12.1 Introduction

Businesses do not plan to fail, they fail to plan — this quotation is a sad reflection of reality. SME owners start keen, convinced their idea will succeed. They are full of optimism. However, while enthusiasm is an essential ingredient in the success of a business, it is not enough by itself. If prospective business owners neglect to undertake thorough planning, so they can put together a carefully researched business plan, the stage is set for business failure. Optimism will turn to despair as the small business owner faces the grim reality. All SME owners must have a good understanding of the:

• role of the business plan
• process of business planning.

The role of the business plan

A business plan is similar to a road map. You would not go on a year-long trip around Australia without first preparing a plan. You would need to decide which roads to take, where to stay and what sights to visit. During the trip, you would need to constantly refer to the map to make sure you were heading in the right direction. Also, on hearing about closed roads or experiencing mechanical problems, you would need to modify your travel plans to suit the new conditions.
It is amazing that many people put more planning into a holiday than they do into their business. Without planning, the business owner does not know where the business is heading. The business ‘journey’ will probably end in disaster, with the owner asking, ‘How did I end up here?’ Therefore, 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 (see the following Snapshot).

**kikki.K — planning to succeed**

Kristina Karlsson, founder and creative director of kikki.K, started her business in 2001. She had a passion for stationery and opened her first kikki.K 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.’

A business plan should be a ‘living document’. It needs to change as the business changes. Kristina Karlsson believes that business plans must be flexible so that if something is not working, the business can adapt accordingly.

Today, kikki.K has 83 stores in Australia and New Zealand, as well as two in Singapore. The business has also grown its product range beyond stationery to bags and homewares. It recently announced plans to franchise up to 10 of its Australian stores.

**Snapshot questions**
1. Recall how Kristina financed her business development.
2. State why the banks were not supportive in her early years of business.
3. Outline why it was important for Kristina to have a business plan.
4. Explain what Kristina means when she says that a business plan should be a ‘living document’.

However, preparing the business plan is only the first stage. Many SME owners realise the need to prepare a business plan before establishing a business, but they then make a fundamental mistake — they forget to constantly refer back to their plan. This would be similar to a student preparing a set of summary notes for a topic and then never looking at them.

Even if a SME owner manages to avoid the mistake of not regularly consulting the business plan, there is still another trap. An inexperienced person may not be flexible enough to modify their business plan as the internal and external business environments change. Sticking too rigidly to a plan, and not adapting it to suit the changed conditions, can be as detrimental as not having a plan.
The business plan must always be seen as a working document. It is not a straitjacket restricting the business and preventing change. The unexpected can and often does happen. Unfavourable factors, such as a customer not paying an account or a new competitor moving into the market, will force the business owner/manager to modify their plan. Favourable conditions such as a new marketing opportunity will need to be seized and they will also require some modification to the plan.

**What is a business plan?**

A business plan is exactly what it says — a plan for a business. It is a written statement of the business’s goals and the steps to be taken to achieve them. In other words, it is a summary and an evaluation of a business idea in written form. The ‘writing’ is important because ideas tend to be no more than wishful thinking until transferred to paper. Thinking about something is not planning. A few ill-conceived ideas scribbled on the back of an envelope are likely to lead to business failure.

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

If a business plan is so important, why do some people attempt to establish a business without first preparing one? Figure 12.2 highlights some of the main reasons.

**Reason 1 — Let’s get on with it straight away.**

These people believe planning is a waste of time and effort. This attitude often leads to impulsive actions and mistakes.

**Reason 2 — Planning costs too much.**

Business planning does involve gathering and analysing information but it need not be expensive.

**Reason 3 — You have to be an academic to plan.**

While some of the terms used may initially sound confusing, business planning is no more difficult than preparing a holiday.

**Reason 4 — I’m only a small business owner.**

Businesses of all sizes need to set goals, prepare strategies and evaluate the outcome.

**Reason 5 — What do they tell me that I don’t already know?**

Without a business plan it is impossible to shape the future, make projections and evaluate the business’s performance.

**Reason 6 — I’ll do it later; I don’t need it at this stage.**

Just working hard is no longer a guarantee of business success. Planning and revising the plan need to be undertaken at all stages of the business’s life.

Planning is not always easy and it can be time consuming. However, the time invested in planning is never wasted in the long run, for, with it, the chances of success are greatly improved.
Types of business plans

Just as no two businesses are identical, neither are any two business plans. Each plan will be unique, containing information and strategies that apply to one particular business. A business plan for a transnational corporation, for example, will be detailed and comprehensive. It will add up to hundreds of pages, having taken much time, effort and money to prepare. Its presentation will be highly professional and distributed to a large number of the company’s senior management. On the other hand, a business plan for a SME may be only 10–15 pages in length, word processed at home and circulated to only a few people.

Depending on variables such as the product, the market, the size of the business and its location, each business will have a unique set of information in its business plan. However, regardless of their type, length, appearance and distribution, all business plans have a number of common elements, as shown in table 12.1.

<table>
<thead>
<tr>
<th>Element</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Executive summary</td>
<td>A brief overview of the plan</td>
</tr>
<tr>
<td>2. Goals</td>
<td>What the business hopes to achieve</td>
</tr>
<tr>
<td>3. Strategies</td>
<td>An overview as to how the business will attempt to achieve the goals</td>
</tr>
<tr>
<td>4. Business description and outlook</td>
<td>An overview of the industry in which the business will operate, including a situational analysis</td>
</tr>
<tr>
<td>5. Management and ownership</td>
<td>The nature and type of organisational structure</td>
</tr>
<tr>
<td>6. Operational plans</td>
<td>Details the production process and the people required now and in the future</td>
</tr>
<tr>
<td>7. Marketing plans</td>
<td>The product, price, promotion and distribution details</td>
</tr>
<tr>
<td>8. Financial plans</td>
<td>A description of the business’s financial needs and methods for evaluating its performance</td>
</tr>
<tr>
<td>9. Human resource plans</td>
<td>Details both the present and future staff requirements</td>
</tr>
</tbody>
</table>
While all business plans contain similar information, a comprehensive and detailed business plan is most beneficial. A sketchy, quickly prepared business plan will not serve any lasting purpose. Some plans may only briefly refer to some of the areas, but all points need to be at least considered.

Benefits of a business plan

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

**SNAPSHOT**

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

**Glenstock Eats and Antiques — it’s all about the plan**

‘Preparing a business plan allowed me to think through a lot of important issues before commencing my business. This helped avoid many pitfalls.’ Troy Bartlett, owner of Bartlett Precision Manufacturing.
Roberto was now ready to begin the next stage — preparing the business plan. The business plan would act as a ‘road map’ for his business and would largely determine the basis of his success. The plan would set out the desired goals and directions of the business. In Roberto’s present job as purchasing officer for a large fashion retailer, he had become aware of the crucial importance of adequate planning, especially its importance in obtaining finance.

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

At a recent small business seminar, his local Business Enterprise Centre representative told Roberto that preparing a business plan would force him to examine and develop his business concept carefully. Roberto was going to enjoy the challenge of writing his business plan.

Snapshot questions

1. Outline how Roberto Quesnay may benefit from preparing a business plan.
2. State the operations, financial and marketing factors that Roberto Quesnay should include in his business plan.
3. Predict whether you think Roberto Quesnay has the necessary planning skills to make a success of his business.

12.2 Business planning process

Planning is a process, a series of actions to achieve a goal. If you decide to have a party next Saturday night, for example, this becomes your goal. Unless you undertake some planning you will be unable to achieve this goal. You will need to invite people, organise food and drinks, arrange music and decide on a venue. These tasks are the ‘series of actions’ — an action plan — that you need to undertake to achieve the goal. Planning is therefore the preparation of a predetermined course of action for a business. It refers to the process of setting objectives and deciding on the methods to achieve them.

Planning is not always straightforward. However, a number of activities can be undertaken to make it easier (figure 12.5). A business plan is far more than just listing a few ideas. It is more than merely drawing up a marketing timetable or keeping financial records. The business plan needs to analyse the whole business by examining all parts of the operation. As a result, each part of the business can function effectively and achieve its goals, helping the overall success of the business.
### Party example

<table>
<thead>
<tr>
<th>Party example</th>
<th>Activities — something you do</th>
<th>Terms — the names of what you will be doing</th>
</tr>
</thead>
<tbody>
<tr>
<td>I think my friends would like a party.</td>
<td>1. Predicting something in the future</td>
<td>Forecasting</td>
</tr>
<tr>
<td>I want it to be a successful party.</td>
<td>2. Determining what you wish to achieve</td>
<td>Setting goals</td>
</tr>
<tr>
<td>Anyone who becomes aggressive will be forced to leave.</td>
<td>3. Outlining how to cope with any current and future problems that stand in the way of achieving the goal</td>
<td>Formulating policies</td>
</tr>
<tr>
<td>I will: • invite people • arrange a venue • organise food and music.</td>
<td>4. Deciding on a course of action — that is, the tasks that will help achieve the goals</td>
<td>Programming Scheduling</td>
</tr>
<tr>
<td>I’ll borrow $200 from Michelle.</td>
<td>5. Arranging the finances to satisfy the goals</td>
<td>Budgeting</td>
</tr>
<tr>
<td>PARTY!</td>
<td>6. Putting the plans into action</td>
<td>Implementing</td>
</tr>
<tr>
<td>I want everyone to enjoy the party.</td>
<td>7. Checking on the progress of the activity, evaluating and adjusting the plans if necessary</td>
<td>Monitoring Evaluating Modifying</td>
</tr>
</tbody>
</table>

**FIGURE 12.5** You need to consider a range of planning activities, whether your goal is a party or business success.
Government departments — such as the New South Wales Small Business Commissioner or the federal government’s business.gov.au — provide free and comprehensive advice on a wide range of small business matters including how to write a business plan. As well, numerous small business magazines often contain articles examining business planning.

**FIGURE 12.6** The SmallBizConnect website contains a wealth of information about how to write a business plan, including templates, video case studies and reference material.

**Summary**

- It is vital that a SME owner completes a business plan. Businesses do not plan to fail, they fail to plan.
- A business plan is a written statement of the goals for the business and the steps to be taken to achieve them. It is a summary and an evaluation of a business concept in written form.
- A business plan will also assist the SME owner when arranging finance for the business.
- A typical business plan may include, as a minimum, an executive summary, an operations plan, a marketing plan, a financial plan and a human resource plan.
- The planning process acts as a link or bridge between the business owner’s ideas and the actual operation of the business.
- Planning is the process of setting goals and deciding how to achieve them.

**Revision**

1. **Define** the term ‘business plan’.
2. **Outline** why it is important for a business owner to develop a business plan.
3. **Recall** why so many SMEs fail to prepare a business plan.
4. A friend has asked you to help her prepare a business plan for a new fitness centre she wants to open. **Propose** the elements she should include in the business plan.

**EXERCISE 12.1**

**Weblink**

Use the Small business tool kit weblink in your eBookPLUS to explore the Small Business NSW’s tool kit and resources for small businesses.
5 ‘A plan is similar to a map — it plots the route the business will travel.’ Discuss.
6 Explain how the business plan acts as a link or bridge between the owner’s ideas and the actual operation of the business.
7 Identify the benefits of developing a business plan.
8 Explain why planning is a process.
9 Examine figure 12.5 (page 386), then create a plan for one of the following:
   (a) taking an overseas holiday
   (b) completing an assessable task
   (c) organising a hockey match.
   For each plan briefly outline what is required for each activity.
10 Identify the most appropriate words from below to complete the following sentences.
   plan  strengths
   direction  fail
   review  costs
   link  loan
   flexible  goals
   (a) Businesses do not plan to ________, they fail to __________.
   (b) Business plans should be ______________ — that is, modified as conditions change.
   (c) A business owner should regularly __________ the business plan and modify it when the business environment changes.
   (d) Without a business plan the business lacks __________.
   (e) Many business owners do not prepare a plan because they think it __________ too much.
   (f) When reviewing an application for a __________, financial institutions will want to examine the business plan.
   (g) ________ are what you want to achieve.
   (h) A business plan helps identify the business’s ____________ and weaknesses.
   (i) The planning process is the ____________ between the owner’s ideas and the actual operation of the business.
11 Use the Business plan weblink in your eBookPLUS to find advice concerning the preparation of a business plan. Evaluate the benefit of this and similar sites to someone wanting to start a small business.

Extension
1 ‘Businesses do not plan to fail, they fail to plan.’ Critically analyse this statement.
2 Interview a local small business owner to investigate the following aspects of the business:
   (a) the planning options that had to be considered when starting the business
   (b) the purpose of the business plan
   (c) the role of the business plan within the operation of the business
   (d) the importance of planning to the overall success of the business
   (e) the government departments and/or private organisations that offered assistance in developing a business plan.
   Present your research as a business report. You may wish to present your report as a PowerPoint presentation.
3 ‘The process of planning is more important than the finished plan.’ Determine the benefits this process offers a SME owner.
4 Bruce Thur and senior loans manager for a local bank, receives a lot of business plans from clients. He recalls one plan that arrived in three cardboard boxes as volumes of looseleaf notebooks. Overkill? ‘I knew I wasn’t going to read them. I just put them aside.’ In small groups, determine why such a detailed plan was inappropriate when all the small business owner was requesting was a small loan.
12.3 Sources of planning ideas

We have already examined how the business environment is divided into two categories:
1. the internal business environment. This covers the factors within the direct control of the owners. It represents what occurs within the business.
2. the external business environment. This is the larger environment within which the business operates. It consists of factors over which the business has little control and represents what occurs on a larger scale outside the business.

Information is the essential ingredient needed to prepare a business plan. Having access to up-to-date, relevant and accurate information will allow the business owner to prepare a much superior business plan. Information for planning is obtained from different sources within and outside the business. The different levels of management and, in many cases, employees, may contribute ideas about how the business could achieve its goals. Research and development undertaken by a business may extensively contribute to planning (see the following Snapshot).

**Kapp Engineering — research and development**


The four engineers, all aged between 23 and 28, had worked for an engineering firm that unexpectedly suffered financial difficulties. They were eventually forced to move on, but the experience provided them with the opportunity to see what worked in the industry and what did not. They decided to bring their knowledge and skills together to set up a new company.

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

The team moved into offices at the Stirling Regional Business Centre, which provided low rent and training. They were also able to network with other new business owners and access mentors who provided advice when needed. The four young men chose to start small and concentrate initially on Perth’s metropolitan market, while competitors focused on big projects presented by the mining boom.

They discovered through their research that most of their potential clients relied on the internet to find assistance in solving process engineering problems. KAPP developed its website and search engine optimisation to ensure that customers could find them.

Today, KAPP Engineering provides engineering services, various automation products, project management and training services to clients such as the Water Corporation of Western Australia. It has a client base of 200 companies, and has designed train-lifting and washing systems for Taiwan's high-speed rail project, and the roof-closing system at the Perth Arena. Revenue has increased 700 per cent since its first year, and in 2012, KAPP Engineering was recognised as a finalist in the Telstra Business Awards (Small Business Category).

**Snapshot questions**

1. **Identify** the experience, knowledge and skills the team of four brought to their new business.
2. **Outline** the sources of ideas the four owners utilised to assist in their planning.
3. **State** the benefits of this planning process for KAPP Engineering.
The external environment is also a source of ideas for planning. Economic, political, social, technological, geographic and legal factors have an impact on the business. The business must account for each factor during the planning stage and gather information about each one. Specialists such as accountants, finance brokers, consultants, bank managers and solicitors all provide knowledge to assist a business in its planning.

**Situational (SWOT) analysis**

A situational (SWOT) analysis is an excellent technique for gathering information for use in the business plan. SWOT is an acronym for strengths, weaknesses, opportunities and threats (see figure 12.8). It is a powerful tool that can be used at all stages of the planning process. Analysis of the business’s strengths and weaknesses is an internal analysis. Given that the business has a degree of control over its internal environment, the analysis will provide information that can help place the business in a stronger financial position. From this position, the business can set new goals.

Analysis of the business’s opportunities and threats is an external analysis. Particularly important to the business plan is the identification of unmet or unsatisfied demand that the business can perhaps satisfy. At the same time, the business owner should attempt to convert threats into opportunities.

**Summary**

- The internal and external business environments are sources of planning ideas.
- Information is the essential ingredient needed to prepare a business plan.
- A situational (SWOT) analysis can be used at all stages of the planning process.

**Revision**

1. **Distinguish** between a business’s internal and external environments.
2. **Identify** two sources of information for planning (i) within, and (ii) outside the business.
3. **Recall** what the acronym SWOT represents.
4. **Outline** the benefits of a situational (SWOT) analysis as a planning tool.
5. **Construct** a situational (SWOT) analysis for either:
   (a) a business that you deal with regularly
   (b) your school.
Extension

1 ‘The most important aspect of the business planning is the process of examining the environment, one’s self and the business opportunities the two represent.’ Analyse the accuracy of this statement.

2 In small groups, use the brainstorm technique to determine the advantages of obtaining ideas from employees in the planning process.

12.4 Vision, goals and/or objectives

Vision

A business’s vision is often expressed in their vision statement. A vision statement broadly states what the business aspires to become in the future. The vision of the Commonwealth Bank is ‘to excel at securing and enhancing the financial wellbeing of people, businesses and communities’.

Vision statements may relate to customers (using such phrases as ‘maximise customer satisfaction’, ‘remember that customers are our strength’, ‘never have a dissatisfied customer’) or employees (for example, ‘make the firm an enjoyable and rewarding place to work’, ‘offer opportunities for career advancement’, ‘remember that our employees are our strength’). A clear vision statement should be concise, creative, focused and realistic. It may contain any special features of the business, what it values and what it hopes to achieve.

The main purpose of the vision statement is to guide and direct the business owners, managers and employees. It creates the culture within the business and acts as a benchmark against which to measure all the business’s decisions and operations.

**David Jones**

Vision

Our vision is that David Jones will bring the best branded department store shopping experience to everyone we serve, anywhere, anytime, every time.

**Bartlett Precision Manufacturing**

Vision

Bartlett Precision Manufacturing is committed to:
• providing high-quality design and engineering services to our customers in accordance with best international practice
• the safety and wellbeing of our employees
• fulfilling the community’s demand for a safe and sustainable environment.

**Visy**

Vision

Visy will be the leading provider of recycling (waste), paper and packaging products and services, via a dynamic business model that fosters innovative, sustainable solutions for superior returns.

**FIGURE 12.9** Vision statements from a range of businesses

Goals and/or objectives

Once the owner has formulated the vision statement for the business, they can determine specific goals. People start up a business because they want to achieve something; they have a goal they want to accomplish. As explained in chapter 6, a goal states what a business expects to achieve over a set time, which will assist in realising the business’s vision.

Goals for businesses could include the following:
• to become the largest business in the market
• to improve market share
All these goals have one thing in common: they are the motivating force behind the business.

Levels of goals and objectives

Once the goals have been established, a SME owner usually then decides how to achieve them. As outlined in section 12.2, this involves developing an effective and worthwhile action plan. The action plan breaks down the goals into objectives — specific statements detailing what a business (or individual) needs to achieve in order to accomplish its vision. For example, you may have a goal of achieving a certain result in the Business Studies Trial HSC examination. Consequently, you will need to set some objectives, such as increasing by 60 minutes each week the time spent revising past papers, or weekly practice sessions answering 10 multiple choice questions.

In a business, senior management will normally set the strategic goals, which focus on long-term, broad aims and apply to the business as a whole. For example, the chief executive officer (CEO) may establish a strategic goal of ‘increasing market share’. This will involve the input of the four key business functional areas — operations, marketing, finance and human resources. Middle management set tactical objectives, which focus on mid-term, departmental issues and describe the course of action necessary to achieve the business’s strategic goals. To use the example of increasing market share, a marketing manager may set a tactical objective of researching consumer tastes and preferences in order to help achieve the strategic goal. Front-line managers or supervisors set operational objectives, which focus on short-term issues and describe the course of action necessary to achieve the tactical objective and strategic goal.

In practice, think of the levels of goals and objectives as pyramid-shaped as shown in figure 12.10.

**BizFACT**

The terms goal and objective are often used synonymously as both terms refer to something a business wants to accomplish. However, the people, timeframe and resources involved in achieving each goal and objective vary significantly.

**FIGURE 12.10** The objectives established at each layer of the business’s hierarchy are devised with the purpose of helping to achieve the strategic goal.
A business needs to have a clear idea of what it is trying to achieve; in other words, it needs clear goals and objectives. It is the interaction between the vision statement, goals and objectives that provide a process for a business to accomplish this (see table 12.2).

**TABLE 12.2 The relationship between a vision, goal and objective**

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
<th>Personal example</th>
<th>Business example — renewable energy company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vision</td>
<td>Broad statement of overall purpose</td>
<td>Be healthy</td>
<td>To be a company of choice in the alternate energy sector</td>
</tr>
<tr>
<td>Goal</td>
<td>More specific statement of what is intended to be achieved</td>
<td>Lose weight</td>
<td>To be the market leader in alternate energy sales</td>
</tr>
<tr>
<td>Objective</td>
<td>Very specific statement of how the goal is to be achieved</td>
<td>Lose two kilograms by 1 December</td>
<td>To increase sales by 10% each year</td>
</tr>
</tbody>
</table>

**Goals — what the business wants to achieve**

As explained in chapter 6, common business goals include:
- maximising profits
- increasing market share
- growth
- improve share price
- social goals
- environmental goals.
Long-term growth

As outlined in chapter 6, an important aspect of profit maximisation is the business’s ability to maintain profits over time. To achieve this, a business must aim for long-term growth — the ability of a business to continually expand.

Long-term growth depends on a business’s ability to develop and use its asset structure to increase sales, profits and market share. It is an important goal of management as it ensures that the business is sustainable into the future. The department store retailer Myer, for example, recently put in place a five-point strategic plan, which includes a number of strategies to help increase profits and guarantee its long-term growth. The strategies include:

- a focus on improving customer service with a cultural change program
- enhancing their merchandise offer
- strengthening their loyalty program through the restructuring of their rewards program and launching a Myer one smart phone app
- building a leading omni-channel offer to counter online competition (omni-channel refers to retailing through a variety of different channels)
- optimising their store network through the opening of new stores and the refurbishment of existing stores.

Long-term growth does not happen accidently. Instead, it requires comprehensive, strategic planning. Consequently, for a business to not only survive competition but also prosper and grow, it must have a sustainable competitive advantage. This can be achieved by having a unique good or service, a consistent marketing plan and adopting a relationship marketing philosophy to encourage customer loyalty. For example, a number of factors give Apple a global competitive advantage, such as their product designs, ability to create software that is easy to use, low cost manufacturing, innovation, creative marketing strategies, product and service integration, and their strong brand name and reputation. These are only a few of the factors that have made the company so successful.
Some other strategies that successful businesses have used to achieve long-term growth include:

1. **Customer feedback.** Google, the internet’s number one search engine, continuously and rapidly upgrades its operating system by listening to its customers.

2. **Supplier and customer partnerships.** Bridgeport Manufacturing provides customers with the opportunity to develop products in consultation with the business’s designers.

3. **Cost.** IKEA focuses on producing products that are affordable for most people to buy. The company is constantly trying to do things more efficiently and cost-effectively so they can maintain their low prices.

4. **Sigma Six.** This business management approach, originally developed by Motorola and used extensively in all types of businesses, aims to improve business performance by improving quality, reducing costs and creating new opportunities. A **sigma-six** process is one in which 99.99 per cent of all manufactured products are defect free.

**Summary**

- The vision statement broadly states what the business aspires to become.
- Vision statements guide and direct the business owners, managers and employees.
- Once the goals have been established, a SME owner determines the objectives.
- Objectives are specific statements detailing what a business needs to do to accomplish its vision.
- Strategic goals, tactical and operational objectives are determined by different levels of management.
- Many businesses strive to achieve goals relating to profits, market share, growth and share price as well as social and environmental goals.
- Longer term growth is the ability of a business to continually expand.
- Longer term growth depends on a business’s ability to develop and use its asset structure to increase sales, profits and market share.

**Revision**

1. Select a number of annual reports for public companies. **State** the vision (or mission) statements for each company. **Explain** how these relate to the business’s goals. To help you, use the **Business vision statements** weblinks in your eBookPLUS for the following public companies:
   - (a) Boral Limited
   - (b) Westpac Limited
   - (c) Origin Energy Limited
   - (d) Woolworths Limited
   - (e) David Jones Limited.

2. **Identify** which of the following are vision statements. Give reasons for your answers.
   - (a) All breakages must be paid for.
   - (b) Care for the customer is our number one priority.
   - (c) Application of an integrated accounting system
   - (d) A safe and healthy workplace
   - (e) Commitment to excellence
   - (f) To increase sales revenue by 5 per cent in the next six months

3. **Recall** three main goals of most businesses.

4. **Outline** the relationship between goals and objectives.

5. **Identify** three objectives you would need to set if you wanted to achieve the goal of improving your Business Studies results.
6 **Distinguish** between strategic goals, tactical objectives and operational objectives.
7 **Deduce** why a business needs clear goals and objectives.
8 **Recall** the correct level of management that determines the following goal or objective.

<table>
<thead>
<tr>
<th>Goal or objective</th>
<th>Level of management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic goal</td>
<td></td>
</tr>
<tr>
<td>Tactical objective</td>
<td></td>
</tr>
<tr>
<td>Operational objective</td>
<td></td>
</tr>
</tbody>
</table>

9 **Define** the term ‘longer term growth’.
10 **State** three methods a business can use to achieve a competitive advantage.
11 **Propose** four strategies a business can use to achieve longer term growth.

**Extension**

1 ‘The main goal of a business is to maximise profits.’
   (a) **Define** the term ‘profit’.
   (b) **Determine** under what circumstances a business may be prepared to accept reduced profits in the short term.
   (c) In your opinion, **assess** whether profit should be the only goal of a business.

2 Arrange to interview a local business owner. **Create** a business profile by asking the following questions.
   (a) What motivated the owner to start the business?
   (b) Why is there a need for the business’s goods or services?
   (c) How has the business been funded?
   (d) Has the business been upgraded or expanded?
   (e) What are the future growth areas of the business?
   (f) What has been the business’s biggest problem or greatest mistake?
   (g) What external threats face the business?

3 **Examine** figure 12.9 (page 391), then answer the following questions.
   (a) **Identify** the common features of these vision statements.
   (b) **Explain** why it would be important for employees, managers and customers to be familiar with a business’s vision statement.
   (c) **Determine** under what circumstances the vision statement would need to be altered.

**12.5 Organising resources**

Once the SME owner has formulated the vision, goals and objectives, the next stage in the planning process requires organising the resources — human effort, time, money, equipment and materials — needed to fulfil the plan. As outlined in chapter 7, organising is determining:

- what is to be done
- who is to do it
- how it is to be done.

At this stage, the owner must determine all the activities that employees perform — from ordering stock through preparing financial reports to meeting with clients — and all the equipment, money and facilities that employees need to carry out those activities (see figure 12.13). This results in the creation of an **organisational structure**, which defines how tasks are divided (as shown by the organisation chart) and resources used.
ZenTech Fashions
Our vision: To be the fashion company of choice within the Australian market

Step 1
Develop plans and establish goals

Step 2
Determine activities
- Recruiting
- Training
- Sales
- Compensation
- Quality control
- Accounts
- Pricing
- Advertising
- Machining
- Loans
- Designing
- Debt control

Step 3
Group activities
- OPERATIONS: Quality control, Machining, Designing
- MARKETING: Sales, Advertising, Pricing
- FINANCE: Accounts, Loans, Debt control
- HUMAN RESOURCES: Recruiting, Training, Compensation

Step 4
Assign work tasks and delegate authority
- Joel Vlasie: Quality control
- Sanjay Singh: Sales
- Renee Katz: Accounts
- Ken Labich: Recruiting
- Lee Wong: Machining
- Marcia Johns: Advertising
- Bill Jacobs: Loans
- Su Mai: Training
- Jane Hush: Designing
- Mai Lee: Pricing
- Jan Buehler: Debt control
- Amahl Attik: Compensation

Step 5
Design a hierarchy of relationships

FIGURE 12.13 The five steps involved in the organising process (organising resources)

While driving the business towards its central purpose, as expressed in the vision statement, the benefits of a properly implemented organising process is that it:
- establishes a chain of command that results in an orderly way of communicating within the business
Business planning creates a coordinated work environment by outlining sensible guidelines for who does what and who is responsible for various activities. It provides a sense of common purpose so that all employees are working towards a common vision, goal or objective. Organising resources in the most efficient manner so that all employees can perform their tasks.

Organising is a device that SME owners can use to gather resources for getting things done. Part of the organising process requires resource allocation, which refers to the efficient distribution of resources so as to successfully meet the goals that have been established. Resource allocation establishes what work will be performed by what person and/or machine, and under what conditions. The materials needed must be determined and ordered. The work tasks must be distributed to different departments. Human resource requirements must be calculated and time schedules set for each stage of the production process.

Each of the key business functions — operations, marketing, finance and human resources — require specific resources that need to be effectively organised.

### Organising resources — operations

As outlined in chapter 8, the operations function of a business involves transforming different types of inputs (raw materials, labour, equipment and other resources) into finished or semi-finished goods or services. To produce either a good or service, therefore, a business needs to have essential equipment and knowledge. Consequently, to undertake successful production, the following questions will need to be asked.

- What type of equipment and raw materials are needed?
- Which suppliers will be used to purchase the equipment and raw materials?
- How much money needs to be allocated for the purchase of the raw materials and resources?
- What storage, warehouse and delivery systems are required?
- What level of technical expertise will employees need to achieve maximum production from the raw materials and equipment?

Researching the answers to these questions enables the SME owner to clarify what changes may need to be made to either the structure of the business or the production process. For example, Caroma, Australia’s leading bathroom manufacturer, needed to purchase automated robots for their production process. To arrange for the finance required to purchase the new machines, the managers had to revise their business plan. Organising their operational resources in this way has enabled the company to become a market leader.

**BizFACT**

Strategy outlines what is to be achieved; organising explains how to achieve it.

**BizWORD**

Resource allocation refers to the efficient distribution of resources so as to successfully meet the goals that have been established.

**FIGURE 12.14** Caroma uses automated robots in its production process to spray finished glaze onto various bathroom products. In its 60 years of manufacturing, Caroma has accomplished many world firsts. It is best known for creating the world’s first dual flush toilet suite.
Organising resources — marketing
As outlined in chapter 8, a marketing plan will succeed only if all sections of the business are involved in satisfying a customer’s needs and wants, while achieving the business’s goals. This means that the marketing plan needs to become integrated into all aspects of the business. Adequate resources, therefore, must be devoted to the marketing plan. Where existing employees do not have the expertise or levels of skills required, additional training may be needed to bring them up to the levels needed. Additional funds may be needed to accomplish all the marketing objectives given to a specific department or team. The efforts of all employees in the marketing department must be coordinated and this is best achieved by adequate resourcing. For example, the sales consultants, advertising personnel, market research staff, distribution people and so on must be provided with the informational, financial and physical resources to perform their jobs.

Organising resources — finance
As outlined in chapters 8 and 11, new business ventures, even micro ones, require funds to operate. In organising the financial resources, one of the most important questions the SME owner needs to answer is ‘What will be the most appropriate source of financing?’ The most common sources are personal savings and/or loans from family, friends or banks. For example, Megan Pearce started her business Megan’s Marketplace with a $15,000 loan from the National Australia Bank and $12,000 borrowed from her sister.

Another important issue associated with organising finances is the amount of equity (ownership of the business) and potential control a SME owner must hand over to obtain the necessary financing. If the SME owner decides to fund the business by using equity capital, the investor will be given some form of ownership in the business. Frequently, SMEs that are aiming for relatively moderate growth use mainly debt capital with the owners retaining most or all of the equity.

Finally, when organising the financial resources, the SME owner must explore the wide range of federal and state government grants — any monetary or financial assistance that does not generally have to be repaid — and other funding programs. Generally, there are no grants for starting a business. Grants are usually provided for:
• expanding a business
• research and development
• innovation
• exporting.

Organising resources — human resources
Of course, new business ventures often require the help of others — employees — besides the entrepreneur or SME owner. In fact, since each employee in a SME represents a large percentage of the business’s workforce, a specific individual’s contribution can be especially important to the success of the business. This is why, as explained in chapter 8, employees are a SME’s most important resource. A great deal of care and thought, therefore, needs to be given to how best to organise this crucial resource.

SME owners need to use good recruitment and selection processes to find employees who will be invaluable assets as the business grows and expands. For example, when Danaye Stavropolous started her business, Gateway Information Systems Pty Ltd, she decided to employ people who had limited experience but displayed a keen desire to learn and an enthusiasm for the business idea. As the business grew, Danaye organised the business’s human resources in such a way.
as to ensure extensive training for all employees, which allowed her to generally recruit from within. As a result, her business has a skilled group of employees to support her expansion plans.

Another important aspect all SME owners need to consider when organising their human resource arrangements is the need to comply with legislation relating to anti-discrimination and equal employment opportunities. The retailer Myer, for example, was able to retain valuable employees when it introduced a policy of six weeks paid maternity leave for staff who had worked a minimum of 18 months.

**FIGURE 12.15** Women make up 45 per cent of the workforce and 70 per cent of these women are of childbearing age. It makes good sense for employers to develop policies that support the needs of women during and after pregnancy.

**Summary**

- Once the SME owner has formulated the vision, goals and objectives, the next stage in the planning process requires organising the resources — human effort, time, money, equipment and materials — needed to fulfil the plan.
- Organising is a device that SME owners can use to gather resources for getting things done.
- Resource allocation refers to the efficient distribution of resources so as to successfully meet the goals that have been established.
- Each of the key business functions — operations, marketing, finance and human resources — require specific resources which need to be effectively organised.

**Revision**

1. Examine figure 12.13 on page 397. **State** the five steps of the organising process.
2. **Summarise** the benefits of a properly implemented organising process.
3. **Define** the term ‘resource allocation’.
4. Imagine you have been asked to make 50 family-size pizzas for a celebration lunch. You have five people to help with the task. In small groups:
   (a) **Identify** the resources you would need to make the pizzas.
   (b) **Classify** the resources as either (i) raw materials, (ii) equipment or (iii) knowledge.
   (c) **Demonstrate** how you would allocate the resources.
5 Recall five questions a SME owner needs to ask in order to undertake successful production.

6 Propose what may happen if a SME owner fails to organise adequate resources for the marketing plan. Give reasons for your answer.

7 Identify the two main sources of finance for a business.

8 Use the GrantsLINK website in your eBookPLUS to investigate the range of grants available for business and industry. Select two grants that interest you and briefly outline their purpose.

9 Use the brainstorm technique to deduce three advantages Gateway Information Systems Pty Ltd received by organising its human resources as it does.

**Extension**

1 Create an organisational chart for your school. Determine the advantages and disadvantages of this structure for you as a student.

2 ‘The purposes of organising are to give each employee a distinct task and to ensure these tasks are coordinated and adequately resourced so that the business achieves its goals.’ Evaluate the accuracy of this statement.

**12.6 Forecasting**

A business needs more than just information about present business conditions. It also needs information about possible future events. **Forecasts (or projections)** are the business’s predictions about the future.

Students sometimes forecast the results they hope to achieve in an assessable task. But just like weather forecasts, what is predicted and what actually happens may be quite different! Nevertheless, forecasts are needed to enable effective planning. An owner may need to forecast the availability of labour, raw materials, finance and building requirements. For this task, business owners rely on internal and external information sources.

One very useful set of data is the forecast for total revenue and total cost.

**Total revenue and total cost**

When trying to determine whether a business will be financially successful, a SME owner can attempt to forecast the amount of money the business may receive as sales — its total revenue, and how much it has to pay for business expenses — its total costs.

**Total revenue**

**Total revenue (TR)** is the total amount received from the sales of a good or service and is calculated by multiplying the selling price (P) by the quantity (Q) of units sold. This can be represented mathematically as:

\[ P \times Q = TR \]

It is possible to forecast total revenue by estimating how many units are expected to be sold. For example, if the price of each unit is $100 and 25 are expected to be sold, then the total revenue forecast will be $2500.

Estimates of future sales are determined by the demand for the business’s good or service and the amount of competition in the marketplace. Sales forecasting data:

- can be gathered by using market research techniques such as customer surveys
- are more precise if the business has some previous sales history to act as a guide.
Total cost

The costs involved in operating a business can be broadly classified as either fixed or variable costs (see the BizFact on page 403). **Fixed costs (FC)** are costs that do not vary regardless of how many units of a good or service are produced. **Variable costs (VC)** are costs that depend on the number of goods or services produced. Variable cost, therefore, will increase if more goods and services are produced and decrease when fewer goods and services are produced (see the BizFact on page 403).

The **total cost (TC)** of producing a certain number of goods or services is the sum of the fixed costs (FC) and variable costs (VC) for those units. This can be represented mathematically as:

\[
TC = FC + VC
\]

It is possible to forecast total cost by estimating the change in variable costs at different levels of production. Fixed cost, of course, will remain the same. The forecast of total revenue and total cost make it possible to use the very useful forecasting technique referred to as the break-even analysis.

**Break-even analysis**

**Break-even analysis** determines the level of sales (total revenue) that needs to be generated to cover the total cost of production (see figure 12.17, page 403). Total cost of production includes fixed costs (costs that do not change regardless of how much is sold) and variable costs (costs that depend on the amount of sales — for example, materials). Sales above the break-even point will mean a profit; sales below the break-even point will mean a loss.

![Break-even Analysis Diagram](image)

**FIGURE 12.16** A break-even analysis is used to determine the number of items that need to be sold to break even — that is, to cover all costs without making either a profit or a loss.

Break-even analysis is an important planning tool because management can determine the level of sales required to obtain a profit. It can also be used to determine the effect on profit if sales increase or decrease. This planning tool is used in the strategic planning stage, before budgets are prepared.

The break-even sales quantity can also be calculated by using the formula:

\[
Quantity (Q) = \frac{\text{Total fixed costs}}{\text{Unit price} - \text{Variable costs per unit}}
\]
Example: Break-even quantity
Better Rackets produces different lines of tennis goods, including racquets, tennis balls and tennis bags. It plans to introduce a new style of tennis racquet and estimates that the new racquet should be priced at $200. Fixed costs are $600 000 and variable costs are $80 per racquet. The number of units that need to be produced to break even is:

\[
Q = \frac{600 000}{200 - 80} = \frac{600 000}{120} = 5000 \text{ units}
\]

Break-even is the point where sales equal costs (fixed and variable); that is, where at this point neither a profit nor a loss is made. In this case, 5000 units will need to be sold to break even.

**FIGURE 12.17** Break-even analysis. Sales of $100 000 will mean a loss of $10 000 because total costs at this point are $110 000. The point at which total costs ($150 000) intersect total revenue ($150 000) on the diagram is the break-even point at which neither a profit nor a loss is made. Sales above the break-even point indicate a profit of up to $25 000 ($150 000 to $175 000).

**Cash flow projections**
The cash flow projection shows the changes to the cash position brought about by the operating, investing and financial activities of the business. It provides information concerning the business’s expected cash receipts (cash inflows) and cash payments (cash outflows) over an accounting period, usually 12 months.

Cash flow plans consist of a month-by-month projection of the flow of money into the business. Cash transactions recorded include cash sales, the collection of debts and the payments the business expects to make. From the information found in the cash flow projection, the SME owner should be able to estimate the business’s bank balance for each month and identify the extent and duration of possible cash shortfalls. A positive cash flow occurs when the amount of money coming into

---

**BizFACT**
Fixed costs do not change as sales increase or decrease. They include rent, insurance, salaries of management and office staff, rates, depreciation, interest on loans, and office expenses.

**BizWORD**
The cash flow projection shows the changes to the cash position brought about by the operating, investing and financial activities of the business.
the business is greater than the amount leaving it. Overall, this information will point out periods when business expenses are too high or times when a short-term investment is possible to deal with a cash surplus.

The cash flow projection is an important tool for cash flow management. It offers:
- the SME owner a clear indication of how much capital investment the business idea requires
- a bank loans officer evidence that the business is a good credit risk.

It is important to not confuse a cash flow projection with a cash flow statement. The cash flow statement indicates how cash has flowed into and out of the business in the past period of time. The cash flow projection shows the cash that is expected to be made or spent over a period of time into the future.

12.7 Monitoring and evaluating

Drivers constantly monitor and evaluate the road conditions, and make necessary changes to speed and direction as they receive updated information. A business also has to monitor and evaluate its environment and take corrective action — that is, it adjusts its business plan to avoid any problems.

Devising a business plan will not guarantee the achievement of the business’s goals. The plan must be constantly monitored and evaluated so the business can make accurate modifications as necessary (see figure 12.18 below).

**BizFACT**

A cash flow projection is used in the financial plan section of the business plan.

**BizWORD**

Monitoring is the process of measuring actual performance against planned performance.

A performance standard is a forecast level of performance against which actual performance can be compared.

**Establish goals and objectives**
- What do we want to achieve?

**Monitor performance**
- What is actually happening?

**Take corrective action**
- What should be done about it?

**Evaluate performance**
- Is what is happening good or bad?
- Why is it happening?

**FIGURE 12.18** The monitoring and evaluating process

**Monitoring**

Monitoring is the process of measuring actual performance against planned performance. This process involves constantly asking two questions about the business plan:
1. What does the business want to achieve — that is, what are its goals?
2. Are these goals being achieved?
   This will indicate the business’s true achievements, rather than vague generalisations such as ‘things aren’t too bad’.

   These questions should be asked at every stage of developing the business plan. Such monitoring involves two distinct steps:
   1. establishing forecast performance standards
   2. comparing actual performance with forecast performance.

   The first step in the monitoring process requires the business to outline what it wants to accomplish — that is, to establish a performance standard. A performance standard is a forecast level of performance against which actual performance can be compared.

   A performance standard could be, for example:
   - a 5 per cent increase in monthly sales
   - a production quota of 1000 units per week.
The second step in the monitoring process is to compare or evaluate actual performance against the performance standard. Budgets, sales statistics and cost analyses can be used to evaluate results. A business owner could compare each individual salesperson’s results, for example, with their sales quota. It is only by establishing performance standards and then comparing them with actual performance that a business owner can evaluate the effectiveness of the business plan.

**Evaluating**

SME owners evaluate their business’s performance to determine whether the goals have been achieved. They do this by constantly asking:

- how the business is performing in terms of profit etc.
- whether the business is performing as planned
- whether its performance has improved over time
- how its performance compares to that of similar businesses.

When a SME owner undertakes this task, he or she is engaged in evaluation — that is, the process of assessing whether or not the business has achieved its stated goals (see the following Snapshot).

---

**SNAPSHOT**

*Studio Latitude — business mentoring*

Studio Latitude had run into some difficulty. Its owners, jewellery designer Melissa Voderberg and graphic designer and sculptor Louise McDonald, realised that something needed to be done when they found that they had too much stock, which was creating cash flow problems.

It was time to evaluate their business. ‘We were growing quickly and needed assistance with strategic planning, pricing and cash flow,’ Melissa says. Studio Latitude’s owners asked a business mentor for help. Together, they improved their business plan and movement of stock. Melissa and Louise branched out, selling products to tourists, and also began to concentrate on the conference market.

Following this change, the number of new clients increased by 35 per cent. Sales and profits increased by 20 per cent, and inquiries increased by 15 per cent. Studio Latitude now specialises in creative products (art pieces and gifts) for the events and promotion industry, and is an award-winning business that uses environmentally sustainable materials.

**Snapshot questions**

1. Identify the indicators Melissa Voderberg and Louise McDonald used to evaluate their business’s performance.
2. Explain why Melissa and Louise need to have such information.

---

Once measurements have been collected, the SME owner can compare them with the planned goals. The SME owner needs to ask whether the business operations achieved the desired results and, if not, where and why he or she failed. If the business plan was successful, the SME owner should examine what strategies made it a success and re-use them. By evaluating a successful business plan, the SME owner may also identify weak spots that could be improved and modify the plan to fix them.

The three areas that need constant monitoring and evaluating are sales, budget and profit.
FIGURE 12.19 A business owner must monitor and evaluate the business plan, just as a driver must with road conditions.

Monitoring and evaluating sales

Sales generate revenue for the business, so it is important that the sales management control function be regularly performed. Sales management control involves comparing budgeted sales against actual sales, and making changes where necessary. For example, if a new selling technique is introduced, the level of sales will need to be closely monitored to determine whether actual sales are above or below what was forecast. The new selling technique will be deemed a success if the sales are above what was forecast. If the figures are below what was forecast, the business will need to take some type of corrective action.

Sales for DeltraWear Fashions Pty Ltd — 2nd quarter

<table>
<thead>
<tr>
<th>Sales territory</th>
<th>Forecast sales $</th>
<th>Actual sales $</th>
<th>Difference* $</th>
<th>% change^</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>25 000</td>
<td>29 000</td>
<td>4 000</td>
<td>16.0</td>
</tr>
<tr>
<td>2</td>
<td>40 000</td>
<td>42 500</td>
<td>2 500</td>
<td>6.3</td>
</tr>
<tr>
<td>3</td>
<td>35 000</td>
<td>33 500</td>
<td>−1 500</td>
<td>−4.3</td>
</tr>
<tr>
<td>4</td>
<td>32 500</td>
<td>36 000</td>
<td>3 500</td>
<td>10.8</td>
</tr>
<tr>
<td>5</td>
<td>22 500</td>
<td>25 000</td>
<td>2 500</td>
<td>11.1</td>
</tr>
<tr>
<td>Total sales revenue</td>
<td>155 000</td>
<td>166 000</td>
<td>11 000</td>
<td>7.1</td>
</tr>
</tbody>
</table>

*Difference = Actual sales − Forecast sales

^% change = \( \frac{\text{Difference}}{\text{Forecast sales}} \times 100 \)

FIGURE 12.20 Second quarter sales for DeltraWear Fashions Pty Ltd

Consider the sales figures for April, May and June — the second quarter of the year — for DeltraWear Fashions Pty Ltd (see figure 12.20). The figures reveal that total sales revenue increased by $11 000 or 7.1 per cent above what was forecast. DeltraWear would be pleased with this result. There would be some concern about the result in sales territory 3, which would require further investigation. However, all the other territories performed above expectations. This tells the business that the new selling technique is a success and should be continued.
Monitoring and evaluating budgets

No business should commence operating without having prepared a budget. A **budget** is the business’s financial plan for the future. It outlines how the business will use its resources to meet its goals. The budget contains projections of incomes and expenses over a set period of time.

Budgets enable constant monitoring of goals and whether they are being achieved. Budgets assist in emphasising the goals of the business and provide a basis for administrative control, direction of sales effort, production planning, control of stocks, price setting, financial requirements, control of expenses and production cost control.

Budgets are used in both the planning and the monitoring aspects of a business; for example, the business owner can measure planned performance against actual performance and take corrective action as needed.

A budget is an important part of the planning process. Its preparation must account for various factors, such as:

- a review of past figures and trends, and estimates gathered from relevant departments in the business
- potential markets or market share, and trends and seasonal fluctuations in the market
- proposed expansion or discontinuation of projects
- proposals to alter price or quality of products
- current orders and plant capacity
- considerations from the external environment (for example, financial trends from the external environment, availability of materials and labour).

The budget should be regularly compared with actual revenue and expense amounts to detect any discrepancies. For example, once the owner has determined the goals, they can then estimate the business’s various costs and its revenue. A profit budget will establish the viability of the business by predicting how much profit is likely to be made from the expected sales. These figures are estimates, but the budget must be realistic. Figure 12.21 illustrates the information that should be included in a profit budget.

### Profit budget for 12 months ending...

<table>
<thead>
<tr>
<th>A. Sales</th>
<th>B. Cost of goods sold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less cost of goods sold</td>
<td>(made up of)</td>
</tr>
<tr>
<td>Stock at beginning of year</td>
<td>Purchases</td>
</tr>
<tr>
<td>+ Stock at end of year</td>
<td>B. Cost of goods sold</td>
</tr>
<tr>
<td>C. Gross profit (A–B)</td>
<td>Less expenses</td>
</tr>
<tr>
<td>Less expenses</td>
<td>Advertising</td>
</tr>
<tr>
<td></td>
<td>Insurance</td>
</tr>
<tr>
<td></td>
<td>Wages</td>
</tr>
<tr>
<td></td>
<td>Rates</td>
</tr>
<tr>
<td></td>
<td>Stationery</td>
</tr>
<tr>
<td></td>
<td>Telephone</td>
</tr>
<tr>
<td></td>
<td>Fax</td>
</tr>
<tr>
<td></td>
<td>Travel</td>
</tr>
<tr>
<td></td>
<td>Interest paid</td>
</tr>
<tr>
<td></td>
<td>Depreciation</td>
</tr>
<tr>
<td>D. Total expenses</td>
<td>E. Operating profit before tax (C–D)</td>
</tr>
<tr>
<td>F. Stock estimate</td>
<td>G. Receivables</td>
</tr>
</tbody>
</table>

**BizWORD**

A **budget** is the business’s financial plan for the future.

**BizFACT**

Budgets provide the facts and figures for planning and decision making, and enable constant monitoring of progress and problem areas. They signal where things are not going according to plan so that adjustments can be made, and they show where achievement towards objectives has occurred.
Once the budget has been completed, the business owner can determine the extent and timing of financial requirements. This profit budget should then be reviewed at least once per month, and the owner should compare the projected amounts and the actual amounts. Modifications must be implemented if there are any discrepancies.

Working to a budget — the school dance

You have been appointed manager of a student group that operates the annual Year 11 school dance as a part of the Business Studies curriculum. This is a major event in the school calendar and your principal has stipulated that the school expected you to deliver a profit of $500. This will be donated to a charity of the students’ choice. The school also wants its own costs covered from the evening. The key points to consider are:

- Between 300 and 400 people are expected, depending on the success of your promotion to other schools. Art students at your school will be designing and then distributing posters.
- The event is in the school hall.
- You are expected to provide food, drink, security and music.
- The costs for last year’s dance are:
  - **School costs.** Printing of posters, plus electricity, water and gas on the night — $100
  - **DJ Snoopy spins.** Music and light show — $900 for 4 hours
  - **Decorations.** Supplied by local company Party Guys & Sons — $300
  - **Finger food and drink.** Party pies and soft drink — $500
  - **Security.** Two security guards from Crusher Securities — $400 for 4 hours.

Snapshot questions

1. **Calculate** last year’s costs for the school dance to work out its break-even point (they charged $10 per ticket).

2. (a) **As manager of the school dance,** identify what type of market you are seeking to target.
   (b) **Predict** what might happen if ticket prices and promotional material are not ‘positioned’ for this market.

3. **Working in small groups,** discuss ways in which you could reduce your costs for the school dance. For example, you might consider offering your suppliers (of catering, security, DJ and decorating services) the chance to promote their businesses on the night in exchange for reduction in their usual charge.

4. **As a group,** construct a cash budget for the dance. You must also explain your price structure in terms of the agreed cost of tickets.

5. **You sell 380 tickets at $15 each.**
   - The finger food and drink expense increased by $63, but you needed only one security guard.
   - You had to pay insurance of $689 at the last minute.
   All prices include GST. **Calculate** the profit or loss you made for this event. Remember to reduce all amounts by one-eleventh to remove the GST component.

Monitoring and evaluating profit

As the following headlines suggest, profit is at the centre of a business’s activities and one of the most intensely watched financial indicators.

*JB Hi-Fi hits the right note with 11.2 per cent lift in profit to $116.4 million.*

*Wesfarmers turns in a mixed profit performance of $2.26 billion.*

*CEO quits as BHP profits plunge by 58 per cent fall in first half profit to $4.24 billion.*

*Commonwealth Bank rings up a record $7.8 billion profit.*
In a sense, a business’s profit levels can be compared to a student’s subject grades: they are an indication of performance. Such feedback is crucial to evaluate whether or not specific goals have been achieved and what, if any, changes need to be implemented.

There are five main reasons why a business’s profit levels must be carefully monitored and evaluated.

1. **Profit as reward.** As outlined in chapter 1, profit is what remains after all business expenses have been deducted from the business’s sales revenue. Profit is regarded as the return, or reward, that business owners receive for taking the risks in operating a business that produces goods and services that consumers want.

2. **Profit maximisation.** In chapter 6, it was explained that one of the main goals of a business is to maximise its profits in the long term.

3. **Profit as a source of finance.** Chapter 11 outlined that one of the most important sources of finance for businesses is profits that have been ploughed back.

4. **Profit as a performance indicator.** The profit level also acts as the main indicator of a business’s performance. Changes to the level of profit act as a guide to how well the business is succeeding or failing.

5. **Profit as a dividend payment.** For incorporated businesses a proportion of the profit is allocated to shareholders as dividends.

Evaluating the profit levels will also reveal important information about a business’s costs and revenues. These amounts must be accounted for and business owners need to be able to identify their source and quantity. For example, a fall in a business’s profit level may be a result of simply a rise in costs or a fall in revenue. Therefore, variations to the profit level act as a ‘signal’ alerting the business owner to a change in the business’s performance.
12.8 Taking corrective action — modification

Students are constantly involved in comparing planned performance with actual performance — for example, planning to score 70 per cent for an assessable task but receiving only 43 per cent. A mismatch between the planned and the actual performances means a student has to take some corrective actions and modify their behaviour: study more for the next assessable task, complete all the homework, drop out of the course or prepare a topic summary.

Corrective action may involve changes to the materials, products that are the firm’s output, the costs of turning raw materials into products, management practices, delivery of products to the market and so on. It may also involve changes to the organisation’s human resources, because each individual’s performance in the organisation is as important as the finished product.

**BizWORD**

Modifying is the process of changing existing plans, using updated information to shape future plans. Sometimes the planned performance standards are unrealistic when they are first formulated. At other times, changes to the external environment make the standards unattainable. Whatever the case, the situation cannot continue and the business owner must undertake some corrective action/modification.

**Summary**

- Forecasts are the business’s predictions about the future.
- Total revenue is the total amount received from the sales of goods or services.
- The total cost of producing a certain number of goods or services is the sum of the fixed and variable costs for those units.
- Break-even analysis determines the level of sales that need to be generated to cover total production costs.

**FIGURE 12.23** These small businesses affected by record floods in Brisbane in 2011 had to adjust their profit expectations as a result of external environmental factors over which they had no control.
• The cash flow projection shows the changes to the cash position brought about by the operating, investing and financial activities of the business.
• SME owners need to monitor and evaluate the business’s performance by asking themselves:
  – Is my business performing as planned?
  – Has the performance of my business improved over time?
  – How does the performance of my business compare to that of similar businesses?
• Budgeted sales should be compared against actual sales.
• The budget should regularly be compared with actual revenue and expense amounts to detect any discrepancies.
• When using indicators, the main types of analysis are:
  – comparing figures within one financial year
  – comparing figures from different financial years.
• Profit levels are an indicator of a business’s performance and should be carefully monitored and evaluated.
• Modification is the process of changing existing plans, using updated information to shape future plans.

Revision

1 Define the term ‘forecasting’.
2 State how total revenue and total cost are calculated.
3 Distinguish between fixed costs and variable costs.
4 Identify three fixed costs and three variable costs your school incurs.
5 Outline why the break-even analysis is an important planning tool for businesses.
6 Explain how a house painter might make use of break-even analysis when providing a quote to a potential customer.
7 (a) Calculate the level of break-even sales, given fixed costs of $50,000, variable costs of $11 per unit and a selling price of $16 per unit.
   (b) Calculate the level of break-even sales, given fixed costs of $600,000, variable costs of $500 per unit and a selling price of $2000 per unit.
   (c) From the graph below, calculate amounts for (i) to (v).
      (i) the amount of fixed costs
      (ii) the break-even point
      (iii) the loss or profit if sales are $100,000
      (iv) the loss or profit if sales are $300,000
      (v) the amount of variable costs when sales are $250,000

![Graph showing total revenue, total costs, fixed costs, and variable costs vs. sales.](image)
8 Outline why the cash flow projection is an important tool for cash flow management.

9 Distinguish between a cash flow projection and a cash flow statement.

10 Distinguish between monitoring and evaluating. Discuss how the two processes are linked.

11 ‘Any business that fails to monitor its sales will not be able to evaluate the effectiveness of its selling techniques.’ Discuss.

12 Identify the data DeltraWear Fashions Pty Ltd (see page 406) needed to collect to monitor the new selling technique.

13 A business has a sales potential of $70 000 but achieves actual sales of only $32 000. Interpret what this signifies. Recommend what the business should do next.

14 You have just been appointed sales manager for Digital@Work Software. One of your first tasks is to conduct a sales management control using the following sales figures:

<table>
<thead>
<tr>
<th>Sales territory</th>
<th>Forecast sales $</th>
<th>Actual sales $</th>
<th>Difference $</th>
<th>% change (– decrease + increase)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>29 000</td>
<td>35 000</td>
<td>___________</td>
<td>______________________________</td>
</tr>
<tr>
<td>2</td>
<td>54 000</td>
<td>58 000</td>
<td>___________</td>
<td>______________________________</td>
</tr>
<tr>
<td>3</td>
<td>32 000</td>
<td>36 000</td>
<td>___________</td>
<td>______________________________</td>
</tr>
<tr>
<td>4</td>
<td>37 000</td>
<td>33 000</td>
<td>___________</td>
<td>______________________________</td>
</tr>
<tr>
<td>5</td>
<td>44 000</td>
<td>52 000</td>
<td>___________</td>
<td>______________________________</td>
</tr>
<tr>
<td>Total sales revenue</td>
<td>___________</td>
<td>___________</td>
<td>___________</td>
<td>______________________________</td>
</tr>
</tbody>
</table>

(a) Complete the table.
(b) Examine the forecast and actual sales. Analyse what these figures indicate. (c) Recommend whether you would continue with the selling technique. Explain your reasons.

15 Examine the following market share results for Crystal Water:

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales revenue ($ million)</th>
<th>Market share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>28</td>
<td>18</td>
</tr>
<tr>
<td>2008</td>
<td>25</td>
<td>18</td>
</tr>
<tr>
<td>2009</td>
<td>33</td>
<td>14</td>
</tr>
</tbody>
</table>

(a) Explain how it is possible for sales revenue to decrease but market share to remain the same.  
(b) If you were the owner of Crystal Water, identify which year’s result you would find most pleasing. Give a reason for your answer.

16 ‘No business should operate without monitoring and evaluating its profit levels.’ Discuss.

17 Explain why the budget should be regularly compared with actual revenue and expense amounts.

18 A business’s profits have been declining over the past two years. Recommend two modifications the business could take to correct the situation. Justify your answer.

Extension

1 CCD Enterprises has been very successful producing and selling a range of sporting goods in the Australian market. It has decided that there is potential in the Asian market. Describe two planning tools that the company may have used in deciding to expand into the overseas market.

2 ‘The more accurate the predictions, the better the chances the business has of surviving.’ Evaluate this statement.
3 Read this case study, then answer the questions that follow.

Anna and Bill are technicians working in a relatively small electronics factory. They are trained and competent tradespeople, and live and work for new developments in the electronics field. At home, both have accumulated journals and papers on what’s new in the electronics field. They met by coincidence on an overseas trip and their mutual interests brought them together, eventually to work with the same company. Before joining the company, Bill worked with the government and Anna was in a sales position for a retail firm. This was a position that really came about by accident through personal contacts by her family. The sales position held no real interest and this led to a change in employment.

For some time they have been thinking about an idea that would mean leaving the company and setting up their own business. There are a number of electronic components currently imported from overseas that they believe they could manufacture locally for a reasonable price and perhaps launch into the export arena.

They have both talked with their spouses, immediate families and a number of friends about the possibility of branching out on their own. Together they believe they would have some $60,000 available through equity capital and loans. The amount of money required to establish a factory and various outlets is unknown at this stage, but they are assuming that individual funds would be available from banks or other sources.

(a) Identify what other personal factors Anna and Bill should consider before making the final decision.
(b) Investigate what factors may be important in the preparation of their business plan.
(c) If you were in their position, determine how you would go about analysing market prospects.

4 (a) Determine what is the most important aspect of preparing a business plan.
(b) Explain why a financial institution would require a business plan before approving a loan to the business.
(c) Explain why a business plan should be flexible and constantly revised.

5 Recall a situation in which you evaluated your performance. An example could be an assessment task, a part-time job or sports event.
(a) Identify your goal for this activity.
(b) Assess whether you achieved your goal. Give reasons for your answer.
(c) Analyse what corrective action, if any, you were required to take.