

UNIT IV:

BUSINESS PLAN PREPARATION

6-Lectures

Sources of business ideas and tests of feasibility, Significance of writing the business plan/project proposal, Contents of business plan/project proposal, Designing business processes, location, layout, operation, planning & control; preparation of project report (various aspects of the project report such as size of investment, nature of product, market potential may be covered). Project submission/presentation and appraisal thereof by external agencies, such as financial/non-financial institutions



Therefore, let us, first, focus on the concept of innovation and creativity:

Innovation can be described as the application of new solutions that meet new requirements, inarticulate needs, or existing market needs. This is accomplished through more effective products, processes, services, technologies, or ideas that are readily available to markets, governments and society.

While something novel is often described as an innovation, in economics, management science and other fields of practice and analysis it is generally considered a process that brings together various novel ideas in a way that they have an impact on society.

The term innovation can be defined as "something original and new that 'breaks in to' the market or into society". One usually associates to new phenomena that are important in some way.

Another definition of the term, in line with these aspects, would be: "An innovation is something original, new, and important - In whatever field - That breaks in to a market or society."

7.1.1 Sources of innovation

According to Peter F. Drucker the general sources of innovations are "different changes in industry structure, in market structure, in local and global demographics, in human perception, mood and meaning, in the amount of already available scientific knowledge".

There are several sources of innovation. It can occur as a result of a focus effort by a range of different agents, by chance, or as a result of a major system failure.

Innovations by businesses are achieved in many ways, some of which are given as under:

- (i) Formal research and development (R&D) for "breakthrough innovations"
- (ii) Scientific innovations that lead to productive growth in the industry
- (iii) Innovations can be developed by less formal, 'on-the-job' modifications of practice, through exchange and combination of professional experience and by many other routes
- (iv) The more radical and revolutionary innovations tend to emerge from R&D, while more incremental innovations may emerge from practice
- (v) Another source of innovation, becoming widely recognized, is end-user innovation. This is where an agent, person or company develops an innovation for their personal or in-house use.

- (vi) The traditionally recognized source of innovation is **manufacturer innovation**. This is where an agent, person or business innovates in order to sell the innovation.

Innovation differs from invention - Innovation refers to the use of a better and, as a result, novel idea or method, whereas **invention** refers more directly to the creation of the idea or method itself.

Innovation differs from improvement - Innovation refers to the notion of doing something different whereas **Improvement** refers to doing the same thing in a better way.

7.1.2 Causes of failure of innovations

The causes of failure can be divided into causes associated with the infrastructure and causes associated with the innovation process itself.

Common causes of failure within the innovation process in most organizations can be divided into following types:

- (i) **Poor goal definition** - When the individual or team responsible for innovating does not keep the goals clear and the innovation does not match the requirements of the organization, the innovation is bound to fail.
- (ii) **Poor alignment of actions to goals** - At times, the goals and the actions of the innovators are not in sync or tune which causes a problem in achieving success.
- (iii) **Poor participation in teams** - On several occasions, all the team members do not participate in the process, which means that full potential of creativity is not being tapped.
- (iv) **Poor monitoring of results** - When the team or the management fail to review the innovation process, it becomes difficult to monitor what was implemented.
- (v) **Poor communication** - Poor or weak communication process also leads to inferior innovation
- (vi) **Poor access to information** - Too much or too little information are both detrimental to the research work or innovation process
- (vii) **Improperly defined time frame** - When time frame for innovation is not defined, the success rate is low.

Creativity can be defined as "Mental characteristic that allows a person to think outside of the box, which results in innovative or different approaches to a particular task"

It can also be defined as "an act of turning new and imaginative ideas into reality" According to Rollo May, "Creativity is the process of bringing something new into being. Creativity requires passion and commitment. It brings to our awareness what was previously hidden and points to new life".

In the words of Sternberg & Lubart "A product is creative when it is (a) novel and (b) appropriate. A novel product is original not predictable. The bigger the concept and the more the product stimulate further work and ideas, the more the product is creative."

7.2.1 Creative process

Creative ability to generate innovative ideas is not merely a function of the mind, but also a function of following key behaviours that optimize the brain for discovery of creative things

- (i) **Associating** - This process involves drawing connections between questions, problems, or ideas from unrelated fields. Each question is associated with the defined problem, in order to graduate to the next process.
- (ii) **Questioning** - Under this process the creative person or team poses queries that challenge common wisdom so that some answers can be found.
- (iii) **Observing** - It means scrutinizing, very minutely, the behaviour of customers, suppliers, and competitors to identify new ways of doing things
- (iv) **Networking** - Net working implies meeting people with different ideas and perspectives
- (v) **Experimenting** - Constructing interactive experiences and provoking unorthodox responses to see what insights emerge

7.2.2 Measures to promote Creativity

Creativity flourishes in a "congenial environment". Creative thinking needs to be shared and validated by others in a socially supportive atmosphere. The best creativity comes out when an environment congenial to promote creativity is created by the company.

Following are some measures that can be taken to promote creativity:

- (i) **Establish expressive freedom** - The organization environment must be a place where one feels safe to share novel ideas. Allow for flexibility and create norms that promote creativity.
- (ii) **Allow room for mistakes** - Sir Ken Robinson said, "If you're not prepared to be wrong, you'll never come up with anything original." Therefore, allow space for mistakes.
- (iii) **Encourage curiosity** - Try to promote creativity by stepping into the viewpoint of the creative person to find what motivates him/her.
- (iv) **Foster an open, creative work environment** - To foster creativity, some companies provide workers with snacks, games, and "time off" during work hours. All this can support the greater mental flexibility and unshackled thought, that result in profitable innovation..
- (v) **Motivate the creative team** - Positive reinforcement in the form of rewards, bonuses, special privileges, comp time, and prizes will keep people on their toes. Not everyone will participate, but many will when they see their efforts have clear benefits.
- (vi) **Encourage diversity** - A wide range of working styles, thought processes, and viewpoints is essential to avoiding groupthink, where a homogenized team loses the ability to see solutions obvious to outsiders. Creativity can only grow in a well-fertilized field.
- (vii) **Provide the proper tools** - Make sure that the employees get the tools they need such as computers, software, education, or training.
- (viii) **Create innovation teams** - Build teams comprised of members with diverse working styles, experience, and skill-sets, whose primary purpose is to get together to create.
- (ix) **Do not penalize** - A creative mindset, often fails more often than it succeeds. If the creative team members fear punishment, they would not like to take the risk of implementing something new.

7.3 BUSINESS IDEAS

A business idea is a concept that can be used for financial gain, which is usually centered on a product or service that can be offered for money. An idea is the first milestone in the process of building a successful business. A successful company always starts with a compelling business idea. It is the first step in the process of founding a growth company

The characteristics of a promising business idea are:

- ◆ Innovative
- ◆ Unique
- ◆ Problem solving
- ◆ Fulfills a customer need
- ◆ Clear focus
- ◆ Profitable in the long term

7.3.1 Features of a good business idea

A business idea is often linked to its creator who needs to be truly convinced of the business value in order to make it happen. Business idea is also linked to an investor and, therefore, must be formulated with the investor's perspective in mind also.

It must have following features:

- (i) **Customer benefit** - The key to marketing success is not good products but **satisfied customers**. The first principle of a successful business idea is, therefore, that it clearly describes the need that will be satisfied, relating to a product or service.
- (ii) **Market assessment** - A business idea only has commercial value when the "market" accepts it. The second principle of a successful business idea, therefore, is that it shows how large the market is, for the product or service offered, for which target group(s) it is meant and how it differentiates itself from the competition.
- (iii) **Revenue mechanism** - A business must be profitable in the long term. The third principle of a successful business idea is, therefore, that it shows how much money can be earned with it and how the money will be earned.

7.3.2 Business idea cycle

Amazon, BuzzFeed, Netflix, and Uber are a small sampling of companies that have completely reshaped the landscape of their respective industries within a short period of time using very novel ideas. They entered markets with new technologies or radically different approaches to doing business leading to the demise or decline of industry incumbents. Such disruptive innovations are not random acts of nature **there is an idea behind the phenomena.**

From the **radical ideas that shake up entire industries** to **many small ideas that perfect the execution of already successful organizations**, **idea can be**

treated as a process, one that can be managed and turned into a driver of profits and growth.

Following are four stages in a Business idea cycle

- (i) **Idea Generation** - To generate an idea, the entrepreneurial process has to pass through three stages:

- ◆ **Germination** - This is like seeding process. Most creative ideas can be linked to an individual's interest or curiosity about a specific problem or area of study.
- ◆ **Preparation** - Once the seed of interest curiosity has taken the shape of a focused idea; creative people start a search for answers to the problems. Inventors will go on for setting up laboratories; designers will think of engineering new product ideas and marketers will study consumer buying habits.
- ◆ **Incubation** - This is a stage where the creative process enters the subconscious intellectualization. The sub-conscious mind joins the unrelated ideas, so as to find a resolution.

- (ii) **Feasibility study** - Feasibility study is done to see if the idea can be commercially viable. It passes through two steps:

- ◆ **Illumination** - After the generation of idea, this is the stage when the idea is thought of as a realistic creation. The stage of idea blossoming is critical because ideas by themselves have no meaning.
- ◆ **Verification** - This is the last stage to verify the idea as realistic and useful for application. Verification is concerned about practicality to implement an idea and explore its usefulness to the society and the business.

- (iii) **Implementing the idea** - Once the feasibility study indicates that the idea is viable from all angles, it may be immediately implemented or if the cost involved is very high, it may be first checked on a sample basis.

- (iv) **Monitoring & Review** - Once the idea has been successfully implemented there is a need for constant monitoring and reviews from time to time. As it a rapidly changing environment, therefore, there is risk that an idea may not remain good for a long time.

7.3.3 Techniques of finding new business ideas

Business ideas are all within everyone and within the environment. Some of these business ideas emanate from analysis of market and consumer needs, while others emanate from a long research process. But the truth