Project Identification: Strategic Perspectives

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Though there are many opportunities in the world of business, identifying the right project idea is not easy. There is no strict methodology for project identification, but the basic factors guiding identification are relatively same for all the projects and they are—the need for the project and the capability to fulfill the need. These two factors are present with varying degrees in all project ideas and give rise to different types of project identifications. No matter what project identification methodology is followed, ultimately a valid business case and competency are the required elements for successful project execution.

This article is inquiry into the dynamics of project identification as practiced by entrepreneurs. It attempts to answer the following basic questions:

1. Can we ascertain the critical factors relevant in the identification process?
2. Can we develop skills to identify projects using these critical factors in real—life situation?

The author has relied substantially on his experience of more than two decades in the field of project management and his close observations of a large number of entrepreneurs, their successes, their failures and their trauma in general. Based on this observation he has tried to analyze the process of project identification and on this basis identify the critical factors. Further he has tried to classify the identification process into a dozen major types. The author offers this knowledge—base to help strengthen the process of project planning and management. The expectation is that a better understanding of the identification process will help a better mapping of the critical factors which in turn will help minimize the risks at project planning stage, finally leading to an improvement of the success rates. Similarly this knowledge—base will enable an evaluator to assess the strengths and weaknesses of a project better.

A better understanding of the identification process will help a better mapping of the critical factors

Some Situations

Individuals and organizations have been identifying projects since ages. Before we probe and analyze their methodologies let us look at some of the situations that are encountered by the entrepreneurs.

1. Ajit Chauhan availed Voluntary retirement after nearly 25 years of service in a PSU. He would like to start his own business. How would he go about choosing his business or project?
2. Dr. Shrivastava is a technologist working in one of the organizations connected with space science. He has put in 15 years in the organization and has achieved significant accomplishments in his field. He is planning to come out and set up his own business. How would he go about identifying his project?
3. Dr. Dipankur Ghosh has spent all his career spanning 20 years in paper industry. He has operated paper mills; designed and implemented new projects and now has become Chief Executive of a medium sized company. He would like to leave his job and start his own business. How would he go about selecting his own business?

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4. Sameer Tagat is a marketing executive in a company manufacturing and marketing paper and allied products. After 10 years in this line he would like to start his own business. How would he go about identifying his project?

5. Ramesh Shankar is a senior executive doing Corporate Planning for a public limited company. He is looking for diversification proposals and investment avenues for the company. How would he go about identifying and selecting such opportunities?

6. Ramesh Desai is a mechanical engineering graduate currently doing MBA at the University School of Management. He comes from a Business family; his father is engaged in the business of marketing packaged tea. He would like to start some business of his own. How would he go about choosing his business?

Concept of Project Identification

Identification is the process of hitting upon a business idea. How does one get a business idea?

How did Jamshedji Tata think of setting up a steel plant? Or how did Mammen Mapillai stumble upon the idea of making rubber and rubber products? How did Dr. Kurien hit upon the idea of starting AMUL? How did Dhirubhai Ambani get the idea of starting a textile unit?

Types of needs and the types of consumers whose needs we are looking at, will decide the type of products (or services)

From the experience of these successful entrepreneurs can we generalize a methodology for identifying projects or business ideas? Strictly speaking there can be no standard methodology. However, let us try to understand some basic factors, even if it is empirical, relevant for the process of identification, through the experience of the large number of successful and unsuccessful entrepreneurs.

Such an effort would lead us to think that there are two basic elements in identification: (i) need for the product or service and (ii) the capability to produce and provide the product or service. Seen in this context the identification process becomes one of matching the need with the capability. Need refers to the external scenario while the capability refers to the intrinsic endowments.

Need

When the customers have a desire for a product or service, we can say there is a need for the product or service. When the need is explicit like the need for a cup of tea in the morning we can say there is a demand for tea. The need is felt individually by the customers whereas demand is an aggregate of the individual needs.

In many situations the need may not even be implicit, the need will have to be created. For instance frozen food may not be common among the rural population in India. If we can develop this as a habit among the rural population then we have need for a whole range of products and services in this segment. If there are positive indications that such a habit can be developed in this segment then we can say that there is a latent need for frozen food among the rural population. Another example: Onion flakes are not commonly used in India, even in urban middle class households. People are used to slicing, grinding and garnishing fresh onions only. If onion flakes are used the manual efforts involved in cooking will be reduced to a considerable extent. Can we prompt urban middle class households to use onion flakes instead of raw onions? If the answer to this question is, yes then we may say that the need for onion flakes is latent. In this situation the critical aspect is to identify certain indicators which tells us about the latency of the need. Once this is established then the question is how the need can be nurtured and developed, at what time-frame and at what cost.

Types of needs and the types of consumers whose needs we are looking at, will decide the type of products (or services). For instance if we have the needs of households then we are likely to come up with consumer products. If we are looking at the needs of industries, then we may end up with industrial products. The target group is important, the geographical distribution of the consumer is important; their purchasing power is important. And there is a host of similar other considerations. We shall discuss these a bit later.

Once you have identified certain need among certain market segment (or you may call it the target group) then we would like to pose the question: How can you fulfill this need? The answer to this question gives rise to a variety of business ideas.

There could be a number of alternatives to fulfill the need. Which one will you choose? And which is more easy to implement? Which is more profitable? The choices and the decisions thereof will be of great relevance to the project.

Capability

When you have to make a choice from among the alternate business ideas what do you rely upon? Your own capability of course. Capability for what? Capability to generate the product or service in each of the alternatives, to reach the consumers and to fulfill his needs.

The capability can be inherent; implying that you already have it. This is fairly a low risk situation. For instance, for Dipankur Ghosh the inherent capabilities are in the areas of designing, setting up and managing paper mills.

You may have another situation wherein you may not possess the capability but you can tie-up with another person or a group for the capability. In the case of Sameer Tagat, technical capabilities in setting up or managing paper mills are just not there. He has familiarity with the market; if he has to manufacture paper he needs to seek the help of some one like Dipankur Ghosh.

You may also have a situation where you think of acquiring the capability through a variety of methods. For instance Ramesh Shankar the Corporate Planner identifies 'mud chemicals' for supply to the oil drilling companies as an area of diversification. His company does not have the technology (capability). So he goes about searching for the technology. One method is through collaboration; another hiring a consultant who gives the technology on a turnkey basis; a third method may be hiring a person who knows the technology. There can be other methods too. The choice of the method will depend on the sophistication of the technology, ability of the procurer to absorb the technology, the relative costs, risks and a host of other factors.

The essence of project identification is building an effective bridge between the need of the consumers and the capability of the promoter

Bridging Capability and Need

The essence of project identification is building an effective bridge between the need of the consumers and the capability of the promoter. The former refers to the external scenario, while the latter refers to the internal scenario. The success of a project idea depends on how effectively you are able to connect the two scenarios.

It is rare but not uncommon, to have an entrepreneur who is strong in all the elements described above. The general situation is where the entrepreneur has strengths in some and he is weak in some other. In choosing a business idea he has to select one where his strengths are maximum; there will be areas where he is weak. Further he has to strive to increase the strengths and also to find support structures in the areas where he is weak. He may have to learn new things; he may have to identify and collaborate or network with new people and organizations. Only then can he reduce the overall risk level of his project. In entrepreneurship there is no pass-grade; either you swim or you sink.

Types of Project Identification

There cannot be a single formula nor an approved methodology for project identification. We can only learn from the experience of large number of our predecessors who had shown guts to venture out into the sea of uncharted waters.

This author has attempted a classification of the types of project identification based on his exposure. This classification is by no means exhaustive: it only offers a starting point for elaborate analysis. These types are described in the following paragraphs.

Type-1: Project based on one's knowledge or skills. Here the choice of the project is based on the intrinsic skills or capability of the promoter. For instance Shastri decided to set up a guidance bureau for quality. Earlier he was involved, as an employee of a engineering consulting firm, in inspecting quality at the vendor's sites. Now he offered to help vendors achieve quality requirements. This is based on his intrinsic skills.

This approach is suitable for highly skill oriented activities. Technical aspects are automatically taken care of; only market aspects needs to be examined. Market segment will, by and large, be the same the promoter has been serving earlier. For instance in the case of Shastri, he was offering to help those suppliers whom he had known as vendors earlier. Perhaps Shastri's reputation in his earlier job will help him get clients too.

Type-2: Adapting one's skill to a new target group. The skills one possesses are not required in the market around him. Perhaps a variant of the skills may be required by the market. If he can adapt his skills to the needs of the market around him there is a business proposition for him.

Kamlesh Bharadwaj, an aircraft maintenance engineer with the Kuwait Airways came back to India after the Gulf War. He was looking for an opportunity. His knowledge and skills of aircraft maintenance was required only by airlines. By a strange coincidence the garage where he was getting his car serviced asked his help in sorting out some technical problems. Having solved these, Bharadwaj realized there are lots of things that he can do to improve the garage which has started a separate section for imported cars which have started pouring into India after the liberalization. He saw that the facilities available at most of the garages were primitive and imported cars required better facilities. With his exposure to aircraft maintenance Bharadwaj felt he could easily do a better job than most of the garages were capable of providing. Six months of this good neighborly help, and Bharadwaj decided he should start a garage exclusively for imported cars.

Type-3: Extending an existing technology to a new product. The existing technological expertise is used in a new product. For instance a firm engaged in the manufacture and marketing of industrial fans decides to extend it's expertise and technology to manufacture of wind-mills. In this case technical capability remains more or less the same. The target group is changed and marginal modification (customization) only required to be made technologically. Such an attempt is made when the existing market—segment becomes saturated.

Type-4: Extending an existing product to a new market. Here the existing product with or without marginal modifications is introduced to a new market segment. The reasons could be many: The new product or market may be more lucrative; there may be too much competition in the existing product category or market segment etc.

If you can make comparable product indegenously, perhaps with definite cost advantages, then you have a business opportunity

Surjit Singh has been making seamless steel tubes since early 1970s. In the small scale sector he has been a pioneer to make seamless steel tubes. He was supplying the tubes to the petrochemical industry, oil refineries etc. In 1980s he found there were too many suppliers thus increasing the competition and reducing the margins. After a detailed market search he found sugar mills could also be benefited by the use of seamless tubes. He had to modify his production facilities marginally to make stainless steel tubes. Till now he was not making seamless tubes. It took him better part of a year to convince the sugar mills and their association to know about the relative advantages of seamless tubes. Once this is done he had plenty of orders on attractive terms.

Type-5: Import Substitution. You find that a particular demand is met out of imported products only. If you can make comparable product indigenously, perhaps with definite cost advantages, then you have a business opportunity.

Sunil Shah a manufacturer of chemicals found that every year ONGC imported certain chemicals known as Pour Point Depressant (PPD) at a very high cost. These chemicals are mixed with liquid petroleum before pumping it into long distance pipelines to prevent solidification of the petroleum in the pipelines. These chemicals were required in small quantities, but as they were high value items it could make a viable project.

Indrajit Sen in the late 1970s observed that electronic watches are becoming very popular in India; that each of them needed a button cell which were imported. He started working on a project to manufacture and market button cells.

In situations of import substitution, the market is well-developed and is known. The new entrant has to make himself visible to the customers and ensure to achieve the levels of quality expected by the customers. Very often the problems in such cases are of achieving the technical capability or breaking the barriers of brand image created by the existing suppliers.

In the first example of PPD, the target market is relatively small in number and specific (ONGC and its affiliates). The critical factor is of achieving competitiveness in terms of quality and price. In the latter case, the target group consist of watch manufacturers as also the individual consumers who need to replace the button cells in their watches. Perhaps the biggest barrier is the brand image of the existing products especially the imported ones. The market is spread out. Some of the critical factors are overcoming the brand image of the existing products, reaching out to the consumers (distribution channel). These factors are more critical in the case of consumer products.

Type-6: Integration—forward/ backward. Think of a cotton yarn manufacturer getting into the manufacture of knitted yarn. This is a case of forward integration. The output of the existing activity, namely cotton yarn, becomes input to the new activity namely the manufacture of knitted fabrics. If a knitted fabric manufacturer gets into the manufacture of cotton yarn then it is a case of backward integration.

In the case of backward integration you are ensuring steady and perhaps economical supply of inputs. There is no change in your customers. There is a definite change in your suppliers: Till now your suppliers were yarn manufacturers; from now on your suppliers are those who supply raw cotton.

In the case of forward integration there is no change in the suppliers, change is with respect to the customers. Till now you were catering to the fabric manufacturers; from now on you are supplying knitted fabrics. Each of these options has its own merits and demerits.

Type-7: Ancillarization. When Arun Talwar thought of a new venture, after graduating in engineering, he though of a unit making fuel injection parts to Escorts. He knew Escorts' requirement far exceeded his capacity; this he thought was a safe bet in terms of marketing. He would not have to worry about marketing his produce once Escorts accepts him as an ancillary. This is ancillarization at its best.

One of the safest methods of minimizing the marketing worries is to become an ancillary of a major, well-known firm. But it is not without other risks. As an ancillary you are susceptible to the risks of the mother firm. For instance if the mother unit faces a crisis like a prolonged strike, your firm will have to cool its heels. But all the same, for a start-up becoming an ancillary is a good strategy.

Diversification proposals must be viewed in the context of the firm's capabilities in the areas of technology and marketing

Type-8: Catering to the needs of a market segment. If you have one customer with a variety of needs, then try to fulfill all the needs of the customer. This will give you a variety of business and perhaps volumes too. In this process you may restrict to limited number of customers but a variety of products and services. This strategy can be adopted when you are good at multiplicity of skills and services but not keen to have too many clients.

Type-9: Diversification. Diversification essentially means change in the line of business. In a limited sense it could mean new markets, new products, new technology etc. The purpose of diversification may be to reduce risk in some situations. For instance a company engaged in agro-based products may think of diversification to reduce the impact of the cyclical changes that may affect the business. Anil Starch Inds Ltd., a leader in starch and its derivatives, at one time tried to diversify into engineering in an attempt to offset the vagaries of the monsoon and the consequent impact on the business of starch which is agro-based.

In some other situation, a firm may try to diversify into a more attractive market segment or into a more profitable business. When a firm engaged in the business of metal containers starts a new line for plastic containers it is a case of this nature. The reason could be the low margins and extreme competition in the metal containers business. Or may be that the firm perceives that the new line is likely to replace the metal container business.

Many companies jump into new lines of business because such opportunities are available for the first time. When power generation is made open to the private corporate sector, in the 1990s, many of the business houses in India chose to enter the power sector. Similarly in telecom also.

Diversification proposals must be viewed in the context of the firm's capabilities in the areas of technology and marketing. The following table throws some light into this aspect. The proposal is fraught with least risk if it qualifies to be in the quadrant marked Vizard and the proposal is fraught with maximum risk if it qualifies to be in the quadrant marked Blind Spot. The other two quadrants indicate situations of risk that are somewhere between the two extreme situations mentioned. The risk levels will much depend on the relative strengths of the firm in the areas of marketing and technology. A very general thumb-rule in diversification is; unrelated diversification is less likely to be successful than related diversification.

Type-10: Strategic Alliance. This is a situation wherein an entrepreneur or a firm joins hands with another on the basis of relative strengths and weaknesses. For instance when the South Korean **conglomerate** Daewoo wanted to enter India it chose to team up with DCM and floated a company called DCM Daewoo India Ltd. Daewoo is a conglomerate, a Chaebol in South Korean parlance, with interests in many fields and had plans to introduce its passenger cars into India. It was strong in technology and it did not need any technological support from DCM. Nor did it need any financial support. It probably felt that India is new territory for the firm and DCM having existed in India for long would be helpful in launching the new automobiles in India. DCM did not have any strength in automobile industry; its strength relevant for the alliance was its knowledge about the market, ability to move things through the governmental machinery and things like that. There existed a strategic fit between Daewoo and DCM for introducing the automobiles of

Daewoo. This was the basis of a **strategic alliance.**

What are the prerequisites for a strategic alliance? (a) There must be a commonality of interest between the two firms. In this case of DCM and Daewoo, Daewoo was interested in entering the Indian market, and DCM was interested in a new line of business. (b) There must be a set of relevant capabilities that are complementing each other. In this case DCM's knowledge of the Indian market would help the combined entity to launch its products fast; Daewoo had technology and a product. These capabilities complemented each other and together they had most of the capabilities required to make the venture a success.

Do these prerequisites make up all that is required to make a strategic alliance a success? Unfortunately the answer is in the negative. Take the case of DCM—Daewoo itself. Once the Daewoo automobile has been launched in the Indian market, Daewoo did not need the services of DCM any longer. DCM was eased out of the venture and the firm came to be known as Daewoo India Ltd. Was it a happy ending for DCM? Most probably not. Did they hope to continue in the firm for longer period? Most probably yes. It is necessary to understand that strategic alliance will last only as long as the capabilities continues to be complementary.

In the international arena, strategic alliances are known to have a very short life. They are essentially marriages of convenience

Similar story can be seen in other cases also. Godrej had a strategic alliance with Proctor and Gamble [P&G]. Godrej hoped its products would be pushed further in the Indian market with this alliance; and perhaps in the international markets too. P&G needed the market—network of Godrej to push its products in India. After some time Godrej began to feel cheated: that P&G was interested in pushing its own product rather than Godrej's products. The alliance broke up. Another case of strategic alliance is between General Electric [GE] and Apar Ltd. [the owners of CEMA bulbs and tubes]. Apar thought the alliance will take its products across the globe. GE probably wanted a manufacturing base in India. The alliance started off well. After some time, Apar sold off its interests to GE.

In the international arena, strategic alliances are known to have a very short life. They are essentially marriages of convenience. Like in the examples listed above they have either broken up or ended with one partner taking over the other. The goals are short-term in nature. It is essential that partners understand this very well. Or else they are in for a big disappointment, sometimes even a disaster. Another aspect about strategic alliance is that the partners must be of comparable size and strength; or else the bargaining power will be skewed and the partner with lesser bargaining power will be the loser ab initio.

When new projects are initiated it is common for a technocrat entrepreneur to look for the support of another entrepreneur who is strong commercially and perhaps financially too. In the Indian scenario there are instances where the partners have survived through thick and thin. This meant a deeper concern and understanding for each other and a desire to stay together. But there are many more instances where they have broken apart; especially when the project entered a phase of stormy weather.

Type-11: Bandwagon Effect. This refers to the situation when entrepreneurs, spurred by the success of others, enters the same line of business. In the 1980s this phenomenon was observed in the business of HDPE woven sacks. HDPE woven sacks emerged as the ideal replacement for packaging fertilizers, cement, sugar etc. The machines that made the woven sacks from HDPE granules were just introduced in India. HDPE woven sacks were better than traditional jute bags because they resulted in less loss in transit, they were economical etc. There were large firms like IPCL that made the HDPE granules; there were suppliers of the machine that made the woven sacks and the entrepreneurs looked at the huge market that would soon discard the jute bags and adopt the new woven sacks.

Similar phenomenon was observed in setting up texturizing plants. Texturizing is the process wherein POY [Partially Oriented Yarn] was given certain properties before they are sent for weaving. Yarn makers were selling the yarn to the weavers. Weavers were getting the yarn texturized outside. A texturizer needed to set up facilities and get the yarn texturized on a job-work basis. Market was assured; working capital was minimal; machinery and other facilities were standardized. This situation gave rise to mushroom growth of texturizers. Most of them were new to business.

Same phenomenon occurred when there was boom in setting up facilities for making rubber-hand-gloves. In the mid—eighties when the scare of AIDS loomed large in the western countries, the demand for rubber-hand-gloves sky-rocketed globally. This led to entrepreneurs setting up hand-gloves units. Their success prompted many others to enter the field. Same phenomenon is happening in the business of medical transcription now.

What causes the Bandwagon Effect? First there is the perception of good, profitable business opportunity. Second, the business is easy to replicate—the factors of production are easy to organize. Third, because there is this ready-made business, it is easy for new entrepreneurs to enter. In each of the situations listed above you can find these three ingredients.

This does not mean that bandwagon effect offers risk-free business opportunity. The texturizing boom lasted for almost a decade. Those who entered in the initial years reaped a good harvest. Those who came in the middle reaped moderately. Those who came towards the end, lost heavily. The woven sacks boom did not last long. The jute lobby brought in a legislation that banned the usage of woven sacks in those sectors where it is most suited. For the consumers of bags it was compulsory to use jute bags. This led to the closure of the woven sack units. The ban was lifted almost after a decade. By that time, most of the woven sacks entrepreneurs were gone for good. In the case of Rubber-hand-gloves the crash was much faster. While the demand for the gloves was very high in the international market, the quality requirements also were very stringent. It was very easy and common for large consignments to get rejected in the international market. When the demand grew, huge investments also took place in the manufacture of gloves. India in the 1980s licensed each plant to produce 12 million pairs of hand-gloves per annum. Malaysia, which has almost 90 percent of the global rubber production, had much bigger plants resulting in significant economies of scale. Gloves units in India just could not compete in the international market, where the prices too came down due to increased supply of the gloves.

In conclusion we can say bandwagon effect helps an entrepreneur choose a project that is tested

Table 1

Cluster	Based on	Features	Type Nos.
1	Technology/skills	Inherent prior capability in know-how, engg, manufacturing ability to absorb technology etc.	1,2,3,4
2	Knowledge about the Market segment/ target group	Demand-supply gap, access to marketing channel, grip over the segment, prior proven capability in marketing etc.	5,6,7,8,9
3	Managerial capability	Ability to organize/mobilize resources, access to back-ups, prior proven record in managing businesses etc.	10,11,12

In conclusion we can say bandwagon effect helps an entrepreneur choose a project that is tested, whose market prospects are known, where technical and commercial resource requirements are known. But the entrepreneur must check on the life cycle of the industry and also the structure of the industry in terms of the bargaining powers of the constituents and the relative vulnerabilities.

Type:12 Nostalgia Effect. This is the situation where an established businessman or an entrepreneur identifies a project primarily because of his earlier association with a place, person or organization. It could be the businessman coming back to his native village and setting up new projects to help benefit his kinsmen. It could be that he takes over and revives an old institution that has not been doing well. Or any such other projects.

In all such situations, the businessman is endowed with more than adequate resources and managerial capability to implement and sustain the project undertaken by him. This mode of identifying a project is NOT relevant for a person who does not have more than adequate resources and managerial capability. This mode of project identification is definitely not for the novice or the first generation entrepreneur.

Approaches

If we carefully analyze the various methods of project identification explained in the 12 types discussed above, we observe certain distinct patterns. Some of them are based on the inherent technical capabilities of the promoter, some are based more on the intimate knowledge or grip of the target group; still some others are based on the managerial strength of the promoters. An attempt to identify these strengths and classify them into meaningful clusters has resulted in the table 1.

Ideally project identification must be based on the strengths in all the dimensions. However such situations are rare in practice. In many a case identification is based on the strengths in one of the dimensions. In such situations one has to assess the prospects of building in strengths in the other dimensions too. Only that will increase the certainty level of success.

Conclusion

We have defined Project Identification as the process of hitting upon a business idea. When one has gone through this process what would he have gained?

He/she must be able to answer the following questions to a reasonable extent:

a. What is the business?
b. Does it involve manufacturing and marketing? Or only marketing?
c. What is the volume of the business?
d. Where do you plan to do the business?
e. How do you plan to organize the business?

The article has attempted an understanding of the underlying process of the project identification, the critical factors therein, the manner in which the critical factors can be combined in different situations etc. A fair understanding of these aspects will enable better perception of the probability of success of a project there by leading to better structuring of the project.

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The author wishes to record the personal learning he has had from among the large number of SMEs and entrepreneurs he has come across during his professional and consulting assignments spread over more than two decades.

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Keywords

Conglomerate: A company engaged in a variety of businesses. Conglomerates were very big in the 1960s and 1970s, but in the 1980s many were dismembered when investors realized the whole was worthless than the sum of the parts.

Strategic Alliance: A partnership in which you combine efforts in a business effort involving anything from getting a better price for goods by buying in bulk together to seeking business together with each of you providing part of the product. The basic idea behind alliances is to minimize risk while maximizing your leverage.

Questions for discussion

1. What is the significance of project identification in a developing economy like India?
2. What are the dimensions involved in project identification process?

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