

PLANNING A SMALL-SCALE UNIT:

The speed with which you implement your project is critical during these days of competition. If you have planned in advance and evaluated resources required, your project will be implemented in the shortest possible time. The first step to initiate planning is to identify a suitable project.

PROJECT IDENTIFICATION

There are no set rules to identify a suitable project, though this is one decision on which the success of your entire venture hinges. So, don't take hasty decisions. Most prospective entrepreneurs tend to display the herd tendency and go for a project, which people have already ventured into. This is not a healthy attitude as success of one in a particular field does not guarantee success of the other. While identifying a suitable project, you should make a SWOT analysis of your own strengths and weaknesses.

The next step, after you have selected your project, is to collect all information about it. The most important information is about the potential market of the items you selected. There are several ways for this. You may go for a basic desk survey, a snap survey or a detailed market survey.

PROJECT REPORT: A FORECAST PLAN

Now, you will need to prepare a feasibility report about your project. A feasibility report will broadly contain:

- a) Background of the entrepreneur and constitution of the business
- b) Market potential and marketing strategy
- c) Selection of location
- d) Requirements of land and building
- e) Manufacturing process
- f) Requirements of plant and machinery
- g) Requirement of utilities
- h) Requirement of raw material
- i) Estimated cost of the project
- j) Proposed means of finance
- k) Cost of production and profitability
- l) Break-even point
- m) Cash flow statement
- n) Internal rate of return

REQUIREMENTS TO START A BUSINESS

Selection of Location: A Vital Decision

This is extremely important. Usually, small-scale entrepreneurs are found to have a predetermined location. The location should be decided according to the proximity to sources of raw materials, consumption centers, availability of infrastructure, necessary skills in surrounding areas and availability of incentives. Sometimes the requirements conflict with one another and a particular location may not match all. Such situations want you to balance out the requirements, while also ensuring that they do not affect the viability of the project. Experience shows most entrepreneurs attaching more importance to available financial incentives and ignoring other important aspects guiding the selection of the location. Such misplaced emphasis may run the

project into unviability in the long run. Your decision on the location, therefore, should not just be based on incentives, but more on availability of infrastructure and skills.

Land and Building: Make Correct Assessment

Before assessing land requirements, you must draw up a plant layout based on the type of facilities proposed to be installed. Normally, the land should not exceed five to six times the built-up area; but it all finally depends upon the project. Land in excess of the requirement will block up funds, which could otherwise be utilized for productive purposes. The land should be free from any encumbrances and should be non-agricultural.

Select the Right Manufacturing Process

Suitable manufacturing processes have to be identified for production. Some products may need a particular process depending upon raw material availability, the prices and the quality requirement of the end product. A detailed flow chart may also be drawn with all operating parameters.

Government Formalities and Procedures

The process of planning also includes planning for execution of various government formalities. Though the government in the post-liberalisation era intends to reduce permissions/clearances to free the industry from bureaucratic controls, you need to clear specific formalities to avail certain benefits.

The following formalities need to be considered for small-scale units:

i) SSI Registration: Required for the Records

Though SSI registration is not mandatory according to recent changes in the rules, it is advisable that you register your small-scale unit with the District Industries Centre (DIC) of the district where your project will be located. The government requires this registration to plan for future needs of the industry and it is in your interest to register your unit.

ii) Acquisition of Infrastructure Facilities

If you plan to locate your project in an industrial estate promoted by a government agency, you may apply for a built-up shed or a plot of land. You can start your activities once the shed/plot is offered. If you have been allotted a plot, you can start construction after your building plans are approved. In either case, you have to apply for power connection to the State Electricity Board and for water to the authorities concerned.

iii) Pollution Control Clearance: Obtain NOC or Consent

You should also apply for obtaining an NOC from the State Pollution Control Board (PCB). If your unit is likely to be a pollution hazard or may discharge effluents, the PCB first issues an NOC with certain conditions to install facilities to check air or water pollution to specific levels. After you have installed the necessary facilities and they are satisfied, the PCB gives its consent to start operations.

iv) Constitution of the Business

You should decide on the organizational form of your business, viz. if it should be a proprietorship, partnership or a private limited company, according to the size of its operations and the degree of risk involved. In proprietorship, the gains and losses of the business rest with the proprietor, while in partnership, all the partners share the gains and the losses except the

minor partners, who are exempt from bearing the losses. In a private limited company, the members take the gain or losses as per their holding in the company, for it is considered to be a separate legal entity. Once the business constitution is decided, you may undertake necessary formalities for registering the firm accordingly.

v) Arrangement of Finance for Fixed Assets and Current Assets

After taking these clearances, you may apply for a term loan either to a state level financial institution or a commercial bank, with a techno-economic feasibility report, including market survey, and all documentary evidence justifying your claim for the project being feasible. Once the loan is sanctioned, you may have to execute necessary legal documents mortgaging your assets. The disbursement of the term loan usually starts after you have fulfilled all the conditions and also after 50 per cent of your own capital is raised and invested in the project. The institutions generally disburse 75 per cent of the loan sanctioned on a matching basis. Thereafter, you should raise and invest the rest of your contribution to stake your claim for disbursement of the balance term loan. Simultaneously, you can also negotiate with your bankers to sanction the working capital requirements. The bankers would, however, consider the working capital loan only after the term loan is sanctioned. If you propose to locate your project in developing areas eligible for state incentives, you will need to apply for registration and sanction with the state authority to avail the incentives. Only after you get the sanctions can you start implementing your project.

vi) Government Formalities Need to be Viewed in Proper Perspective

Experience shows that many people do not give adequate weightage to complying with various government formalities. Utmost care should be taken in this connection during the planning stage itself, as in the case of ignorance the project implementation gets delayed and incurs cost overruns, and sometimes derails the entire project. You must also be aware of the sequence of steps to be followed while planning a small-scale unit. There are no rigid rules, but experience reveals that nothing important will be missed if you follow the sequence. Some activities can be handled simultaneously. The sequence may vary according to the needs and size of your project. You may decide basing on ground realities.

The steps above will help you develop an insight into project planning. Fine tuning project implementation activities at the planning stage will help you coordinate resources appropriately in keeping with the project needs and avoid slippage in implementation and cost overruns.

DIC = District Industries Centre

SISI = Small Industries Service Institute

TCOs = Technical Consultancy Organisations

SFCs = State Financial Corporations

NSIC = National Small Industries Corporation

DFRI = Defence Food Research Laboratory

ED Inst. = Entrepreneurship Development Organisations

CFTRI = Central Food Technology Research Institute

IDCs = Infrastructure Development Corporations

LA = Local Authorities like Municipalities

EPC (APEDA, MPEDA) = Export Promotion Council (Agriculture and Processed Food Export Development Authority, Marine Products Export Development Authority)