

Unit – II Project Planning- Resource Allocation Framework, Generation of Ideas, Monitoring the Environment, Corporate Appraisal, Scouting for Project ideas, Preliminary Screening, Project Rating Index,

Resource allocation, Generation of Ideas, Monitoring the Environment already explained in the class. Notes are starts from the II topic of the unit.

1. Generation Of Ideas

Most of the project ideas involve combining existing fields of technology or offering alternatives of present products or services.

The typical route may be described as follows:

- A person with specialized technical knowledge or marketing expertise feels that he can offer a product or service which can cater to a presently unmet need.
- He can serve a market where demand exceeds supply or effectively compete with similar product or services because of certain favorable features like better quality or lower prices.
- His ideas are endorsed by his associates who encourage him and even show willingness to collaborate with him on the proposal.
- Finally he receives support from financial institutions and banks that approve his project and show readiness to finance it.

Stimulating the flow of ideas: To stimulate the flow of ideas, the following are helpful:

- **SWOT Analysis** - SWOT is an acronym for strengths, weaknesses, opportunities, and threats. SWOT analysis represents a conscious, purposeful and systematic effort by an organization to identify opportunities that can be profitably exploited by it. Periodic SWOT analysis facilitates the generation of ideas.
- **Clear articulation of objectives** -The operational objectives of an organisation may be one or more of the following:
 - Cost reduction
 - Productivity improvement
 - Increase in capacity utilization
 - Improvement in contribution margin

A clear articulation and prioritization of objectives helps in channelizing the efforts of employees and stimulate them to think more imaginatively.

- **Fostering a conducive climate:** To tap the creativity of people and to harness their entrepreneurial urges, a conducive organizational climate has to be fostered. Ex: motivating employees through awards, incentives, promotions to think and work more creatively.

2. Monitoring The Environment

Basically a promising investment idea enables a firm (or entrepreneur) to exploit opportunities in the environment by drawing on its competitive strengths. Hence, the firm must systematically monitor the environment and assess its competitive abilities. For purposes of monitoring, the business environment may be divided into six broad sectors.

The key sectors of the environment are as follows:

1. **Economic sector:**
 - a. State of economy
 - b. Overall rate of growth
 - c. Growth rate of primary, secondary and tertiary sectors
 - d. Cyclical fluctuations
2. **Inflation rate**
 - a. Linkage with the world economy
 - b. Trade surplus / deficits
 - c. Balance of payment situation
3. **Government sector**
 - a. Industrial policy
 - b. Government programmes and projects
 - c. Tax frame work
 - d. Subsidies, incentives, and concessions
 - e. Import and export policies
 - f. Financing norms
 - g. Lending condition of financial institutions and commercial banks
4. **Technological sector**
 - a. Emergence of new technologies
 - b. Access to technical know-how, foreign as well as indigenous
 - c. Receptiveness on the part of industry
5. **Socio-demographic sector**
 - a. population trends
 - b. Age shifts in population
 - c. Income distribution
 - d. educational profile
 - e. Employment of women
 - f. Attitudes toward consumption and investment
 - g. Competition sector

- h. Number of firms in the industry and the market share of the top few(four or five)
- i. Degree of homogeneity and differentiation among products
- j. Entry barriers
- k. Comparison with substitutes in terms of quality, price, appeal, and functional performance
- l. Marketing policies and practices
- 6. **Supplier sector** -
 - a. Availability and cost of raw materials and sub-assemblies
 - b. Availability and cost of energy
 - c. Availability and cost of money

3. Corporate Appraisal

A realistic appraisal of corporate strengths and weaknesses is essential for identifying investment opportunities which can be profitably exploited. The broad areas of corporate appraisal and the important aspects to be considered under them are as follows:

1. Marketing and Distribution

- a. Market image
- b. Product line
- c. Market share
- d. Distribution share
- e. Customer loyalty
- f. Marketing and distribution costs

2. Production and Operations

- a. Condition and capacity of plant and machinery
- b. Availability of raw materials, sub-assemblies and power
- c. Degree of vertical integration
- d. Locational advantage
- e. Cost structure

3. Research and development

- a. Research capabilities of the firm
- b. Track record of new product developments
- c. Laboratories and testing facilities
- d. Coordination between research and operations

4. Corporate Resources and Personnel

- a. Corporate image
- b. Clout with governmental and regulatory agencies
- c. Dynamism of top management
- d. Competence and commitment of employees
- e. State of industrial relations

5. Finance and Accounting

- a. Financial leverage and borrowing capacity
- b. Cost of capital
- c. Tax situation
- d. Relations with shareholders and creditors
- e. Accounting and control system
- f. Cash flows and liquidity

4. Scouting for Project Ideas

Good project ideas – the key to success – are indefinable. So a wide variety of sources should be tapped to identify them.

Analyze the Performance of Existing Industries:-

1. It is essential to study the existing industries in terms of their profitability and capacity utilization.
2. This analysis of profitability and break – even level of various industries indicates promising investment opportunities which are profitable and relatively risk free.
3. A study of capacity utilization of various industries provides information about the potential for further information.

Examine the Inputs and Outputs of Various Industries

1. An analysis of the inputs required for various industries may throw up project ideas.
2. Existing opportunities for procuring materials or supplies including transportation costs are to be considered.
3. Several firms produce internally some components / parts which can be supplied at a lower cost by a single manufacturer.
4. Similarly, a study of the outputs of the existing industries may reveal opportunities for adding value through further processing of main outputs, by – products, as well as waste products. Remember that one person's trash can be another person's treasure.

Review Imports and Exports

An analysis of import statistics for a period of five to seven years is helpful in understanding the trend of imports of various goods. An examination of statistics is useful in learning about the export possibilities of various products.

Study Plan Outlays and Governmental Guidelines

A very valuable source of information to estimate the scope for further investment is the guidelines to industries published annually by the department of industrial development,

government of India. This publication provides information about the structure and location, production performance, licensed and installed capacity, exports, and future scope of various industries.

Suggestions of Financial Institutions and Developmental Agencies

In a bid to promote development of industries in their respective states, state financial corporations, state industrial development corporations, and other developmental bodies conduct studies, prepare feasibility reports, and offer suggestions to potential entrepreneurs. The suggestions of these agencies are helpful in identifying promising projects.

Investigate Local Materials and Resources

A search for project ideas may begin with an investigation into local resources and skills. Various ways of adding value to locally available materials may be examined. Similarly, the skills of local artisans may suggest products that may be profitably produced and marketed.

The national council of applied economic research (NCAER) and other bodies publish surveys of various regions showing the potential of industrial development in various regions. These surveys assess the resources (human and material), infrastructural facilities, and markets for various products.

Analyze Economic and Social Trends

Changing economic conditions and consumer preferences provide new business opportunities. For example, a greater awareness of the value of time is dawning on the public. Hence, the demand for time – saving products like prepared food items, ovens, and powered vehicles has been increasing. Another change that can be seen is the increasing desire for leisure and recreational activities. This has caused a growth in the market for recreational products and services.

Study New Technological Developments

There is a large network of research laboratories in India under the umbrella of the council of scientific and industrial research and other bodies. New products or new processes and technologies for existing products developed by research laboratories like CFTRI(Center for Food Technology and Research Institute) may be examined for profitable commercialization.

Draw Clues from Consumption Abroad

Entrepreneurs willing to take higher risks may identify projects for the manufacture of products or supply of services which are new to the country but extensively used abroad. Automatic vending machines, entertainment parks, pre- fabricated houses, and fast food restaurants are examples of projects belonging to this category.

Explore the Possibility of Reviving Sick Units

A significant proportion of sick units can be nursed back to health by sound management, infusion of further capital, and provision of complementary inputs. Hence, there is a shorter gestation period because one does not have to begin from scratch.

Identify Unfulfilled Psychological Needs

For well – established, multi-brand product groups like bathing soaps, detergents, cosmetics, and tooth pastes, the question to be asked is not whether there is an opportunity to manufacture something to satisfy an actual physical need but whether there are certain psychological needs of consumers which are presently unfulfilled. To find out whether such an opportunity exists, the technique of spectrum analysis is useful. This analysis is done in the following manner:

Important factors influencing brand choice are identified

Existing brands in the market are positioned on a continuum in respect of the factors identified. Gaps which exist in relation to consumer psychological needs are identified.

Attend Trade Fairs

National and international trade fairs provide an excellent opportunity to get to know about new products and developments.

Stimulating Creativity for Generating New Product Ideas

New product ideas may be generated by thinking along the following lines: modification, rearrangement, reversal, magnification, reduction, substitution, adaptation, combination)

Identification of investment opportunity may be influenced by the chance factor also.

Ex: Joseph Kamoo, while he was employed in Zurich, once witnessed two muslims almost come to blows over the correct direction to face while offering their prayers. Triggered by this incident, Kamoo thought of manufacturing a Mecca – finder.

5. Preliminary Screening

The following aspects may be considered for preliminary screening.

Compatibility with the promoter: The idea must be compatible with the interest, personality, and resources of the entrepreneur.

Consistency with governmental priorities: The project idea must be feasible to the national goals and governmental regulatory framework

Availability of inputs: The resources and inputs required for the project must be reasonably assured.

Adequacy of market: To judge the adequacy of the market the following factors have to be examined.

- Total present domestic market
- Competitors and their market shares
- Export markets
- Quality – price profile of the product vis-à-vis competitive products
- Sales and distribution system
- Projected increase in consumption
- Barriers to the entry of new units
- Economic, social, and demographic trends favorable to increased consumption
- Patent protection

Reasonableness of cost

The cost structure of the proposed project must enable it to realize an acceptable profit with a competitive price. The following should be examined in this regard.

- Costs of material inputs
- Labor costs
- Factory overheads
- General administration expenses
- Selling and distribution costs
- Service costs
- Economies of scale
- Acceptability of risk level
- The desirability of a project is critically dependent on the risk characterizing it and the following factors should be considered:
 - Vulnerability to business cycles
 - Technological changes
 - Competition from substitutes
 - Competition from imports
 - Governmental control over price and distribution

6. Project Rating Index

Definition: The **Project Rating Index** (PDRI) is a methodology used by capital **projects** to measure the degree of scope definition, identify gaps, and take appropriate actions to reduce risk during front end planning. PDRI is used at multiple stages in the front end planning process.

The steps involved in project rating index are as follows.

- Identify the factors relevant for project rating.
- Assign rates to these factors.

- Rate the project proposal on various factors, using a suitable rating scale. Ex: 5 point or 7 point scale.
- For each factor multiply the factor rating with the factor weight to get the factor score.
- Add all the factor scores to get the overall project rating index.

Flow Chart

In this method, each activity and its time duration are shown in a box, preferably after preparation of activity table for the project. The boxes are connected with vertical lines from start to end showing the preceding and succeeding activity relationships. The various paths are computed first. The longest path of a project is the critical path. The flow charts do not give many details like start and completion time of each activity.

In the figure there are three alternate paths to reach from “Start” to “Complete”. These are under:

S. No.	Path	Path length	Total
1.	B-D-F	12+8+2	22
2.	A-C-D-F	13+2+8+2	25
3.	A-E	13+15	28 (Maximum)

The path, A-E Being

The longest path i.e., having the maximum time, is the Critical Path and activities A and E falling in this path are critical activities. Even though, it is possible to identify the critical path and the critical activities from a flow diagram, this does not facilitate computation of slacks or floats on the events. On the other hand, the analysis of the network facilitates both identification of critical path and computation of slacks or floats.