CHAPTER 3
Planning a business — internal environment

3.1 Overview

3.1.1 Why it is important

There are many factors within a business that affect how it operates. It is these factors that make up the internal environment of the business. A business must plan and manage its internal environment well, as it can make or break the business. Planning allows a business to carefully consider any factors that may affect it. This helps to avoid problems and allows opportunities for growth to be seized.

TRUDY CROAD — LOVEBIRD WEDDINGS

‘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 business, 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, in 2007 Trudy started a new business called Events By Design, with an outlay of $20,000. She established the business with a virtual office in Noosa.

In 2010, Croad purchased another business called Maleny Weddings, 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, Brisbane, the Gold Coast and Byron Bay. Croad has clearly planned the business effectively, as Lovebird Weddings has won a number of awards, including Wedding Expert of the Year (Australia) at the 2017 Luxury Travel Awards.
3.1.2 What you will learn

**Key knowledge**

Use each of the points from the VCE Business Management Study Design below as a heading in your summary notes.

- Business resource needs and the factors affecting their choice: natural, labour and capital resources
- Business locations and the factors affecting choice of location
- Sources of finance available to establish a business and the factors affecting the choice
- Costs and benefits of purchasing an existing business compared with establishing a new business
- Types of legal business structure, such as sole trader, partnership, private limited company, public listed company and the factors affecting choice of business structure
- Types of business model, such as online business, bricks and mortar business, social enterprise, franchise, importer and exporter
- Business support services such as legal, financial, technological, community-based, formal and informal networks, and business mentors
- Planning tools such as a SWOT analysis
- Features and construction of business plans and the benefits of using them

**Key skills**

These are the skills you need to demonstrate. Can you demonstrate these skills?

- Define, describe and apply relevant business management concepts and terms
- Acquire, record, interpret and share business information and ideas
- Research and analyse case studies and current examples of business management applicable to planning a business
- Apply business management knowledge to practical and/or simulated business situations
- Develop and construct business plans
- Use a planning tool to analyse a business’s current situation and interpret the information
- Discuss the decisions made in response to the internal factors that affect a business


**3.2 Internal factors affecting business planning: resource needs**

*KEY CONCEPT* There are three categories of resources that a business needs to plan for: natural, labour and capital.

When starting up a business or planning for its future, the owner must work out what they will need to run the business. **Resources** are all those people and objects needed for the business to function properly. There are three main categories of resources: natural, labour and capital.
3.2.1 Natural

Natural resources are items used by the business that come from the natural environment. These include, for example, land, water and raw materials. A business must ensure that it uses natural resources wisely and does not harm the natural environment in its operations. Failing to do so will make it more difficult to attract and retain customers as well as employees.

Businesses should consider the following factors when planning for their natural resource needs:

- Are their products environmentally friendly, and how can they minimise the negative effect of their products on the environment?
- How can they reduce wastage and environmental damage during the production process?
- Are the raw materials that they plan to use in production sustainable, accessible and reasonably priced?
- Are the shops, offices and/or factories of the business designed in a sustainable way that minimises energy usage?
- Where will they source their natural resources from?

DID YOU KNOW?
If everybody in the world lived like the average Australian, 4.7 Earths would be needed to sustain them.

3.2.2 Labour

Labour resources refer to the people that provide their skills, effort and knowledge to the business. The main source of labour for a business is its employees as well as the owner. A business can also hire subcontractors to provide labour if it is not practical or possible for the people who own or are employed by the business to do the work themselves. While businesses are increasingly becoming automated and less reliant on labour in some areas of their operations, countless jobs are being created that never existed previously. Labour continues to be an important part of how businesses operate.

Unlike natural and capital resources, labour is a human resource. This means that any decision that a business makes can have a dramatic effect on the lives of the people working for that business. A business must ensure that it treats its workers with respect, and not as just another resource that contributes to the profitability of the business.
Businesses should consider the following factors when planning for their labour resource needs:

- How many workers will be needed and what kind of skills will they need?
- How will the business attract and retain these workers?
- What kind of training should the business offer to its workers to help them grow and benefit the business?
- How will the business provide fair pay and healthy working conditions for its employees?
- What are the legal responsibilities of the business towards its employees?
- How will the business resolve any disputes that arise with employees?
- Does the location of the business allow access to the types of workers that it needs?

3.2.3 Capital

**Capital resources** refer to the tools and machinery that are used to produce goods or perform services. Capital resources are important as they maximise the efficiency of labour. Businesses should consider the following factors when planning for their capital resource needs:

- What kind of tools and machinery will be needed?
- How will the business repair, maintain and replace its capital equipment when needed?
- Does the business have the right workers with the right skills to operate the machinery they need?

### 3.2 Activities

**TEST your understanding**

1. What are resources?
2. Explain the three types of resources available to a business and give an example of each.
3. What is unique about labour when compared with natural and capital resources?
4. Identify three factors that a business must consider when planning for their natural resource needs.
5. List three factors that a business must consider when planning for their labour resource needs.
6. Identify three factors that a business must consider when planning for their capital resource needs.

**APPLY your understanding**

7. List resources that would be used by the following businesses:
   - beauty salon
   - fast-food restaurant
   - veterinary clinic
   - plumbing business
   - wedding reception business.
8. Label the following resources as natural, labour or capital:

- a tractor on a small commercial farm
- the raw fish used by a fish and chip shop
- a drill press in a cabinet-making factory
- a delivery driver for a pizza shop
- a lawyer who runs his own legal practice
- a computer used at a medical clinic
- a worker in a factory
- the land on which a new office will be built
- a boat used by a commercial fishing business
- a computer program used by an accountant.

9. Research a business of your choice via the internet or by interviewing the manager. Answer the following questions:

(a) Suggest as many resources as you can that might be used by the business and classify them as natural, labour or capital.

(b) List four factors relating to each resource that the business would have to consider when planning.

(c) Identify one difficulty that the business might encounter when planning for each resource.

(d) How might the business overcome these difficulties?

EXAM practice

10. Distinguish between natural resources and capital resources.  

11. Talia is planning the resource needs for her new business. Explain the factors affecting the choice of labour resources and capital resources.

3.3 Business locations

**KEY CONCEPT** The location of the business will determine whether or not the business is known and accessible to potential customers.

Location, location, location! Perhaps the most important aspect of planning for a business is deciding on its location. The physical location of a business can determine whether or not it will ultimately succeed. It is therefore crucial for the business owner to invest time and effort into finding the ideal location for the business. To do so, they must consider all the factors that will be affected by the location of the business.

3.3.1 Different types of business location

Different types of business will be suited to different locations, and the business owner must consider a number of factors when determining the most appropriate location for their particular business. A suitable location might be a shopping centre or retail shopping strip. Alternatively, the business owner may choose an online or a home-based business.

Local government zoning determines where some types of businesses can operate. Zoning is designed to keep business activities separate from residential areas and prevent householders being disturbed by businesses operating late at night. The process sets aside commercial and industrial zones and it is in these areas that most businesses will operate.
Shopping centres

The suburban shopping centre has been in existence in Australia for less than 50 years. Typical suburban shopping centres have one or more supermarkets and a number of small specialist stores such as hairdressers, clothing stores, pharmacies, cafés, newsgagents, and often a post office and bank branches. They have parking for several hundred cars, access to public transport and most of the shops are undercover, facing internal walkways. Larger regional shopping centres, such as Chadstone, Northland, Doncaster, Highpoint and Eastland, often include major department stores and cinemas, as well as the full range of specialist retail outlets all in the one place.

A well-established business in a busy shopping centre is an excellent option for a prospective business owner wishing to purchase an existing business. A new business in an established shopping centre is most likely to be successful if there are no existing competitors.

However, this location option may not suit every business. Leasing a store in a shopping centre can be expensive, particularly in larger centres. A business may need to remain open during the shopping centre’s hours, which may be seven days a week. A business may also need to rely on the centre renewing its lease. If this does not occur, the business will be forced to move elsewhere.

DID YOU KNOW?
The first stand-alone shopping centre in Victoria was at Chadstone, and it opened in 1960. Chadstone is now the largest shopping centre in Australia, with more than 550 retail outlets and parking for 10,000 cars.

Retail shopping strips

In metropolitan Melbourne, shopping strips developed along major arterial roads during the second half of the 19th century. The busiest shopping strips were located near public transport, such as tram routes, and near suburban railway stations. Sydney Road, Glenferrie Road and Chapel Street are all examples of major roads in Melbourne with extended shopping strips.

Many shopping strips in the metropolitan area have struggled to compete with the growth of shopping centres offering off-street parking and an air-conditioned environment. Retail shopping strips offer the advantage of high visibility for passing traffic. The costs of locating in a retail shopping strip are less than those of a shopping centre. The people who work or live in the local area should provide a strong source of customers for a business located in a shopping strip. However, many shopping strips suffer from a lack of parking, particularly those located on major arterial roads as they are clearways during peak hours. Moreover, shopping strips offer customers limited protection from the weather, which can reduce foot traffic. Because many shopping centres close in the evenings, shopping strips have become popular locations for restaurants and ‘after hours’ entertainment. Lygon Street in Carlton is a good example of this.
Online presence

Businesses are increasingly seeing the need to expand through the use of the internet. Many businesses establish themselves as an online-only presence, forgoing the need for a physical store and thereby avoiding many associated expenses, such as rent. Others have added this component to their business to ensure they keep up with the competition, while retaining their physical stores.

Aside from using the internet for simple administrative tasks such as contacting customers and suppliers via email, businesses with an online presence often undertake the following:

- setting up and maintaining a website to provide information about available goods and services, or as a means by which customers can order goods online
- using online sales platforms such as eBay
- accepting online payments through PayPal or secure online credit card payments systems
- ensuring that potential customers can easily find their website through paid online advertising and search engine optimisation (SEO) tools.

Warning! Although buying goods and services online can be very convenient, it is also a convenient way for cyber criminals to scam people out of their money. Both customers and business owners need to be extra cautious when making online purchases or revealing personal information. The costs of planning, designing and maintaining an online presence can also be a disadvantage. Many business owners decide that an online presence is not necessary. They establish a positive reputation through face-to-face interaction with customers.

Home-based businesses

Many tradespeople and other service providers have traditionally run their businesses from home. Plumbers, electricians, painters and various other home-service providers do not need a dedicated business location as they provide services in the customer’s own home or business premises. Increasingly, the development of information and communication technologies has allowed home-based businesses to use mobile phones, the internet and computer applications. While home-based businesses have traditionally been service providers rather than goods retailers, online ordering and payment has allowed for the expansion of home-based retail businesses.

Locating a business at home means that the business owner does not face any substantial expenditure on renting or purchasing premises. This means that risk is reduced if the owner is starting a new business. Locating a business at home also provides flexibility around when the owner works and can reduce commuting time. However, it can be difficult for the owner to keep work and home life separate. The owner may also feel isolated from other people and miss social interaction.

3.3.2 Factors affecting choice of business location

When planning a business, a business owner will make different types of location decisions according to the nature of the business. For example, the factors influencing a retail business (such as a clothing store or café) are quite different from those influencing a non-retail business (such as manufacturing or wholesaling).

Visibility

Visibility is one of the most important factors for successful retail and service-based businesses, such as clothing stores and hairdressers. A business wanting high visibility would locate in a prime shopping area, such as a shopping centre or main street. Whereas manufacturing businesses, which arrange to transport their goods to various retail outlets, do not need a highly visible location to attract customers.
Cost

Cost is another factor to consider when determining the location of a business. Leasing or purchasing a central location in a busy shopping centre will be far more expensive than a location with lower levels of passing customer traffic. The business owner will need to be confident of generating sufficient business to justify the higher cost. If the business is a café or food outlet, passing traffic is a major source of customers, so cutting costs by selecting a less visible location may be counterproductive.

Proximity to customers and suppliers

Ideally, all businesses would choose to locate close to customers and suppliers, both for customer convenience and to minimise the costs of transportation from suppliers. In reality such an ideal is rarely possible, so this decision usually depends on the nature of the business.

Retail businesses must be convenient for their customers, so shopping centres or shopping strips with off-street parking will be the primary choice for businesses such as butchers, florists, bakeries and gift stores. Unless the business has to transport bulky goods, proximity to suppliers is not an issue.

On the other hand, proximity to customers is generally not an issue for a manufacturing business. Access to transport networks is more important — for the movement of raw materials from suppliers, as well as to allow for distribution of completed goods to retailers. Industrial parks established in outer suburban areas such as Somerton, Dandenong South or Laverton North are zoned to provide convenient locations for manufacturing, transport and warehousing businesses. These industrial parks are close to major freeways and roads leading to interstate or provincial centres.

DID YOU KNOW?

There are over 26 000 hectares of zoned industrial land across metropolitan Melbourne (although 6669 hectares of this land is vacant). That’s over 5000 times the area of the MCG (the MCG, including the stands, is about 5 hectares). For comparison, in Sydney there are approximately 20 000 hectares of industrial land. Adelaide has 12 700 hectares, of which 1300 hectares are vacant.

Proximity to competitors

Proximity to competitors is primarily an issue for retailers and service providers. It would be unwise to establish a new business in a shopping centre that already has one or more businesses of that type, unless existing businesses are not satisfying the level of demand. Being the first to establish a particular type of business in a shopping precinct, or otherwise ensuring there are no local competitors, is likely to increase the chances of success.
Complementary businesses
The proximity of complementary businesses can assist in bringing customers to a new business. Complementary businesses offer goods or services aimed at the same customers. For example, an electrical store and a furniture store will both be selling to householders. Many shopping centres in new suburbs contain homemaker centres with businesses such as electrical and furniture stores, bedding stores, hardware, gardening and barbecue stores — all aimed at people building new homes. A pharmacy and a doctor’s surgery are other examples of complementary businesses.

EXAM TIP
The Unit 1, Area of Study 3 outcome states that you need to ‘analyse how factors from within it (the internal environment) may affect business planning’. This suggests that you should know the advantages and disadvantages of each business location, as well as the factors that affect the choice of location. You should aim to understand that a business owner will need to consider the advantages and disadvantages of each location according to the needs of the business when planning.

study on

Choice of business location Summary screen and practice questions

3.3 Activities
TEST your understanding
1. In what ways do local council decisions affect the location of different types of business?
2. What advantages do shopping centres have over traditional ‘main street’ shopping strips?
3. Outline the main activities of an online store.
4. What is search engine optimisation and how does it help an online store achieve more visibility?
5. How can an online presence assist a business owner to operate from home?
6. Explain how each of the factors listed below can influence the location of:
   (a) a retail business
   (b) a manufacturing business.
   • Visibility
   • Cost of rent or purchase
   • Proximity to customers and suppliers
   • Proximity to competitors
   • Complementary businesses

APPLY your understanding
7. Choose a business with which you are familiar. Describe the ways in which this business has advantages or disadvantages in relation to:
   (a) visibility
   (b) cost (in terms of likely premises expenses and transport costs)
(c) proximity to customers
(d) proximity to suppliers
(e) proximity to any complementary businesses.

8. In groups of two or three, discuss what factors need to be considered when choosing a location for the following businesses:
(a) fast-food outlet
(b) dentist’s surgery
(c) agricultural machinery supplier
(d) VCE coaching college
(e) hair salon
(f) panel beater.
Choose a spokesperson to share the group’s comments with the rest of the class.

EXAM practice
9. Explain two factors that a business must consider when selecting an appropriate location. (4 marks)
10. Lorenzo and Jamal have decided to locate their fruit and vegetable business in a shopping centre. Discuss their decision. (4 marks)
11. Analyse how decisions about location affect business planning. (4 marks)

3.4 Sources of finance

**KEY CONCEPT** Businesses can obtain finance from a range of internal or external sources. A business owner needs to consider a number of factors related to the option that is best suited to the business.

A business cannot start without funds. Effective business planning requires the owner to know where to obtain finance as well as decide on the option that is best suited to the business. The funds that a business requires

Sources of funds:

<table>
<thead>
<tr>
<th>Internal funds</th>
<th>External funds</th>
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<tbody>
<tr>
<td>Owner’s personal funds</td>
<td>Debt</td>
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<tr>
<td></td>
<td>Long term</td>
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<td>Short term</td>
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<td>Long term</td>
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<td></td>
<td>Bank overdraft</td>
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<td></td>
<td>Mortgage</td>
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<td></td>
<td>Bank bills</td>
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<td>Leasing</td>
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<td></td>
<td>Trade credit</td>
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come from a variety of people and/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.

3.4.1 Equity finance

**Equity** refers to the funds contributed by the business owners to start and then expand the business. If the 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 finance can also be raised in other ways — for example, by taking on a partner, by seeking funds from another investor (who then becomes an owner or shareholder) or by selling off any unproductive asset. Let’s have a closer look at some of the common sources of equity finance.

**Self-funding**

Self-funding is when the owner of the business uses their personal finance to fund the business. A self-funded business means that the owner will not need to share ownership with anyone else. However, there is a risk that the owner will lose all of their investment should the business fail.

This source of finance is often referred to as **bootstrapping**. This involves the business financing the operations without borrowing from external sources. In this situation, the business is funded purely from personal finances and any revenue that the business makes. A business owner using bootstrapping will need to be very cautious with their expenses.

**Family or friends**

Family or friends can provide finance for a business. In some cases, they may expect a share of the profit in return. This can be an easy and quick way to obtain extra finance. However, this source of finance should be considered carefully, as there is a danger that relationships could be adversely affected. Business owners using this source of finance should put the details of the arrangement in writing.

**Private investors**

A prospective business owner may be able to find private investors for their business if an attractive idea and strong business plan can be presented. The investors may contribute funds to the business in return for a share in the business’s profit and equity. Investors such as business angels, sometimes called ‘**angel investors**’, can provide the business with finance. These individuals or businesses are often willing to provide support and advice to the business owner, as well as receive a return on their investment. While this source of finance may benefit the business, taking on investors means that the owner will lose complete control of the business — as part-owners, investors will have a say in how the business operates.

**Shares**

A business may raise funds by offering shares in the business. However, only companies can make use of this source of finance. As we will see later in the chapter, public listed companies can access more capital than private limited companies, because they are able to issue shares to the public. This option is also known as an initial public offering (IPO). This involves listing on the stock exchange so that members of the public can freely trade the shares. It can be an expensive and complex option.
Crowdfunding

Crowdfunding is a method of raising finance by using online and social media networks. A business might, for example, appeal to a large group of people to provide funding for the launch of a new product using a crowdfunding platform. This may involve setting a goal for the project, providing the details of the project and inviting people to contribute finance. GoFundMe, one of the largest crowdfunding platforms, provides business owners and entrepreneurs with the opportunity to raise money to start or improve a business.

This can be a quick way to raise finance with few fees, allows the business owner to connect to potential customers and receive feedback, as well as gain some guidance on how to improve the business or product. However, generating interest in the project requires a great deal of work, and there is no guarantee that the owner will reach their funding target. A failed project may result in damage to the business’s reputation.

3.4.2 External sources of finance: debt finance

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 for finance, 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 of 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 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.

Loan
A business loan is a loan intended for business purposes. The owner may use a business loan to start their business. It may be taken out as a secured or unsecured loan. A secured loan might come with a lower interest rate, but the owner will need to offer up another asset (such as their home or another business) as security against the loan. An unsecured loan does not require any collateral, but it might have a higher interest rate.

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.

Before approaching a lender, a 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 paying money to use equipment that is owned by another party. Leasing enables a 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.

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 specific 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.
3.4.3 External sources of finance: grants

Governments can also provide finance to businesses in the form of grants for business development, especially to promote exports. Funds can be obtained to start a business through both federal and state governments, such as the Victorian Government’s ‘Grow Your Business’ grants program. Grants are administered through business development departments 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.

3.4.4 Factors affecting the choice of finance

As you have seen, there are many different sources of finance available to a business owner when planning a business. Deciding which option is best suited for the business requires the owner to consider a range of factors relating to both the sources of finance, and the purpose for which the finances will be used.

Terms of finance

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

The business structure can also influence financial decisions. Large businesses have more opportunities for equity capital than small businesses. Most small businesses have to raise equity from private sources or by taking on a partner.
Overall cost
As is the case with all business decisions, the overall cost of each alternative source of finance will be the most important factor. The business needs to calculate the projected costs of each source of finance in order to make a well-informed decision when planning for its financial needs. This can be relatively easy to do when comparing sources of finance that have clearly defined rates of interest and terms. It can be far more difficult when taking on an investor or partner who will receive a share in the profits from business. An owner must project the future profits and value of the business in order to determine what a share of the business is worth. Undoubtedly, the investor would do the same before considering to buy into the business.

Flexibility
A business’s circumstances can change quite rapidly, and these changes may often be completely outside of its control. As circumstances change, the way in which the business has sourced its finance previously may no longer be suited to its needs. In such instances a business would benefit from having the flexibility to adjust the terms of the financial agreement or having the option of exiting the agreement entirely. A business that enters into a lengthy agreement without this kind of flexibility runs the risk of paying unfavorable expenses, such as interest on a loan that is no longer needed.

These days, financial institutions recognise the need for flexibility and offer a variety of flexible options to businesses seeking finance. A business owner must do their due diligence and read the fine print of any contract they sign to ensure they are not locking themselves into a financial agreement that will incur hefty fees if they choose to exit the contract.

Level of control
Business owners dedicate a great deal of time, effort and money into their businesses. Businesses are often a reflection of the owner’s character and personality and, as such, most owners wish to retain as much control over their business as possible. This level of control can often be undermined if the business sources its finances externally. Partners and investors who wish to see a greater return on their investment may have other ideas about how the business should run, and this can be a source of conflict that can undermine the owner’s level of control over the business.

3.4 Activities
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.
5. Why is it important to match the term of a loan to the life of the asset for which the loan was obtained?
6. Briefly describe five factors that a business should consider when deciding on a source of finance.

**APPLY your understanding**
7. In groups of three or four, collect five advertisements offering different types of finance funding for businesses. Use information from magazines, banks and internet sites. Compare the offers under the headings in the following table. Display your findings 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>
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</tbody>
</table>

8. Use the Business Victoria Grants and Assistance weblink in the Resources tab to outline one grant available for business owners.
9. Use the Austrade weblink in the Resources tab to evaluate the benefits of Austrade's Export Market Development Grants to businesses.

**EXAM practice**
10. Jordy is planning to finance his new business using funds provided by his family. Outline one other source of finance that Jordy might use to start his business. (2 marks)
11. Polly is hoping to finance her business using crowdfunding. Discuss Polly’s decision to use crowdfunding as a source of finance. (4 marks)
12. Analyse how decisions about finance will affect business planning. (4 marks)

---

3.5 Purchasing an existing business or establishing a new business

**KEY CONCEPT** When going into business, it is very important to carefully consider the costs and benefits of purchasing an existing business as opposed to establishing a new business.

When planning a business, a prospective business owner will need to consider whether to purchase an existing business or to establish a new business. This decision will affect business planning, and ultimately the success of the business, because each option has a number of advantages and disadvantages.
3.5.1 Purchasing an established business

When an established business is purchased, the business is already operating and everything associated with the business is included in the purchase — that is, the stock and equipment, business premises, employees, an existing customer base, and reputation and goodwill.

When purchasing an existing business it is essential for the potential purchaser to know why the business is for sale. If the business has been struggling, it may not be a good purchase. Not only should the prospective owner find out why the current owner is selling, but also they should examine detailed accounts for at least the previous three years to determine the financial health of the business. One aspect of the financial statements that is often hard to estimate is the true value of goodwill. The seller of the business may overestimate the value of the reputation of the business, so consultation with an accountant is important to confirm the accuracy of the value placed on goodwill by the seller.

<table>
<thead>
<tr>
<th>The costs and benefits of purchasing an existing business</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Benefits</strong></td>
</tr>
<tr>
<td>• Sales to existing customers generate instant income.</td>
</tr>
<tr>
<td>• A good business history increases the likelihood of business success.</td>
</tr>
<tr>
<td>• A proven track record makes it easier to obtain finance.</td>
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<tr>
<td>• Stock has already been acquired and is ready for sale.</td>
</tr>
<tr>
<td>• The seller may offer advice and training.</td>
</tr>
<tr>
<td>• Equipment is available for immediate use.</td>
</tr>
<tr>
<td>• Existing employees can provide valuable assistance.</td>
</tr>
</tbody>
</table>

3.5.2 Starting a new business from scratch

The most common reason for setting up a new business is the recognition of a gap in the market — where it is clear that existing providers are not catering to the demand for particular goods or services. Another reason for setting up a new business is the development of new goods or services — when a person who has created something unique chooses to go into business to market their innovation or invention. Attempting to enter a market that is already well served by existing businesses involves having to attract customers away from competitors.

<table>
<thead>
<tr>
<th>The costs and benefits of setting up a new business</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Benefits</strong></td>
</tr>
<tr>
<td>• The owner has the freedom to set up the business exactly as he or she wishes.</td>
</tr>
<tr>
<td>• The owner can determine the pace of growth and change.</td>
</tr>
<tr>
<td>• There is no goodwill for which the owner has to pay.</td>
</tr>
<tr>
<td>• If funds are limited, it is possible to begin on a smaller scale.</td>
</tr>
</tbody>
</table>
DID YOU KNOW?

A business can choose to avoid many of the problems of starting up a business from scratch by entering into a franchise agreement. Under a franchise agreement a person buys the rights to use the business name and distribute the goods or services of an existing business. We will look more closely at franchises when we examine business models later in the chapter.

3.5 Activities

TEST your understanding
1. Identify and explain the two most significant benefits and costs of buying an existing business.
2. In what circumstances might someone choose to start a business from scratch?
3. Identify and explain the two most significant benefits and costs of starting a new business from scratch.
4. What is a franchise agreement?
5. How might operating as a franchise address some of the problems associated with starting a business from scratch?

APPLY your understanding
6. Bianca was tired of working for someone else and decided to start her own business. She lives in a small Victorian country town with a population of approximately 2500. The town has no major shopping centre and no established franchises. Bianca decided to open a café in the town. Her mother provided the funding for the business and gave her what little advice she could. After only six months, Bianca realised that the business was not profitable. Her debts were increasing and she could see no way out of her problems. She wanted to sell the business but could not find a buyer.
   (a) Would it have been wiser for Bianca to purchase an established business rather than starting from scratch? Give reasons for your answer.
   (b) What advice would you give to Bianca?
7. Select a business that you buy from regularly and answer the following questions:
   (a) Why do you use this particular business?
   (b) What are the strengths and weaknesses of this business?
   (c) If this business were for sale, would you consider purchasing it? Give reasons for your answer.

EXAM practice
8. Tori is trying to choose between purchasing an existing business and establishing a new business. She has never owned a business before, but she does have experience working in a number of retail stores. Tori has been offered the opportunity to purchase the business for which she currently works; however, she is wondering if it might be better to start a totally new business from scratch.
   Identify an appropriate option for Tori and justify your response.  (3 marks)
9. Distinguish between the costs and benefits of purchasing an existing business and the costs and benefits of establishing a new business.  (4 marks)
10. Explain how the decision whether or not to purchase an established business will affect business planning and ultimately the success of the business.  (2 marks)
3.6 Types of legal business structure: sole traders and partnerships

**KEY CONCEPT** A number of different legal ownership structures are available to a person wishing to establish a business. Each structure carries particular legal requirements and responsibilities, and must be carefully chosen to suit the needs of the business. Two types of legal business structure are sole trader and partnership.

### 3.6.1 Different types of legal structure

A number of different legal structures are possible when deciding how to own and operate a business. The three main types of privately owned business entity are shown in the following figure, and they can be further divided into:

- unincorporated business entities: sole traders and partnerships
- incorporated business entities: privately and publicly owned companies.

Incorporation refers to the process that companies go through to become a separate legal entity from the owner/s. An incorporated business has its own separate legal existence. Regardless of what happens to individual owners (shareholders) of the company, the business can continue to operate.

An unincorporated business has no separate legal existence from its owner(s), and will be either a sole trader or partnership. The most common legal structure for businesses in Australia is the unincorporated enterprise, because this structure is the easiest and cheapest to establish.

**study on**

Incorporated vs. unincorporated Summary screen and practice questions
3.6.2 Sole trader business

A sole trader (proprietor) business has one person who owns and runs the business. The owner may employ other people to work in the business, but the owner or sole trader is the person who provides all the finance, makes all the decisions and takes all the responsibility for the operation of the business.

This type of business is easy to establish, as the only legal requirement for a sole trader is that the name of the business be registered with the Australian Securities and Investments Commission (ASIC) — but this is only if the business name is different from the name of the owner.

A sole trader is not regarded as a separate legal entity — that is, the owner and the business are regarded as the same. This means that if the business is sued, then the owner is sued. Also, if the business enters a legal contract, then the owner is the one entering the contract. If the business runs into financial difficulties, the owner has the financial problem and is personally responsible for any business debts. This responsibility is known as **unlimited liability**, and may involve the owner having to sell personal assets, such as property or motor vehicles, to pay for the liabilities of the business.

### Factors to consider

When planning, and deciding on the legal structure of a business, a prospective business owner should carefully evaluate the advantages and disadvantages of operating as a sole trader. Some key factors for consideration include the following:

- Is the owner prepared to risk the unlimited liability of operating their business?
- Will the owner have enough finances, skills and expertise to establish and grow the business?
- Is the owner prepared to take complete responsibility of the business in exchange for complete control and the right to keep all profits?
- Does the lower cost of establishing and maintaining a business as a sole trader outweigh the benefits of incorporation?
3.6.3 Partnership

A partnership is also an unincorporated business ownership structure. Most partnerships require a minimum of 2 and a maximum of 20 partners. There are exceptions to this rule, including medical practitioners and stockbrokers (allowed up to 50 partners); veterinarians, architects and chemists (allowed up to 100 partners); and solicitors and accountants (allowed up to 400 partners). A partnership is similar to a sole trader in that the owners and the business are regarded as the same — that is, there is no separate legal entity. Like sole traders, the partners in a business are also subject to unlimited liability, and so may be personally responsible for the debts of the business.

A partnership can be made verbally or in writing, or by implication (that is, if two people set up a business together without a legally binding partnership agreement). A written partnership agreement is not compulsory, but it is certainly worthwhile if disputes arise. A partnership agreement usually has a standard set of conditions.

Limited partnerships were introduced to allow one or more partners to contribute financially to the business but take no part in running the partnership. In this case, the partner is referred to as a silent or sleeping partner. The main reason for their investment is to add more capital or finance to an existing partnership.

The advantages and disadvantages of a partnership

### Advantages
- Low start-up costs
- Less costly to operate than a company
- Shared responsibility and workload
- Pooled funds and talent
- Minimal government regulation
- No taxes on business profits, only on personal income
- On death of one partner, business can keep going

### Disadvantages
- Personal unlimited liability
- Liability for all debts, including partner’s debts, even before the partnership has begun
- Possibility of disputes
- Difficulty in finding a suitable partner
- Divided loyalty and authority

Factors to consider

When planning, and deciding on the legal structure of a business, a business owner or owners should carefully evaluate the advantages and disadvantages of operating as a partnership. Some key factors for consideration include the following:

- Are the owners prepared to risk the unlimited liability of operating their business?
- Will the prospective partners have enough finances, skills and expertise to establish and grow the business?
- Do the individuals believe that their prospective partners will act in the best interests of the business?
- Is each individual certain that their prospective partners will not expose them to personal debts?
- Can the prospective partners foresee disputes arising due to a clash of personalities or opinions?
DID YOU KNOW?
A partnership agreement contains many points including:
- how long the partnership will exist
- the amount of money that each partner contributes
- how the profits and losses will be shared
- the duties of each partner
- limitations on the authority of the partners
- how the partnership may be dissolved
- methods of resolving disputes.

EXAM TIP
One of the Unit 1, Area of Study 3 key skills states that you need to be able to ‘discuss the decisions made in response to the internal factors that affect a business’. This suggests that you should know the advantages and disadvantages of each type of legal business structure.

3.6 Activities
TEST your understanding
1. Distinguish between an incorporated business and an unincorporated business.
2. Suggest why unincorporated businesses are the most common form of legal business structure.
3. Under what circumstances will a sole trader not need to register a business name?
4. Identify what you believe to be the three main advantages and three main disadvantages of a sole trader form of business ownership. Explain each selection.
5. Outline the factors that a prospective business owner should consider when evaluating a sole trader as a possible legal structure.
6. Explain the difference between a sole trader and a partnership.
7. What factors should a prospective business owner consider when evaluating a partnership as a possible legal structure?

APPLY your understanding
8. Using a telephone directory, such as the Yellow Pages, find:
   (a) five examples of sole traders or partnerships that would not have to register their business name
   (b) five examples of businesses that would have to register their name.
9. Adam operates a pizza and pasta shop as a sole trader and he employs two cooks, one full time and one part time. He decides to offer the full-time cook a 40 per cent partnership in the business.
   (a) What advantages will the owner gain from this arrangement that he does not have as a sole trader?
   (b) What disadvantages could the owner experience from the partnership arrangement?
   (c) Explain the advantages and disadvantages to the cook of entering into the partnership.
   (d) Prepare a list of questions the cook should ask the owner before entering into the partnership

EXAM practice
10. Outline the similarities and differences between a sole trader and a partnership. (4 marks)
11. Discuss partnership as a type of legal business structure. (4 marks)
12. Analyse how a business owner’s decision to operate as a sole trader may affect the planning for their business. (4 marks)
3.7 Types of legal business structure: companies

KEY CONCEPT Incorporation allows a business to become a company, which is a legal entity separate from its owners, and which provides the benefits of limited liability to those owners. Two types of company are private limited companies and public listed companies.

3.7.1 Incorporation
Many businesses which have begun as sole traders or partnerships may find that, as their business grows, there are advantages to changing the ownership structure to that of a company. This process is known as incorporation. Once incorporated, the company has a separate legal identity to its owners, who are now known as shareholders.

Incorporation also brings to the shareholders the benefits of limited liability. In limited liability companies, the most money that a shareholder can lose is the amount that he or she paid for their shares. If the company goes into liquidation, the shareholders cannot be forced to sell their personal assets to pay for the debts of the business. This same protection does not extend to the directors of a company, as they have an obligation to ensure the company obeys the law and acts in the interests of the shareholders.

The letters ‘Ltd’ signify that a business is a company that has limited liability. A company can be organised as either a proprietary (private) or public company.

3.7.2 Proprietary (private) companies
A proprietary (or private) company is the most common type of company structure in Australia, and must have at least 1 shareholder and a maximum of 50 non-employee shareholders (shareholders who aren’t employees of the company). A private company must also have at least one director. Therefore, it is quite possible for a private limited company to be owned by a single shareholder, who is also the director of the company. Proprietary companies tend to be small to medium-sized, family-owned businesses. In many cases, one family owns most of the shares in a proprietary company.

Shares in a proprietary company are offered only to those people whom the business wishes to have as part owners (or members). Shareholders can sell their shares only to people who are approved by the other directors. This is why it is called a ‘private’ company. It is not listed on, and its shares are not sold through, a stock exchange. A private company must have the words ‘Proprietary Limited’, abbreviated to ‘Pty Ltd’, after its name.

3.7.3 Public listed companies
The shares for public companies are listed on the Australian Securities Exchange (ASX), and the general public may buy and sell shares in those companies. Whereas private companies tend to be small or medium-sized businesses, most public companies are large in size and market a large range of products — for example, Telstra, BHP Billiton, Woolworths, Virgin Australia and Westpac.

There are over 2000 public companies listed on the Australian Securities Exchange. The ASX is Australia’s share market but is open to overseas investors. Investors may buy shares in a company if they feel it is undervalued, driving up the price of its shares. Rising share prices will show the company as green. If the share price of a company falls because of a lack of confidence from investors, it will be displayed as red.
A public company has:
• a minimum of one shareholder, with no maximum number
• no restrictions on the transfer of shares or raising of money from the public via share offers
• a requirement to issue a **prospectus** when selling its shares for the first time
• a minimum requirement of three directors (of whom two must live in Australia)
• the word ‘Limited’ or ‘Ltd’ in its name
• a requirement to publish its audited financial accounts each year — the annual report.

### The advantages and disadvantages of the company form of business ownership

#### Advantages
- Easier to attract public finance
- Limited liability — separate legal entity
- Easy transfer of ownership
- A long life — perpetual succession
- Experienced management — board of directors
- Greater spread of risk
- Company tax rate lower than personal income tax rate
- Growth potential
- As per recent legislation, ability to have only one shareholder and one director

#### Disadvantages
- Cost of formation
- Double taxation — company and personal
- Personal liability for business debts if directors knew at the time that the business could not pay loans
- Requirement to publish an annual report of audited accounts
- Public disclosure — reporting of certain information
- Too much growth, resulting in inefficiencies

### Factors to consider

When planning, and deciding on the legal structure of a business, a business owner should carefully evaluate the advantages and disadvantages of incorporation before choosing to operate as a private or public company. Some key factors for consideration include the following:

- Does the owner need the extra legal security offered by limited liability?
- Will the business need public finance, as is possible with a public company?
- Will the owners be willing to relinquish control of the company to unknown investors by going public?
- Is it worth the extra costs associated with establishing a company and preparing separate yearly tax returns?

### DID YOU KNOW?

The majority of registered companies in Australia are private limited. In 2016, ASIC reported that there were 2,349,382 private limited companies, representing 99 per cent of all registered companies.
3.7 Activities

TEST your understanding
1. Why might a business choose to become incorporated as it grows?
2. Who are the owners of a company and what are they entitled to?
3. Explain the significance of limited liability for shareholders in a company.
4. Identify what you believe to be the three main advantages and three main disadvantages of a company form of business ownership. Explain each selection.
5. Explain the key differences between a proprietary company and a public company.
6. Outline the factors that a prospective business owner should consider when evaluating the possibility of an incorporated legal business structure.

APPLY your understanding
7. You are planning to establish the following types of business. What form of business ownership would you prefer? In each case, explain why you would choose that form of ownership.
   (a) A bicycle shop offering professional and personal advice
   (b) A cattle stud specialising in a large-scale breeding program
   (c) A wheat farm, with a flour mill operated by you and eight other farmers
   (d) A travel agency that you wish to expand to five outlets within two years
   (e) A national retailer that would require $467 million to establish
   (f) A solicitor’s practice offering a range of legal services
8. Construct a table with four columns labelled like the example below. From the list of businesses provided, write each name in the correct column for its particular legal structure/entity. An example has been completed for you.

<table>
<thead>
<tr>
<th>Sole trader</th>
<th>Partnership</th>
<th>Private company</th>
<th>Public company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ray Coulton</td>
<td>C. Ray Coulton</td>
<td>Tip Top Bakeries Pty Ltd</td>
<td>Perpetual Trustees</td>
</tr>
<tr>
<td>Carpentry</td>
<td></td>
<td>M&amp;M Communications</td>
<td></td>
</tr>
</tbody>
</table>

EXAM practice
9. Explain the difference between the liability of a sole trader and the liability of a public limited company. (2 marks)
10. Discuss the use of a private limited company as a type of legal business structure. (4 marks)
11. Analyse how a business owner’s decision to use an incorporated business structure may affect the planning for their business. (4 marks)

3.8 EXTEND YOUR KNOWLEDGE The right legal structure for the business

KEY CONCEPT Choosing the most appropriate type of legal structure for the business is an important planning decision. Whether the business takes on a sole trader, partnership, private limited company or public listed company structure depends on the requirements of the business and its owner.

When planning for a business, the owner or owners will need to consider what type of legal business structure is most suitable. Many businesses have started small, experienced growth and have then gone on to become large
private limited companies or public listed companies. However, many businesses operating as sole traders or partnerships decide to remain with these business structures. They may do this for reasons such as maintaining control over the business, remaining flexible and sensitive to the needs of customers, minimising costs, and keeping simple accounting processes and legal responsibilities.

Choosing the right legal structure for the business when planning is very important. The legal business structure will affect the owner’s responsibility, their possible personal liability and the amount of ongoing costs and administrative work.

**SOLE TRADERS DOING IT ALL BY THEMSELVES**

The sole proprietor is often seen as a lonely figure battling against the elements, doing it all on their own.

But what might surprise you is that many sole proprietors — and small business owners with less than four employees — prefer it that way because of a combination of factors, such as control, expense and seeking value for dollar.

‘I have seen many friends and associates having spent thousands and being left high and dry without the outcomes the service provider promised,’ Helen D’Silva, a private practising psychologist says.

‘They are struggling to pay for their own mortgage, rent, food and bills are constantly behind and not paid. For me, that stress is not worth it and it inspires me to find better ways.

‘I am also mindful of how my money is spent and feel it’s important to be able to have educated conversations with service providers when the time comes to be able to start paying people to do work for me.’

D’Silva has been in private practice since 2012 when she quit her job due to burnout.

‘Working independently has its pluses and minuses,’ she says. ‘I am and feel in control.’

Soaring number of sole traders

D’Silva is far from on her own when it comes to being a sole proprietor.

According to the Australian Bureau of Statistics, between June 2015 and June 2016 the highest number of business entry rates was for sole proprietors — at 18.6 per cent.

As of June 2016, 60.7 per cent of actively trading businesses in Australia had no employees; while 27.6 per cent had one to four employees, which comprises 88.3 per cent of the employment market.

‘Time management is difficult,’ D’Silva says. ‘I get distracted easily. I get caught in the love of learning about marketing and digital marketing specifically. I co-work which makes me accountable to turn up and be there to do work. Being an extrovert, I go crazy if I’m not around people for a long time.’

D’Silva is confident her business will grow substantially in future years despite a slow start. ‘Sadly, my income is under $100,000 but I have committed that this is the last year I will ever earn under that amount.’


Many business owners find themselves in the position where they need to consider incorporation when undertaking business planning. The main difference between a private limited company and a public listed company is that a public listed company has shares that can be traded publicly on the Australian Securities Exchange (ASX). A private limited company might become a public listed company by offering shares of the company to the public. This is called an initial public offering (IPO) and is sometimes referred to as a ‘float’. However, there are other differences between the two legal business structures and many other factors to consider before making a final decision. The management of a public company is much more focused on meeting the expectations of shareholders and increasing the value of the company than a private limited
company. There is also greater public scrutiny of public companies. Because public listed companies are partially owned by the public, they are obliged to disclose corporate financial information. They must also observe stringent compliance rules.

On the other hand, a public listed company can access more funds by issuing shares to the public. A private limited company can only have a minimum of 1 and up to a maximum of 50 shareholders who are not employees of the company. A private limited company may only offer shares to shareholders of the company or employees/subsidiaries of the company. This limits the amount of capital the company will have access to, and therefore also limits the growth potential of the business.

**MYER’S STRUGGLE**

Myer is Australia’s largest and perhaps its best-known department store group. Today, Myer has more than 60 stores across Australia, employs 12,500 staff and has 50,000 shareholders. Myer’s merchandise includes womenswear; menswear; Miss Shop (Youth); childrenswear; intimate apparel; beauty, fragrance and cosmetics; homewares; electrical goods; toys; footwear, handbags and accessories; and general merchandise. The business has fluctuated between being a private limited company and a public listed company.

Sidney Myer and his elder brother opened the first Myer store in Bendigo in 1900. A few years later, Sidney established a department store that later became the Myer Emporium in Bourke St, Melbourne. This store is still trading and is considered to be the flagship in the Myer department store chain.

**Growth of the business**

The Myer business grew, and in 1925 Myer Emporium Ltd was incorporated and listed on the Melbourne Stock Exchange. The business continued to expand, Myer led the way in the development of regional shopping centres, including Chadstone Shopping Centre. Following a number of acquisitions, Myer merged with Coles in 1985 and became Coles Myer Limited – Australia’s largest retailer at the time and one of the largest in the world. Following a period during which Myer department stores under-performed, Coles Myer sold Myer to a consortium (a group of individuals or businesses that pool finances to achieve a common goal) led by US private equity group Newbridge Capital, part of the Texas Pacific Group. The consortium included members of the Myer family, who retained a 5 per cent stake in the company. Myer was therefore de-listed from the Australian Securities Exchange (ASX) and became a private limited company (Myer Pty Ltd).

Myer stores returned to profitability. In 2009, Myer announced that it would be floating the business on the sharemarket; it was listed on the ASX in November that year. The final issue price was $4.10, and Myer’s market capitalisation (the total value of its shares) was approximately $2.4 billion. Once again, Myer had become a public listed company.

Myer implemented a turnaround plan in 2015 for the company following a decline in net profit. The plan, known as ‘New Myer’, involved online ordering and ‘click and collect’ hubs in stores, the removal of a large number of brands to make way for new brands, a greater focus on ‘high value’ customers wanting to stay up to date with fashion and job cuts. Following implementation of the turnaround plan, there was some improvement in Myer’s financial performance. However, in late 2017, Myer announced that sales had continued to fall, sales revenue had fallen and that its full-year profit was only $11.9 million (80 per cent less than the previous year’s profit). Myer’s share price reached a historic low of 34.5 cents in April 2018.
THE GROWTH OF JB HI-FI

JB Hi-Fi is a popular Australian-based electronics and home goods retailer. John Barbuto established the business as a single store in Keilor East in 1974. His vision was to deliver a specialist range of Hi-Fi and recorded music to customers at the lowest prices.

Barbuto sold the business in 1983; by 1999 the new owners had expanded JB Hi-Fi by opening another nine stores in Melbourne and Sydney. In July 2000, the majority of JB Hi-Fi was sold to private equity bankers and senior management. Their plan was to grow the business throughout Australia.

In October 2003, JB Hi-Fi was floated on the ASX, thereby becoming a public listed company. Its shares listed at $2.20. The chairman at the time, Patrick Elliott, said that while it was pleasing to see JB Hi-Fi trading strongly, the company was focused on ensuring its core business remained strong, so that its stores would continue to trade well and that new stores could open according to plan.

When it first opened, JB Hi-Fi specialised in Hi-Fi equipment. It has diversified to focus on consumer electronics, including televisions, audio/visual, digital camera photography, portable audio and in-car entertainment, software (including music, games and movies), whitegoods and appliances. In 2016, JB Hi-Fi took over one of its competitors, The Good Guys. The acquisition accelerated the company’s plans to grow by building market share in the whitegoods, kitchenware and general home appliances sectors. The business now has more than 400 stores across Australia and New Zealand, including more than 300 JB Hi-Fi stores and more than 100 The Good Guys stores. The business employs more than 11,000 staff.

In 2016, JB Hi-Fi’s share price reached a historic high of $31.20. In 2017, JB Hi-Fi announced a record full-year profit of $172 million (13 per cent higher than the previous year’s profit).

RIP CURL STAYS PRIVATE

Rip Curl has always resisted the temptation to become a public listed company. Doug ‘Claw’ Warbrick and Brian ‘Sing Ding’ Singer founded the business in 1969 when they began manufacturing surfboards in a garage in the coastal town of Torquay. Rip Curl has grown to become one of the largest designers, manufacturers, and retailers of board wear in Australia, New Zealand, Europe, North and South America, and South Africa. Rip Curl employs more than 2000 people.

Rip Curl’s global head office is still located in Torquay. The business also continues to be controlled by its founders, who jointly own 72 per cent of the company. Despite moments when
they considered an initial public offer or a trade sale, the business has remained in the hands of its original owners. Warbrick and Singer have said that they intend to leave the company at some point. In late 2017, for example, Rip Curl management was understood to be negotiating a sale, with Warbrick and Singer planning to sell their entire interest. However, no such sale eventuated.

Rival businesses Quiksilver and Billabong have pursued different paths. Quiksilver listed on the New York Stock Exchange in 1998 and Billabong listed on the ASX in 2000. After financial troubles and a series of failed acquisitions, Quiksilver filed for bankruptcy in 2015. It became privately owned after Oaktree Capital Management (an American global investment management business) became the majority shareholder. The name of the company was changed to Boardriders in 2017. Following a string of losses, including a net loss of nearly $300 million in 2012 and an even bigger loss of $860 million in 2013, Billabong’s shares were purchased by Boardriders in 2018. Quiksilver and Billabong now share the same parent company. Billabong became a private company, which meant it was taken off the Australian share market.

Rather than seeking growth through going public, Rip Curl has used a licence system whereby it sells its technology, designs and ideas to enable it to expand globally. Rip Curl products are now made and sold by nine corporate licensees around the world. The company has found that by staying private, it can focus on its core business (selling surfwear products). Unlike its competitors, which grew by moving into other markets, Rip Curl has been able to remain a surfing business providing surfing-related products that its customers want. Rip Curl’s annual profit in 2017 was $18.4 million, an improvement from the previous year’s $10.06 million.

3.8 Activities

TEST your understanding

1. Explain why a business owner might decide to adopt a sole trader structure, rather than any other legal business structure, when planning their business.

2. Read the case study ‘Sole traders doing it all by themselves’. Outline the reasons that Helen D’Silva gives for continuing to own and operate her business independently.

3. Under what circumstances might it be beneficial for a business owner to plan for a private limited company structure rather than a public listed company structure?

4. Explain why it might be beneficial for a business owner to plan for a public listed company structure rather than a private limited company structure.

5. Read ‘Myer’s struggle’. Describe Myer’s experience as a private limited company and as a public listed company.

6. Myer seems to have struggled financially when operating under a public listed company structure. Why do you think this might be the case?

7. Read ‘The growth of JB Hi-Fi’. Describe JB Hi-Fi’s experience as a private limited company and as a public listed company.

8. In what ways has JB Hi-Fi taken advantage of the public listed company structure?

9. Read ‘Rip Curl stays private’. Why has Rip Curl maintained a private limited company structure?

EXTEND your understanding

10. Explain what a business owner needs to consider when planning and deciding on the legal structure of a business.

11. If you were planning a new business, which legal business structure would be most appropriate for you? Explain your response.

12. Effective planning should contribute to a business achieving its goals (i.e. for a company, profit). Shareholders benefit from this by being paid dividends (part of the company’s profits), and if the company’s share price rises they can make a capital gain (if they sell their shares). Good company performance, including making a profit, is just one factor in a company’s share price performance, but it is an important one. The table on the following page lists the closing share price (closing means the last price the shares sold for at end of the day’s trading) for Myer and JB Hi-Fi shares on 30 June since 2014.
(a) Using online sources, find the most recent closing share price for Myer and JB Hi-Fi, and draw a line chart of Myer and JB Hi-Fi's performance.
(b) Imagine you had purchased shares in both companies in 2014. Do you think your investment has performed well? If you cannot find a recent share price for either company, explain why this is the case.

<table>
<thead>
<tr>
<th>Date</th>
<th>Closing share price for Myer (code MYR)</th>
<th>Closing share price for JB Hi-Fi (code JBH)</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 June 2014</td>
<td>$1.98</td>
<td>$18.08</td>
</tr>
<tr>
<td>30 June 2015</td>
<td>$1.15</td>
<td>$19.24</td>
</tr>
<tr>
<td>30 June 2016</td>
<td>$1.12</td>
<td>$23.81</td>
</tr>
<tr>
<td>30 June 2017</td>
<td>$0.84</td>
<td>$23.37</td>
</tr>
</tbody>
</table>

13. Use the internet to research another business that makes use of an incorporated legal business structure. You could search for either a private limited company or a public listed company. Prepare a report that covers:
- the full name of the company
- a brief history of the business
- a description of the company’s product/s
- why the business became a company
- the long-term plans for the company.

3.9 Types of business model

**KEY CONCEPT** There are a variety of different business models to consider when planning to establish a business. These models include online business, bricks and mortar business, social enterprise, franchise, importer and exporter.

3.9.1 The business model

A **business model** is the way in which the business will run its operations to generate a profit. It acts as a general framework for how the business will earn its income and function on a day-to-day basis. In many instances, the business model arises in the earliest stages of planning for a business. When an entrepreneur with a business idea begins to develop plans as to how they might realise that idea, the core concepts of the business model begin to take shape. As circumstances change, the business model may need to be adapted to reflect any changes in the way the business operates.

The following key elements may be considered as part of planning a business model:
- What is the main goal of the business?
- What type of goods or services will the business offer?
- How will the business sell these goods/services?
- Who are the target customers?
- What types of costs will the business expect to incur?
- Will a new business be established or will a franchise agreement be entered into?
There are countless different types of business model in operation today, reflecting the diverse nature of business in the twenty-first century. Some business models are based on traditional ways of doing business that have been in operation for centuries, while others are completely new. Let’s look at a few different types of business model that a business may opt for as part of its planning.

### 3.9.2 Online business

Since the rapid growth of the internet in recent decades, the world of business has changed dramatically. Some of the fastest growing and most successful businesses of the twenty-first century have no factories, warehouses, shops, or any face-to-face customer contact. They exist solely on the internet, as well as having a small number of offices to support their online presence. Facebook, Google and YouTube are just some examples of small web-based business models that have grown to become some of the most successful around the world.

The increased accessibility of the internet through the use of smartphones has also opened the door to entrepreneurs who are able to take advantage of new business opportunities through products such as smartphone applications.

Online businesses have a distinct advantage over physical bricks and mortar stores because they are able to reach customers across the globe via the internet. They also avoid many of the expenses associated with having a physical store, such as rent and wages for shop staff.

The disadvantage of online businesses is that they expose the customer to the risk of theft when making payments online, as well as a greater risk of having unsatisfied customers who were not able to physically inspect an item prior to purchasing it.

Within the broad category of online businesses there are many different types of model under which businesses operate. What is common among them is that they often rely on a relatively small number of highly skilled workers to run their technical operations.

#### Advertising-based websites

Many websites offer free access to people on the internet and generate revenue through advertising. Other businesses will pay the website to feature their advertisements because it reaches their target markets. This is how many blogs have grown into successful businesses. After attracting enough followers a blog becomes an attractive space for advertisers.

#### Freemium

Some websites or applications, such as Spotify, attract a large customer base with their free service offers. They generate income through advertisements or the offer of a subscription premium service option.
Brokerage
Websites such as eBay bring buyers and sellers together in exchange for a brokerage fee when sales are made.

Merchant
Merchants are online sellers who operate through their own independent website or through the use of platforms such as eBay. These online retailers generally buy in bulk directly from manufacturers or wholesalers and sell the products to customers for a profit.

3.9.3 Bricks and mortar
Bricks and mortar is a term that refers to businesses that have a physical location such as a store in a shopping centre. Bricks and mortar business models have been around for many years and are the chosen business model for many of the biggest retail, manufacturing and wholesale businesses in the world.

Bricks and mortar retailers offer face-to-face customer interaction as well as the security that comes with being able to physically inspect or test a good prior to purchase. Despite this, bricks and mortar businesses are far more expensive to establish and maintain than their online counterparts and this can make it difficult for them to remain competitive on price.

It is important to note that many traditional bricks and mortar businesses have had to adapt their business model and establish an online presence to complement their physical stores. Such models are sometimes referred to as ‘bricks and clicks’.

3.9.4 Social enterprise
While many people enter the business world solely to make a profit, there are some businesses that are dedicated to improving the world we live in. Social enterprise is a business model that aims to improve the wellbeing of others through its business activities. A social enterprise will often concentrate on a community or environmental need.

While profit is not the main objective of a social enterprise, a prospective business owner using this model must ensure that the business will be able to earn enough money to fund its continued operations. Any surplus or profit that the social enterprise makes will be reinvested back into the business so that it can continue to fulfil the social need.

In Australia, a social enterprise can operate in many ways — it can take the form of a charity, a cooperative (a business that is owned and operated by the group of members), or a privately owned business. A social enterprise will often run just like a commercial business. Unlike charities, social enterprises do not rely on donations as their main source of income. Some social enterprises will obtain funding from the government and/or assistance from the local community to support their social goal. A rapidly growing method of raising money for social enterprises is crowdfunding, whereby the enterprise appeals for small donations from a large number of people through social media and the internet.
The social enterprise business model does have a number of disadvantages. It can be difficult for a prospective business owner to obtain the finance necessary to start a social enterprise. Social enterprises can face significant operating costs — a business using this model will often take on costs that conventional businesses would not. For the business owner, it may be difficult to focus on both social and financial objectives at the same time.

THANKYOU GROUP

In 2008 a group of young and enthusiastic Australian university students made a commitment to change the world. With a profound awareness of both business opportunities and the tragic plight of 900 million people who did not have access to safe drinking water, they developed a business idea that would save lives. ‘Thankyou Water’ began as a bottled water company that would exist for the sole purpose of funding safe water projects in developing nations. It took nearly three years for its product to gain traction in the highly competitive fast-moving consumer goods (FMCG) industry. However, after 7-Eleven Australia got on board to stock Thankyou Water, the social enterprise saw success with the product that appealed to ethical consumers around Australia. Consumers welcomed the idea that their money would go towards helping those who need it most.

But founders Daniel, Justine and Jarryd didn’t rest on their laurels. In true entrepreneurial fashion, they developed their rapidly growing brand into a movement consisting of three product lines under the Thankyou parent brand: Thankyou water, Thankyou food, and Thankyou body care. Along with expanding their product line they have also grown their social ambitions to include food, hygiene and sanitation solutions for the world’s poorest. What makes Thankyou different is that 100 per cent of its profits go to funding projects around the globe, and the company has no investors or shareholders.

Having given over $5 million to fund projects in over 20 countries to help hundreds of thousands of people with water, food and hygiene and sanitation solutions, Thankyou represents more than just another business idea. It is an example of what people can achieve when they let their social conscience guide their entrepreneurship. While the exact future of such a dynamic social enterprise is unknown, we know that the growing social awareness of consumers will lead to Thankyou products becoming an increasingly viable alternative to those offered by for-profit businesses. As the famous French poet Victor Hugo once said ‘Nothing is as powerful as an idea whose time has come’.
3.9.5 Franchise

Under a **franchise agreement** a person buys the rights to use the business name and distribute the goods or services of an existing business. The business that grants the right to others to use its name and products is known as a **franchisor**, while the business that buys those rights is known as a **franchisee**. The franchisor supplies a known and advertised business name, the required training and staff development, a method of doing business, management skills and materials. The franchisee supplies the start-up money and labour, operates the franchise business and agrees to abide by the terms and conditions of the franchise agreement.

People choose to buy a franchise in the hope of avoiding many of the problems of starting a new business. For a set fee, the business owner receives the benefits of a successful business formula, a well-recognised name and established trademarks. Franchising has a success rate of almost three times that of independent businesses, largely because it involves an established business name backed up by managerial expertise.

That being said, there are several disadvantages of entering into a franchise agreement. The franchisee has little scope for making independent decisions as the franchisor has control over much of the operations. The share of the profits and fees can be quite favourable to the franchisor, and the franchisee’s business forgoes the possibility of expanding an original brand as a franchisor.

Franchising is the fastest area of business growth in Australia. Subway (sandwiches and salads) is an example of a franchise. Other well-known franchises include McDonald’s, 7-Eleven, Bakers Delight and The Athlete’s Foot.

**GELATISSIMO — A SUCCESSFUL FRANCHISE BUSINESS MODEL**

Domenico and Marco Lopresti founded Gelatissimo in 2002 as a single store on King Street in Sydney. The business has since become Australia’s biggest chain store selling gelato (ice-cream that originated in Italy). The brothers were already running a wholesale gelato business when they saw an opportunity to open a retail store using a secret family formula for gelato. Before long, word of mouth spread and there were queues out the door of their new store. They soon opened other stores.

Initially, the owners had chosen a company-owned model for Gelatissimo. However, in 2004 they started franchising. The main reason for adopting a franchise model was because the company model was not working as expected, and the owners decided to try franchising instead. They trialled franchising with a particular franchisee — he was given the opportunity to turn a company-owned store around and was able to do so.

The Lopresti brothers also saw franchising as an ideal way to grow their business quickly. Furthermore, as product quality and product presentation are critical for the business, the owners felt that Gelatissimo was best suited to a franchising model, which allows franchisees to bring passion and commitment to their own store.
It is this passion and commitment to creating premium products without compromise that have led to Gelatissimo’s success. Gelatissimo now has stores in more than 40 locations across Australia, as well as in China, the Philippines, Singapore, Saudi Arabia, Kuwait and Bangladesh. With close to 50 gelato flavours, some of which have won awards, the business is well known for its quirky flavours. It often adds new ones, particularly limited-edition flavours, such as the ‘Hugh Chocman’ — named in honour of Hugh Jackman.

Domenico and Marco have since left the business, but the decision they made to pursue a franchise business model clearly affected the ultimate success of Gelatissimo.

3.9.6 Import and export

Import and export businesses are those that earn their income by trading goods internationally. Due to globalisation there has been a drastic increase in the volume of goods and services imported and exported in recent decades. With reductions in trade barriers between nations, advances in technology and the industrialisation of nations with cheap labour resources, globalisation is showing no signs of slowing any time soon. This provides plenty of room for import and export businesses to flourish in the future.

Imports are goods and services that are produced overseas and sold to Australian consumers. There are a number of advantages afforded by adopting an importer business model. Importers source goods from overseas that will be competitively priced on the Australian market due to their superior quality, cheaper cost of production, or lack of viable alternatives. An importer may be able to provide goods to customers that are not readily available locally. The importer business model can therefore provide the prospective business owner with the opportunity to grow and further expand their business. Import business models need to factor in the cost of purchasing the goods from international manufacturers, shipping, distribution and taxes on imports known as tariffs. Importers also need to ensure that the goods they are importing meet Australian consumer standards for health, safety and quality. Today, the majority of manufactured goods available for purchase in Australia are produced overseas.

Exports are goods and services that are produced in Australia to be sold overseas. Although Australia imports more than it exports, some Australian products, such as beef are competitive internationally. There
are a number of advantages afforded by adopting an exporter business model. Like importing, exporting
provides the prospective business owner with the opportunity to grow and further expand a business. Exporting
allows a business to reduce its dependence on local markets and open new markets. This can extend the life
cycle of the business’s products, as well as increase competitiveness. This is because the business can sell
its products overseas to a greater number of customers. Exporters need to ensure that they are aware of the
legal requirements of the nation to which they are exporting. Other risks involved in exporting include foreign
exchange, political, shipping and quarantine issues.

3.9 Activities

TEST your understanding

1. What is a business model?
2. List three things that should be considered when developing a business model.
3. Complete the following table to summarise the different types of business model.

<table>
<thead>
<tr>
<th>Description</th>
<th>Online</th>
<th>Bricks &amp; mortar</th>
<th>Social enterprise</th>
<th>Franchise</th>
<th>Importer and exporter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advantages</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disadvantages</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Examples</td>
<td></td>
<td></td>
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</tbody>
</table>

4. Distinguish between a retail business model and a wholesale business model.
5. Read the case study ‘Thankyou Group’ and answer these questions.
   (a) How did the idea for Thankyou Water first arise?
   (b) What makes Thankyou Water appealing to consumers?
   (c) Identify the three brands that make up the Thankyou Group today.
   (d) Outline what you think Victor Hugo meant by ‘Nothing is as powerful as an idea whose time has
come’.
   (e) What benefits do you think establishing a social enterprise like Thankyou would have for an
   entrepreneur?
6. List four different franchise businesses that operate in your suburb or town.
7. What does the franchisor receive in a franchise agreement? What does the franchisee receive? What does
each party provide?
8. Suggest why businesses operating as a franchise have a success rate three times that of independent
   businesses.
9. Provide one main benefit of franchising for the:
   (a) franchisor
   (b) franchisee.
10. Read the case study ‘Gelatissimo — a successful franchise business model’ and answer the following
    questions.
    (a) Explain why the founders of Gelatissimo decided to adopt a franchise business model.
    (b) Did franchising create a successful business for the founders of Gelatissimo? Justify your response.

APPLY your understanding

11. Briefly describe the type of business model you would expect the following businesses to operate under:
    (a) the local fish and chips shop
    (b) ‘OZ game shop’, which sells video games through a website
    (c) the European deli, which buys products from overseas to sell in its Melbourne-based store
    (d) a blogger named Joshua Becker who writes about ‘becoming minimalist’ and has attracted
        thousands of followers.
12. List five businesses that you interact with on a regular basis and describe the type of business model that
    they operate under.
13. Provide one example each of a retail, wholesale and manufacturing business in Australia.
EXAM practice
14. Kahinde has developed a new pizza recipe that he believes will sell strongly. He is trying to choose the most appropriate business model for his idea.
   (a) Identify and describe a business model that would be suitable for Kahinde’s business. (3 marks)
   (b) Explain the advantages and disadvantages of the business model you identified in part a. (4 marks)
15. Analyse how a prospective business owner’s decision to use an ‘importer’ or ‘exporter’ model may affect the planning for their business. (4 marks)

3.10 Business support services

KEY CONCEPT A variety of support services exist to provide assistance to a business owner with their business planning. Some of them are free, while others are provided by other businesses, which charge for their services.

3.10.1 Legal and financial advice
Even prior to starting a business, the owner will, in most instances, seek legal and financial advice to ensure that all the important aspects of the business are planned for. As discussed earlier, there are many different legal structures that a business can adopt, each with their own advantages and disadvantages. Evaluating the different legal structures is an important part of the initial planning stage, and business owners are unlikely to know all of the legal and financial ramifications of each alternative. They are likely to consult an accountant for a better understanding of the tax and financial costs associated with each structure as well as registering the business. If the business structure is more complex and involves several owners (such as a partnership), a solicitor will often be required to draw up a legally binding partnership agreement.

Once the business is up and running, the owner will still require assistance regarding the day-to-day operations of their business. Planning will be ongoing. Solicitors, accountants and bank managers keep up to date with changes that occur in the business’s legal, economic and financial environment. Maintaining a good relationship and regular contact with these advisors is essential for business success.

Solicitors
Solicitors provide information concerning business formation and structures, registration, contracts, leases, partnership agreements, patents and legislation. Solicitors are up to date with any changes to company law and can advise the business owner on how best to deal with such changes.

Accountants
Accountants provide valuable advice on all financial management issues and taxation obligations. They have access to the latest changes to taxation and financial reporting requirements, and know procedures for recording financial events (transactions) accurately, speedily and with maximum security.
Bank managers
Bank managers are another valuable source of information and advice on financial services, sources of finance, and basic business management. They usually have a wide range of experience to draw on and can access the resources of the bank.

3.10.2 Technological advice
Establishing an online business presence, networking a number of computers within the business premises or making maximum use of mobile devices can all improve business efficiency. Purchasing equipment from a dealer who offers advice and backup support, or establishing a relationship with an ICT consultant, is another important decision to be made by the prospective business owner.

As a technological support service for business, the federal government has established a website — business.gov.au — that includes information relating to technology in business. This service provides free practical advice on a range of topics, including establishing an online presence, e-commerce, social media and online marketing.

3.10.3 Community-based services
Many business owners are able to join business service clubs such as Rotary, Apex and Lions. While the primary focus of these clubs is to provide businesspeople with an opportunity to engage in community service projects, membership can put business owners in touch with other local businesspeople. Advice, support and information can be accessed through such local networks.

Business Enterprise Centres (BEC) Australia
BEC Australia is a not-for-profit network of business enterprise centres, which provide support to small business owners. These centres provide information, mentoring, training programs, workshops and seminars, referrals to accountants, solicitors and government programs, and access to networks of other businesspeople.

Small Business Centres Victoria (SBCV)
As outlined in chapter 1, Small Business Centres Victoria (SBCV) is a network of business centres providing a range of business services, such as advice and mentoring, in metropolitan and regional locations throughout Victoria. SBCVs are community based and not-for-profit. They provide their services through public/private partnerships with governments, private enterprise and local communities. Many of these business centres are members of BEC Australia. SBCVs can provide subsidised premises, advice, services and support to new and emerging businesses to assist them to become established and profitable. Business centres may also host workshops and seminars, providing new and growing businesses with access to low-cost resources and information.

Resources
Weblink: BEC Australia
3.10.4 Formal networks: private

Business owners can access information and support from a large number of professional organisations.

**Chambers of commerce**

These are local associations of businesspeople, usually centred on a suburb or region. They provide legal and financial help, taxation advice, explanations of legislation, and industrial relations information. They also organise training seminars, arrange industry conferences and liaise with government departments.

**Victorian Chamber of Commerce and Industry (VCCI)**

VCCI is the state’s main employer group and Australia’s largest multi-industry employer organisation. It is concerned primarily with human resources and industrial relations issues, and provides support for members who may be in dispute with their employees.

**Small Business Association of Australia and New Zealand**

This lobby group provides a forum for exchanging news and views relating to small business matters. It also organises training days and promotes the role of small business and its importance to the total economy.

**Trade associations**

Trade associations offer specific industry information and assistance. Examples include the Australian Retailers Association and the Australian Medical Association. Each association is made up of organisations in the same line of business, so it can provide specific details about product development and industry trends.

**Weblink:** VCCI

3.10.5 Formal networks federal, state and local governments

All levels of government provide a range of services to businesses.

**Federal government**

AusIndustry is the federal government’s principal agency for delivering assistance, programs and services that support businesses. It is a division of the Department of Industry, Innovation and Science. AusIndustry has established a website, a contact centre and a national network to streamline access to information and advice for businesses. The website, business.gov.au, provides access to information, assistance, forms and services. All areas of planning, starting, running and exiting a business are covered on the website, and there are links to other government websites to help business owners find what they are looking for.
The Australian Bureau of Statistics (ABS) is Australia’s national statistical agency. It can provide business owners with data about communities and regions, society and the economy. Using data can help business owners to make good planning decisions.

The Australian Tax Office (ATO) is the federal government’s main revenue collection agency. It can provide information about starting and running a business as well as taxation.

Austrade (otherwise known as the Australian Trade and Investment Commission) is the federal government’s trade, investment and education promotion agency. It can help businesses to develop international markets by providing information, advice and services.

State government
In Victoria, the Department of Economic Development, Jobs, Transport and Resources’ Business Victoria website provides entry and links to information and support on all aspects of starting and managing a business. The Victorian Small Business Commission (VSBC) is a statutory office established to enhance a competitive and fair operating environment for small and medium businesses. The VSBC advocates on behalf of small business, resolves disputes, monitors the small business environment and engages with the small business community.

Local government
Local councils offer advice on land zoning, assist with subsidised land and consider development applications.

3.10.6 Informal networks
Businesspeople can use their network of friends and colleagues, as well as other local business owners to gain information and advice. Active membership of local chambers of commerce, trade associations and service clubs can lead to friendships and contacts that go beyond the formal activities of these bodies.

3.10.7 Business mentors
Small business owners will often seek advice on a regular basis from a person who is experienced or knowledgeable in the field. This person is known as a mentor and can provide invaluable advice and strategies to the small business owner on a variety of issues. The mentor may charge for such services, or may simply share their wealth of knowledge out of goodwill. Regardless, a mentoring relationship can be rewarding for the mentor as well as the mentee.

Weblink:
Small business mentoring program

3.10 Activities
TEST your understanding
1. Identify and explain the type of support and advice that can be provided by each of the following:
   • solicitors
   • accountants
   • bank managers
   • BEC Australia
   • SBCVs
   • chambers of commerce
   • VCCI
   • trade associations
   • federal government
   • state government
   • local government.

2. What benefits can a business owner gain by joining a service club, such as Rotary or Lions?
3. Why do you think a mentor might offer their advice to a business if not for money?
3.11 EXTEND YOUR KNOWLEDGE Planning decisions and the internal environment

**KEY CONCEPT** Thorough market research is necessary before deciding to start a business.

**RESEARCHING LOCAL BUSINESS**

Two students interviewed Jane, the owner of a local business, At Home, which sells upmarket garden accessories and homewares.

**What were the reasons you decided to work for yourself?**
I was always having disputes with my last employer; they were as stubborn as I was.

I love homewares and glossy magazines and also enjoy my beautiful garden, so that was where my passions lay. I thought I would be better off running my own business.

**What were the major decisions you had to make when you were planning your business?**
Choosing the right location was crucial, because not everyone is interested in upmarket garden accessories. I chose a location that had the right demographics — where people take pride in their gardens and most people who live in the area are professionals with cash to spend. It was also a big decision to set up a website where customers can order garden accessories online. Obviously, finance was a big issue. I used my own savings, but I also borrowed some money from my parents.

**What type of legal business structure did you adopt and why?**
I chose to operate the business as a sole trader, mostly because it seemed to be the simplest option and I like to work on my own. I also wanted to have control over my business.

**Did anyone provide you with support or advice when you were planning the business?**
Mostly my accountant. She advised me on the best structure, how to register the business and the best way to deal with my financial information. I also found a lot of useful information on business.gov.au. I would recommend this as a great starting point for anyone who is considering starting a new business.

**Could you outline any mistakes that you made during the commencement period?**
I wanted to spend some time with my family on the long weekend and closed the shop. I must have lost a lot of business! I realise now that I should have considered my resource needs more seriously. Instead I could have asked an employee to open the store for me.
3.11 Activities

TEST your understanding

1. In pairs, arrange an interview with a local business owner. You might like to use the questions in the interview above, or make up your own. Prepare a report for presentation to the rest of the class, including the following information:
   - the reasons the business owner decided to start the business
   - how they decided on the resource needs for the business
   - how they selected the location of the business
   - the source of finance they decided to use and why
   - who they received support or advice from
   - any other decisions they made when planning the business
   - any mistakes that they made during the commencement period or what they would have done differently
   - a brief history of the business
   - advice the business owner would offer to someone starting a business.

2. Arrange to interview a partner in a local business. Investigate the following topics:
   - the number of people in the partnership
   - the advantages of a partnership as opposed to sole trading
   - the contents of the partnership agreement
   - a brief history of the business.

3. Interview the owner of a local private company. Prepare a report outlining the following information:
   - the full name of the business
   - a brief history of the business
   - the business’s main activity
   - why the owner decided to incorporate
   - the expenses involved in setting up and operating a private company
   - the main problems involved in operating the business
   - the owner’s long-term plans for the business
   - changes that the owner would like to make to the business and operation of the business.

EXTEND your understanding

4. Visit your local shopping centre or mall. Draw a map of the centre, using a colour code for different types of business (e.g. different colours for clothing stores, cafés, hairdressers). Answer the following questions:
   (a) What advantages does the shopping centre have in terms of location, parking facilities, public transport access, etc.?
   (b) Identify examples of businesses in direct competition with each other. How might this affect the success of each business?
   (c) Identify the best located shops. Explain why they have the best locations.
   (d) Are there any goods or services that are not available at the local shopping centre that could provide potential business concepts?
   (e) Is a major supermarket chain represented at the centre? Does the presence of the supermarket draw consumers to the centre? (Ask a sample of shoppers and business owners to get their opinions.)
   (f) Identify examples of complementary businesses.
   (g) Is there a nearby traditional shopping strip? Is there any evidence that the presence of the shopping centre has affected businesses in the shopping strip?
   (h) Is there a business association or chamber of commerce representing business owners in the centre? What role does this association play in supporting local traders?

5. Use the Business support services weblinks in the Resources tab to research the websites of each of the following professional and business support organisations, and prepare a report on each:
   - Law Institute of Victoria
   - Institute of Chartered Accountants
   - VCCI.
Your report should include answers to the following questions:
- What are the major objectives of the organisation?
- What services does each organisation offer its members?
- How does a person or business become a member?
- What services are offered to consumers and other members of the community?
- What is the educational, training and career preparation role of the organisation?

6. Use the BEC Australia weblink in the Resources tab to answer the following questions about Business Enterprise Centres (BEC) Australia:
   - When and by whom was this organisation set up?
   - How has the organisation developed and grown following its establishment?
   - BEC Australia is a not-for-profit organisation. How does it fund its services?
   - What are the key objectives of BEC Australia?
   - Identify five different services offered by BEC Australia, and explain how each operates.
   - Identify the closest BEC Australia office to your home or school.

7. Use the Franchise Council of Australia weblink in the Resources tab to answer the following questions.
   - What are the main objectives of this organisation?
   - Who can be a member of the organisation?
   - What services are offered to its members?

8. Commonwealth and state business support websites provide information on the various legal and regulatory requirements to be met by a prospective business owner. Using these websites, select two such legal requirements and outline the processes the prospective business owner has to follow in order to comply with these requirements.

9. Arrange for a representative of the local chamber of commerce, the local traders association, or a local service club (Rotary, Lions or Apex) to visit your class. Before the visit, prepare questions to ask the representative on issues relevant to both informal and formal support services provided for local business owners. If possible, video the session (obtain the visitor’s permission in advance). Write a 500-word report on what you learned from the visit.

10. Most trade or professional organisations formulate codes of practice or codes of conduct for their members, encouraging ethical and socially responsible behaviour.
   (a) Visit the website of one such organisation and make a copy of the code of practice or code of conduct of the organisation.
   (b) Explain how each item in the code encourages members to operate their businesses in an ethical and socially responsible manner.

**3.12 Planning tools and business plans**

**KEY CONCEPT** Using planning tools such as a SWOT analysis and business plans are vital for the success of a business.

In chapters 2 and 3 we have closely examined the range of factors that a business must consider when planning. A business owner has a variety of planning tools and techniques at their disposal to ensure that all of these factors have been addressed.
3.12.1 Market research

Market research involves collecting and analysing data and information to assist the business in its understanding of potential customers and competitors. By better understanding the desires and habits of potential customers as well as the level of competition in a given market, a business can develop or adjust its products and marketing strategies in such a way that it targets unmet consumer demand. By conducting preliminary market research prior to starting a business, an entrepreneur can establish whether or not there is room in the market for the business they have conceptualised.

3.12.2 SWOT analysis

In order to plan for the successful future of a business, the owner must have an understanding of where the business currently stands. A SWOT analysis is a planning tool that identifies the business’s internal strengths and weaknesses, as well as any opportunities and threats from the external environment.

A SWOT analysis

<table>
<thead>
<tr>
<th>Internal assessment</th>
<th>External assessment</th>
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<tbody>
<tr>
<td><strong>S</strong></td>
<td><strong>W</strong></td>
</tr>
<tr>
<td><strong>Strengths</strong></td>
<td><strong>Weaknesses</strong></td>
</tr>
<tr>
<td>What are our strengths?</td>
<td>What are our weaknesses?</td>
</tr>
<tr>
<td>• What is the business good at?</td>
<td>• Do we have competent managers and staff?</td>
</tr>
<tr>
<td>• Is our product popular?</td>
<td>• Is our computer system obsolete?</td>
</tr>
<tr>
<td>• Are our customers loyal?</td>
<td>• Have we experienced past failures?</td>
</tr>
<tr>
<td>• Do we have a skilled and motivated workforce?</td>
<td>• Have we been upgrading our facilities to keep pace with others?</td>
</tr>
<tr>
<td>• Are we in a solid financial position?</td>
<td></td>
</tr>
<tr>
<td>• Is our equipment state of the art?</td>
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</table>

A SWOT analysis, completed honestly and objectively by the business owner, can be used to evaluate the business’s current situation and interpret information about what the business might do well, where improvements can be made and where the business might be placed in the external environment. For example, a business owner may analyse the strengths of their business and find that it has a product that market research suggests is in high demand. The owner may also consider whether there are opportunities to export this product to new markets. When analysing the business’s weaknesses, the owner may determine that the business will not have the facilities to produce sufficient amounts of the product. The business owner may find that a threat comes from competitors moving into domestic markets. After conducting the SWOT analysis, the business owner may plan to develop new manufacturing facilities and then export the business’s products.

A SWOT analysis has the advantage of being relatively low cost, and it is fairly simple and straightforward to use. Completing a SWOT analysis allows the business owner to become more familiar with the business as they are making planning decisions, as well as addressing weaknesses, responding to threats, taking advantage of strengths and seizing opportunities. It should also assist the owner to develop goals and strategies for achieving them, which can then be written into the business plan.

However, a business owner should be aware that a SWOT analysis is only a small part of the business planning process. Market research and a business plan should also be completed when planning a business. A SWOT analysis may also generate a large amount of information — not all of which may be useful. A SWOT analysis does not provide solutions to weaknesses or threats; nor does it help the business owner choose which strengths or opportunities are the best options.
3.12.3 Business plans

When business owners start a business they are usually keen and optimistic, convinced their idea will succeed. However, while enthusiasm is an essential ingredient to the success of a business, it is not enough in itself. If prospective 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 100 stores in Australia, New Zealand, the UK and Hong Kong. In 2017, it expanded into the United States through a partnership with Nordstrom. 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 business owner can use. In all businesses, the best results come from effective management and detailed planning.

DID YOU KNOW?

‘Businesses do not plan to fail, they fail to plan.’ This is an old and very well-known quotation, but is nonetheless an accurate reflection of reality for many business owners.
What is a business plan?

A **business plan** is a written statement of the goals and objectives for a 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 that 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.

### The benefits of developing a business plan

- Helps test the viability of the business
- Assists the business to be proactive rather than reactive
- Assists in maintaining the business operation, especially focusing attention on the goals and objectives
- Identifies the business’s strengths and weaknesses
- Forces the business owner to justify his or her plans and actions
- Indicates the owner’s ability and level of commitment

As Kristina Karlsson notes in the kikki.K case study, a business plan should be a ‘living document’. It needs to change as the business changes. 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 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 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. **Executive summary.** This is a one-page document describing the business and its objectives. This is usually prepared at the end of the plan-writing process.
2. **Operations plan.** This outlines how the business will be set up and the human resource needs.
3. **Financial plan.** This details how the business will be financed, and projected cash flow, revenue, expenses and profit.
4. **Marketing plan.** This outlines key information from the industry the business will be entering and how it fits in, and the marketing strategy of the business.

While there are several benefits in completing a business plan, a prospective business owner should keep in mind a number of limitations. The business plan is simply a plan — it does not guarantee the ultimate success of a business. For example, profit may be lower than anticipated, because a range of factors out of the owner’s control can affect it. The business owner may spend excessive amounts of time preparing the business plan rather than creating and selling the business’s product. Business plans need to be implemented; many business owners develop a business plan and then neglect to follow it.
3.12 Activities

TEST your understanding
1. What is market research?
2. How can market research help existing businesses as well as those in the making?
3. What is a SWOT analysis and why is it an important planning tool for a business?
4. Outline the benefits and limitations of conducting a SWOT analysis.
5. Explain what a business plan is.
6. Why was it important for Kristina Karlsson to have a business plan?
7. List the six main benefits of a business plan.
8. Outline the limitations of completing a business plan.
9. Choose the most appropriate word from the following options to complete the sentences (a) to (g):

   plan planning steps
   fail failure link
   written researched heading
   objectives loan

   (a) Businesses do not plan to _______________; they fail to ________________.
   (b) If prospective business owners neglect to put together a carefully _______________ business plan, the stage is set for business ________________.
   (c) Without planning, the business owner does not know where the business is ________________.
   (d) In all businesses, the best results come from detailed ________________.
   (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.

10. 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
11. Prepare a SWOT analysis for a business you deal with regularly, such as a retail store.
12. Use the questions below to interview a local business owner about aspects of their business and then present your research as a business report.

   (a) What were the planning options that had to be considered when commencing the business?
   (b) Was a business plan completed?
   (c) What was the purpose of the business plan?
   (d) What is the role of the business plan within the operation of the business?
   (e) What is the importance of planning to the overall success of the business?

13. Use the Business plan weblink in the Resources tab to find advice concerning the preparation of a business plan.

EXAM practice
14. Define the term ‘business plan’. (1 mark)
15. Explain how a SWOT analysis can be used to evaluate a business’s current situation. (2 marks)
16. Discuss the use of a business plan. (4 marks)
3.13 APPLY YOUR SKILLS Business plans and planning tools

PRACTISE YOUR SKILLS
- Define, describe and apply relevant business management concepts and terms
- Acquire, record, interpret and share business information and ideas
- Research and analyse case studies and current examples of business management applicable to planning a business
- Apply business management knowledge to practical and/or simulated business situations
- Develop and construct business plans
- Use a planning tool to analyse a business's current situation and interpret the information

3.13.1 Developing and constructing a business plan

In chapter 1 you may have completed market research and/or a feasibility study for a business idea. You are now going to develop and construct a business plan for that idea. Your idea might be for a school-based, short-term business activity or it might be for a business that could operate outside school, now or in the future.

Some things to consider before you start

Your teacher will let you know about the date or dates on which your business activity can run if a school-based, short-term business activity is to occur. It might be a good idea to work in a group — this way you can share the workload.

Note: Due to the potential implications of this activity on students’ time within and outside of school, financial issues and potential implications for the wider school community, principal and key stakeholder permission and approval should be sought before conducting a student school-based business activity.

Some suggestions

Some suggestions for the scope and range of small business ventures include:
- a sausage sizzle stall
- a market day with student stalls competing against each other during a lunchtime market
- planning and running a year-level formal
- running a school comedy night
- constructing and selling student-designed websites to local businesses.

Complete your business plan
- Use ProjectsPLUS in the Resources tab to complete a business plan using the Business Plan template. There are other resources, such as support files and weblinks, to provide you with information and guidance on creating your business plan. Alternatively, there are free business plan templates available on the Business Victoria and business.gov.au websites. Note: Some of the questions or tasks may need to be modified to suit a school-based business activity.
• Submit your business plan.
• If you are participating in a school-based business, make any changes necessary to your business plan.
• Make final preparations to run your business activity.

3.13.1 Activities

TEST your skills
1. What is the purpose of a business plan?
2. Identify the main elements of a business plan.
3. How did you or your group manage the business plan?

APPLY your skills
4. What was the objective for your business?
5. How will you achieve these objectives?
6. Use the following table to summarise your business plan. For example, your executive summary might outline that your business is a sausage sizzle stall called ‘Snags’ with the objective of selling the highest quality sausages at the lowest price.

<table>
<thead>
<tr>
<th>Element</th>
<th>Outline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive summary</td>
<td></td>
</tr>
<tr>
<td>Operations plan</td>
<td></td>
</tr>
<tr>
<td>Financial plan</td>
<td></td>
</tr>
<tr>
<td>Marketing plan</td>
<td></td>
</tr>
</tbody>
</table>

3.13.2 SWOT analysis

As discussed in section 3.12.2, a SWOT analysis identifies the strengths, weaknesses, opportunities and threats that will affect a business. It will help to identify the strong and weak areas within the business, while highlighting any opportunities or threats that may exist in the external environment.

Examining the business’s internal environment and researching the business’s external environment will help the owner to form short- and long-term strategies. A SWOT analysis also draws the owner’s attention to areas of the business that require improvement as well as core strengths that can be used to further develop and refine the business.

MARS

Mars is a private, family-owned company that produces some of the world’s leading confectionery, food and pet care products, and has growing beverage and health and nutrition businesses. Headquartered in McLean, Virginia (in the United States), Mars Incorporated operates in more than 80 countries and employs more than 100,000 associates (employees) worldwide. Mars launched in Australia in 1954. The company’s global sales are approximately US$35 billion annually. Founded in 1911, the company manufactures and markets a variety of products under many of the world’s most recognisable trademarks, including M&M’S®, SNICKERS®, MASTERFOODS®, DOLMIO®, PEDIGREE®, UNCLE BEN’S®, ROYAL CANIN®, WHISKAS®, EXTRA®, ECLIPSE® and STARBURST®. Mars uses high quality ingredients and employs the highest standards of quality control.
Mars is a global manufacturer of confectionery, pet care, and other food products. Mars has developed five principles to lead and guide the company: Quality, Responsibility, Mutuality, Efficiency and Freedom. They express the company’s vision of not only what Mars is, but also where and what Mars wants to be. The Five Principles are put into practice every day by Mars associates (staff) all over the world and have developed into a practical, effective and unique way of doing business that collectively and individually sets Mars apart. For example, Mars’ environmental policy is anchored in the Five Principles.

Mars has policies concerning its use of genetically modified ingredients, the health and nutrition of its foods, research involving animals and positive relations with its associates. Mars has a 2020 target — that 100 per cent of its cocoa will come from certified sources; in 2016 it was on track to certify 50 per cent of the cocoa it buys.

Staff at Mars are known as associates and teamwork is very important; units work with each other to achieve broad corporate objectives. Mars Australia was recognised as the best place to work in Australia for 2017 (according to Great Place to Work®’s Best Places to Work Study — in the over 1000 employees category).


### 3.13.2 Activities

#### TEST your skills

1. List each of Mars’ strengths and weaknesses in the table. These should relate to the internal aspects of the business.

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
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</table>

2. List each of Mars’ opportunities and threats in the table. These should relate to the external aspects of the business.

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
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<tbody>
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<td></td>
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</tbody>
</table>

3. Explain what a SWOT analysis is.

#### APPLY your skills

4. How could Mars use its strengths to seize the opportunities you have listed?
5. How could Mars use its strengths to overcome the threats you have listed?
6. What could Mars do to make sure that its weaknesses do not prevent it from seizing its opportunities?

### 3.13.3 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.
CONSTRUCTING A BUSINESS PLAN FOR A McDONALD’S FRANCHISE

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 Tecoma for over 40 years commented that it is the best thing that has happened to the town.

3.13.3 Activities

TEST your skills
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. Outline the essential elements that would have been included in James Currie’s business plan.
4. Explain the results of his business plan.

APPLY your skills
5. Why do you think it is important to spend time undertaking research before completing the business plan?
6. Outline some of the main reasons that business owners should complete a business plan.

3.14 Corporate social responsibility management issues regarding business planning

KEY CONCEPT A business owner should consider corporate social responsibility when planning a business.

When planning a business, a business owner needs to consider corporate social responsibility management issues. The federal government’s business.gov.au website recommends that a business plan includes a sustainability plan section, in which the owner outlines: environmental and resource impacts, community
impact and engagement, risks and constraints, and strategies for minimising or mitigating the business’s environmental impact as well as any risks to the business.

To be socially responsible, a business must not simply abide by the laws and generate the largest profit possible; it needs to consider how it can go above and beyond its basic legal requirements to improve the welfare of its stakeholders, including its employees, customers and the wider community.

3.14.1 Why corporate social responsibility?

Customers are growing more conscious of the effects businesses have on the wider community. A business that generally acts in a socially responsible manner is far more likely to attract customers. A failure to do so can result in customers boycotting the business and turning to more socially responsible competitors.

A business that fails to act ethically towards its employees can sour the relationship it has with its most important asset. Dissatisfied workers are far more likely to leave a business, resulting in an expensive process of finding and training new staff to replace them. Many businesses today see the benefits that corporate social responsibility has on staff morale, which in turn leads to a more productive workplace and greater employee retention.

A business owner should be aware that acting in a socially responsible manner does have costs and/or limitations. Implementing corporate social responsibility practices has a financial cost. For example, measures such as installing solar panels or water tanks to reduce the impact of the business’s operations on the environment, can mean that the business will face significant expenses in the short term.

Planning and managing a business in a socially responsible manner can also be time consuming. Planning socially responsible practices and then producing policies that reflect them can divert resources from other important tasks. Although planning to implement socially responsible practices can result in the business having a good reputation, there is no guarantee that this will occur.

3.14.2 How to be socially responsible

While each business will find itself in different circumstances that may test its commitment to corporate social responsibility, the following issues are ones that most owners might consider when planning a business.

Environmental issues

When making planning decisions, the business owner should consider the potential impact of their business on the environment. For example, the owner may decide to better manage the business’s energy use. As well as benefitting the environment, this will also reduce the business’s energy costs. Consideration may also be given to recycling, waste reduction measures and using sustainable resources.
To determine the impact of the business on the environment, the owner may choose to conduct an **environmental audit**. This will help the owner to assess the nature and extent of the business’s impact on the environment and how it can be managed. An environmental audit can also demonstrate accountability to stakeholders, such as shareholders, customers, the government and the community.

The business owner may also consider setting up an **environmental management system (EMS)**. Implementing an EMS during the planning process will allow the owner to manage the business’s environmental impact in a systematic and methodical manner. The owner may choose to have the EMS accredited to the ISO 14001 standard; this means that the business meets the requirements of the international standard for an effective environmental management system. Use of the standard can assure stakeholders that the business is measuring its environmental impact and is improving it.

**Customer issues**

The prospective business owner must plan to meet the needs of customers. Without customers, a business will not survive. Therefore, customer satisfaction will also be an important consideration for a business owner. The products that the business will produce should be of a high quality. The owner must also ensure that the business’s products are safe and reliable. Customers must be treated fairly and equitably. The business should not engage in misleading or deceptive behaviour. Many of these issues are also legal responsibilities that are specified under the **Competition and Consumer Act 2010 (Cwlth)** and within Australian Consumer Law. However, a business owner should plan to go above and beyond basic legal requirements. Businesses that plan to respect and satisfy customers are much more likely to experience success.

**Staffing issues**

Given that the decisions a business owner makes will often have a great impact on employees, it is of the utmost importance that the socially responsible management of staff be considered when planning the business. When planning, the business owner should consider:

- **fair pay.** Businesses are increasingly shifting production overseas where labour is cheaper and laws against the exploitation of workers are not enforced (or non-existent). A business owner should ensure that employees will be compensated fairly for the tasks they will perform regardless of where they work.

- **safe and healthy working conditions.** A business should ensure that its workers’ health and safety is the highest priority. While this is also a legal requirement, a business owner should plan to act above and beyond the law. Regardless of where production is taking place, a socially responsible business must ensure that there are no long-term health consequences for people it employs.
• employing disadvantaged groups. A business owner may plan to make a positive contribution by offering employment opportunities to disadvantaged or marginalised members of society. People who have been released from prison, are from rural Indigenous communities, or who live with a physical or mental disability often find it difficult to find gainful employment. The government recognises the difficulty that certain groups have finding employment and will often subsidise businesses to employ such people.

DID YOU KNOW?
As a general rule of thumb, it costs 40 per cent of the annual salary of a departed worker to replace them.

3.14.3 Socially responsible policies
A business needs to ensure that the policies it develops reflect a commitment to social responsibility. It is through policies that the business can set expectations for its employees and define what it deems to be appropriate behaviour. When planning the business, the owner can develop policies in the areas of environmental sustainability, workplace bullying, equal opportunity for all employees, employee leave and flexible work arrangements.

3.14 Activities
TEST your understanding
1. What are the benefits of a business being socially responsible?
2. Explain what might happen if a business fails to consider corporate social responsibility.
3. Why do you think it is so costly to replace a worker who has left the business?
4. Distinguish between an environmental audit and an Environmental Management System.
5. Explain why it is important for a business owner to consider the potential impact of their business on the environment.
6. What customer issues should a business owner consider when planning a business?
7. Outline some of the corporate social responsibility issues related to staffing that might be considered by a business owner when planning a business.

APPLY your understanding
8. List three ways in which the following businesses could ensure that they are acting in a socially responsible manner with regard to their internal environment:
   (a) a clothing manufacturer considering shifting their operations to Bangladesh
   (b) a mining company that mainly extracts coal in Queensland
   (c) a Victorian pesticide manufacturer that specialises in the production of rat poison.
9. The image below is the work of a world-famous British graffiti artist who goes by the alias of ‘Banksy’.
   (a) Briefly write your first impressions of the image.
   (b) Why do you think the artist has illustrated a young boy operating the sewing machine?
   (c) What do you think is the significance of the boy sewing a British flag?
   (d) Do you think that an Australian flag would be equally relevant? Why or why not?

EXAM practice
10. Describe two corporate social responsibility management issues regarding business planning. (4 marks)
11. Discuss the issues that should be considered by a business planning to implement practices related to corporate social responsibility. (4 marks)

3.15 APPLY YOUR SKILLS Planning decisions in response to internal factors

PRACTISE YOUR SKILLS
• Define, describe and apply relevant business management concepts and terms
• Acquire, record, interpret and share business information and ideas
• Research and analyse case studies and current examples of business management applicable to planning a business
• Apply business management knowledge to practical and/or simulated business situations
• Discuss the decisions made in response to the internal factors that affect a business

HOW NIMBLE JUMPED ON THE ACTIVEWEAR FASHION TRENDS
Hailing from Melbourne, best friends Vera Yan and Katia Santilli are most comfortable dressed all in black. But after moving to Bondi the pair embraced the area's lifestyle and found themselves attending exercise classes on a daily basis and getting around in their activewear.

'We saw activewear was not just for the gym anymore,' says Yan. 'There was a lot of technical apparel available like Lululemon and Nike but there was not the fashion option.'

Seeing a gap in the market for an activewear brand that featured fashionable prints, met technical requirements and was sold at an accessible price point, the pair launched Nimble Activewear in 2014.

Within three years the business grew to employ 14 staff, turn over $4 million a year and open two stores in Bondi in Sydney and Armadale in Melbourne.
Launching from the kitchen table

Yan and Santilli started Nimble Activewear on the side while still working, and self-funded the business without any outside investment.

‘Our office was our kitchen table and our warehouse was the hallway,’ says Santilli. ‘We see every step through ourselves — from the design process, to sourcing fabrics to the pattern making and manufacturing process.’

The early days of building the business had its challenges.

‘Part of being in business is about being so resilient,’ says Yan. ‘We did a photo shoot with a photographer who accidentally used an underwater camera. It was a cheap deal for a photographer and a studio to shoot in, but when the photos came back the model looked so distorted and short. We had to completely reshoot the whole thing.’

Bricks and mortar retail

The pair started out selling Nimble through their own online store and via Stylerunner and The Iconic.

‘Julie [Stevanja, founder of Stylerunner] was amazing and picked us up very early,’ says Yan.

Traditional retail stores came next.

‘Opening up the Bondi store was a really big turning point for us,’ says Yan. ‘For us the bricks and mortar is so important. Online and retail are an equal split of our business. We hold a lot of free instore events, whether that is a yoga or pilates class or free talks. We try to team up with like-minded businesses.’

Activewear boom

Nimble has tapped into the rise of leggings as the new jeans, with Ibisworld valuing the fitness and athletic clothing stores market at $2 billion in Australia.

‘Sportswear is no longer confined to gyms or sporting fields, with consumers increasingly wearing their fitness apparel and footwear as streetwear or casual wear,’ Ibisworld’s report states. ‘This trend has driven strong demand for fashionable activewear that can be worn in or out of the gym.’

Ibisworld predicts industry revenue will increase by an annualised 5.7 per cent over the five years through 2017–18, and Yan and Santilli want to ride that growth.

‘When we launched, activewear was really crossing over in the fashion space,’ says Santilli. ‘People are very busy, they don’t want to get changed after the gym and they want to be comfy. We showed in fashion week in Sydney in May and that was a real indication of the crossover.’

Yan and Santilli list their major competitors as The Upside, PE Nation, Running Bare, Dharma Bums and Lululemon.

‘There is more and more competition, but I think that is a healthy thing,’ says Santilli. ‘We have put a lot of research into our product because at the end of the day we are a technical brand. If they can’t sweat and do an intense workout people won’t come back to us.’

Over the next five years the pair want to open eight stores Australia-wide and further develop their online business, which currently makes 15 per cent of its sales internationally.

‘We think activewear is the Australian apparel product that swimwear was,’ says Yan.

3.15 Activities

TEST your skills
2. Yan and Santilli initially established their business as online only. Why do you think they did this?
3. As well as a store in Bondi, Nimble Activewear has also opened a store in High Street, Armadale (a popular shopping strip in Melbourne). Explain the factors that would have affected this choice of location.
4. Describe Yan and Santilli’s initial source of finance, and the factors that would have affected that choice.
5. Nimble Activewear is a private limited company. What does this mean?
6. Describe Nimble Activewear’s business model.
7. Using examples, explain how Yan and Santilli’s planning decisions were somewhat influenced by factors in the external environment.

APPLY your skills
8. Working in a small group, copy the table below. Use the second column to briefly explain how Yan and Santilli planned in relation to each internal factor. In the third and fourth columns, outline the strengths and weaknesses of the planning decisions made by Yan and Santilli. One decision has already been completed for you.

<table>
<thead>
<tr>
<th>Planning decision</th>
<th>Application to Nimble Activewear</th>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business location</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sources of finance</td>
<td>Yan and Santilli self-funded their business without any outside investment.</td>
<td>The source of finance is cheaper than other sources as there is no interest payments. As Yan and Santilli contributed the equity they retain control over how the finance is used.</td>
<td>Yan and Santilli would have expected a good return on their investment, but the small amount of finance may have only generated low profits and low returns. It can often take time for an owner to raise equity.</td>
</tr>
</tbody>
</table>

Purchasing an existing business / establishing a new business

Legal business structure

Business model

9. The task word (sometimes referred to as command word or instructional word) ‘discuss’ generally requires you to consider both sides of an issue. This might mean writing about the advantages and disadvantages, the strengths and weaknesses or the benefits and costs. Using the information you have recorded in the question 8 table, discuss three decisions that Yan and Santilli made in response to the internal factors affecting Nimble Activewear.

10. Suggest two corporate social responsibility management issues that Yan and Santilli may have considered when conducting business planning. Explain the benefits and limitations of these issues.
3.16 Review

3.16.1 Summary

Business resource needs
- Resources are all those people and objects that are needed for the business to function properly.
- There are three categories of resource that a business needs to plan for: natural, labour and capital.

Business locations
- Different types of business will be suited to different locations, and the business owner must consider a number of factors when determining the most appropriate location for their particular business.
- Factors to consider include visibility, cost, proximity to customers, suppliers, competitors and complementary businesses.

Sources of finance
- There are two types of finance sources available to a business. 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, by taking on debt or applying for a grant.
- Equity is the funds contributed by the owner/s of a business to start 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.
- Businesses must find the source of finance that is most appropriate to their activities.
- 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.

Purchasing an established business or commencing a new business
- A person wishing to go into business has a choice of either purchasing an existing business, with all its existing strengths and weaknesses, or commencing a completely new business.
- Establishing a new business is likely to benefit a business owner who has recognised a gap in the market or who has developed a totally new product.
- Purchasing an existing business is likely to benefit a business owner who is seeking instant income and a proven track record.

Types of legal business structures
- A number of different legal ownership structures are available to a person wishing to establish a business.
- The most common are unincorporated businesses such as sole traders and partnerships, which each carry particular legal requirements and responsibilities.
- Incorporation allows a business to become a company, which is a legal entity separate from its owners, and which provides the benefits of limited liability to those owners.
- Private limited companies and public listed companies are the two major forms of incorporated business ownership.

Types of business models
- A business model is the way in which the business will run its operations to generate a profit. The business owner will select a business model that meets the goals of the business.
- Business models include online business, bricks and mortar business, importer and exporter.
- Buying a franchise to use an existing brand name and reputation is a popular business model.
- Another business model is social enterprise — this is a business that produces goods and services for the market, but operates with the primary objective of fulfilling a social need.
Business support services

- The business owner has access to a number of other businesses or individuals, such as solicitors, accountants and banks, which provide expert professional advice and support in the areas of law and finance in return for fees and other remuneration.
- Various levels of government and not-for-profit organisations also provide a wide variety of support services for business, such as technological advice.
- Formal networks include Chambers of Commerce, VCCI, Small Business Association of Australia and New Zealand, trade associations and government.
- Informal networks include networks of friends, colleagues and local business owners.
- Community-based services include Business Enterprise Centres and Small Business Centres Victoria.
- A business mentor can provide valuable guidance to a business owner.

Planning tools and business plans

- Planning is an essential part of establishing and running a business.
- A business has many tools available to assist in the planning process.
- A business can get a better understanding of its customers and competitors by conducting market research.
- A SWOT analysis helps a business identify its internal strengths and weaknesses as well as external opportunities and threats.
- A typical business plan should include an executive summary, operations plan, financial plan and marketing plan.

Corporate social responsibility management issues

- A business should consider how it can go above and beyond legal requirements to improve the welfare of its stakeholders.
- A failure to act in a socially responsible manner can result in customers boycotting the business’s goods or services as well as employees leaving due to low staff morale.
- A business owner should consider the potential impact of the business on the environment when planning. The owner may consider conducting an environmental audit and setting up an environmental management system.
- A business owner should plan to ensure that the needs of customers are taken into consideration.
- A business owner should ensure that staffing issues are considered when planning. For example, safe and healthy working conditions for employees above and beyond legal requirements should be established; fair wages should be provided regardless of where employees are from; and a business may also consider employing workers from disadvantaged groups.
- A business owner should plan to ensure that policies are in place that reflect a commitment to corporate social responsibility.

3.16.2 Key terms

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>accountant</td>
<td>a professional who provides advice on all financial management issues and taxation obligations in return for fees and other remuneration</td>
</tr>
<tr>
<td>angel investors</td>
<td>individuals or businesses that invest in a new business. They are likely to expect a return on their capital, as well as taking a role in supporting the business owner.</td>
</tr>
<tr>
<td>bank overdraft</td>
<td>when a bank allows a business or individual to overdraw their account up to an agreed limit for a specified time, to help overcome a temporary cash shortfall</td>
</tr>
<tr>
<td>bootstrapping</td>
<td>starting a business using personal finance or the revenue from the business</td>
</tr>
<tr>
<td>boycott</td>
<td>when a customer refuses to purchase goods or services from a business as a form of protest against the undesirable activities of the business</td>
</tr>
<tr>
<td>bricks and clicks</td>
<td>the business model that offers customers the choice of online shopping as well as shopping at the physical store</td>
</tr>
</tbody>
</table>
bricks and mortar  the traditional business model that is based on a store with a physical presence, such as those located on shopping strips and in shopping centres

business entity  any organisation that exists separately to its owner in order to produce and sell goods and services

business model  the way in which the business will run its operations to generate a profit

business plan  a written statement of the goals and objectives for the business, and the steps to be taken to achieve them

capital resources  the tools and machinery that are used to produce goods or perform services

complementary businesses  products that are aimed at the same customers

crowdfunding  a method of raising finance through appeals for donations via social media and the internet

debt  the funds provided by banks, other financial institutions, government and suppliers, and which must be paid back over time, with interest

employee retention  the ability of a business to keep employees

environmental audit  a review of the extent to which a business’s activities have an impact on the environment.

environmental management system  a tool for managing a business’s environmental impact in a systematic and methodical manner

equity  the funds contributed by the owner(s) of a business to start and build the business

franchise  when a business sells to others the rights to distribute its goods and use the business name

franchise agreement  an agreement whereby the franchisor grants the franchisee the rights to use its business name and distribute its goods or services

franchisee  a business that is licensed to operate under the name of an existing business and distribute its goods or services

franchisor  the owner of the original business concept that licenses another business to use its name and distribute its goods or services in exchange for royalty payments and fees

goodwill  the monetary value attached to the reputation of a particular business

imports  goods and services that are produced overseas and sold to Australian consumers

incorporated  a business that has a separate legal existence apart from its owner/s

incorporation  the process that a business goes through to become a registered company and a separate legal entity

labour resources  the people that provide their skills, effort and knowledge to the business

leasing  a way of financing the purchase of assets without a large initial capital outlay

lessee  the person or business to whom a lease is granted

lessor  the owner of an asset that is leased under an agreement to the lessee

limited liability  when the shareholders of a company cannot be held personally responsible for the debts of the business

manufacturing  a business that produces physical goods, often in a factory setting. These goods are then sold to wholesalers or directly to retailers who then sell the good on to customers at a marked-up price.

mortgage  a loan secured by the property of the borrower (the business)

natural resources  items the business uses that come from the natural environment. These include land, water, raw materials etc.

partnership  an unincorporated business structure with a minimum of 2 and a maximum of 20 owners

planning  a process or series of actions to achieve an objective

proprietary (private) company  an incorporated business with a minimum of 1 shareholder and a maximum of 50 non-employee shareholders

prospectus  a legal document that provides details about investment in the company

resources  the people and objects that are needed for the business to function properly

retail  a business that operates by selling goods and services to the customer at a price higher than the cost to produce or purchase the goods in bulk. Examples include Kmart and Target.

search engine optimisation (SEO)  the strategies used to increase the number of visitors to a website by making it more visible on search engines such as Google

shareholders  the owners of a company who are entitled to a share of its profits

silent or sleeping partner  one who contributes financially to a business but takes no part in the running of the business

social enterprise  a business model that aims to improve the wellbeing of others through its business activities

sole trader  a business owned and operated by one person

solicitor  a professional who provides advice on legal matters such as business formation, registration, contracts and legislation
3.16.3 Review questions

TEST your understanding

1. Identify and explain the three types of resource used in production.
2. Why is it important for the business to give special consideration to how it uses labour resources?
3. Outline three types of physical location that a business may operate from.
4. Briefly explain three activities that you would expect an online business to undertake.
5. Describe five factors that affect the choice of a business location.
6. Name the two main types of external funding.
7. Identify and describe three forms of short-term debt.
8. Identify and describe two forms of long-term debt.
9. What is a government grant?
10. Identify and describe five factors a business should consider when choosing a source of finance.
11. Describe three benefits of purchasing an existing business as opposed to starting from scratch.
12. Describe three benefits of starting a new business as opposed to purchasing an existing one.
13. Outline three advantages and three disadvantages of running a business as a sole trader.
14. Explain three advantages and three disadvantages of a partnership.
15. Describe three advantages and three disadvantages of a company.
16. Explain what it means for a business to be incorporated.
17. Explain the concept of limited liability and why it is beneficial to the owners of a business.
18. Describe two types of online business models, giving real-life examples of each.
19. Why do you think many ‘bricks and mortar’ businesses are moving towards a ‘bricks and clicks’ business model?
20. Outline the difference between imports and exports.
21. How are the objectives of a social enterprise different to those of a traditional business?
22. Briefly explain the role of an accountant in supporting a business.
23. Identify and describe one example of a professional organisation that provides support services to businesses.
24. Describe the role of a mentor.
25. What is a SWOT analysis?
26. Explain the importance of developing a business plan.
27. Outline how a policy can be used to help a business achieve a greater level of corporate social responsibility.
APPLY your understanding

28. Identify a business of which you have some knowledge. It could be a business that employs a member of your family or a friend, or where you work part time. Interview the owner of the business and prepare a report, covering the questions in (a)–(t) below. You should photocopy this page to take into the interview.

If you are unable to arrange an interview with a business, you may research the website of a given business on the internet to find the information required for the report.

(a) What are three capital resources that the business uses on a regular basis?
(b) What are three natural resources that the business uses on a regular basis?
(c) How many workers does the business have?
(d) What does the business expect from its workers?
(e) What do the workers expect from the business?
(f) How does the business ensure that it treats its workers fairly?
(g) How does the business ensure that the working environment is safe?
(h) Where is the business located?
(i) Why did the business choose this location?
(j) Are there any disadvantages of its current location?
(k) How did the business get the finances needed to establish itself?
(l) How does the business fund its continued operations?
(m) What form of legal structure is the business?
(n) Is the business incorporated? If so, has it been so since its establishment?
(o) What planning did the owner undertake when starting the business?
(p) What planning tools does the business use today?
(q) What are the strengths and the weaknesses of the business?
(r) What opportunities and threats present themselves to the business?
(s) How does the business show a commitment to corporate social responsibility?
(t) Does the business have any policies related to corporate social responsibility?

EXAM practice

29. Distinguish between labour resources and capital resources. (2 marks)
30. Explain the costs and benefits of purchasing an existing business or the costs and benefits of establishing a new business. (4 marks)
31. Identify a business model and explain the effect that choosing this model will have on the planning of a business. (3 marks)
32. Justin and Maynard are considering locating their new computer business in a retail shopping strip.
   (a) Indicate whether or not you believe this is a suitable location. Justify your response. (3 marks)
   (b) Explain how the choices that Justin and Maynard make relating to finance will affect their business planning and, ultimately, the success of the business. (6 marks)
   (c) Identify an appropriate type of legal business structure for Justin and Maynard and discuss the use of this structure. (5 marks)
   (d) Describe two relevant business support services that Justin and Maynard could use. (4 marks)
33. Explain why a SWOT analysis is an important planning tool for a business. (2 marks)
34. Analyse how corporate social responsibility management issues may affect business planning. (4 marks)
3.16.4 School-assessed coursework

OUTCOME 3
Describe the internal business environment and analyse how factors from within it may affect business planning.

ASSESSMENT task — case study analysis
Read the following case study and then complete the questions below.

A sea change
Phillip and Janice worked in a bank, but had always wanted to run their own business. While on holiday in a small seaside town, they noticed that the local general store and take-away food outlet was up for sale. The business was the only one of its type in the town, but the town is very small and only seems to have a reasonably large population during summer and holiday periods, when the local camping and caravan park and other holiday accommodation are all full. They are very interested in purchasing the store, but realise they have to make a number of important planning decisions before committing to actually making an offer for the store.

Phillip and Janice are considering the purchase of a general store or take-away food outlet such as this one.
Consider the business Phillip and Janice are interested in purchasing and use your judgement to answer the following questions.

1. Describe the business resources that Phillip and Janice are likely to use in the operation of the general store and take-away food outlet.
2. Outline the store location's advantages and disadvantages.
3. Explain two sources of finance that would be suitable for Phillip and Janice as they seek funds to purchase the shop.
4. Analyse Phillip and Janice's decision whether to purchase the existing business as opposed to starting from scratch.
5. What type of legal business structure would be appropriate for Phillip and Janice to use? Justify your response.
6. Explain two business support services that Phillip and Janice could seek advice from.
7. Outline what a bricks and mortar business is, and explain why the general store and take-away food outlet suits this business model.
8. List two opportunities and one threat that the general store and take-away food business might encounter given the information in the case study.
9. Analyse the importance of Phillip and Janice constructing a business plan as they make planning decisions.
10. Outline two issues that Phillip and Janice should consider to ensure that the general store and take-away food business is a socially responsible one.

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