**Chapter Three**

**Generation and screening of Project Ideas (Project Identification)**

**Generation of Ideas:** Identifying suitable project ideas is the most important step in the whole process of project preparation. The search for promising project ideas is the first step towards establishing a successful venture. The key to success lies in getting into the right business in the right time. The objective is to identify investment opportunities which are feasible and promising.

Generation of an idea of producing a new product, new business, requires imagination sensitivity to environmental changes and the realistic assessment of what the firm can do? A project is not a product or commodity to be purchased. It has a promise as well as a risk.

An idea regarding a required intervention in a specific area to address identified problem is formed and developed. This idea is usually hatched through discussions by specialists and local leaders in a community need based on issues and turned into a proposal.

Generally project ideas are generated depending on:

* + - Consumer needs
    - Market demand
    - Resource availability
    - Technology
    - Natural calamity
    - SWOT analysis
    - Political considerations etc.,

The project idea selection is selection of project idea from available alternatives is to be best suited to the entrepreneurs’ capacity, competence and willingness. The project Selection includes

* + - Profitability
    - Feasibility
    - Resource-ability
    - Acceptability

The basic criterion for selection of a project could be existence of a favorable cost-benefit relationship.

People would like to select a project which requires a minimum investment, low degree of competence, completed in the shortest time, and which has the highest return potential.

A project idea should be SMART:

S – Specific objective

M – Measurable

A – Achievable

R – Realistic

T – Time bounded

**Project identification:** A search for promising project ideas could contribute towards achieving specified development objectives. Project identification should be an integral part of the Macro-planning exercise of the state with sectored information and strategies as the main source of the ideas.

Generally ideas are formed from several sources based merely on some vested interests of the individuals involved. However irrespective of their origin, project ideas should be in general aim at overcoming constraints on the national development effort.

Good project ideas are the key to success. Therefore a wide variety of sources should be tapped to analyze them. To have a wide range of options, the sources of project ideas can be categorized into two they are:

1. **Micro level sources**
2. **Macro level sources**

**A] Micro level;**

At micro level project ideas can be generated from various sources. Some of these are discussed below.

**1. Analysis of the performance of existing industries**; A study of existing industries interms of their profitability utilization can indicate promoting investment opportunities which are profitable and relatively risk free. An examination of capacity utilization of various industries provides information about the potential for further investments. Such study is more useful if it is done region wise. Particularly for products which have high demand for consumption and wide scope for production.

**2. Examination of the input-outputs of various industries:** The analysis of inputs required for various industries may throw some project ideas. Opportunities exist when {1] Materials, purchased parts, or supplies are presently procured from distance sources with considerable time lag and transportation cost and [2] Several firms produce internally some components parts which can be supplied at lower cost by a single producer who can enjoy economics of scale. Similarly a study of the output of the existing industries may reveal opportunities for adding value through further processing of the main outputs, by produce, by products as well as waste products.

**3. Review of imports and exports**; Analysis of import statistics for a period of five to seven years is helpful in understanding the trend of imports of various goods and the potential for import substitution. Indigenous manufacture of goods currently imported is advantageous for several reasons. [1] It improves the balance of payments situation. [2]It generates employment, and [3] it provides market for the supporting industries and services. Likewise an examination of export statistics is useful in learning about the export possibilities of various products.

**4. Investigation of local materials and resources;** A search for project ideas may begin an investigation into local resources and skills. Various ways of adding value to locally available materials may be examined. Similarly, the skills of local artisans may suggest products that might be profitably produced and marketed. Such assessment may consider issues such as the human and material resources, Infrastructure facilities and market for various products.

**5. Analysis of economic and social changes:** A study of economic and social trends is helpful in projecting demands for various goods and services. Changing economic conditions and consumer preferences provide new businesses opportunities. Forexample a greater awareness of the value of time is dawning on public. Hence the demand for time saving products like prepared food items, ovens and powered vehicles has been increasing. The other change that can be seen during analysis is the increasing desire for the leisure and recreational activities. This has caused a growth in the market for recreational products and services.

**6. Study of new technological developments:** New products are the new process and technologies for existing products developed by the research laboratories may be examined for profitable communication.

**7. Exploring the possibility of reviving sick units:** Industrials sickness is spread in many countries. There are innumerable bossiness units which have been characterized as sick. These units either closed are have reached the prospect of closure. A significant proportion of sick units however can be nursed back to health by sound management, fusion of further capital and provision of complementary inputs. Hence there is a fairly good scope investment in this area.

**8. Identification of unfulfilled psychological needs:**

For well established multi brand product groups like bathing soaps, detergents, cosmetics and tooth paste, the questions to be asked is not whether there is an opportunity to manufacture them for satisfying an actual physical need, but whether there are certain psychological needs of the consumers which are presently unfulfilled.

**9. Attending trade fairs:**

National and international trade fairs provide an excellent opportunity to know about new product and developments.

**10. Stimulating creativity for generation’s new product lines:**

New product ideas may be generated by thinking along the following lines: Modifications, rearrangements, reversal, magnifications, reductions, substitutions, adoptions and combinations.

**B. At Macro level:**

At macro level project ideas can be obtained from various sources as mentioned below:

**1. Project ideas from government policies and plan:**

From time to time governments produce guidelines such as the national development plans and session papers which spell out the directions the government should take to achieve certain targets in various sectors of the economy and guidelines to various organizations and individuals. The information contained in these documents is useful in generating ideas for new projects for Ex: If the government intends to start number of new schools in a given area then a number of projects which of related to the establishment such schools would be considered.

**2. Project ideas from technical specifications:**

For many industrial projects, ideas will usually tend to come from technical specifications, which by virtue of their experience and for research findings will give use full information which may lead to the manufacturing of new products or improving the existing products.

**3. Project ideas from local leaders:**

For community and social projects, local leaders usually have important ideas, which they together with their local people, have identified as being important in improving the welfare of the people. In the case of social projects depending in which one is to identify, there may be number of other projects which are linked to the identified projects.

**Ex**: A project of constructing a dam for the generation of hydro electric power will be giving suggestions for the start of irrigation projects, a fishing project and other related projects.

**4. Project ideas from Entrepreneurs:**

For commercial and industrial projects, Entrepreneurship is an important source of ideas. Entrepreneurships include the characteristics of preparation of managerial competence and motivation to achieve results. Although entrepreneurship skills have been passed on from one generation to another along Family and social-economic circles, it has been recognized that programs for entrepreneurship development will help individuals to come up with useful ideas which can be translated into viable projects.

**Monitoring the environment**

Basically a promising investment idea enables a firm to exploit opportunities in the environment by drawing on its competitive strengths. Hence the firm must systematically monitor the environment and asses its competitive abilities. For purposes of monitoring the business environment may be divided into six broad sectors. They are as follows:

**Economic Sector**

* State of the economy
* Overall rate of growth
* Growth rate of primary, secondary, and territory sectors
* Cyclical fluctuations
* Linkage with the world economy
* Trade surplus/deficits balance of payment situation

**Government Sector**

* Industrial policy
* Government programs and projects
* Tax frame work
* Subsidies, incentives, and concessions
* Import and export policies
* Financing norms
* Lending conditions of financial institutions and commercial banks

**Technological Sector**

* Emergence of new technologies
* Access to technical know-how, foreign as well as local
* Receptiveness on the part of industry

**Socio-demographic Sector**

* Population trends
* Age shifts in population
* Income distribution
* Educational profile Employment of women
* Attitudes toward consumption and investment

**Competition Sector**

* Number of firms in the Industry
* Degree of homogeneity and differentiation among products
* Entry barriers
* Comparison with substitutes in terms of quality, price, appeal, and functional performance
* Marketing policies and practices

**Supplier Sector**

* Availability and cost of raw materials
* Availability and cost of energy

**Screening potentially promising project ideas**

Once a list of project ideas has been put forward, the first step is select one or more of them as potentially promising. This calls for quick preliminary screening by experienced professionals who could also modify some of the proposals. At this stage, the screening criteria are vague and rough, that becomes specific and refined as project planning advances, during the preliminary screening to eliminate ideas, which are not promising, and one is required to look into the following aspects

**1. Compatibility with the promoter:**

The idea must be compatible with the interest, personality, and resources of the entrepreneur. It means [1] it should fit to the personality of the entrepreneur; [2] it should be accessible to him and [3] it should offer him the prospect growth and high return on the invested capital.

**2. Consistency with government priorities:**

The project idea must be feasible given the national goals and governments regularity framework. The questions to be raised in this context are:

Is the project consistent with national goals and priorities?

Are there any environmental effects contrary to government regulation?

Can the foreign exchange requirements of the project be easily accommodated?

Will there be any difficulty in obtaining the license for the project?

**3. Availability of inputs:**

The resources and inputs required for the project must be reasonably assured. To assess this, the following questions need to be answered.

Are capital requirements of the project within manageable limits?

Can the technical know- how required for the project be obtained?

Are the new materials required for the project available domestically at a reasonable cost? If the materials have to imported, will there be problems?

Is the power supply for the project reasonably obtainable from external sources and Captive power sources?

**4. Adequacy of the market:**

The size of the present market must offer the prospect of adequate sales volume. Further there should be a potential for growth and reasonable return on investment. To judge the adequacy of the market the following factors have to be examined;

* Total present domestic market
* Competitors and their market shares
* Exports markets
* Sales and distribution system
* Projected increase in consumption
* Barriers to the entry of new units
* Economic, Social and demographic trends favorable to increased consumption
* Patent protection

**5. Reasonableness of cost:**

The cost structure of the proposed project must enable it to realize an acceptable profit with a price. The following should be examined in this regard:

* Cost of material inputs
* Labor costs
* Factory overheads
* General administration expenses
* Selling and distribution cost
* Service cost
* Economies of scale

**6. Acceptability of risk level:**

The desirability of a project critically dependent on the risk characterizing in the assessment of risk the following factors should be considered:

* Business cycles
* Technological changes
* Competition from substitute
* Competition from imports
* Government control over price and distribution

Therefore, during the preliminary selection, the analyst should eliminate project proposals that

* Technically unsound and risky
* Have no market for the output
* Have inadequate supply of inputs
* Are very costly in relation to benefits and
* Assume over ambitious sales and profitability.