WHY IT IS IMPORTANT
The business plan is a summary of a business idea. It outlines the objectives of the business and the steps it will take to achieve them. A business plan is important because it serves as a reference point for a small business owner, just as someone trying to locate and arrive at a place will use a map. A business plan provides direction for the business and enables the owner of the business to maintain focus. It allows the owner to think through all the aspects of a new business and to examine strategies relative to management, marketing, finance and resources. The business plan identifies areas of strength and weakness and shows the owner the likelihood of a business idea being successful. A well-prepared business plan can also be important for seeking finance from a lender.

WHAT YOU WILL LEARN
KEY KNOWLEDGE
Use each of the points below from the Business Management study design as a heading in your summary notes.

KEY SKILLS
These are the skills you need to demonstrate. Can you demonstrate these skills?
• accurately use relevant management terms
• research aspects of small business management using print and online sources
• acquire and exchange business information and ideas
• explain the importance of complying with legal and government regulations relevant to the small business
• apply small business management knowledge to practical and/or simulated business situations
• evaluate management practices with respect to decision making and planning.
‘I looked at the existing competitors and their activity, unique selling points, relationships within the industry, marketing techniques, and used this to create an exclusive offering with a unique look and feel,’ Trudy Croad says.

Croad decided to enter the wedding industry after working in events most of her life, including as the marketing director of Australia’s leading bridal magazine Bride to be. Her sister’s wedding provided the inspiration to set up her own company, offering brides-to-be wedding planning, styling and fashion advice. But it was her experience in the market that really drove her business plan.

She completed extensive market research. Using her knowledge of creating business plans, and her marketing background, Trudy started her new business with an outlay of $20 000. The company, named Lovebird Weddings, commenced in 2007 with a virtual office established in Noosa.

Croad purchased another business called Maleny Weddings in 2010, merging this with Events By Design to form Lovebird Weddings. In this way, she has expanded her business from Noosa into the Hinterland of the Sunshine Coast.
3.1 Major business planning throughout the life of a small business

**KEY CONCEPT** It is vital for a small business to complete a business plan.

When small business owners start their business, they are usually keen and optimistic, convinced their idea will succeed. However, while enthusiasm is an essential ingredient in the success of a small business, it is not enough by itself. If prospective small business owners neglect to put together a carefully researched business plan, the stage is set for business failure, and optimism will turn to despair.

**kikki.K — planning to succeed**

Kristina Karlsson, founder and creative director of kikki.K, started the business in 2001. She had a passion for stationery and opened her first store in Melbourne Central. The store featured her stationery products as designer accessories. Karlsson says that "having limited financial resources to start and grow my business was probably the hardest challenge I faced in getting kikki.K off the ground. The banks certainly weren’t too supportive in our early years. They needed high levels of security, which we couldn’t give — so I ended up selling the house to fund business development. It meant that I really had to do my homework and develop a comprehensive business plan.”

Today, kikki.K has more than 80 stores in Australia, New Zealand and Singapore, and more than 100 stockists throughout the world. The business has also grown its product range to include notebooks, greeting cards, pens and wrapping paper.

Kristina Karlsson says that it is important to put plans down on paper as a business plan, in order to have a clear vision for a business idea. She says, ‘this enables you to crystallise your thoughts and it facilitates a reference point when putting your ideas into action’. However, she believes that business plans must be flexible so that if something is not working, the business can adapt accordingly.

The essential role of the business plan is to act as a guide or map on which the business’s journey can be plotted. It is one of the most useful management tools a small business owner can use. In all businesses, the best results come from effective management and detailed planning.

**What is a business plan?**

A business plan is exactly what it says — a plan for a business. It is a written statement of the goals and objectives for the business, and the steps to be taken to achieve them. In other words, it is a summary and an evaluation of a business concept.

A comprehensive business plan will also assist when arranging finance for the business. The plan provides information that lenders need to know, and it shows the business is being properly organised and managed.

Planning is a process, a series of actions to achieve an objective. If you decide to have a party next Saturday night, for example, this becomes your objective. Unless you undertake some planning you will not be able to achieve this objective. You will need to invite people, organise food and drink, arrange for music, and decide on a venue. These tasks are your ‘series of actions’, which you need to undertake to achieve the objective.

As Kristina Karlsson notes in the case study above, a business plan should be a ‘living document’. It needs to change as the business changes.
The benefits of developing a business plan

The planning process acts as a link or bridge between the business owner's ideas and the actual operation of the business; it is a way of turning dreams into reality. Any small business with a plan has direction, which ultimately saves money, time and effort, and also increases the likelihood of success. Preparing a business plan is very similar to completing an assessment task. The result will reflect the amount of time, effort and research that goes into the plan and its final presentation.

All businesses are different, which means that all business plans will look slightly different. A typical business plan should, however, include the following elements:

1. An executive summary — a one-page document describing the business and its objectives. This is usually prepared at the end of the plan-writing process.
2. An operations plan — outlining how the business will be set up and the human resource needs.
3. A financial plan — which details how the business will be financed, and projected cash flow, revenue, expenses and profit.
4. A marketing plan — outlining key information from the industry the business will be entering and how it fits in, and the marketing strategy of the business.

TEST your understanding

1. Why was it important for Kristina Karlsson to have a business plan?
2. List the main benefits of a business plan.
3. (a) What is meant by the term ‘planning’?
   (b) Why is planning a process?
4. Choose the most appropriate word from the following list to complete the sentences (a) to (g):
   plan written planning researched steps heading fail objectives failure loan link
   (a) Businesses do not plan to ________; they fail to ________.
   (b) If prospective small business owners neglect to put together a carefully ________ business plan, the stage is set for business ________.
   (c) Without planning, the small business owner does not know where the business is ________.
   (d) In all businesses, the best results come from ________.
   (e) A business plan is a ________ statement of the ________ for the business and the ________ to be taken to achieve them.
   (f) When someone is applying for a ________, financial institutions will want to examine the business plan.
   (g) The planning process acts as a ________ between the owner’s ideas and the actual operation of the business.
5. A friend has asked you to help him prepare a business plan for a new fitness centre he wants to open. What elements would you suggest he include in the business plan?

APPLY your understanding

6. Interview a local small business owner to research the following aspects of the business:
   (a) the planning options that had to be considered when commencing the business
   (b) whether or not a business plan was completed
   (c) the purpose of the business plan
   (d) the role of the business plan within the operation of the business
   (e) the importance of planning to the overall success of the business.

Present your research as a business report.

7. Use the Business plan weblinks in your eBookPLUS to find advice concerning the preparation of a business plan.
Peter Parlongo, Amir Tanady, Praveen Paul and Kieran Sadlier started KAPP Engineering in 2005 from a suburban bedroom in Perth. The four engineers, all aged between 23 and 28, had worked for an engineering firm that unexpectedly suffered financial difficulties. They were eventually forced to move on, but the experience provided them with the opportunity to see what worked in the industry and what did not. They decided to bring their knowledge and skills together to set up a new company.

The business plan was written over the weekend. The team met at Parlongo’s house and discussed ideas. Using the first-name initials of the co-founders, KAPP Engineering was ready to be launched the very next week. A close friend, who is an accountant, helped them to set up the financial and accounting side of the business.

The team moved into offices at the Stirling Regional Business Centre, which provided low rent and training. They were also able to network with other new business owners, and access mentors who provided advice when needed. The four young men chose to start small and concentrate initially on Perth’s metropolitan market, while competitors focused on big projects presented by the mining boom. They discovered through their research that most of their potential clients relied on the Internet to find assistance in solving process engineering problems. KAPP developed its website and search engine optimisation to ensure that customers could find them.

Today, KAPP Engineering provides engineering services, various automation products, project management and training services to clients such as the Water Corporation of Western Australia. It has a client base of 200 companies, and has designed train-lifting and washing systems for Taiwan’s high-speed rail project, and the roof-closing system at the Perth Arena. Revenue has increased 700 per cent since its first year, and in 2010, KAPP Engineering was recognised as the Telstra Western Australian Business of the Year.

**KAPP Engineering**

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Business planning wasn’t meant to be easy

Buying into a franchise requires the franchisee to make a huge financial and time commitment. It takes hard work and long hours to become successful. A business plan is also essential. McDonald’s expects its franchisees to be able to create and implement business plans with short-term and long-term objectives.

The owner of the McDonald’s franchise in Tecoma knows all about business planning. While planning and setting up the outlet — in a town located in Melbourne’s Dandenong Ranges — he had to deal with opposition from the Yarra Ranges council, angry protesters demonstrating at the construction site and his Boronia store, and media coverage.

‘It’s certainly been a long road but I’m really proud of the restaurant we’ve built — it’s a beautiful building that absolutely fits in with the local surrounds and more importantly it’s created over 100 local jobs,’ James Currie says.

James started working for McDonald’s when he was 15. He cleaned the floors for two years and then started on a management development program. He became a restaurant manager at age 23. A few years later he gained the qualifications necessary to become a training consultant and helped to open stores in Victoria, New South Wales, Tasmania and South Australia. He then started to buy McDonald’s franchises as a family business with his wife and sons.

‘We obviously did our research in Tecoma — as we do with all of our sites — and we knew that there was a demand and local community support for us in Tecoma,’ he says.

Mr Currie declared the opening a success. Around 4000 people passed through the Burwood Highway restaurant during its 12-hour opening day in 2014, and more than 20 000 customers passed through in the first week of trading. McDonald’s Australia said that it was confident that locals would continue to support the restaurant. One local who has lived in the town for over 40 years commented that it is the best thing that has happened to the town.

Test your understanding

1. What difficulties did James Currie face when planning his new McDonald’s store?
2. Identify the results of the research that James Currie completed.
3. Explain the results of his business plan.

Apply your understanding

4. Outline some of the main reasons that small business owners should complete a business plan.
3.2 Human and physical resource needs

**KEY CONCEPT** Small business owners must plan for human and physical resource needs throughout the life of the business.

A resource is any person or product that will help in the production of a good or service.

Human resources are the employees who provide their time, energy, skills and effort.

Physical resources refer to equipment such as a computer, cash register, machinery, motor vehicle, office equipment and stock.

An asset is any item of value owned by the business.

An important stage in the planning process is to determine what resources are required to operate the business efficiently and effectively. In this context, resource refers to any person or physical product that will help in the production of the good or service for the business. While no two small businesses are identical, they all have two common resource needs:

1. **Human resources** are the employees who provide their time, energy, skills and effort. This resource needs to be paid for as the service is provided.
2. **Physical resources** are equipment such as a computer, machinery, office equipment and stock. These resources, referred to as assets, are purchased as they are needed.

**Human resource needs and the business plan**

The operations section of a business plan should provide details concerning the people side of the business. It should detail the present and future staff requirements. Present staff requirements, or the intention to operate without staff, should be discussed first. The considerations to include in detailing present staff requirements can be seen in the following figure.

![Present staff requirements](image)

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The staff plan should be based on the assumption that employees are the most valuable resource of any business. Staff who are treated well are more likely to be satisfied which leads to quality production or service to customers.
The operations plan also needs to forecast future staff needs. This should not be too detailed, but should summarise staffing requirements:
• during holiday periods
• at peak production times
• with the introduction of new technology
• for the next three to five years.

**Physical resource needs and the business plan**

It is important for any operations plan to detail:
• the types of asset required for the business
• the associated costs of each asset (as shown in the table)
• location and layout of the business’s assets.

A small business owner should take care when deciding which assets will be required to assist with production. Estimating the correct quantity and type of asset will avoid having to borrow or invest too much. It can be tempting for small business owners to overspend on assets that may not be beneficial in the long term. This results in unproductive assets and inefficient use of scarce finance. Purchasing second-hand equipment or leasing should be seriously considered.

The small business owner should give careful consideration to determining how much to pay for each asset. Underestimating the asset’s value may result in not having enough money to afford it or being forced to borrow to make up the difference. This could result in serious financial difficulties — even before the business commences. Consequently, in the initial calculations, it is preferable to overestimate the cost of the asset.

**TEST your understanding**

1. Outline the difference between human and physical resources.
2. List the six areas of staffing the operations plan should contain.
3. List five physical resources used in each of the following:
   (a) your classroom
   (b) the school’s front office
   (c) a mower repair business
   (d) a hairdressing salon.

**APPLY your understanding**

4. ‘The two most important planning steps for a small businessperson are to forecast their staffing requirements accurately and then to select the right person for the job.’ Discuss the importance of these two planning steps to the future success of a small business.
5. You are planning to commence your own window cleaning business. In groups of three or four:
   (a) List the assets the business will require.
   (b) Estimate what you think each asset will cost to purchase new.
   (c) Use the telephone, the newspaper classified section or the Internet to research the actual cost of each asset.
   (d) Estimate what you think it would cost to lease each asset.
   (e) Use the telephone, the newspaper classified section or the Internet to research the actual cost of leasing each asset.

Present your information in table form, as shown below. You may wish to use a database to present your table.

<table>
<thead>
<tr>
<th>Asset</th>
<th>Estimated cost ($)</th>
<th>Actual cost ($)</th>
<th>Estimated lease cost ($)</th>
<th>Actual lease cost ($)</th>
</tr>
</thead>
</table>
**3.3 Financial planning**

**KEY CONCEPT** Small business owners must determine how their business will be financed throughout the life of the business.

The financial planning stage in the planning process is one many small businesspeople find challenging. However, it is the most crucial stage because it involves the finances required to commence and operate the business. A small business owner may have developed an excellent product or service, but the business will not survive without a well-researched financial plan.

As mentioned in chapter 2, sole traders and partnerships can sometimes find it difficult to obtain adequate finance, especially at the commencement stage, as a result of their exposure to risk (unlimited liability) and few business assets. Traditional sources of finance, especially banks, perceive this type of finance request as high risk. To improve his or her chance of accessing adequate finance, a small business owner must first prepare a finance plan that describes the effectiveness (viability) and value (profitability) of the business.

**Assessing finance required**

When commencing a small business, the owner must answer two crucial financial questions:

1. How much money will I need to commence operation?
2. Where will I get the money?

Let’s look at how the small business owner assesses the finance required to establish and operate a business. The cost associated with actually establishing the business is a good place to start our discussion.

**Establishment costs**

Establishment costs include legal fees, furniture, computer hardware and software, motor vehicles, fixtures and fittings, phone and electricity connection, stock and possibly advance rent. These must be paid in order to commence the business.

**Operating costs**

The small business owner also needs to estimate the running costs for a full year’s operation — operating costs. These costs include wages, advertising, insurance, interest on any loans, telephone and electricity costs, stationery, rent, accountant’s fees and motor vehicle running costs. These must be paid in order for the business to continue to trade.

Once these figures have been estimated, the small business owner is in a position to calculate how much finance will be needed to commence and operate the business for the first year. This is particularly important because research has found that the main reason small businesses fail is because of cash flow problems. This means that the business owner doesn’t have enough cash on hand to cover day-to-day expenses, such as paying suppliers or even the phone bill. Perhaps the business owner is waiting for customers to pay for goods and services already supplied, or perhaps there has been a slight downturn in business which means that estimated income from sales is not what was planned for. Either way, cash — which is like the lifeblood of a business — stops flowing and for some business owners it means they eventually have to close their doors.
Small businesses — such as Pitbull Mansion, an online clothing store featuring Australian and New Zealand designers — must commence trading with stock, otherwise there will be nothing to sell to customers. Financing for this is included in the financial plan. As fashion trends change, more stock needs to be purchased. This should also be included in the plan. Pitbull Mansion recently opened its first store in Hobart.

TEST your understanding
1. What is the main purpose of the financial plan?
2. What are the two crucial financial questions the small business owner must answer when commencing a business?
3. Outline the difference between establishment costs and operating costs.
4. Outline some of the establishment costs you would expect the following new businesses to have. The first entry has been completed for you.

<table>
<thead>
<tr>
<th>Business</th>
<th>Establishment cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Florist</td>
<td>• Refrigerated room</td>
</tr>
<tr>
<td></td>
<td>• Cash register</td>
</tr>
<tr>
<td></td>
<td>• Telephone and installation</td>
</tr>
<tr>
<td></td>
<td>• Sign writing</td>
</tr>
<tr>
<td></td>
<td>• Business cards</td>
</tr>
<tr>
<td></td>
<td>• Advertising in the Yellow Pages</td>
</tr>
<tr>
<td></td>
<td>• Stock such as vases, ribbon, cellophane</td>
</tr>
<tr>
<td></td>
<td>• Delivery van</td>
</tr>
<tr>
<td>Window cleaning business</td>
<td></td>
</tr>
<tr>
<td>Restaurant</td>
<td></td>
</tr>
<tr>
<td>Bicycle shop</td>
<td></td>
</tr>
</tbody>
</table>

APPLY your understanding
5. It has been estimated that approximately 80 per cent of people applying for small business loans have not prepared a financial plan. Explain why this is a recipe for disaster.
6. Mary has established that her operating costs each week when she opens her business will be $1000. She estimates that revenue from sales each week will be $700. Do you think she should go ahead with establishing her business? Give reasons for your answer.
7. Use the Financial plan weblink in your eBookPLUS to learn more about what a financial plan is, then:
   (a) Create a flow chart that lists the steps involved in creating a financial plan.
   (b) Give a definition of break-even analysis and explain why it is important that a business identifies its break-even point.

DID YOU KNOW?
If you are buying an existing business, the financial information about the profitability of that business must be fully investigated. According to the Australian Competition and Consumer Commission, if the vendor is reluctant to disclose the full financial details of the business it is better not to purchase it. Buying a business is just like buying a house — there’s a huge cost involved and the foundations of both must be sound.
KEY CONCEPT Businesses can obtain funds from either internal or external sources.

A business cannot commence without funds to enable it to pursue its activities. The funds that a business requires come from a variety of people or institutions. These groups or institutions can be classified as one of two sources. The business owner can contribute their own funds (equity or capital), which is an internal source of funds. The business can also obtain finance from external sources. There are advantages and disadvantages associated with each source of finance.

**External funds**

1. Debt
   - Short term
     - Bank overdraft
     - Bank bills
     - Trade credit
   - Long term
     - Mortgage
     - Leasing
2. Grants

**Internal funds**

- Owner’s personal funds

---

**Equity**

**Equity** refers to the funds contributed by the business owners to start and then expand the business. If the small business is a company, then this contribution is referred to as shareholder's equity. Equity has an advantage over other sources of finance because it does not have to be repaid unless the owners leave the business. It is cheaper than other sources of finance because there are no interest payments for the business. An owner who contributes the equity to a business retains control over how that finance is used. A disadvantage is that the owner may expect a good return on their investment, but the small amount of finance may only generate low profits and low returns.

Equity capital (finance) can also be raised in other ways — for example, by taking on a partner, or another partner, by seeking funds from another investor (who then becomes an owner or shareholder) or by selling off any unproductive asset.

**External sources of finance: Debt**

Most external sources of finance are in the form of **debt**, which refers to the funds provided by banks, other financial institutions, government and suppliers. Debt must be paid back over time, with interest.

Sourcing funds from outside the business should result in increased earnings and profits. Regular repayments on the borrowings must be made, so the business must generate sufficient earnings to make these payments. There is higher
risk for businesses using debt as the interest, and government charges have to be paid on top of the principal amount borrowed. Australia’s tax system, however, has promoted debt financing for businesses by providing generous tax deductions for interest payments.

**Short-term borrowing**

Short-term borrowing is provided by financial institutions through bank overdrafts, bank (commercial) bills and bank loans. This type of borrowing is used to finance temporary shortages in cash flow or finance **working capital**. Short-term borrowing generally needs to be repaid within one or two years.

**Bank overdraft**

A **bank overdraft** is one of the most common types of short-term borrowing. A bank allows a business to overdraw its account to an agreed limit. Bank overdrafts assist businesses with short-term liquidity problems — for example, a seasonal decrease in sales. The costs for bank overdrafts are minimal and interest rates are normally lower than on other forms of borrowing. Given that interest rates are usually variable, interest is paid on the daily outstanding balance of the account. The variable interest rates allow businesses flexibility in managing their finances. Banks usually require the agreed limits to the overdraft to be maintained at a high level and require some security. Bank overdrafts are repayable on demand, although this is not common.

**Bank bills**

Bank bills are basically short-term securities issued by a business and bought by a bank. They are a type of bill of exchange and are given for larger amounts, usually over $100,000, for a period of 90–180 days. The borrower receives the money immediately and promises to pay the sum of money and interest at a future time. The bank acting as agent guarantees that the money will be repaid when it is due.

**Trade credit**

Trade credit exists when a supplier provides products to a business with an agreement to charge for the goods or services later. It is an important source of short-term funds because businesses are granted a period of time, from 30 days to 90 days, before payment is required. Trade credit is attractive for small businesses because there is no interest charge and it is easy to obtain. If a business has a good credit record, as the business grows, purchases increase and trade credit becomes even easier to obtain.

**Long-term borrowing**

Long-term borrowing relates to funds borrowed for periods longer than two years. This type of borrowing can be secured or unsecured, and interest rates are usually variable. This borrowing is used to finance real estate, plant and equipment. The most common long-term borrowing is a mortgage.

**Mortgage**

A **mortgage** is a loan secured by the property of the borrower (the business). The property that is mortgaged cannot be sold or used as security for further borrowing until the mortgage is repaid. Mortgage loans are used to finance property purchases, such as new premises, a factory or an office. These loans are repaid, usually through regular repayments, over an agreed period such as 15 years.
3.4 Sources of finance

Before approaching a lender, a small business will need to consider how much finance needs to be borrowed, the type of loan that is needed, for how long the finance is needed, and whether or not the loan, the interest payments and any fees are affordable.

**Leasing**

Leasing is a long-term source of borrowing for businesses. It involves the payment of money for using equipment that is owned by another party. Leasing enables a small business to borrow funds and use the equipment without the large capital outlay required. The **lessee** uses the equipment, and the **lessor** owns and leases the equipment for an agreed period of time. Leasing of machinery and motor vehicles is common in business. A lease cannot usually be cancelled without incurring a financial penalty.

Some of the advantages of leasing as a source of finance are:

- It provides long-term financing without reducing control of ownership.
- It permits 100 per cent financing of assets.
- Lease payments are a tax deduction.
- Repayments of the lease are fixed for a time period so cash flow can more easily be monitored.

However, a disadvantage of leasing is that interest charges may be higher than other forms of borrowing. The business must have a regular cash flow to make the repayments for the lease.

**External sources of finance: Grants**

Governments are also providers of finance in the form of grants for business development, and especially to promote exports. Funds can be obtained to commence a small business through both federal and state governments, such as the Victorian Government’s ‘Grow Your Business’ grants program. Grants are administered through departments of business development or small business development centres, which advise individuals on setting up and administering a business. Federal and state government grants must meet the conditions imposed and be used for a specific purpose.

Melbourne City Rooftop Honey aims to help save honey bees by encouraging them in to the city and suburbs through the deployment of hives on the roof spaces of cafés, restaurants and hotels in and around Melbourne. The business has received grants to assist with starting up and for purchasing materials and equipment, including a $1000 grant from the Awesome Foundation and a $28,000 City of Melbourne grant.
Financial considerations — matching the source with the purpose

Small businesses regularly face decisions related to achieving their financial objectives — for example, the purchase of new equipment, stock and premises. They must find the source of finance that is most appropriate to their needs.

The terms of finance need to suit the purpose for which the funds are required. Using short-term finance to fund long-term assets, for example, may cause financial problems. The amount borrowed will be repaid before the long-term assets have had time to generate cash flow. Using long-term finance to fund short-term assets means the business may be paying the mortgage long after the asset has ceased generating cash flow, and profits will be reduced.

The business structure can also influence finance decisions. Large businesses have more opportunities for equity capital than small businesses do. Most small businesses have to raise equity from private sources or by taking on a partner.

One of the most important considerations in financing the activities of a business is cost. Other factors include the flexibility of the finance, the availability of finance and the level of control maintained by the business.

Once the costing and financing has been determined, the rest of the financial plan can be completed. This might include a projected cash flow statement, calculation of break-even point, a budgeted income statement (also called the budgeted profit and loss statement or budgeted revenue statement), and a budgeted balance sheet. These reports and calculations are explained in chapters 4 and 5.

TEST your understanding
1 What is the difference between equity and debt?
2 Prepare a table using two columns to list the advantages and disadvantages of using equity to finance a business.
3 Prepare a table using two columns to list the advantages and disadvantages of using debt to finance a business.
4 Compare the main forms of debt by completing the following table.

<table>
<thead>
<tr>
<th>Form of debt</th>
<th>Main features</th>
<th>Advantages/ disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank overdraft</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank bills</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leasing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade credit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mortgage</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

5 Why is it important to match the term of a loan to the life of the asset for which the finance was obtained?

APPLY your understanding
6 In groups of three or four, collect five advertisements offering different types of finance funding for small businesses. Use information from magazines, banks and Internet sites. Compare the offers under the headings in the following table. Display your database in the classroom.

<table>
<thead>
<tr>
<th>Source</th>
<th>Interest rate</th>
<th>Borrowing limit</th>
<th>Terms</th>
<th>Main advantage</th>
</tr>
</thead>
</table>

7 Use the Business Victoria Grants and Assistance weblink in your eBookPLUS to outline one grant available for small business owners.
8 Use the Austrade weblink in your eBookPLUS to evaluate the benefits of Austrade’s Export Market Development Grants to small businesses.
Yo! Boosting the hopes of baby-faced bosses

At just 23 and 24, former construction project managers Scott Bradley and Sean Towner are not short of bravado. Or brains.

And after chucking in lucrative jobs and opening their first company, Melbourne frozen yoghurt bar Yo-get-it, the pair are also poster boys for healthy ambition.

‘What we want to do is knock off Boost,’ says Bradley, a baby-faced company director wearing a sideways visor and skate shoes.

‘We want to be right across the country — we want to be the next Boost Juice.’

Like Boost Juice founder Janine Allis — whose original Adelaide store multiplied into 189 franchises in the company’s first six years — Bradley and Towner had their brainwave while travelling in America. During their six-week trip, the would-be entrepreneurs were keeping one eye on the sights, and another on potential dollar signs.

Bradley had a large bundle of cash sitting at home, after winning $70 000 on television game show Deal or no Deal, and Towner had long dreamt of running his own business.

In the United States, the pair saw store after store selling takeaway frozen yoghurt, and after a chance conversation, realised Australia hadn’t yet embraced frozen yoghurt as a business concept.

‘I always wanted to run my own business, but no way in the world would I have ever thought of a frozen yoghurt bar,’ Bradley says.

After further research back home, the pair was convinced they had found their niche, and applied for a bank loan — with little success.

‘We tried to go to the bank and ask for money but they needed assets or my parents to go guarantor, but I wanted it to be my sort of thing,’ Bradley said.

So instead Bradley bought a 41 per cent share of the company, Sean invested in 36 per cent, and friends and family invested in the remainder.

With the funds in place, and more research, including 12-hour customer-counting stints outside Malvern yoghurt bar Igloo Zoo, the pair felt ready to leave their construction jobs.

‘It was a fairly risky manoeuvre to undertake,’ Towner said. ‘It’s a little bit daunting because essentially the buck stops with us.’

The first Yo-get-it, near Glenferrie railway station in Melbourne, opened on Christmas Eve.

The store has several different features that its owners believe set it apart. Customers pour the frozen yoghurt themselves and choose their own toppings, with the price measured by weight, allowing school children with only small change to buy a treat.

And anyone who guesses the correct weight to the gram gets their yoghurt free.

In the next two years, the mates hope to open up to 15 Yo-get-it franchises.

Source: Extracts from L Ham 2010, ‘Yo! Boosting the hopes of baby-faced bosses’, The Age, 15 March.
Starting any business requires a great deal of planning. If you have dreamt of opening your own smoothie store, consider the many expenses other than the cost of the fruit, yoghurt and milk. This table shows a list of costs for commencing a smoothie store.

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal fees</td>
<td>550</td>
</tr>
<tr>
<td>Advertising</td>
<td>870 per month</td>
</tr>
<tr>
<td>Wages</td>
<td>1800 per week</td>
</tr>
<tr>
<td>Electricity costs</td>
<td>1600 per three months</td>
</tr>
<tr>
<td>Phone connection</td>
<td>250</td>
</tr>
<tr>
<td>Insurance</td>
<td>2300 per year</td>
</tr>
<tr>
<td>Electricity connection</td>
<td>115</td>
</tr>
<tr>
<td>Initial purchase of stock</td>
<td>18 550</td>
</tr>
<tr>
<td>Telephone costs</td>
<td>75 per week</td>
</tr>
<tr>
<td>Fixtures and fittings</td>
<td>11 750</td>
</tr>
<tr>
<td>Interest on loan</td>
<td>315 per month</td>
</tr>
<tr>
<td>Motor vehicle purchase</td>
<td>28 000</td>
</tr>
<tr>
<td>Motor vehicle running costs</td>
<td>260 per month</td>
</tr>
<tr>
<td>Rent in advance</td>
<td>7200</td>
</tr>
<tr>
<td>Accountant's fee</td>
<td>285 per month</td>
</tr>
<tr>
<td>Rent</td>
<td>3600 per month</td>
</tr>
<tr>
<td>Ongoing stock purchases</td>
<td>6000 per month</td>
</tr>
<tr>
<td>Stationery</td>
<td>55 per week</td>
</tr>
<tr>
<td>Computer</td>
<td>2870</td>
</tr>
<tr>
<td>Opening launch</td>
<td>3000</td>
</tr>
</tbody>
</table>

**TEST your understanding**

1. Classify each cost as either an establishment or an operating cost.
2. Calculate the total establishment cost.
3. Calculate the total operating cost for 12 months.
4. How much revenue (income) will you need to generate to cover all your establishment and operating costs in the first 12 months if you are opening a smoothie store based on the above costs?

**APPLY your understanding**

5. Suggest an alternative method of reducing the establishment costs for items such as the motor vehicle and computer. What impact will this have on other costs?
6. What is the purpose of itemising the establishment and operating costs?
7. From what sources might you obtain funds to finance these costs?
3.5 Marketing strategy

**KEY CONCEPT** Small businesses must plan their marketing strategy throughout the life of a business.

**Marketing** is ‘the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organisational objectives’ (American Marketing Association).

**Marketing** is basically everything the business does to place its product into the hands of potential customers. It can be broadly defined as any activity designed to plan, price, promote and distribute goods and services to the marketplace. Marketing is examined in more detail in chapter 10.

Many small business owners feel marketing is not for them, that it is something that only large businesses do. They believe that it is too expensive, complicated or time consuming. They might happily place advertisements in local newspapers, display the name of the business on their cars and perhaps even advertise on a regional radio or television station, without realising that such advertising is just one part of marketing a product. The reality is that small businesses can run successful marketing campaigns and that these can be relatively simple and inexpensive.

### VetStop’s marketing strategy

VetStop is a small business that originally operated as an online information website providing health-related articles to pet owners. It has transformed into an online store. VetStop has a limited marketing budget, so it needs an easy, cost-effective way to promote special offers and new products to customers, as well as a means of encouraging repeat visits to the website and purchases from the online store. Using email addresses collected with customer permission, the company emails a personalised newsletter to all customers each month and promotes subscription to the newsletter service on its website. The business has grown. An organised marketing campaign is very necessary for a business such as VetStop, for developing customer awareness and demand, and for forming a customer base.

### The marketing plan

A marketing plan consists of five steps, as shown in the following figure, starting with market analysis.

#### Step 1: Market analysis

The first activity undertaken in the marketing plan is to analyse the market that the business is planning to enter. A sporting team will often analyse a competitive situation to gain information about the competitor’s strengths and weaknesses. A market analysis is similar, involving research of the size of the market, the number of competitors, overall market growth and information about the target market.
Step 2: Establishing marketing objectives

A marketing objective is a statement of what the business expects to achieve through its marketing activities. These expectations become the business’s objectives. Clear objectives are essential for any marketing plan to be effective. Determining these objectives is the most important step in the marketing planning process. Some examples of marketing objectives might include:

• to establish a 5 per cent market share within 12 months
• to maximise customer service.

Step 3: Identifying target markets

Many new small business owners are so enthusiastic about commencing that they often overlook one crucial question — who will buy my good or service? Sales are the lifeblood of any business, so it is important for small business owners to have a good understanding of their target market.

The target market refers to the business’s intended customers — people to whom the business intends to sell its product, and who are most likely to purchase the product. Once the target market has been identified, the business concentrates its marketing activities on that group. A business which has no idea about who its customers are will not be able to develop an appropriate marketing plan.

A women’s fashion boutique in central Melbourne, for example, would normally aim its marketing strategies at customers who are female, 25–45 years of age, city-based, high income professionals.

Step 4: Developing marketing strategies

Once the small business owner has established the marketing objectives and selected a target market, the next step of the marketing plan is to develop marketing strategies (or actions) to achieve the objectives. Careful consideration should be given to this part of the marketing plan as it has a direct influence on the future success of the business.

Marketing mix — the four Ps

One of the most useful ways of understanding how to develop a marketing strategy is to examine each of the elements of the marketing mix (as shown in the following figure).

The four Ps of the marketing mix

A marketing objective is a statement of what is to be achieved through the marketing activities.

The target market is the group of customers to which the business intends to sell its product.

Marketing strategies are actions undertaken to achieve the business’s marketing objectives.

Marketing mix refers to the combination of the four elements of marketing, the four Ps — product, price, promotion and place — that make up the marketing strategy.
The four Ps of the marketing mix — product, price, promotion and place — are used by a small business to reach its target market. These elements do not operate in isolation; rather, the small business owner should integrate them in order to create a successful marketing plan.

### The four Ps

The four Ps of the marketing mix are:

1. **Product** (page 307, chapter 10). Developing a product involves deciding which good to make or service to deliver as well as determining the product’s quality, design, name, warranty and guarantee, packaging, labelling and exclusive features. Customers prefer to buy products that satisfy their needs and provide them with intangible benefits such as a feeling of security, prestige, satisfaction or influence.

2. **Price** (page 309, chapter 10). Selecting the correct price for a product is vital. A price set too high could mean lost sales, unless superior customer service is offered. A price set too low may give customers the impression of a ‘cheap and nasty’ product.

3. **Promotion** (page 311, chapter 10). Promotion involves informing, persuading and reminding customers about the product. The main forms of promotion include personal selling, advertising and public relations.

4. **Place** (page 310, chapter 10). Providing a product at a place where a customer can easily access it is more accurately referred to as distribution. The distribution of a product consists of two parts. The first is transportation and storage. Second, the small business owner has to decide how many intermediaries (middle agents) will be involved in the product’s distribution process. Wholesalers and retailers are the most common intermediaries. The number of intermediaries chosen will determine how widely a product will be distributed.

Once the four Ps have been established, the business must then determine the emphasis it will place on each of the elements. This will largely be determined by where the product is positioned. A product that is being marketed with an image of exclusivity and prestige, for example, will require a marketing mix totally different from that needed for a no-frills, generic item. Some of the more common marketing strategies which a small business could implement are shown in the following figure.

<table>
<thead>
<tr>
<th>Common Marketing Strategies which a small business might use</th>
</tr>
</thead>
<tbody>
<tr>
<td>Niche marketing — selling to a specific segment of the market (e.g. comic shop, women’s fashion boutique)</td>
</tr>
<tr>
<td>Timing the introduction of a new product (e.g. pre-Christmas launch)</td>
</tr>
<tr>
<td>Product differentiation from competition (e.g. improved design features)</td>
</tr>
<tr>
<td>Channels of product distribution (e.g. supermarket, specialty store)</td>
</tr>
<tr>
<td>Packaging design (e.g. cartons, blister pack, glass)</td>
</tr>
<tr>
<td>Product pricing (e.g. exclusive pricing)</td>
</tr>
<tr>
<td>Forms of promotion/extent of coverage (e.g. local paper, letterbox leaflets)</td>
</tr>
</tbody>
</table>
Whatever a small business’s marketing strategy, it should be described in detail and explained so the reader is made aware of the competitive advantage that this strategy generates.

**Step 5: Managing the marketing effort**

The marketing plan cannot operate effectively unless it is well managed. *Marketing management* involves monitoring; that is, comparing actual performance with predetermined performance standards. By using performance standards such as market share analysis and profitability by product or territory, management can assess the effectiveness of the marketing plan. Marketing management also involves modifying the marketing plan. If the plan is found to be failing, then changes can be made. Modifications may be minor, such as a small change in price, or they could mean a major shift involving the development of a completely new marketing strategy.

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### TEST your understanding

1. What is the main purpose of the marketing plan?
2. What did VetStop decide to do with their limited marketing budget?
3. Prepare a mind map to provide a brief outline of the five steps in the marketing planning process. The map has been started for you.

### APPLY your understanding

9. Using magazines, newspapers and the Internet, collect and paste into your scrapbook five advertisements for small businesses.
   (a) Identify the good or service the business is selling.
   (b) What unique features of the business are publicised?
   (c) Do you think the advertisement fulfils its function of reminding, informing and persuading existing and potential customers? Give reasons for your answer.
   (d) Rank the advertisements in the order that they appeal to you, from the most appealing to the least appealing.
   (e) Explain how you determined the ranking order.
   (f) Compare your ranking with that of other members of the class, and discuss similarities and differences.

10. Assume your business is about to launch a new online game for the Business Management course, Units 1 and 2. In groups of three or four:
   (a) establish your marketing objectives
   (b) identify the target market
   (c) develop a number of marketing strategies based on the four Ps of the marketing mix.
Starting off with the right bang

When people think of successful business launches, they often think of costly Richard Branson-esque stunts that command the media spotlight. However, for many small enterprises, such tactics are unrealistic and, some claim, a waste of money.

‘If you go out there with a high-profile launch and you’ve got things wrong, it could mean a lot of wasted time, energy and money on your part,’ says David Baumgarten, the chief executive of Sydney-based Clearly Business, a part of the Business Enterprise Centres network.

Besides cost savings, an advantage of not launching under public scrutiny is that it allows a business time to finetune its marketing based on initial feedback.

Traditional print advertising, if executed well, is an effective way to communicate en masse. Full-priced ads can be costly, but most newspapers and magazines offer distressed rates or discounts on advertising space that has not been sold, which is handy for businesses with small marketing budgets.

The medium making the biggest impact for businesses with limited start-up finance is online, particularly in the search space.

‘Search has really changed the playing field for small businesses,’ a Google AdWords strategist, Kate Conroy, says.

Search-engine optimisation improves a business’s chances of its website appearing in an online search.

Choosing appropriate keywords to match a product or service is vital, along with having a website with no pop-ups, clear navigation and links to other relevant sources of information, according to Google, the dominant search engine in Australia.

As well as maximising free search listings, Google has developed a suite of free or low-cost marketing tools with small business in mind. Google AdWords, for example, is a good way to increase online exposure by appearing in a search as a sponsored link. Advertisers get to control the cost by nominating a daily budget and paying only for users’ clicks to their website.

Social networking sites such as Facebook, Twitter and YouTube also provide ideal marketing platforms for small businesses that, if used effectively, can help raise awareness at minimal cost. But the basis of most successful small-business launches today is a good-quality website.

‘It’s really easy to build trust through a website without spending much,’ Conroy says. ‘Things like customer reviews and relevant product information are easy to digest through a webpage.’

Source: Extracts from 2010, ‘Starting off with the right bang’, The Age, 16 June.

Custom-made marketing

Jodie Fox loves shoes. However, she could never find the exact shoes that she wanted. Along with her husband Michael and old workmate, Michael Knapp, she created Shoes of Prey, an online store that allows customers to design their own shoes. Shoes of Prey is now a multimillion-dollar global business.

The online store uses a unique 3D design template that allows customers to create their own shoe. Starting with a style, the customer can then design the shoe, choosing heels, fabrics and textures, colours and height. The site shows the customer a 360-degree rotating sketch so that they can get a complete view during the design process.
When planning the business, the founders sought to establish a product that was different and something that people would want to talk about. In planning Shoes of Prey, they considered who they believed their customer was, the size of the market, who their competition was, their strengths, weaknesses, opportunities and threats. The founders met with potential suppliers, researched and developed concepts for the design of the website, and determined how they would market the website. From the outset, and continuing throughout the life of the business, online exposure and social media became the main marketing strategies.

Before the business launched, a business blog, 22michaels.com, was maintained, directing potential customers to the forthcoming website. The blog is still going and now the company also has a Twitter account and a Facebook page. ‘My favourite way of communicating with customers is on our Facebook page. We have a strong community there and it’s such a nice way to get into a conversation about shoes while getting to know our customers,’ Jodie Fox says.

Soon after the business launched, Shoes of Prey hired YouTube beauty guru, Blair Flower, to sample and review a pair of custom-made shoes. ‘The first day the video went live we had 200 000 people visit our website,’ says Michael Fox. The Shoes of Prey website received 500 000 hits and this translated into a 300 per cent increase in sales.

Business use of information technology, 2011–12

<table>
<thead>
<tr>
<th>Estimated number of businesses ('000)</th>
<th>0–4 persons</th>
<th>5–19 persons</th>
<th>20–199 persons</th>
<th>200 or more persons</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Businesses with:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Internet access %</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• web presence %</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Businesses that received orders via the Internet or web %</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internet income $ billion</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


Shoes of Prey is an online shoe retailer that allows customers to design their own creations. Without a big budget, the owners decided to promote the business using a blog, an online database and social media. They found social media to be a powerful marketing tool.

TEST your understanding

1 List some marketing options for businesses with small marketing budgets.
2 What is ‘search-engine optimisation’?
3 Outline how Shoes of Prey took advantage of online advertising.

EXTEND your understanding

4 Examine the statistics in the table ‘Business use of information technology, 2011–12’ and answer the following questions:
   (a) Calculate the number of small businesses (up to 20 employees) that have a web presence.
   (b) What proportion of small businesses have a web presence?
   (c) Compare this percentage to the proportion of medium-sized businesses (20 to 199 employees) and large businesses (200 or more employees) that have a web presence. How do small businesses compare?
   (d) Use the same process to calculate the percentage of small businesses that have received orders via the Internet or web, and then compare the results to the percentages of medium and large businesses.
   (e) What conclusions, if any, can you make using these statistics? Use the statistics for Internet income in your answer.
KEY CONCEPT  A business must plan to operate in an ethical and socially responsible manner.

The economic (traditional) model

This model works on the traditional idea that a business exists to produce products, earn a profit and provide employment. Supporters of the economic model of social responsibility believe, therefore, that society will gain the most benefit if a business is left alone to produce and market products that are in demand. In doing so, the business will attempt to maximise profits by using its resources most efficiently. By attempting to maximise profits, the business is satisfying the owners’ desire for a satisfactory return on investment. Additionally, the more profitable the business, the greater are its chances of survival — resulting in business expansion that creates new employment opportunities. Also, as profits are taxed, this provides funds that are used to meet the needs of society. Managers who follow this model would thus argue they are indirectly fulfilling their social responsibility.

The socioeconomic model

Small business owners who adopt this broader philosophy believe they have a responsibility not only to the business, but also to employees, suppliers, customers and society. This view emphasises not only profit, but also the impact of business on the whole of society.

The socioeconomic model is gaining acceptance among many businesses for three main reasons:
1. Society has greater expectations of business behaviour. Some previous business behaviour is no longer acceptable.
2. Many businesses are taking pride in their record of social responsibility.
3. Many business owners believe it is more beneficial to become socially responsible. This idea of enlightened self-interest — the belief that a business helps itself when it helps to solve society’s problems — is gaining increasingly widespread acceptance.

Businesses that adopt the socioeconomic model of social responsibility attempt to fulfil their business commitments by following the ‘Ten Commandments of Corporate Social Responsibility’ (see the figure opposite).

Planning for the triple bottom line

As society’s expectations of acceptable business behaviour change, socially aware small business owners recognise the importance and necessity of planning business objectives with a consciousness of social and ethical responsibilities. Businesses

DID YOU KNOW?

Dr Simon Longstaff, Director of the St James Ethics Centre in Sydney says: ‘Treating people fairly when you may feel you can’t afford to do so is a significant challenge for businesses. But fair play is more than just enlightened self-interest. It’s about our role as citizens.’

Enlightened self-interest is the belief that a business ultimately helps itself when it helps to solve society’s problems.
that take their social and ethical responsibilities seriously are often ‘rewarded’ with improved business performance. According to research undertaken by Global Business Responsibility Centre, for example, businesses that plan for and implement a policy of caring for the *triple bottom line* — economic, environmental and social performance — outperformed other businesses in the market.

Some businesses such as the Ethos café in Fitzroy have planned with ethical and socially responsible practices in mind. The Ethos café was created by the owners to have a good ‘ethos’ at the heart of everything it does.

**Corporate social responsibility**

At the commencement stage, a small business owner should plan to develop a corporate social strategy to achieve triple bottom line results. Key findings from a national research project into responsible business practice in small to medium-sized enterprises (SMEs), commissioned by the St James Ethics Centre, recently found:

- The small business owner’s personal values greatly affect leadership and willingness to be socially responsible.
- Being socially responsible should be part of the business’s daily operations and should not be viewed as a burden.
- There is a need for more guidance in this area for small business owners.

**Triple bottom line** refers to the economic, environmental and social performance of a business.

**TEST your understanding**

1. Identify the main differences between the economic and socioeconomic models of social responsibility.
2. What does the triple bottom line measure?

**APPLY your understanding**

3. Suggest reasons that the socioeconomic model is gaining widespread acceptance among many businesses.
4. Judge the value of a business adopting the ‘Ten Commandments of Corporate Social Responsibility’.
5. Briefly outline the findings of the Global Business Responsibility Centre’s research concerning corporate responsibility and economic performance.
Summary

**Major business planning throughout the life of a small business**
- It is vital that a small business completes a business plan. Failing to plan is planning to fail.
- A business plan is a written statement of the goals and objectives for the business, and the steps to be taken to achieve them. It is a summary and an evaluation of a business concept in written form.
- A business plan will also assist the small business owner when arranging finance for the business.
- A typical business plan might include an executive summary; an operations plan; a financial plan; and a marketing plan.

**Human and physical resource needs**
- Small business owners must plan for human and physical resource needs throughout the life of the business. These needs appear in the operations plan.
- Human resources are employees. Physical resources include equipment such as the computer, cash register, machinery, motor vehicle, office equipment and stock.
- Human resource planning should detail the present and future staff requirements.
- Physical resource planning should detail the types of asset required for the business and the associated costs of each asset.

**Financial planning**
- Small business owners must determine how their business will be financed throughout the life of the business. A financial plan describes the effectiveness (viability) and value (profitability) of a business.
- Developing a financial plan involves the small business owner answering two crucial financial questions: how much money will I need to commence operation, and from where will I get the money?
- The financial plan is completed after a projected cash flow statement, calculation of break-even point, a budgeted income statement, and a budgeted balance sheet are prepared.

**Sources of finance**
- The small business owner must estimate the establishment costs (expenses which must be paid in order to commence the business) and operating costs (the running costs for a full year’s operation).
- There are two types of sources available to lend to a business. The small business owner can contribute their own funds (equity or capital), which is an internal source of funds. The business can also obtain finance from external sources, by taking on debt or a grant.
- Equity is the funds contributed by the owner(s) of a business to commence and build the business.
- The main forms of debt are: a bank overdraft, bank bills, leasing, trade credit and a mortgage.
- Governments are also providers of finance in the form of grants.
- Small businesses must find the source of finance that is most appropriate to fund the activities arising from financial decisions.
- Other considerations in financing the activities of a business include the flexibility of the finance, the availability of finance and the level of control maintained by the business.

**Marketing strategy**
- Small businesses must plan their marketing strategy throughout the life of the business. Marketing is everything that the business does as it plans, promotes and distributes its products.
- Small businesses can run relatively simple and inexpensive, yet successful marketing campaigns.
- A marketing plan consists of five steps: market analysis, establishing market objectives, identifying target markets, developing marketing strategies and managing the marketing effort.
Market analysis involves research of the size of the market, the number of competitors, overall market growth and information about the target market.

A marketing objective is a statement of what is to be achieved through the marketing activities.

The target market is the group of customers to which the business intends to sell its product and who are most likely to purchase the products. Once the target market has been identified, the business concentrates its marketing activities on that group.

Marketing strategies are actions undertaken to achieve the business’s marketing objectives. A marketing strategy is usually formed using the elements of the marketing mix: the four Ps.

The four Ps are product (what the business will actually sell and its quality, labelling, name), price, promotion and place (how the product will be distributed to customers).

Marketing management is the process of monitoring and modifying the marketing plan.

**Ethical and socially responsible management in terms of planning**

- If a business is to operate in an ethical and socially responsible manner, this must be part of the planning process.
- Socially aware small business owners recognise the importance and necessity of planning business objectives with a consciousness of social and ethical responsibilities.

**Review questions**

**TEST your understanding**

1. Explain what is involved with the preparation of a business plan.
2. List the main benefits of completing a business plan.
3. What is meant by the term ‘planning’? Why is it a process?
4. Outline the difference between human and physical resources.
5. List six areas of staffing which the operations plan should contain.
6. List five physical resources which could be included in the operations plan.
7. Outline the main purpose of a financial plan.
8. What two crucial financial questions should the small business owner ask when commencing a business?
9. What is the difference between establishment costs and operating costs?
10. Explain the difference between equity and debt.
11. Outline the advantages and disadvantages of using equity to finance a business.
12. Outline the advantages and disadvantages of using debt to finance a business.
13. Explain the features of the main forms of debt and the advantages and disadvantages of each.
14. Explain why it is important to find the source of finance that is most appropriate to funding purchases such as new equipment or stock.
15. What is the main purpose of the marketing plan?
16. Outline the five steps in the marketing planning process.
17. What is the purpose of a market analysis?
18. Define target market.
19. Explain the four Ps of marketing.
20. List four marketing strategies and explain what might be involved for each one.
21. What performance standards can management use to assess the effectiveness of a marketing plan?

**APPLY your understanding**

22. Outline the main elements, or sections, of a business plan and the key information that you would find in each one.
23. Which element of the business plan would the items listed in the table be best suited to? The first one has been completed for you.
24. If you were going to start your own fish and chips business, what staffing needs should you consider and what physical resources would you need? Make a list for both human and physical resource needs.
25. Why is it so important to complete a financial plan?
26 Match the following marketing strategies with the appropriate example.

<table>
<thead>
<tr>
<th>Marketing strategy</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Niche marketing</td>
<td>Improved quality</td>
</tr>
<tr>
<td>Product pricing</td>
<td>Web page</td>
</tr>
<tr>
<td>Forms of promotion</td>
<td>Recyclable plastic</td>
</tr>
<tr>
<td>Product differentiation from competition</td>
<td>Discount pricing</td>
</tr>
<tr>
<td>Packaging design</td>
<td>Cycling shop</td>
</tr>
</tbody>
</table>

School-assessed coursework

**OUTCOME 2**

Apply decision-making and planning skills to establish and operate a small business, and evaluate the management of an ethical and a socially responsible small business.

**ASSESSMENT** task — case study analysis

**Roberto Quesnay — Glenstock Eats and Antiques**

Roberto Quesnay had spent the past six months researching what was involved in commencing a small business. He had the original idea when he visited Bendigo during his last holiday break and believed he had identified a genuine business opportunity. The initial feasibility study, undertaken with the assistance of his accountant, revealed that he could make a success of his business concept — an antique and coffee shop combined. He had decided:

- to operate as a sole trader
- to commence from scratch
- upon a suitable location.

Roberto was now ready to begin the next stage — preparing the business plan. The business plan would act as a ‘road map’ for his business and would largely determine the basis of his success. The plan would set out the desired goals and directions of the business. In Roberto’s present job as purchasing officer for a large fashion retailer, he had become aware of the crucial importance of adequate planning, especially its importance in obtaining finance.

Roberto did not have adequate money of his own to commence the business, so the plan would need to be comprehensive enough to convince financiers that he knew what he was doing, provide a clear idea of what he wanted to achieve, and outline how he would accomplish the objectives. The business plan would be professional in its presentation, detail the legal, operational, financial and marketing aspects, and provide an overview of the business’s main activity. This would give financiers confidence in his business abilities. Roberto had recently witnessed a friend’s business fail through lack of planning and this had taught him a valuable lesson.

At a recent small business seminar, his local Business Enterprise Centre representative told Roberto that preparing a business plan would force him to examine and develop his business concept carefully. Roberto was going to enjoy the challenge of writing his business plan.
1 (a) Quesnay had already undertaken a feasibility study to ascertain whether his business idea was any good. Read the following scenarios and determine the business's likely success or failure by placing a tick in either column 2 or column 3.

<table>
<thead>
<tr>
<th>Business idea</th>
<th>Yes, seems like a good idea to pursue further.</th>
<th>No, this business is a loser!</th>
</tr>
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<tbody>
<tr>
<td>Graeme had the idea he wanted to set up an exclusive cheese shop in the suburb in which he lives. The cheeses sold were all his favourites. He undertook some market research and found that customers in the area were not interested in buying such expensive cheese.</td>
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<td>Jan was an accountant in a country town and knew the frustration many country folk experienced when they had to drive 3 hours to see an accountant. She thought she would set up an accountancy firm in town and provide general accountancy services as well as cheap tax returns. The population of the town and surrounding districts indicated she would have enough business.</td>
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<tr>
<td>Lochie always wanted his own coffee shop. He didn't care that there were already five coffee shops in the location he had chosen for his business. He thought that his coffee was so good that people would come regardless.</td>
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(b) Create a checklist (at right) of essential factors that must be considered and planned for before a business commences. The first two entries have been done for you.

Factors to consider when determining the feasibility of a business

1 Competitors

2 Customer tastes

(c) Explain why some people go ahead with business ideas even though there are strong indications that the business will fail.

(d) Roberto actually visited Bendigo where he wanted to set up his antiques and coffee shop. Without doing any formal survey work yourself, do you think his business idea is worth considering further given what you know of Bendigo and tourism in the town?

2 (a) Describe a time or a personal situation where you did not plan adequately, and which led to disaster. This is an example of one such situation.

‘I went to my friend’s place after school but forgot to tell my family about it and unfortunately the battery on my mobile phone was dead. My mother started ringing my friends but they didn’t know where I was so she called the police. When I arrived home a police officer greeted me and said that next time I decided to go somewhere I needed to put the proper plans in place.’

(b) Explain why planning skills are crucial to business success.

3 Do you think Roberto Quesnay has the necessary planning skills to make a success of his business? Give reasons for your answer.

4 Why is writing a proper business plan crucial to obtaining finance?

5 What legal, operational, financial and marketing factors would Roberto Quesnay be wise to include in his business plan?

6 The Business Enterprise Centre was one organisation that Roberto Quesnay contacted for help when setting up his business. Use the Business Enterprise Centre weblink in your eBookPLUS to list the services that are available to potential business owners. Why is it important to access services such as these?

7 Ethical and socially responsible management of a business also needs to start at the planning stage. For example, Roberto Quesnay might decide from the start that he is prepared to pay more for Fair Trade coffee (coffee that is grown more sustainably and where workers haven’t been exploited). What other ethical and socially responsible management issues might Roberto need to consider in his planning process?