

## ANSWER KEY

### ENTREPRENEURSHIP DEVELOPMENT FOR MBA II SEM

#### Part A

1 (a) Describe the venture capital process.

ANSWER:

#### **Step 1: Idea generation and submission of the Business Plan**

The initial step in approaching a Venture Capital is to submit a business plan. The plan should include the below points:

- There should be an executive summary of the business proposal
- Description of the opportunity and the market potential and size
- Review on the existing and expected competitive scenario
- Detailed financial projections
- Details of the management of the company

There is detailed analysis done of the submitted plan, by the Venture Capital to decide whether to take up the project or no.

#### **Step 2: Introductory Meeting**

Once the preliminary study is done by the VC and they find the project as per their preferences, there is a one-to-one meeting that is called for discussing the project in detail. After the meeting the VC finally decides whether or not to move forward to the due diligence stage of the process.

#### **Step 3: Due Diligence**

The due diligence phase varies depending upon the nature of the business proposal. This process involves solving of queries related to customer references, product and business strategy evaluations, management interviews, and other such exchanges of information during this time period.

#### **Step 4: Term Sheets and Funding**

If the due diligence phase is satisfactory, the VC offers a term sheet, which is a non-binding document explaining the basic terms and conditions of the investment agreement. The term sheet is generally negotiable and must be agreed upon by all parties, after which on completion of legal documents and legal due diligence, funds are made available.

(b) Discuss the characteristics of a social enterprise.

ANSWER: Social entrepreneurship is all about recognizing the social problems and achieving a social change by employing entrepreneurial principles, processes and operations

Social entrepreneurship is the attempt to draw upon business techniques to find solutions to social problems. This concept may be applied to a variety of organizations with different sizes, aims, and beliefs.

Social enterprises complete alongside other businesses in the same marketplace, but use business principles to achieve social aims.

A few things all social enterprises have in common are:

- They are directly involved in producing goods or providing services
- They have social aims and ethical values
- They are **self-sustaining**, and do not rely on donations to survive (i.e. they are not charities)

#### CHARACTERISTICS OF SOCIAL ENTREPRISE:

##### **1. Enterprise Orientation:**

First is enterprise orientation. They are directly involved in producing goods or providing services to a market and they seek to be a viable trading organization with an operating surplus.

##### **2. Social Aims:**

Second, are their social aims. They have explicit social aims such as job creation, training, or the provision of local services.

They have ethical values including a commitment to local capacity building, and they are accountable to their members and the wider community for their social, environmental, and economic impact.

##### **3. Social Ownership:**

The last common characteristic is social ownership. They are autonomous organizations with governance and ownership structures based on participation by stakeholder groups or trustees. Profits are distributed as profit sharing to stakeholders or used for the benefit of the community.

UK has also developed a new legal form called the community interest company (CIC). The CICs are a type of limited company designed specifically for those wishing to operate for the benefit of the community rather than for the benefit of the owners of the company.

c) FDI is “First Develop India”. Explain this statement.

ANSWER: The economic development witnessed during the past two decades in India rests to a great extent on Foreign Direct Investment (FDI). FDI has been a vital non-debt financial force behind the economic upsurge in India. Special investment vantages like cheap cost wages and tax exemptions on the amount being invested attract foreign companies to invest in India. FDI in India is done across a wide range of industries and its relentless influx reflects the tremendous scope, faith and trust that foreign investors have in the Indian economy.

There are several benefits of increasing foreign direct investment in India. First of all, with more FDI, consumers will be able to save 5 to 10 percent on their expenses because products will be available at much less rates and to top it all, the quality will be better as well. In short, it will be a win-win situation for the buyers. It is also expected that the farmers who face a lot of economic problems will also get better payment for their produce. This is a major benefit considering how many farmers have been giving up their lives lately. It is expected that their earnings will increase by 10 to 30 percent. FDI is also supposed to have a positive effect on the employment scenario by generating approximately 4 million job opportunities. Areas like logistics will be benefited as well because of FDI and it is assumed that 6 million jobs will be created. The governments – both central and state – will be benefited because of FDI. An addition of 25-30 billion dollars to the national treasury is also expected. This is a substantial amount and can really play a major role in the development of Indian economy in the long term.

#### ❖ **Steps Taken by Government to Promote FDI**

The Indian Government has taken a number of steps to show its willingness to allow more foreign direct investment in the country. In the infrastructure development sector, it has relaxed the norms pertaining to area restriction, the laws regarding gaining a comfortable exit from a particular project and the requirements relating to minimum capitalization. If companies are ready to commit 30 percent of their investments for affordable housing, then the rules for minimum capitalization and area restriction will be waived off. It is expected that this will benefit the construction sector a lot, especially in the form of greater investment inflow.

The situation will only get better once sectoral conditions are further relaxed and the terms that have been used in the policy are clarified up to a greater extent. This is likely to get more investment especially in the newer areas. This will also act as a fillip for entities eagerly interested in developing plots for serviced housing. This is going to be a major development considering the fact that the land in the urban areas is inadequate. One also needs to factor in the high costs of land in this regard. It will also lead to the creation of cost-beneficial, affordable houses. It will help with the ‘Smart Cities’ programme as well.

2 (a) Discuss the organizational models of social entrepreneurship.

ANSWER: 1. The Leveraged Non-Profit:

This business model leverages resources in order to respond to social needs. Leveraged non-profits make innovative use of available funds, in order to impact a need. These leveraged non-profits are more traditional ways of dealing with issues, though are distinguished by their innovative approaches. The entrepreneur sets up a non-profit organization to drive the adoption of an innovation that addresses a market or government failure. In doing so, the entrepreneur engages a cross section of society, including private and public organizations, to drive forward the innovation through a multiplier effect. Leveraged non-profit ventures continuously depend on outside philanthropic funding, but their longer-term sustainability is often enhanced given that the partners have a vested interest in the continuation of the venture.

2. The Hybrid Non-Profit:

This organizational structure can take on a variety of forms, but is distinctive because the hybrid non-profit is willing to use profit to sustain its operations. Hybrid non-profits are often created to deal with government or market failures, as they generate revenue to sustain the operation outside of loans, grants, and other forms of traditional funding.

The entrepreneur sets up a non-profit organization but the model includes some degree of cost-recovery through the sale of goods and services to a cross section of institutions, public and private, as well as to target population groups. Often, the entrepreneur sets up several legal entities to accommodate the earning of an income and the charitable expenditures in an optimal structure. To be able to sustain the transformation activities in full and address the needs of clients, who are often poor or marginalized from society, the entrepreneur must mobilize other sources of funding from the public and/or philanthropic sectors. Such funds can be in the form of grants or loans, and even quasi-equity.

3. The Social Business Venture:

These models are set up as businesses designed to create change through social means. Social business ventures evolved through a lack of funding—social entrepreneurs in this situation were forced to become for-profit ventures.

The entrepreneur sets up a for-profit entity or business to provide a social or ecological product or service. While profits are ideally generated, the main aim is not to maximize financial returns for shareholders but to grow the social venture and reach more people in need. Wealth accumulation is not a priority and profits are reinvested in the enterprise to fund expansion. The entrepreneur of a social business venture seeks investors who are interested in combining financial and social returns on their investments.

(b) Distinguish between merger and acquisition, by quoting one relevant example of both.

ANSWER:

BASIS FOR COMPARISON	MERGER	ACQUISITION
Meaning	The merger means the fusion of two or more than two companies voluntarily to form a new company.	When one entity purchases the business of another entity, it is known as Acquisition.
Formation of a new company	Yes	No
Nature of Decision	The mutual decision of the companies going through mergers.	Friendly or hostile decision of acquiring and acquired companies.
Minimum number of companies involved	3	2
Purpose	To decrease competition and increase operational efficiency.	For Instantaneous growth
Size of Business	Generally, the size of merging companies is more or less same.	The size of the acquiring company will be more than the size of acquired company.
Legal Formalities	More	Less

#### Examples of Mergers and Acquisitions in India

- Acquisition of Corus Group by Tata Steel in the year 2006.
- Acquisition of Myntra by Flipkart in the year 2014.
- The merger of Fortis Healthcare India and Fortis Healthcare International.
- Acquisition of Ranbaxy Laboratories by Sun Pharmaceuticals.
- Acquisition of Negma Laboratories by Wockhardt

2 © Capital brings forth living offspring, or at the least, lays the golden eggs.-Karl Marx. Associate the statement with the importance of venture capital.

**ANSWER:** Venture capital is a capital which provides high potential interest generating returns from the growing companies at very early stages. The return which will be generated is through the sale of the company. This term usually generated from the institutional investors and high net worth individuals which has been working together on a dedicated investment firms. The main importance of it is that it generates high interest returns at very early stages and at a growing pace. It also has high-end companies which supports it in reaching the peak.

1. **Promotes Entrepreneurs**: Just as a scientist brings out his laboratory findings to reality and makes it commercially successful, similarly, an entrepreneur converts his technical know-how to a commercially viable project with the assistance of venture capital institutions.
2. **Promotes products**: New products with modern technology become commercially feasible mainly due to the financial assistance of venture capital institutions.
3. **Encourages customers**: The financial institutions provide **venture capital** to their customers not as a mere financial assistance but more as a package deal which includes assistance in management, marketing, technical and others.
4. **Brings out latent talent**: While funding entrepreneurs, the venture capital institutions give more thrust to potential talent of the borrower which helps in the growth of the borrowing concern.
5. **Promotes exports**: The Venture capital institution encourages export oriented units because of which there is more foreign exchange earnings of the country.
6. **As Catalyst**: A venture capital institution acts as more as a catalyst in improving the financial and managerial talents of the borrowing concern. The borrowing concerns will be more keen to become self dependent and will take necessary measures to repay the loan.
7. **Creates more employment opportunities**: By promoting entrepreneurship, venture capital institutions are encouraging self employment and this will motivate more educated unemployed to take up new ventures which have not been attempted so far.
8. **Brings financial viability**: Through their assistance, the venture capital institutions not only improve the borrowing concern but create a situation whereby they can raise their own capital through the capital market. In the process they strengthen the capital market also.
9. **Helps technological growth**: Modern technology will be put to use in the country when financial institutions encourage business ventures with new technology.
10. **Helps sick companies**: Many sick companies are able to turn around after getting proper nursing from the venture capital institutions.
11. **Helps development of Backward areas**: By promoting industries in backward areas, venture capital institutions are responsible for the development of the backward regions and human resources.

3 (a) Who are angel investors?

**ANSWER:** An angel investor (also known as a business angel, informal investor, angel funder, private investor, or seed investor) is an affluent individual who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity. A small but increasing number of angel investors invest online through equity crowdfunding or organize themselves into angel groups or angel networks to share research and pool their investment capital, as well as to provide advice to their portfolio companies.

Angel investors invest in early stage or start-up companies in exchange for an equity ownership interest. Angel investing in start-ups has been accelerating. High-profile success stories like Uber, WhatsApp, and Facebook have spurred angel investors to make multiple bets with the hopes of getting outsized returns.

The typical angel investment is \$25,000 to \$100,000 a company, but can go higher.

#### KEY ESSENTIALS FOR ANGEL INVESTMENT:

- The quality, passion, commitment, and integrity of the founders.
- The market opportunity being addressed and the potential for the company to become very big.
- A clearly thought out business plan, and any early evidence of obtaining traction toward the plan.
- Interesting technology or intellectual property.
- An appropriate valuation with reasonable terms.
- The viability of raising additional rounds of financing if progress is made

(b) Define exporting and classify the various methods of exporting.

ANSWER: Exports are the goods and services produced in one country and purchased by citizens of another country. It doesn't matter what the good or service is. It doesn't matter how it is sent. It can be shipped, sent by email, or carried in personal luggage on a plane. If it is produced domestically and sold to someone from a foreign country, it is an export.

The paramount consideration in determining whether to export goods indirectly or directly is the level of resources a company is willing to devote to its international marketing effort. These are some other factors to consider when deciding whether to market indirectly or directly:

- The size of the firm.
- The nature of its products.
- Previous export experience and expertise.
- Business conditions in the selected overseas markets.

## **INDIRECT EXPORTING**

The principal advantage of indirect marketing for a smaller company is that it provides a way to penetrate foreign markets without the complexities and risks of direct exporting. Several kinds of intermediary firms provide a range of export services. Each type of firm offers distinct advantages for the company.

### **Commission agents**

Commission or buying agents are finders for foreign firms that want to purchase domestic products. They seek to obtain the desired items at the lowest possible price and are paid a commission by their foreign clients. In some cases, they may be foreign government agencies or quasi-governmental firms empowered to locate and purchase desired goods. Foreign government purchasing missions are one example.

### **Export management companies**

An EMC acts as the export department for one or several producers of goods or services. It solicits and transacts business in the names of the producers it represents or in its own name for a commission, salary, or retainer plus commission. Some EMCs provide immediate payment for the producer's products by either arranging financing or directly purchasing products for resale. Typically, only larger EMCs can afford to purchase or finance exports.



## **Export trading companies**

An ETC facilitates the export of domestic goods and services. Like an EMC, an ETC can either act as the export department for producers or take title to the product and export for its own account. Therefore, the terms ETC and EMC are often used interchangeably. A special kind of ETC is a group organized and operated by producers. These ETCs can be organized along multiple- or single-industry lines and can represent producers of competing products.

## **Export agents, merchants, or re-marketers**

Export agents, merchants, or re-marketers purchase products directly from the manufacturer, packing and marking the products according to their own specifications. They then sell overseas through their contacts in their own names and assume all risks for accounts.

## **Piggyback marketing**

Piggyback marketing is an arrangement in which one manufacturer or service firm distributes a second firm's product or service. The most common piggybacking situation is when a domestic company has a contract with an overseas buyer to provide a wide range of products or services. Often, this first company does not produce all of the products it is under contract to provide, and it turns to other companies to provide the remaining products. The second company thus piggybacks its products to the international market, generally without incurring the marketing and distribution costs associated with exporting. Successful arrangements usually require that the product lines be complementary and appeal to the same customers.

## **DIRECT EXPORTING**

The advantages of direct exporting for a company include more control over the export process, potentially higher profits, and a closer relationship to the overseas buyer and marketplace. These advantages do not come easily, however, since the company needs to devote more time, personnel, and corporate resources than are needed with indirect exporting.

## **Sales representatives**

The representative uses the company's product literature and samples to present the product to potential buyers. A representative usually handles many complementary lines that do not compete. The sales representative usually works on a commission basis, assumes no risk or responsibility, and is under contract for a definite period of time (renewable by mutual agreement).

The contract defines territory, terms of sale, method of compensation, reasons and procedures for terminating the agreement, and other details. The sales representative may operate on either an exclusive or a nonexclusive basis.

### **Agents**

The widely misunderstood term agent means a representative who normally has authority, perhaps even power of attorney, to make commitments on behalf of the firm he or she represents. Firms in the developed countries have stopped using the term and instead rely on the term representative, since agent can imply more than intended. Any contract should state whether the representative or agent does or does not have legal authority to obligate the firm.

### **Distributors**

The foreign distributor is a merchant who purchases merchandise from an exporter (often at substantial discount) and resells it at a profit. The foreign distributor generally provides support and service for the product, relieving the export company of these responsibilities. The distributor usually carries an inventory of products and a sufficient supply of spare parts and maintains adequate facilities and personnel for normal servicing operations. The distributor typically carries a range of noncompetitive but complementary products. End users do not usually buy from a distributor; they buy from retailers or dealers.

The payment terms and length of association between the export company and the foreign distributor are established by contract. Some export companies prefer to begin with a relatively short trial period and then extend the contract if the relationship proves satisfactory to both parties.

### **Foreign retailers**

A company may also sell directly to a foreign retailer, although in such transactions, products are generally limited to consumer lines. The growth of major retail chains in markets such as Europe and Japan has created new opportunities for this type of direct sale. The method relies mainly on traveling sales representatives who directly contact foreign retailers, although results may be accomplished by mailing catalogs, brochures, or other literature.

The direct mail approach has the benefits of eliminating commissions, reducing traveling expenses, and reaching a broader audience. For best results, however, a firm that uses direct mail to reach foreign retailers should support it with other marketing activities.

Manufacturers with ties to major domestic retailers may also be able to use them to sell abroad. Many large retailers maintain overseas buying offices and use these offices to sell abroad when practicable.

### **Direct sales to end users**

A business may sell its products or services directly to end users in foreign countries. These buyers can be foreign governments; institutions such as hospitals, banks, and schools; or businesses. Buyers can be identified at trade shows, through international publications, or through government contact.

The company should be aware that if a product is sold in such a direct fashion, the exporter is responsible for shipping, payment collection, and product servicing unless other arrangements are made. Unless the cost of providing these services is built into the export price, a company could end up making far less than originally intended.

### **Locating foreign representatives and buyers**

A company that chooses to use foreign representatives may meet them during overseas business trips or at domestic or international trade shows. There are other effective methods, too, that can be employed without leaving the country. Ultimately, the exporter may need to travel abroad to identify, evaluate, and sign overseas representatives; however, a company can save time by first doing homework at home. Methods include use of banks and service organizations, and publications.

3 © What are the various problems faced by rural entrepreneurs in India?

ANSWER: Most of the rural entrepreneurs face peculiar problems like illiteracy, fear of risk, lack of training and experience, limited purchasing power and competition from urban entrepreneurs. Some of the major problems faced by rural entrepreneurs are as under.

**1. Paucity of funds:**

Most of the rural entrepreneurs fail to get external funds due to absence of tangible security and credit in the market. The procedure to avail the loan facility is too time-consuming that its delay often disappoints the rural entrepreneurs.

**2. Competition:**

Rural entrepreneurs face severe completion from large sized organizations and urban entrepreneurs. They incur high cost of production due to high input cost.

**3. Middlemen:**

Middlemen exploit rural entrepreneurs. The rural entrepreneurs are heavily dependent on middlemen for marketing of their products who pocket large amount of profit.

**4. Legal formalities:**

Rural entrepreneurs find it extremely difficult in complying with various legal formalities in obtaining licenses due to illiteracy and ignorance.

**5. Procurement of raw materials:**

Procurement of raw materials is really a tough task for rural entrepreneur. They may end up with poor quality raw materials, may also face the problem of storage and warehousing.

**6. Risk element:**

Rural entrepreneurs have less risk bearing capacity due to lack of financial resources and external support.

**7. Lack of technical knowledge:**

Rural entrepreneurs suffer a severe problem of lack of technical knowledge. Lack of training facilities and extension services crate a hurdle for the development of rural entrepreneurship.

**8. Lack of infrastructural facilities:**

The growth of rural entrepreneurs is not very healthy in spite of efforts made by government due to lack of proper and adequate infrastructural facilities.

**9. Poor quality of products:**

Another important problem is growth of rural entrepreneurship is the inferior quality of products produced due to lack of availability of standard tools and equipment and poor quality of raw materials.

**10. Negative attitude:**

The environment in the family, society and support system is not conducive to encourage rural people to take up entrepreneurship as a career. It may be due to lack of awareness and knowledge of entrepreneurial opportunities.

**Lack of adequate knowledge and information:**

Though information technology has substantially developed in the modern world and has penetrated into the rural areas through internet, rural people hardly availed its benefits. Because, rural people do not have adequate information avenues. They are not knowledgeable, trained and motivated to achieve more and more in their own sphere.

**Raw materials:**

Rural industries face a tough task in procuring and storing raw materials. Since rural industries are small they procure raw materials from middlemen at higher prices. Lack of warehousing facilities in the rural sector also costs more towards storing of raw materials.

**Legal problems:**

Rural industries need compliance of various legal formalities in obtaining the government's approval and license for carrying out industrial activities. But rural entrepreneurs find it extremely difficult to comply with various legal formalities due to sometimes complex legal provisions or illiteracy and ignorance.

Besides the above problems, lack of awareness and knowledge about the importance of rural industries stand as a major problem before rural entrepreneurs. Added to this another problem crops up relates to the disinterest shown by rural people to assume rural entrepreneurship as career. The ninth plan has also sorted out the problems of rural industries as follows:

- Inadequate flow of credit
- Use of obsolete technology, machinery and equipment
- Poor quality standards
- Inadequate infrastructural facilities.

## PART B

4 (a) Analyze the impact of start-up India & stand-up India on the economic growth of the country.

ANSWER:

India is a country of many great legends who were famous all over the world because of their works, sharp mind and high skill. However, our country is still on the developing track because of the lack of some solid support and ways to work in right direction. Youths in India are very talented, highly skilled and full of innovative ideas. This scheme is a big help to them to go in right direction using their new and innovative ideas.

### **What is Startup India Standup India Campaign**

A new campaign named as Startup India, Standup India was announced by the Prime Minister Narendra Modi during his speech on Independence Day 2015. This is an effective scheme launched on 16<sup>th</sup> of January 2016 by the Modi government to help youths of the country. This is an initiative by the Indian PM to give opportunities to the youths to become industrialists and entrepreneurs which need the establishment of a startup network. Startups means youths of the country will be supported through finance from banks to strengthen those startups better so that they can create more employment in India.

This programme is a big start to enable startups through financial support so that they can use their innovative ideas in right direction. PM has also requested to all the banks to support at least one dalit and one woman entrepreneur. This scheme will motivate and promote new comers towards business and grow their career and economy of the country.

### **Action Plan of Startup India Standup India Scheme**

A complete action plan of this scheme was launched on 16<sup>th</sup> January 2016. This scheme will boost entrepreneurship in the country at grassroots level ensuring youth benefits from the lowest strata of society. Youths have fresh mind, new ways, and new thinking so they are better to support as startups. Various IITs, NITs, central universities and IIMs of India were connected through the live connectivity during the successful launch of campaign. The main aim of this scheme is to promote bank financing as well as offer incentives for start-up ventures to boost the entrepreneurship and new job creation techniques among them.

### **Conclusion**

This initiative is the necessity to lead India in right direction. The most important point about this campaign is that it involves youths of the country as start-ups as they have fresh mind, innovative ideas, required strength, energy, skill, and new thinking to lead business. Youths are the energetic and highly skilled section of the society so they are better target for this campaign.

4 (b) CLOSED ENDED CASE FOR ASSESSMENT