ENTREPRENEURSHIP DEVELOPMENT AND STARTUPS

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COMMON FOR ALL BRANCHES

Jharkhand University Of Technology (JUT)

UNIT 5: FINANCIAL, LEGAL & OPERATIONAL FOUNDATIONS

STARTUP FINANCIAL BASICS

1. Understanding Startup Costs

Definition:
Startup costs are the total initial expenses incurred by an entrepreneur before launching a business. These costs include planning, product development, legal registration, marketing, equipment, and working capital. They form the foundation for financial planning and budgeting.

Types of Startup Costs:

1. **Fixed Costs:**
   - These remain constant irrespective of production or sales level.
   - Examples: Office rent, salaries, internet bills, insurance, administrative expenses.
   - *Example:* A digital startup pays ₹10,000 rent monthly whether it earns profit or not.
2. **Variable Costs:**
   - These change with production or sales quantity.
   - Examples: Raw materials, packaging, delivery cost, electricity usage in production.
   - *Example:* For a café, cost of milk, sugar, coffee beans increases with number of cups sold.
3. **Semi-variable Costs:**
   - Have both fixed and variable components.
   - Example: Phone bills (fixed line rent + usage charge), machine maintenance.

Importance of Startup Cost Planning:

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- Helps estimate how much investment is needed before launching.

  Prevents financial shortage during startup phase.

  Guides in setting realistic pricing and profit goals.
- Builds investor confidence through financial clarity.

Diagram (you can draw):

Startup Costs

├── Fixed Costs (Rent, Salary)

├── Variable Costs (Raw Material, Delivery)

└── Semi-variable Costs (Phone, Maintenance)

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2. Revenue Models – How Startups Earn Money

Definition:
A **revenue model** describes the strategy a business uses to generate income from customers. It defines the sources through which money enters the company.

Major Revenue Models:

Model	Description	Examples
Product Sales	Selling physical or digital goods directly to customers	Amazon, local shops
Service Model	Earning through providing a service.	Consulting, freelancing
Subscription Model	Monthly or yearly fees for continued access	Netflix, Canva
Freemium Model	Basic features free, advanced paid	Spotify, Duolingo
Commission Model	Taking percentage on each transaction	Zomato, Swiggy
Advertising Model	Generating revenue by displaying ads	YouTube, Facebook

Licensing Model	Charging others to use your intellectual property	Microsoft Windows

Importance:

- Decides long-term sustainability.
- Helps forecast cash flow.

Attracts investors by showing earning potential.

Guides marketing and pricing strategies.

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3. Pricing Strategies in Startups

Definition:
Pricing strategy refers to the method used to determine the right price for a product or service, balancing cost, customer value, and competition.

Types of Pricing Strategies:

1. **Cost-Plus Pricing:**
    - Price = Cost + Profit Margin.
    - Simple and ensures profit coverage.
    - *Example:* Cost ₹100, profit 20%, price = ₹120.
2. **Value-Based Pricing:**
    - Based on customer's perceived value, not just cost.
    - Used for innovative or premium products.
    - *Example:* iPhone priced higher due to brand value.
3. **Penetration Pricing:**
    - Set low initial price to attract customers quickly.
    - Increase later once the brand becomes known.
4. **Premium Pricing:**
    - High price to show exclusivity or luxury.
    - Used by high-end brands (Rolex, Tesla).

5. **Competitive Pricing:**
   - Match or slightly undercut competitor prices.
   - Best for crowded markets.
6. **Dynamic Pricing:**
   - Prices change based on demand or season.
   - Example: Hotel booking, flight fares.

Factors Affecting Pricing:

- Production cost
- Market demand
- Competitor pricing
- Brand positioning
- Customer affordability

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4. Sources of Funding for Startups

Startups need capital to start and grow. Funding can come from different internal and external sources.

Source	Description	Example
Bootstrapping	Using personal savings	Student using own money for a website
FFF (Friends, Family, Fans)	Borrowing from close circle	Friend invests ₹5,000
Grants/Subsidies	Non-repayable funds by govt./NGOs	Startup India seed fund
Bank Loans	Borrowed funds repayable with interest	Mudra loan for entrepreneurs
Angel Investors	Wealthy individuals investing early	Ratan Tata investing in startups
Crowdfunding	Small amounts from many people online	Kickstarter, Milaap

Funding Stages:

1. **Pre-Seed Stage** – Idea development (usually self-funded).
2. **Seed Stage** – Prototype, small investors.
3. **Growth Stage** – Larger funding rounds, venture capital.

Activity:

Calculate your startup cost by listing items like:

- Office setup
- Marketing
- Website hosting

Licenses

Raw materials
Then calculate total cost = Fixed + Variable.

LEGAL & REGULATORY ASPECTS FOR STARTUPS

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1. Choosing a Business Structure

Definition:
The business structure defines the **legal form** of ownership that determines how taxes are paid, who controls the business, and the level of liability.

Types of Business Structures:

Structure	Ownership	Liability	Example
Sole Proprietorship	Single owner	Unlimited personal liability	Local shop
Partnership	Two or more people	Shared liability and profit	Small café
Limited Liability Partnership (LLP)	Hybrid of partnership & company	Limited liability	Consultancy firm
Private Limited Company (Pvt. Ltd.)	Separate legal entity	Limited liability	Startups like Zomato
Cooperative Society	Owned by members	Collective profit	Dairy cooperatives

Importance of Choosing Correct Structure:

- Determines how profits are shared.
- Affects tax benefits.
- Protects personal assets.
- Builds investor trust.

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2. Business Registration and Licensing Steps to

Register a Startup (India context):

1. Choose a unique name.
2. Register under **MSME / Udyam Portal**.

3. Get **PAN & TAN** for tax purposes.
4. Obtain **GST Registration** (if annual turnover > ₹40 lakh).
5. Apply for **Trade License** from local authority.
6. Open **Current Bank Account** in company's name.

Special Licenses:

- **FSSAI License** for food-related startups.
- **Import-Export Code (IEC)** for trading.
- **Environmental clearance** if manufacturing.

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3. Contracts and Agreements

Definition:
A contract is a legally enforceable agreement between two or more parties that creates mutual obligations.

Types of Startup Contracts:

- **Founder Agreement:** Defines ownership and roles of co-founders.
- **Employment Agreement:** For staff and salary conditions.
- **Non-Disclosure Agreement (NDA):** Protects confidential information.
- **Vendor Agreement:** With suppliers or service providers.
- **Service Agreement:** For clients using startup services.

Elements of a Valid Contract:

- Offer and Acceptance
- Consideration (something of value exchanged)
- Legal purpose
- Mutual consent
- Capacity of parties

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4. Intellectual Property (IP) Rights

Definition:
Intellectual Property refers to creations of the mind that have commercial value and can be legally protected.

Type	Purpose	Example
Patent	Protects new inventions	A new engine design
Trademark	Protects brand identity (name, logo)	Apple's logo
Copyright	Protects creative works	Software, books, art
Trade Secret	Protects confidential formulas	Coca-Cola recipe

Importance for Startups:

- Prevents copying or misuse of innovations.
- Adds brand credibility.
- Attracts investors.

Example: A polytechnic student inventing a smart irrigation system can patent it to secure rights.

Guest Speaker Suggestion:

Invite a **business lawyer** or **startup mentor** to explain local registration steps, tax filing, and IP protection process.

OPERATIONS & TEAM BUILDING

1. Key Operational Considerations

Operations refer to how a business manages **resources, production, and service delivery** to ensure smooth functioning.

Core Operational Elements:

1. **Supply Chain Management:** Flow of materials from supplier to product delivery.
2. **Production/Service Process:** How products/services are made and delivered.
3. **Quality Control:** Ensuring consistency and standards.
4. **Inventory Management:** Balancing stock levels to prevent shortage or waste.
5. **Logistics:** Managing movement of goods efficiently.

Example:

A bakery startup's operations include – buying ingredients, baking, packaging, delivering to customers, and collecting feedback.

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2. Building an Effective Founding Team

Importance of a Good Team:
A startup succeeds only if the team members complement each other's skills.

Role	**Responsibility**
Founder/CEO	Vision, planning, leadership
COO	Managing daily operations
CTO	Technology, website/app
CMO	Marketing and sales
Finance Manager	Budgeting and funding

Qualities of a Strong Team:

- Shared vision and trust.
- Complementary skill sets.
- Accountability and communication.
- Adaptability under pressure.

Example: A startup with a tech expert, marketer, and financial planner is more balanced.

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3. Importance of Company Culture

Definition:
Company culture is the shared set of values, beliefs, and behaviors that shape how employees work together.

Positive Culture Includes:

- Respect and transparency
- Innovation encouragement
- Recognition and rewards
- Open communication

Impact of Good Culture:

- Increases productivity and retention.
- Attracts talent.
- Improves teamwork and creativity.

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4. Defining Key Activities & Key Partners (in BMC)

Key Activities:
Main tasks required to deliver your value proposition.

- Product development
- Marketing & sales
- Customer support
- Supply management

Key Partners:
People or organizations that support your operations.

- Suppliers
- Manufacturers
- Delivery companies
- Investors
- Technology partners

Activity: Update your BMC with these sections.

SUMMARY (Hinglish):

Is unit mein humne seekha ki ek startup ke liye **finance**, **legal setup**, aur **operations** teen major foundations hain.
Agar entrepreneur in teeno areas ko samajhkar plan kare — jaise cost ka estimate, funding source, legal registration, aur ek strong team — toh business ke success chances kaafi badh jaate hain.

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