[Academic Script]

Exercise on Writing of the Project Report

Subject:	Business Economics
Course:	B. A. (Hons.), 5^{th} Semester, Undergraduate
Paper No. & Title:	Paper – 551 Elective Paper P1 Project Management
Unit No. & Title:	Unit – 5 Writing of the Project Report
Lecture No. & Title:	Lecture – 1 Exercise on Writing of the Project Report

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1. Introduction

We have studied the first four modules and we can now conclude that a Project Report is a compilation and assimilation of all that we have discussed in the preceding four units of Project Management. It is also at times addressed as a Business Plan, Venture Plan, Loan Proposal and Investment Plan.

Mar J. Dollinger has defined the business plan as "the formal written expression of the entrepreneurial vision, describing the strategy and operations of the proposed venture." According to Jack M. Kaplan, "The term business plan means the development of a written document that spells out like a roadmap where you are, where you want to be, and how you want to get there. "Thus, a business plan or project report can best be defined as a well thought-out course of action devised to achieve the specified objective, i.e. setting up a small business enterprise within a specified period of time. Thereby a business plan is initially an operating document. A project report is a document wherein all the details obtained from technical analysis, financial analysis, profitability analysis, economic analysis, funds procurement, intermediary analysis, etc. are put together.

Significance of Project Report:

The advantages of writing a Business Plan:

- A Project Report acts as a Blueprint or a masterplan, which paves way for timely and accurate implementation of the plan.
- Writing business plan is especially useful for the entrepreneurs who require financial help from the outside sources like banks and financial institutions. The Project

Report forecasts the future performance of the firm, thereby making it attractive enough to advance financial assistance.

- The business plan is like a road map. It describes the direction the enterprise is going in, its proposed goals, strategies, etc. It also enables an entrepreneur to know if he is proceeding in the right direction. Thereby it assists in controlling the progress by acting as a point of reference.
- A project report enables an entrepreneur to gauge the resources required for the implementation of the project well in advance. It also gives a general idea of his various resource requirements like raw materials, manpower, finance, infrastructure facilities etc. and also the means of procuring them.
- A project report assists in anticipating the venture’s survival and profitability in the market given the clear understanding on the cost structure, competitive analysis, market growth rates, related goods and services industry.
- A project Report is an ultimate evaluation tool, by providing a reference to compare the actual performance vis-à-vis the proposed performance; thereby it also serves as a tool that can lead to rectification measures.

Now that you have understood as to how crucial a Project Report is to an entrepreneur, let us exercise writing them. The assignments are intended to take you deep in a particular industry where you get to study many existing big players and startups. You shall study these firms in the light of whatever has been covered hitherto in all the units of Project Management, and then you can apply your learning on your fictitious venture in this industry.

2. Introduction to the Idea

You are planning to start a venture in the Organic Foods Market. You plan to start an E-Commerce Company dealing in Organic Products. You have explored a network of hundreds of organic farmers through whom you shall procure the organic produce. You plan to reach the market better by collaborating with e-commerce sites like Amazon, Flipkart, Shopclues, BigBasket, NaturalMantra, HealthKart and so on. You find Urban India as a lucrative market since the Urban India is less price sensitive with respect to organic products.

You may assume the product categories that you want to deal in, the number of products, place of operation, the distribution channels, the capital in hand, Investment agencies and/or Angel investors, the market (domestic or international), and any other parameter, deemed necessary.

3. Task I

Design a Feasibility Report for your firm

(I)The Key Objective: It is to understand the relevance and significance in deciding if a product or business idea is worth taking up further or should be let go off. As you are aware, a feasibility study is an analysis of the viability of an idea. The feasibility study focuses on answering the primary question of "should we proceed with the proposed project idea?" An ideal feasibility study must end up answering this question. A feasible business venture is one where the business will generate adequate cash-flow and profits, is less risky, sustains for a long-term and meet the goals of the entrepreneur.

What to include in the Feasibility Study:

Market Analysis

The key questions that should be answered in the Market Analysis section of the feasibility study are presented below. You need adequate research to probe each of these questions.

- Market Size / Potential:

What is the present market size for the product? What is the market growth rate? Also how many units can you reasonably expect to sell each month?

- Sales Potential

What are the target markets for this product or service? What demographic characteristics do these potential customers have in common? How many of them are there?

Producer Survey and Supply Analysis

- The Competition Scenario

  What is the projected supply in your area of the products or services needed for your project?

- Key Players and their Performance

  What competition exists in this market? Who are the key players and their present market status? Can you establish a market for yourself and compete effectively with others providing this product or service?

Organization & Technology Analysis

A. Organizational Capacity Analysis

- What organizational structure is the right one for your project?
- What qualifications are needed to manage this business?
- What other staffing needs do you have? How do you expect staffing needs to change over the next 2-3 years? And the cost of Staffing.

B. Technology & Equipment Needs

- What are the technology needs for the proposed business?
- What equipment/s does your proposed business need?
- Where will you obtain this technology and equipment?
- How much will the equipment and technology cost?

Operational Scenarios

- What will be your production runs?
- How much do you plan to produce/ procure/ trade for each proposed product category?

Transportation and Processing Analysis

- Producer Location Analysis

Is the location of your proposed business or project likely to affect its success? Is your proposed site the most ideal to reach your target market effectively and efficiently?

- Transportation Parties and Cost Structures

Which Supply Chain Partners or Transporting agencies will you need to make your goods reach to your target markets? The proposed expenses involved in transportation.

Financial Analysis (From Task II)

Overall Feasibility Evaluation

- Summary and Conclusions : Give your final conclusions
- Recommendations: Make appropriate suggestions
- Future Plans: Objectives of Business and Expectations for next 3-5 years.

4. Task II : FINANCIAL ANALYSIS

Now, Since You are planning to start a venture in the Organic Foods Market it is likely that capital will be required to set up a processing system for processing of procured food products and then packaging and labeling them.

The *start-up capital* refers to the funds needed to buy the facilities and equipments, and funds associated with registration and certification procedures.

Working Capital includes the costs of raw materials, packaging, manpower, product promotion, etc. that have to be made before the business begins to generate profits from product sales.

1. The start-up capital and initial working capital are calculated to determine whether the entrepreneur's savings (also referred to as the *owner's equity*) will be sufficient enough to start the business without an external loan. Using any one example of organic food, **work out the startup costs**

2. There are two types of operating (or production) costs: those expenses that have to be paid even if no production takes place and those that depend on the amount of production. The former is *fixed costs* and thelater is *variable costs,* respectively. Work out the Fixed and Variable Operating costs requirements for your business. You can make your own assumptions.

3. From the market survey, you are in a position to gauge the expected sales. The *gross profit* (or gross loss) is the difference between the expected income and the total operating costs over the first year.

Income = Selling price per unit x number of units sold

Thus the income clearly depends on both the price of the product as well as the amount sold. Thereby there are two approaches to deciding on the product price: first the price can be based on the production costs, ensuring that the income exceeds the total costs.

The second approach is to set the price based on the comparisons with existing competitive products.

It is imperative that we include the cost of the distribution intermediaries like the retailers. In this case, since you are the E-Commerce retailer directly selling to your end users, you are saved on any retailer based margins. In addition, there are logistics and supply chain related distribution costs and perhaps special promotion costs that should also be included. The price that is charged for the product should therefore allow all the concerned parties, the producer, the distributors and the retailers to make an adequate profit.

When the production costs and income are compared using the second approach, the business must be operating above the *breakeven Point*. This point determines the minimum level of production that can enable the enterprise to make a profit.

You are required to:

Work out estimated Gross Profit/ Loss for the first year of operation.

Also calculate Break Even Point for the business. For calculating Break Even Point:

1. Calculate the contribution for variable costs per pack
2. Subtract the value obtained from the sale price to obtain the 'unit contribution'
3. Calculate the total fixed costs per year

4. Divide the fixed costs by the unit contribution to obtain the annual production rate that will allow the business to break even.
If the feasibility study shows that the scale of production required to meet the expected sales potential is below the break-even point, then the business needs to carefully examine the data to see if production costs can be reduced in any ways. If not then, there is a question raised over continuing further with the proposed business.

It should be noted that entrepreneurs should not assume consider the gross profit as their own income, and deploy it for their personal expenses. The income belongs to the business and the promoters should take a fixed wage, which is recorded as a business expense

4. If the gross profit indicates that the proposed business is likely to be successful, it is then necessary to repeat the calculation of monthly gross profit for one to three years. This will then show whether there is sufficient cash available to operate the business without the need for further loans. This is known as a *cashflow forecast*.

-Make Cash flow Estimations for the first 3-5 years.Also workout for required rate of return.

5. In financial analysis, after estimating cash flow requirements and required return on the project, the next step is the evaluation of various investment alternatives and selection of the most profitable project. A wide range of criterion have been suggested to judge the suitability and the worthiness of the

investment alternatives. As we discussed Discounted and Non discounted Cash flow techniques in Module -2,

Which technique would you use for evaluation of worthiness of the project ?Why?

Using selected technique, identify the worthiness of the project. (Make necessary assumptions, Use appropriate discount rate if using Discounting Techniques of Project Evaluation)

6. A similar forecast is made to show the expected development of the business over three years (not forgetting to take account of the expected competitor movements). Finally, in assessing financial feasibility, present a Profit and Loss Statement, to calculate the net monthly profit before tax over the first three years.

5. Task III

Now you have estimated cash flows but as we know estimation of exact cash flows is not possible due to uncertainty in the estimation of factors that affect cash flows. For Example Supplier says that machinery's economic life is 5 years or less than 5 years. In some cases it may extend beyond 5 years or come down to less than 5 years. Take scrap value, for estimation of cash flow, scrap value is considered which may vary in reality. There can be other risks like project specific risks, competitive risk, industry specific risk, market risk, international risk etc. Thus incorporating risk is very important in capital budgeting. In module 3, we have learned various conventional tools as well as statistical tools to incorporate risk in project. For your project, You need to decide technique to identify and consider risk in evaluating project and also incorporate the same in evaluation of project.

6. Task IV

Now, take a case of Startup Organic Food brand, Naturally Yours who received financial assistance from an external Investment agency. Naturally yours, one of the first online organic food brands in India had raised an undisclosed seed fund from angel investor, Sanjay Mehta in 2015. This move was to fuel their new plans of adding 100 new products to their existing product portfolio. As discussed in module 4, identify the role of Investment Banks or Merchant Banks or Angel Investors in your business. Detail on the process of approaching such agencies. Exemplify by giving a case of any firm dealing in the Organic Food industry.

7. Summary

From the above assignment you are oriented towards the key steps and the modalities involved in this crucial process. By now, you would be clear that any Project begins with an effective idea. You witnessed the role of a well-thought out feasibility study and its importance in gauging the conceived idea as a potential business in future. Once the idea glides through the feasibility tests, it then has to be tested for its financial soundness. The assignment acquainted you with the intricacies of using discounting and non-discounting techniques to help you arrive at the most lucrative judgment. Another important dimension we learnt through this assignment is about the incorporation of the element of uncertainty in the project. By now, you will agree that techniques like discount rate, Sensitivity analysis, decision tree, are key in dealing with the inherent risk element. Any project requires the assistance of external bodies like the investment banks, merchant banks or any funding bodies to fuel their initial ideas and subsequent expansion plans. We have understood how these organizations function, their role and the criteria involved in allocating assistance. And finally, to give everything a perspective, it is best to resort to writing a Project Report for a firm so as to assimilate and build on all that has been understood as the key elements to the concept and practice of Project Management.