Lesson 1: Franchising, Network Marketing, E-Commerce and M-Commerce
Lesson 2: Business Process Outsourcing Process of Setting up a Business Enterprise

Editor: Sneh Chawla
Writer: Ruchi Gupta

School of Open Learning
(Campus of Open Learning)
University of Delhi
5, Cavalry Lane, Delhi-110007
FRANCHISING

The Concept of Franchising
To all of us as consumers, a McDonald's or a KFC or a Cafe Coffee Day for that matter in India, or abroad largely look the same. Yet beneath this layer of similarity reside two entirely different organisations - the invisible company that owns the brand, and the company that operates the visible outlet- the franchise.

A ‘franchise’ means the special right given by a manufacturer or a parent organisation to another individual or firm to sell the former’s product or service in a specified area(s). Thus, a right given by McDonalds to someone in India to sell McDonalds’ products in a particular area in Delhi, for example, is an example of a franchise agreement. The person or organisation which grants the right is called franchiser. The individual or enterprise to which the right is granted is called franchisee. Thus, in our example, McDonalds is the franchiser and the person to whom the right has been given to sell McDonalds’ products in Delhi is the franchisee. Because this person in India gets the advantage of selling goods of a big brand McDonalds, he is required to pay some fee to McDonalds in return.

The right granted by a franchiser to a franchisee is given under a special agreement known as the Franchise Agreement. A franchiser can have such an agreement with more than one franchisee. Thus, franchising is a term that defines the business relationship between two organizations where a franchisor, who is the owner of a brand name, product, or system of a business, permits a franchisee to use its brand, product, or business process for a fee.

Definition
Franchising may be defined as a contractual licence (right) granted by one person (franchiser) to another (franchisee) which:

- permits the franchisee to carry on a particular business using the franchiser’s business know-how under the franchiser’s brand as an independent business
- enables the franchiser to exercise control over the manner in which the franchisee carries on the franchised business
- requires the franchiser to provide the franchisee with ongoing support in carrying on the franchised business

Examples of Franchising
In India, NIIT (computer education), APTECH (computer education), Pizza Hut (fast food), McDonalds (fast food), Nirulas (fast food), Subway (fast food), Bata (shoes), Liberty (shoes), Nike (shoes and sports apparel), Adidas (shoes and sports apparel), Reebok (shoes and sports apparel).
apparel), Van Huesen (clothing), Allen Solly (clothing), Pantaloons (clothing), Barista (coffee), Café Coffee Day (coffee) are examples of franchise agreements.

**Features of Franchising**
The salient features of franchising are as follows:
1. The franchiser allows the franchisee to use his trade mark under a licence.
2. The franchise agreement requires the franchisee to follow franchiser’s policies regarding mode of operation of business.
3. The franchiser provides marketing support and technology to the franchisee to carry on business in the manner specified in the franchise agreement. Thus, a franchiser virtually sets up the business for the franchisee.
4. The franchiser may also arrange for the training of personnel working in the franchisee organisation.
5. The franchisee pays to the franchiser a sum of money (called royalty) for using his business know-how and trade mark.
6. The right to use the business know-how and trade mark of the franchiser is for a limited period of time defined in the franchise agreement. However, the franchise agreement may be renewed from time to time.

**Franchise Manual**
A franchise manual is the embodiment of the know-how of the franchise. The manual is a living document and will continually change as the business develops.
The following is an illustrative list of the likely contents of the franchise manual.
- Shop layout
- Staff uniform/appearance
- Staff etiquette
- Staff job descriptions
- Training requirements
- Pricing policies
- Storage requirements
- Advertising and marketing policies
- Technical information about equipment used
- Customer complaint procedures

**Franchise Agreement**
The agreement between franchiser and franchisee is called franchise agreement. Such an agreement contains various terms and conditions of the franchise.

Some of the terms and conditions of a franchise agreement are given below.
1. The term of the franchise.
2. The franchise agreement may be renewed with the mutual consent of both the parties on expiry of the term.
3. The franchisee agrees in the form of an undertaking not to carry other competing business during the term of the franchise. The franchiser, in turn, undertakes not to sell the franchise to any other person in the same region.
4. The franchisee gives an undertaking not to disclose any confidential information pertaining to the franchise during the term of the franchise agreement and two years thereafter.
5. The franchisee gives an undertaking to pay the specified royalty fee to the franchiser.
6. The franchiser gives an undertaking not to terminate the franchise agreement before the expiry of the term except for a “good cause”.

Benefits of Franchising

(I) To the Franchiser
1. The franchise can expand his distribution system in the least possible time.
2. The franchiser is able to expand the business with little extra capital as the franchisee provides the capital for the outlet.
3. The franchiser gets important feedback about the popularity of the product and specific needs and preferences of the local customers from the franchisees.
4. Franchising enables the franchiser to increase his goodwill and reputation by expanding his network.
5. The Franchiser gains wider acceptance of his brand name through the franchisees.

(II) To the Franchisee
1. The business is based on a proven idea. The franchisee can check out how successful other franchisees are before committing himself.
2. The franchisee can use the brand name of the franchiser to attract customers and increase his sales.
3. The franchisee can get assistance from the franchiser in training his staff, promotion of the product, designing store layout etc.
4. There are greater chances of success of the franchisee because the brand of the franchiser is well known.
5. The franchise ensures a high degree of quality control. This enables the franchisee to satisfy his customers by offering quality products.
6. The franchisee enjoys exclusive rights in his territory. The franchiser won’t sell any franchises in the same region.

Disadvantages of Franchising

(I) To the Franchiser
1. The franchiser’s brand name and reputation may get tarnished if the franchisee is not able to maintain standards of quality and service.
2. The franchiser has to provide initial financial assistance and support in the form of staff training, advertising etc.
3. There are ongoing costs of supporting the franchisee and national advertising.

(II) To the Franchisee
1. The franchisee does not enjoy complete freedom in his business. The franchise agreement generally contains restrictions on how the franchisee would run the business.
2. Payment of royalty on a regular basis is to be made to the franchiser.
3. The franchisee cannot sell his business without taking approval from the franchiser.
Potential Disputes
There might be sometimes some disputes between the franchiser and the franchisee. Some possible causes of disputes may be:
1. Poor performance of the franchisee.
2. The franchisee may find that the franchiser has licensed another person in his territory.
3. The franchisee fails to pay the royalty fee.
4. There is a leak out of the confidential information pertaining to the franchise or the franchiser’s business.

NETWORK MARKETING

Network marketing is a mode of direct marketing by the manufacturer. It consists of recruiting independent business persons who act as distributors of company’s products. Each distributor can further engage sub-distributors who can further engage other distributors and so on. Thus, a network of distributors is formed who operate at various levels. Thus, network marketing is also called multilevel marketing. Such a network of distributors working at various levels is illustrated in Figure 1.

![Figure 1: Different levels of Network Marketing](image-url)
Network marketing distributors purchase products at wholesale prices, and may either use discounted products themselves or retail the products to others for a profit. In addition, distributors receive a monthly commission for their ‘personal volume’, which is the value of every product they personally buy or sell. Further, the distributors receive a net commission on the sales of those they recruit into the network. The sales developed from network marketing are not developed solely from sales created by retailing, but also developed through recruiting or sponsoring independent distributors. Thus, as distributors continue to recruit or sponsor new distributors to expand their network, the new distributors will contribute new sales to the network and gain commission in return. The multiplying effect on network marketing will expand when these distributors continue their recruiting or sponsoring efforts. This multiplying effect, an important element in the recruiting or sponsoring function, makes the network marketing quite different from other types of direct selling involving paid sales persons.

Thus, under network marketing the product reaches the customers from the manufacturers via distributors. No formal marketing infrastructure is required. The distributor’s compensation includes a percentage of sales of those engaged by the distributor as well as earnings on direct sales to customers.

Amway Corporation which sells personal care and healthcare products was among the first ones to use network marketing in USA in 1950s. Network marketing is also used by Discovery Toys and Avon Products. Network Marketing is now gaining momentum in India also. The total turnover of network marketing companies in India was estimated at Rs 301,044 crores in 2005 with an annual growth rate of 25%. The India Direct Selling Association (IDSA) has projected that the network marketing industry will be around Rs 8,000 crores by 2010.

**Prominent Network Marketing Firms in India**

- Amway India
- Hindustan Lever Network
- Oriflame India
- Avon Beauty
- Tupperware India

**Advantages of Network Marketing**

Network marketing offers the following advantages:

1. The distribution network grows continuously.
2. It becomes easier to enter new markets through growing networks.
3. The distributor gets the product direct from the firm and hence, the material is always genuine.
4. Lower overhead costs as no infrastructure is required under network marketing. That is, the distributor gets a chance to do business with the company without any investment or liability.
5. The network companies can maintain higher margins on their products.
Limitations of Network Marketing
The limitations of network marketing are as under:
1. There is no direct link between the manufacturer and the customers. Thus, customer relationships cannot be developed.
2. Sales forecasting is difficult. This often results in under or over stocking of various product items.
3. Distributors often become the largest customers and hence take over the control of the company.
4. It becomes difficult for the manufacturer to exercise effective control over his sales team.

E-COMMERCE

Meaning
The term e-commerce or electric commerce refers to a comprehensive system of trading that uses networks of computers for buying and selling of goods, information and services. In simple words, e-commerce refers to buying and selling of goods, information and services through electronic means.

Thus, e-commerce includes buying and selling of
1. Goods- e.g. digital cameras, music systems, clothes, accessories
2. Information-e.g. subscription to some law site may give access to some court cases
3. Services-e.g. matrimonial services through shaadi.com, placement services through naukri.com

The European Union website defines e-commerce as a general concept covering any form of business transactions or information exchange that is made by using information and communication technology. According to International Fiscal Association, e-commerce means “commercial transactions in which an order is placed electronically and goods or services are delivered in tangible or electronic form. For instance, a digital camera purchased by a consumer from indiatimes.com which might be delivered to him at his residence, is a good delivered in a tangible form whereas, a song downloaded from a site like cooltoad.com, is a good delivered in electronic form.

Classification of E-Commerce
Based upon the entities involved in transaction, electronic commerce has been classified into the following categories:
1. Business-to –Business (B2B)
2. Business-to-Consumer (B2C)
3. Consumer-to-Business (C2B)
4. Consumer-to-Consumer (C2C)
1. **Business-to-Business (B2B) Electronic Commerce**
   Under B2B electronic commerce, commercial transactions take place between different business organisations. An example of B2B transaction is a business organisation purchasing material from suppliers. Compared to B2C and C2C transactions, the value per transaction is higher in B2B transactions because bulk purchases are made. The buyers also might get the advantage of discounts on bulk purchases.

2. **Business-to-Consumer (B2C) Electronic Commerce**
   Under B2C electronic Commerce, commercial transactions take place between business firms and their consumers. Here companies sell goods, information or services to customers online in a more personalized dynamic environment. An example of B2C transaction is Amazon.com selling books to customers.

3. **Consumer-to-Business (C2B) Electronic Commerce**
   C2B can be described as a form of electronic commerce where, the transaction, originated by the consumer has a set of requirement specifications or specific price for a commodity, service or item. It is the responsibility of electronic commerce business entity to match the requirements of the consumers to the best possible extent. For instance, a consumer may specify on a site like yatra.com his dates of travel, his source and destination of travel, specifying the total number of tickets required in business/economy class. Yatra.com then finds out the various options for him which best meet his requirements.

4. **Consumer-to-Consumer (C2C) Electronic Commerce**
   C2C is the electronic commerce activity that provides the opportunity for trading of products and/or services amongst consumers who are connected through the internet. In this category, electronic tools and internet infrastructure are employed to support transactions between individuals. For instance, a consumer who wants to sell his property can post an ad on timesclassifieds.com. Another person interested in purchasing a property can browse the property ads posted on this site. Thus, the two consumers can get in touch with each other for sale/purchase of property through timesclassifieds.com.

**Benefits of E-Commerce**
E-Commerce is gaining popularity because it offers the following benefits.

1. **Global Market:** E-Commerce enables business firms to reach out to customers all over the world who have an access to internet. Thus, the whole world becomes a potential market for business enterprises.

2. **Lower Transaction Cost:** E-Commerce reduces the cost of business transactions substantially. For instance, the number and cost of customer service representatives in a bank can be reduced by using net banking.

3. **Higher Margins:** An e-commerce firm can earn higher margins as the transaction costs are reduced to a great extent.
4. **24X7 working**: A website is open all 24 hours, 7 days in a week, it can, thus, take orders, keep an eye on delivery of goods and receive payments at any time. A business firm can provide information about its products and services to customers around the clock.

5. **Wide Choice**: For the consumers, the whole world becomes a shop. They can look at and evaluate the same product at different websites before making a purchase decision.

6. **Customer Convenience**: Customers can shop from home or office. They don’t need to stand in long queues to talk to a salesman. They can read details regarding model numbers, prices, features etc. of the product from the website and purchase at their own convenience. Payments can also be made online.

7. **Direct Contact between Business and Consumer**: E-Commerce enables business firms to establish a direct contact with their customers by eliminating middlemen.

8. **Customer Satisfaction**: E-Commerce allows quick response and redressal to consumer complaints. This helps in increasing customer satisfaction.

**Limitations of E-Commerce**

E-Commerce suffers from the following drawbacks.

1. **Security**: Security continues to be a problem for online businesses. Customers might be reluctant to give their credit card number at the website due to a number of credit card fraud cases.

2. **System and Data Integrity**: Data protection and integrity of the system that handles the data are serious concerns. Computer viruses may cause data corruption, file backups, storage problems etc. there is also a danger of hackers accessing the files and corrupting accounts.

3. **Costs**: Even though the company may initially save money by cutting intermediaries, other costs may be incurred as start-up costs in terms of hardware and software as well as training of employees and costs to maintain the website.

4. **Products People won’t buy Online**: There are certain products like home furnishings which people might not like to buy online. They might want to, for instance, sit on a sofa to see how comfortable it is, feel the texture of the fabric etc.

5. **Corporate vulnerability Web farming**: The availability of product details, catalogs, and other information about a business through its website makes it vulnerable to access by the competitors. The competitors might then indulge in web farming i.e. extracting business intelligence from your competitor’s web pages.

6. **Problem of customer loyalty**: No business can survive for long without loyal customers. The new breed of net savvy customers buys from a website where they are getting the best deal. They are not loyal to a particular seller.

7. **Shortage of Talent**: There is a great shortage of skilled people who can handle e-commerce successfully. Traditional organisational structures and poor work cultures also inhibit the growth of e-commerce.

8. **Fulfillment Problems**: There could be problems related to shipping delays and merchandise mix-ups.

9. **Returning goods**: Returning goods online can be difficult. There are uncertainties regarding whether the goods will get back to their source, who will pay for the return postage, will the refund be paid etc.
Resources required for successful implementation of E-Commerce
Successful implementation of e-commerce requires the following resources.

1. **Well designed Website:** A business enterprise must develop a comprehensive website to communicate effectively with its customers and business partners. The basic infrastructure of a website consists of pages with text, graphics, audio, and links to other pages. The entry point is called the homepage and other web pages are linked to the homepage. The website must be able to provide information about the company, its history, its products, their features and prices and other technical details. The website should also have the ability to input data into the system, for instance, filling out a form, sending an e-mail message to the company or sending feedback about the website.

2. **Adequate Computer Hardware:** The computer hardware consists of its monitor, servers, back up devices, printer etc. For smooth e-commerce transactions, a business needs a computer with a lot of memory, a powerful Central Processing Unit (CPU), and a fast link to the internet. A large storage space will give a quicker access to stored data. A processor with good speed will lead to quicker download.

3. **Adequate Computer Software:** Computer software consists of operating systems like Windows, Linux etc. In addition to an operating system, the company needs a browser such as Internet Explorer which allows surfing on the net. Some basic software like File Transfer Protocol (FTP), Telnet, Archie etc. are also required.

4. **Effective Telecommunication System:** E-commerce requires an effective telecommunication system in the form of telephone lines, optic fibre cables, and internet technology to handle the traffic on the internet. E-commerce cannot be successful if telephone lines are getting frequently disconnected and it is difficult to access the internet.

5. **Technically Qualified and Responsive Workforce:** A well-trained workforce that is capable of working easily with the internet and computer networks is essential for the success of e-commerce. The company staff must be trained to handle sales inquiries, processing orders and ensuring prompt delivery. There must be proper coordination between receipt of order, delivery of goods and receipt of payment so as to minimize errors.

6. **Business Service Infrastructure:** A foolproof system of receiving payment for the goods and services must be developed. Adequate information must be made available to enable the customers to know their bill amount. An inbuilt system of refunds, in case excess amount is received should be created. Electronic payments and refunds should be secured through banks and credit agencies.

Threats to E-Commerce Transactions
E-commerce transactions face the following threats.

1. **Hacking:** Hacking refers to breaking security to gain access to a system. It thus, refers to unauthorized entry into a website. They intercept confidential information and misuse such information to their advantage or modify and even destroy its contents to harm the parties.

2. **Cyber Squatting:** In order to take advantage of some established brand name or trade mark, a firm might use the name/mark for its own website while getting the domain name (name of the website) registered. This is done so as to induce a customer to believe that there is a direct link between the website holder and the trade mark. Such a practice is
known as cyber squatting. For instance, a US company, infospace.com, which offers various commercial services to online customers, complained against the resident of Bhopal for registering his website as indiainfospace.com. It was held that the addition of the word ‘India’ would only induce the people to believe that the site was an Indian affiliate of the US company and thus, amounted to cyber squatting.

3. **Viruses:** Viruses cause harm to the efficient and smooth functioning of e-commerce. Some viruses destroy all the information stored in a computer. They cause huge loss of revenue and time. Viruses may enter a computer system through e-mail or disc drive floppies.

4. **Typopiracy:** Some websites try to take advantage of common typographical errors that the users might make in typing a website address to direct users to a different website. Such people who try to take advantage of some popular websites to generate accidental traffic for their websites are called typopirates and such a practice is referred to as typopiracy. For instance, if a user instead of typing rediff.com in the address bar of Internet Explorer, types by mistake ridif.com or redif.com, then he will find that a different webpage with altogether a different name might open.

5. **Impersonation:** In e-commerce transactions, sometimes hackers may pretend to be consumers themselves. They, thus, make use of stolen credit card numbers of real customers.

6. **Fraudulent Trading:** A business enterprise operating a website might indulge in fraudulent practices. It may operate a fake website, take away money from customers and not supply the good or service to the customer.

**Disputes regarding E-Commerce Transactions**
Several kinds of disputes may arise regarding e-commerce transactions.

1. The customer pays for the merchandise but the business fails to deliver.
2. The customer pays in full, but receives a partial order or the wrong merchandise.
3. The customer does not like the product but the business has no procedure for accepting returned merchandise.
4. The business delivers but the customer does not admit that he ever received the merchandise.
5. The customer receives the merchandise, but it arrives damaged. The carrier (Courier Company) denies responsibility and the business says it is carrier’s responsibility.

**M-COMMERCE**

**Meaning**
M-Commerce or mobile commerce refers to the buying and selling of goods and services through wireless handheld devices such as mobile phone and personal digital assistants (PDAs). M-Commerce enables the users to access the internet without needing to find a place to plug in. The basic idea of M-Commerce is to distribute information and thus to generate business in a mobile way. For instance, in case of brokerage services, stock quotes can be displayed and trading conducted by the same handheld device.

M-Commerce is known as the next generation e-commerce. It became possible with the integration of the mobile phone and the internet. In order to exploit the M-Commerce market
potential, handset manufacturers such as Nokia, Ericsson, Motorola etc. have made efforts to come up with WAP enabled smart phones. Using Bluetooth technology, smart phones offer fax, e-mail and phone capabilities, all in one, paving the way for m-commerce to be accepted by an increasing number of mobile workforce.

**Opportunities for M-Commerce**

Whether it is a teenager downloading a ring tone to his cell phone, a businesswoman text messaging her assistant, or a remote employee retrieving email on his personal digital assistant (PDA), consumers and businesses are demanding mobility, “always-on” access, and ease of use at the user level-and more critically, at the device level. E-billing, e-salaries, shopping, retailing, ticketing, reservations, auctions, membership services, medical records are some examples of the application of m-commerce. Any individual or organisation with a website can transform the web pages into WAP pages and make the information available to mobile users. With the help of WAP, one can book tickets, check his bank account, confirm flight time, play games and chat. The opportunities are endless.

**Example of M-Commerce:**

1. **M-Banking**
   - Provisioning and availability of banking and financial services
   - Conducting bank and stock market transactions
   - Mobile remittances, micro-finance, and micro-payments
   - Placing orders and making payments through SMS
   - Issuing instructions to pay monthly utility bills
   - Banking alerts, banking requests, salary credit

2. **Airtel**

   Airtel has announced the launch of a whole range of M-Commerce solutions such as Mobile Money Transfer (MMT), Postpaid Bill Payment and Prepaid Recharge on the mobile phone. It is partnering with ICICI bank, HDFC bank, SBI, Corporation bank and VISA to enable these payments. The solution has been developed by mChek, a leading provider of mobile security and payment solutions. This is the first time in India that Mobile Money transfer will be available. All Airtel mobile customers with credit/debit cards with ICICI bank, HDFC bank, SBI, Corporation bank & VISA, can now pay their postpaid bills instantly. Further, Mobile Money transfer will empower an Airtel user to transfer money to their family or friends by a click of a button. This spells huge convenience to the customer and has the potential to redefine the benefit of a mobile phone from simply being a device for communication to being a mobile payments device.

**Advantages of M-Commerce**

1. A new distribution network being available to conduct commerce.
2. A ready convenient and secure way to do transactions.
3. Larger reach, effective target marketing, and ability to offer location-based services.
Problems in M-Commerce
The following are the constraints in the application and growth of m-commerce.

1. The existing technology is not best suited for mobile data transfer. The connections are unstable, the data transfer rate is limited, transfer duration is too long and the costs involved are high.
2. Acceptance of m-commerce is slow.
3. Lack of infrastructure, competing standards, poor input and display capabilities in cell phones, and human fear to learn new things are other constraints in the use of m-commerce.

Future of M-Commerce
Some applications of m-commerce will become popular. These are time critical services that people would need on their way, e.g. traffic news, stock market reports. Booking tickets etc. For instance, the travel industry in realizing the possible benefits of m-commerce, is working on technologies that will take care of travel arrangements, update customers on flight status, notify them when this information changes and will offer to make new arrangements based on preset user preferences requiring no input from the user. Therefore, a customer’s entire trip can be scheduled and managed using only their mobile devices.

Similarly, a wide variety of information services can be delivered to mobile phone users in much the same way as it is delivered to PCs. These services include news, stock data, cricket scores, stock records, traffic information etc.

There is no doubt that mobile technologies have the potential to bring changes to business and industries. However, whether this will lead to the predicted revolution, is yet to be seen.
BUSINESS PROCESS OUTSOURCING

Outsourcing or Business Process Outsourcing (BPO) means transferring a firm’s non-core activities to an external provider. It means getting some business activities accomplished through an outside agency. For instance, a manufacturing firm instead of setting up its own advertising department may outsource the advertising work to some advertising agency. The Ad agency can help the client company in fixing the advertising budget, preparing advertising copy, choosing the most appropriate media such as TV, radio, newspapers, magazines and buying media space.

In an outsourcing agreement, there are two parties:
1. The outsourced, i.e., the client company which wants to outsource a business process
2. The vendor or external provider who provides the service to the company.

Thus, in the above example the manufacturing firm is the client company or the outsourced and the advertising firm is the vendor or the external provider.

Some of the business processes which may be outsourced include accounting and financial services, payroll services, inventory management, advertising services, healthcare and welfare services, market research, courier service etc.

Outsourcing enables a company to concentrate on its core activities by contracting out the non-core and routine activities to outsiders. There is no need for the firm to recruit, train and pay workers on a permanent basis to undertake non-core activities.

Benefits of BPO

Outsourcing offers the following advantages:
1. Outsourcing enables a firm to concentrate on its core activities as the non-core activities are outsourced to an external provider.
2. The external vendor is a specialist in performing the outsourced business process and thus can perform the same at a lower cost.
3. The firm need not create a separate department to perform non-core business processes and thus lesser investment needs to be done.
4. The external vendor provides his expert advice to the client company for better performance of outsourced services.
5. The firm has a freedom to choose the external provider who it thinks can perform the business process most efficiently. In case the firm is not satisfied with the performance of the vendor, it can terminate the contract and find a new vendor.
6. For certain services which are require temporarily, outsourcing them is the best option.
The Outsourcing Guide
Outsourcing business processes to an external vendor requires a careful consideration of the following areas:
1. Selection of the right activities to be outsourced
2. Identification of the right supplier of services

Which activities to outsource?
It is important to identify those activities of the business which an external provider can perform in a more cost efficient way. These are generally the non-core activities of a business. Such activities when outsourced to an external vendor do not require any fixed investment in the form of a separate department to perform these activities. However, the firm must be aware that outsourcing may imply loosing control over its operations.

Identifying the right supplier of services
Choosing the right company to outsource the jobs is not easy. It is important to identify the key technical and management issues in outsourcing. A few prime factors one has to focus on are:
- The vision and mission of the company in evaluation
- Balance sheets of the previous years
- Client lists
- Infrastructure

The external vendors are evaluated on these criteria and the best one is chosen with whom the firm will enter into an outsourcing agreement. The more providers there are in the market, the better position the firm is in for negotiating a deal. Besides, it also allows the firm the option to switch, if the need arises.

BPO in India
India is rapidly emerging as an outsourcing base for multinational corporations. India has low cost but highly qualified English speaking labour. Therefore, business process outsourcing is accelerating quite fast in India. Initially, companies which started experimenting with India as an outsourcing base were MNCs who started company owned back office operations and call centers. Very soon they started outsourcing more complex business processes to India. In India, companies like Infosys, Wipro, HCL Technologies and Satyam have entered BPO operations. With time, the upsurge in BPO has offered Indian companies a route to participate in the core business processes of MNCs and gradually move up the value chain. This would be the time when they will be more like business partners rather than mere suppliers of services to MNCs.

SETTING UP A BUSINESS ENTERPRISE
The process of setting up a business enterprise is known as promotion and the persons who carry out this process are called promotion. Promotion of a business enterprise involves several decisions. Promotion of a new business enterprise is like the birth of a child. The person who has a business idea and takes steps to launch a business enterprise is known as an entrepreneur.

Entrepreneurial Decisions in Setting up a Business Enterprise
An entrepreneur has to take the following decisions in order to establish an enterprise.
1. **Selection of line of business:** The entrepreneur has to decide the type of business in terms of manufacturing, trading or service. Then he has to select the types of goods and services he will produce and distribute. He should then analyse and estimate the profitability of the proposed business on the basis of operating costs and sales revenue. Marketing research should be carried out to find out the number of customers and their needs. Decisions regarding product design, pricing policy, marketing and distribution channels should be made.

The selected line of business must be such that the expected rate of return must be fair keeping in view the risks involved and the amount of investment required in the enterprise. Also, the degree of risk must be such which is acceptable to the entrepreneur. The selected line of business must also be technically feasible i.e. it should be possible for the promoter to arrange for the required finance, technology, labour, material etc.

2. **Size of the unit:** Decision regarding size of the unit is very important. The optimum size is one at which the average cost per unit is minimum. The entrepreneur should aim at the optimum size keeping in view the nature of the product, technique of production, the extent of market, availability of finance, competence of management etc. Large scale operations offer the advantages of economies of scale but require huge capital investment. When risk involved is high or a new idea is to be tried, it is advisable to start the business on a small scale and gradually increase the size. However, the initial size of the business can also be large provided the entrepreneur is willing to assume the risks associated with it.

3. **Location of business:** The location of a business is a very important decision because once the site is selected, it is very difficult to change it. An unfavourable location restricts the growth of business and also leads to higher costs. The objective of location decision is to find out the optimum location so that the per unit cost of production and distribution is the lowest. The location decision involves decisions regarding the selection of the region and selection of the site. The region is selected on the basis of access to raw materials, availability of labour, transportation facilities, banking facilities etc. The selection of site requires a consideration of cost of land, soil and surface, development costs etc.

4. **Choice of form of ownership:** A business organisation may be organized in the form of a sole proprietorship, partnership and joint stock company. The choice of the form of ownership depends on several factors such as nature and size of business, degree of risk involved, capital requirements, managerial requirements etc. A good form of ownership should be easy to form and simple to operate. The choice of the form of organisation is very important as it determines the authority and liability of owners, division of profits, continuity of business, transferability of interest etc.

5. **Financial planning:** The entrepreneur has to make available sufficient amount of capital for the initiation and continuation of the business. Capital is required for investment in fixed assets like land, building, machines and equipment and current assets like supplies, material etc. Capital is also required for meeting day-to-day expenses of business. An entrepreneur while doing the financial planning will have to take decisions in the following areas.
a. Determination of the total amount of capital required for business

b. Deciding the form and composition of securities which are to be issued to raise the estimated capital

c. Administration of funds

6. **Provision of physical facilities:** This decision requires the selection of machines, equipments, building, plants and other physical facilities. Decisions in this area depend upon a number of factors such as the nature of business (manufacturing, trading or service), size of the firm (large, medium or small), process of production (capital-intensive or labour-intensive) and availability of funds. In selection of machines and equipment, factors such as relative costs and productivity, availability of repair and maintenance services and spare parts, skills of workers required to run such machines and equipment should also be considered.

7. **Plant layout:** Plant layout refers to the arrangement of physical facilities (like machines) in the plant. Machinery and equipment should be placed in such a way that it permits materials to move through the necessary operations (from one machine to another) rapidly and in the most direct way possible. The layout should also be flexible enough to adapt itself to the changing conditions of business. A good layout helps in avoiding back-handling of materials and removing other bottlenecks and delays in the production process.

8. **Personnel:** At the next stage, the entrepreneur must estimate the number (quantity) and the type (quality) of people to perform different jobs. This is estimated with the help of manpower planning or human resource planning. After this, the procurement, development and motivation of the required managers and workers becomes necessary. People with required skills, experience and aptitude must be recruited and selected.

9. **Procedural formalities:** In almost every type of business, some procedural formalities have to be observed while starting a new enterprise. In case of a sole proprietorship or partnership, there are practically no procedural formalities. Registration of a partnership firm is not necessary. But a joint stock company is exposed to greater procedural formalities both at the time of incorporation and during its life. Registration of a company is necessary. For registration, many documents have to be prepared and the required fee deposited with the Registrar of Companies. A public company has also to secure a Certificate of Commencement of Business before it can start its operations.

10. **Launching the enterprise:** At this stage, the promoter arranges for the acquisition of necessary resources like men, material, machinery, money and managerial ability. After arranging for the necessary resources, he develops an organisation structure and divides work among the personnel. Various departments like production, finance, marketing, personnel etc. are created and their working coordinated to achieve organisational objectives.

**PROCESS OF SETTING UP A BUSINESS ENTERPRISE**

The major steps involved in the process of setting up a new business enterprise include the following.

1. Identification of business opportunity
2. Generation of business idea
3. Feasibility study
4. Preparation of business plan
5. Launching the enterprise
Step 1: Identification of Business Opportunity

Business opportunity refers to a business idea which can be converted to a profitable business. The world of business offers a number of business opportunities, but not many people can identify them. An entrepreneur should be able to identify such business ideas which can be converted to profitable business ventures. While choosing an idea to work with, an entrepreneur has to be very careful about the line of business (manufacturing, trading or service) as any mistake made in taking such a decision may prove to be very costly. Moreover, the entrepreneur should also ensure that there is an adequate market for the product or service that he wants to offer in the market and that the rate of return on the investment is sufficient.

Step 2: Generation of Business Idea

This stage requires generation of an idea that can be converted into a business. The idea should be able to yield a reasonable return on investment i.e. it should be worthwhile for implementation. A business idea may be discovered from the following sources.

1. Observing Markets: The promoter should study the market to find out the demand and supply position for various products. He should then estimate the future demand after taking into account the anticipated changes in income levels, fashions etc. market surveys can also reveal competition and price trends. From the data collected through market surveys, the promoter should try to identify those products and industries where demand exists and supply needs to be increased.

2. Prospective Consumers: Contacts with prospective consumers can give an idea of the features that should be built into the product/service. It is also important to collect data on customer needs and preferences before choosing the product to be manufactured. A market test of the prototype product can be conducted before launching the product in the market.

3. Study of Project Profiles: Various publications of public and government agencies on various projects and industries is an important source of business ideas. Such project profiles describe in detail the prevailing market situation and the technical and financial requirements of different projects. A careful analysis of such details can bring out the most promising projects which can then be taken up for further evaluation.

4. Developments in Other Nations: An entrepreneur can discover good business ideas by keeping good knowledge about developments in advanced nations of the world. Underdeveloped and developing countries prove to be a good market for those products which are the ‘in things’ in developed nations. An entrepreneur can also visit foreign markets to explore the possibility of a foreign collaboration and to discover other types of business ideas.

5. Trade Fairs and Exhibitions: A visit to national and international trade fairs and exhibitions can provide information about various products. It is also a good place to explore possibilities of collaboration and dealership and gives a fair idea of the existing competition in the market.

While selecting the business idea, the following points need to be considered.

1. There must be sufficient demand for the proposed product or service.
2. The idea should require such capital, technical know how, raw material and other inputs which the entrepreneur can arrange for.
3. The idea must ensure a reasonable return on investment.
**Role of Creativity and Innovation**

Creativity and innovation are two important traits of a successful entrepreneur. Creativity means the ability to bring something new into existence. Innovation is the process of doing new things or doing old things in a new way. Creativity is the process of generating new ideas whereas, innovation involves translation of ideas into a new business opportunity. Creative ideas are of no use unless and until they are converted into useful products or services through innovation.

**Stages in Creativity Process**

A creative idea evolves through a process consisting of the following stages.

1. **Germination:** A person with imagination and curiosity germinates an idea. For instance, Newton’s curiosity about apple falling from the tree led to the law of gravitation.

2. **Preparation:** Once the idea is germinated, efforts are directed towards how to convert the idea into a useful product or service. In case the idea relates to a new product, information about consumer buying habits, product design, material requirement etc. may be collected.

3. **Incubation:** Incubation is a stage of fantasizing and mulling over. This is the stage when the creative person allows the idea to incubate in his subconscious mind. The person in his subconscious mind gets enough time to assimilate information about the idea and ponder over it.

4. **Illumination:** Illumination occurs when the idea resurfaces in a catalytic event. Several cycles of preparation and incubation may be repeated until the idea takes some realistic shape.

5. **Verification:** An illuminated idea requires verification before it is accepted as a realistic and useful application. During the verification stage many ideas may be rejected because they are of little practical relevance.

**Invention and Innovation**

Though both invention and innovation require a lot of creativity, they are entirely different processes. Innovation is the discovery of some new material or method. The resulting idea of an inventor did not exist before. For example, mathematical calculators and microelectronics were inventions. Innovation may occur in several forms – introduction of a new product, a new method of distribution, opening of a new market, locating a new source of raw material, introduction of a new manufacturing process that has not yet been tested and commercially exploited etc.

On the other hand, innovation is a new combination of existing knowledge that results in a useful and commercially viable product. For example, micro-computer is an innovation made by combining the inventions mentioned above.

Thus, an inventor produces ideas and adds to the existing knowledge. In contrast, an innovator implements the ideas to come up with new products and services to satisfy human wants.
Step 3: Feasibility Study
Feasibility study is a detailed study done by an entrepreneur to ensure that the project is viable. The feasibility study should contain an analysis of the following.

- **Technical Aspect**
- **Commercial Aspect**
- **Financial Aspect**
- **Socio-economic Aspect**

**Technical aspect:** The technical feasibility of a project involves a critical study of the factors such as location, size of the plant, raw materials and labour, machinery and equipment, infrastructure etc. Here the entrepreneur should ensure that the location of plant and the site selected is such that it permits cost-effective operations of business. Also, in determining the size of the plant, it should be remembered that if the plant size is smaller than the optimum size, cost of production increases. An entrepreneur must also examine whether the required raw material, machinery and equipment and infrastructure is available for carrying out the operations.

**Commercial Aspect:** Technical feasibility of a project has no meaning if the project is not commercially viable. Commercial viability of a project requires a study of the present and potential demand for firm’s product in national and international markets. It also requires an analysis of margin of profit, degree of competition, market stability etc. Sometimes the services of an expert may be required to find out the commercial viability of the project.
**Financial Aspect:** Financial viability of the project can be judged on factors like total estimated cost of the project, projected cash flow and profitability, financing of the project with reference to the capital structure, promoter’s contribution to the total project cost etc.

**Socio-economic Aspect:** A social cost-benefit analysis should be made to judge the national viability of the project. Every project entails some costs to the nation and produces certain benefits. The contribution of the project to social objectives such as employment generation, development of infrastructure, development of backward areas, earning foreign exchange, import substitution etc. is evaluated.

Once the feasibility study is completed, an indepth analytical study of the project is made to decide selection or rejection of the project. Such an analysis is known as **project appraisal**. Once the project is selected, the findings of the feasibility study are presented in the form of a **Project Report**. This project report is needed to get sanction for the project from the concerned authorities, including financial institutions. The project report should comprise the following information.

- Name, address and other details of the entrepreneur
- Brief summary of the project
- Inputs for the proposed project like land, building, plant, machinery and equipment, materials etc.
- Financial aspects like sources of finance, cost of fixed assets, working capital, assets and liabilities
- Market potential in relation to estimated present and potential demand, market survey
- Importance of project to national economy

**Step 4: Preparation of Business Plan**

Business plan is an important document prepared by the entrepreneur that describes various elements involved in starting a new enterprise. It is often an integration of functional plans such as marketing, finance, production, personnel etc. Business plan serves the following objectives:

a. It indicates the actions to be taken to implement the project.

b. It helps the entrepreneur in raising necessary funds.

c. It helps in measuring the progress of the venture at successive stages

d. It informs investors, suppliers, creditors and other stakeholders about the programme of the entrepreneur.
Contents of a Proposed Business Plan

1. General Introduction- name and address of business and entrepreneurs, nature of business
2. Description of Venture- products and services to be offered, scale of business operations, type of technology to be used
3. Organisational Plan- form of ownership (sole proprietorship, partnership or joint stock company), identification of business partners, roles and responsibilities of members of the organisation
4. Production Plan- details of manufacturing process, type of plant and machinery, raw material to be used
5. Marketing Plan- products and services offered, pricing policies, distribution channels, promotional strategies
6. Financial Plan- fixed and working capital requirements, sources of capital, cash flow projections, break even analysis
7. Appendix- market research report, price lists from suppliers, contingency plans

Step 5: Launching the Enterprise
After preparing the business plan, the entrepreneur assembles the necessary resources to launch the enterprise. He collects the required funds and acquires land and buildings, plant and machinery, furniture and fixtures, raw materials, employees etc. Once this is achieved, it is necessary to ensure that the project is implemented properly and it has smooth and uninterrupted operation.
Questions for Self-Revision

1. Discuss the benefits of Franchising to the franchiser and the franchisee.

2. Write brief notes on the following:-
   a. Network marketing.

3. Discuss the concept and benefits of e-commerce.

4. What is meantley M-commerce? State the opportunities of M-commerce.

5. What entrepreneurial decisions are required to be taken while setting up a business enterprise?
   Explain:
   a. Generation of Business Idea
   b. Creativity & Innovation
   c. Preparation of business plan

6. Write short notes in the following:
   a. Generation of Business Idea
   b. Creativity & Innovation
   c. Preparation of business plan