

S.Y. B.Com

Sub: Small Enterprises Management

Unit:1 Introduction to Small Industry

## DEFINITION OF SMALL SCALE INDUSTRY

Small scale industries comprise of small enterprises that manufacture goods or provide services with the help of smaller machines and a few workers and employees. The enterprise must fall under the guidelines set by the Government of India. Small scale industries are labor intensive yet require little capital. ...

## NEW LOOK MSMEs

### CURRENT: LINKED TO INVESTMENT

	Manufacturing	Services
Micro	Up to ₹25 lakh	Up to ₹10 lakh
Small	Over ₹25 lakh to ₹5 crore	Over ₹10 lakh to ₹2 crore
Medium	Over ₹5 crore to ₹10 crore	Over ₹2 crore to ₹5 crore



**MANUFACTURING:** Plant & machinery investment

Source: Ministry of MSME



**SERVICES:** Investment in equipment

### PROPOSED: LINKED TO TURNOVER

Micro: <b>Up to ₹5cr</b>	Small: <b>Over ₹5cr to ₹75cr</b>	Medium: <b>Over ₹75cr to ₹250cr</b>
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## Existing and Revised Definition of MSMEs



**OLD**

Existing MSME Classification			
Criteria : Investment in Plant & Machinery or Equipment			
Classification	Micro	Small	Medium
Mfg. Enterprises	Investment < Rs. 25 lac	Investment < Rs. 5 cr.	Investment < Rs. 10 cr.
Services Enterprise	Investment < Rs. 10 lac	Investment < Rs. 2 cr.	Investment < Rs. 5 cr.

**NEW**

Revised MSME Classification			
Composite Criteria : Investment And Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing & Services	Investment < Rs. 1 cr. and Turnover < Rs.5 cr.	Investment < Rs. 10 cr. and Turnover < Rs.50 cr.	Investment < Rs. 20 cr. and Turnover < Rs.100 cr.

### Characteristics of Small Scale Industries

#### 1. Labor intensive:

Small-scale industries are fairly labor-intensive. They provide an economic solution by creating employment opportunities in urban and rural areas at a relatively low cost of capital investment.

#### 2. Flexibility:

Small-scale industries are flexible in their operation. They adopt quickly to various factors that play a large part in daily management. Their flexibility makes them best suited to constantly changing environment.

#### 3. One-man show:

A small-scale unit is generally a one-man show. It is mostly set up by individuals. Even some small units are run by partnership firm or company, the activities are mainly carried out by one of the partners or directors. Therefore,

they provide an outlet for expression of the entrepreneurial spirit. As they are their own boss, the decision making process is fast and at times more innovative.

#### **4. Use of indigenous raw materials:**

Small-scale industries use indigenous raw materials and promote intermediate and capital goods. They contribute to faster balanced economic growth in a transitional economy through decentralization and dispersal of industries in the local areas.

#### **5. Local Area of operation:**

Small-scale industries generally restrict their operation to local areas in order to meet the local and regional demands of the people. They cannot enlarge their business activities due to limited resources.

#### **6. Lesser gestation period:**

Gestation period is the period after which the return or investment starts. It is the time period between setting the units and commencement production. Small-scale industries usually have a lesser gestation period than large industries. This helps the entrepreneur to earn after a short period of time. Capital will not be blocked for a longer period.

#### **7. Educational level:**

The educational level of the employees of small industries is normally low or moderate. Hardly there is any need of specialized knowledge and skill to operate and manage the SSI.

#### **8. Profit motive:**

The owners of small industries are too much profit conscious. They always try to keep high margins in their pricing. This is one of the reason for which the unit may lead to closure

### **Role of SSI in Indian economy**

- **1. Employment generation:**

The basic problem that is confronting the Indian economy is increasing pressure of population on the land and the need to create massive employment opportunities. This problem is solved to larger extent by small-scale industries because small-scale industries are labor intensive in character. They generate huge number of employment opportunities. Employment generation by this sector has shown a phenomenal growth. It is a powerful tool of job creation.

- **2. Mobilization of resources and entrepreneurial skill:**

Small-scale industries can mobilize a good amount of savings and entrepreneurial skill from rural and semi-urban areas remain untouched from the clutches of large industries and put them into productive use by investing in small-scale units. Small entrepreneurs also improve social welfare of a country by harnessing dormant, previously overlooked talent.

Thus, a huge amount of latent resources are being mobilized by the small-scale sector for the development of the economy.

- **3. Equitable distribution of income:**

Small entrepreneurs stimulate a redistribution of wealth, income and political power within societies in ways that are economically positive and without being politically disruptive.

Thus small-scale industries ensures equitable distribution of income and wealth in the Indian society which is largely characterized by more concentration of income and wealth in the organized section keeping unorganized sector undeveloped. This is mainly due to the fact that small industries are widespread as compared to large industries and are having large employment potential.

- **4. Regional dispersal of industries:**

There has been massive concentration of industries in a few large cities of different states of Indian union. People migrate from rural and semi urban areas to these highly developed centers in search of employment and sometimes to earn a better living which ultimately leads to many evil consequences of overcrowding, pollution, creation of slums, etc. This problem of Indian economy is

better solved by small- scale industries which utilize local resources and brings about dispersion of industries in the various parts of the country thus promotes balanced regional development.

- **5. Provides opportunities for development of technology:**

Small-scale industries have tremendous capacity to generate or absorb innovations. They provide ample opportunities for the development of technology and technology in return, creates an environment conducive to the development of small units. The entrepreneurs of small units play a strategic role in commercializing new inventions and products. It also facilitates the transfer of technology from one to the other. As a result, the economy reaps the benefit of improved technology.

- **6. Indigenization:**

Small-scale industries make better use of indigenous organizational and management capabilities by drawing on a pool of entrepreneurial talent that is limited in the early stages of economic development. They provide productive outlets for the enterprising independent people. They also provide a seed bed for entrepreneurial talent and a testing round for new ventures.

- **7. Promotes exports:**

Small-scale industries have registered a phenomenal growth in export over the years. The value of exports of products of small-scale industries has increased to Rs. 393 corers in 1973-74 to Rs. 71, 244 corers in 2002-03. This contributes about 35% India's total export. Thus they help in increasing the country's foreign exchange reserves thereby reduces the pressure on country's balance of payment.

- **8. Supports the growth of large industries:**

The small-scale industries play an important role in assisting bigger industries and projects so that the planned activity of development work is timely attended. They support the growth of large industries by providing, components, accessories and semi finished goods required by them. In fact, small industries can breath vitality into the life of large industries.

- **. Better industrial relations:**

Better industrial relations between the employer and employees helps in increasing the efficiency of employees and reducing the frequency of industrial disputes. The loss of production and man-days are comparatively less in small-scale industries. There is hardly any strikes and lock out in these industries due to good employee-employer relationship.

Of course, increase in number of units, production, employment and exports of small- scale industries over the years are considered essential for the economic growth and development of the country. It is encouraging to mention that the small-scale enterprises accounts for 35% of the gross value of the output in the manufacturing sector, about 80% of the total industrial employment and about 40% of total export of the country.

- Balanced Regional Development
- Low Initial Capital investment
- Development of entrepreneurship
- Social advantages

### **The Start-up Process:**

An entrepreneur desiring to set up an industry must at the outset become familiar with the economic, political and legal environment in the country.

The main components of such environment are as under:

1. Priorities and policies of the Government
2. Assistance and facilities offered by various states.
3. Various organization assisting entrepreneurs.
4. Incentives for starting industry
5. Licensing and registration requirements
6. Policies and regulations concerning import and export, exercise and sales tax, Factories Act, foreign collaborations ex.....

After getting familiar, an entrepreneur should understand the procedure for setting up a small scale unit. The main steps involve in the establishment of a small business venture are as follows:

1. Selection of product
2. Location of enterprise
3. Preparation of the project report
4. Choice of form of ownership
5. Registration with the authorities
6. Arranging term finance
7. Statutory license and clearance
8. Accruing land and building
9. Arranging working capital
10. Recruitment of staff
11. Installation of machinery
12. Procuring raw material
13. Power connection and water supply
14. Starting production
15. Marketing the product

### **Benefits of SSI Registration**

- Loans at low or concessional interest rates
- SSIs can avail various tax rebates, after SSI registration
- SSI units are granted carry forward of credit for Minimum Alternate Tax (MAT) for up to 15 years
- Only SSIs are allowed to have access to certain government tenders
- Acquiring government licenses and certifications becomes easier once a unit receives a permanent registration
- As many concessions and rebates are available, therefore the cost of setting up of industry reduces

### **Registration of Small Industry:**

#### **Step 1: Provisional SSI Registration**

To obtain SSI registration the business must first apply for Provisional **SSI Registration Certificate (PRC)**. Provisional Registration Certificate is given when the unit is in a pre-operative period and helps the SSI unit obtain term loans and working capital from financial institutions/banks under priority sector lending. In addition to helping obtain a bank loan, the provisional SSI registration certificate also helps the business obtain facilities for accommodation, land, other approvals etc. and obtain various necessary NOCs and clearances from regulatory bodies such as Pollution Control Board, Labor Regulations etc.

Provisional SSI registration can be applied for by a business at any time and the industrial license is not required. Once an application is made for Provisional SSI registration, the provisional registration is provided and no field inquiry is done. Provisional **SSI registration** is valid for five years and if the entrepreneur is unable to set up the unit in this period, a fresh application for provisional registration can be made at the end of five years period.

### **Step 2: Start the Business**

Start the business with the provisional SSI registration certificate. Commence activity or production.

### **Step 3: Permanent SSI Registration**

Once the business commences production or activity, the business can apply for and obtain permanent SSI registration. Obtaining permanent SSI registration will help the business obtain the following benefits:

Income-Tax exemption and Sales Tax exemption as per State Government Policy  
Incentives and concessions in power tariff as per State Government Policy  
Price and purchase preference for goods produced  
Availability of raw material depending on existing policy  
**Permanent SSI registration will be provided only if the following conditions are satisfied by the SSI unit:**

- The unit has obtained all necessary clearances whether statutory or administrative
- The unit does not violate any restrictions in force,
- Value of plant and machinery is within prescribed limits and
- The unit is not owned, controlled or subsidiary of any other industrial undertaking as per notification.

## **Project Identification :**

Project Identification is a process of generating a few ideas about the possible projects. The project ideas can be discovered from various internal and external sources. It is apprehensive with the collection, compilation and analysis of economic data for the eventual purpose of locating probable opportunities for investment. Actually, Project identification means identifying some possible projects having a good market.

**Steps in Project Identification** – For identifying the feasible projects, the prospective entrepreneur has to go through the following steps.

***Conceiving project ideas*** – This is the first vital stage in project identification. Profit making is the chief drive behind every business or enterprise.

***Choosing the right line of business*** – To ensure the success of the business, the potential entrepreneur has to spend substantial time and energy on choosing the right line of activities.

***Opportunity seeking*** – A number of business opportunity may be obtainable; however, seeking the right business opportunity depends upon the entrepreneur's capabilities, his strengths and weaknesses and also on his preferences.

***Decision-making process*** – This final step in project identification involves making important decisions regarding the project to be undertaken. Project identification cannot be complete without identifying the characteristics of the project.

## **Project Formulation:**

### **Meaning:**

Project formulation is the systematic development of a project idea for arriving at an investment decision. It has the built-in mechanism of ringing the danger bell at the earliest possible stage of resource utilization. Project formulation is a process involving the joint efforts of a team of experts. Each member of the team should be familiar with the broad strategy, objectives & other ingredients of the project. Besides being an expert in his area of specialization, he should be able to play his role in the overall scheme of things.

It aims at a systematic analysis of project potential with the ultimate objective of arriving at an investment decision. In this process it makes an objective assessment from all possible angles starting from project identification upto its appraisal stage. Thus, project formulation is the process of examining technical, economic, financial & commercial aspects of a project. It refers to a preliminary project analysis covering all aspects such as technical, financial, commercial, economic & managerial to find out whether it is worthwhile to take project for detailed investigation & evaluation.

### **Selection of Product:**

Products serve the business as the most important and visible first contact with buyers i.e. end-users. The physical nature of products to the consumers typifies the psychological symbols of personal attributes, goals, and strategic pathways. In other words, consumers are most likely to form opinion and perspectives for the entrepreneur

### **Criteria and Factors to be Considered in New Product Selection Stages Supply- Demand gap**

The size and scope of the potential and unsatisfied market demand, which forms the bedrock of business opportunity, will dictate, to great proportions, the need to settle for a particular product. One rule of thumb in developing a product selection criteria template is that the product with the most frequency of need/demand possesses the greater chance of bestowing success on the business, should be selected.

In plain terms, there must be existing demand (a market) for the chosen product.

### **Financing**

This is one of the most important **factors associated with product selection**. The size of the funds that can be accessed is another important consideration in choosing a method of product selection permitted. Adequate funding is required to carry out pre-launch activities such as development, production, promotion, marketing and distribution amongst others, of the selected product.

### **Availability of and Access to Starter Materials**

Differences in products require different starter materials. Factors such as the source of the materials, the quality to be achieved as well as the quantity of the raw materials is key management decisions. Will the raw materials be available in sufficient quantities, over a continual basis? Where are the locations of the raw

materials needed? Are they accessible? Will it be important to situate the business close to these sources of raw materials?

In the event of local sources being incapable of meeting demand, are there viable alternatives abroad? The entrepreneur must embark on a thorough analysis of these limiting factors before settling for a particular product for a market.

### **Technical Considerations**

The production route for the product bears a lot of weight when it comes to the product selection process in entrepreneurship. The technical dynamics of the chosen product on the existing production line will be x-rayed against factors such as available technology, power requirement and even the use of automated processes or human labor.

Besides, the choice of a particular product may warrant either the acquisition of new equipment or refurbishing of used machinery. The product must also be deemed technically satisfactory to the user.

### **Profit viability/Marketability**

As is often the case, the product that meets the criterion of giving the optimum return on investment will be selected. However, a product may be chosen on the ground that it utilizes dormant capacity or helps with the sales of existing products. The product must also bear the important characteristic of being marketable.

### **Qualified and Skilled Personnel**

Qualified personnel will be required to handle the production and marketing, on an ongoing basis. The cost associated with manufacturing the product must be kept to the barest minimum by reducing wastage. This is achievable through the engagement of competent and skilled hands.

### **Government Policies and objectives**

These product selection factors are often beyond the control of the entrepreneur. The thrust of government policies on economics and commerce, over time, is usually in the national interest, which may or may not be at odds with the objectives of the business. For instance, the insistence of government on the use of 100% locally sourced starter materials will greatly influence the decisions of business concerning what business product to introduce to the market.

Standard global practices advocate identifying several criteria upon which product selection can be carried out. Scores can be allocated to each criterion to come up with an objective evaluation.

### **What are the Phases involved in New Product Selection Exercise**

After knowing the criteria to select a product in entrepreneurship, what are the stages involved? Three basic stages are involved in the new product selection process. These sum up to idea generation and synthesis; evaluation and choice.

These are the practical product selection steps and stages that you should know.

### **Idea Generation and Synthesis**

Medical product ideas and other investment opportunities originate from different sources such as financial newspapers and journals, research papers, consulting firms, chambers of commerce and industry, universities, competitors.

The origin of idea generation could be a simple analysis of the concept of S.W.O.T( Strengths, Weaknesses, Opportunities, and Threats). Ideas could also be developed through brainstorming, research and business think tanks.

### **Evaluation**

Screening of the product ideas is the bedrock of evaluation. Considerations include the potential value of the product, the cost of time and money, equipment required, the suitability of the potential product in the long term financial objectives of the business, the presence of qualified personnel in the production and marketing processes, need thorough consideration.

A pre-feasibility study of the product market, technical and financial aspects should be embarked upon at the early stages, to come up with the consequent benefits and associated cost implications. A pre-feasibility serves as the forerunner to a feasibility study, although it is less detailed. A pre-feasibility study will analyze large and complex product startups before a proper feasibility study is made. This is vital to understanding product selection.

### **Choice**

A choice is reached for a product, which has scaled the hurdles and is commercially viable, technically feasible and economically desirable. At this stage

in this product selection guide, resources and manpower can then be deployed to launch the product into the market.

## **Legal Consideration and license:**

### **1.licence from local authority:**

You will need several types of licenses or permits before you open your business. The number of licenses your business will require will depend on the kind of establishment you want it to be. At the very least, you will need a business license, trading license, and sales tax permit.

Most business zones require all businesses that employ a number of workers to get employer's liability insurance. But aside from being a legal requirement, when you have sufficient coverage, you will avoid incurring fines every day that you are uninsured. You also avoid leaving yourself vulnerable to compensation claims from employees and visitors who may get injured or sick while they are in your premises.

**3. Tax registration– GST registration** is thus compulsory in order to avoid tax penalties. However, different registrations are thus required for different licenses. You cannot get your business registered with one department only. The businessman is required to apply for every registration which your small business is eligible for.

**4.Fire Department License–** If your business deals with something flammable material and it is thus open to the public, fire department permit becomes essential. Some states have made it mandatory. While in other states this licence is made as an option, fire departments merely pay periodical inspection visits in order to check whether your business is following fire safety rules or not? Businesses like- restaurants and where the people gather frequently require such license permit.

**5.Air and Water pollution Permit–** Businesses dealing with manufacturing process that are using natural resources need a permit from the environmental department. This should however be done before constructing any building because the environmental department may raise an issue later.

**6. Factories Act 1948:** The Factories Act 1948 is a part of social welfare legislation that implies on factories for the benefit of both employer and employee that facilitate smooth running of the factory by complying with the provision of the Act. Effective monitoring of the Factories covered by the Act commences with the scrutiny of the place and approval of plans and specification before they are registered under the Act and license are issued for the running of the factories.

7. Electricity connectivity and water connectivity form relevant authority.