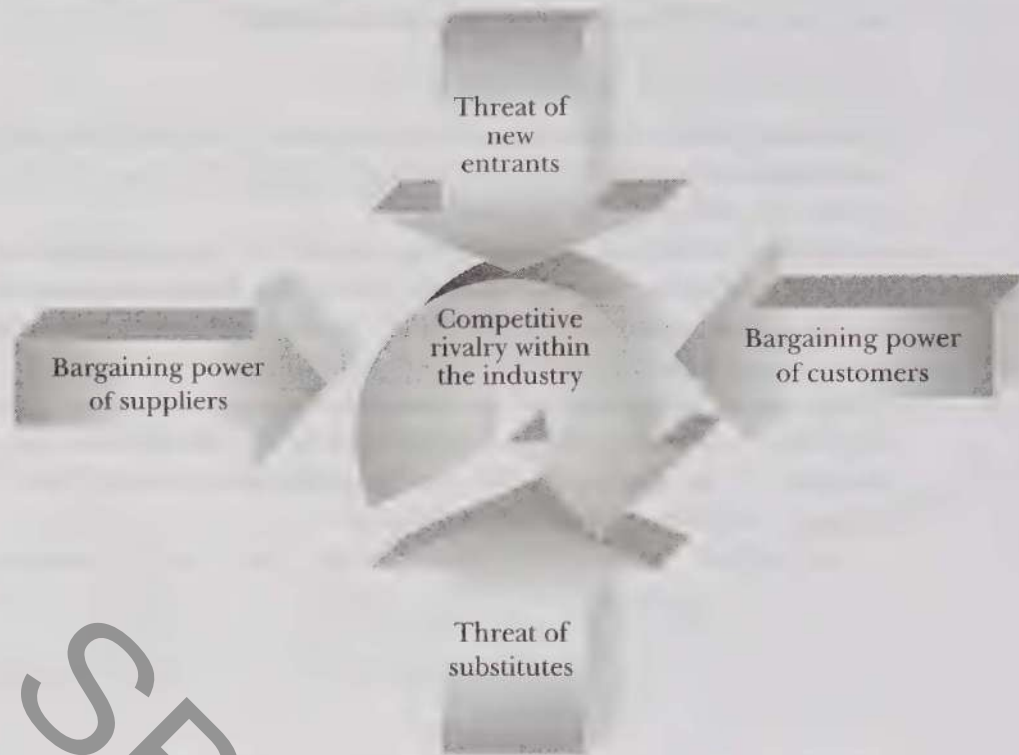
OTHER ANALYSIS

The above framework does not give a score at the end that indicates the viability of the business opportunity. This framework serves to raise important questions about different aspects of the business and its environment. This is just a preliminary testing tool and later the idea will be subjected to a far more rigorous testing when the business plan will be written down. In addition to the above questions, carrying out the following exercises will give you a better picture of the whole scenario.

Industry Assessment

An industry is a group of firms making products that compete with each other. Some industries seem more lucrative than others. That is usually the result of the dynamics of the competitive structure in the industry. One of the most influential tools to assess the industry is Porter's five forces model.

Exhibit 2.4
Porter's Five Forces



Source: Porter, M.E. (1985), *Competitive Advantage*, The Free Press, New York

Porter contends that there are five types of forces that determine industry attractiveness and long-term industry profitability. These forces are as follows.

1. Bargaining Power of Suppliers

Suppliers of raw material and other factors of production can determine the profitability of the industry. The bargaining power of the suppliers is determined by the following factors:

- The number of suppliers
- Size of suppliers
- Level of sophistication of product supplied
- Cost of switching suppliers

2. Bargaining Power of Customers

Buyers are responsible for the demand of the product. The bargaining power of the buyers is dependant on the following factors:

- Number of buyers
- Size of order
- Price sensitivity of buyers
- Level of standardization of product
- Buyers' cost of switching

3. Threat of New Entrants

New entrants in an industry can raise the level of competition, thus reducing the attractiveness. The threat of new entrants is determined by the factors given below:

- Economies of scale
- Customer switching costs
- High capital costs
- Likelihood of retaliation by existing industry players

4. Threat from Substitutes

Substitutes are distinctly different products that can be used for the same purpose. For example, coffee and tea are distinctly different products but a customer may settle for a cup of tea in case coffee is unavailable. The following factors determine the threat from substitutes:

- Buyers' willingness to substitute
- Performance of substitutes
- Cost of substitutes

5. Competition within Industry

Competition in an industry represents the current status of the strategic positioning in the industry. The intensity of rivalry within an industry will depend on the following factors:

- Size of competitors within the industry
- Number of competitors
- Industry cost structure
- Exit barriers
- Long-term and short-term objectives of competitors

SWOT Analysis

A SWOT (strengths, weaknesses, opportunities, threats) analysis is an important tool for assessing the overall strategic position of a start up in its industry. It can be very subjective. For example, you may think that your large manufacturing facility is a strength you possess but your competitor may think it is a large burden on your business. So, it is best to use the SWOT analysis as a guide and not as a prescriptive tool.

Strengths and weaknesses are internal to a business. For example, a strength could be a specially skilled workforce or a large amount of liquid cash, a weakness could be outdated machinery.

Some factors that start-ups can think of as their strengths are given below:

- Quality process

Exhibit 2.5 SWOT Analysis

Strengths

- Creativity, valuable intangible assets
- Competitive capabilities
- Cost advantages from proprietary know-how and/or location
- Effective recruitment of talented individuals

Weaknesses

- Disadvantageous location
- Weak human capital
- Lack of cash
- Non-adaptation of the latest technology

Opportunities

- Downsizing of competitors
- Market trends
- Buoyant economic conditions
- Technology

Threats

- Unfamiliar technology
 - New competitors
 - Depressed economic conditions
 - Fads
-

- Technological superiority
- Low fixed costs
- Knowledge of market
- Leadership and management

Some factors entrepreneurs may perceive as their weakness are as follows:

- Absence of important skills
- Weak brands
- Lack of funds
- Poor distribution network
- Unproven product or service

Opportunities and threats are external factors. An opportunity could be a newly deregulated market or changing customer needs. Threats could be in the nature of new environmental regulations or lower of tariffs, enabling cheap Chinese imports.

Some environmental factors that might represent opportunities for the entrepreneurial firm:

- Changing customer tastes
- Liberalization of markets
- Technological advance
- New distribution channels (Internet)
- New tax structures

An opportunity to you might look like a threat to someone else. Some possible threats could be:

- Changes in government policy
- Natural calamities
- New taxes
- Closing of markets
- Unfavourable public opinion

Break-even Analysis

A break-even analysis tells you how much you have to sell to cover your costs. At the break-even point, the total costs equal the total revenue. Selling more than that will lead to profits and selling less than that will result in losses.

The first step is to identify all your costs and then to divide them into fixed and variable costs. Fixed costs are those costs that remain constant irrespective of the level of production. Some typical fixed costs are rent, permanent labour,

licence fees, and depreciation. Variable costs change with changes in the level of production. These costs can easily be expressed in terms of cost per unit of production. Some typical variable costs are raw material, electricity, packaging material, and transport. Also, be careful that some costs you thought were variable may actually be fixed costs (to a large extent). For example, in many service operations, electricity can be a fixed cost and in many manufacturing set-ups, the labour charges will be based on productivity that makes wages a variable cost in that scenario.

Obviously, you would like to do much better than just achieve break-even, but it is good to know what level of business ensures the safety of your business.

For example, you are making candles and selling them for Rs. 10 per candle. The cost of raw materials and consumables works out to Rs. 6 per candle. Your total overheads towards rental of working space, rental of equipment, etc., works out to Rs. 5000.

$$\text{Selling price (SP)} = \text{Rs. } 10$$

$$\text{Variable cost (VC)} = \text{Rs. } 6$$

$$\text{Contribution per piece (CPP)} = \text{SP} - \text{VC} = \text{Rs. } 4$$

$$\text{Fixed cost (FC)} = \text{Rs. } 5000$$

$$\text{Break-even quantity} = \frac{\text{FC}}{\text{CPP}} = \frac{5000}{4} = 1250$$

So, you make a profit if you sell more than 1250 candles.

Summary

Though a new or revolutionary business idea is not essential for success of a new venture, it greatly enhances the chances of success. The idea has to be fundamentally sound and economically viable. The first mover in a market has a number of advantages, but those following the first mover have a lot of advantages too. The pre-selection process refers to a set of activities you may engage in before starting to look for ideas. The objective is to have a clearer notion of exactly what should you be looking for. It involves looking closer at your personal interests, goals, knowledge, and skills.

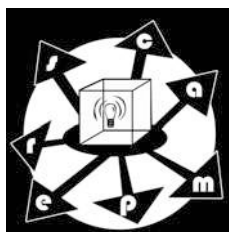
There are many places to start searching for ideas. Sometimes, it is an ongoing process, where you are generally on the lookout for great new ideas. Over a period of time, you may end up recording a number of good business ideas that you come across while going about your day-to-day lives.

Sources of business ideas are all around you and you may find business opportunities from your hobbies, professional experience, friends and family,

Proposition 33

The SCAMPER Technique

In a Word Ideas are not often plucked out of thin air. The SCAMPER brainstorming technique uses a set of directed questions to resolve a problem (or meet an opportunity). It can also turn a tired idea into something new and different.



Rationale

A problem is a situation, condition, or issue that remains unresolved and makes it difficult to accomplish a desired objective. A problem is perceived when an individual, group, or organization becomes aware of a significant difference between what is desired and what actually is. Trying to find a solution to a problem is known as problem solving.

Problem solving is the process by which a situation is analyzed, a workable solution is determined, and corrective action is taken. The common milestones of problem solving are to:

- Define (or clarify) the problem.
- Analyze causes.
- Generate ideas (identify alternatives).
- Weigh up ideas (assess alternatives).

- Make a decision (select an alternative).
- Determine next steps to implement the solution.
- Evaluate whether the problem was solved or not.

The SCAMPER Technique

Every problem invites a solution and, needless to say, there are numerous problem-solving techniques.¹ The SCAMPER technique, for one, uses a set of directed, idea-spurring questions to suggest some addition to, or modification of, something that already exists.² It has also received much attention as a learning tool that fosters awareness, drive, fluency, flexibility, and originality. The stimulus comes from being asked to answer queries that one would not normally pose. The changes that SCAMPER stands for are:

- S—Substitute (e.g., components, materials, people)
- C—Combine (e.g., mix, combine with other assemblies or services, integrate)
- A—Adapt (e.g., alter, change function, use part of another element)
- M—Magnify/Modify (e.g., increase or reduce in scale, change shape, modify attributes)
- P—Put to other uses
- E—Eliminate (e.g., remove elements, simplify, reduce to core functionality)
- R—Rearrange/Reverse (e.g., turn inside out or upside down)

¹They include Affinity Diagrams (organizing ideas into common themes); the Ansoff Matrix (understanding the different risks of different options); Appreciation (extracting maximum information from facts); Appreciative Inquiry (solving problems by looking at what is going right); the Boston Matrix (focusing effort to give the greatest returns); Brainstorming (generating a large number of ideas for the solution of a problem); Cause-and-Effect Diagrams (identifying the possible causes of problems); Core Competence Analysis (get ahead, stay ahead); Critical Success Factors (identifying the things that really matter for success); the Five Whys Technique (quickly getting to the root of a problem); Flow Charts (understanding how a process works); The Greiner Curve (surviving the crises that come with growth); Lateral Thinking (changing concepts and perception); the Marketing Mix and the 4 Ps (understanding how to position a market offering); the McKinsey 7Ss (making sure that all the parts of an organization work in harmony); PEST (Political, Economic, Sociocultural, and Technological) Analysis (understanding the big picture); Porter's Five Forces (understanding where power lies); the Reframing Matrix (examining problems from distinct viewpoints); Risk Analysis; Systems Diagrams (understanding the way factors affect one another); Root Cause Analysis (identifying the root causes of problems or events); SWOT Analysis (analyzing strengths, weaknesses, opportunities, and threats); and USP (Unique Selling Propositions) Analysis (crafting competitive edge).

²The principles of the SCAMPER technique were first formally suggested by Alex Osborn and later arranged by Bob Eberle as a mnemonic in 1991 to increase interest in the perceptive, imaginative, and creative abilities of children.

Table 33.1 Help guide to the SCAMPER technique

Substitute	Think about substituting part of the product or process for something else. Typical questions: What else instead? Who else instead? What other materials, ingredients, processes, power, sounds, approaches, or forces might I substitute? Which other place?
Combine	Think about combining two or more parts of the product or process to make something new or to enhance synergy. Typical questions: What mix, assortment, alloy, or ensemble might I blend? What ideas, purposes, units, or appeals might I combine?
Adapt	Think about which parts of the product or process could be adapted or how you might change the nature of the product or process. Typical questions: Does the past offer a parallel? What else is like this? What other idea does this suggest? What might I adapt for use as a solution? What might I copy? Who might I emulate?
Magnify, Modify	Think about changing part or all of the product or process, or distorting it in an unusual way. Typical questions: What other meaning, color, motion, sound, smell, form, or shape might I adopt? What might I add?
Put to Other Uses	Think of how you might put the product or process to another use or how you might reuse something from somewhere else. Typical questions: What new ways are there to use this? Might this be used in other places? Which other people might I reach? To what other uses might this be put if it is modified?
Eliminate	Think of what might happen if you eliminated parts of the product or process and consider what you might do in that situation. Typical questions: What might I understate? What might I eliminate? What might I streamline? What might I make smaller, lower, shorter, or lighter?
Rearrange, Reverse	Think of what you might do if parts of the product or process worked in reverse or were sequenced differently. Typical questions: What might be rearranged? What other pattern, layout, or sequence might I adopt? Can components be interchanged? Should I change place or schedule? Can positives and negatives be swapped? Could roles be reversed?

Litemind's (2015) blog on *Creative Problem Solving with SCAMPER* suggests more than 60 questions that can be asked, along with almost 200 words and expressions one can create associations with

Source Author

Caveat

The SCAMPER Technique is used to produce original ideas. The creative process thrives on preparation, concentration, incubation, illumination, and verification (production testing). In organizations, its fruitful application depends on the

existence of an enabling environment. There are, of course, personal blocks³ to creativity but these can often be removed. Supervisors who do foster creativity listen, are willing to absorb the risks borne by their subordinates, are comfortable with half-developed ideas, do not dwell on past mistakes, expect subordinates to succeed, capitalize on the strengths of subordinates, enjoy their jobs, and can make quick decisions. They must then help sell ideas to senior management. This involves assessing the “sellability” of ideas⁴ and developing persuasive arguments.⁵

Reference

Litemind (2015) Creative problem solving with SCAMPER

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³I do not want to look foolish. I do not want to fail. I am not creative. This is not my area (e.g., skill, style, job, etc.). I am not paid to have fun!.

⁴Will the idea work? Will people accept it? Is it timely?

⁵This requires that the proponents relate the idea to a recognized need, appeal to positive values, anticipate objections, get others involved, and advertise their credibility.

Lesson -3

OPPORTUNITY RECOGNITION

By now, you may have two or three new business ideas to consider more carefully. Successful entrepreneurs know that a good idea is not necessarily a good opportunity. Barringer and Ireland (2006) defines an opportunity is a favorable set of circumstances that creates a need for a new product, service or business.. They argued that an opportunity has four essential qualities: it is attractive, durable, timely and anchored in a product, service or business that creates or add value for its buyer or end user.. In most of entrepreneurial ventures, writing a well developed business plan is essential. Before writing a business plan for a new business venture, an assessment must be made through the opportunity analysis plan. Why? The opportunity analysis will identify which business ideas have real commercial potential. The role of well prepared business plan is to explore this potential in a systematic way. This is one of the challenges that an entrepreneur will face. The purpose of the opportunity analysis is to make sure that the entrepreneur is on the right track.

Two basic questions need to be answered:



Is there sufficient demand for the product or service?

Can the product or service be profitable?

Preparing Opportunity Analysis

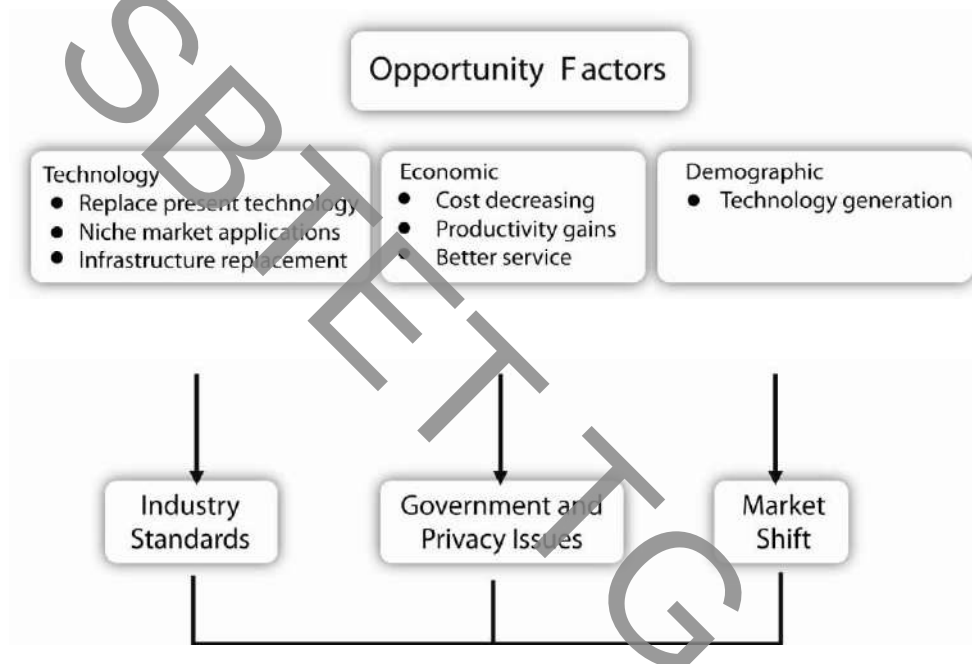
The opportunity analysis consists of five different stages. See Figure 2.3

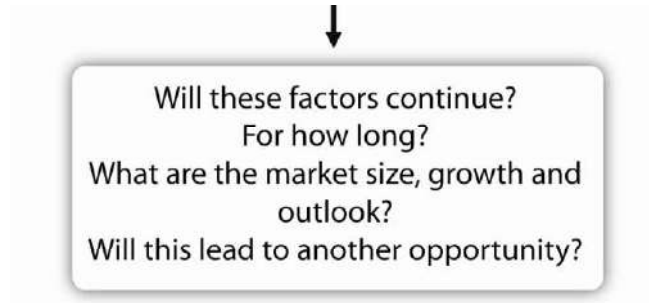


Phases in opportunity analysis

Below is the explanation for Figure 2.3

(a) Phase 1: Seize the Opportunities In this phase, we need to know what are the underlying factors that creates opportunities. Figure 4.3, illustrates the main factors that may create business opportunities and Figure 4.4 shows where ideas for opportunity originate.





Factors that create opportunity

(b) Phase 2: Investigate the Need through Market Research

It is necessary to identify, measure and document the need for the product or service. This process will identify the steps and questions you will need to customize your personal research and derive certain assumptions on the possible success rate in launching this product or service into the market.

(i) Preliminary questions

- Will this product be serving customers real needs?
- Competition What is the difference about the product or service that will cause the customer to choose it over the competitors products or services?
- Proprietary questions Can the product be patented or copyrighted?
- Advertisement and packaging What type of advertising and promotional plan will be used to market the product?
- Costs How much will materials and labour cost? What is the rate of increase in costs for future expansion?
- Sales What distributions and sales methods will be used?

(ii) Prepare data collection

Having established the variables for data collection, your next step is to design the questions. Data collection can come from various sources such as collecting primary data through surveys and Observations or using secondary data available from statistical departments, publications, newspapers etc. The data will be more reliable if your sample size is adequate for the investigation you are undertaking.

(iii) Execute a study to get answer

To support the preliminary research and to execute your findings, you must look into secondary data. At this step, you can use your personal source to create questions. Then choose a small number of relevant companies who specializes in this industry that will be selected as representation of the whole population. You can pose your questions to the experts of this group. Then you will need to facilitate the Participants to answer the questions in a similar manner to establish a consistent trend for analytical purposes.

(iv) Analyze and interpret the results

At this stage you already have your primary data. This is the time where you have to do the interpretation based on your findings. Many entrepreneurs do their research with limited funds. You can cut costs with the following recommendations:

- Use search engines, web pages, online database;
- Use the telephone instead of mail surveys and door-to-door interviewing; and
- Avoid collecting unnecessary data.

c) Phase 3: Develop the Plan

Once an opportunity has been identified, you should develop a business plan. Your business plan is an outline or blueprint of how you will create your business. Implementing the plan is a much more difficult task. Many prospective businesses experience problems or failure due to the improper implementation of their business plan. Implementation requires commitment and dedication. As unforeseen problems will emerge, your persistence and perseverance are critical.

Implementing your business plan will include:

- Providing guidance in planning and organizing the activities and goal;
- Determining the viability of the business and application in selected
- Raising equity and securing financing; and
- Hiring management and staff.

d) Phase 4: Determine the Resources Needed

For a start-up venture that uses new technology for product or service, the financial and resource requirements can be quite substantial. You may not have

the capabilities to provide for these using your own resources. Therefore, to ascertain what are the capabilities and resources required, answering the following questions can serve as a guide:

- (i) Do you have business and financial support? Can the business operate in a cost-effective manner? How about management capabilities and knowledge of financial gaps?
- (ii) Are you prepared for personal contacts and networking? Who will make contacts with the right companies/business partners? How should the network be set up?
- (iii) Have you considered financing requirement? Where will you go for the financial support? Can this business sustain over possibly a year or two?
- (iv) Do you have the right set of technical skills? Do you have the technical skills and experience to do this business?

(e) Phase 5: Manage the Distinguishing Features of the Business You have invested your time, money, experiences and energy in setting up the new venture. This is the final step where you need to run your business, applying your management structure and style in handling questions and solving difficult operational issues. Now is the time to follow a path blazed by most successful businesses. How?

(i) Keep planning

Planning should account for and accommodate changes in designing, testing and marketing to prepare for business opportunity. You can model after the process used by most successful entrepreneurs which among others including the following:

Test the business concept;

- Determine the improvement needed;
- Define problem and anticipate barriers;
- Align strategic partners for the process;
- Able to prepare a pricing strategy and anticipate future changes; and
- Be competitive at all times.

(ii) Deliver a Total Solution

Nowadays, all companies regardless of whether they are small or big and operating in the same market, try to offer the entire range of products or services to customers. They are trying their best to deliver

a total solution to satisfy customer and investor needs.

iii) Cultivate Advanced Resources

The layoffs of highly skilled workers from major corporations are actually creating an important opportunity for your company. These trained and effective personnel are potential candidates craving for an opportunity to apply their business skills and experience to launch a new business. They can provide information about the competitors, market and customers.

Evaluating Opportunities

You have brainstormed half a dozen ideas for a new business and narrowed it down to a couple that seems promising. How do you know if any of these opportunities is worth pursuing?

A complete opportunity analysis is beyond the scope of this discussion, but you can start by asking yourself these questions:

- (a) What are the indicators that lead to this idea and opportunity?
- (b) What are the conditions that permit the opportunity to occur?
- (c) How will the future of this new product or service change the idea?
- (d) How great is the window of opportunity? Window of opportunity is a time horizon during which opportunity exists before something else happens to eliminate them.
- (e) For the next subtopic is a guide tabulated in a matrix format on the framework for evaluating an opportunity. By using the matrix guide, you will be able to assess whether your opportunity is worth pursuing as a business activity that will earn you profitable gains.

Framework for Evaluating an Opportunity

This framework covers market analysis, financial and harvest issues, competitive advantage issues and finally management team and risk issues. There are several criteria identified but these are not exhaustive. You may want to add or change

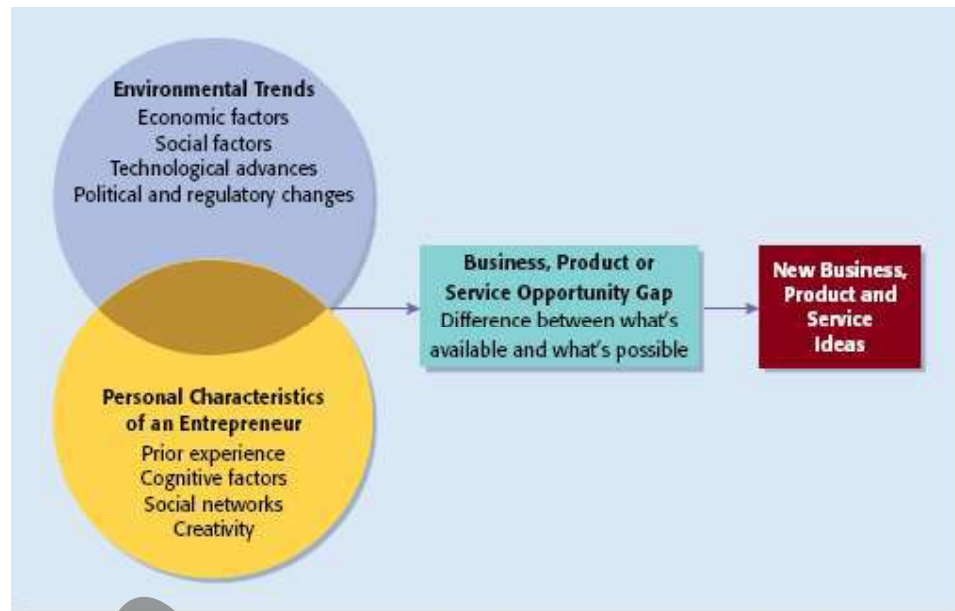
the criteria basing on your tentative business venture you wish to undertake. However as a rule of thumb, if most of your criteria fall into the weaker opportunity category, it may be an indication that the opportunity may not be a good idea to develop into a business activity. See Table 4.2 to Table 4.5.

Table 2.4 Market Analysis

Criterion	Stronger Opportunity	Weaker Opportunity
Need	Identified	Unclear
Customers	Reachable, receptive	Unreachable or loyalties established
Pay back to user/customer	Less than one year	Three years or more
Product life	cycle Long: Recover investment	Short: Recover investment
Industry structure	Competition or emerging	Aggressively competitive
Potential market size	RM 100 million sales	< than RM 10 million sales
Market growth rate	Growing at 30% to 50%	Contracting less than 10%
Gross margins	30% to 50%	Less than 20% volatile
Market share attainable (within 5 years)	20 % or more	Less than 5%

Full View of the Opportunity Recognition Process

Depicts the connection between an awareness of emerging trends and the personal characteristics of the entrepreneur:



REVIEW QUESTIONS

1. Explain the Framework for Evaluating an Opportunity?
2. Can you Preparing Opportunity Analysis for new business ides?
3. Explain Opportunity recognition analysis?

31.9.2. Definition

- Marketing Management is the analysis, planning, implementation and control of programmes designed to bring about desired exchanges with target markets for the purpose of achieving objectives of the organisation. Marketing Management relies heavily on designing the organization's offering in terms of the target market's needs and desires and using effective pricing, communication, and distribution to inform, motivate and service the market.

31.9.3. Functions

The broad functions of marketing management consist of the following :

1. Marketing Research,
2. Sales Forecasting,
3. Advertising,
4. Sales promotion,
5. Selling,
6. Handling of inquiries and orders from customers,
7. Packing, and
8. Servicing.

31.10. MARKETING RESEARCH**31.10.1. Concept and Definition**

- An industrial enterprise, if, develops products for direct market application without having any idea in advance of consumer acceptance of that product, takes quite a risk (if the product is unaccepted).

On the contrary, if another concern tends to learn consumer reaction to the product prior to manufacturing the same, it does not involve any risk associating high expenditures.

- Market research, today, has come to be a very important part of the marketing function. Market research when properly conducted and used on a regular basis is just as valuable to the manufacture as Technical Research and ensures the continued vitality of a business.
- **Market research** may be defined as an organised approach which includes all research activities involved in marketing problems :
 - (i) gathering, recording and analysing the utility and marketability of the product;
 - (ii) the nature of demand;
 - (iii) the nature of competition;
 - (iv) the methods of marketing; and
 - (v) other aspects of movement of products from the stage of production to the point where they get consumed.
- Market research provides an effective sales forecast.
- Market research promotes soundness of marketing decisions.
- **Marketing or Market research** gathers records and analysis all facts about problems relating to the transfer and sale of goods and services from producer to consumer. Essentially it is designed to discover not only how much the company can hope to sell, but where, to whom and how.
- Some part of the *research* can be done right in the company's own office through the use of its recorded data, a *form* of market research known as *sales analysis*. This should provide information on which products are selling best, in what markets, and to what type of customer. It is very important that sales records be set up to yield this type of data in usable form.

- Other sources of information on markets are the published statistics that give an indication of the size of the potential market in various localities. Government and consultants are valuable sources of this type of information.

31.10.2. Objectives of Marketing Research

- Market research determines who and where the customer is; what are his needs and wants; what will he buy; where and how he will buy; and how much he will pay.
- Market research tells the future of existing products and the products yet to be introduced into the market.
- Market research measures sale trends and sales potential.
- Market research analysis distribution, economic trends, and profitability.
- Market research determines advertising effectiveness, consumer reaction and dealer reaction.
- Market research studies market potential and market share.
- Market research conducts demand and price studies.
- Market research popularises the company products and makes them acceptable to the consumers.
- Market research keeps a business in touch with its markets.
- Market research explores new markets and helps developing new products.
- Market research safeguards the interests of the company against unforeseen changes in the market.
- Market research guides sales promotion efforts.
- Market research analysis user characteristics, attitudes, and opinions with particular emphasis on any shift in market composition or personal preferences.

31.10.3. Scope of Marketing Research

- Major marketing research activities are :
 1. Measurement of market potential,
 2. Determination of market characteristics,
 3. Market share analysis,
 4. Competitive product studies,
 5. New product acceptance and potential,
 6. Short and long range forecasting,
 7. Studies of business trends,
 8. Establishment of sales quotas and territories,
 9. Testing of existing products,
 10. Product mix studies,
 11. Acquisition studies,
 12. Studies of advertisement effectiveness,
 13. Media research,
 14. Pricing studies,
 15. Plant and warehouse location studies,
 16. Packaging research, and
 17. Distribution channel studies, etc.

31.10.4. Market Research Procedure

1. Define the problem clearly.

2. Develop a clear set of research objectives.
3. Supervise or subcontract the task of collecting the data from existing and would be consumers, etc.
4. Extract meaningful information from the collected data.
5. Prepare a report presenting the major findings and recommendations coming from the study.

31.10.5. Market Research Techniques

Some of the techniques used by persons engaged in market research for collecting the data [refer (3) of Market Research Procedure] are as follows :

1. Desk research

The data is collected from the information published by the company or outside sources, e.g. government agencies, trade associations, etc. Desk research is done on :

(a) *Sales analysis*, i.e. past sales, fluctuations sales and promotional expenditures, economics of order size, etc.

(b) *Correlation studies*, concerned with finding the relationship between two or more variables, e.g., number of new cars produced and number of car batteries sold.

(c) *Ratios*, such as stock-turn (the relationship between sales and stocks), profit per rupee invested (earnings/capital) etc.

2. Postal Questionnaire

Carefully prepared questionnaires, consisting of questions—short, specific and statistical or open-minded are posted to a selected sample of respondents for collecting specific data from them.

3. Telephone interviews

Telephone interviews are conducted at a personal level with a selected sample of people for collecting their views.

4. Personal Interview

Personal interviews are conducted on a simple question and answer basis. Such interviews give best results with greater reliability.

5. Observational Method

The marketing research personnel silently observe others and collect the desired information, e.g., by standing outside or in a wine shop, the brands more frequently purchased can be found out.

6. Statistical Methods

- Statistical methods make use of large precollected data and logically conclude the market investigations.
- Bar chart, histogram, frequency polygon, frequency distribution curve and the concepts of average, median, and standard deviation help serve the purpose.
(Refer Chapter number 8 for details).

31.11. SALES FORECASTING

31.11.1. Introduction and Importance

- Forecasting is essentially the art of anticipating what buyers are likely to do under a given set of conditions.
- The market research conducted by a firm plus the analyses of current sales experience and trends, form the basis for the construction of a sales forecast.
- The sales forecast is a commitment on the part of the sales department and each of its divisions of the expected sales likely to be achieved in a given period at stated prices.
- Sales forecasting should be very accurate because production and stock holding plans and the whole train of events following from these are based on them.

- Sales forecasting is a basis for developing co-ordinated and goal-directed systems of marketing action.
- The sales forecast is one of the vital tools of marketing planning since adequate planning and the effective deployment of marketing resources are based on sales forecasting data.
- Sales forecasting is essential if more accurate sales budgets, production and purchasing schedules are to be set.
- Accurate forecasts are vital aids to decision making.
- Forecasts provide basis for evaluating the functioning and productivity of various segments of business activity. They can guide marketing and other business actions toward the achievement of implicit and explicit objectives.

31.11.2. Sales Forecasting Factors

The factors to be considered when making the sales forecast are :

1. *Government action.* This is important when most of the purchases are made by government departments, government controlled bodies, nationalised industries, etc., as in U.K.
2. *Economic trends.* The trends at home which are affected by government action and the trends in world market are both of interest.
3. *Competition*—existing competitors and new competitors.
4. *Changes in technology and markets.*
5. *Internal factors* such as capacity, available resources product mix and *Marketing mix*, etc.

Sales Forecasting Techniques

(Refer to chapter 7).

31.12. THE MARKETING MIX

- A *market* is a group of existing and potential buyers or users of a product or service.
- A vital element in every marketing strategy is the *marketing mix*.
- The concept was first expounded by Professor Neil Borden of Harvard University in the 1940's, when he identified *Twelve key variables* in the typical marketing programme.
- These twelve variables have subsequently been reduced to four main headings by later writers.
- The *mix* may now be defined as *the particular group of variables offered to the market at a particular point in time.*
- These variables are principally (1) product, (2) price, (3) promotion, (4) distribution. Each of these can be further sub-divided as illustrated below :-

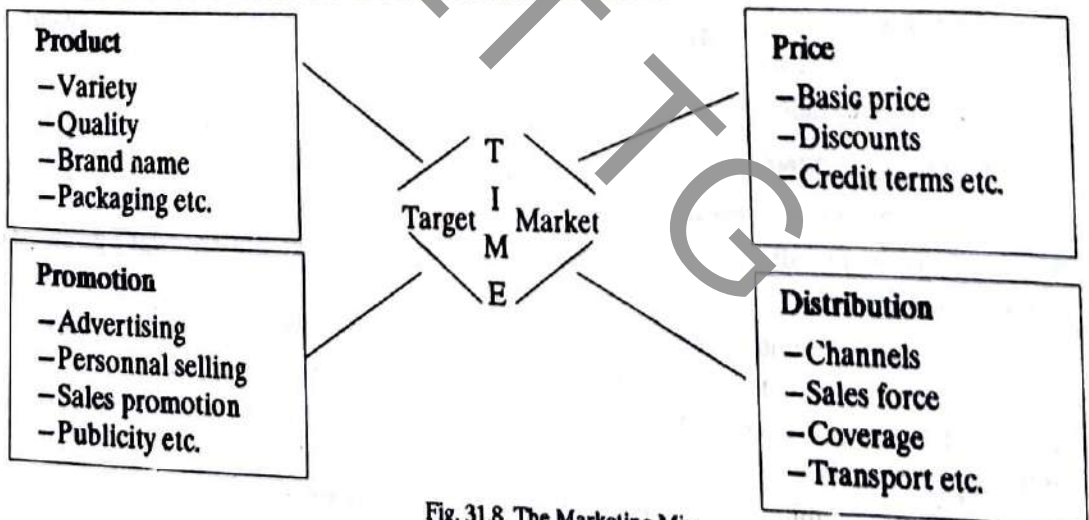


Fig. 31.8. The Marketing Mix.

- The marketing mix is the central part of an organization's marketing tactics. Once the market situation (customers, competitors, suppliers, middle men etc.) have been identified and evaluated, and once the decision has been made to penetrate, or develop particular market, then the role of marketing mix is crucial.
 - *Marketing mix* is the combination of *competitive efforts* exerted by a firm to accomplish some *sales* or *profit goal*. These *efforts* usually include :
 - (a) Variations in the *products/services* being offered to customers.
 - (b) Variations in the *prices* of products being offered.
 - (c) Variations in the *promotional* blends utilized.
 - (d) Variations in the *channels of distribution* utilized.
 - The firm normally has at its disposal several competitive elements that it can manipulate. For example, a particular firm may charge a very low *price* and not *advertise* at all. Another firm may advertise aggressively and charge a relatively high price. These two combinations of efforts represent very simple types of *marketing mix*.
 - A cigarette company may elect to : (a) emphasize T.V. and radio advertising, (b) distribute through high quality tobacco shops, (c) charge a premium price, (d) sell in 60 mm lengths, and (e) feature an air-tight plastic package. This *mix* is more realistic in the sense that most firms confront a relatively large number of controllable competitive variables (as listed in Fig. 31.8.)
 - The element of *time* is a vital factor in assessing the particular mix to be offered to a market. Any market situation can change rapidly over even a short period of time, as can be the case when a major competitor is suddenly declared bankrupt.
- By using the marketing mix as a tactical tool of an organization's marketing plans, it is possible to adopt speedily and profitably to changes in the marketing environment.
- Thus the development of the mix to meet conditions at a particular point or period in time is essentially a contingency approach to marketing management.

31.13. ADVERTISING

31.13.1. Introduction and Definition

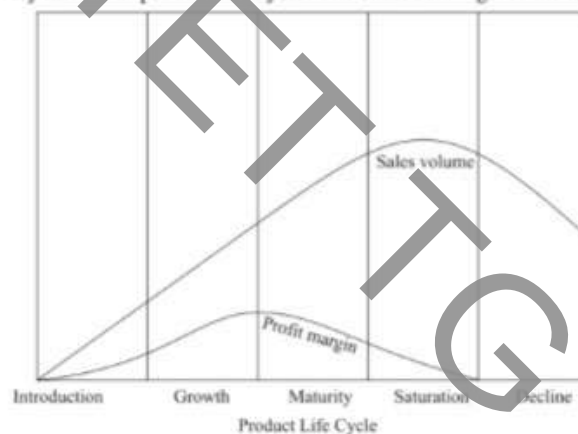
- Advertising can become an established essential of a country's economy. It contributes to broad geographic system of distribution; to the volume sales, an essential corollary of mass production; and to the pricing of many products within the economic means of the average man.
- Just as communication is vital to good internal management, so is advertising vital to the earning of profit.
- Running a business without advertising is just like winking at a beautiful girl in the dark—you know what you are doing but she does not know it.
- Advertising is generally regarded as a form of communication the purpose of which is to convey concepts about companies, goods and services by means of words, pictures, diagrams, sound, music, colour, shapes and symbol on two levels of significance—the national and the emotional.
- Advertising is any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor.
- Advertising may be defined as commercial messages to the public, designed to inform potential and established consumers and to encourage sales for the advertiser.
- Advertising can stimulate demand and, where necessary, can even create demand where none exists.
- Advertising arouses public interest, fosters a buying attitude and raises consumer demand for the products of a company.

MANAGING THE PRODUCT DEVELOPMENT

13.1 Product Life Cycle

As every human being has life, a product has its life. Industrial goods may have a longer life than consumer goods. When a product idea is commercialised, the product enters into the market and competes with the rivals, for making sales and earning profits. Products, like human beings, have length of life. This has been described as life cycle in human beings and when applied to products, it is called as product life cycle. The product life cycle is generally termed as product market life cycle, because it is related to a particular market. For instance, an old product in the market of Bombay, may have a new life in a remote village. The product life cycle may be short for some products and long for some other products. The period may differ product to product. But the product passes through the stages, collectively known as product life cycle. The chart below gives the life cycle of a product.

- Product Life Cycle
- Different Stages
- Management of PLC Market Modification
- Product Modification
- Marketing Mix Modification
- Systematic Framework
- Advantages of PLC
- New Product
- Development
- Managing Product Development
- Planning Process
- Product Diversification
- Product Elimination
- Product Modification
- Product Failure



Product Life Cycle
Fig. 13.1

Introduction:	Product is new; awareness in market is low; cost of marketing is high; profits are low.
Growth:	The product has given satisfaction to the first buyers. Others follow : Sales increase rapidly and product starts generate profits. Competitors notice the success and start planning competitive offering.
Maturity:	The product reaching its maturity and sales are good. But battle for market share is about to begin.
Saturation:	Total sales are not growing any more. The battle for market share is difficult. Try for strong brand loyalty and reduced price.
Decline:	Sales and profits are starting to fall and future of the product does not look healthy. Remedial strategy-modifying, repositioning or even deleting the product, is needed.

13.2 Different Stage

Every product moves through a life cycle, having five phases and they are:

1. Introduction
2. Growth
3. Maturity
4. Saturation
5. Decline

1. **Introduction:** This is the first stage in the life of a product. This is an infant stage. The product is a new one. The new product means "a product that opens up an entirely new market, replaces an existing product, or significantly broadens the market for an existing product." The initial stage needs greater amount for investment. In this stage, the product is introduced into the market and made available to the customers with a slow rise in sales. The profit may be low, because of heavy advertising and sales promotion in order to stimulate the demand.
2. **Growth:** The product satisfies the market. In this stage, a product gains acceptance from the part of consumers and businessmen. Sales of the product increase. Profit also increases. This is the stage when competitors appear along with substitute products in large numbers. Previous buyers continue in their purchase and new buyers appear. Firms may find it difficult to meet the demand. The success of firms depends upon the efficient manufacturing and distributing systems of the product.
3. **Maturity:** At this stage, keen competition increases. Sales continue to increase for a while, but at a decreasing rate. Competitors go for mark-down price by increasing advertising deals. Market expenses increase, even after mark-down prices, which enable to face competition. Thus, profit is thinned. Additional expenses are involved in product modification and improvement in the marketing mix or a product mix or style changes, to attract the customers and retain the market. Overall marketing effectiveness becomes the key factor in this stage.
4. **Saturation:** In the saturation stage, the sales are at the peak and further increase is not possible. The demand for the products is stable. The rise and fall of sale depend upon supply and demand. At this stage, a replacement of product is needed, because the sale of the existing product cannot be increased.
5. **Decline:** When sales start declining, buyers go for newer and better products. This is because of many reasons-technological advances, consumer shifts in taste, increased competition etc. At this stage, the product cannot stand in the market; many firms withdraw from the market, when sales and profits decrease. Price becomes the competitive weapon. Under such a situation,

firms shift their attention to other products. The product becomes out of date and fashion. Then the firm will drop the product from the product line.

13.3 Management of PLC

The marketing manager should manage the life cycle of a product towards better progress and for a healthy growth of the firm. A marketing manager, while forecasting the PLC, must also anticipate the limitations and other drawbacks. Thus he may be able to chalk out programmes more successfully. We discuss how the PLC is managed under various stages.

I. Management of Introduction Stage: After successful test marketing of a new product, the company introduces the product in the market with full-scale marketing programme. The introductory stage is viewed as fairly risky and quite expensive because large amounts of money is spent on advertising and other tools of marketing communications to create consumer awareness in sufficiently large numbers and encourage trials. Profits are mostly negative in this stage or in some exceptional cases they may be very little.

Introducing a product category is relatively expensive, challenging, time consuming and quite risky. The aim of every company is to move quickly through the introduction stage and for this, research, engineering, production, are critically important to ensure the availability of quality products. The company must be able to provide promptly post-purchase service an availability of spares, if required. To encourage trial and repeat purchase, consumer goods companies use a combination of demonstrations on TV, samples, special introductory prices and coupons. The company also tries to gain distribution and shelf space with retailers.

Various factors affect pricing decisions of a new product, such as new product's perceived value to consumers, how fast competitors can copy it, the availability of close substitutes, the effect of price on sales volume and costs. Generally, for a pioneering product or a significantly improved new product, companies adopt high price and high promotion strategy. However, a company may use any one of the two important pricing strategies during introduction stage skimming pricing strategy or penetration pricing strategy.

(a) **Skimming Pricing:** This strategy can be appropriate when the market size is large and not much time is available before the competition appears. Similarly, this strategy can also work in markets where customers are relatively insensitive to price and owning the product is important for example, Apple Computers keeps its price high when it introduces a new product. This helps company to recover its new product investment relatively fast.

(b) **Penetration Pricing:** This strategy allows the company to strive for fast market development and the focus is on long-term objectives of market share and profit maximisation. Price is kept low and promotion is high. The market is seen as large and characterised by intense competition and consumers who are aware or become aware are very willing to buy the product at an affordable price. This strategy can also work when the market is large and any serious threat from competition is not anticipated.

The importance of distribution set up is particularly significant for consumer product companies. The availability of consumer products at convenient locations where consumers generally shop for such products is quite important, keeping in view the large amounts spent on promotion to make consumers in the target market aware and induce new product trial among customers. Most firms use their established distribution network for a new product.

There is a high percentage of product failures in the first stage. When a product is first introduced at the pioneering stage, since the product is new, profits are negative or low because of low sales and heavy distribution and promotion expenses. There is very little

direct competition. The promotional programme is designed to stimulate demand. By looking ahead, one can know that competition will enter sooner or later and cause prices and its market share to fall. Once the product gains consumer acceptance the sales go up in growth stage. The PLC is the result, not the cause, of marketing strategies chosen by the firm. Since "the first impression is the best impression," the marketing manager should:

1. Make proper advertising before the products are released in the market.
2. Shorten the period of introduction, as far as possible.
3. Formulate new pricing and marketing strategies.
4. Undertake large scale promotional work.
5. Give proper attention to the distribution aspects.

II. Management of Growth Stage: This stage is marked by a rapid climb in sales. Potential buyers start buying the product. Buyers compare this product with the rival product, because new competitors enter the market with new product features and thus competition increases. The number of outlets are increased. Companies maintain their promotional expenditures at the same or at a slightly raised level to meet competition. Since this is a crucial stage, the marketing manager should:

1. Improve product quality.
2. Add new product features and improved styling.
3. Enter into new market segments.
4. Enter into new distribution channels.
5. Reduce the prices to attract buyers.
6. Increase promotional activities.

Characteristics of this stage:

1. New market segments are opened.
2. Sales increase rapidly.
3. Company earns higher profits.
4. Unit manufacturing cost falls faster.
5. Competition enters the market.
6. Competitors engage in frequent price cuts.
7. Competitors increase promotion activities.

III. Management of Maturity Stage: During this stage, a manufacturer gets maximum profit through maximum sales. Price competition becomes increasingly severe. A novel method of pushing sales as creative selling is called for. The sales and profits start scale down as the products gradually lose their significance in the presence of better goods substitutes. For an effective management, the marketing manager should:

1. Improve the quality of the product.
2. Give proper attention to increase the usage among the current customers.
3. Try to convert non-users into users of the product, that is creating new buyers.
4. Give proper emphasis to advertisement and promotional programmes.
5. Try to discover new uses for the product.

At this stage, it is more likely that the competitors become more active. In case the product is one, by now competition would have come out with a similar product in the market to compete. Therefore, the sales are likely to be pushed downwards by the competitors while the promotional efforts would have to be increased to try and sustain the sales. This is called the maturity stage or saturation. At this point it is difficult to push sales up. With regard to the profits, the profits are

likely to stabilise or start declining as more promotional effort has to be made now in order to meet competition.

In the maturity stage, the companies can take the following strategies to stimulate sales:

1. Market Modification
2. Product Modification
3. Marketing Mix Modification
4. Systematic Framework. (for the matured product)

13.4 Market Modification

The company may try to expand the market in order to increase sales by adopting the following:

- Enter new market segments
- Attract new users
- Increase usage among the present customers
- Persuade customers to use the product
- Create new uses of the product

13.5 Product Modification

The decline can be arrested by improvements in the product and promotion. We should however, at this time seriously think in terms of new product, new product-mix or redesign of the current product. The company can stimulate sales by modifying the product characteristics-improvements:

- Quality improvements (Durability, Reliability, speed.)
- Feature improvements (size, materials weights.)
- Style improvements (new models, new styles.)

13.6 Market Mix Modification

The companies can try to stimulate sales by modifying marketing mix elements:

- Price
- Distribution
- Advertisement
- Personal selling

13.7 Systematic framework (for matured products)

In order to handle mature products, the managers need a systematic framework for identifying new ideas to utilise any growth opportunities; a few examples are given below:

- Innovative product differentiations.
- Add new product lines
- Stimulate nonusers
- Create new product-line elements
- Expand distribution coverage
- Expand distribution intensity
- Penetrate substitute's exposure
- Stimulate light users.

IV. Management of Saturation Stage: This is a stage where a manufacturer finds it difficult to expand the sales volume beyond a particular point, that is sales are at the peak and further increase is not possible. Since the sale of product cannot be increased, the marketing manager should:

1. Introduce new models.
2. Pursue new uses for the product.
3. Introduce new package and repricing.
4. Middlemen's margin is to be increased.
5. If the price is heavy, offer the product on instalment basis.

V. Management of Decline Stage: This is the last and most crucial stage. Sales may decline for a number of reasons-technical advances, arrival of new products at low cost, changes in fashion, consumer preference. Sales and profits continue to fall at this stage. If the substitutes are more attractive and in latest fashion, buyers may turn their eyes towards them. At this stage, cost control is increasingly important to generate profits by the following alternatives: (Suggested by Stanton):

1. Improve the product in a functional sense, or revitalize it in some manner.
2. Make sure that the marketing and production programmes are as efficient as possible.
3. Streamline the product assortment by pruning out unprofitable sizes and models. Frequently, this tactic will decrease sales and increase profits.
4. "Run out" the product, that is, cut all costs to the bare minimum level that will optimize profitability over the limited remaining life of the product.
5. Abandon the product.

13.8 Advantages of PLC

1. When the product life pattern is known, the management must be cautious in taking advance steps, before the decline stage, by adopting product modification, pricing strategies, style, quality change, etc.
 2. The firm can prepare an effective product plan, by knowing the PLC of a product.
 3. The PLC will greatly help the management in drawing future plans of the firm.
- A management may be able to adopt some measures to **control** the PLC. They include:
1. Extension of the life at maturity and saturation stage by adopting new packaging, repricing or product modification.
 2. Creation of new uses by expansion of the market.
 3. Creation of more varieties of the product among current users. For instance, Amul Milk Powder, through advertisement emphasises many uses, in preparing milk, tea, curd. "It is 'like having a dairy in your home'".
 4. Adoption of the latest technological changes, fashion changes, market acceptance, etc.

Product Identification (Branding): Branding is the use of a distinctive name or/and mark on a product to differentiate it from similar competitive products. (For detailed explanation see Chapter 15)

13.9 Development of New Products

The term 'new product' has many connotations. So, what should we call a 'new' product? Most definitions of new-product have a common feature that new products offer innovative benefits. The development and introduction of new products have traditionally been seen to be a costly and risky activity. For an organisation intent on either maintaining or improving its position in the market-place there are, however, few alternatives to new product activity of one sort or another. The issues faced by many marketing strategists thus revolve around the issue of the type of new product activity that is to be pursued and how best to manage and, hopefully, reduce risk levels.

A company can add new products through **acquisition** or **development**. The acquisition route can take **three forms**.

1. The company can buy other firms,
2. The company can buy a licence or franchise; or
3. The company can buy patents.

The development route can take **two forms**:

1. The company can develop new products in its own laboratories, or
2. It can contract with independent researchers or new-product development firms to develop specific new products.

We can identify six categories of new products.

1. **New-to-the-world-products**: New products that create an entirely new market.
2. **New product lines**: New products that allow a company to enter an established market for the first time.
3. **Additions to existing product lines**: New products that supplement established product lines (package sizes, flavours.)
4. **Improvements and revisions of existing products**: New products that provide improved performance or greater perceived value and replace existing products.
5. **Repositioning**: Existing products that are targeted to new markets or market segments.
6. **Cost reductions**: New products that provide similar performance at lower cost.

13.11 Managing New Product Development

The companies handle the organisational aspect of new product in following ways:

1. **Product Managers**: The manager in charge of a specific product division is bestowed the responsibility of new product development. The advantage of this method is that managers are quite knowledgeable about the consumer's changing needs and competitive activities.
2. **New Product Managers**: A new type of managers are appointed to take care of new product development professionally.
3. **New Product Committee**: This is a high-level body constituted of top level managers from all the functional departments.
4. **New Product Department**: A separate department for new product may be created to undertake new product development systematically on a continuous basis.
5. **New Product Venture Team**: Some companies assign new product development to venture teams. It is a unit within the company responsible for creating entirely new products aimed at new markets. Team members are generally drawn from different functional area of the company. They are removed from their normal duties, given a budget, a time frame, and provided informal workplaces that may even be garages to work as a team and develop new products.

In a growing economy like India, to be successful in the field of marketing, new consumer needs must be discovered and satisfied. A new product must be suitable to meet the changing needs of the customers. The life of the firm is closely related to the development of new products through technological innovations. The technological innovations are important to the growth of established business as well as to the development of new business. Businessmen must make a detailed study of the market in relation to the products. New products mean new profits. For instance, a ready-made garment dealer has to plan the garments to be in line with the changing fashions. Product failure wastes the money, material and time, apart from defeating the objectives of the firm.

Product plan is the first step for an entire marketing programme. It is a wider term and includes product development also. Product plan has been defined as "the act of making out and supervising the research, screening, development and commercialisation of new products; the modification of existing lines and the discontinuance of marginal or unprofitable items." The top management, including specialists, takes decision on product planning.

13.12 New Product Planning Process

The new product planning is the function of the top management personnel and specialists drawn from sales and marketing, research and development, manufacturing and finance. This group considers and plans new and improved products in different phases, as given below:

1. Idea generation (Idea Formulation)
2. Screening of ideas (Evaluation)
3. Concept Testing
4. Business analysis
5. Product development
6. Test marketing
7. Commercialisation (Market Introduction)

1. **Idea Generation:** The focus in this first stage is on searching for new product ideas. Few ideas generated at this stage are good enough to be commercially successful. New product ideas come from a variety of sources. An important source of new product ideas is customers. Fundamentally, customer needs and wants seem to be the most fertile and logical place to start looking for new product ideas. This is equally important for both consumers and industrial customers.

Product planning starts with the creation of product ideas. The continuous search for new scientific knowledge provides the clues for meaningful idea formation. Drucker suggested that the sources can broadly be divided into: (a) **Internal Source** (within the company) and (b) **External Sources** (outside the company)

Sources of New Product Ideas (Internal):	
1.	Research and Development Department
2.	Technical Service staff
3.	Company Salesmen
4.	Executive personnel
5.	Company sales records
6.	Top management
7.	Company patent department
8.	From employees suggestions
9.	"Brainstorming" sessions of management
Sources of New Product Ideas (External):	
1.	Consumers
2.	Competitors
3.	Free-lance inventors
4.	Trade literature
5.	Consulting organisations
6.	Trade fairs
7.	Advertising agencies
8.	Government agencies
9.	Intermediaries (Distributors.)
10.	Wholesalers and retailers.

New Product Planning

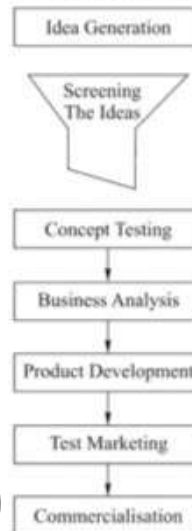


Fig. 13.2

2. **Screening the Ideas: (Evaluation):** It means critical evaluation of product ideas generated. After collecting the product ideas, the next stage is screening of these ideas. The main object of screening is to abandon further consideration of those ideas which are inconsistent with the product policy of the firm. The product ideas are expected to be favourable and will give room for consumer satisfaction, profitability, a good market share, firm's image. All the ideas cannot be accepted, because certain product plans need huge amount of investments, for certain plans raw materials may not be available, certain plans may not be practicable. Many of the ideas are rejected on account of many reasons and thus eliminate unsuitable ideas. Only promising and profitable ideas are picked up for further investigation.

Answers are sought to questions like:

- Does the product meet a genuine need?
- Is it an improvement over the existing product?
- Is it close to our current lines of business?
- Does it a totally new line of business?
- Will it offer customers a superior value?
- Will the new product bring in expected ROI?
- Does the market accept the new product?

3. **Concept Testing:** After the new product idea passes the screening stage, it is subjected to 'concept testing'. Concept testing is different from test marketing, which takes place at a later stage. What is tested at this stage is the 'product concept' itself-whether the prospective consumers understand the product idea, whether they are receptive towards the idea, whether they actually need such a product and whether they will try out such a product if it is made available to them. In fact, in addition to the specific advantage of getting the consumers' response to the product idea, this exercise incidentally helps the company to bring the product concept into clearer focus. Concept testing helps the company to choose the best among the alternative product concepts.

Consumer are called upon to offer their comments on the precise written description of the product concept, viz, the attributes and expected benefits.

4. **Business Analysis (Market Analysis):** This stage is of special importance in the new product development process, because several vital decisions regarding the project are taken based on the analysis done at this stage. Estimates of sales, costs and profits are important components of business analysis and forecasts of market penetration and market potential are essential. More precise estimates of environmental and competitive changes that may influence the product's life cycle or its replacement or repeat sales are also needed to develop and launch a product? A complete cost appraisal is necessary besides judging the profitability of the project. Market analysis involves a projection of future demand, financial commitment and return. Financial specialists analyse the situation by applying break-even analysis, risk analysis. Business analysis will prove the economic prospects of the new product.
5. **Product Development:** The idea on paper is converted into product. The product is shaped corresponding to the needs and desire of the buyers. Product development is the introduction of new products in the present markets. New or improved products are offered by the firm to the market so as to give better satisfaction to the present customers. Laboratory tests technical evaluations are made strictly.
6. **Test Marketing:** By test marketing, we mean, what is likely to happen, by trial and error method when a product is introduced commercially into the market. These tests are planned and conducted in selected geographical areas, by marketing the new products. The reactions of consumers are watched. It facilitates to uncover the product fault, if any, which might have

escaped the attention in the development stage. By this, future difficulties and problems are removed. This type of pre-testing is essential for a product before it is mass produced and marketed. Sometimes, at this stage, management may take decision to accept or reject the idea of marketing products.

Designing the programme for test marketing involves making a number of decisions:

- Where and in how many markets should test be carried out?
- What should be the duration of test marketing?
- What to test?
- What criteria should be used to determine success or otherwise?

7. **Commercialisation (Market Introduction):** This is the final stage of product planning. At this stage, production starts, marketing programme begins to operate and products flow to the market for sale. It has to compete with the existing products to secure maximum share in the market-sales and profits. When a product is born, it enters into the markets; and like human beings, has a life span-product life cycle.

In launching a new product, the company must make four decisions:

1. When should the product to be launched?
 - Right time.
2. Where should it be launched?
 - a single locality
 - a region or
 - national market.
3. Which groups should be targeted?
 - Existing customers.
4. How should it be launched?
 - Develop an action plan for introducing the new product into the rollout markets.

Consider the following before launching a new product.

1. Effective market research
2. Ensure product quality
3. Differentiation of product
4. Identification of consumer needs
5. Effective promotion
6. Proper distribution system
7. Correct pricing strategy
8. Knowledge of local needs
9. Choose correct time
10. Strength of sales force.

Factors that hinder the new product development:

1. Shortage of ideas
2. Shorter PLC
3. Higher expenditure
4. Fragmented markets
5. Inappropriate incentives
6. High gestation period
7. Non-cooperation of staff

13.13 Product Diversification

Diversification occurs when a firm seeks to enter the market with a completely new product. "Diversification is a policy of an operating company, so that its business and profits come from a number of courses, usually from diverse products that differ in market or production characteristics. "Generally, it means adding a new product to the existing product line. It may be new products, new markets, new technologies. It is just the opposite of product line contraction and is also referred to product line expansion. For example, a firm making watches at present, has started making wall-clocks. This product is different from the existing product. The reasons for the diversification are:

1. To take advantage of the existing reputation.
2. To arrest the declining profit margins;
3. To meet new products of competitors;
4. To use more effectively the existing facilities;
5. To increase the sales of existing products;
6. To maintain market share;
7. To meet the customers' demand;
8. To utilise the existing spare capacity of factory;
9. To eliminate cyclical slumps;
10. To curtail market expenditure;
11. To compensate the loss of another product;
12. To use undistributed earnings.

The kinds of diversifications are:

1. **Products Sharing a Common Base:** It is an introduction of new products, which are to the present line. The new products, which are introduced into the market, will not affect the present product in any way. For instance, a sugar industry can diversify to paper product.
2. **Products of Related Industries:** It is an introduction of a new product, a complementary item. For instance, a type-writer company may manufacture type-writer ribbon, which can be used as a complementary product to the typewriter. The new product may be used as an input for the old product.
3. **Products of Unrelated Industries:** The products of unrelated industries or lateral diversification as a move to expand product line, beyond the confines of the industry. That is, the company can produce any products. For instance HMT produces wrist watches, electric lamps.

13.14 Product elimination (Product Withdrawal)

It means that a product is removed from the product line. When there is no demand for a product or when the demand declines to obsolescence, marketing of such product is of no use. Moreover, certain products cannot be modified to suit the market. In such a case, it is better and profitable to withdraw the product. Such product brings decreased sales, and profit, and finally affects the reputation and financial strength of the firm. Such a process of withdrawal of products is known as product elimination. A sick product lost market appeal.

The indicator for elimination:

1. Downward profit trend.
2. Decreasing price trend.
3. Declining sales trend.
4. Cheaper substitutes are appeared.
5. Greater utilisation of executive's time.
6. Contribution is not covering the fixed expenses.

7. Unfavourable customer reaction.
8. Emergence of superior substitute products.
9. Decreasing marketing share.
10. The product may be in the last stage of PLC.

13.15 Production Modification

The existing product has to be modified in order to suit the changing conditions, because of fashion change. When one makes improvements in the existing product, by changing its quality, size, form or design the process is said to be product modification. When changes are made, the existing product may look almost new. The purpose of this change is to increase the sales or to attract the customers. Modification may facilitate: 1. Satisfying the additional needs of the buyers, 2. Up grading or down grading the quality of a product to suit the market-rich or poor, 3. Changing to attractive design, colour, shape etc. 4. Meeting the consumers demand or for social responsibility.

13.16 Product Failure: Reasons

Generally it is witnessed that many products entering into the market, may not reach the target of sales and profits. Introduction of new substitutes, technological innovations, consumers, who are selective in their choice of products reduce the span of life of products. The following are the general causes for the failure:

1. Conception of product idea or specification of the product may be faulty.
2. Design of product may not match with production facility.
3. The strength of competitions may not be accounted.
4. Marketing may be inefficient and insufficient.
5. Cost of production may be higher than the estimated cost.
6. The product performance may be unsatisfactory.
7. Operations may not be within control.
8. Market changes may not be understood properly.
9. Producers may be ignorant of consumers' preference.
10. Technical and production problems might have been underestimated.
11. Products may be introduced to the market untimely.
12. Introducing products for which there is no demand.
13. Stressing product attributes incorrectly.
14. Prices may be high.
15. Poor packaging, inappropriate size etc.
16. Weaknesses in distribution.
17. Inadequate sales force.
18. Poor timing.
19. Lack of test marketing.
20. Government policy.

How to Avoid Product Failure ?

Many products are introduced in the market and many products go out of the market every year. Many of the problems can be solved by timely action taken by the management: Thus, the failure of some of the products can be avoided by the following steps.

1. The product must be suitable to the market.
2. There must be a good demand in the market.
3. The product must keep the company's image.
4. There should not be any legal restriction.

Innovation

Innovation is defined as the process of bringing about new ideas, methods, products, services, or solutions that have a significant positive impact and value. It involves transforming creative concepts into tangible outcomes that improve efficiency and effectiveness, or address unmet needs.

Innovation is not limited to technological advancements and encompasses novel approaches to problem-solving, processes, organizational practices, or business model innovations. At its core, innovation involves challenging the status quo, thinking outside the box, and taking calculated risks to drive progress and achieve breakthrough outcomes.

Innovation is driven by a combination of factors, including curiosity, creativity, and the desire for improvement. It requires a mindset that embraces change, welcomes ideation, and encourages experimentation. Innovation can occur in various contexts, such as business, science, technology, social sectors, or public services. It can lead to economic growth, social progress, improved quality of life, and sustainable development.

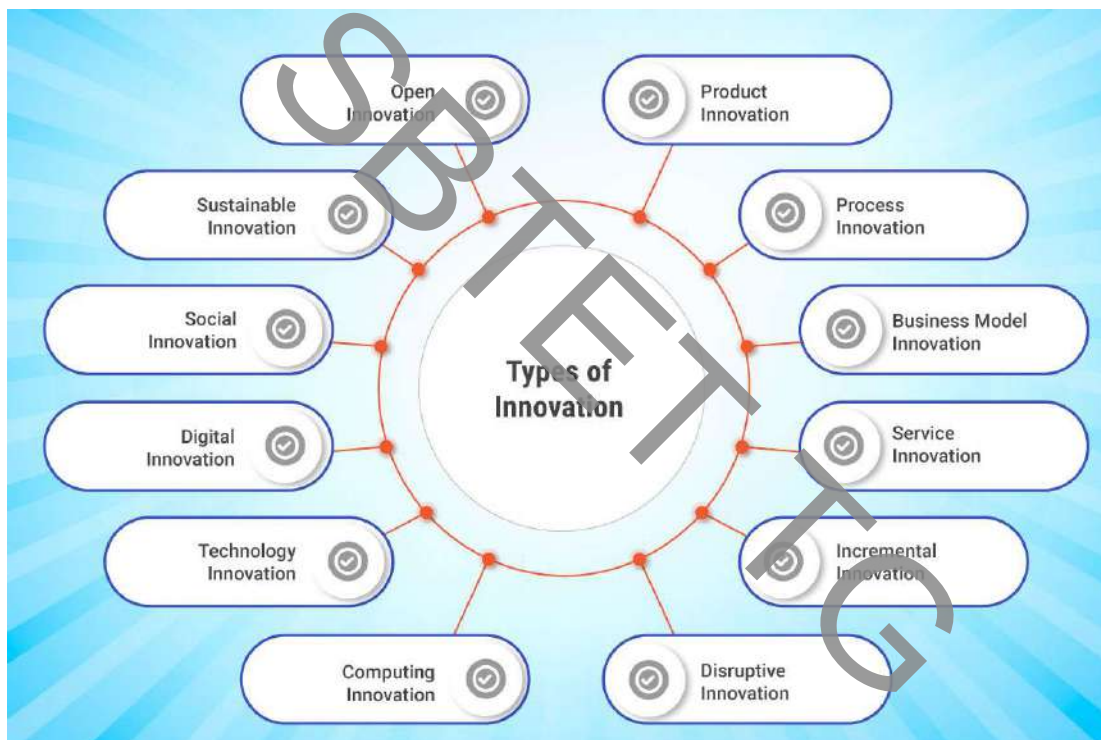
Key components that make innovation possible in an organization:

Several key components contribute to making innovation possible in an organization. These components provide the foundation and enable organizations and individuals to drive innovation effectively. Here are the key essential components:

- **Creativity and Ideas:** Creativity is the fuel for innovation. It involves generating new and original ideas, challenging assumptions, and thinking beyond conventional boundaries. It is the ability to connect disparate concepts and envision novel possibilities. The generation of diverse ideas, both incremental and disruptive, serves as the starting point for innovation.
- **Culture of Innovation:** An organizational culture that fosters and supports innovation is crucial. It includes values, attitudes, and behaviors that encourage curiosity, risk-taking, collaboration, and experimentation. A culture of innovation promotes an open and inclusive environment where individuals feel empowered to contribute their ideas and embrace change.
- **Resources and Infrastructure:** Adequate resources, both financial and non-financial, are essential for innovation. This includes dedicated funding, skilled human capital, technology infrastructure, research and development capabilities, and access to relevant information and data. Organizations need to allocate resources strategically to support innovation initiatives.

- **Leadership and Vision:** Effective leadership plays a vital role in driving and supporting innovation. Leaders set the vision, create a sense of purpose, and provide guidance and resources for innovation initiatives. They foster an environment that encourages risk-taking, empowers employees, and leads by example. Leadership commitment and support are crucial in nurturing a culture of innovation and driving innovation efforts.
- **Feedback and Adaptation:** Innovation requires a feedback loop that allows for continuous innovation. Feedback can come from customers, users, stakeholders, and market trends. Organizations need mechanisms to gather and analyze feedback, learn from successes and failures, and iterate on their innovation initiatives. The ability to adapt and pivot based on feedback is essential to refine and enhance innovative solutions. Innovation requires a feedback loop that allows for continuous improvement. Modern organizations rely on employee feedback software to validate ideas, refine solutions, and adapt quickly to change.
- **Effective Risk Management:** Innovation involves inherent risks and uncertainties, which makes effective risk management crucial to mitigate potential challenges and ensure successful outcomes. Organizations need processes to identify, assess, and manage risks associated with innovation initiatives. This includes evaluating the feasibility, viability, and potential impact of innovative ideas and implementing risk mitigation strategies.

Types of Innovation: The Engines Behind Modern Business Success



Innovation is not one-size-fits-all. Modern organizations thrive by embracing multiple types of innovation, each driving growth, efficiency, and differentiation in unique ways. Understanding

these innovation types help companies build effective innovation strategies and stay ahead of market change.

- **Product Innovation:** Product innovation focuses on creating new products or improving existing ones to meet changing customer needs. It enhances design, usability, and performance—turning creative ideas into tangible business value.
- **Process Innovation:** Process innovation streamlines internal systems, workflows, and technologies to increase efficiency and reduce costs. It's the backbone of operational excellence and competitive agility.
- **Business Model Innovation:** Business model innovation reimagines how value is created and captured. From new revenue models to unique partnerships, this type of innovation helps organizations disrupt traditional markets and redefine customer engagement.
- **Service Innovation:** Service innovation enhances customer experiences by offering new service delivery methods, personalization options, and digital convenience. It strengthens loyalty and sets brands apart in service-driven industries.
- **Incremental Innovation:** Incremental innovation involves continuous improvements to existing products, services, or processes. These small, steady advancements sustain competitiveness and long-term growth.
- **Disruptive Innovation:** Disruptive innovation introduces breakthrough ideas that reshape industries. By starting small and addressing unmet needs, it transforms markets and often displaces established players.
- **Open Innovation:** Open innovation invites collaboration with external partners, customers, and institutions to co-create solutions. This approach accelerates development and fosters shared creativity.
- **Sustainable Innovation:** Sustainable innovation designs eco-friendly products, services, and models that reduce environmental impact. It integrates sustainability into the innovation process to build long-term value.
- **Social Innovation:** Social innovation addresses social or environmental issues with creative solutions that improve lives, promote inclusivity, and contribute to global well-being.
- **Digital Innovation:** Digital innovation leverages technologies such as AI, IoT, and blockchain to enhance operations, deliver smarter products, and accelerate digital transformation.
- **Technology Innovation:** Technology innovation drives advancements in areas like biotechnology, renewable energy, and materials science—enabling new capabilities and solving global challenges.

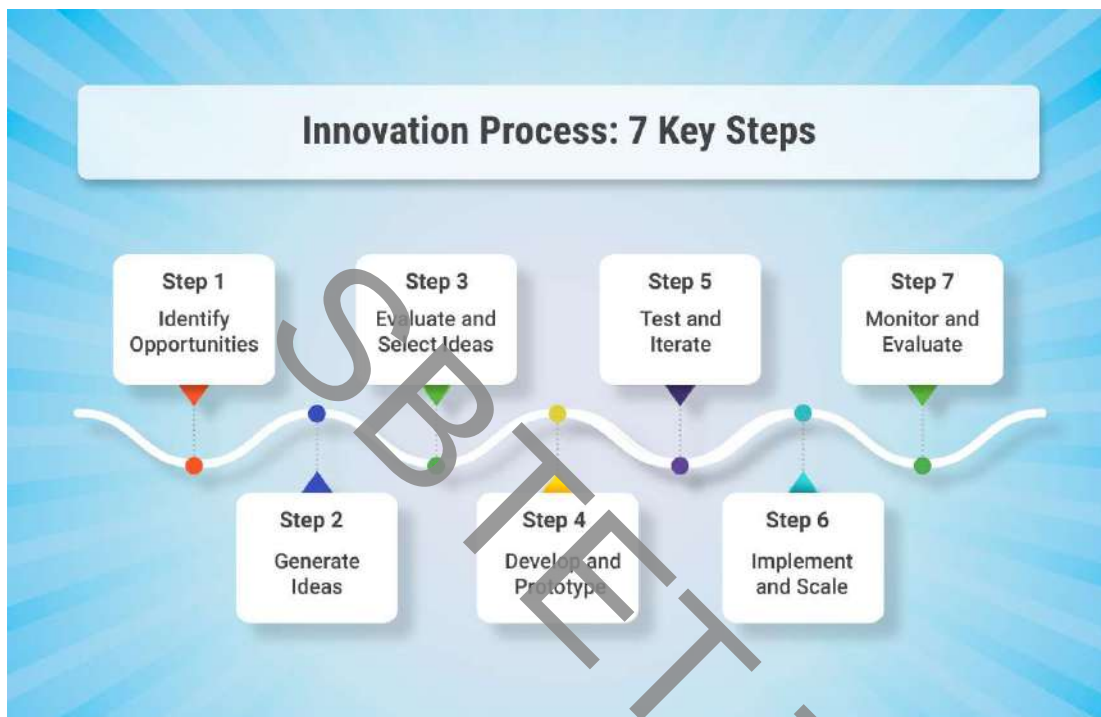
- **Computing Innovation:** Computing innovation leads progress in information technology, from advanced algorithms to cloud infrastructure, powering automation, data security, and digital ecosystems.

Continuous vs. Discontinuous Innovation

All these types of innovation can take two primary forms:

- **Continuous Innovation:** Continuous innovation is the incremental improvements that refine existing offerings and sustain competitive advantage.
- **Discontinuous Innovation:** Discontinuous innovation is the radical transformation that creates new markets, technologies, or business models.

Innovation Process: 7 Key Steps to Turn Ideas into Impact



The innovation process typically involves a series of key steps that organizations follow to foster and implement innovation. While specific approaches may vary, here are the common steps involved in the innovation process:

Step 1. Identify Opportunities: The first step is to identify opportunities for innovation. This can be done through market research, customer insights, trend analysis, or internal assessments. The goal is to uncover unmet needs, emerging trends, or areas for improvement that can be addressed through innovation.

Step 2. Generate Ideas: Once opportunities are identified, the next step is to generate ideas. This can be done through brainstorming sessions, idea competitions, customer feedback, or cross-functional collaboration. The aim is to generate a wide range of creative and innovative ideas that have the potential to address the identified opportunities.

Step 3. Evaluate and Select Ideas: After ideation, the next step is to evaluate and select the most promising ones. This involves assessing the feasibility, viability, and desirability of each idea. Consider factors such as market potential, technical feasibility, resource requirements, alignment with strategic goals, and potential impact. The goal is to identify the ideas that are worth pursuing further.

Step 4. Develop and Prototype: Once ideas are selected, they can be further developed and prototyped. This involves translating the selected ideas into tangible prototypes, mock-ups, or minimum viable products (MVPs). The aim is to test and validate the concepts, gather feedback, and refine the ideas based on customer insights and technical feasibility.

Step 5. Test and Iterate: In this step, the prototypes or MVPs are tested with users or in real-world scenarios. Customer feedback is collected, and the concepts are iterated and refined based on the insights gained. This iterative process helps to validate assumptions, uncover potential issues, and improve the innovation before moving to the next stage.

Step 6. Implement and Scale: Once the innovation has been tested and refined, it can be implemented and scaled up. This involves developing a detailed implementation plan, allocating resources, and executing the necessary actions to bring the innovation to market or implement it within the organization. The goal is to ensure a smooth transition from the development phase to full-scale implementation.

Step 7. Monitor and Evaluate: After implementation, it is important to monitor and evaluate the performance and impact of the innovation. This involves tracking key metrics and performance indicators to assess the success of the innovation. Regular evaluation helps identify areas for improvement, make necessary adjustments, and capture learnings for future innovation initiatives.

Innovation is an ongoing process, and organizations should foster a culture of innovation. This involves capturing feedback, promoting learning from both successes and failures and continuously seeking new opportunities for innovation. Regularly revisiting and refining the innovation process itself is also essential to optimize the organization's ability to innovate effectively.