



Start/Register a Business

Making a product choice

<http://india.gov.in>

National Informatics Centre (NIC), India

Make a careful analysis of the product or service you are choosing. Sometimes in the short run, there is a shortage of a particular commodity in the market. You find that you have almost two weeks to supply fresh stock. Does that mean you can jump into that business?

The first thing to do in such a condition is to analyse the situation. Keep in mind that shortages may occur due to a number of reasons, and a good entrepreneur always examines the pros and cons before setting up a business. You may be tempted to think that perhaps you have found a good business idea. But do not be easily misled by these temporary shortages. Carefully analyse the future demand-supply position of the product, say for the next three to five years. Only when you are certain that the shortage will remain there for a considerable period of time, that you would be able to generate enough profits in the very first or second year of operation, and that you can produce a quality item within an acceptable pricing, only then should you venture into such a business.

There are many organizations which are in possession of information on business opportunities that you can contact to get an idea about a product. Here's a list of some of them:

1. District industry centres;
2. Technical consultancy organizations;
3. Centres for entrepreneurship development;
4. Small industry service institutes;
5. Lead bank;
6. Industrial extensions bureaus (These exist in several states). They are known by such names as iNDEXTb, Udyog Mitra, Udyog Sahayk and so on);
7. National Industrial Development Corporation, New Delhi;
8. Khadi and Village Industries Commission, New Delhi;
9. Commissioner of Cottage Industries;
10. Entrepreneurship Development Institute of India, Ahmedabad;
11. National Institute of Entrepreneurship and Small Business Development, New Delhi;
12. National Institute of Small Industry Extension and Training, Hyderabad; and
13. Small Industries Development Bank of India, Lucknow.

This information could be in the form of: Project profiles; Feasibility studies; Industry studies; and Area development studies.

Industry-specific agencies

For a given industry, there are organizations which undertake monitoring, research, market-development, export promotion or such other work.

In the project conceptualization stage, while making a product choice, the following factors related to the product need to be considered:

Easy availability of raw material; Process technology; Easy accessibility in the market; Incentive and support from the Government; Product line - depth, width; Market information; Packaging; Branding; Warranties; and After-sales service.

Another point to keep in mind while deciding about products is to avoid the products, which are likely to have a number of players in the market. Some such products in the recent past have been, plastic footwear, audio cassettes, disposable gloves and bulk drugs. In case the entrepreneur is looking for a product which has export potential, s(he) should consider the following additional questions:

- What should be the contents of the export-product portfolio?
- What are the special requirements for packaging if one has to export the products?
- What product adaptations are needed to be made for exporting a product to a specific country? Does it meet the product's quality specification of the country concerned?

The development of export-product portfolio can be done by considering 4 parameters:

External demand conditions; Internal supply capability; Complexity of marketing tasks; and Amount of investment required to penetrate the market.

An analysis can be conducted using this four-dimensional model. The choice should be a product which scores a high rating on the first two parameters and a low rating on the last two parameters.

EXIM (Export Import Bank of India) Bank has also developed an excellent model to conduct the export-product portfolio analysis based on three parameters:

Supply capability in product group; Domestic environment; and Export market attractiveness.

This analysis gives rise to product groups with high potential or low potential. Some high potential areas are: Leather garments; Yarns and thread; Apparel - woven and knitted; B&W TV sets; and Costume jewellery.

With regard to special packaging requirements, one has to be careful about the laws of the country one is exporting to. Product adaptations for a country's specific needs look into things like whether the voltage supply is 220 V or 110 V for electric appliances, and for automobiles, whether a left-hand drive or a right-hand drive is appropriate. □

Note: The content for this module has been compiled and developed in association with FICCI.



Why choose you?

A unique value proposition for your start-up

<http://www.bestpracticeschina.com>

Best Practices China, China

It is your responsibility to control the message you send out to potential partners or investors. You must be very careful to develop a message that is simple, clear and persuasive. You must be able to answer one very simple question - Why should they choose you over the competition? And you have to be able to get that message across quickly - and then defend it! Because when that investor leaves your office and reports to his boss, that's the only thing they are going to base their decision on. What is your value proposition? In other words - why should they buy?

Before you can answer why, you have to concentrate on who? Who is your target, and what are their goals? It's impossible to know everything about your situation, of course, but there are a few "best practice" rules that will make this part of your job much easier.

If your audience is a potential investor who only cares about a high return on his investment, then he probably wants to know that you have the potential to be the market leader in your industry. That is one of the main criteria for medium and long term investors. You must convince them that you can outperform the competition and build up your market share. Conversations with passive investors usually focus on the quality of your management team, your competitive market position, and your "scaleability", or ability to grow. Remember - passive investors only care about their return on investment which usually mean capital appreciation. If you have a proven strategy for beating - or buying - the competition, then it is important that you state it clearly and completely. If you are involved in manufacturing or technology, then you have to explain what gives you an advantage over your competition.

All passive investors care about ROI - return on investment. You don't even have to ask them, though you may want to have a discussion about their investment horizon (or the length of time they want to hold the investment) and their exit strategy (or plan for getting out of the investment after they have achieved their goal and made a sufficient profit).

But potential JV partners may have many different reasons for investing. Some are looking for help entering the China market, while others want a partner to manufacture products for distribution to other markets. Some potential JVs are looking for management partners to help run their China operations. Every potential JV partner has a unique reason for wanting to enter the China market. How do you know what yours is? Well, you have two choices - You can ask them or you can guess. BPC recommends the first option - ask them. You should be very clear on your potential partner's goals and objectives before you start negotiating. That is actually the first step in the negotiation process. Learn as much as you can about their

plans. (If you find that they are being secretive or refuse to discuss their plans honestly, then you have already learnt something very important - that you need to find a new partner!)

If your partner wants a manufacturing partner, then your "value proposition" should focus on your quality control standards, cost control, production capacity and may be your design capabilities. A potential partner interested in market entry will be persuaded by strength in distribution, sales, or an extensive branch network.

Your "value message" should include the following:

- **Management team:** This is the key question for all potential investors or partners. It is very simple: How good is management today? How good will management be tomorrow?

When an international investor says "management", he really means "management team" - CEO, CFO, COO, SVP Marketing, and head of R&D if it is appropriate. Does everyone have a proven business experience - often referred to as a "track record"? The key words here are "business experience" - government and academic experience may be great, but be ready to discuss and explain it. How long have they been working together? Is their experience relevant to the market environment? Think of a banking management team - have any of them ever worked in a competitive, deregulated market environment before? If your company plans on going national or international, does anyone on your team have experience in those markets? Be prepared to discuss these issues honestly and completely, because you can expect the questions to come up.

Let's say you can convince the other side that your management team is excellent, or "top-notch". What will it be like tomorrow? One investor we know likes to ask - "What if your CEO gets hit by a truck tomorrow?". Ok - it's a strange way to ask, but the question makes sense. What will you do if your present management team needs to be replaced? Do you have a "deep" management team? What are your training and management development programmes like? And what kind of policies do you have to retain these excellent managers and keep them from heading off to work for your competitors?

While you are discussing management, be prepared for questions on your company's structure and scaleability.

"Structure" refers to your company's reporting lines and departments. Are all the reporting lines tight and logical? Are all the departments focused on the core business? Do you have any cross-holdings or reporting lines that cross departmental or company boundaries? Do any of your managers or officers

have outside obligations - to other companies or even to governments? Be ready to discuss these issues.

Finally, be prepared to discuss how the management team plans on handling growth. The company is going to grow - that is the main idea behind investment. Is the business "scalable" - in other words, will it get more efficient as it gets bigger? Will management be forced to re-invent the company every time it enters a new market or introduces a new product? What are its plans for growth and profitability?

- **Marketing and Sales:** The next major topic of discussion is likely to be your company's plans for increasing your market. Investors and partners will ask about your sales and distribution channels, commission structures, any unique sales or distribution methods you have, and the size and quality of your existing customer or client base. Do you own your own distribution facilities? What is the average age and experience level of your sales force? How do you reward your best sales people? How do you plan on using distribution channels as a competitive advantage in the future?

Also be ready to discuss your competitive environment. What is your market position now? What new competitors are entering your market? What are your goals and strategies for growth? How do you plan on executing? What will you do in the event of a price war?

- **Manufacturing and operations:** How well do you manage your operation? Is your manufacturing facility modern and efficient? Are you achieving economies of scale? Do you have excess capacity? How will you manage growth? Are your costs under control? Below industry average? What about your quality control? Do you have adequate supplies of components and raw materials? What if your costs suddenly rise? What if your supplier goes out of business - or gets bought out?
- **R&D and technology:** What kind of technology do you have now? How does your R&D budget compare with the industry average? Do you have access to other people's

technology? Do you own any patents, copyrights, or other IP? What is your strategy for acquiring new technology? What unique R&D advantages do you have?

- **Connections and other issues:** One other discussion you may find yourself involved in is the connections or "guan xi" conversation. BPC recommends you be very careful when discussing your company's connections. It is highly unlikely that your company's "guan xi" is going to be accepted as a significant value proposition. International investors have been debating the importance of guan xi for years, and more often than not the international investment community tends to discount political and business connections. Why? Don't international investors know how important they are in China? Yes, they know. But every potential investment target has been bragging about their special connections for the last 20 years. The international business community has come to expect that established Chinese companies have all the appropriate connections and relationships. You should also be aware that many experienced China investors have seen people's "guan xi" under perform significantly - and even be blamed as the cause of difficulties. On the other hand, inexperienced China investor's automatically assume that good connections can solve every potential China-related problem, from shipping delays to raw material shortages to bad weather.

If the issue comes up, its best to indicate that you have all the connections and relationships you need, and then move on to another topic. If the other side wants to discuss specific situations, then realistically and honestly discuss what problems you can use your insider connections to solve, and what the limits are. Control expectations, and make sure you can do exactly what you say.

- **Partnerships, JVs or other exclusive relationships:** Those rules do not, however, apply to formal partnerships, distributorships, licenses, or other exclusive business arrangements you may have. These should be presented quickly and clearly. □

ASEAN Science and Technology Network

The ASEAN Science and Technology Network (ASTNET) is the comprehensive, information-rich and vibrant infrastructure set up by the ASEAN Committee on Science and Technology (COST), that is envisioned to underpin the following:

- Good governance, wise policy and proactive planning for its regional cooperation programmes;
- Competitive basic and applied research and development;
- Widespread basic, tertiary and continuing education;
- Human resource development; and
- Technology transfer.

The aim of the ASTNET is to create an ASEAN-wide electronic based technology information network. It will also be a gateway to interconnect ASEAN S&T information resources to internal S&T and industrial databases. It is expected to support administration, monitoring, and coordination of plans and programmes of ASEAN COST, so as to improve the efficiency of cooperation and coordination among ASEAN member countries.

For more information, contact:

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