Indira Gandhi
National Open University
School of Continuing Education

BHC-011
Basics of Event Management

Block

3

ESTABLISHING AN EVENT MANAGEMENT COMPANY

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INTRODUCTION TO BLOCK 3

The third and last Block of Course 1 - Establishing an Event Management Company, describes the process of establishing and running the events business.

Unit 9 presents the way in which the right business opportunity can be identified and assessed at the start-up stage. Opportunity assessment process entails assessment of business potential by assessing the relationship between internal company strengths and external market attractiveness based on several parameters. A thorough market research, competitor analysis, financial assessment and ecological assessment is required. The Unit further informs about the various types/structure of organisations that can be formed. A SWOT analysis, followed by zero down approach will help a company understand its abilities, opportunities and to ascertain the most suitable business idea.

Unit 10 goes on to describe the development of a good business plan with all its essential elements that will help in determining financial needs, in raising capital, in directing employees, in departmental activities and in several other activities. It serves as an information tool, opening up future projections by presenting significant details of the organisation like good business structure, services, anticipated clients, competition and financial information, to ascertain feasibility etc. This Unit aims to enable the learners to reflect upon the fact that the development of a good business plan can help in establishing and sustaining a profitable event business.

Unit 11 on 'Managing an Event Management Company' describes the management of an Event Management Company, once it is established. Contradictory to the belief of some small business company owners that an organisation focussing on events does not require organised and systemised departments, the events business has to build a strong foundation on Products, Operations and Marketing Management, Human Resource Management, Total Quality Management and Business Ethics. This lesson should be able to orient the learners and build their knowledge in the area of management systems that are as important and integral to the event management business, as to corporate business.

The topic 'Financial Management' of an Event Management Company has been covered separately in Unit 12, the last Unit of this Block. This is because raising and effectively managing finances for running a business involve the most crucial decisions in the functioning of an organisation. The Unit unfolds the importance of financial projections and talks about Income Statement, Cash Flow Projection and Balance Sheets, as three basic statements of a business proposal. Also spoken about in the Unit is the role of profitability ratios and their uses. The Unit emphasizes the importance of financial management for the success of an event company.

UNIT 9 BUSINESS OPPORTUNITY SEARCH

Structure

9.0 OBJECTIVES

We have so far learnt about the characteristics, types and scope of events, followed by the competencies required in an event manager. In this Block we shall be learning about establishing an Event Management Company (EMC). Creating an EMC can be one of the most rewarding careers today, but, *only if you do it right*! More than ever, people are opting for EMCs to handle their events, instead of doing it themselves. Since clients are willing to pay for these services as it saves time and ensures proper standards, this industry offers numerous business opportunities to those who want to choose event management as a career. This Unit discusses event business opportunity. After reading this Unit, you should be able to:

- Understand and scan the scope of the Event Management industry and business opportunities in this industry;
- Learn the process of business opportunity search for an Event Management Company; and
- Understand common business structures in the event industry.

9.1 INTRODUCTION

The process of starting a new event company involves more than just problem-solving in a typical managerial position. An entrepreneur must find, evaluate, and develop an opportunity by overcoming the forces that resist the creation of something new. This process involves four distinct phases: (1) identification and evaluation of the opportunity, (2) development of the business plan, (3) financial management of the company, and (4) operational management of the company. Although these phases precede each other, no one stage is dealt in isolation or is complete before the other phase; they run seamlessly, and in conjunction with each other.

As already discussed in Block 1 of this Course, let us make a quick review of the key services in the Indian events and activation industry:

Intellectual Property (IP) is an original creation or idea for which exclusive legal rights are recognised. Some examples of original creation could be a novel concept for the event, logo, name, symbols, designs, etc. The event company may partially or wholly own the IP(s). For example, the India International Film Awards (IIFA), Mirchi Music Awards, event shows organised by the Kingdom of Dream in Gurgaon, etc.

Managed Events include corporate or personal events administered by the event company, which owns the IP of the event (if any). These include Social events (like festivals, weddings, birthday parties, etc.) and MICE (meetings, incentives, conferences and exhibitions). Brand launches, dealer meets, and audition management for TV shows such as dance, music or comedy competitions.

Activations are events organised by a company to promote or sell its products and / or services. These activities are typically small scale and carried out at multiple locations. Local customization according to customer segmentation and cultural habits are the key considerations while organising activations.

Digital Event is that event which brings an audience together where some or all of the attendees are not physically present in the same location but are connected in a common digital environment. Digital events are increasing due to increasing internet penetration, and mobile smartphone penetration, making people capable of digital interactions. Advertisers are also able to look at rural markets for their digital activations. Digital is used to market events, see tickets, enable registrations, obtain feedback and continue to engage the community after the event, and demonstrate RoI (return on investment) to clients.

Opportunities like Digital Integration, Rural Opportunity, Sports and Government Events: Many event management agencies are providing some level of digital integration in their events. This is because this involves low cost per person, who is reached by the event. Digital activations in rural areas focus on rural markets. The government is focused on rural development and the implementation of many development schemes at the grassroots. The event industry is seeing a clear opportunity in rural marketing, by focussing on rural BTL (below the line) / activations. With the increase in telecom marketers, including both handsets and services, rural consumers are being targeted. The sports industry has been emerging and throwing opportunities as a strategic marketing platform. Ever since IPL (Indian Premier League) was launched in 2008, several leagues emerged in India, combing sports and entertainment to a wider audience. Sports leagues, federations, teams, athletes, broadcasters and sponsors are using digital for fan engagement and a lot of sports are consumed on digital. The government and state government events have also increased, throwing opportunities in this sector. For the implementation of various development schemes, the government announces and propagates these schemes through large marquee events and multi-city activations. Some of the key events have been in areas like digital projects, Make in India campaign, skill development, girl child education, social themes, tourism, manufacturing etc.

To successfully identify and evaluate an opportunity, an entrepreneur must have the knowledge of common services offered in the portfolio of an event company.

These services can be identified by assessing the local needs. It should also be noted, that not all business opportunities are created equal - some business opportunities are better than others. So how do you decide which business opportunity is right for you?

9.2 SCANNING THE POTENTIAL OF THE INDIAN EVENT MANAGEMENT INDUSTRY

India is one of the fastest growing economies in the world. Various industries have contributed to this growth, and the event industry is one them. In the last decade, this industry has paved its way to reach new heights and has become a multi-crore industry.

Early 1900's witnessed a steep rise in the graph of the event industry. The industry spent approximately INR 20 crores per annum on events. This growth further accelerated in early 2000's. According to Ernst & Young and EEMA (Event and Entertainment Management Association), the organised events and activation sector in India witnessed over 20 percent annual growth, estimated at around INR 2,800 crore in the year 2011-12. The growth of the industry is expected to take the size of INR 10,000 core by 2021 and more beyond 2021. Moreover, there is a large segment of unorganised events, which could be as large as or even bigger than the organised sector of the industry.

Factors that make the event sector in India a profitable business choice for entrepreneurs are:

- Ability to 'get things done' under any circumstances
- Ideation and creativity
- Efficient cost base / efficiency
- Suitable vendor based production
- Ability to create Intellectual Property (IP) and earn from it over time
- Resource pool
- Reputation of transparency and credibility
- Digital integration

The fast and steady growth of this industry has resulted in tough competition as new event managements companies are flooding the market, each with its unique idea. Availability of skilled manpower and talent is a major requirement by the event industry. Therefore, to get a head start in this industry one must emphasise on developing the following skills and domain knowledge:

- Entrepreneurial skills,
- Professional skills such as management and organisational skills,
- Understanding of financial and risk management,
- Marketing and promotions,

- Human relations and interpersonal skills, including communication and negotiation skills, to manage internal and external stakeholders such as employees, vendors, taxation authorities, local police, and district level authorities,

- Technical knowledge and specialised skills in specific areas of event management such as catering and décor,

- Understanding of the media industry and subsequent networking with media and public relations (PR) agencies,

- Understanding of laws and licenses.

9.3 OPPORTUNITY ASSESSMENT PROCESS

Once an individual has decided to pursue her / his career in event planning, it is essential to develop a strong business foundation- starting with identification of the right opportunity. This process includes identifying potential business services and the right portfolio for the company. Once the company is established, access to information and opportunities increases because of the business network; consequently, opening avenues for other business development opportunities.

This section attempts to simplify the process of opportunity assessment for starting an EMC. The first step in this process is shortlisting of essential services for the event company from the key categories of events - Intellectual Property, Managing Events (personal and social), Activations, Digital Events, and opportunities in rural, sports and government events. It is advisable that the entrepreneur should identify the specialisation / niche area of the event company within these broad categories, preferably beginning with one or two services (or as many feasible). Corporate retreats, party planning, wedding planning, concerts, fashion shows, MICE (meetings, incentives, conferences and exhibitions) are some examples of specialised services in the event sector. The entrepreneur should attempt to identify and satisfy current or unmet customer needs, relevant to the local context. The key word at this stage is *flexibility*. Creativity, new technologies, and new marketing approach also help establish the company's brand name and build customer loyalty.

Given below are some advantages of shortlisting essential services for the company:

1) It is easier for consumers to find your event company if it aligns with their requirements. For example: if your event company specialises in MICE for academic institutions, a client interested in organising a seminar is more likely to contact your company instead of a general event planner.

2) The entrepreneur will spend less time, resources and effort to familiarise self with the elements of the selected services and create her / his business network.

3) To control the expenses in a start-up, only relevant resources and supplies should be purchased / arranged. For example, if you specialise in kitty parties or birthdays, you may not purchase technology or software that are used in large scale events.

Assessing the Business Potential of Shortlisted Services

Before pursuing the selected opportunity (service), entrepreneurs should ascertain the conditions that produced it. Will the conditions persist? Is there a market of sufficient size to make the opportunity attractive? And what resources are required to succeed in exploiting the opportunity? How will the location and timeline affect the event? Has there been sufficient market research to analyse the changing consumer and corporate demands?

To find answers to the above questions, assess the business potential of the shortlisted services on the following parameters:

- Required investment for capital purchases like technology, stage material, logistics, etc.
- Competitive threats and risks
- Life expectancy of events
- Pricing of events as compared to demand for statutes and suppliers in the market
- Profitability, and the willingness to initially compromise profits for growth
- Market growth (overall and within specific categories)
- Seasonality and cultural trends

One of the most reliable approaches to assess the business potential of the shortlisted service is thorough and extensive market research. It is the process of scanning the environment for business opportunity and the overall business landscape. Market research should be done before establishing the event company, and should include information on new events, industry trends, changes in business models, competitor initiatives and reactions, new entrants, customer tastes and changing customer requirements, changing trends in event formats and their customization, technological developments, etc.

While some may look at changes in the environment as a threat to their business, these changes are mostly opportunities for growth. Rita McGrath and Ian Mac Millan proposed an environment scanning procedure by preparing a register in which opportunities are classified (See Fig 9.1)

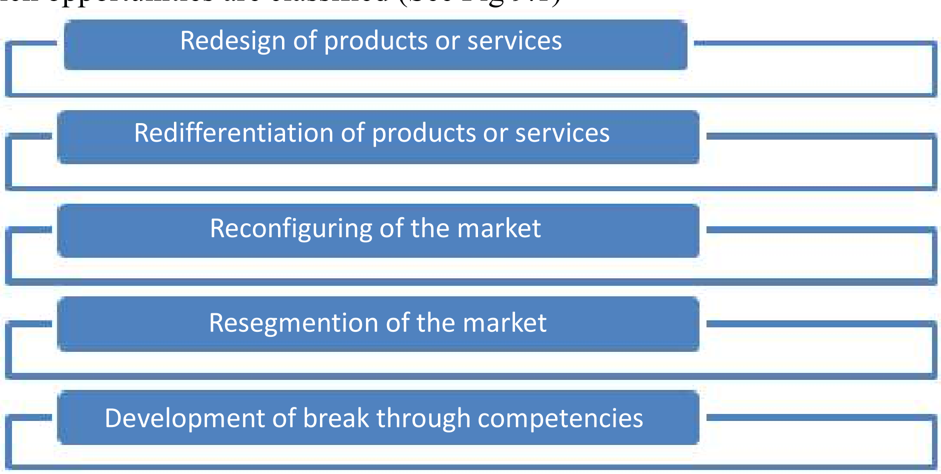

Fig. 9.1 Market Research to Ascertain the Viability of an Event Company

a) ***Redesign of Products or Services*:** It entails creating new designs and elements of the service as per the client's requirement. For example, if an e-commerce company wants to expand its business in remote locations, your company may design and organise events that are relevant to the cultural and local needs of the identified areas.

b) ***Redifferentiation of Services:*** Redifferentiation is the ability to consistently define new 'unique propositions' to clients. It is a critical factor in today's fast changing environment. There is a constant need to revamp and improvise to provide a unique proposition/ solution to the client, distinguish your company from the competition.

c) ***Reconfiguration of the Market:*** The ever changing market reconfigures itself in line with new technology, new entrants with new business models, and the need for event companies to reach out to its consumers in entirely new ways. It is therefore critical for the event company to align with these market reconfigurations.

d) ***Resegmentation of the Market:*** Market segments also constantly keep changing and realigning in line with market dynamics. A smart EMC develops and changes its business model and process orientation with the evolving market segmentation.

e) ***Development of Breakthrough Competencies:*** With cutting edge technology, internet penetration and the growing influence of youth in India's consumer markets, it is inevitable for the event company to develop new and cutting-edge competencies to keep pace with the environment. For example, an event company may consider identifying resources for reliable internet bandwidth to organise discussions between experts and farmers in remote locations, during an agricultural technology fair.

To explore these opportunities, the entrepreneur should research the market by carrying out a survey in the area (town/city/state/country) where s/he intends to establish the company. The primary information gathered from the survey may be supplemented by information / data from secondary sources such as the internet or existing surveys. Information collected through the survey will be useful in developing a viable business plan. For example, offering corporate event services in areas where there are no corporate organisations is not a commercially viable plan. Similarly, organising an activation programme to launch a new brand of computer, in areas where there is very less or no electricity supply or insufficient internet bandwidth, is irrational. These techniques can also be used for conducting market research for events.

Target Market

Target market or audience includes clients who are interested in hiring the services of an EMC. It is essential to initially identify the target audience, their location, requirements and expectations so that the entrepreneur can direct the marketing towards them; else there will not be enough clients to avail services offered by the company. For example, an event company offering mega events like concerts will not get enough customers in rural areas as compared to services for organising fairs or weddings.

To examine the target market, the entrepreneur should consider the following factors:

- Changing socio-economic patterns,
- Increasing disposable income, and the large youth population in India, who will be decision makers for spends in the coming decades,
- Technology advancements such as internet penetration, internet usage on mobiles, increased awareness of global trends in fashion, science, lifestyle and other aspirational categories,
- Motives of audiences to attend events - social, organisational, or personal.

Competitor Analysis

Competitor analysis involves finding complete information about the competitors. This information should include

- Basic information about other event companies and their owners
- Employee base - i.e. number of employees
- Client base - i.e. number of clients
- Market value - their reputation in the market
- Market share - business acquired by them in the market
- Annual Turnover
- Number of events organised by them in a year
- Why people attend their events? What is so unique about their events? What is their forte?
- How do they get clients and sponsors for their events?
- Their promotional strategy including media, public relation (PR) activities and corporate contacts

Collect maximum information about the events organised by the competitors. One of the means of obtaining this information is by attending the events hosted by the competitors and subsequently creating an event report. The event report usually captures the details of:

- Seating and light arrangements
- Promotional materials used
- Blueprint of the whole venue
- Program and food menu
- Contact details of sponsors, partners, clients
- Service providers like DJs, anchors, make-up artist, performers, photographers, videographers, decorator, florist, caterer, technicians, etc.

It is advisable to use this information to create the business plan of the proposed company.

Financial Assessment

Financial assessment seeks to ascertain whether the proposed event company is financially viable or not. The company should be able to make a profit while managing overhead expenses. Failure to appropriately assess the finances can lead to company's failure. The aspects which have to be looked into while conducting a financial appraisal are as follows:

- Investment outlay and cost of project
- Means of financing
- Projected profits
- Overhead expenses: fixed and variable costs
- Break-even point
- Cash flows of the project
- Investment worthiness assessed on various criterion
- Projected financial position
- Level of risk associated with the business

Legal Assessment

Legal assessment is the analysis of the legal environment, both local and national. Society laws and regulations provide a framework within which its citizens can and cannot do certain things. The legal context both allows and prohibits certain entrepreneurial decisions and actions. The entrepreneur must be aware of the relevant laws and regulations affecting the proposed venture.

Legal issues faced by entrepreneurs while starting an EMC include to:

- Determine the legal ownership of the business
- Record keeping for tax purposes
- Conduct lease and financing negotiation
- Prepare legal contracts and agreements
- File for patents, trademarks, and copyright protection

However, the legal considerations continue while managing an established enterprise. Entrepreneurs must recognise that the state and local laws are likely to influence the entrepreneurial venture as much as the national laws. Multiple taxes like Service Tax, Excise Duty, Value Added Tax (VAT), state level entertainment tax etc have been subsumed into the GST (Goods and Services Tax) Legislation since July 2017. However, Customs Duty collected by Central Government on import of goods into India and entertainment tax levied by local bodies (such as panchayats and municipalities) do not come under GST legislation and are applicable separately.

Ecological Assessment

In recent years, environment concerns have assumed importance. Ecology implies the relationship between living beings (i.e. human beings, flora, fauna, animals, insects, etc.) with elements that support these living beings (i.e. earth, water, air, etc.). Ecological analysis is particularly conducted for projects that have significant implications for the environment. The key questions raised in the ecological analysis are:

- What is the likely damage caused by the event project to the environment?
- What is the cost of the restoration measures required to ensure that the damage to the environment is within the acceptable limits?

Check Your Progress I

Note: Use the space provided below to write the answers.

1) List the steps in the opportunity assessment process.

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2) What is environment scanning?

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3) List down the legal issues faced by entrepreneurs while starting an event company.

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9.4 TYPES / STRUCTURE OF BUSINESS ORGANISATIONS

Legal ownership of a venture is a critical decision taken at the time of registering the company. Many first time entrepreneurs do not have a clear perspective of the issues, legal or otherwise, involved in choosing one or the other form of business. Lack of clarity results in avoidable mistakes which later cost time and money to rectify.

Various types / structures of a business organisation are given below:

1) **Sole Proprietorship** – A single person is the owner of such a unit. The vast majority of new business setups every year in India are sole proprietorships. As a sole proprietor, there is no distinction between you and your business – it is one of the assets just like your house or car.

2) **Partnership** – A partnership firm is an association of minimum 2 and maximum of 20 persons.

3) **Corporation / Limited company** – can either be private limited or public limited. A private limited company can be formed in association with minimum 2 and maximum of 50 persons. A public limited company can be formed with a minimum of 7 persons and may extend up to unlimited persons.

4) **Cooperative** – is owned and controlled by people working in it.

5) **Franchising** – is between entrepreneurship and employment. It is a system of distribution that enables the supplier (the franchiser) to arrange for a dealer (the franchisee) to handle a particular service under certain mutually agreed conditions.

As per the usual procedure, determine the constitution of the company during the initial stages of a project. Then, before applying for Provisional Registration Certificate complete the remaining necessary formalities. The popular business structures in the Indian event industry are Sole Proprietorship and Partnership.

Table 1 gives an overview of these two structures, along with their pros and cons:

Table 1. Sole Proprietorship and Partnership

Structure	Ownership Requirement	Advantages	Disadvantages
Sole Proprietorship	One owner	• Low start-up cost • Freedom from most regulations • Owner has direct control • All profits go to the owner • Easy to go out of business if necessary • No public disclosure of the company affairs	• Unlimited personal liability • Personal finances at risk • Miss out on all kinds of business tax deductions • Total responsibility • May be difficult to raise finance • It can be lonely • Entrepreneur has to be flexible
Partnership	2 to 20 owners	• Easy to form • Complementary skills of other partners • Pooled resources • Somewhat easier to access financing • Some tax benefits • Greater confidence because of shared responsibility	• Unlimited personal liability • Divided authority and decisions • Potential for conflict • Continuity to transfer ownership • Partners mistakes can be disastrous • Entrepreneur becomes liable for the partner's debts in the business

9.5 SWOT ANALYSIS

SWOT analysis is a strategic tool used to evaluate strengths, weaknesses, opportunities and threats of an event company. In SWOT Analysis:

‘S’ stands for Strengths

‘W’ stands for Weaknesses

‘O’ stands for Opportunities

‘T’ stands for Threats

SWOT Analysis helps the organisation achieve its goals effectively and efficiently. The company is also able to maintain edge over its contemporaries by improving its performance. SWOT analysis can also be used to evaluate the events organised for better performance in future.

Strengths

These are internal attributes of the company / project. They are helpful in achieving the objectives of the company. You may use the following questions to identify the strengths of the company:

- What are the key strengths of my organisation?
- How is my organisation better than others?
- What are others likely to view as strengths?

Weaknesses

Weaknesses are the shortcomings of the company which may negatively affect the performance. Weakness can also be identified by assessing the strengths of the competitor. You may use the following questions to identify weaknesses of your company:

- What aspects of my organisation need improvement?
- What should I avoid?
- What are others likely to see as weaknesses?

Opportunity

Opportunities are defined as a set of favourable circumstances that makes it possible to do something. These factors are external to the organisation. You may use the following questions to identify opportunities available to the company:

- What are the opportunities available to the company?
- What trends could be of advantage?
- How can strengths be converted into opportunities?

Threats

Changes in the external environment (like changes in economy or market trends) or any unfavourable situation can pose threat to a company. Determine all present and possible threats to the event company using the following questions:

- What threats could harm the company?

- What is the competitor doing?
- What threats is the company exposed to because of its weaknesses?

Conducting a SWOT Analysis

The template given below can be used to conduct SWOT analysis. There are four sections in the template to assess the Strengths, Weaknesses, Opportunity and Threats. As an example, SWOT analysis of an EMC is given in the template (Table 2).

Table 2. SWOT Analysis – Example

Strengths	Weaknesses
• Experienced event team • Specialised functional team members • Good market share and reputation • Geographic coverage • Good logistics capabilities • Price competitiveness • High motivation level • Excellent Market Research and Consumer • Research capabilities • Good PR contacts	• Lack of corporate contacts • Poor financial and operational management • Bad positioning: trying to operate in multiple focus areas • Lack of experienced team, frequent attrition • Sourcing of funds is not strong
Opportunities	**Threats**
• Low Competition • Favourable economic conditions • Support from the local authorities • Existing client base • Customer demand for area in which you specialise	• Poor infrastructure • Irregular supply of raw material • Tax liability on entertainment • Legal environment not supporting • Better funded and stronger competition getting into your domain

After conducting market, competitors, product / service research and SWOT analysis, document the research work. The analysis report will form the basis for the business plan of the company and you can subsequently obtain financial support.

9.6 ZERO DOWN APPROACH

SWOT Analysis is followed by the Zero Down Approach. As the name suggests, Zero Down approach is the process of identifying the most suitable alternative from the various analysed alternatives.

Thus, in the context of business opportunity search, it is the process to ascertain the most suitable and viable business idea from the list of ideas identified initially for establishing an event company (as already discussed in Unit 5, Block 2, of this Course). This is primarily based on the assessment of strengths, weaknesses, opportunities and threats of each idea. The idea with the highest score in strengths and opportunities is selected. At the same time, one should also be able to deal with and overcome weaknesses and threats of the selected idea.

Check Your Progress II

Note: Use the space provided for your answer.

1) Describe the types of business organizations.

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2) Explain with examples the strategic tool for self-improvement by examining the strengths, weaknesses, opportunities and threats of an event company.

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Intext Activity 1

Profile of ABC Event Company

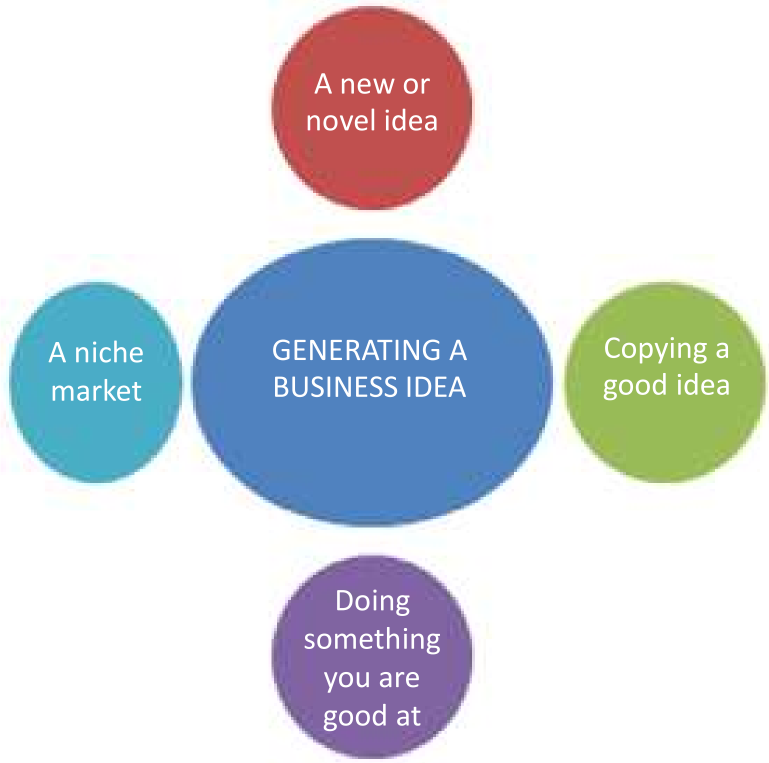
ABC Co. is a start-up Event Management Company which organises events for corporate like seminars, conferences and corporate dinners. The company is small with a total team of only 5 members, including 2 innovative managers and 3 employees. Although the team is hard-working, it lacks experience. Being a new start-up there is a shortage of infrastructure and money. To deal with the increasing competition from old and new event companies ABC Co. believes in the motto of quality, integrity, creativity and efficiency.

Because of the recent growth of the event sector, aggressive advertising and digital integration, the company has been able to grab a large-scale project with the aim to organize a business event. This initial start would provide the company an opportunity to showcase its work and strengthen their client base. The event will also be covered in media because of the client's close association with media.

It is anticipated that the company will face difficulties in arranging acclaimed international and national speakers for the conference. Increasing theft in the area is also a concern.

Attempt the question below

1) Based on the above company description, conduct a SWOT analysis of ABC Co.



Intext Activity 2

Generate a good business idea from one of the following suggestions.

1) Identify three business ideas for an EMC in each category given in the above figure. Evaluate each idea to determine the most suitable idea for starting an event company.

2) Identify and explain an appropriate legal ownership of the chosen venture.

3) Identify likely competitors for your event company.

9.7 LET US SUM UP

Ability to identify the right opportunity to start an enterprise is an important characteristic of an entrepreneur. Companies that prosper and grow must continue to identify and pursue right opportunities. In an existing event company, structuring the process of recognising and exploiting opportunities prevents monotony in work and gives competitive advantage to the company. Enterprise managers should be able to identify opportunities; assess if the opportunity is appropriate for their enterprise; and devise strategies to exploit the opportunities. These steps require more planning than when entrepreneurs generally engage in at the time of establishing the company. And the event management team should always keep in mind that formulating plans is different from implementing them.

9.8 KEYWORDS

Opportunity Assessment : It is the process of identifying the right services / opportunity for the event company. This is followed by developing a business plan for establishing the company or commercialising the event.

Market Research : It is the process of scanning the environment for business opportunity and the overall business landscape. This research could include information on new events, industry trends, changes in business models, competitor initiatives and reactions, new entrants, customer tastes and changing customer requirements, changing trends in event formats and their customization, technological developments, etc.

Target Market : This includes clients who may be interested in hiring the services of an event management company. It is essential to initially identify the target audience, their location, requirements and expectations so that you can direct your marketing efforts towards them

Zero Down Approach : It is the process of identifying the most suitable alternative from a number of alternatives.

Attrition : Employees leaving the company

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9.10 CHECK YOUR PROGRESS - POSSIBLE ANSWERS

Check Your Progress I

1) Following are the steps in the Opportunity Assessment Process
   - Assessment of Services for an event management company
   - Market Research
   - Financial Assessment
   - Legal Assessment
   - Ecological Assessment

2) Market research, also called environment scanning, is the process of scanning the environment for business opportunity and the overall business landscape. This research could include information on new events, industry trends, changes in business models, competitor initiatives and reactions, new entrants, customer tastes and changing customer requirements, changing trends in event formats and their customization, technological developments, etc. Rita McGrath and Ian Mac Millan proposed formalising the scanning procedure by devising a register in which opportunities could be categorised as one or other of the following:
   - Redesign of products or services

- Redifferentiation of products or services
- Reconfiguring of the market
- Re-segmentation of the market
- Development of breakthrough competencies

3) Legal issues faced by entrepreneurs while starting an event management firm include to:

- Determine the form of business organisation
- Setup record keeping for tax purposes
- Conduct lease and financing negotiation
- Draw up legal contracts and agreements
- File for patents, trademarks, and copyright protection.

Check Your Progress II

1) Entrepreneurs should have a clear perspective of the issues, legal or otherwise, involved in choosing one or the other form of a business. Following are the types of business organisations:

Sole proprietorship – A single person is the owner of such a unit. The vast majority of new business setups every year in India are sole proprietorships. As a sole proprietor, there is no distinction between you and your business – it is one of the assets just as your house or car.

Partnership – A partnership firm is an association of two or more persons, subject to a maximum of 20 persons.

Corporation / Limited company – can either be private limited or public limited. A private limited company can be formed with a minimum of 2 persons and maximum of 50 persons. A public limited company can be formed with a minimum of seven persons and may extend up to unlimited persons.

Cooperative – is owned and controlled by people working in it.

Franchising – is between entrepreneurship and employment. It is a system of distribution that enables the supplier (the franchiser) to arrange for a dealer (the franchisee) to handle a specific service under certain mutually agreed conditions.

2) SWOT analysis is a strategic tool used to evaluate the strengths, weaknesses, opportunities and threats of the event company. In SWOT Analysis:

'S' stands for Strengths

'W' stands for Weaknesses

'O' stands for Opportunities

'T' stands for Threats

SWOT Analysis helps the organisation achieve its goals effectively and efficiently. The organisation is also able to maintain an edge over its contemporaries by improving its performance. SWOT analysis can also be used for evaluating the events organised for better performance in future.

Strengths

These are internal attributes of the company / project. They are helpful in achieving the objectives of the company.

Weaknesses

Weaknesses are the shortcomings of the company which may negatively affect the performance. Weakness can also be identified by assessing the strengths of the competitor.

Opportunity

Opportunities are defined as a set of favourable circumstances that makes it possible to do something. These factors are external to the organisation.

Threats

Changes in the external environment (like changes in economy or market trends) or any unfavourable situation can pose threat to a company.

2) Following is the SWOT Analysis of ABC Co.

Strengths	**Weaknesses**
• Hard-work • Quality • Integrity • Creativity • Efficiency	• Limited workforce • Lack of Experience • Shortage of infrastructure and money
Opportunities	**Threats**
• Competition • Growth of the event sector and digital • Integration • Aggressive advertising • Showcase work to strengthen the client base • Media coverage	• Could face threats in arranging acclaimed national and international speakers • Increased thefts

UNIT 10 BUSINESS PLAN PREPARATION

Structure

10.0 OBJECTIVES

Once a suitable business opportunity to start an event company is identified, the entrepreneur prepares a business plan. Since a definite business plan gives direction and increases the chances of success, it is advisable to invest adequate time in preparing the same. After reading this Unit, you will be able to:

- Understand the concept, importance and advantage of making a business plan;
- Develop a business plan for your event management company;
- Outline suitable promotional strategies; and
- Recognise reasons for the failure of an event management company.

10.1 INTRODUCTION

Establishing an event company is more complicated than most entrepreneurs anticipate. Complexities associated with building rapport with vendors and clients, efficient utilisation of resources evolving with the changing consumer tastes, anticipating and solving a problem even before it affects the event and the company's reputation requires experience, knowledge and a solid business plan.

A business plan is a blueprint for any company's future. It sets the direction for a business and ensures that the company is on the right track. It is also vital for securing finance. Business planning is an ongoing business activity and the plan should be regularly reviewed to deal with the ever-changing business environment.

The present Unit is divided into three sections. The first section discusses the concept of a business plan, its significance and its uses; the second section explains the process of making a business plan and; the third section provides the format for writing a business plan.

10.2 WHAT IS A BUSINESS PLAN?

A business plan is a comprehensive written document that defines the goals of a business and outlines the methods for achieving them. It serves as a roadmap that:

- Acts as a management and financial blueprint for starting an event company and for profitable operation after the company is established.
- Explains the functioning of business along with company details, such as services offered, clients, marketing strategy, human resources, infrastructure requirement, supplies, finance, etc.

Broadly speaking developing a business plan involves conceptualization and documentation of the final plan. It usually covers the overview of the event industry, proposed business structure, services to be offered, anticipated clients, competition, its competitive advantage, and relevant financial information to ascertain the viability of the business. Typically the focus is on future projections.

A business plan comprises of the following components:

Executive Summary is the summation of all elements and should be written once the document is complete.

Company Summary comprises of a snapshot of the company i.e. the scope of work, type of business, owners, business expectations and recent sales / growth trends (if any).

Products and Services section covers the services offered by the event company, thus, highlighting its area(s) of specialisation to prospective clients.

Industry and Market Analysis shares the details of the market segment targeted by the company including customer segmentation, their needs, and a snapshot of competitive trends.

Strategy and Implementation section covers company specific strategy in line with market dynamics, including the short and long-term implementation strategy.

A **Marketing Plan** provides the details of pricing, communication, promotions and distribution of services offered by the company.

The **Operational Plan** is the process backbone of the day to day operations. This section also includes the Standard Operating Procedures (SOPs) for various activities in the event company.

The section on **Management Team** provides information about the company's administration, senior functional members and partners, including their background and experience.

Financial Summary covers the details of the sales forecasts, cost overheads, balance sheets and profit-loss accounts spread over a short term (1-2 years), and medium to long term, i.e. 4-5 years. Cash flow projections are an integral part of the financial summary.

10.3 BENEFITS OF A BUSINESS PLAN

A business plan provides a framework to start and expand a company. The advantages of writing a business plan are discussed below:

Provides an integrated view of the business: A business plan is an integrated document comprising of the various aspects of business - including analysis of the event industry, client base, details of event service, vendors for regular supply, marketing plan, etc. A good business plan must ensure that all these aspects are synchronised with each other to achieve the desired goal.

Determines the financial requirement: This includes capital requirement, sources of finance and the predicted timeline to reach the break-even point.

Capital Generation: A comprehensive business plan is created to convince investors to invest in a new venture or to move the business to the next level. Banks and investment funds often use the business plan to periodically monitor the progress of the business.

Directing employees: A business plan is also used as a means to inform/motivate employees about the objectives of the company.

Informing strategic partners: Strategic partners can also understand the company by studying its business plan. It may also be used as the basis for getting approvals from the company board and shareholders.

Recruiting senior-level management: Business plan acquaints the senior level management about the company objectives and strategy along with their role.

Departmental uses: Departments within the company may use the business plan as the starting point for preparing the detailed marketing plan or human resource policy.

Long-term planning: A business plan is used as a platform to test future scenarios. Assessment of current activities or near-term goals should be in line with the original strategy of the event company. This understanding is beneficial for long-term planning of the company.

10.4 WHO READS A BUSINESS PLAN?

A business plan is a confidential document and should be given only to specific people. Parts of it are distributed depending on confidentiality and responsibility of the concerned people. A business plan serves two purposes – (i) it acts as an internal guide for the insiders and (ii) an external statement of purpose for the outside readers. Inside readers are usually limited to the management team and board of directors. The outside readers mostly include funding agencies, suppliers/ vendors, or others with business interest. Inside and outside readers are discussed below:

Investors and Lenders: In many cases, the first outside readers of a business plan are its potential investors interested in investing in the company. Examples of some funding agencies are given below:

- Commercial banks
- Private investment funds
- Development funds
- Multilateral development institutions
- Private investors
- Technical assistance credits / grants

To convince these agencies, an entrepreneur must be clear about her / his company's business strategies. The competitive advantage of an organisation should be well stated and supplemented with financial data such as return on investment (RoI) and break-even points. Often the focus of money lenders is to gauge the creditworthiness of the company and guarantees or securities available to support a loan request.

Management Team: The core management team should be closely involved in the preparation and revision of the business plan. The business plan should forecast problems likely to be faced by the company along with the solutions. The financial section of a plan should be reviewed and revised periodically to monitor the progress.

Suppliers / Vendors: An established company ensures favourable payment terms with its suppliers, while a start-up event company may prefer flexible payment terms as the company is still seeking financial stability. In such cases, vendors often learn more about the company through the business plan, thus helping the supplier to negotiate favourable terms with the company.

The questions posed in Box No. 1 give you direction to write a business plan.

Check Your Progress I

Note: Use the space provided below to write the answers.

1) What is a business plan? Briefly, discuss why you need a business plan.

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2) Is a business plan only required initially to start a business? If no, state the reasons.

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Box No. 1

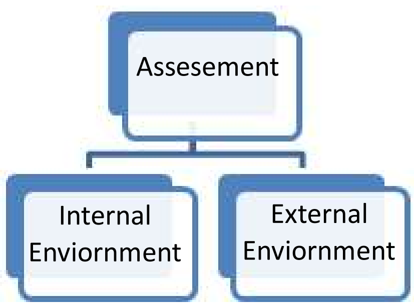
Successful event planners take their time to reflect before writing a business plan. Responding to these questions will give you direction while writing your business plan:

1) What is your event company's speciality? Identify events likely to create your company's brand. Ideally, you should clearly define your business.
2) Who is your clientele? Consider the market realistically for your start-up.
3) What approaches will you use to reach the desired clientele? You may be an expert and guarantee best services, but if you don't market your service and determine an appropriate distribution strategy, your business will not be successful.
4) How will you finance your event company? It is possible that you already have finance? However, if you have insufficient finance, you will have to identify credit agencies willing to finance your start-up.

10.5 STEPS IN PREPARING A BUSINESS PLAN FOR AN EVENT MANAGEMENT COMPANY

A business plan is the first vital document for any enterprise. Its use is not only restricted to the initial phase of starting a business but extends to various stages of an established company. A business plan should, therefore, be revised periodically, after every three-to-five years. To prepare a business plan the following seven steps should be followed (Table 1):

Table 1: Steps in preparing a Business Plan for an Event Company

Step 1: Assessing The Situation	 **Fig. 10.1 Assessing the Situation** The first step towards preparing your business plan is to assess the external and internal environment and understand the ground realities. • *Assessment of Internal Environment*: Internal assessment is all about self-examination. The position of the service offered by the company and availability of resources are examples of the internal environment. This stream of activities involves identification of Strengths and Weaknesses.

	• *Assessment of External Environment*: Political, economic, social and competitor analysis are examples of external environment assessment. The external environment helps ascertain Opportunities and Threats for the company.
Step 2: Setting Goals And Objectives	Environmental assessment forms the basis of formulating the objectives for an event company. ***Objectives*** are written in broader qualitative terms. For example, the business must achieve higher market share by 2022. ***Goals***, on the other hand, are more specific and can be quantified. For example, the event company should increase its profits by 15 per cent every year for the next three years. Objectives and goals vary from company to company and are usually based on different aspects of the business like market share, event service branding, marketing, customer service, finance, etc.
Step 3: Crafting Business Strategies	After setting the objectives and goals of an event company, an entrepreneur must formulate the strategy to achieve them. For example, an entrepreneur could develop a different public relations (PR) strategy to achieve the company's objective of gaining 40 per cent market share in sports events.
Step 4: Writing A Business Plan	Thorough knowledge and understanding of the event industry are essential for a well-written business plan document. This plan highlights all the aspects covered so far. Additionally, vision and mission, monitoring and evaluation of the business plan, sub-plans for critical sectors such as marketing, operations, human resource, information systems, etc. are included.
Step 5: Financial Assessment And Writing	The most difficult step in the process of making a business plan is the financial assessment of the business. Financial assessment is necessary as it acts as a benchmark for monitoring and evaluation later. Standard business templates can be used to prepare the financial plan for the company. For the same, many entrepreneurs also prefer availing the services of an accountant.
Step 6: Monitoring The Process	To monitor the process of setting up a company, action plans, monitoring systems and constant feedback should integrate into the business plan. Periodic monitoring ensures implementation of the action plans in line with the objectives of the company.

10.6 FORMAT AND ORGANIZATION OF A BUSINESS PLAN

Before discussing the content of a business plan, it is important to consider some fundamental issues regarding its format and presentation. A business plan must look professional and should be a useful tool. Following points require special attention:

The Cover Page: Every business plan must have a detailed cover page. The cover page is the first impression of an event company to its readers. It should look lucrative and professional. A well-crafted cover page is enough to attract the attention of financiers who receive numerous plans every day. Suitable graphics also make the cover page attractive.

Table of Contents: This is a quick and an easy way to identify different sections of the document. The Table of Contents should enlist all the sections and subsections for better understanding.

Number of Pages: Keep the plan short and crisp. A business plan usually works best when it is limited to 15-20 pages. Also, it should not exceed beyond 25-30 pages. Page number of every section should be given in the table of contents.

Page Margins: The document should have wide page margins so that the reader can note down her/his comments and questions.

Font type and size: Font selected should be professional and legible. Fonts such as 'Times New Roman', 'Garamond' and 'Calibri' could be used for preparing the document. Font size should neither be too small nor too large to read.

Contact information: Name, contact address, phone number and e-mail should be given in the business plan.

Appendix: May include samples of advertisements, marketing material and any other information that aids the presentation of your plan. Terms and acronyms which are not commonly used should be written in the document.

Paper Quality: Good quality paper should be used. The document should be printed on the single side of the paper.

Editing: Be certain to edit the document carefully. Spelling mistakes and grammatical errors do not make a good impression.

Binding: Bind the document so that it lies flat when opened.

Overall document presentation: The document should neither be over done with expensive binders etc. nor should it look cheap and messy. This can raise doubts about the substance of the document among those reading it.

Check Your Progress II

Note: Use the space provided below to write the answers.

1) List the steps in making a business plan. Explain any two in detail.

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2) Enumerate the points you would keep in mind while formatting a business plan.

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10.7 CONTENT AND STRUCTURE OF A BUSINESS PLAN

The structure and content of a business plan are primarily divided into two sections: (1) The cover page and (2) The main document. A sample format of a business plan is given below. This format covers the structure and content for both the sections.

Cover Sheet

- Name of the business
- Name of the entrepreneur and address of the unit
- Name of services provided by the event company
- Telephone number and fax with area code
- Email and website add
- Constitution of the firm
- Educational qualification of the entrepreneur
- Work experience of the entrepreneur
- Proposed locations (if any)
- Name and address of the bank / financial institution the entrepreneur plans to deal with

Main Document

The main document of the business plan is depicted in Table 2.

Table 2: Main Document of the Business Plan

Sl. No.	Headings	Brief description
1)	**The Executive Summary**	Executive summary is a brief synopsis of the entire business concept covering all important aspects of the plan. It is the business plan in miniature.It is a two-page document which determines the entrepreneur's knowledge of the business opportunity and ensures that any investment in the venture will yield a good return. It should include the following: • Introduction to business opportunity search • About the company and its event services • USP of the business • Target market: growth and opportunities • Competitive analysis • Key marketing strategy • Operational highlights • Management summary • Financial highlights • Funding requirements
2)	**Introduction / Overview**	The Introduction section of a business plan presents the overview of the event industry as a whole and the target market. For example, if your event company specialises in organising promotional events for organisations, the introduction section will cover the scenario of activations industry locally and globally (if required).
3)	**The Company** a) About the Company i) Start-up Summary ii) Company Location And Facilities b) USP c) Objectives d) Vision e) Mission f) Scope g) Organizational Chart	This section provides the details of the company-describing the business organisation, location and premises, essential services and customers, critical data, constitution/ownership and management, human resources, and business strategy and vision. It gives the reader an outline of the business before reading the details.
4)	**Market Analysis** a) Target Customers b) Market Segmentation i) Market Needs ii) Market Trends iii) Market Growth c) Industry Analysis d) Competitors	This section covers the details of the market analysis to ascertain the feasibility and appeal of the business. An estimate of the expected number of buyers should also be discussed. Convincing evidence should support the market analysis.
5)	**Service offered by the Event Company**	This section includes service description, history, attributes, research and development, the process of

a) List of services with description b) Future services c) Service and support	organising events, quality assurance and control, sourcing and intellectual property.
6) Marketing and Implementation Strategy a) Pricing Strategy b) Promotion Strategy c) Sales and Distribution Strategy	Marketing strategy covers the pricing strategy and various approaches for promoting the event company – such as newspaper advertisements, websites, word of mouth, etc. Implementation strategy of the company includes the sales and distribution approach.
7) Management and Organisational Structure a) Organizational Structure b) Management Team c) Personnel Recruitment and Team	Management and organisational structure is an account of the work force in the company.
8) Business Risks	Business risks may be stated such as per unit price, competition, overall economic situation, government regulations, etc. These business risks may affect the profits and growth of the company.
9) Financial Projections a) Income Statement b) Projected Cash Flow c) Balance Sheet d) Break Even Analysise. Profitability Ratios	Financial projections of a company are explained in Unit 4 on Financial Management.
10) Appendices a) Service literature b) Asset valuations c) Legal documents (for example, company registration) d) Curriculum vitae of key management persons e) Market research f) Other relevant and important information	

10.8 WHY DO SOME START-UP EVENT MANAGEMENT COMPANIES FAIL?

Good event companies deliver adequate services to their clients by organising quality events and bringing creative and profitable ideas. However, many of them fail due to some common mistakes made by entrepreneurs. These common mistakes are discussed below:

Failure to Create a Large Clientele Base: Often entrepreneurs get busy with organising events for initially acquired clients and forget approaching new ones, thus affecting the business when regular clients are not availing the services.

Poor Managements Skills: Poor management is one of the main reasons for the company's downfall. There is a big difference between being a good event planner and being a good entrepreneur (i.e. providing services to customers). New business owners often lack relevant business and management skills essential for running a business. Care must be taken to study, organise, plan and control all the operations regularly. A successful entrepreneur is also a good leader who creates a work climate that encourages productivity.

Undercharging: Never undercharge with an assumption that it will help create a larger client base. Don't set prices so low that at the end of a project there are no profits after investing time and effort in organising the event.

Insufficient Capital: Insufficient operating funds often lead to business failure. Entrepreneurs underestimate or overestimate the investment needed, resulting in forced termination of the firm. They may also have an unrealistic expectation of incoming revenues from sales.

Location: A good business location is critical to the success of a business and may enable a struggling business to ultimately survive and thrive, while a poor location could result in the downfall of even a best-managed enterprise. Some factors to consider are given below:

- Location of potential customers
- Traffic, accessibility, parking and lighting
- Location of competitors
- The history, community flavour and receptiveness to a new business at a prospective site

Overexpansion: Overexpansion often happens when business owners confuse success with the rate of business expansion. It is often a cause of failure and bankruptcy. Focus on slow and steady growth is advised.

Disorganisation: Clients hire an event company to organise for them. A disorganised office can leave a bad impression. It is also important that necessary equipment and processes are at the fingertips of the event manager as it will give confidence to the client.

No Website: These days a business website is one of the most basic requirements of any company. Every business should have a professional and well-designed website that provides users easy access to information related to the business and its services.

Check Your Progress III

Note: Use the space provided below to write the answers.

1) Explain the reasons responsible for the failure of an event company.

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Intext Activity 1

Prepare a detailed Business Plan of your final Business idea from Unit 1 (Business Opportunity Search). You may use the format given in this Unit as a guideline to prepare the Plan.

10.9 LET US SUM UP

A strong business foundation needs a good business plan. It is a systematic planning tool required at various stages in business. Its primary purpose includes testing ideas to see their probable effect on the company, and measuring performance against goals or objectives. A business plan includes information like the overview of the event industry, proposed business structure, services to be offered, anticipated clients, competition and its competitive advantage, and relevant financial information to ascertain the feasibility of the business. The focus is on future projections. An ideal business plan should have elements such as executive summary, company summary, products and services, industry and market analysis, strategy and implementation, marketing plan, operational plan, management team, and financial plan.

A business plan has several benefits- it provides an integrated view of the business; helps in determining financial needs and raising capital, directing employees, informing strategic partners and in recruiting senior level management; departmental uses; and is useful for long-term planning. Important outsiders who read a company's business plan include investors, lenders, suppliers and executives likely to join the company.

To prepare a business plan, you first need to assess the external and internal environment, followed by setting of specific goals and broader qualitative objectives. Strategies and tactics are then formulated towards achieving goals and objectives. The plan should also include aspects of vision and mission, monitoring and evaluation of the business plan, sub-plans for critical sectors such as marketing, operations, human resource, information systems, etc. Necessary care has to be taken while writing down the financial aspect, as this is an important tool for monitoring and evaluation later. Monitoring and evaluation have to be integrated into the business plan while setting up the events business, as these help in the implementation of the business plan and setting up of its objectives.

A business plan should be properly formatted to look professional. It can be developed as a business proposal for an event company or can be customised and modified to suit each business situation. Start-up event companies, despite providing great services to the clients fail due to failures in creating a clientele base, poor management, undercharging, insufficient operating funds, inappropriate locations to do business, overexpansion, etc. For all these reasons a good business plan should be developed with careful planning and forethought.

10.10 KEYWORDS

Business Venture : An entrepreneurial endeavour in which an entrepreneur risks her or his resources in return for expected profit.

Business Strategy : A long-term business plan to achieve the organisation's goal.

Assessment of Internal Environment : Internal assessment is all about self-examination. The position of the event service provided and resources available are a few examples of the internal environment. This stream of activities can be summarised as Strengths and Weaknesses.

Assessment of External Environment : Political, economic, social and competitor analysis are examples of external environment assessment. All these can be summarized in two words: Opportunities and Threats.

10.11 REFERENCES AND SUGGESTED READINGS

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10.12 CHECK YOUR PROGRESS - POSSIBLE ANSWERS

Check Your Progress I

1) A business plan is a comprehensive written document that defines the goals of a business and outlines the methods for achieving them. It serves as the business roadmap that:

   - Acts as a management and financial blueprint for starting an event company and for profitable operation once the company is established.
   - Explains the functioning of business along with company details, such as services, clients, marketing strategy, human resources, infrastructure requirement, supplies, finance, etc.

   A business plan is required for (1) providing an integrated view of the business such as market analysis, target group, details of service, and marketing plan;(2) to determine the financial needs such as capital requirement, sources of financing and the predicted timeline to reach the break-even point; (3) in raising capital as it can convince investors to put up the money to help start a new venture or to move a business to the next level; (4) directing employees about the measures and objectives for units and individuals in the organization; (5) in informing strategic partners who can learn about the company by studying the plan; (6) for senior level management who at the time of recruitment will have a better understanding of the company and their roles; (7) in being of use to the department by being a starting point for a detailed marketing plan or a human resources policy; (8) and in long-term planning by acting as a platform for testing future scenarios.

2) No, a business plan is also required for an established business. It is required for the following reasons:

Generating Finances: Both start-ups and established business also require a business plan to generate finances for the smooth functioning of the business.

Management Team: The business plan is often used for planning once the company has been established. It should point out the problems management is likely to face, along with the intended remedies.

Suppliers: An established company will want the best payment terms with its suppliers. To negotiate favourable terms the suppliers can learn more about the company by reading its business plan.

Check Your Progress II

1) The steps in preparing a business plan for an event management company are:

Step-1 Assessing the Situation

Step-2 Setting Goals and Objectives

Step-3 Crafting Business Strategies

Step-4 Writing a Business Plan

Step-5 Financial Assessment and Writing

Step-6 Monitoring the Process

Following are two steps involved in making a business plan:

Assessing the Situation **–** The first step in preparing your business plan is to assess the external and internal environment to understand the ground realities.

- *Assessment of Internal Environment*: Internal assessment is all about self-examination. The position of the service offered by the company and availability of resources are examples of the internal environment. This stream of activities involves identification of Strengths and Weaknesses.
- *Assessment of External Environment*: Political, economic, social and competitor analysis are examples of external environment assessment.

The external environment helps ascertain Opportunities and Threats for the company.

Setting Goals and Objectives **-** Environmental assessment forms the basis for setting the goals and objectives for an event company. *Objective(s)* is written in broader qualitative terms. For example, the business must achieve higher market share. *Goals,* on the other hand, are more specific and can be quantified. For example, the event company should achieve 15 per cent increase in profits every year for the next three years.

Objectives and goals vary from company to company and are usually based on different aspects of the business like market share, event service branding, marketing, customer service, finance, etc.

(You can write any other two steps out of the six steps, if not the above two steps, in your answer).

2) A Business plan must look professional and should prove to be a useful tool. For this purpose, the following points require special attention:

- The Cover page
- Table of contents
- Number of Pages
- Page Margins
- Font type and size
- Contact information
- Appendix
- Paper Quality
- Editing
- Binding
- Overall document presentation

Check Your Progress III

1) Following are the reasons responsible for the failure of an EMC:

Failure to Create a Large Clientele Base – Often entrepreneurs get busy with organising events for initially acquired clients and forget approaching new ones. This affects the business during phases when the regular clients are not availing the services.

Poor Managements Skills – Poor management is one of the main reasons for company's downfall. There is a big difference between being good event planner and being good entrepreneur (i.e. providing services to customers). New business owners often lack relevant business and management skills essential for running a business. Care must be taken to regularly study, organise, plan and control all operations. A successful entrepreneur is also a good leader who creates a work climate that encourages productivity.

Undercharging – Never undercharge with an assumption that it will help create a larger client base. Don't set prices so low that at the end of a project there are no profits after investing time and effort in organising the event.

Insufficient Capital **–** Insufficient operating funds often lead to business failure. Entrepreneurs underestimate investment needed, resulting in forced termination of the firm. They may also have unrealistic expectation of incoming revenues from sales.

Location **–** A good business location is critical to the success of a business and may enable a struggling business to ultimately survive and thrive; while a poor location could result in the downfall of even a best-managed enterprise.

Overexpansion **–** Overexpansion often happens when business owners confuse success with the rate of business expansion. It is often a cause of failure and bankruptcy. Focus on slow and steady growth is advised.

Disorganisation – Clients hire an event company to organise for them. The disorganised office can leave a bad impression. It is also important that necessary equipment and processes are at the fingertips of the event manager as it will give confidence to the client.

No Website **–** These days a business website is one of the most basic requirements of any company. Every business should have a professional and well-designed website that provides users easy access to information related to the business and its services.

UNIT 11 MANAGING AN EVENT MANAGEMENT COMPANY

Structure

11.0 OBJECTIVES

The business owner is the 'secret' to the success of any new business. Armed with drive, determination, and a positive mind-set, many business owners view any setback as only an opportunity to learn and grow. Most self-made millionaires possess average intelligence, and what sets them apart is their openness to new knowledge and their willingness to learn and determination to succeed.

In the previous Units we learnt about the opportunity assessment process and development of a business plan. This Unit will provide you an insight into the management of an event organisation. After reading this Unit, you will be able to:

- Outline and discuss the organizational life cycle of an event management company;
- Understand the functions involved in managing a company – Production, Marketing and Human Resource Management (HRM);
- Learn the importance and guidelines for achieving Total Quality Management (TQM); and
- Comprehend the need and importance of business ethics.

11.1 INTRODUCTION

Running an established Event Management Company (EMC) for managing events, activations or intellectual properties, is a fulfilling job in terms of both appreciation and profits. Some EMC owners assume that not much management is required in a small business company. But contrary to the common belief, event companies must be organized and systemized to ensure efficient and profitable operations. The entrepreneur also needs to be a quick thinker in case of unforeseen emergencies such as fire fighting, crowd control and so on.

Various departments in the organisations, if organized properly, ensure smooth operations without much micro management. Challenges faced by these departments are often associated with the stage of the organisation's life cycle. This Unit will cover the life cycle of an organization. It will also cover various aspects of management, including, Production and Operations Management, Marketing Management, Human Resource Management, Total Quality Management and Business Ethics.

11.2 LIFE CYCLE OF AN ORGANISATION

Any organization, including an event company, undergoes changes in its conceptual and structural dimensions over a period of time which presents challenges to the entrepreneur. An entrepreneur will be able to better understand these changes if s/he has the knowledge of the five stages of the Organization's Life Cycle. Each stage has its own conceptual variations and they result in observable change in the structure and vision of the company. For better understanding, the stages of organizational life cycle have been explained in Fig 11.1 below:

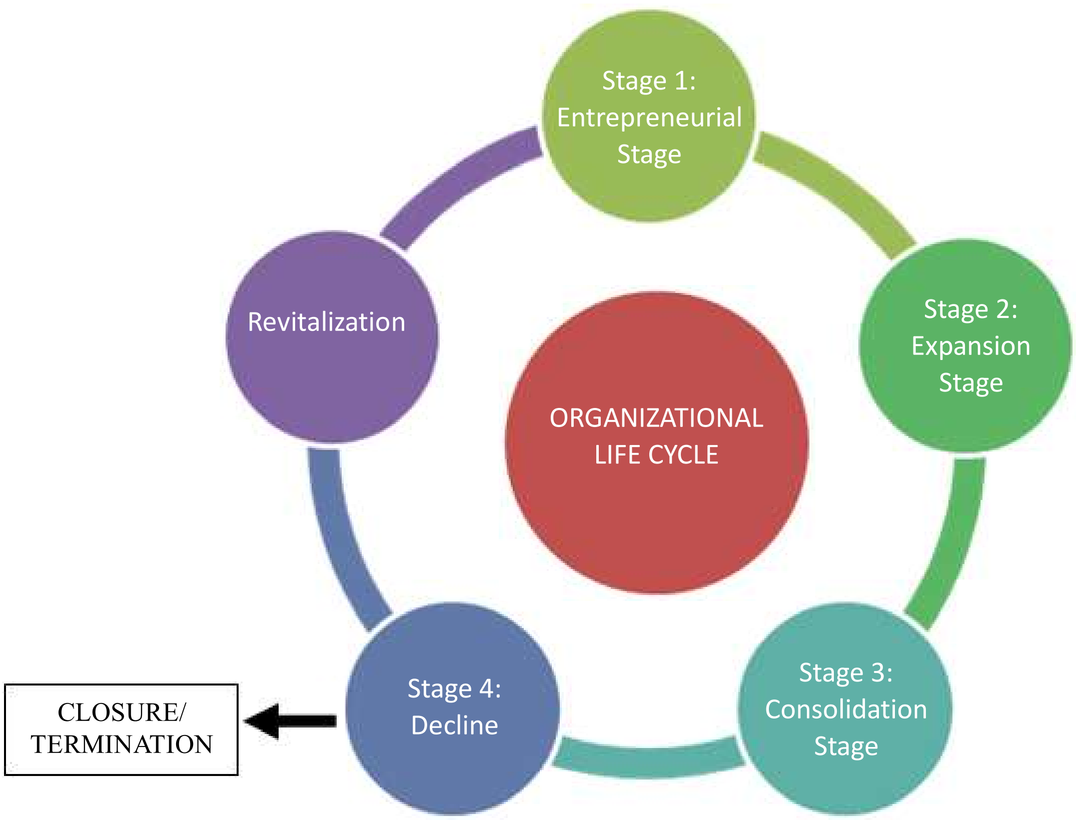

Fig. 11.1: Life Cycle of an Organisation

STAGE 1: Entrepreneurial Stage

This is the conceptual stage, where the entrepreneur finalizes her / his business idea, designs the business plan, raises capitals and starts her / his business. Success at this stage depends on the ability of the entrepreneur to identify the right business opportunity, followed by accuracy of the market research, uniqueness of the idea, explicitly identified services, properly estimated budget and financial projections. The entrepreneur must attempt to create a niche market for her / his EMC.

STAGE 2: Expansion / Growth Phase

As the business expands, the EMC generates more revenue, services are developed, workforce is hired and so on. More business opportunities are capitalized at this stage, often resulting in radical increase in personnel strength and resources. At this stage, an organization is geared towards maximizing its services and sales capacity.

STAGE 3: Consolidation

During the consolidation stage, the event company establishes its market presence and the focus shifts to cost control, productivity and profit. Often in spite of sizable market share and a strong financial base organisations experience stagnation. This stage is marked by stability, and by a slight slowdown. To avoid the decline of the organization at this stage, various actions are undertaken to renew its growth, including introduction of new services. This stage is also referred as the Diversification Stage.

STAGE 4: Decline

An organization enters the decline phase when it experiences continuous reduction in resources and revenue over a long period of time. This decline can occur after any growth stage, not necessarily after consolidation stage. But it is often too late to recover from it as early signs are often mistaken to be 'temporary.' In this stage, its not just sales and profits that drop, but company hiring drops too. Furthermore, demand for company's products or services decreases. However, there could be times when the decline is temporary, and the consolidation / cutback measures to realign and revitalize the organization may revive the organisation's growth. Hence, this could be a temporary decline period, followed by another phase of growth.

Successful ventures do not experience the Decline stage in their organisation's life cycle. In other words, a successful EMC will consolidate, and then continue to grow in terms of sales and profits.

The four stages of the organizational life cycle have been discussed in Table 1.

Table 1: Four Stages of Organisational Life Cycle

	CHANGE			
Category	**Entrepreneurial Stage**	**Expansion Stage**	**Consolidation Stage**	**Decline**
Size	Size of the company is small	The size of the company expands significantly.	Organization size is almost stable	Size of the organization starts declining. Workforce is reduced.
Structure	It has a horizontal structure with few or no levels of intervening management between the staff and the owner.	There is an initial shift towards being a more hierarchical structure. Management hierarchies are added as it becomes difficult for an entrepreneur to manage increasing functions.	Organizational structure becomes divisional with more departments because of diversification in number of services	Structure becomes horizontal as manpower is reduced
Manpower	Staff is usually highly skilled with relevant experience in the core functions and the supporting staff is minimal.	Organizational growth results in increased hiring of specialists and subordinates.	It involves both downsizing and hiring. It might include additional manpower in supporting functions.	Downsizing of employees is observed at this stage.
Culture	Culture is informal, promotes innovation and risk-taking. Decision making is centralized and power lies with the entrepreneur.	As the external environment is stable, organisation's culture is more inclined towards market culture.	The organization's culture becomes bureaucratic due to high degree of formalization and processes considered necessary for better control of services.	Organisation's culture becomes focused on cost cutting and reduction, hence could become autocratic
Financial	Finance available is less at this stage. Financial institutions are approached at this stage.	Improvement in financial situation because of growth in revenues and strong customer base. Despite expansion, new opportunities require additional funds.	Financial situation is steady	Sales and profits decline, and may become negative.
Leadership	The entrepreneur is the sole leader of the organisation and is responsible for managing all aspects of the organization.	There is leadership crisis at the top level as the changed organization demands delegation of responsibility. Middle management evolves and is responsible for operations while the top management focuses on business strategies.	Key leaders emerge for various functions, and provide stability in this stage. To reach this stage, some amount of rationalization may also happen in leadership.	The owner/entrepreneur, along with key aides ensures that non critical leaders and managers are downsized.
Focus Areas & Challenges	Focus is on successful development of prototype or marketable service, while able to manage necessary finance. Specialization and growth are limited to R&D or service.	Focus is on making service work well and to increase the sales and revenue. Challenge is to constantly scan the external environment for competition while it is so much focused on growth.	Focus is on achieving organizational effectiveness. Challenge is to establish seamless and efficient communication between various departments, being cautious of external environmental changes and making necessary corrective actions.	A cutback in size of an organization reflects a reduced market share and reduced profits, reduced need of products; lack of capability to deliver services.

Check Your Progress I

Note: Use the space provided below to write the answer.

1) Define and explain the size, structure, manpower, culture, financial and leadership areas, as well as the focus areas and challenges in the following stages of organizational life cycle.

   a) Entrepreneurial Stage

   b) Consolidation Stage

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11.3 PRODUCTION AND OPERATIONS MANAGEMENT

An EMC caters to the needs of the customer by providing services and in the process creates value for customers by organising successful events (Fig 11.2).

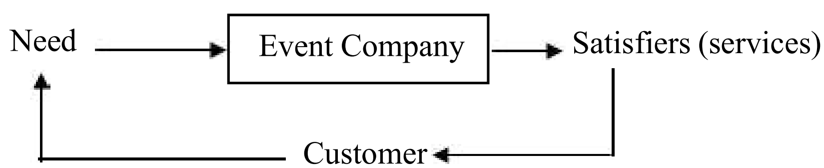

Fig. 11.2: Event Company fulfils Consumer's Needs

Production and Operations Management are the actual micro components of day to day operations of an event company.

Production

Production is a process of transforming raw materials (input) into the desired service (output) by adding economic value. It requires effective planning and controlling of all parameters of production to achieve the desired results, thereby, creating value for the customers. The steps involved in the production technique in the event industry are shown in Fig 11.3:

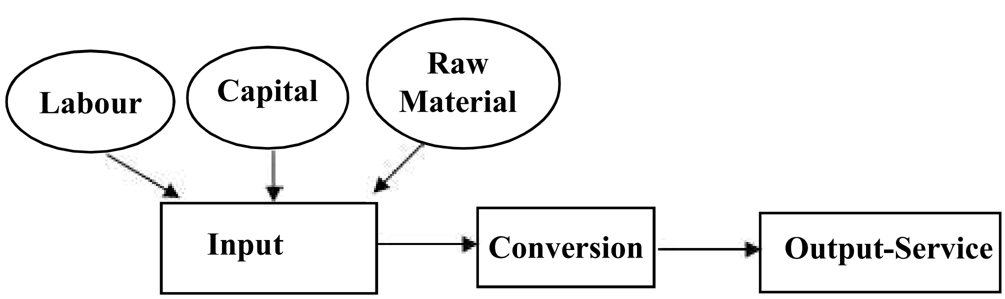

Fig. 11.3: Production Technique Steps

Given in Table 2 are some examples to understand the above concept of Fig 11.3.

Table 2: Examples of Production Technique

System	Input	Conversion	Output (desired)
Community festivals	Décor, Food, cultural event, other arrangement	Cultural events and festival celebration	Satisfied customers
Conference / Workshop / Seminar	Students, Speakers, Technical arrangements	Knowledge and skill transfer	Informed students

Operations Management

To organise satisfactory events for customers, it is essential for an event company to do the following:

- Identify customer needs to provide desired services.
- Prepare the list of required raw materials after customers' need assessment
- Engage internal and external vendors to a create supply chain for raw material and finished goods between vendor, production facility, and customers.

For example, if the State Government gives your event company a contract to organize National Games in the state, you must first understand the details of the event including type of games or events, services required during the events, essential sports equipment, etc. This would help you ascertain the raw material requirement and identify relevant vendors to supply raw material and for project implementation.

Check Your Progress II

Note: Use the space provided for your answer.

1) Define productions and operations management.

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11.4 MARKETING MANAGEMENT

A person who sells goods and services in lieu of payment is known as a **Seller**, and a person who purchases these goods or services is a **Buyer.** A set up in which two or more parties are involved in the process of buying and selling is called a

Market

According to Kotler marketing is "satisfying the needs and wants through an exchange process." It is very important to have a competitive market system with multiple buyers and sellers to enable better and advanced quality of the various event services.

It is the duty of a seller (service provider) to give complete and correct information to the consumers about their services. To ensure high sales it is important to clearly communicate USPs (Unique Selling Propositions) of the brand. These are the unique features of the brand or service that fulfill the needs of the buyer. Having multiple buyers means different preferences and requirements. To deal with this, the concept of STP was developed:

S- Segmentation

T- Targeting

P- Positioning

Marketing segmentation refers to grouping (into segments) of customers having similar demands and preferences. For example males and females have different requirements and are hence divided into different segments. Some customers may be segregated into segments on the basis of their economic status, or social and cultural factors.

After market segmentation, the event manager selects one or more of these segments based on attractiveness of the segment and other considerations. Developing marketing strategies and promotional plans in accordance with identified market segments and services offered by the company is termed as targeting. For example, the Trade Fair fulfils the needs and expectations of all the segments, whether individuals, or business houses.

Once the event manager completes the process of targeting, the process of positioning starts. Positioning is the process of establishing and communicating the key benefits of the event to the market. You need to check if the choice of the event was appropriate and whether it was positioned correctly with respect to the service offered by the competitors. Positioning of the event creates a perception of fulfilling a particular need of the target segment.

Marketing Mix

Marketing Mix is the combination of several concepts and ideas to formulate final strategies helpful in making a brand or service popular or promote it amongst the masses. To understand basic marketing mix, generally the following four Ps are used (also see Fig 11.4):

Product / Services: Goods or services produced by organisations and thereafter used by the customers are referred to as products / services. It is sold by the seller to the buyer in return for money. There are two types of products: Tangible and Intangible. An event company is an example of intangible service as no physical product is exchanged, but service (i.e. event experience) is sold. These services may include entertainment, interactions, catering services and the 'brand image' of the event in the target market.

Price: Money paid by a buyer to purchase a service is the Price of that service. When there is greater availability of a service / product in a market, its price falls and visa-versa. Pricing also depends upon the number of people attending the event and the selected venue. Pricing may also depend on the type of customer (e.g. senior citizen) and the time of the event (e.g. discounted price in festival season). Critical factors associated with pricing are:

- Determination of market share planned to be captured
- Formulation of pricing strategy
- Estimation of existing potential demand
- Evaluation of likely response of the competitors

Place: The site where products / services are sold is known as place. Products / services are sold both physically in markets and online. A mix of both is convenient for the buyers and likely to increase the sale. The factors to be considered while selecting a suitable location for a business are:

a) Located to serve the customer (demographic trends)

b) Cost of the location (rent or purchase price)

c) Quantity and quality of labour supply

d) Zoning restrictions

e) General business climate

f) Transportation - For customers (highways, public transportation etc) and raw materials (rail, air etc.)

g) Proximity to raw material

h) Quality of public services

i) Taxes (if owning)

j) Adequacy of future expansion

k) Value of site in future

l) Labour cost and anticipated productivity.

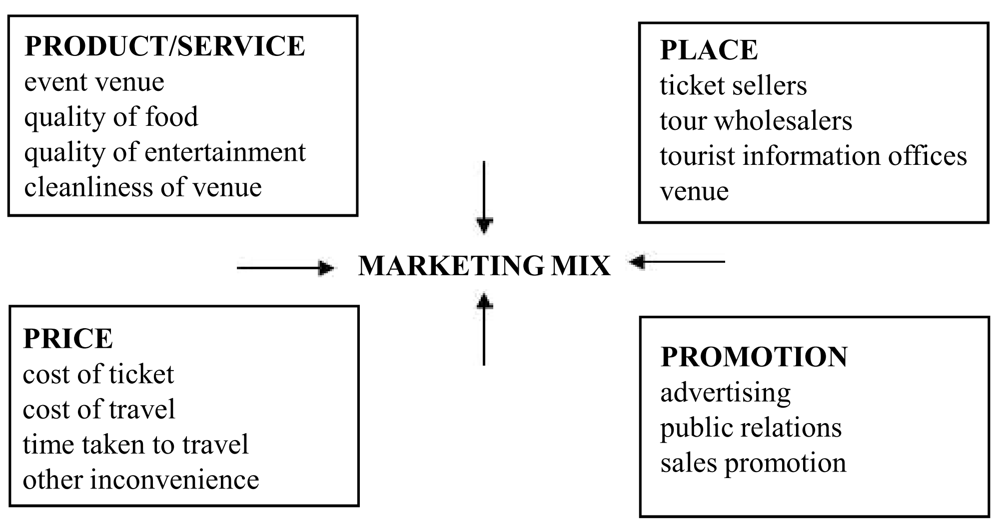

Fig. 11.4: The Marketing Mix – 4Ps

Source: Wagen and Carlos (2009)

Promotion: According to Middleton, promotion is the most visible of the four Ps of the marketing mix. Popularizing a service through advertisements in TV, papers, radio, word-of-mouth, sales promotion, merchandising, publicity and public relations, direct mail, internet usage, etc. is called promotion. These promotion strategies attract customers to use the services being offered by the company. The steps involved in promoting a product / service are given in Fig 11.5.

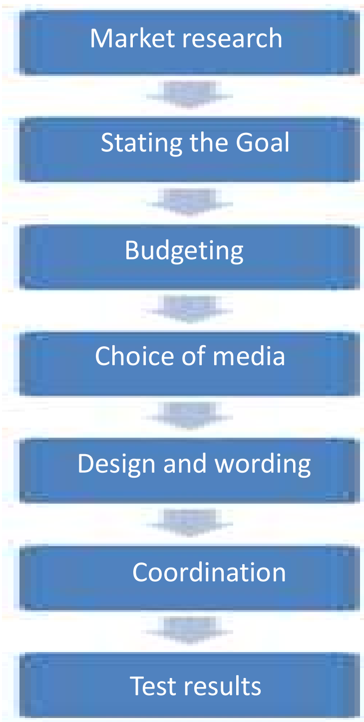

Fig. 11.5 : Steps in Promoting a Product / Service

The promotion strategy should be designed to attract the attention of potential customers so that they are motivated to pay for the experience.

Every event company should try to create a combination of all the 4Ps in a way that it results in highest level of satisfaction for the consumer and simultaneously achieve organisation's objectives. The mix of 4Ps is assembled according to the requirements of the target market and availability of organisation's resources and market objectives.

The fifth P, that has gained and still gaining popularity as a concept, is 'Pace'. This signifies the speed and efficiency at which the product or service is delivered to the customer. Variations on the original 4Ps has been given by Getz who suggested an eight-P mix of the following that supplements the 4Ps for event management:

- Product (the service offered)
- Place (the location)
- Programming (elements and quality of style)
- People (cast, audience, hosts and guests)
- Partnerships (stakeholders in producing the event)
- Promotion (marketing communications)

- Packaging and distribution of tickets
- Price

Further variations in Ps have been given by researchers and experts in event management. These have been discussed in detail in Block 1 titled 'Marketing Concepts' of Course 4.

The Five Cs of Events

According to Gaur and Saggere, marketing and managing of events involve the use of the following five Cs:

- ***Conceptualisation* -** of the creative ideas to create the desired ambience
- ***Costing*** - involves calculation of production cost and safety margins
- ***Canvassing* -** for clients / sponsors, target audience/ customers, followed by networking
- ***Customisation of the event concept* -** the concept is customized based on customers' needs, marketing objectives, according to brand personality, budgets etc
- ***Carrying-out* -** is the execution of the event according to the final concept

The five Cs described above, though linked to each other, may not follow the above sequence. This is due to a complex interaction between the five Cs before the carry out stage. During the conceptualization phase, the initial concept (including costing, canvassing, and customization) undergoes several modifications before finalizing the concept. This process is called *Event Designing.*

Marketing a Service-based Company - Key Success Factors

Clearly articulated Positioning Strategy: After finalizing the positioning strategy it is necessary to convey the same to the employees and customers.

Emphasis on Quality: To develop to the needs and specification of users and ensuring its best quality, both at the time of making as well as execution.

Customer Retention: It is always beneficial for the events business to retain existing customers along with making new ones.

Collecting and using Customer Data: Most service firms collect necessary customer data / information for operations and accounting. For example, EMCs collect information about the audience via purchased tickets and registration forms. EMCs can also buy data from agencies which have customer data base, such as telecom companies and other service providers. This data can range from demographics, to income groups and cultural affiliations. These data bases are potential marketing gold mines.

Close relations between Marketing, Operations and Human Resources: Proper integration and coordination between these functions is the key to success.

Soliciting feedback from Customers and Employees: Feedback from customers helps evaluate the event including its positives and areas that require improvement.

Top Management Commitment: Top management is the main decision making body in any company and affects all the employees from senior level to entry level. Management ensures that the operations of the organization are in line with its vision. They also have a direct influence on the culture and success of the organization.

Marketing and Promotion has been discussed exclusively in Course 4.

Check Your Progress III

Note: Use the space provided for your answer.

1) List down the 4Ps of Marketing Mix. Briefly describe any one of them. What are the 8Ps suggested by Getz?

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2) State the key factors you should keep in mind, while marketing your event company.

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3) Name the 5Cs of events.

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Intext Activity 1

Design a promotional strategy for your business plan (prepared in Unit 2). The promotional strategy should cover:

- Goals for the promotional campaign
- Combination of promotional tools that you will use and why you plan to use them.

11.5 HUMAN RESOURCE MANAGEMENT

According to Dessler, *Human Resource Management (HRM) is the process of acquiring, training, appraising, and compensating employees, and of attending to their labour relations, health and safety, and fairness concerns.* Human Resource Development or HRD is a sub-field under HRM. Human Resource Development is the process of enabling and empowering human resources in an organization. Following components are covered under HRD:

Manpower Planning: In small scale sector, manpower planning is usually a one-man show or a group decision for allocation of responsibilities to the personnel. Usually, EMCs determine the manpower requirement for specific positions and assign roles to each employee after careful analysis of their policies and goals. Often EMCs hire HRM consultants to ensure right manpower planning for the organisation.

Recruitment, Selection and Placement: Recruitment is the process of searching for adequate number of applicants for the job. The process of recruitment must begin with a clear specification or understanding of manpower needs. Applicants could be identified through public or private employment exchanges, training institutes or polytechnic colleges, newspaper advertisements, trade union and trade or professional associations. During the recruitment process, the HR manager prepares the job description and job specification for the vacant post. *Job description* is the formal description of employees' responsibilities, while, *job specification* lists the education, training, experience and other skill sets required by the incumbent to perform the job successfully.

Selection is a process of gathering information for the purpose of evaluating and finalizing the candidate for short and long-term appointment as desired by the candidate and the organization. Selection techniques include - assessing the past behavior to predict future behavior; identifying of critical job requirements; using effective interviewing techniques; and supplementing interview information. For example, the performance of a candidate for the post of sponsorship manager can be assessed by asking him to present a sponsorship proposal. Organisations also use previous employers as referees to verify the candidate's credibility and performance.

Placement refers to assigning rank and responsibility to the selected candidate. Event managers may also hire volunteers or contract staff for events. For this, they should identify the range of jobs and tasks required for an event and mobilise volunteers from universities and colleges that offer courses on event management or related programmes, charitable organizations, interested voluntary bodies, alumini groups, professional organizations etc. It is generally assumed that volunteers are individuals, but for large scale events, voluntary bodies willing to participate could be identified. There are no unique set rules for recruitment, selection and placement of employees. However, it is recommended that the following steps be followed (Fig 11.6):

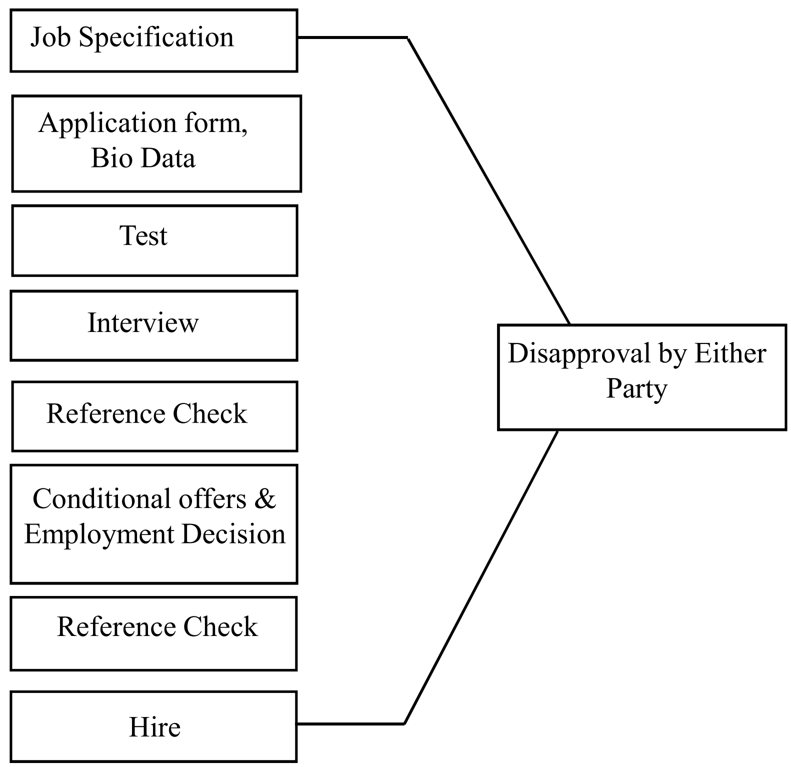

Fig. 11.6 Recruitment and Selection Process

Even though every event is different and individual events are short lived, every event company requires permanent staff for managing the organisation. Some examples of permanent staff requirement in specialized areas are venue manager, operations and logistic manager, light and sound engineer, catering manager, technology support officer, sponsorship manager, risk manager, event designer, and tourism event coordinator.

Checking the candidate's suitability for the position is primarily done by two methods:

- Employing a person with basic education, who can be trained on the job to perform the role s/he is hired for. This method is mostly used to employ operational staff.
- Employing a person with relevant professional and educational background in event management or related field.

Performance Appraisal and Development: Output of an employee in a business is of paramount importance and is linked to the employee's performance. Performance Appraisal is systematic evaluation of the performance of employees and to assess their potential for further growth and development. The advantages of conducting performance appraisal are given below:

- Based on the performance appraisal, the employer determines which employees are to be promoted, demoted or fired.

- The supervisors are able to frame training policies and programs.
- It helps to analyze strengths and weaknesses of employees to design new assignments for efficient employees.
- Ascertain the future development programs for the employees.
- Determine the compensation to be given to an employee.
- Better communication and greater motivation among employees.

Employee Compensation: Employee compensation is the payment made to workers in exchange for their labour. It is closely associated with employee satisfaction as well. This payment is often in cash, and at times may also be combined with various non-monetary benefits, such as health insurance / child care, certain amount of paid vacation time each year. Many businesses and organizations structure their employee compensation policies to attract, retain, and motivate their employees.

A small enterprise unit should evolve a satisfactory employee compensation system by: (a) grading jobs; (b) formulating wage scales for each employee specification; (c) proposing effective means of encouraging and rewarding employees; and (d) providing for employment stability. Employee should be rewarded on merit for his work and loyalty.

Motivation: Motivation is derived from the word 'motive' which means need, desire, want or drive of an individual. Motivation stimulates, energises and enables people to achieve goals, be it individual goals or organizational goals. Various factors that simulate people's behaviour at work can be desire for money, success, recognition, job-satisfaction, team work, etc. A fundamental component of the event manager's skills is the ability to motivate her / his staff. Given below are the advantages of motivating employees at workplace.

- Employees work for the growth of the organisation
- Improves level of efficiency of employees
- Leads to achievement of organizational goals
- Leads to stability of work force
- The more motivated the employees are, the more empowered the team is and more profitable and successful is the business.
- Motivation will lead to an optimistic and challenging attitude at work place.

To motivate the employees, individual and team goals should be carefully linked to the performance. This can be achieved by recognising good performance through verbal acknowledgement, monetary benefits, training and skill development, job enrichment, job rotation, media recognition, merchandise, tickets, post-event parties, recognition certificates, badges, memorabilia, etc.

Communication: It is well understood that the process of passing any information from one person to another with the aid of a medium is called communication. The process of communication involves the sender who sends information to the receiver who responds accordingly.

Sender ------------------------ Receiver

Information

Here is an example. You (sender) might have an incomparable novel concept/ idea for organising a world class concert. This idea (information) is passed on to fellow workers (receiver). 'Effective' communication is one of the basic requirements to run the event and also develop a positive attitude among employees. You may recall that in Unit 7 on Communication Skills and Methods of Block 2, we had discussed about communication skills of an event manager and communication requirements during events that employ different methods. Communication is essential for effective supervision, effective staffing, coordination and control as well as for industrial harmony and peace.

The lines of communication down the hierarchy and from side to side is necessary to ensure that information gets passed around the organisation quickly and not restrict itself to hierarchical communication. For example, if there is a change in the dance programme, the Entertainment Officer needs to first tell the Visitor Services Officer, and should then be able to speak directly to the information and ticket office without waiting for other managers and officers / staff to turn up. Forms of communications - oral or written - should be specified with adequate clarity, flexibility and maximum participation at each level in order to enhance efficiency and productivity in the organisation. These could employ the use of appropriate technology.

Besides effective communication within the organisation, effective communication with external stakeholders is important. Also, the messages used to promote an event have a significant impact. This is because there is usually less scope for advertising by small EMCs to convince all market segments to attend. Hence, a combination of text and images require a lot of creative effort. For promotion brochures, posters, banners, radio / television advertising, and local BTL (below the line) activities can be used. Eye catching promotional strategies like usage of kiosks, banners and T-shirts can be used.

Check Your Progress IV

Note: Use the space provided for your answer.

1) What are recruitment and selection? Briefly describe the methods used for recruitment and selection in event companies.

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2) What is Performance Appraisal?

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3) What is the importance of motivation in HRM?

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11.6 TOTAL QUALITY MANAGEMENT (TQM)

Total Quality Management (TQM) is a management approach to long–term success through customer satisfaction. TQM can be summarized as a management system for a customer-focused organization that involves all employees towards continual improvement. There is no single path to achieve total quality within an organization because all organizations have their own culture, people, and technologies. What may work well for one company will not necessarily work for another.The guidelines given below can be customised according to the organisation's requirement.

Customer-focused: 'Customer is God' is the thumb rule to be followed. A customer ultimately determines the level of quality. What must also be understood is that the external customers are served by the internal customers (employees). Therefore, there is a need to focus on requirements and expectations of both internal and external customers.

Total Employee Involvement: All employees work towards common goals. Total employee commitment can be achieved if the management is able to provide an enabling work environment to its employees.

Process-centered: A process is a series of steps where inputs from suppliers (internal or external) are transformed into outputs that are delivered to customers (again, either internal or external). Steps necessary to carry out the process are defined, and performance measures are continuously monitored in order to detect unexpected variation.

Leadership Commitment: Leadership of an organization must be committed to continuous improvement. This commitment must be visible throughout all layers of management. If the management is committed to provide right tools and systems, employees are likely to excel at what they do.

Integrated System: TQM focuses on the interconnectivity between various departments. An integrated system ensures that all departments understand the vision, mission, and guiding principles as well as the quality policies, objectives, and critical processes of an organization. They work in coordination with each other to achieve business success.

Strategic and Systematic Approach: Strategic planning or strategic management includes formulation of the strategic plan integrating quality as a core component.

Continual Improvement: TQM is a continuous process of improvement. Continual improvement drives an organization to be both analytical and creative. This enables the organization to become more competitive and effective at meeting clients' expectations.

Communications: During stages of organizational change, as well as part of day-to-day operation, effective communication plays an important role in maintaining morale and motivating employees at all levels. Communications involve strategies, methods and timeliness.

Training and Development: Through training, management assures that employees have necessary skills and technical knowledge to perform their jobs effectively. Many organisations have a definite staff development policy, progression routes and comprehensive staff training programmes such as 'Investors in People' that target at enhancing quality of human resources for well-trained, well-motivated and well-managed staff. This also leads to public recognition of the enterprise or company.

Recognition and Awards: After achieving a goal or successfully completing a difficult or important task, giving recognition encourages further participation by an employee and motivates others to perform. Refer the previous section on motivation.

11.7 BUSINESS ETHICS

Values and ethics in simple words mean principle or code of conduct that governs transactions; in this case business transactions. Ethics try to create a sense of right and wrong in organizations and often when the law fails, it is the ethics that may stop organizations from harming the society or environment. Of course all of us want businesses to be fair, clean and beneficial to the society. For that to happen, organizations need to abide by ethics or rule of law, engage themselves in fair practices and competition; all of which will benefit the consumer, the society and the organization.

Business ethics are important because of the following reasons:

Satisfying Basic Human Needs: Being fair, honest and ethical is one of the basic human needs.

Creating Credibility: An organization that is believed to be driven by moral values is respected in society. This perception is held far and wide even by those who are not involved with the organization.

Uniting People and Leadership: Uniting workers within an organization goes a long way towards achievement of one common goal or mission.

Improve Decision Making: All decisions are driven by values. For example, an organization that does not value its employees will not cater to the needs of its employees resulting in dissatisfaction.

Long Term Gains: Organizations guided by ethics and values are profitable in the long run, though in the short run they may seem to lose money.

Securing the Society: Often ethics succeed law in safeguarding the society. The law machinery is often found acting as a mute spectator in its endeavour to save the society and the environment.

Check Your Progress V

Note: Use the space provided for your answer.

1) Define TQM.

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2) What are business ethics and why are they essential?

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11.8 LET US SUM UP

The purpose of this Unit was to orient the learner towards managing an EMC through an understanding of the organisational life cycle, production and operations management, marketing management, HRM, TQM and business ethics. Every organisation's life cycle consists of five stages namely entrepreneurial stage, expansion, consolidation, decline and revitalisation. Business organisation and management concepts are applied to the business, in order to create services. This process is known as production and operations management, and is essential for organising successful events to the satisfaction and value of customers. The concept of STP (Segmenting, Targeting and Positioning) is central to marketing management. The 4Ps of marketing mix are product, place, price and promotion, to which has been added a fifth P, pace. These Ps should be combined in such a way as to achieve the highest level of customer satisfaction and organisation's objective. To strengthen the marketing mix, Getz has recommended 8Ps for event management. However through the years a combination of more Ps have emerged for an understanding of the event management field.

The 5Cs for marketing and managing events are conceptualisation, costing, canvassing, customisation and carrying-out. For marketing a service-based company, there are several key factors such as a clearly articulated positioning strategy, emphasis on quality and customer retention to name a few. Important HRD components should include manpower planning, recruitment selection and placement, performance appraisal and development, employee compensation, motivation and communication. To attain TQM, an organisation has to be customer focussed, involve employees, be process centered, be committed to leadership, have an integrated system, adopt strategic and systematic approach, focus on training and development, and give recognitions. All organisations need to abide by business ethics to follow a code of conduct that governs business transactions.

11.9 KEYWORDS

Job specification : It is the list of employee characteristics (knowledge, skill, education, experience, abilities etc.) which are considered essential for satisfactory performance in a particular job.

Reference checks : It is verification of factual information of the candidate by her / his previous employer(s). It includes dates, places, previous salaries, etc.

Conditional offers : It means the employment contract signed between the employee and employer. In this contract the employer states terms and conditions, which may vary from organization to organization.

USP (Unique Selling Proposition) **:** This term was initially proposed as a marketing concept and is used widely today in other fields. It is used to refer to any aspect of an object that differentiates it from similar objects. The proposition must highlight the uniqueness / specific benefit about the product, and must be strong enough to attract new customers as well as potential customers. 'Positioning' is an alternate term that is used for USP.

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11.11 CHECK YOUR PROGRESS- POSSIBLE ANSWERS

Check Your Progress I

1) **Entrepreneurial Stage -** This is the conceptual stage, where the entrepreneur finalizes her / his business idea, designs the business plan, raises capitals and starts the business. Success at this stage depends on the ability of the entrepreneur to identify the right business opportunity and, thereafter, accuracy of the market research, uniqueness of the idea, explicitly identified services, properly estimated budget and financial projections. The entrepreneur must attempt to create a niche market for her / his event company.

Size: Size of the company is small

Structure: It has a horizontal structure with few or no levels of intervening management between the staff and the owner.

Manpower: The staff is usually highly skilled with relevant experience in the core functions and the supporting staff is minimal.

Culture: The culture is informal, promotes innovation and risk-taking, the decision making is centralized and mostly lies with the entrepreneur.

Financial: Finance available is less at this stage. Financial institutions are approached at this stage for finance.

Leadership: The entrepreneur is the sole leader of the organisation. He is responsible for managing all aspects of the organization.

Focus Areas and Challenges: Focus is on successful development of prototype or marketable service, while being able to manage the necessary finance. The specialization and growth are limited to R&D or service.

Consolidation Stage – During the consolidation stage, the EMC has established its market presence and focus shifts to cost control, productivity and profit. Often, in spite of a sizable market share and a strong financial base, organisations experience stagnation. To avoid slowdown and decline of the organization at this stage, various actions are undertaken to renew its growth, including introduction of new services.

Size: The organization size is almost stable.

Structure: Organizational structure becomes divisional with more departments because of the diversification in number of services.

Manpower: It involves both downsizing and hiring. It might include additional manpower in supporting functions.

Culture: It involves both downsizing and hiring. It might include additional manpower in supporting functions.

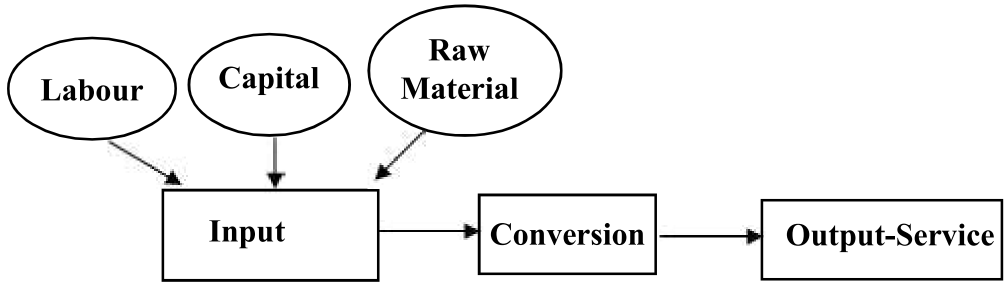
Financial: The financial situation is steady.

Focus Areas and Challenges: Focus is on achieving the organizational effectiveness.

The challenge is to establish seamless communication protocol between various departments, being cautious of external environmental changes and making necessary corrective actions.

Check Your Progress II

1) Production is a scientific process which involves transformation of raw material (input) into desired product or service (output) by adding economic value. There has to be effective planning and control on production parameters to achieve or create value for the customers. Production technique for event industry will follow the following steps:



Operations management is required to deliver value for customers in products and services. For this the company has to: Identify the customer needs and convert that into a specific product or service; Do backward working to identify raw material requirements based on product requirement; and Engage internal and external vendors to create supply chain for raw material and finished goods between vendor, production facility, and customers.

Check Your Progress III

1) Marketing mix refers to the collection of innovations and ideas to develop the final plans for the promotion of the brand in order to make it a market success. Several concepts and ideas combined together to formulate final strategies helpful in making a brand popular or promote it amongst the masses form marketing mix. The 4Ps of the Marketing Mix are product / services, price, place and promotion.

   Product / Services: Goods or services produced by organisations and thereafter used by the customers are referred to as products / services. It is sold by the seller to the buyer in return for money. There are two types of products: Tangible and Intangible. An event company is an example of intangible service as no physical product is exchanged, but service (i.e. event experience) is sold. These services may include entertainment, interactions, catering services and the 'brand image' of the event in the target market. (You may describe any other of the 4Ps if not the above, in your answer).

   Getz suggested an eight-P mix for event management, that supplements the traditional 4Ps. These are as follows:

   - Product (the service offered)
   - Place (the location)
   - Programming (elements and quality of style)
   - People (cast, audience, hosts and guests)
   - Partnerships (stakeholders in producing the event)
   - Promotion (marketing communications)
   - Packaging and distribution of tickets
   - Price

   An optimum mix of the above 8Ps are essential for the successful business of an EMC.

2) An event management firm is a service based company. There are various key factors that lead to a successful business, these are follows:

Clearly articulated positioning strategy: After finalizing a positioning strategy it is necessary to convey it to its employees and customers.

Emphasis on quality: To develop to the needs and specifications of users and to ensure its best quality both at the time of making as well as execution.

Customer Retention: It is always beneficial for the business to retain existing customers than making new ones.

Collecting and using customer data: Most service firms collect extensive data on their customers for operations and accounting purposes. For example EMCs collect information about the audience through tickets purchased and filling up of registration forms. EMCs can also buy data from agencies that have customer data base, such as telecom companies and other service providers.

Close relations between marketing, operations and human resources: Proper integration and coordination between these functions is the key to success.

Soliciting feedback from customers and employees: Feedback from customers helps in event evaluation. Feedback helps in determining whether or not it is doing a good job but also areas which require improvement.

Top management commitment: Without the support of top management it is almost impossible for a service organization to achieve and maintain a strong marketing organization.

3) The 5Cs of Events are Conceptualisation, Costing, Canvassing, Customisation of the event concept, and Carrying-out the event.

Check Your Progress IV

1) ***Recruitment*** is the process of searching for adequate number of applicants for the job. The process of recruitment must begin with a clear specification or understanding of manpower needs. Applicants could be identified through public or private employment exchanges, training institutes or polytechnic colleges, newspaper advertisements, trade union and trade or professional associations. During the recruitment process, the HR manager prepares the job description and job specification for the vacant post. *Job description* is the formal description of employees' responsibilities, while *job specification* lists the education, training, experience and other skill sets required by the incumbent to perform the job successfully.

   Selection is a process of gathering information for the purpose of evaluating and finalizing the candidate for short and long-term appointment as desired by the candidate and the organization. Selection techniques include: assessing the past behavior to predict future behavior; identifying of critical job requirements; using effective interviewing techniques; and supplementing interview information. For example, the performance of a candidate for the post of sponsorship manager can be assessed by asking him to present a sponsorship proposal. Organisations also use previous employers as referees to verify the candidate's credibility and performance.

2) Performance Appraisal is a systematic evaluation of the performance of employees and to assess their potential for further growth and development. The advantages of conducting performance appraisal are given below:

- Based on the performance appraisal, the employer determines which employees are to be promoted, demoted or fired.
- The supervisors are able to frame training policies and programs.
- It helps to analyze strengths and weaknesses of employees to design new assignments for efficient employees.
- Ascertain the future development programs for the employees.
- Determine the compensation to be given to an employee.
- Better communication and greater motivation among employees.

3) Motivation is derived from the word 'motive' which means need, desire, want or drive of an individual. Motivation stimulates, energises and enables people to achieve goals, be it individual goals or organizational goals. Various factors that simulate people's behaviour at work can be desire for money, success, recognition, job-satisfaction, team work, etc. A fundamental component of the event manager's skills is the ability to motivate her / his staff. Given below are the advantages of motivating employees at workplace.

- Employees work for the growth of the organisation
- Improves level of efficiency of employees
- Leads to achievement of organizational goals
- Leads to stability of work force
- The more motivated the employees are, the more empowered the team is and more profitable and successful is the business
- Motivation will lead to an optimistic and challenging attitude at work place

Motivation provides the following benefits: puts human resources into action; improves employee efficiency; leads to achievement of organizational goals and stability of work force; leads to team empowerment; creates successful and profitable business; and leads to an optimistic and challenging attitude at work place. Linking performance to individual or team goals is a great motivational factor. This can be done by giving them recognition such as praise and verbal recognition, training and skill development, job enrichment, job rotation, media recognition, merchandise, tickets, post-event parties, recognition certificates, badges, memorabilia and so on.

Check Your Progress V

1) TQM or Total Quality Management is a management approach to long–term success through customer satisfaction. Total quality management can be summarized as a management system for a customer-focused organization that involves all employees in continual improvement. There is no single path to achieve total quality within an organization because all organizations have their own cultures, people, and technologies. What may work well for one company will not necessarily work for another.

2) All organizations need to abide by ethics or rule of law, engage themselves in fair practices and competition; all of which will benefit the consumer, the society and organization. These rules are referred as Business Ethics. Primarily it is the individual, the consumer, and the employee who benefits from ethics. In addition, ethics are important because of the following reasons: satisfying basic human needs, creating credibility, uniting people and leadership; improving decision making, long term gains, and securing the society.

UNIT 12 FINANCIAL MANAGEMENT

Structure

12.0 OBJECTIVES

The previous Unit on 'Managing an Event Management Company' gave you an overview of the life cycle of an enterprise, marketing, Human Resource Management (HRM), Total Quality Management (TQM) and business ethics of an event management company. This Unit will cover the basics of financial management of an organization. After reading this Unit you will be able to:

- Learn the importance of financial management and its functions;
- Differentiate between long term, medium term and short term sources of finance;
- Understand various sources of finance for an event management company;
- Understand the concept of fixed and working capital; and
- Calculate financial projections for an event management company.

12.1 INTRODUCTION

The key functions - Finance, Service, Marketing and Human Resource Management – of an event company are inseparable and interweaved. Among all these functions, decisions related to finances are crucial, and it is advisable that the entrepreneur must have the basic understanding of accounts and finances. Financial management is not only about raising finance for running a business but also managing it properly.

12.2 FINANCIAL MANAGEMENT AND ITS FUNCTIONS

Financial Management is a managerial activity concerning the finances of a firm. It involves planning, organizing, directing and controlling financial activities such as procurement and utilization of funds of an enterprise. Event managers commonly use the following financial terms:

Expenses – are everyday running costs of a business and its events.

Profit – is the money earned from a business activity after subtracting all the expenses.

Revenue – is the income which a business earns from its events.

Gross profit – is company's remaining profit after subtracting revenue from operating expenses. Example: resources, labor, etc.

Net profit – is company's remaining profit after subtracting revenue from total expenses. It includes expenses additional to the operating cost. Example: taxes, rent / mortgage, government fee, etc.

Fixed expenses – are expenses which must be paid for, regardless of whether an event is organized or not.

Variable expenses – are directly proportional to event revenue. Variable expenses increase or decrease with increase or decrease in income.

Capital – is the money or assets owned or utilized in business by a person or the enterprise.

Overheads – are indirect costs which cannot be directly associated with the service (i.e. organizing an event). Example: taxes, or office rent which is not directly related to cost of organizing events.

Before trying to raise finance it is important to review one's business and determine the required funding, its purpose and when it is required. A proposal with financial projections is also required for various reasons. These reasons have been discussed in the following section.

Functions of Financial Management

Estimate of capital requirement: A finance manager must estimate the event company's capital requirement. It will depend on expected costs, profits, future programmes and policies of the company.

Determination of capital composition: Once estimated, the capital structure should be decided. This involves short-term and long-term debt equity analysis. This will depend upon the proportion of equity capital possessed by a company and additional funds which have to be raised from outside.

Choice of sources of funds: For additional funds to be procured, a company has various choices such as issue of shares and debentures; Loans to be taken from banks and financial institutions; and Public deposits to be drawn like in the form of bonds.

Investment of funds: A finance manager has to allocate funds into profitable ventures so that there is safety in investment and regular returns are possible.

Disposal of surplus: This can be done in two ways - *Dividend declaration* which includes identifying the rate of dividends and other benefits like bonus and;

Retained profits - The volume has to be decided which will depend upon expansion, innovation, diversification plans of the company.

Management of cash: Cash is required for various purposes like payment of wages and salaries, payment of electricity and water bills, payment to creditors, meeting current liabilities, maintenance of enough stock, purchase of raw materials, etc.

Financial controls: The finance manager not only plans, procures and utilizes funds but he also has to exercise control over finances. This can be done using various techniques like ratio analysis, financial forecasting, cost and profit control, etc.

Check Your Progress I

Note: Use the space provided for your answer.

1) What is financial management? Explain any 3 functions of financial management.

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12.3 TYPES OF FINANCE

Business enterprises require funds to meet different requirements. All financial needs of a business can be grouped into three categories:

Short Term: Short term financial need(s) arise for a short period of time i.e. money with repayment period is one year or less. It covers shortage in working capital. Expenses are also met through the client, merchandising, sponsorship, advertising, etc. for a particular event.

Medium Term: Medium term schemes have a maturity period between 1-5 years. It is mainly used to finance equipment, business expansion and development of new products.

Long Term: Long term schemes are those with maturity periods of 5 years and more. This type of finance is used to fund the purchase of assets such as business itself, land, buildings, plant or machinery which will directly or indirectly contribute to profit over several years.

12.4 RAISING FINANCE

Business requires finance for every day functioning, such as paying suppliers, and for longer-term requirements, like purchasing land or expensive equipment.

Sources of Finance: There are many ways of financing a business – both when it is starting and as part of on-going development. Generally funds can be raised from two sources – Internal and External.

Internal sources: Internal sources of finance are entrepreneurs' own savings or capital which can be invested. Sources of internal finance are given below:

a) Owner's capital, i.e., owner's savings invested in a business.

b) Personal loan from provident fund, LIC policy etc.

c) In case of a running enterprise, funds can be generated from profit retention, i.e., profit can be invested back in to the business for further development.

External Sources: Private sector offers financial aid to raise funds externally for starting an event organization.

Private sector sources of finance are:

i) Bank Loans: Commercial banks play an important role in financing business requirements. Following are the means through which banks provide finance to event companies:

- ***Loans*** (long-term or medium term finance): When a bank gives advance in lump-sum, the whole of which is withdrawn to cash immediately by the borrower who undertakes to repay it in installments, it is called a loan.

- ***Cash credit*** (long-term or medium term finance): It is the most popular method of providing finance in banks. Cash credit is different from a loan, as the borrower does not receive the entire amount of her / his loan at once. It may or may not be against security of tangible assets or guarantees.

- ***Overdrafts*** (short-term finance): The customer and the bank mutually agree to maintain minimum balance in the account, beyond which the customer should not withdraw. In case the customer withdraws above the sanctioned limit s/he is liable to pay interest. Example: if you are anticipating shortfall of Rs. 20,000 to pay the salary to your employees for a particular month, you may temporarily 'borrow' money from a bank to pay the salaries.

- ***Discounting of bills:*** Banks finance business concern by discounting their credit instruments (like bills of exchange, promissory notes etc.) at a price lower than its face value.

- ***Mortgage (long-term finance):*** A mortgage is a loan that is secured against a property. That means, if you fail to fully repay a loan, the lender can take that property and sell it in order to pay off the loan.

- ***Commercial Bill (short-term finance):*** An arrangement where money is made available for a short period, by banks and private agencies. At the end of this period borrowed money has to be repaid.

ii) Lease (medium-term finance)**:** Leasing an asset provides similar benefits as purchase. It is a contract outlining the terms under which the finance house (lessor) agrees to rent its property to the entrepreneur (lessee) for a fixed time period in exchange of regular payment (often annual rental). Real distinction between lease and purchase is that the lease does not have eventual ownership of the asset.

iii) **Suppliers / Trade Credit** (short-term finance): As a business may give credit to its own customers, the firm may be able to negotiate credit terms with its suppliers. Funds are not available in cash, but it facilitates the purchase of supplies without immediate payment. No interest is payable on trade credits.

iv) **Customer Advance** (short-term finance): In the event industry customers i.e clients are asked to pay a part of the payment in advance. Often it is 50% of the total payment. This is particularly popular in case of special order or big events.

v) **Sponsors (short-term finance):** For many events funds from sponsors would be a large percentage of funds. This could be either from a principal single sponsor or from multiple sponsors with small stakes in the event. Sponsorship funds could be for specific activities within the event or for featuring the sponsors' branding in the overall event. The sponsoring company will usually have similar business interests as the event, and might target the same target audience.

vi) **Debtor Finance:** This is an arrangement where the finance company provides cash in advance to the business against sales made (invoices).

vii) **Borrowing from friends and relatives.**

viii) **Sources of Revenue at the time of Event (short-term finance):** The source of revenue defines the type of event. For example, for a company's product launch, the source of revenue is the client. But for a large event like trade fair or major festival, there can be a variety of revenue sources such as sponsors and participants. Therefore revenue sources could be: ticket sales; sponsorship (as mentioned above); merchandising; advertising; 'in-kind' arrangements (not in cash); broadcast rights (as in sport events); grants (for example from government); fund-raising (common in community events); food and beverage sales; and the client (major revenue source for corporate events).

Box No. 1

When an entrepreneur approaches external agencies for funds, s/he must consider several factors, known commonly as **PARTS.**

- ***P****urpose* - A loan request is refused if the purpose of the loan is not acceptable to the bank.
- ***A****mount* - The amount of the loan. The customer must state exactly how much s/he wants to borrow. The banker must verify, as far as s/he is able to do so, that the amount required to make the proposed investment has been estimated correctly.
- ***R****epayment* - How will the loan be repaid? Is the proposal promising enough to generate sufficient income to make necessary repayments?
- ***T****erm* - What would be the duration of the loan? These may be short-term, medium-term and long-term loans.
- ***S****ecurity* - Does the loan require security? If so, is the proposed security adequate?

Check Your Progress II

Note: Use the space provided for your answer.

1) What are the three types of finance?

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2) List the various private sources of finance.

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Box No. 2

WHAT IS FIXED CAPITAL AND WORKING CAPITAL

Both fixed and working capital are utilized to achieve the same goal. However, the nature of assets is different in both.

Fixed Capital: Fixed Capital assets are long-term or durable and can be used repeatedly for business operations over a long duration. Example: land, machinery, office furniture etc. Fixed capital is used for years before it is replaced (this is what 'fixed' refers to).

Working Capital: Working Capital is used for short-term business operations. Example: salaries/wages, raw material, etc. This capital is constantly received and rapidly consumed (this is what 'working' refers to).

12.5 PROJECTED FINANCIAL STATEMENTS

At the end of a business plan is the financial plan section. This section determines the viability of a business idea and its likelihood of attracting investors. A monthly budget for the first 6 or 12 months should be prepared for a start-up event company. Financial projection is required for the following reasons:

- Establish the profit potential of a business supported by reasonable assumptions

- Determine the company's capital requirement and its utilisation
- Demonstrate how the business will generate cash to operate and repay loans
- Regularly monitor business activities and follow the estimated budget

Basically, a financial plan consists of three financial statements:

- Income Statements – Projected profit and loss accounts
- Cash Flow Projection and Break-even point
- Balance Sheets

Box No. 3

Example: Brand Promotions Corp.

Radha decided to start her event management company specialising in brand promotion and audition management for TV shows. She created a budget for her company. The budget included:

- The amount of money required to start a business
- Sources of finance (example: savings, family, loans, credit card, etc.)
- Amount of money spent - expenditure (example: venue, resources, salaries, etc.)
- Projected profit of the company
- Cash flow projection and balance sheet

Radha thought of the following points:
• When I start my event company, I will create a budget for initial 12 months
• The budget should show the inflow and outflow of my money
• The main purpose of my budget is to make my total income equal to or greater than the money I spend

In this section, you will understand the basic financial statements using the above example of Brand Promotions Corporation (Box No. 3).

Financial statement is formal documentation of the financial activities and consists of details of investment and expenses of an organization. It is the position of the business or the person.

In the above example, expenses of the Brand Promotions Corporation have been divided into

- **Start-up expenses** – are one-time expense incurred at the start of a business
- **Operating expenses** – are recurring costs of keeping a business running

In the expenditure table given below, the operating expenses are given only for one month, and the total must be multiplied by 12 to estimate the annual operating expenses. The grand total of start-up and operating expenses is the complete cost of starting the business.

Table 1 Start-up Expenses and Operating Expenses

Expenditure	
Start-Up Expenses	
Business registration fees	10,000.00
Business licensing and permits	50,000.00
Rent deposits	50,000.00
Down payments on property	2,00,000.00
TOTAL START-UP	**3,10,000.00**
Operating Expenses	
Salaries	25,000.00
Rent or Mortgage Payments	10,000.00
Telecommunications	5,000.00
Raw Materials	50,000.00
Transportation	20,000.00
Promotion	1,00,000.00
Loan Payments	20,000.00
Office Supplies	40,000.00
Maintenance	10,000.00
TOTAL OPERATING EXPENSES (1 month)	**2,80,000.00**
TOTAL OPERATING EXPENSES (12 months)	**33,60,000.00**
TOTAL EXPENDITURE	**36,70,000.00**

Financial statements for a business plan have been discussed below, starting with the Income Statement.

Income Statement / Profit or Loss Statement

The Income Statement gives an overview of an organisation's revenue, expenses, and profit for a particular time period. Income statement is essential as it determines the past and future performance of a company.

Net Profit / Loss = Revenue – Expenses

In a business, Income Statement is generated frequently - monthly for the first year. To prepare the income statement for Brand Promotions Corp., following four sections are given in the template below:

- Revenue
- Expenses
- Net Profit / Loss i.e. Revenue – Expenses
- Balance money which is carried forward each month

This template is for your understanding. The expenditure for the month of January has been filled. To practice, you may fill the expenditure for the remaining months.

Table 2. Income Statement

BUSINESS NAME Income Statement for the year 20...........												
	Jan	**Feb**	**March**	**Apr**	**May**	**June**	**July**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
REVENUE	**(Rs.)**											
Owners Capital	50,000											
Bank Loan	1,00,000											
Service 1	50,000											
Service 2	—											
Total Revenue	2,00,000											
EXPENSES												
Salaries	25,000											
Rent or Mortgage Payments	10,000											
Tele-communications	5,000											
Raw Materials	50,000											
Transportation	20,000											
Promotion	1,00,000											
Loan Payments	20,000											
Office Supplies	40,000											
Maintenance	10,000											
Total Expenses	2,80,000											
NET INCOME (Revenue-Expenses)	-80,000											

You may use the above template as part of your business plan. To adapt it to your business requirements you may add or delete categories, where ever required.

Simply explained, cash flow projection is a technique to estimate the future 'bank balance' of a company and anticipating the overdraft requirements. It is the available liquid money for business activities.

Cash Flow Projection

Cash flow projection is a financial statement that shows how changes in Balance Sheet (Equity=Assets - Liabilities) and Income Statement (Net Profit or Loss) effect cash and cash equivalents (investments which can be easily converted to liquid cash). This projection helps determine the money available for operations, investment, and other financial activities. It also helps determine the short-term viability of a company, particularly its ability to pay bills.

Cash flow statement records a company's cash transactions (the inflows and outflows) during a given period. It shows whether all those profits booked in the income statement have actually been collected. Thus, just because a company is generating cash does not necessarily mean it is making profit.

Cash flow statement is different from cash flow projection. Cash flow statement is used to determine cash flow of a business for a particular time period. However, cash flow projection refers to predicting the future cash flow.

Balance Sheet should be prepared after completing the cash flow projection.

Balance Sheet

Balance Sheet is the last financial statement included in the Financial Plan of a business proposal. It reflects the net worth of a business for a particular time period. It summarizes the financial data of a business into 3 categories:

- ***Assets*** are tangible objects of financial value that are owned by a company.
- A ***Liability*** is a debt owed to a creditor of a company.
- ***Equity*** is the net difference when the total liabilities are subtracted from the total assets.

For the purpose of your business plan, balance sheet summarizes information given in the income statement and cash flow projections. Typically, a business prepares its balance sheet once a year.

The relationship between assets, liabilities and equity is expressed in this equation:

Assets = Liabilities + Equity.

It can also be understood through the following equation:

Equity = Assets - Liabilities

For a better understanding, a Balance Sheet template for a business plan is given in Table 3 (this template can be used for an established business as well).

Table 3. Balance Sheet

Business Name
Balance Sheet as on _____________ (Date)

	Jan	Feb	March	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec
ASSETS												
Current Assets												
Cash in Bank	1,00,000											
Net Cash	20,000											
Accounts Receivable	50,000											
Prepaid Insurance	10,000											
Total Current Assets	**1,80,000**											
Fixed Assets												
Land	10,00,000											
Buildings	5,00,000											
Total Fixed Assets	**15,00,000**											
Other Assets												
Equipment	25,000											
Total Other Assets	**25,000**											
TOTAL ASSETS	**17,05,000**											
LIABILITIES												
Current Liabilities												
Current Liabilities This includes (Accounts Payable Vacation Payable Tax Payable)	90,000											
Total Current Liabilities	**90,000**											
Long Term Liabilities												
Bank Loan	15,00,000											
Mortgage obligation	1,00,00											
Total Long term Liabilities	**16,00,000**											
TOTAL LIABILITIES	**16,90,000**											
EQUITY (Assets-Liabilities)	**15,000**											

A brief analysis of all the three financial statements is written after completing the balance sheet. Analysis should be short and crisp, indicating the key points. In-depth analysis should be avoided.

Check Your Progress III

Note: Use the space provided for your answer.

1) What is the difference between fixed and working capital?

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2) List down the names of financial statements included in a financial plan. Explain any one in detail.

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12.6 BREAK-EVEN ANALYSIS

Break-even analysis determines the point at which revenue received equals the costs associated with receiving the revenue. To understand break-even analysis, it is first important to understand the following terms:

> Simply explained, break-even point is the stage of no profit and no loss.

- **Selling Price:** is the price at which an entrepreneur sells the company services to the clients.
- **Fixed Cost:** is the cost which remains unchanged. Example: rent, insurance, utilities, etc.
- **Variable Costs:** are costs that vary depending on the entrepreneur's ability to negotiate. Examples are raw material cost, direct labor, etc.
- **Contribution Margin:** the difference between Selling Price and Variable Costs.

  Contribution Margin = Selling Price – Variable Cost

For example, if you are organising one dance show (selling price) for Rs.1000 and the Variable Cost of that sale is Rs. 600; then the Contribution Margin is Rs.400.

With the above understanding, the formula to calculate the break-even point is given below:

$$\textbf{Break-even Point} = \frac{\text{Fixed Costs}}{\text{Contribution Margin}}$$

Example: Assume the enterprise has fixed costs of Rs.1,00,000/- per month. The service provided by the enterprise has a Contribution Margin of Rs.4000/-. The break-even point in this example would be:

$$\textbf{Break-even Point} = \frac{1,00,000}{4000} = 25 \text{ units}$$

As mentioned above, this is a very simple example. The moment 25 units are sold the company will reach the point of no profit-no loss - called break-even point. Everything else being the same, all sales after 25 units will result in profit. There can be many complications in break-even calculations, but this example gives an idea of how the break-even point is calculated for a start-up. Remember, an organisation must reach its break-even point before it starts generating profits.

Check Your Progress III

Note: Use the space provided for your answer.

1) What is the difference between fixed and working capital?

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12.7 PROFITABILITY RATIOS

Profitability Ratios help to measure an organisation's success in generating income. These ratios, in combination, reflect an organisation's asset and debt management. Some frequently used profitability ratios are discussed below:

1) **Net Profit Ratios:** It indicates the relationship between net profit (after tax) and sales. It measures the efficiency with which the business activities - including: selling, manufacturing, administrative – are managed. A higher ratio indicates better efficiency of the enterprise. The formula for calculating the net profit ratio is as under:

$$\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Sales Turnover}} \times 100$$

2) **Gross Profit Ratio:** This ratio indicates the gross margin on trading and is calculated as under:

$$\text{Gross Profit Ratio} = \frac{\text{Net Sales – Cost of Services Sold}}{\text{Net Sales}} \times 100$$

3) **Operating Ratio:** This ratio establishes the relationship between cost of services / goods sold and other operating expenses on one hand and sales on the other. It measures the cost of operation per rupee of sales. This ratio indicates portion remaining out of every rupee worth of sales after all the operating costs and sales have been met. Higher the ratio better it is.

$$\text{Operating Ratio} = \frac{\text{Operating cost}}{\text{Net Sales}} \times 100$$

$$= \frac{\text{Cost of Goods sold + Operating expenses}}{\text{Net Sales}} \times 100$$

4) **Operating Profit Ratio:** This ratio establishes the relationship between operating profit and sales. This ratio indicates portion remaining out of every rupee worth of sales after all the operating costs and sales have been met. Higher the ratio better it is.

$$\text{Operating Profit Ratio} = \frac{\text{Operating profit}}{\text{Net Sales}} \times 100$$

$$= \frac{\text{Net Profit + Non-operating expenses – Non-0perating income}}{\text{Net Sales}} \times 100$$

5) **Expenses Ratio:** It indicates the relationship between various expenses and net sale. This ratio can be calculated for individual items or a group of items. Lower the ratio greater is the profitability and vice versa.

$$\text{Particular expenses Ratio} = \frac{\text{Particular Expenses}}{\text{Net Sales}} \times 100$$

For example:

$$\text{Office expenses Ratio} = \frac{\text{Office Expenses}}{\text{Net Sales}} \times 100$$

6) **Return on capital:** This ratio is an indicator of the earning capacity of the capital employed in the business. Capital employed includes not only equity share capital but also fixed liabilities (capital reserves, revenue reserves undistributed profit).

$$\text{Return on capital} = \frac{\text{Net Profit (per year)}}{\text{Capital Employed}} \times 100$$

Net Profit = Tangible and intangible assets + Current Assets – Current Liabilities

Event financing and accounting has been covered in detail in Course 5. However this Unit aimed to build your basic understanding regarding financial management for events.

Check Your Progress IV

1) Lets assume that a Wedding Planning Company 'Brides and Flowers' operating profit in 2012 was Rs. 2,00,000 and its sales was Rs. 3,00,000. Calculate Brides and Flowers' Operating Profit Ratio.

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12.8 LET US SUM UP

Financial management of an EMC involves the most crucial decisions regarding its functioning. Creating financial projections for a startup is both an art and a science. These projections are used to understand the viability and performance of a company. It includes – Financial Statement and Profitability Ratios. Financial statement is a written document showing credit and debt. Income Statement, Cash Flow Projection and Balance Sheet are three basic financial statements included in a business proposal. Profitability ratios assess the ability of a company to generate earnings, profits and cash flows relative to the amount of money invested. For useful conclusions, the profitability ratios of a quarter (4 months) should be compared to the profitability ratios of similar quarters in the previous years. Appropriate financial management is essential for any company's success.

12.9 KEYWORDS

Cash flow projection : Cash flow projection is a financial statement that shows how changes in Balance Sheet (Equity = Assets – Liabilities) and Income Statement (Net Profit or Loss) affect cash and cash equivalents (investments which can be easily converted to liquid cash). This projection helps to determine the money available for operating, investing, and financial activities. It reflects the short-term viability of a company, particularly its ability to pay bills.

Cash flow statement : Cash flow statement is different from Cash flow projection. Its a statement that records a company's cash transactions (the inflows and outflows) during a given period. It shows whether all those profits booked in the income statement have actually been collected. Cash flow statement is used to determine cash flow of a business for a particular time period.

Balance Sheet : It is the last financial statement included in the Financial Plan of a business proposal. It is reflective of the net worth of a business for a particular time period. It summarizes the financial data of a business into 3 categories: *assets* (tangible objects of financial value that are owned by a company), *liability* (debt owed to a creditor of a company), and *equity* (net difference when the total liabilities are subtracted from the total assets).The relationship between them is expressed in this equation:

Assets = Liabilities + Equity (OR)
Equity = Assets - Liabilities

For the purpose of the Business Plan, Balance Sheet summarizes information given in the Income Statement and Cash Flow Projections. Balance Sheet is normally prepared once a year.

Break-even Analysis : It is an analysis to determine the point at which revenue received equals the costs associated with receiving the revenue. In short, it is the point of no profit and no loss.

Profitability Ratios : Profitability Ratios help to measure an organisation's success in generating income. These ratios, in combination, reflect an organisation's asset and debt management. Important profitability ratios are: Net Profit Ratio, Gross Profit Ratio, Operating Ratio, Operating Profit Ratio, Expenses Ratio, and Return on Capital.

12.10 REFERENCES AND SUGGESTED READINGS

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12.11 CHECK YOUR PROGRESS - POSSIBLE ANSWERS

Check Your Progress I

1) Financial Management is a managerial activity that concerns the finances of the firm. It involves planning, organizing, directing and controlling the financial activities such as procurement and utilization of funds of the enterprise. Following are three functions of financial management:

   Estimate of capital requirement: A finance manager must estimate the event company's capital requirement. It will depend on expected costs, profits, and future programmes and policies of the company.

   Determination of capital composition: Once estimated, the capital structure should be decided. This involves short- term and long- term debt equity analysis. This will depend upon the proportion of equity capital possessed by a company and additional funds which have to be raised from outside.

   Choice of sources of funds: For additional funds to be procured, a company has various choices such as issue of shares and debentures; Loans to be taken from banks and financial institutions and; Public deposits to be drawn like in the form of bonds. (you may discuss any three of the functions given in Section 12.2 if not the above)

Check your Progress II

1) Business enterprises need funds to meet their different types of requirements. All the financial needs of a business may be grouped into the following three categories:

   Short Term: Short term financial need(s) arise for a short period of time i.e. money with repayment period is one year or less. It covers shortage in working capital. Expenses are also met through the client, merchandising, sponsorship, advertising, etc. for a particular event.

   Medium Term: Medium term schemes have a maturity period between 1-5 years. It is mainly used to finance equipment, business expansion and development of new products.

   Long Term: Long term schemes are those with maturity periods of 5 years and more. This type of finance is used to fund the purchase of assets such as business itself, land, buildings, plant or machinery which will directly or indirectly contribute to profit over several years.

2) The various sources of finance from the private sector could be : a) Bank loans such as loans, cash credit, overdrafts, discounting of bills, mortgage, and commercial bill; b) Lease; c) Suppliers / Trade credit; d) Customer advance; e) Sponsors; f) Debtor finance; g) Borrowing from friends and relatives; and h) Sources of revenue at the time of event such as: ticket sales, sponsorship, merchandising, advertising, 'in-kind' arrangements (not in cash), broadcast rights (as in sport events), grants (for example from government), fund-raising (common in community events), food and beverage sales, and the client (major revenue source for corporate events).

Check Your Progress III

1) Both fixed and working capital are utilised to achieve the same goal. However, the nature of assets is different in both.

   Fixed Capital: Fixed capital assets are long-term or durable and can be used repeatedly for business operation over a long duration. Example: land, machinery, office furniture etc. Fixed capital is used for years before it is replaced (this is what *'fixed'* refers to).

   Working Capital: Working capital is used for short-term business operations. Example: salaries/ wages, raw material, etc. This capital is constantly received and rapidly consumed (this is what the *'working'* refers to).

2) A financial plan consists of the following three financial statements:

   - Income Statements – Projected profit and loss accounts.
   - Cash flow projection and Break-even
   - Balance Sheet

   Balance Sheet - Balance Sheet is the last financial statement included in the Financial Plan of a business proposal. It reflects the net worth of a business for a particular time period. It summarizes the financial data of a business into 3 categories:

   - ***Assets*** are tangible objects of financial value that are owned by a company.
   - A ***liability*** is a debt owed to a creditor of a company.
   - ***Equity*** is the net difference when the total liabilities are subtracted from the total assets.

   The relationship between them is expressed in this equation:

   Assets = Liabilities + Equity.

   For the purpose of your business plan, Balance Sheet summarizes information given in the income statement and cash flow projections. Normally a company prepares a Balance Sheet once a year.

Check Your Progress IV

1) Operating Profit Ratio of 'Brides and Flowers':

$$\text{Operating Profit Ratio} = \frac{\text{Operating profit}}{\text{Net Sales}} \times 100$$

$$= (2,00,000/3,00,000) \times 100 = 66.6$$