Student workbook

BSBESB401 Research and develop business plans

**TAFE NSW would like to pay our respect and acknowledge Aboriginal and Torres Strait Islander Peoples as the Traditional Custodians of the Land, Rivers and Sea. We acknowledge and pay our respect to Elders, past, present and emerging of all Nations.**

Version: 20241016

Date created: 16 October 2024

Date modified: 06 December 2024

© TAFE NSW 2024  
RTO Provider Number 90003 | CRICOS Provider Code: 00591E

This resource can be found in the TAFE NSW Learning Bank.

The content in this document is copyright © TAFE NSW 2024 and should not be reproduced without the permission of TAFE NSW. Information contained in this document is correct at time of printing: 20 January 2025. For current information please refer to our website or your teacher as appropriate.

Contents

[Get started 4](#_Toc184137524)

[What will I learn? 4](#_Toc184137525)

[Icon legend 7](#_Toc184137526)

[Lesson 1: Prepare to develop a business plan 8](#_Toc184137527)

[Overview 8](#_Toc184137528)

[The required components of the business plan 8](#_Toc184137529)

[Identify and document business goals, objectives and budget 15](#_Toc184137530)

[Research market needs and estimate market size 22](#_Toc184137531)

[Articulate a value proposition 34](#_Toc184137532)

[Lesson 2: Draft and create business plan 38](#_Toc184137533)

[Overview 38](#_Toc184137534)

[Address legal and compliance requirements 38](#_Toc184137535)

[Develop marketing plans 54](#_Toc184137536)

[Plan marketing activities 59](#_Toc184137537)

[Develop operational planning 67](#_Toc184137538)

[Calculate prices based on costs and profit targets 79](#_Toc184137539)

[Develop a financial plan 85](#_Toc184137540)

[Identify sources of finance for required liquidity 93](#_Toc184137541)

[Select budget targets 96](#_Toc184137542)

[Develop draft plan 98](#_Toc184137543)

[Research specialist services and sources of advice 101](#_Toc184137544)

[Analyse draft plan and prioritise risks 105](#_Toc184137545)

[Lesson 3: Finalise business planning 109](#_Toc184137546)

[Overview 109](#_Toc184137547)

[Develop risk management strategies 109](#_Toc184137548)

[Assess likelihood of non-conformance 115](#_Toc184137549)

[Develop a contingency plan 117](#_Toc184137550)

[Identify key stakeholders’ interests and objectives 122](#_Toc184137551)

[Answers and feedback 129](#_Toc184137552)

[Lesson 1 129](#_Toc184137553)

[Lesson 2 130](#_Toc184137554)

[Lesson 3 132](#_Toc184137555)

[References and attributions 135](#_Toc184137556)

[References 135](#_Toc184137557)

[Image attributions 137](#_Toc184137558)

[Appendix – Links 138](#_Toc184137559)

**Get started**

## What will I learn?

This workbook covers the unit of competency BSBESB401 - Research and develop business plans.

Successfully completing this unit will give you the skills and knowledge to research and develop business plans for achieving business goals and objectives. The unit applies to those establishing or operating a business providing self-employment, as well as those establishing a new venture as part of a larger organisation.

In this workbook, you will learn to:

* prepare to develop business plan
* draft business plan (removed ‘create’ point)
* finalise business planning and plan for risk

Each lesson includes opportunities to check your progress and understanding and practice activities that will prepare you for the formal assessments. Answers and feedback for the activities are at the end of this document.

There are 3 lessons to complete within this workbook. They are:

1. Prepare to develop business plan.
2. Draft and create business plan.
3. Finalise business planning.

If you are using a printed version of this workbook, links and URLs are in a table at the end. Type the URL into your browser to go to the link.

To complete this unit, we have put together some resources to assist in your learning journey. These include:

* A **Business directory and glossary**, which provides essential links, terms and definitions to build your understanding of business concepts.
* An introduction to **Artificial intelligence** (AI), with links to tools you can use and the responsible use of AI.
* A guideline to the **Business venture** you should use throughout the unit.

Reviewing these resources will enhance your knowledge and prepare you for success in this unit.

#### Business directory and glossary

A [Business directory and glossary (pdf)](https://share.tafensw.edu.au/share/items/44493bae-4b5e-4254-b28d-6d714656dfb6/0/?attachment.uuid=e7433cba-0f03-4eac-b72b-0faafa5f1076) is available. This document has been created to assist you in your journey of entrepreneurship and small business. You will find links to useful websites and resources that provide assistance to business owners. This document also includes a glossary of business terms

#### Artificial intelligence

Throughout this unit, you may have opportunities to use and experiment with Artificial Intelligence (AI) and Generative AI. You can access Microsoft Copilot through TAFE NSW’s Microsoft licence. You can also access Adobe Creative Cloud, including products that use generative AI, such as Adobe Firefly and Adobe Express. TAFE NSW students have access to Adobe Creative Cloud on campus and can log into the Creative Cloud Portal with their TAFE NSW credentials on their own device.

Visit the TAFE NSW [Technology for Learning library](https://tafensw.libguides.com/technology) guide for TAFE students for further information and links. For further instruction on how to use AI responsibly, you can utilise the TAFE NSW [Researching and Referencing: Generative AI](https://tafensw.libguides.com/research/artificial) library guide.

#### A business venture

The learning activities in this unit are designed to support you through your learning journey and help you to gain the required knowledge and skills. In completing the learning activities, you can choose to either:

**Use your own business or business idea**: If you already run a business or have a business idea you want to develop, you can use that for the learning activities. Make sure your idea is clearly defined and fits the project requirements. You might need to use business policies and procedures to complete the tasks. If your business doesn’t have the necessary policies and procedures you can use the documents available on the **Azure Beach Surf and Skate** [**Intranet.**](https://share.tafensw.edu.au/share/items/1c89b5bb-2698-4ced-91d8-29a58efbaab2/0/?attachment.uuid=619dbebb-d353-4953-8e7a-775c44521322)

**OR**

Use the **TAFE NSW simulated organisation, Azure Beach Surf and Skate**: If you don’t have your own existing business or business idea, you can use [Azure Beach Surf and Skate](https://share.tafensw.edu.au/share/items/1c89b5bb-2698-4ced-91d8-29a58efbaab2/0/?attachment.uuid=74f8070a-c4c0-4c14-a007-aedc47689889)**.**

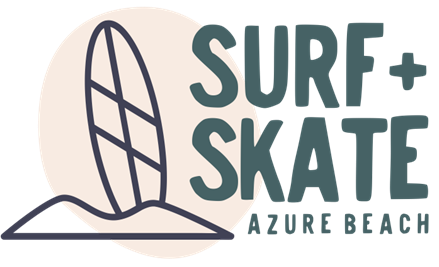


Figure 1: © TAFE NSW 2024

Azure Beach Surf and Skate provides a simulated environment that reflects a real business setting and real-life work tasks. It is a local retail and service business, selling a range of surfboards, skateboards, apparel, and accessories. It also offers surf lessons and skateboarding workshops. It serves local enthusiasts and tourists looking for high-quality gear and services. You can find all the details and documents you need on their website and intranet.

## Icon legend

Table 1: Icons

|  |  |
| --- | --- |
| Icon | Description |
|  | **Practice activity**  Complete these learning activities as they will help you to gain the knowledge and skills you need to complete your assessments. |
|  | **Resources**  Review resources that will enhance your learning and help you with your assessments. |
|  | **Library guide**  Access these guides for additional resources to help you with your learning and assessments. |
|  | **Video or audio**  Review video or audio for task demonstrations and to gain a deeper understanding of job roles and concepts. If you are using a printed version, you may need to type the URL into your browser. |
|  | **Self-check**  Complete these activities to check your learning progress. They help you identify where you may need to go back and revise your learning. Mark off the tasks you have learned. |

**Lesson 1:**Prepare to develop a business plan

## Overview

In this lesson, we will explore the essential components of creating a business plan and the significance of having a well-structured plan for your business. A business plan is a critical tool that outlines your business's goals, strategies and steps to achieve success. It serves as a roadmap for your entrepreneurial journey, helping you stay focused and organised while attracting potential investors or partners.

In this lesson, you will learn to:

* identify the purpose and required components of the business plan
* identify and document business goals, objectives and budget
* research market needs and estimate market size
* articulate a value proposition.

## The required components of the business plan

A well-crafted business plan serves as a strategic roadmap for entrepreneurs, outlining the purpose of the venture while detailing the essential components needed to guide its development and ensure long-term success.

### Generative AI usage

The utilisation of generative AI is rapidly evolving across various industries, driving innovation and efficiency by enabling organisations to automate tasks, generate new content and enhance decision-making processes through data analysis and predictive modelling.

### Steps and critical components of a business plan

During this unit, you will complete multiple components that will eventually feed into your final business plan.

The key steps you will complete can be summarised here:

Table 2: Business plan steps

| **Business plan step** | **Description** | **Workbook section** |
| --- | --- | --- |
| 1. Define business purpose and goals | Articulate your long-term vision for the business and establish specific, measurable goals to guide your efforts. | [Lesson 1](#_Overview) |
| 2. Conduct market research and analysis | Investigate your target market and competitors while assessing industry trends to inform your business strategy. | [Lesson 1](#_Overview) |
| 3. Address legal and compliance requirements | Determine the appropriate business structure, register your business and understand relevant legal obligations. | [Lesson 2](#_Overview) |
| 4. Develop marketing plans | Define what makes your product unique, choose effective marketing channels and allocate a budget for marketing activities. | [Lesson 2](#_Overview) |
| 5. Develop operational plans | Identify the key resources such as technology and personnel to support your objectives. | [Lesson 2](#_Overview) |
| 6. Develop a financial plan and budget | Create financial projections and a detailed budget that outlines expected revenues, expenses and funding needs. | [Lesson 2](#_Overview) |
| 7. Develop risk management strategies | Identify potential risks to your business, assess their impact and formulate strategies to mitigate them. | [Lesson 2](#_Overview) and [Lesson 3](#_Overview) |
| 8. Review and finalise the business plan | Compile all sections into a draft, seek feedback from trusted advisors and revise the document before finalisation. | [Lesson 3](#_Overview) |
| 9. Engage stakeholders and ensure launch readiness | Communicate your plan to key stakeholders to gain support and ensure all operational aspects are ready for launch. | [Lesson 3](#_Overview) |

### Business plan purpose

A business plan is a structured document that outlines your business's goals and objectives, with associated strategies to meet these goals and objectives and the steps necessary to achieve each of those strategies. This is done in the context of the market and the company’s offerings. It is a comprehensive roadmap for your business, detailing everything from market analysis to financial forecasts.

It is a comprehensive guide for entrepreneurs and management teams, helping them navigate the complexities of launching and running a successful enterprise.

 Video

Review the video [What is a business plan?](https://www.linkedin.com/learning/creating-a-business-plan-2/what-is-a-business-plan?autoplay=true&resume=false&u=57684225) (LinkedIn Learning, 0:59 min) for more information on what a business plan is.

These LinkedIn Learning videos will open in a new tab within your browser. You can access the full video by logging in with your TAFE NSW username and password. You can access a transcript of the video on the transcript tab within LinkedIn Learning. When you're finished, simply close the tab and return to your course.

**Video summary**

* A business plan outlines your goals and objectives, market landscape and strategies for success, essential for decision-making and securing funding.
* Key sections include an executive summary, market analysis, organisational structure, offerings, marketing strategies, other operational plans, financial projections and critical risks to manage.
* The course highlights the need for market research and audience understanding to create a realistic and adaptable plan.

### Why you need a business plan

Having a business plan is essential for entrepreneurs who want to navigate the complexities of starting and growing their businesses. It serves as a strategic roadmap that outlines their vision, objectives and the steps necessary to achieve success.

Regardless of their size, financial condition, objectives or overall mission, every business should have a comprehensive business plan that serves as a blueprint for future growth and success. When plans are thoughtfully developed and presented clearly and logically, they can effectively guide all employees, directing their efforts, time and resources toward achieving shared goals.

As your organisation’s owner, manager or decision-maker, it's crucial to recognise the significance of having a detailed business plan. It is an essential tool for maximising your business's potential in a fast-paced and competitive market.

Here are some key reasons your business can benefit from a business plan and you may want to consider adding more specific advantages relevant to your organisation.

Business plans can help you to:

* define your business or venture
* establish your organisation's long-term mission and vision
* analyse the market conditions, including your external and competitive landscape
* understand the products and services you offer
* assess your current financial situation, including primary sources of income and expenses
* conduct a SWOT analysis to identify strengths, weaknesses, opportunities and threats
* develop marketing and operational strategies
* assign roles and responsibilities to team members
* create budgets and allocate funding effectively
* set timelines for projects
* establish goals, objectives and milestones for each strategy.

 Video

Review the video [Why you need a business plan?](https://www.linkedin.com/learning/creating-a-business-plan-2/why-you-need-a-business-plan?u=1504) (LinkedIn Learning, 1:36 min) to understand the importance of having a business plan.

**Video summary**

* A business plan helps clarify your business, understand competition and articulate your product's value to customers.
* It outlines managing personnel, resources and administrative tasks to support business goals.
* A solid business plan includes financial projections and identifies potential pitfalls, enabling proactive risk management.

#### The risks of not having a business plan

Starting a business with a solid plan might seem like a good idea when you need more time. However, skipping this step can lead to severe risks that could hurt your business.

Without a business plan, you could experience the following:

* lack of direction
* missed opportunities
* financial instability
* increased risk of failure.

##### Lack of direction

Without a business plan, you lack clear objectives and strategies. This can result in wasted time and resources, as employees may need to learn their priorities. Additionally, clear marketing messages can make customers understand your offerings. A business plan provides the necessary clarity and direction for your team (Deborah Macdonald, n.d.).

##### Missed opportunities

A business plan helps identify market opportunities. Without it, you might overlook essential trends in the Australian market, such as shifts in consumer behaviour. This can prevent you from adapting to changes and leave you vulnerable to competitors with a clear strategy (Deborah Macdonald, n.d.).

##### Financial instability

A solid business plan includes financial projections that help you anticipate costs and revenues. In Australia, unexpected expenses can threaten your cash flow. Without this, you may struggle to secure funding from investors or banks, as they typically require a well-defined business strategy to assess viability (Wirth, 2024).

##### Increased risk of failure

Research shows that 70% of businesses that survive for 5 years have a comprehensive business plan. Conversely, 25% of companies without a plan fail within the first 2 years. These statistics highlight the importance of having a business plan for any entrepreneur looking to succeed.

While it may seem unnecessary to create a business plan when you're pressed for time, the risks of not having one outweigh the benefits. A well-structured business plan provides direction, helps identify growth opportunities, ensures financial stability and reduces the likelihood of failure. Investing time in developing a comprehensive business plan is essential for navigating the complexities of running a successful business in Australia (M, 2024).

### Business planning

Business planning is crucial to any organisation. It provides a structured approach to achieving goals and navigating challenges. Whether all types of business planning are needed depends on several factors, including the nature of the business, its size, industry and specific goals.

While only some types of planning may be strictly necessary for every new small business, incorporating a combination of these planning types can significantly enhance the likelihood of success. You will hear about different planning processes. Below explains this for you.

#### Strategic planning

Strategic planning is the process of documenting and establishing a business's direction. It assesses where the company currently is and where it plans to go. It includes the organisation's mission and vision. It outlines the long-term goals of an organisation and the plans needed to reach those goals. A strategic plan is a long-term plan created by the company's board or senior management teams.

The strategic plan outlines the framework within which all operational and financial plans must operate, ensuring that day-to-day activities align with long-term objectives.

#### Operational planning

An operational plan details an organisation's actions to achieve targets and objectives in the near term, usually for the following year. Operational planning includes:

* the strategies and tasks that need to be undertaken
* a responsible person for each of the strategies and functions
* the timeline to complete tasks
* the financial resources required for each task
* risks and contingencies for each task.

It is usually created by operational managers in middle management and includes specific plans for day-to-day activities and processes.

Operational planning translates the strategic goals for the company into specific actions and processes needed for daily operations to meet those goals. It details specific projects, how resources will be managed and how tasks will be executed to achieve strategic goals. It sets specific objectives for each of those projects. Beyond realising the company goals, the effectiveness of operational plans is that they can inform a strategic plan, allowing for adjustments based on real-world performance and challenges encountered in execution. For this reason, some input from operations is needed in the strategic planning process.

#### Marketing planning

A marketing plan is an operational plan and is part of the overall business planning process. When expanded into a separate and detailed marketing plan, it is a comprehensive document that outlines a business's overall marketing effort. It defines and outlines how an organisation will implement its marketing strategy and use a combination of resources to achieve the business objectives. Marketing planning will include all decisions in the 7Ps of the Marketing Mix and helps you develop, position, price and promote products and services in your business that meet the needs of your target market. The 7Ps are discussed later on within this workbook with relevant examples on how to apply it.

Effective marketing plans inform decisions regarding product development, distribution and customer service, ensuring that all aspects of the business work together to attract and retain customers.

#### Financial planning

Financial planning is part of the overall business planning process. It is the process of establishing the objectives, policies, procedures and budgets relating to an organisation's financial activities. A financial plan can help with:

* ensuring adequate funds are available,
* ensuring there is a reasonable balance between the inflow and outflow of funds,
* developing a growth and expansion plan to help the long-term survival and success of the business,
* reducing uncertainties concerning changing market trends

Financial planning involves budgeting and forecasting to ensure sufficient resources to implement both strategic and operational plans. It assesses funding needs and allocates financial resources effectively. Financial projections influence operational planning by dictating what can be realistically achieved within budget constraints.

#### Feasibility study

A feasibility study is a process that tests the viability of a business idea and is a crucial process for finalising a business plan. A feasibility study, assessment or plan aims to determine whether the proposed business idea is technically and financially feasible and viable.

Feasibility refers to the practicality of a proposed business idea. It assesses whether the concept can be realistically implemented given the available resources, market conditions and technical requirements.

Viability, on the other hand, refers to the sustainability and profitability of a business model. A viable business has demonstrated its ability to generate revenue and cover its costs over time. This indicates that not only is the idea feasible but it has also been tested in the market and shown to have the potential for long-term success.

A feasibility study may include a cost-benefit analysis, risk assessment and solutions, operational control and efficiency and timeline and resource estimations.

* A feasibility assessment canvasses all aspects of the business planning at a high level before you go into detailed planning.
* A feasibility study tells you whether the business idea will work.
* A business plan tells you how it will work.

The feasibility study serves as the initial assessment of a business idea's viability. It provides critical insights into market demand, potential challenges and resource requirements before progressing the idea and undertaking detailed planning. This information is essential for informing strategic and operational planning decisions. The findings from the feasibility study guide the business plan by highlighting opportunities and risks that need to be addressed (Queensland Government, n.d.).

## Identify and document business goals, objectives and budget

Setting clear business goals and objectives is essential for guiding your business toward success. This involves identifying what you want to achieve, how you measure progress and the budget considerations necessary to support these efforts.

### Mission and vision statements

Clear mission and vision statements are essential for any organisation, regardless of size or industry. These statements are foundational elements that guide decision-making, inspire employees and communicate the organisation's purpose to stakeholders.

#### Mission statement

A mission statement defines the organisation's purpose, outlining what it does, who it serves and how it delivers value. It focuses on the present and clarifies the organisation's primary objectives.

The mission statement of a business usually outlines its nature and purpose. It's the ‘We are here to do this’ statement. It answers the ‘Why’ question of your business’s existence.

#### Vision statement

A vision statement articulates an organisation's long-term aspirations. It serves to rally people and outlines what the organisation seeks to achieve in the future.

For example, ‘To be the leading Pet Grooming Business in the state with large branches in every major city of the country by 2030’ (Bain & Company, 2023).

 Resources

For more information on how you can make your own vision and mission statement, review the article [How To Write Vision and Mission Statements.](https://www.indeed.com/career-advice/career-development/how-to-write-vision-and-mission-statement)

 Practice activity

### Activity 1: Vision and mission statement

Using your business idea or [Azure Beach Surf and Skate](https://share.tafensw.edu.au/share/items/1c89b5bb-2698-4ced-91d8-29a58efbaab2/0/?attachment.uuid=74f8070a-c4c0-4c14-a007-aedc47689889), develop your mission and vision statement.

1. Create a mission statement using your business idea or Azure Beach Surf and Skate.
2. Create a vision statement using your business idea or Azure Beach Surf and Skate.

### Goals

Business goals are broad, long-term aims that reflect the overall vision for your company. They provide direction and help align resources and efforts.

Goals can be considered financial and non-financial.

#### Financial goals

Financial goals are specific, measurable objectives that focus on a business's economic performance and sustainability. Common examples include:

* **Increase revenue** – A primary aim for most companies is to boost sales and income through various strategies such as expanding market reach or enhancing product offerings.
* **Enhance profit margins** – Businesses strive to increase the difference between revenue and expenses by improving operational efficiencies and reducing costs.
* **Improve cash flow** – Maintaining a positive cash flow is vital for day-to-day operations. Companies aim to manage their receivables and payables effectively to ensure liquidity.
* **Reduce costs** – This involves identifying areas where expenses can be cut without sacrificing quality, thereby improving overall profitability.

These financial objectives are often measured using specific metrics, making them straightforward to assess and adjust as necessary (Clyne, 2022).

#### Non-financial goals

Non-financial goals encompass broader objectives that contribute to the overall vision and culture of the business but do not directly relate to financial performance. Common examples include:

* **Customer satisfaction** – Ensuring high levels of customer service can lead to repeat business and positive referrals, which indirectly support financial growth.
* **Employee satisfaction** – Aiming to create a positive work environment enhances employee engagement, reduces turnover and boosts productivity.
* **Environmental sustainability** – Many businesses set goals related to reducing their environmental impact, which can improve their brand reputation and appeal to socially conscious consumers.
* **Social responsibility** – Engaging in community initiatives and ethical practices can improve a company’s public image and foster customer loyalty.

Balancing these non-financial aims with financial objectives is essential for long-term success. While financial goals focus on immediate profitability, non-financial goals contribute to sustainable growth by fostering a loyal customer base and a committed workforce (Clyne, 2022).

When defining your goals, consider the following:

* **Align with mission and vision** – Ensure your goals align with your company’s mission and vision statements. This alignment helps maintain focus and consistency in your strategic planning.
* **Prioritise** – Identify which goals are most critical based on the current business climate and potential impact on profitability. For instance, a goal focused on increasing brand awareness may take precedence in a competitive market.

Examples of business goals can include the following:

* maintain a net profit margin of at least 20% over the next 3 years.
* increasing market share by 15% within 5 years.
* boost overall revenue by 25% through new customer acquisition within the next 2 years.

Include short-term, medium-term and long-term goals in your business plan. Long-term goals must be based on where you want to take your business months and years in the future, while short-term and medium-term goals will contribute to achieving the business's long-term goals. Short-term goals should act as milestones for achieving your long-term goals. Examples of short-term or medium-term business goals include:

* increasing sales of specific products or services
* gaining a certain number of followers on social media platforms
* and expanding the areas where you do business, both online and in physical stores (Australian Government, 2024).

For example:

Short-term goal: Generate AUD 200,000 in sales revenue within the first 6 months by targeting health-conscious consumers in major Australian cities, focusing on organic food products.

Mid-term goal: Based on customer preferences and local sourcing opportunities, expand our product offerings to include 10 new organic items within the first year.

Long-term goal: Establish a network of 100 retail partnerships with local organic grocers across Australia within 18 months to increase distribution and brand presence.

### Objectives

Objectives define the specific, measurable actions each team employee must take to achieve the overall goal. All objectives follow the SMART principle and are specific, measurable, achievable, relevant and time-bound (Corporate finance institute, n.d.).

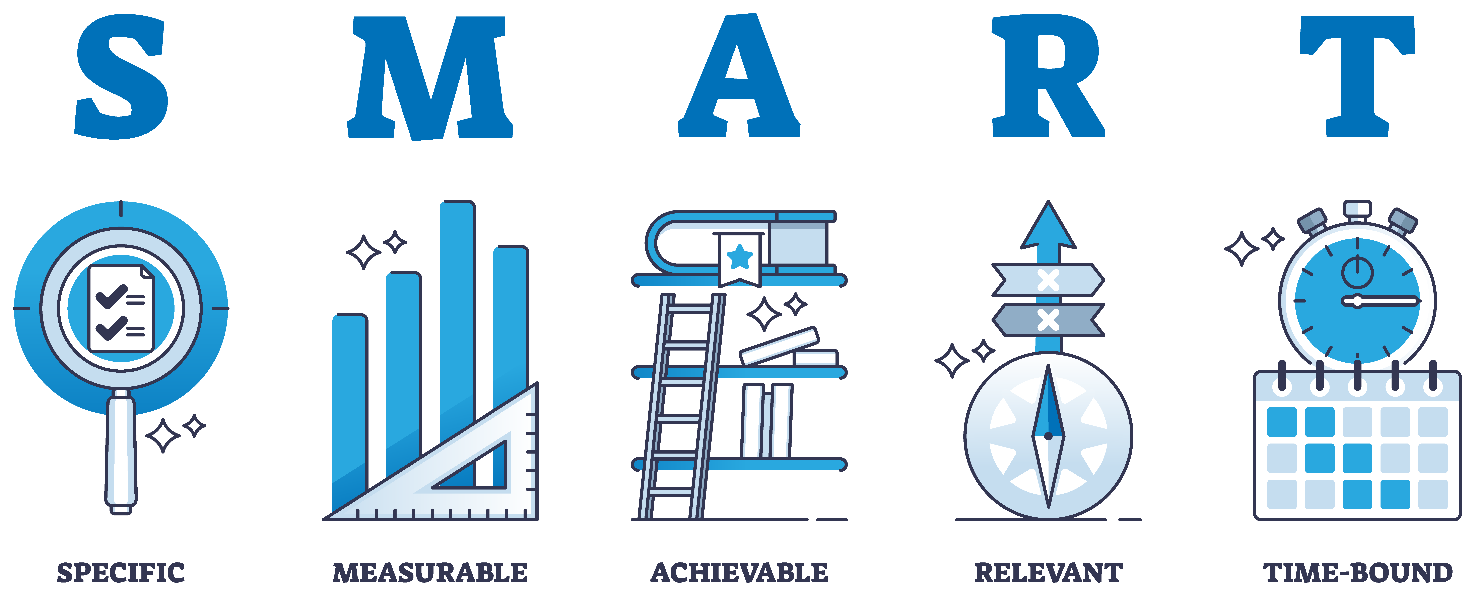


Figure 2: © Shutterstock copied under license

To help create these SMART objectives, you can consider the following:

Table 3: SMART objectives

| **SMART principle** | **Description** |
| --- | --- |
| **Specific** | Clearly define what you want to accomplish. For example, ‘increase sales by 15% in the next quarter.’ |
| **Measurable** | Determine how you will measure progress toward your objective, such as tracking sales figures or customer feedback. |
| **Achievable** | Set realistic objectives that can be accomplished with the resources available, assessing time, budget and personnel. |
| **Relevant** | Ensure that each objective aligns with your overall business goals and contributes meaningfully to your success. |
| **Time-bound** | Establish a timeline for achieving each objective, such as ‘Acquire 5 new clients within 6 months.’ |

SMART objectives are written in one statement that combines them all.

An example of objectives to achieve the overall goal of ‘Grow your brand awareness across Australia’ could be as follows:

To demonstrate my success in enhancing brand visibility across the country, the objectives for the social media marketing campaign will be a) 15% of all website traffic to originate from regional areas and b) a 7% increase in engagement from Instagram followers belonging to diverse cultural backgrounds.

### Budget

Budgeting is a critical component of achieving your business goals and objectives. It involves allocating financial resources effectively to support planned activities. When budgeting for your business, you will need to consider the following items:

* **Estimate costs** – Identify all costs associated with achieving your objectives, including marketing expenses, operational costs and personnel salaries.
* **Revenue projections** – Create realistic revenue forecasts based on historical data and market analysis to understand potential income streams.
* **Allocate resources** – Determine how much of your budget will be allocated to each goal or objective based on its priority and expected impact.
* **Monitor and adjust** – Regularly review your budget against actual performance to identify variances and make necessary adjustments. This ongoing assessment ensures that you remain aligned with your financial goals.
* **Involve stakeholders** – Engage key stakeholders in the budgeting process to ensure that all departments’ needs are considered and that the budget aligns with overall strategic priorities.

You can follow the steps to help create a budget for your business with historical financial data.

Table 4: Steps for creating a budget with data

| **Budgeting step** | **Description** |
| --- | --- |
| 1. Examine revenue | Review all revenue sources by analysing past income data, ideally over the last 12 months. Identify seasonal patterns that may affect income, such as holiday sales or summer slumps. |
| 2. Subtract fixed costs | Calculate all fixed costs that remain constant regardless of sales, such as rent, salaries and insurance. In Australia, be mindful of local regulations affecting these costs, like minimum wage laws and tax obligations. |
| 3. Subtract variable costs | Identify variable expenses that fluctuate with business output, such as hourly wages and raw materials. Analyse historical data to estimate future variable costs and adjust spending during lean months versus profitable periods. |
| 4. Set aside a contingency fund | Allocate funds for unexpected expenses to prepare for emergencies like equipment failure or inventory loss. |
| 5. Determine marketing and selling, general and administrative (SG&A) expenses | Determine projected profit by subtracting total expenses from projected revenue, ensuring all relevant costs are included. Start by estimating fixed costs (like rent and salaries) and variable costs (such as raw materials). |
| 6. Finalise your budget | Compile all data into a comprehensive budget document outlining expected income, expenses and profits over specific periods (monthly, quarterly and yearly). Regularly compare actual performance against this budget to ensure financial accountability and make necessary adjustments. |
| 8. Monitor and adjust | Regularly compare actual financial performance against the budget. Be prepared to adjust your budget as needed based on changing circumstances or unexpected outcomes. |

You can follow these steps for businesses that do not have financial data:

Table 5: Steps for creating a budget without data

| **Budgeting step** | **Description** |
| --- | --- |
| 1. Conduct market research | Gather information on industry standards, competitor performance and market trends. This will help estimate potential revenue streams and understand consumer behaviour. |
| 2. Identify revenue streams | Determine possible sources of income based on market research. This could include product sales, service feesor subscription models. Consider various pricing strategies to maximise revenue potential. |
| 3. Estimate fixed costs | Calculate all fixed costs that will be incurred regardless of sales volume, such as rent, salaries and insurance. Research typical costs in your industry to make informed estimates. |
| 4. Estimate variable costs | Identify variable costs that will fluctuate with business activity, such as materials or hourly wages. Use industry benchmarks to project these expenses based on anticipated sales volume. |
| 5. Set contingency funds | Allocate a portion of the budget for unexpected expenses or fluctuations in revenue. This helps mitigate risks associated with unforeseen circumstances like economic downturns or supply chain issues. |
| 5. Determine marketing and selling, general and administrative (SG &A) expenses | Determine projected profit by subtracting total expenses from projected revenue, ensuring all relevant costs are included. Start by estimating fixed costs (like rent and salaries) and variable costs (such as raw materials). |
| 7. Finalise the budget document | Compile all estimates into a comprehensive budget document that outlines expected income, expenses and profits over specific periods (monthly, quarterly and yearly). Regularly review this document against actual performance to ensure accountability and adjust as necessary. |
| 8. Monitor and adjust | Continuously compare actual financial performance against the budgeted figures. Be prepared to revise your budget based on real-world outcomes and changing market conditions to maintain financial health. |

Budgeting is covered further in Lesson 2: Draft and create business plan.

By clearly identifying and documenting your business goals, objectives and budget considerations, you create a structured framework that guides decision-making and enhances the likelihood of achieving long-term success in a competitive environment (Turits, 2023).

## Research market needs and estimate market size

Understanding market needs and accurately estimating market size are crucial to developing a successful business strategy. This process involves identifying the target audience, assessing their needs and calculating the potential market opportunity.

### Researching market needs

Maintaining business growth will always be a challenge in today's market. Technological advances, new emerging competitors and shortening product life spans create constant instability for any business. The need to seek new opportunities will ensure you can strengthen your company's capabilities and remain competitive in a changing market.

To effectively research market needs, both primary and secondary research methods are essential.

#### Primary research

Primary research involves gathering first-hand data directly from your target audience. This method provides unique insights tailored to specific business needs and objectives.

Standard methods of primary research include:

* **Surveys or questionnaires** – Online or offline questionnaires that gather quantitative data.
* **Interviews** – In-depth discussions that provide qualitative insights.
* **Focus groups** – Group discussions that explore consumer attitudes and perceptions in detail.

Primary research is best utilised when specific, tailored data is required to address unique business questions or challenges. It is particularly valuable for obtaining current insights directly from the target audience, making it suitable for rapidly changing markets or exploratory studies.

This method allows complete control over the research process, including methodology and participant selection. However, it can be time-consuming and costly, requiring significant planning and resources to execute effectively (George, 2023).

There are different types of testing used for primary research and these can include:

* **Pilot testing** – Allows businesses to gather valuable insights and feedback from early adopters in a controlled environment.
* **Concept testing** – Evaluates the feasibility and appeal of new product ideas or marketing campaigns with potential customers.
* **A/B testing** – Compares 2 versions of a product, service or marketing material to determine which one performs better (Qualtrics, n.d.).

Common primary research tools you might use can include:

* [Qualtrics](https://www.qualtrics.com/en-au/lp/market-research/?utm_source=google&utm_medium=ppc&utm_campaign=ANZ-EN|SRC|GEN|SR&utm_content=Employee_Engagement&utm_term=market%20research%20tool&utm_keyword=p&matchtype=p&device=c&creative=706045898853&gad_source=1&gclid=EAIaIQobChMIkpqbkZq3iQMVByqDAx3FYCXPEAAYASAAEgJc2_D_BwE)
* [Askable](https://www.askable.com/)
* [Survey Monkey](https://www.surveymonkey.com/welcome/sem/?program=7013A000000ih75QAA&utm_bu=SVMK&utm_campaign=71700000058894454&utm_adgroup=58700005408390471&utm_content=43700079965418603&utm_medium=cpc&utm_source=adwords&utm_term=p79965418603&utm_kxconfid=s4bvpi0ju&gad_source=1&gclid=EAIaIQobChMI9pzaupq3iQMVB6NmAh0e2h1xEAAYASAAEgKjvvD_BwE&gclsrc=aw.ds).

##### Clients or customers

You can undertake a customer needs analysis using past and potential leads. This is identifying customers’ requirements for a product or a service. This type of analysis aims to understand customer needs and their position in the market. Used appropriately, it should identify the factors that motivate a customer to purchase products or services.

You could do this via customer surveys or by making individual contact to establish the customer need in the area of business you intend to develop. You must record all the information.

Approaching potential clients for input on your business idea will help you understand demand and ensure that you are equipped to meet:

* **Functionality** – solved their problem
* **Price** – at the right price point, it’s value for money
* **Reliability** – the customer has confidence that the offering will be delivered every time
* **Usability** – simple to use
* **Compatibility** – fits in with their routine.

##### Demand analysis surveys

This research can help determine the customer demand for a product or service in a particular market. Companies often conduct it to understand customer demand for specific products. The results can be used to determine whether a business would be successful if it entered the market and what the expected profit would be.

This type of information can be found on websites or blog posts and allows you to collect and measure visitor information.

#### Secondary research

Secondary research involves analysing existing data collected for other purposes. This method can be beneficial for gaining background information and understanding broader market trends.

Common sources of secondary research include:

* **Industry reports** – published studies that provide insights into market dynamics.
* **Academic journals** – research articles that offer theoretical frameworks and empirical findings.
* **Government publications** – data from census reports or economic surveys that provide demographic insights.

Secondary research is ideal for gaining a broad overview of market trends or consumer behaviour based on existing data. It is beneficial when resources are limited, as it is generally more cost-effective and quicker to conduct than primary research.

This method provides valuable historical context and can highlight areas that warrant further investigation through primary research.

##### Internet forums

Forums are available for you to open a topic for discussion. This is free and open to the masses, so the information you receive will need to be assessed and validated. That said, it is a method that could also be used to obtain the opinions of potential customers.

##### Statistic bureaus

The Australian Bureau of Statistics releases detailed figures showing the employment landscape and the profits of various business sectors. This information may help determine a business's viability and profitability.

Some companies promote the purchase of business-to-business data, which is designed to help you find clients.

These bureaus provide email, telemarketing, direct mail and international data that can be analysed.

##### Industry trends and insights

Take advantage of industry research and trend reports. Industry leaders often conduct research and compile their findings in published reports. Reading past the executive summary should yield valuable information that could assist you in assessing business opportunities.

You can also source information by regularly following publications and influencers in your industry and identifying top blogs and publications.

You will review your customer base once you have reviewed the market research.

### Customer base

You will need to know who makes up your target markets and customer base to understand your customers' needs and desires. This is essential when creating a business plan, as the content of your plan should be shaped by customer behaviour. A customer base is your most loyal and engaged customers if you already have them.

Your current customer base is your business–it has made the company successful to date–so it is vitally important to acknowledge who these customers are and what sort of products and services they want and expect.

For example, you may identify your customer base as urban or regional, aged between 18 and 34 or a certain income bracket and buying from you twice a month. People like this are the most likely to purchase the product your business has to offer in future. Having this information and making educated generalisations about who currently buys your products and services is essential in ensuring you retain this group of people to keep them coming back to do business with you and use them to understand whether people just like them are your most likely prospective customers.

### Identify your target market

The target market consists of the broad groups of people you are aiming your products and services at–those who are most likely to buy them. You need to identify the target market for each of your business's products and services, as this will significantly influence business planning.

Consider all the products and services your business offers and then establish what type of person would be naturally interested in or be naturally attracted to buying those products and services. Consider a range of demographic variables when working out exactly who your target market is. For example, factors such as age, gender, and background can be considered variables that influence the likelihood of a specific person being interested in your business's products and services.

Your target market will solely depend on your product or service offering. For example, a luxury car brand targets affluent individuals who value status and high-quality engineering. In contrast, a budget-friendly car manufacturer focuses on cost-conscious consumers seeking reliability and affordability.

Understanding the specific characteristics of your target market is essential, as it influences how you position your products and tailor your marketing strategies.

To find out market needs, you should consider all 4 types of segmentation:

1. **Demographic** – Involves dividing the market based on observable characteristics such as age, gender, income, education and occupation.
2. **Geographic** – Categorises consumers based on their physical location. It recognises that people in different regions may have distinct needs and preferences.
3. **Psychographic** – Focuses on the lifestyle, personality traits, values, interests and opinions of consumers.
4. **Behavioural data** – Categorises consumers based on their behaviours related to the product or service. It considers purchasing habits, brand loyalty and usage rates.

 Video

Review the video [How to Identify Target Audience for Business Marketing](https://www.youtube.com/watch?v=piTUa1BLQPo) (YouTube, 9:26 min) to gain a better understanding of how you can use market segmentation to identify your target market.

**Video summary**

* Mis-targeting audiences can harm a brand's reputation, while accurate targeting optimises marketing spend and increases return on investment (ROI).
* The video outlines steps such as defining products, conducting market research, analysing demographics and psychographics, creating buyer personas and identifying customer needs.
* Continual refinement through competitor monitoring, A/B testing, and customer feedback helps improve targeting accuracy and campaign effectiveness.

### Estimate market size and potential

Market size and potential are critical concepts in business strategy. They provide insights into the number of potential customers and the revenue that can be generated from a market. Understanding these helps businesses make informed decisions regarding product development, marketing strategies and investment opportunities.

#### Calculate market size

The first step is to clearly define your target market. Consider all 4 elements of segmentation. This information will help you understand who will buy your product or service and why.

Next, decide on a calculation method. There are 2 main approaches:

1. **Top-down approach** – Start with a broad market figure (like the number of potential customers in an industry) and narrow it down to your target audience.
2. **Bottom-up approach** – Begin with specific data about your target customers (like how many units they might buy) and build up to estimate the overall market size.

##### Top-down approach

The Top-Down approach starts with a broad market overview and narrows it to specific segments.

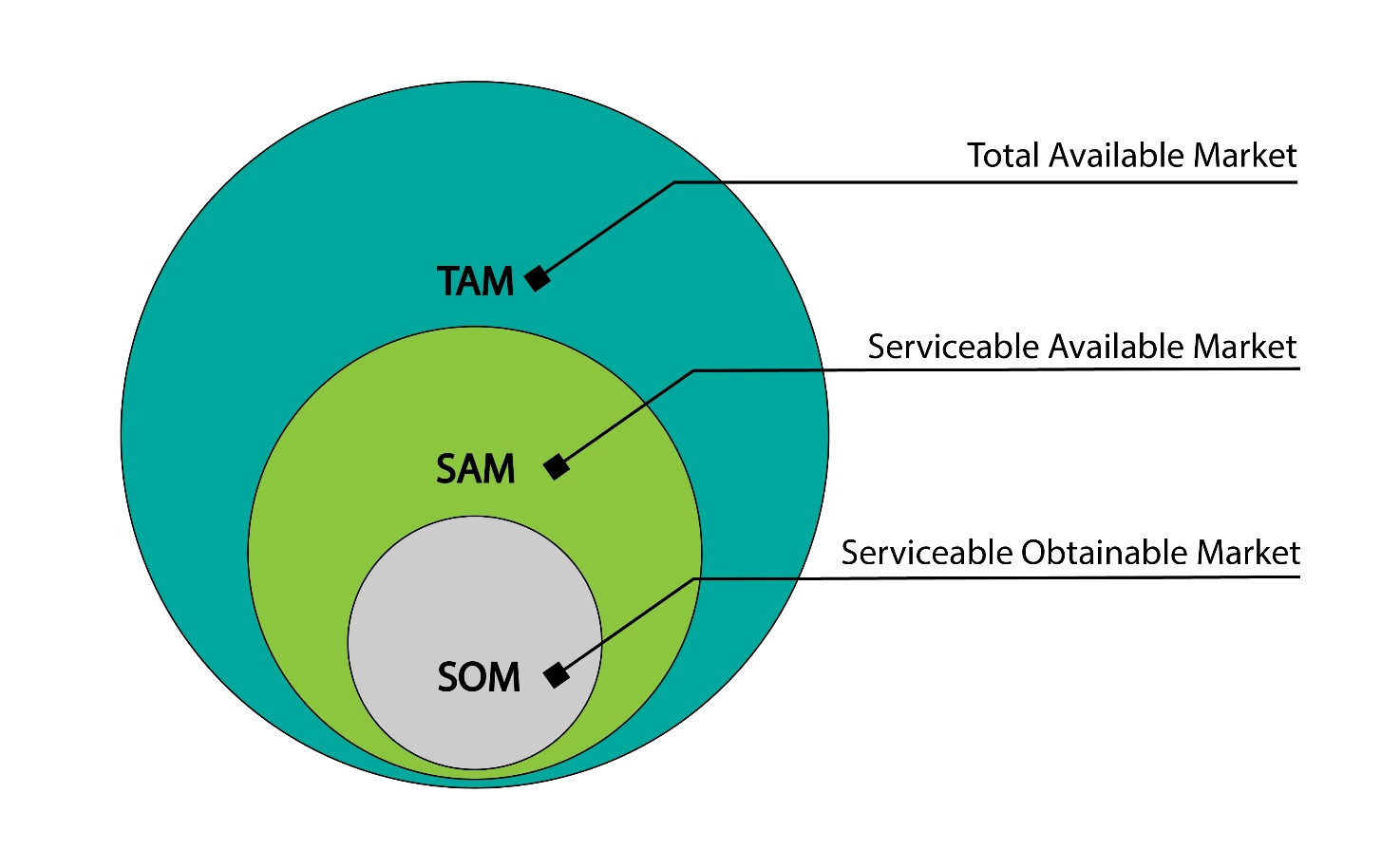


Figure 3: © Shutterstock copied under license

This relationship of market sizes, how you can calculate your own and examples are:

Table 6: Market metric overview

| **Market metric** | **Formula** | **Example** |
| --- | --- | --- |
| Identifying the Total Addressable Market (TAM) | TAM = Total number of potential customers x Average revenue spend per user | TAM = 1,000,000 customers × $100  = $100,000,000 |
| Narrowing Down to Serviceable Available Market (SAM) | SAM = TAM x percentage of customers you can serve x average annual revenue per customer | SAM = 1,000,000 customers × 0.20 × $100  = $20,000,000 |
| Calculating Serviceable Obtainable Market (SOM) | SOM = TAM x Percentage of Customers You Can Serve x Percentage of Market You Can Capture x Average Annual Revenue per Customer | SOM = 1,000,000 customers × 0.20 × 0.10 × $100  = $2,000,000 |

This method is generally quicker and relies on existing data, making it suitable for large markets (Ferguson & Coyle, 2024).

For example, imagine you are launching a new fitness tracker designed for the Australian market. To find out the market size using the top-down approach, you first discover that the total market for wearables in Australia is about $770 million in 2023.

You learn that fitness trackers make up roughly 30% of this market, which gives you a Serviceable Available Market (SAM) of about $231 million (calculated as $770 million × 0.30).

After looking at your competition and marketing strategy, you estimate that you can capture 10% of this SAM in your first year, resulting in a Serviceable Obtainable Market (SOM) of around $23 million (calculated as $231 million × 0.10).

In summary, using the Top-Down approach, you estimate that your new fitness tracker could generate approximately $23 million in revenue within its first year in Australia, helping guide your business planning and investment decisions.

##### Bottom-up approach

The bottom-up approach to market sizing starts with specific data about your product or service and builds up to estimate the overall market size. This method focuses on individual customer transactions and purchasing behaviour, making it more tailored and accurate for businesses.

The steps to calculating the bottom-up approach example:

Table 7: Bottom-up approach steps

| **Step** | **Description** | **Example** | **Result** |
| --- | --- | --- | --- |
| **Step 1** – Define Target Market Segments | Identify ideal customers | 500,000 health-conscious consumers | 500,000 |
| **Step 2** – Determine Product Price | Set selling price | $5 per chocolate bar | $5 |
| **Step 3** – Estimate Potential Customers | Potential Customers = Total Customers x Percentage Reached | 500,000 × 10% = 50,000 | 50,000 |
| **Step 4** – Calculate Market Size | Market Size = Potential Customers x Price per Unit | 50,000 × $5 = $250,000 | $250,000 |

For example, you are launching a new organic chocolate brand in Australia. To find out the market size using the bottom-up approach, you start by identifying about 500,000 health-conscious consumers buying organic products.

You set the price of your chocolate at $5 per bar. You estimate that you can reach 10% of these consumers in your first year, which means you could connect with 50,000 customers (500,000 × 0.10).

To calculate your market size, you multiply the number of potential customers by the price per bar, totalling $250,000 (50,000 × $5). Therefore, you estimate that your new organic chocolate brand could generate around $250,000 in revenue during its first year in Australia.

This approach is more detailed and often more accurately reflects market potential but it can be time-consuming and resource-intensive (Ferguson & Coyle, 2024).

 Video

Review the video [Size the market](https://www.linkedin.com/learning-login/share?account=57684225&forceAccount=false&redirect=https%3A%2F%2Fwww.linkedin.com%2Flearning%2Fcreating-a-business-plan-2%2Fsize-the-market%3Ftrk%3Dshare_video_url%26shareId%3D9akUWLkiRjqUFgAVZQHteg%253D%253D) (LinkedIn Learning, 1:55 min) to learn how to understand the market for your business.

**Video summary**

* Estimating the market size helps assess a business opportunity's attractiveness, including its potential customer organisation (by product or geography) and typical customer characteristics.
* Identify the addressable portion of the market's profit pool – the potential revenue available – and evaluate how much of this pool the business can capture by solving a particular problem.
* Use market research, analyst reports and competitor insights to size the market accurately. Large and niche markets can be lucrative if properly positioned, as demonstrated by companies like Apple with high-end, targeted products.

### Conduct a competitor analysis

A well-executed analysis not only clarifies the competitive landscape, including each competitor's offering, target market, products, brand proposition, services, pricing, and customer service but also guides decision-making processes for future growth and innovation by outlining internal strengths and weaknesses as well as external threats and opportunities. A detailed competitor analysis will help you see your positioning in the minds of your target market.

Data sources for competitor analysis can be found in:

* recorded data, for example, annual reports or articles and reviews that have been published
* observable data that can be collected by looking at competitors' activities. Observable data can include analysing competitor marketing strategies, product launches and service offerings
* opportunistic data can be collected by talking to bodies that have contact with the competitor, such as suppliers, customers or employees.

Looking at similar businesses and identifying what they offer will assist you in determining the viability of a potential business opportunity. You could review several aspects of a competitor's analysis, including their activities and products, pricing, websites and existing customer base.

#### SWOT analysis

A SWOT analysis is a foundational assessment model that measures an organisation's capabilities and limitations, as well as its potential opportunities and threats.

Using a SWOT analysis within your business plan will help you develop your marketing and risk management strategies.

The components of a SWOT analysis at its highest level consist of:

Table 8: SWOT analysis components

|  |  |  |
| --- | --- | --- |
| Terminology | Definition | Example |
| Strengths | Characteristics of the business or project that give it an advantage over others. | A well-established brand reputation that fosters customer loyalty. |
| Weaknesses | Characteristics that place the business or project at a disadvantage relative to others. | Limited financial resources that slow marketing efforts. |
| Opportunities | Elements in the environment that the business or project could exploit to its advantage. | Emerging markets with increasing demand for eco-friendly products. |
| Threats | Elements in the environment that could cause trouble for the business. | Increasing competition from new entrants in the market. |

##### Performing a SWOT analysis

You can apply the information you have gathered for your business framework and consider the following with the 4 strands of the SWOT.

Table 9: Performing a SWOT analysis

|  |  |
| --- | --- |
| SWOT area | Considerations |
| Strengths | * What do customers love about your products and services? * What does your company do better than your competitors? * What is your company’s most positive attribute? * What is unique about your company? * What resources do you have at your disposal? |
| Weaknesses | * What do your customers dislike about your products and services? * What complaints or issues reoccur in your reviews? * How could your company improve in customer service and support? * What are your biggest challenges? |
| Opportunities | * How can you improve your sales, customer service and support? * How can you further engage your customers? * Are the tools, budget and resources being used effectively? * Which advertising channels work best for your company? |
| Threats | * What factors are preventing your sales from increasing? * What are your competitors doing that you are not? * Are your resources being used efficiently? |

 Practice activity

### Activity 2: SWOT analysis

1. Using research for your own business idea or using [Azure Beach Surf and Skate](https://share.tafensw.edu.au/share/items/1c89b5bb-2698-4ced-91d8-29a58efbaab2/0/?attachment.uuid=74f8070a-c4c0-4c14-a007-aedc47689889), conduct a SWOT analysis in the provided template.

Table 10: SWOT

|  |  |
| --- | --- |
| Template | Template |
| **Strengths** | **Weaknesses** |
| **Opportunities** | **Threats** |

To fully understand your external opportunities and threats to your business, you can perform a Political, Economic, Social, Technological, Environmental Legal (PESTAL) analysis which we cover next.

#### PESTLE analysis

A PESTLE analysis (or PESTLE analysis) is a strategic tool to evaluate the external macro-environmental factors influencing an organisation's performance and decision-making. This analysis helps businesses understand the broader context in which they operate, allowing them to identify potential opportunities and threats.

PESTLE analysis description and examples are:

Table 11: PESTLE

|  |  |  |
| --- | --- | --- |
| Factor | Description | Example |
| Political | Examines how government policies, political stability and regulations affect the business environment. | Changes in trade tariffs affect import costs. |
| Economic | Assesses economic conditions such as inflation, exchange rates, economic growth and consumer spending patterns. | A recession leads to decreased consumer spending. |
| Social | Focuses on societal trends, demographics, lifestyle changes and cultural aspects that influence consumer behaviour. | Increasing health consciousness driving demand for organic products. |
| Technological | Evaluates the impact of technology on operations, innovation and market competitiveness. | The rise of e-commerce platforms transforming retail shopping habits. |
| Environmental | Considers ecological factors including sustainability, climate change and environmental regulations. | Stricter regulations on carbon emissions affecting manufacturing processes. |
| Legal | Reviews the legal environment affecting the business, including laws related to employment, health, safety and consumer rights. | New data protection laws (for example, the General Data Protection Regulation (GDPR) impacting how companies handle customer information. |

Conducting a PESTLE analysis with specific examples helps organisations gain insights into the external factors that could impact their operations and strategic planning. By understanding these influences, businesses can better position themselves to respond to environmental changes, seize opportunities and mitigate risks effectively. This analysis is often used with other strategic tools like SWOT analysis for comprehensive planning.

## Articulate a value proposition

Articulating a clear and compelling value proposition is essential for businesses aiming to connect effectively with their target audience. A well-defined value proposition communicates the unique benefits of a product or service and differentiates the company from its competitors.

A value proposition is a succinct statement that encapsulates why a customer should choose a particular product or service over others. It highlights the specific benefits customers can expect and addresses their needs and challenges. The goal is to convey how the offering solves a problem or improves the customer's situation. This is also known as the unique selling proposition (USP) or unique value proposition (UVP).

There are 2 critical components to a value proposition:

1. Target market.
2. Value (solution or benefit).

These are further expanded:

Table 12: Value proposition components

| **Component** | **Description** | **Key questions to answer** | **Example** |
| --- | --- | --- | --- |
| **Target market** | The specific group of consumers that your product or service is designed to serve. | Who are my ideal customers?  What are their demographics (age, gender, income)?  What are their behaviours and preferences? | Busy parents looking for safe cleaning alternatives. |
| **Value** (Solution or benefit) | The unique advantages or benefits that your product or service provides to the target market. | What problems does my product solve?  What are the key benefits my customers will experience?  How does my offering differ from competitors? | Non-toxic ingredients that ensure safety for children and pets (b2b International, n.d.). |

Now that you understand what the value proposition should address, use the following steps to help draft your own value proposition.

Table 13: Steps to create a value proposition

| **Step** | **Description** |
| --- | --- |
| 1. Identify the problem | Determine the specific challenge your product or service addresses. Ask yourself why your startup exists and what urgent issue it solves for customers. |
| 2. Define your solution | Clearly outline how your offering solves the identified problem. Focus on the benefits rather than just features–what will customers gain from using your product? |
| 3. Understand your audience | Research your target market to understand their needs, preferences and pain points. This ensures that your value proposition resonates with potential customers. |
| 4. Analyse competitors | Look at what competitors are offering and identify what makes your solution unique. Highlight your unique value proposition that set you apart in the market. |
| 5. Craft your value proposition statement | Use a simple formula to create a concise statement, such as: ‘We help [target customer] do [what] by [how].’ This should capture the essence of your value in a clear and compelling way. |

An example of a value proposition statement and the steps that follow for the business ABC GreenClean Solutions, which specialises in eco-friendly kitchen cleaning products.

**Step 1: Identify the problem**

Many traditional cleaning products contain harsh chemicals that pose health risks to families, especially children.

**Step 2: Define Your Solution**

ABC Green Clean Solutions offers a range of eco-friendly kitchen cleaning products made from natural ingredients. Our products are designed to clean surfaces effectively without harmful chemicals.

**Step 3: Understand Your Audience**

Our primary customers are environmentally conscious families, particularly parents aged 25-45 who prioritise health and safety in their homes. They seek effective cleaning solutions that do not compromise their family's well-being or the environment.

**Step 4: Analyse Competitors**

The market for eco-friendly cleaning products is growing, with several established brands offering similar solutions. However, many of these products still contain harmful ingredients or need more transparency in their formulations.

**Step 5: Craft your value proposition statement**

‘We help environmentally conscious families maintain a clean and safe kitchen by providing eco-friendly cleaning products made from natural ingredients.’

 Video

Review the video [Articulate your value proposition](https://www.linkedin.com/learning/creating-a-business-plan-2/articulate-your-value-proposition) (LinkedIn Learning, 2:54 min) to learn how to create your value proposition.

**Video summary**

* Clearly outline your product or service's specific benefits, such as cost savings, time efficiency or improved quality.
* Apply the ‘what do you have to believe’ method for less tangible benefits. This involves prompting customers to consider realistic, small improvements.
* Show customers the payback period for their investment by calculating how quickly they’ll recover the cost through the benefits they gain.

 Self-check

### How did you go?

You have completed the lesson: **Prepare to develop business plan**. Check the boxes for the tasks you feel confident you can complete.

I can identify purpose and required components of the business plan.

I can identify and document business goals, objectives and budget.

I can research market needs and estimate market size.

I can articulate a value proposition.

**Lesson 2:**Draft and create business plan

## Overview

This lesson will teach you the critical components of developing a comprehensive business plan. A well-structured business plan is essential for guiding your entrepreneurial journey, securing funding and ensuring compliance with legal and regulatory requirements. Understanding how to articulate your business goals and strategies will significantly enhance your chances of success.

In this lesson, you will learn to:

* address legal and compliance requirements
* plan marketing activities
* calculate prices based on costs and profit targets
* identify sources of finance for required liquidity
* select budget targets
* research specialist services and sources of advice
* analyse the draft plan and prioritise risks.

## Address legal and compliance requirements

Your business will need to follow all rules and standards imposed by federal, state or territory laws, as well as industry-regulated rules and standards. To meet best business practices and avoid the legal repercussions of operating outside the rules, any strategies you include in your business plan should adhere to relevant Australian legislation and applicable international conventions.

As discussed in Lesson 1, you will have your own goals and objectives depending on the business you are creating and specific long-term goals and short-term actions to help you get there.

### Legal requirements

Legal requirements refer to the laws and regulations a business must adhere to operate legally within a jurisdiction. Government authorities often set these requirements at local, state and federal levels and encompass many areas critical to business operations.

Key areas of legal requirements for businesses include:

* business structure
* taxation business registration
* licenses and permits
* employment laws
* insurance requirements.
* WHS requirements.
* taxation requirements
* privacy laws
* intellectual property protection
* environmental responsibilities
* industrial relations.

#### Business structure

Choosing the proper business structure is a foundational step that impacts various legal and financial responsibilities. Entrepreneurs can select from several structures, including sole trader, partnership, company and trust. Each structure has distinct implications for liability, taxation and regulatory obligations.

The most common business structures are:

* sole trader
* partnership
* company.

##### Sole trader

A sole trader is the simplest form of business structure. It is also relatively easy and inexpensive to start and maintain. Many sole traders choose to trade under their name, for example, J. Doe, while others opt to register a business name.

As a sole trader, the owner retains complete business control. There is no division between business and personal assets, which includes the share of any assets jointly owned by another person, such as a house or car. The sole trader's liability is unlimited, which means that personal assets can be used to pay business debts.

Sole traders are taxed as individuals and pay income tax at personal rates. This means the business income is declared on the sole trader's tax return along with any other assessable income, such as your salary, wages, interest or dividends.

 Resources

Visit the page [Register your business name](https://business.gov.au/Registrations/Register-your-business-name) for further information from the Business.gov.au website.

##### Partnership

A partnership involves 2 or more people, but at most 20 (with some exceptions), entering into businesses together to make a profit.

In most cases, a partnership must register a business name with the Australian Securities and Investments Commission (ASIC) unless it uses all the partners' surnames. A partnership is a relationship, not a separate legal entity. Each partner jointly owns and shares all the business assets and liabilities. Each partner must know their rights, responsibilities and obligations.

It is advisable to seek the help of a qualified professional to prepare a written partnership agreement. The agreement should state each partner's role and level of authority, their expected financial contribution and a straightforward procedure for dispute resolution and dissolving the partnership. This is important because personal liability is unlimited for every partner in the business.

If the business fails and a partner cannot pay their share of any debts incurred, other partners will be liable for the shortfall. Partners are also jointly responsible for any debts other partners may incur, with or without the knowledge of different partners.

Where no agreement is in place, each partner is deemed to own equal shares of each asset as prescribed by the [Partnership Act 1892](https://legislation.nsw.gov.au/view/html/inforce/current/act-1892-012) (NSW).

##### Company

A company is a separate legal entity capable of holding assets in its name and conducting business. It can also sue and be sued. Shareholders own the company, while directors run it. In many cases, company directors and employees are also shareholders.

To become a company, an entity must:

* be incorporated under the [Corporations Act 2001](https://www5.austlii.edu.au/au/legis/cth/consol_act/ca2001172/) (Cth)
* be registered with the Australian Securities and Investment Commission (ASIC).

**Australian Company Number (ACN)**

Unlike business names, once registered, a company name can be traded throughout Australia. Every Australian company receives a unique nine-digit Australian Company Number (ACN) that must appear on the company seal (if it has one) and every public document issued, signed or published.

**Tax requirements for a company**

The tax requirements for a company are quite different from those of other business structures. A company has its own tax income liability, which is completely separate from individual income tax. A company pays income tax at a flat rate of 30% on taxable income.

**Company liability**

A company's assets belong to it, and the company is liable for debts incurred, which makes this type of business structure appealing to high-risk ventures.

Generally, the owner's assets cannot be accessed to pay for any company debts or liabilities. However, there are some exceptions. Financial institutions may require a personal guarantee against loans or overdrafts. A personal liability may arise if debts are caused recklessly, negligently or fraudulently.

A company can sue and be sued, but the director can also be held personally responsible for offences if they are found negligent in performing their duties.

**Proprietary and public companies**

Companies may be formed as:

* private, also known as proprietary or
* public companies that are listed on the stock exchange.

Table 14: Types of companies

|  |  |
| --- | --- |
| Type of company | Description |
| Proprietary company | A proprietary company has no more than 50 non-employee shareholders and is generally not permitted to offer shares or securities to the public. It must have at least one shareholder and one director, and at least one director must ordinarily reside in Australia. |
| Public company | A public company may have over 50 non-employee shareholders, can offer shares and securities to the public and may seek listing on the Australian Stock Exchange. |

 Resources

Visit the website [Business structures - key tax obligations](https://www.ato.gov.au/businesses-and-organisations/starting-registering-or-closing-a-business/starting-your-own-business/business-structures-key-tax-obligations) for further information from the Australian Tax Office (ATO). Visit the website [Work out your business registrations](https://business.gov.au/registrations/work-out-your-business-registrations) for further assistance from business.gov.au on deciding your business structure.

#### Taxation and business registration

All businesses in Australia must register with the appropriate authorities to operate legally. This includes obtaining an Australian Business Number (ABN), a unique identifier for tax purposes. Depending on the nature of the business, additional registrations, such as Goods and Services Tax (GST) registration, may be required if the annual turnover exceeds $75,000. You should ensure that all registrations are updated to avoid penalties and maintain compliance with regulatory requirements.

These registration requirements may include:

* an Australian Business Number (ABN)
* an Australian Company Number (ACN) if the business is a company
* Goods and Services Tax (GST)
* Tax File Number (TFN)
* Pay as you go (PAYG) withholding tax.

Other registrations, such as registering a domain name or registering a trademark, may apply to the business. If operating as a company, a different registration process applies than if the business were a sole trader, partnership or trust.

#### Licenses and permits

You will need specific licences to ensure the company complies with legal obligations when operating a business.

The Australian Business Licence and Information Service (ABLIS) can help take the guesswork out of the licences, permits and registrations needed to run the business. You can research ABLIS to find the requirements for government licences, permits, approvals, registrations, codes of practice and standards and guidelines to meet your compliance responsibilities.

The licence or permit that could be required may depend on the product or service being sold. You must find out whether there is a licensing requirement for the business or if fines or other difficulties may be incurred.

Businesses selling products for consumption, such as food, may require a Food Business Licence. However, there may be other licenses that are more obvious, and it is beneficial to do some research into this area. As licenses and permits can vary from state to territory, find out this information from the local, state, territory or federal government to ensure that the right thing is done.

#### Employment laws

If you plan to hire employees, compliance with employment laws is essential. In NSW, businesses must adhere to the [Fair Work Act 2009](https://www6.austlii.edu.au/cgi-bin/viewdb/au/legis/cth/consol_act/fwa2009114/) (Cth), which sets out minimum pay rates and working conditions. You are responsible for ensuring employees receive fair wages, safe working conditions and appropriate leave entitlements. Additionally, you must comply with workplace health and safety (WHS) regulations to protect your employees from harm. This includes conducting risk assessments and providing necessary training on safety protocols.

#### Privacy laws

Businesses that collect personal information must comply with privacy laws. The [Privacy Act 1988](https://www.legislation.gov.au/C2004A03712/latest/text) (Cth) governs how personal data is collected, used and disclosed. Companies must develop comprehensive privacy policies that adhere to legal standards to avoid penalties.

A new set of privacy principles was introduced in 2023. The principles cover how a business handles personal information, including the following:

* handling and processing of personal information
* use of personal information for direct marketing purposes
* disclosure of personal information.

To understand the *Privacy Act 1988* (Cth) obligations that your business must comply with, you must also be aware of the business obligations under the [Australian Privacy Principles](https://www.oaic.gov.au/privacy/australian-privacy-principles) (APPs), which you can learn more about from the Office of the Australian Information Commissioner.

#### Intellectual property protection

Protecting intellectual property (IP) safeguards innovations and brand identity. Entrepreneurs should consider registering trademarks, patents or copyrights to prevent infringement by competitors. The [Copyright Act 1968](https://www.legislation.gov.au/C1968A00063/latest/text)(Cth) governs copyright law in Australia, ensuring that original works of authorship are protected.

#### Environmental responsibilities

Businesses must adhere to environmental regulations to protect natural resources and public health. [Protection of the Environment Operations Act 1997](https://legislation.nsw.gov.au/view/html/inforce/current/act-1997-156)(NSW) outlines the requirements for companies to operate environmentally responsibly. You must comply with waste management regulations under this Act and ensure that your operations do not harm the environment.

#### Industrial relations

As an entrepreneur, you must understand industrial relations laws and how they govern employer-employee relationships. The [Fair Work Act 2009](https://www8.austlii.edu.au/cgi-bin/viewdb/au/legis/cth/consol_act/fwa2009114/) (Cth) establishes minimum employment standards and rights for employees in Australia, requiring you to ensure equal pay for employees and comply with laws governing employer-employee relationships. The [Industrial Relations Act 1996](https://legislation.nsw.gov.au/view/html/inforce/current/act-1996-017)(NSW) also provides a framework for industrial relations in NSW, including understanding collective agreements and engaging with employee representatives or unions as necessary.

#### Work health and safety (WHS)

Whatever industry you are in, the Workplace Health and Safety (WHS) legislation (previously Occupational Health and Safety) will contain some fundamental rules and standards you need to address, administer and manage to keep people safe in your workplace and fulfil your duty of care requirements.

Workplace Health and Safety legislation has been developed jointly by the government, employers and unions. The intent is to enable employers and employees to manage workplace health and safety through consultation and cooperation. The legislation covers all workplaces, including any place where employees or self-employed people work. All parties involved in a workplace have responsibilities for work, health and safety.

Some businesses may need to be made aware of Workplace Health and Safety legislation or are under the assumption that having purchased Workers' Compensation insurance, they have met their responsibilities. This is **not** the case.

In New South Wales, WHS legislation includes:

* [Work Health and Safety Act 2011](https://legislation.nsw.gov.au/view/html/inforce/current/act-2011-010) (NSW)
* [Work Health and Safety Regulation 2017](https://legislation.nsw.gov.au/view/html/inforce/current/sl-2017-0404) (NSW)

The [Safe Work Australia](https://www.safeworkaustralia.gov.au/about-us) has developed a code of practice to:

* provide practical guidance to employers in meeting specific standards, facilities and amenities in the workplace
* prohibit certain activities in the workplace
* maintain the workplace in a safe and healthy condition.

Each state and territory has a WHS office, which can be contacted for further information and advice. The WHS legislation lists various safety standards to keep employees and visitors safe when attending your worksite. WHS legislation stipulates that employers must provide their staff with the following.

Table 15: Work health and safety requirements for employers.

|  |  |
| --- | --- |
| Requirement | Requirement Example |
| Safe premises | Think about the work car park and how pedestrians and cars use it–is it safe? |
| Safe machinery and materials | Has electrical equipment been tested and approved for use? |
| Safe systems of work | Is there a limit to how many employees can be in workspaces at any one time? |
| Information, instruction, training and supervision | Are all employees given proper training in safety procedures in your business? |
| A suitable working environment and facilities | Are temperatures in the workplace safe for employees? |

##### Aims of WHS legislation

The aims of the WHS legislation include:

* promoting worker's health and safety
* protecting workers from hazards
* ensuring safe, hygienic working conditions
* reducing, eliminating and controlling hazards
* promoting education and awareness of workplace health and safety
* providing for the formulation of policies.

##### WHS regulations

WHS regulations are concerned with the following aspects of the workplace:

* the overall working environment
* personal protective clothing and equipment
* sickness and accident reporting procedures
* atmospheric and respiratory protection
* noise control and hearing protection
* prevention of falls
* electricity
* scaffolding, gantries, hoardings and barricades
* working in confined spaces
* safety requirements concerning work processes
* registration of plant items
* identification of hazards and assessing risks
* hazardous substances
* storage and use of flammable materials
* requirements concerning the use of certain dangerous substances, such as:
  + carcinogenic substances
  + lead
  + asbestos
  + styrene.

##### Duty of care

Duty of care refers to the responsibilities of employers, employees and others who control workplaces.

The duty of care extends as far as is 'reasonably practicable'. This means reasonable measures must be taken, bearing in mind factors such as:

* the severity of the hazard
* the likelihood of the hazard occurring
* how much is known about the hazard
* how to control or remove the hazard
* the availability, suitability and cost of safeguards.

##### WHS responsibilities

Workplace health and safety is everyone's responsibility. Some specific responsibilities can be broken down as follows:

Table 16: WHS roles and responsibilities

|  |  |
| --- | --- |
| Roles | Responsibilities |
| Employers | * Consult safety and health representatives and other employees on Workplace Health and Safety matters. * Provide adequate protective clothing and equipment where hazards cannot be avoided. * Ensure safe use of equipment and substances and disposal of substances in the workplace. * Ensure individuals not directly employed, such as contractors, * members of the public and clients, are not exposed to hazards in the workplace or harmed by the work. Warning signs are advised. * Notify of workplace injuries. |
| Employees | * Take reasonable care. * Cooperate with employers. * Follow instructions and the training provided. * Do not interfere. |
| Those who control workplaces | Ensure the workplace is safe and anyone can safely enter or leave. |
| Manufacturers, importers, suppliers, designers | * Ensure any article designed, manufactured and marketed is used correctly and staff are not exposed to hazards. * Test equipment for hazards and provide information about safe use. * Ensure people are not exposed to hazards. |

##### WHS program

A workplace health and safety program would include the following actions and associated tasks.

Table 17: WHS programs, actions and related tasks

|  |  |
| --- | --- |
| Actions | Tasks |
| Owner or management commitment and employee involvement | * Acknowledge the importance of workplace health and safety. * Hold meetings with employees to communicate policy and any changes in policy. * Set the example by following all safety requirements. * Assign responsibility for each aspect of the program developed. |
| Worksite analysis | * Assess the workplace for any existing or potential hazards. * Establish a system for monitoring the effectiveness of hazard control or prevention. * Provide procedures for employees to notify of any hazards. * Seek expert help in the initial stages of the workplace analysis as necessary. |
| Hazard prevention and control | * Set up safe work procedures based on an analysis of hazards in the workplace. * Provide personal protective clothing and equipment as appropriate. * Provide for regular equipment maintenance * Plan for emergencies, including fire and natural disasters. * Establish an emergency medical procedure for handling injuries. |

#### Equal opportunity

Equal opportunity is a fundamental principle ensuring all individuals have fair access to employment and promotions without discrimination based on personal characteristics such as race, sex, age or disability. The [Anti-Discrimination Act 1977](https://legislation.nsw.gov.au/view/html/inforce/current/act-1977-048) (NSW) prohibits discrimination in the workplace and requires employers to implement fair recruitment practices. This means using objective criteria for hiring and promotions to ensure that no candidate is unfairly disadvantaged.

Additionally, the [Sex Discrimination Act 1984](https://www.legislation.gov.au/C2004A02868/latest/text) (Cth) makes it unlawful to discriminate based on sex or gender identity, compelling employers to foster a workplace culture that discourages harassment and supports diversity.

You can refer to the table to summarise your key legislative obligations.

Table 18: Summary of key legislation

|  |  |  |
| --- | --- | --- |
| Legislation | Description | Key requirements |
| *Work Health and Safety Act 2011* (Cth) | Governs workplace health and safety obligations for employers. | Conduct workplace hazard assessments.  Develop emergency evacuation procedures.  Provide personal protective equipment (PPE). |
| *Fair Work Act 2009* (Cth) | Establishes minimum employment standards and rights for employees in Australia. | Ensure equal pay for employees.  Compliance with laws governing employer-employee relationships. |
| *Anti-Discrimination Act 1977* (NSW) | Prohibits discrimination in various areas, including employment. | Prevent discrimination in promotions.  Ensure equal opportunity in hiring practices. |
| *Copyright Act 1968* (Cth) | Governs copyright law in Australia, protecting original works of authorship. | Adhere to copyright regulations. |
| [Age Discrimination Act 2004](https://www8.austlii.edu.au/cgi-bin/viewdb/au/legis/cth/consol_act/ada2004174/) (Cth) | Prohibits discrimination based on age in various areas, including employment. | Ensure non-discriminatory practices based on age. |
| [Human Rights and Equal Opportunity Commission Act 1986](https://www8.austlii.edu.au/cgi-bin/viewdb/au/legis/cth/consol_act/ahrca1986373/) (Cth) | Establishes the Human Rights Commission to promote and protect human rights in Australia. | Comply with human rights standards. |
| [Disability Discrimination Act 1992](https://www.legislation.gov.au/C2004A04426/latest/text) (Cth) | Prohibits discrimination against individuals with disabilities in various areas, including employment. | Ensure accessibility and non-discriminatory practices. |
| *Industrial Relations Act 1996* (NSW) | Governs industrial relations and the rights of employees and employers in NSW. | Understand industrial relations laws. |
| [Racial Discrimination Act 1975](https://www.legislation.gov.au/C2004A00274/latest/text) (Cth) | Prohibits discrimination based on race, colour, descent or national or ethnic origin. | Ensure non-discriminatory practices based on race. |
| *Sex Discrimination Act 1984* (Cth) | Prohibits discrimination based on sex, marital status or pregnancy in various areas, including employment. | Prevent sex discrimination in the workplace. |
| [Competition and Consumer Act 2010](https://www5.austlii.edu.au/au/legis/cth/consol_act/caca2010265/) (Cth) | Regulates fair trading and competition to protect consumers and businesses | Comply with Australian Consumer Law. |
| [Private Health Insurance Act 2007](https://www.legislation.gov.au/C2007A00031/latest/text) (Cth) | Regulates private health insurance in Australia to ensure compliance with standards and protections for consumers. | Adhere to private health insurance laws. |
| *Privacy Act 1988* (Cth) | Governs the handling of personal information by businesses and government agencies. | Comply with privacy regulations. |

### Resource requirements

Creating a strong compliance framework requires a thorough understanding of the different resource requirements that support successful implementation. These resources are divided into 4 categories:

1. Human resources
2. Financial resources
3. Physical resources
4. Intellectual resources

Each plays a vital role in ensuring compliance measures are implemented and effectively maintained over time.

#### Human resources

Human resources are fundamental to achieving business goals. This involves hiring qualified personnel and ensuring that employees possess the skills and competencies required to meet organisational objectives. Investing in talent acquisition strategies, employee development programmes and performance management systems can significantly enhance workforce effectiveness.

To align human resources with business goals organisations should start by defining the skills and competencies required to achieve their objectives. This involves:

* **Assessing current capabilities** – Evaluate the existing workforce to identify skill gaps relative to the organisation's strategic goals.
* **Developing a human resources strategy** – Create a strategy that outlines long-term people requirements necessary to support business objectives.
* **Recruitment and training** – Based on the assessment, determine whether new hires are needed or if existing employees require training to fill skill gaps.
* **Continuous monitoring** – Regularly review human resource needs as business objectives evolve, ensuring personnel remain aligned with strategic goals.

##### Staffing plan

Your chosen staffing plan will depend on your business structure, which will be discussed shortly in this lesson.

Personnel plans define an organisation’s structure or hierarchy of roles within the business and determine how activities such as task allocation, coordination and supervision are directed toward achieving organisational goals.

Azure Beach Surf and Skate [Organisational Structure (pdf)](https://share.tafensw.edu.au/share/items/40eb6511-1796-44e2-b377-f9eee5d9a4b8/0/?attachment.uuid=1d3986cb-53cd-40ce-a737-7e31e35e5978) provides an example of this organisational structure.

Ensure that information about key personnel, including managers and supervisors and the layout of the employee hierarchy is included. Your business is likely to have a flatter hierarchy, with fewer levels between low-skill workers and management. If this is the case, each employee may have a larger number of roles and responsibilities.

The personnel plan looks at the people within the business. The personnel component looks at:

* management details
* business structure
* staffing strategies
* professional advisors
* personnel controls.

When completing your personnel plan, think about the following:

* the number of employees you have
* all internal and external workers and their duties
* the roles and responsibilities of each worker
* the lines of communication between employees and management
* employees with skills, knowledge and experience and how they are utilised.

#### Financial resources

Financial resources are critical for executing business strategies. Adequate funding is necessary for various activities such as research and development, marketing initiatives and operational improvements. Establishing a clear budget that aligns with business objectives allows organisations to allocate funds strategically to areas that will yield the highest returns.

Establishing financial resource requirements involves:

* **Budgeting** – Develop a comprehensive budget that aligns with strategic objectives. This includes forecasting project costs, operational expenses and potential investments in new initiatives.
* **Resource allocation** – Identify how funds will be allocated across different departments or projects based on priority and expected return on investment. Consideration should be given to both short-term needs and long-term financial sustainability.
* **Monitoring financial performance** – Implement systems for tracking expenditures against the budget to ensure financial resources are utilised efficiently. Regular financial reviews can help identify areas where adjustments may be necessary.
* **Funding sources** – Explore various funding options, such as loans, grants or investor capital, to ensure adequate financial backing for strategic initiatives.

#### Physical resources

Physical resources are the tangible assets required to support business operations. This includes facilities, equipment, technology infrastructure and inventory management systems. Ensuring these physical resources are adequate and aligned with business objectives is crucial for operational efficiency.

To understand physical resource requirements, you can consider:

* **Inventory assessment** – Conduct an inventory of existing physical resources to determine their adequacy in meeting business objectives. This includes evaluating equipment functionality, technology infrastructure and workspace suitability.
* **Resource planning** – Develop a resource plan that outlines how physical assets will be used over time to support projects and operations.
* **Capacity planning** – Assess current capacity against projected needs to identify potential shortfalls or excesses in physical resources.
* **Flexibility in resource management** – Recognise that physical resource needs may change over time due to shifts in business strategy or market conditions.

#### Intellectual resources

Intellectual resources are intangible assets contributing to a business's competitive advantage and operational effectiveness. These include intellectual property, brand reputation, proprietary knowledge and employees' skills and expertise. Effectively managing these resources is crucial for innovation, customer loyalty and overall business success.

To understand intellectual resource requirements, consider the following:

* **Knowledge management** – Establish systems to capture, share and leverage knowledge within the organisation. This includes creating databases of best practices, lessons learned and innovative ideas that can drive future projects.
* **Intellectual property protection** – Identify and protect intellectual property (IP) through patents, trademarks and copyrights. This safeguards unique products, services and branding from competitors.
* **Employee development**–Invest in training and development programs to enhance employee skills and expertise. This not only improves individual performance but also contributes to the organisation's overall knowledge base.
* **Brand management** – Monitor and manage the brand's reputation through consistent messaging and quality assurance. Engage with customers through social media and feedback to build trust and loyalty.
* **Collaboration networks** – Partner with other organisations, research institutions or industry groups to enhance innovation and share knowledge. Collaborative efforts can lead to new ideas and improved practices.

### Compliance requirements

Compliance requirements focus on the internal policies, procedures and practices that businesses implement to ensure adherence to legal obligations and ethical standards. While legal mandates often drive compliance, they also encompass broader organisational principles that foster a culture of integrity.

Critical areas of industry compliance for businesses include:

* current certifications
* association affiliation
* up-to-date first aid certifications
* industry codes of practice.

#### Current certifications

Maintaining current certifications is a critical aspect of compliance for any business. Certifications demonstrate that your operations meet specific industry standards and regulatory requirements. For example, suppose you are in the food industry. In that case, obtaining certifications such as Hazard Analysis Critical Control Point (HACCP) or Safe Food Handling can be vital for compliance with health regulations.

#### Association affiliation

Affiliation with industry associations can significantly enhance your business's credibility and provide access to valuable resources. Being a member of professional organisations often comes with benefits such as networking opportunities, training programs and updates on regulatory changes. These associations may also offer guidelines and support for compliance with industry standards.

#### First aid certification

Maintaining up-to-date First Aid certifications for staff is essential for ensuring workplace safety and compliance with health regulations. Having trained personnel who can respond effectively in emergencies protects employees and reinforces your commitment to workplace health and safety. Documenting these certifications in your business plan shows that you prioritise employee safety and comply with the *Work Health and Safety Act 2011* (Cth).

#### Industry codes of practice

Industry codes of practice provide a benchmark within a specific industry as to the expected standard and are enforceable rules that aim to give the consumer confidence in the industry. Industry codes of practice are not limited to ideals and behaviours to promote a safe work environment. Still, they can also be used when developing the procedures within the business as a minimum standard on how all staff and owners conduct the business activities.

The legal and compliance information discussed in this section will be included in the legal and compliance section of your business plan.

## Develop marketing plans

Aligning these elements with your business goals and objectives is essential to effectively assess the product mix, volumes and pricing opportunities relevant to your identified target market. This process involves a thorough analysis of how pricing, sales volume and product variety changes can impact revenue and profitability.

Meeting your target market's needs is crucial for any marketing plan's success. Understanding and addressing these needs enhances customer satisfaction and drives business growth. With the appropriate marketing plan for your audience, they may know your product or service exists.

### Product mix

The product mix refers to the breadth and diversity of a company's offerings, which is crucial in defining its market position, brand image and financial performance. The product mix contains the following 5 components:

1. Product line
2. Product width
3. Product length
4. Product depth
5. Product consistency

These components are discussed further for your understanding.

#### Product line

This is a group of related products manufactured or sold by a business. For example, Microsoft’s product line includes software like Windows and Office. Effective management of product lines helps companies capitalise on brand loyalty and economies of scale.

#### Product width

This refers to the number of different product lines a company offers. A broad product width, like that of Amazon, allows a company to cater to diverse consumer needs, while a narrower width enables specialisation in a specific market segment.

#### Product length

This pertains to the number of items within a company's product lines. For instance, Apple has various iPhone and MacBook models, which expands its market reach and solidifies its brand image.

A well-optimised product mix aids financial decision-making by influencing revenue generation and risk management.

#### Product depth

This aspect refers to the variations of a single product in a product line. Coca-Cola's offerings include regular Coke, Diet Coke and Coke Zero, allowing the company to cater to diverse consumer preferences.

#### Product consistency

This component focuses on maintaining harmony across product lines regarding usage, production and distribution. Companies like Tesla exemplify high product consistency by offering electric vehicles that align with their brand promise of sustainability (Peak frameworks, n.d.).

#### Assessing product mix

Assessing your product mix is essential for understanding how well your offerings meet customer needs and how they compare to competitors.

You can follow the provided steps to help assess product mix for your business:

1. **List your products** – Start by making a comprehensive list of all the products you plan to offer. For each product, note its main features and what makes it unique.
2. **Identify your target market**—Determine your ideal customers for each product and understand their needs, preferences and buying behaviours.
3. **Analyse competitors** – Research your competitors to see what products they offer. Identify gaps in their offerings that you can exploit or areas where you can improve.

For example, you’re starting a children’s store that offers clothing, shoes, accessories and stationery. You see an opportunity to create a diverse product mix that meets the needs of kids and their parents.

Your target market is parents of children aged 0 to 12 who want quality and trendy items. When you check out competitors like Cotton On Kids, you notice they mainly focus on clothing, giving you a chance to stand out with unique offerings like eco-friendly clothes or customisable backpacks.

### Product volumes

Product volumes refer to a business's intended sales forecasts, indicating the quantity of products expected to be sold over a specific period. Understanding product volumes is essential for effective inventory management, financial planning and overall business strategy.

Several key factors influence the assessment of product volumes:

* **Market size of the target market** – The potential size of your target market directly impacts your sales forecasts. A larger market may present more opportunities for higher sales volumes, while a smaller market may limit potential sales.
* **The capacity of the business to deliver products**—This factor considers your operational capabilities, including production capacity, supply chain efficiency and resource availability. If your business can produce and deliver products efficiently, you can meet higher sales volumes.
* **Demand for each product from various product lines** – Understanding customer demand for different products within your mix is crucial. Market research and sales data analysis can help you identify which products will likely perform well and which may need adjustments or discontinuation.
* **Profitability or feasibility of each product**—Assessing the profitability of each product helps determine whether it is worth pursuing at certain volume levels. This involves evaluating production costs, pricing strategies and potential profit margins.

#### Assessing product volumes

By assessing market size, operational capacity, product demand and profitability, you can make informed decisions that enhance your business's performance and sustainability.

You can follow the provided steps to help assess product volumes for your business:

* **Find your market size**–Research the total market for your product. For example, if you are starting a children’s clothing store, look up the overall market size for children’s apparel.
* **Estimate your market share** – Decide what percentage of the market you want to capture. For instance, if the market is worth $1 million and you aim for 5%, your target sales would be: Target Sales = 1,000,000 x 0.05 = 50,000
* **Calculate customer purchases** – Estimate how often customers will buy from you. If each customer buys 2 items yearly, multiply your target customers by this frequency.
* **Check competitors** – Look at what similar businesses are selling to set realistic expectations.

For example, you’re opening a children’s clothing store. First, you research the market and find that the children’s clothing market is estimated at $1 million. You aim for a 5% market share, translating to target sales of $50,000. Next, you estimate that you will attract around 1,000 customers and if each customer buys an average of 2 items per year, your total sales volume would be 2,000. This assessment helps you set realistic expectations for inventory and sales as you prepare to launch your business.

### Product pricing opportunities

Based on the business's goals and resources and the size and makeup of the target market, these are the opportunities available to the company to price its products from the product mix to maximise the number of units sold and profit from each product sold. The business realises Pricing opportunities using a pricing strategy aligned with its product mix and volumes.

The pricing opportunities available to the business are also affected by its budget, resources and goals.

#### Pricing strategy

Pricing is the process of setting the price of your product or service. It can be challenging to determine the right price. If you set your prices too high, your customers may find your products too expensive. However, if you set your prices too low, you will affect your profits.

Key pricing strategies can be split into 4 key categories:

1. Costs
2. Competition
3. Perceived value
4. Product

These strategies are foundational approaches that businesses use to determine the price of their products or services. They focus on setting prices based on costs, perceived value and market positioning.

##### Cost-based pricing strategies

This approach involves setting prices primarily based on production and distribution costs.

Examples include:

* **Cost-plus pricing** – **To ensure profitability, a** markup is added to the total cost of producing a product or service. This method is straightforward but requires accurate calculations, including fixed costs and taxes.
* **Charge per hour** – Common in service-based businesses, this strategy calculates costs based on an hourly rate, factoring in all relevant business expenses.

##### Competition-based pricing strategies

These strategies focus on setting prices concerning competitors.

Examples include:

* **Going rate pricing** – Prices are set close to the market price leader, allowing businesses to remain competitive without significantly affecting profit margins. This strategy is beneficial for small businesses in competitive markets.

##### Value-based pricing strategies

These strategies set prices based on perceived value rather than just costs.

Examples include:

* **Value pricing** – Prices are determined by what customers believe a product or service is worth, often established through market testing. If customers perceive significant value, this strategy can lead to higher profits.
* **Premium pricing** – Higher prices are set for products that convey prestige or luxury, reflecting customers' high expectations regarding quality and service.

##### Product-based pricing strategies

These strategies are tailored for new product launches and market positioning.

Examples include:

* **Penetration pricing** – An initial low price is set to attract customers and gain market share quickly, with plans to increase prices later.
* **Skimming pricing** – A high initial price is set to maximise profits from early adopters before gradually lowering it to appeal to a broader market.
* **Loss leader pricing** – Products are offered below cost to attract customers expected to purchase other higher-margin items (Australian Government, 2024).

Your pricing strategy will depend on your business goals and objectives and existing competitors in the market.

For example, suppose you run a skincare line and decide to change your pricing strategy. After calculating that each product costs $10 to produce, you notice competitors sell similar products for $15 to $25. You aim to capture more market share, so you choose a penetration pricing strategy, setting your initial price at $12.

You launch the new price and monitor sales closely. If sales increase significantly, you may consider gradually raising the price once you've established a loyal customer base.

The following steps can help you through the process of pricing your products.

* calculate your costs
* determine your pricing objectives
* assess your pricing strategy
* competition-based pricing strategies
* legislation and regulations
* discounts
* research
* testing of different pricing approaches.

 Resources

Learn more about pricing strategies relevant to your business planning by reviewing the information available on how to [Develop a pricing strategy](https://business.gov.au/products-and-services/develop-a-pricing-strategy).

## Plan marketing activities

Planning effective marketing activities is essential for driving brand awareness, engaging customers, and ultimately boosting sales, making strategic planning a crucial step in achieving business success.

### Marketing strategies and methods to promote market exposure of business

The 7P's of marketing provide a comprehensive framework for developing effective marketing strategies. Each element ensures that a business meets customer needs and stands out in a competitive market.

#### Marketing mix

The marketing mix is a crucial framework for entrepreneurs, providing a structured approach to developing effective marketing strategies. It encompasses the 4 Ps: Product, Price, Place and Promotion and can be expanded to include the 7 Ps by adding People, Process and Physical Evidence.

Mastering the marketing mix enables entrepreneurs to navigate competitive landscapes successfully while meeting evolving consumer needs. Where one competitor is focusing on product, you can focus on price and location to compete.

##### Product

The product refers to the goods or services a business offers to meet customer needs.

This includes the physical item and its design, features, quality, branding and packaging. Understanding what your product offers and how it fulfils customer needs is essential. Businesses must consider how their products differ from competitors and what unique value they provide.

##### Price

Price encompasses the amount customers are willing to pay for a product or service.

Pricing strategies can significantly impact sales and profitability. Factors to consider include production costs, competitor pricing, perceived value and market demand. Businesses may also use discounts, payment terms and pricing models (for example, subscription vs. one-time purchase) to attract customers.

##### Place

Place refers to the distribution channels through which a product is sold and how it is delivered to customers.

This includes physical locations (like retail stores) and online platforms (like e-commerce websites). Ensuring that products are available where customers want to buy them is crucial for maximising sales opportunities. Businesses must also consider logistics and inventory management in their distribution strategy.

**Distribution strategies**

Distribution strategies determine how products reach customers and can significantly impact sales performance. Choosing the right distribution strategy is essential for aligning with business goals and meeting customer expectations.

There are 5 common strategies:

1. **Direct distribution** – Direct distribution is the practice of marketing and selling to end users directly. The distribution chain includes no intermediary entities.
2. **Indirect distribution** – Indirect distribution requires the use of intermediary entities. The manufacturer sells products in bulk to retailers, distributors and wholesalers.
3. **Exclusive distribution** – Exclusive distribution is a strategy in which a producer restricts the number of retail outlets that sell its products.
4. **Intensive distribution** – Intensive distribution is the inverse of exclusive. The goal here is to distribute products to as many outlets as possible.
5. **Selective distribution** – Selective distribution is a hybrid strategy incorporating elements of exclusive and intensive approaches (Indeed, 2024).

**Channel strategies**

Channel strategies focus on the specific pathways through which products are sold to consumers. Effective channel strategies are crucial for ensuring businesses can effectively reach their target audiences while providing a seamless shopping experience.

The 4 common channel strategies can include:

1. **Wholesale** – A wholesale distribution channel is one in which a wholesaler buys items in bulk from a manufacturer and sells them to retailers.
2. **Retail** – A retail distributor is an entity from which end users frequently purchase goods. Retailers purchase their products from wholesalers or directly from manufacturers.
3. **Franchise** – A franchise distribution channel is an agreement between a business owner and a corporation that allows the business owner to use corporate branding in exchange for fees and specified royalties.
4. **Distributor** – A distributor receives products from manufacturers and transports them to other parties in the distribution chain, such as retailers (Indeed, 2024).

**Types of outlets**

The types of outlets used in distribution can vary widely based on the target market and product type. Understanding the different types of outlets helps businesses determine the most effective ways to distribute their products while catering to consumer preferences.

Standard outlet examples include:

* department stores
* speciality stores
* supermarkets
* discount stores
* online retailers.

##### Promotion

Promotion involves all activities to make potential customers aware of a product or service.

This includes a variety of strategies, such as advertising, public relations, social media marketing, content marketing and sales promotions. Effective promotion communicates the product's value and encourages customers to purchase. A well-rounded promotional strategy often utilises multiple channels to reach a broader audience.

##### People

People refer to everyone involved in delivering the product or service, including employees, management and customers.

Staff skills, attitudes and interactions can significantly influence customer satisfaction and brand perception. Training employees to provide excellent customer service and ensuring they are knowledgeable about products can enhance the overall customer experience.

##### Process

Process refers to the procedures for delivering a product or service to customers.

This includes everything from order fulfilment to customer service interactions. Streamlining processes can improve efficiency and ensure that customers receive their products promptly. Businesses should regularly review their processes for opportunities to enhance performance and reduce costs.

##### Physical evidence

Physical evidence encompasses all tangible elements supporting a product or service delivery.

This includes packaging, branding materials, receipts, brochures and even the physical environment where services are delivered (like store layout). Physical evidence helps reinforce the quality of the product and enhances customer confidence in their purchase decision.

The provided table outlines the 7 P’s of the marketing mix and provides some examples.

Table 19: Marketing mix

|  |  |  |
| --- | --- | --- |
| Element | Description | Example |
| Product | The goods or services offered by a business, including features, quality, branding and packaging | Apple offers a range of high-quality electronics, including the iPhone, which features cutting-edge technology, sleek design and a strong brand identity that emphasises innovation and user experience. |
| Price | The amount customers are willing to pay for the product or service, influenced by costs and market demand | Tesla employs a premium pricing strategy for its electric vehicles, reflecting their advanced technology and sustainability features compared to traditional cars. |
| Place | The distribution channels through which the product is sold, including physical locations and online platforms | Nike sells its products through multiple channels: its own retail stores, authorised dealers and online platforms like its website and major e-commerce sites such as Amazon. |
| Promotion | All marketing communications used to inform and persuade customers about the product | Coca-Cola utilises a wide range of promotional strategies, including television advertising, social media campaigns, sponsorships of major events (like the Olympics) and influencer partnerships to reach diverse audiences. |
| People | Everyone involved in the delivery of the product or service, including employees and customer interactions | Staff at American Express are trained efficiently to handle customer queries in a quick and professional manner. |
| Process | The systems and procedures involved in delivering the product or service to customers | Amazon has developed an efficient order fulfilment process that includes advanced logistics systems, fast shipping options (like Prime) and easy returns to enhance customer satisfaction. |
| Physical Evidence | Tangible elements that support the service experience, such as packaging, branding materials and store layout | Starbucks uses distinctive branding elements like its iconic green logo, well-designed store interiors that create a welcoming atmosphere and high-quality packaging for its coffee products to reinforce its premium brand image. |

By carefully considering each element—product, price, place, promotion, people, process and physical evidence, you can create a cohesive marketing strategy that resonates with your target market, enhances customer satisfaction and drives business growth.

 Practice activity

### Activity 3: Marketing mix

By using your business idea or [Azure Beach Surf and Skate](https://share.tafensw.edu.au/share/items/1c89b5bb-2698-4ced-91d8-29a58efbaab2/0/?attachment.uuid=74f8070a-c4c0-4c14-a007-aedc47689889), Identify the possible marketing mix strategies for the business.

1. Using your business idea or Azure Beach Surf and Skate, identify your **product** strategy.
2. Using your business idea or Azure Beach Surf and Skate, identify your **price** strategy.
3. Using your business idea or Azure Beach Surf and Skate, identify your **place** strategy.
4. Using your business idea or Azure Beach Surf and Skate, identify your **promotion** strategy.
5. Using your business idea or Azure Beach Surf and Skate, identify your **people** strategy.
6. Using your business idea or Azure Beach Surf and Skate, identify your **process** strategy.
7. Using your business idea or Azure Beach Surf and Skate, identify your **physical evidence** strategy.

### Digital marketing activities

Digital marketing activities encompass a range of strategies and tactics aimed at engaging potential customers online, including content marketing, search engine optimisation (SEO), social media marketing and email campaigns, all designed to increase brand visibility and drive conversions.

#### Search engine optimisation

Search engine optimisation (SEO) is optimising your website for search engines. This ensures that when potential customers search for relevant products or services, your business appears among the top results. Effective SEO practices can significantly increase organic traffic to your site.

#### Social media marketing

Social media marketing uses platforms such as Facebook, Instagram, Twitter and TikTok to allow businesses to engage directly with their audience. Tailoring content to fit each platform's demographic can enhance brand visibility and customer interaction.

#### Pay-per-click-advertising

Pay-per-click advertising (PPC) is a marketing method that involves placing ads on search engines or social media platforms, where you pay only when someone clicks on your advertisement. PPC can provide immediate exposure and drive traffic to your website quickly.

#### Email marketing

Email marketing involves sending targeted emails to potential customers, which keeps your business at the forefront of customers’ minds. Email marketing generally offers special promotions or valuable content to encourage customer engagement and conversations.

### Traditional marketing activities

#### Print advertising

Print advertising utilises newspapers, magazines and brochures to reach local audiences effectively. Well-designed print material can create a lasting impression and drive customers to your business.

#### Billboards

Billboards can be placed strategically to capture the attention of customers passing by, making them an effective tool for brand awareness in high-traffic areas.

#### Direct mail campaigns

Sending personalised letters or postcards to potential customers can create a direct connection and encourage customers to visit your business or website.

### Promotional activities

Promotional activities are essential marketing strategies designed to increase brand awareness, generate interest and drive sales by effectively communicating the value of a product or service through various channels, including advertising, sales promotions, public relations and personal selling.

#### Sales promotions

Sales promotions are short-term incentives such as discounts, coupons or contests that generate interest and drive sales. These promotions create urgency and encourage customers to act quickly.

#### Event marketing

Businesses use event marketing by participating in or sponsoring local events, allowing for direct community engagement. This strategy helps build relationships and enhances brand visibility in a personal setting.

#### Referral marketing

Referral marketing encourages satisfied customers to refer friends or family to your product or service, which is a cost-effective way to gain new clients. Referral programs often yield high conversion rates, as people tend to trust recommendations from acquaintances.

### Building brand awareness

Building brand awareness is a fundamental marketing objective that focuses on increasing a brand's recognition and familiarity among consumers. This ultimately influences consumers' purchasing decisions and fosters customer loyalty through strategic communication and engagement initiatives.

#### Public relations

Public relations support gaining media coverage through press releases or interviews, which can enhance credibility and reach a broader audience without direct advertising costs.

#### Influencer partnerships

Influencer partnerships are collaborating with influences who resonate with your target audience. This can amplify your message and introduce your brand to new potential customers.

## Develop operational planning

Developing an operational plan is critical for translating strategic objectives into actionable steps, ensuring that teams are aligned and equipped to achieve their goals efficiently and effectively.

### Types of costs

Understanding the various types of costs is essential for you as an entrepreneur, as it directly impacts your financial management and decision-making processes. Costs can be categorised in multiple ways. To help you understand, the 2 broader categories of costs have been outlined for you: fixed and variable.

#### Fixed costs

Fixed costs are expenses that remain constant regardless of the level of production or sales. These costs do not fluctuate with changes in business activity. Common examples include:

* **Rent** – Payments for office or manufacturing space that remain unchanged over time.
* **Salaries** – Wages for permanent staff not directly tied to production levels.
* **Insurance** – Premiums that must be paid regardless of business performance.
* **Utilities** – Basic utility payments that do not vary significantly with production volume.

Understanding fixed costs is crucial because they represent a business's baseline expenses to maintain operations, regardless of revenue fluctuations.

#### Variable costs

In contrast, variable costs fluctuate directly with changes in production output or sales volume. As a business produces more goods or services, these costs increase. They can also decrease when production levels drop. Common examples include:

* **Raw materials** – Costs for materials needed to produce goods rise as more products are manufactured.
* **Direct labour** – Wages for workers directly involved in production, which can vary based on output levels.
* **Utilities** – While some utility costs may be fixed, others (like electricity used in production) can vary with usage.
* **Packaging and shipping** – Costs associated with preparing products for sale and delivering them to customers.

Variable costs are critical for understanding how changes in production levels impact overall profitability.

Fixed and variable costs can be identified as direct and indirect costs.

* **Direct costs** – are expenses that can be directly traced to producing specific goods or services such as raw materials or direct labour for production.
* **Indirect costs** – support overall business operations but do not contribute directly to creating goods or services such as rent, utility bills and office supplies.

Understanding the distinctions between direct and indirect costs, as well as fixed and variable costs, is crucial for entrepreneurs to manage their business finances effectively.

### Production costs

Production costs include all the direct and indirect expenses businesses incur when manufacturing a product or providing a service. Labour, raw materials, consumable manufacturing supplies and general overhead are some of the expenses that can contribute to production costs.

Expected production costs, descriptions and their categorisation examples are:

Table 20: Common production costs

|  |  |  |
| --- | --- | --- |
| Cost | Description | Type of cost |
| Raw materials | Materials needed to create the final product, such as steel or wood. | Variable |
| Direct labour | Wages for workers directly involved in the production of the product or service. | Variable |
| Manufacturing overhead | Indirect costs like rent, utilities and salaries for non-production staff. | Fixed |
| Equipment depreciation | Reduction in value of production equipment over time. | Fixed |
| Maintenance costs | Regular costs for maintaining machinery and equipment. | Fixed |
| Energy expenditure | Costs for electricity and fuel used in the production process. | Variable |

#### Calculate production costs

The formula to calculate production costs is provided.

**Total production cost** = Direct materials + Direct labour + Manufacturing overhead

For example, suppose you are planning to produce custom wooden furniture. You have estimated your direct materials to be $3,000 for the wood, screws and varnish; you have estimated your direct labour to be $2,000 for carpenters on your staff and you have estimated manufacturing overhead to be $1,000 for rent and utilities.

Total production cost = $3,000 + $2,000 + $1,000 = $6,000

### Delivery costs

Delivery costs refer to the expenses incurred when transporting goods from one location to another. These costs vary based on several factors, including the shipping method, distance, weight and package dimensions.

Standard delivery costs, descriptions and their categorisation examples are:

Table 21: Common delivery costs

|  |  |  |
| --- | --- | --- |
| Cost | Description | Type of cost |
| Shipping fees | Charges from carriers based on weight and distance such as Australia Post and other couriers. | Variable |
| Packaging costs | Expenses for materials used to package products for shipment such as boxes and bubble wrap. | Variable |
| Handling fees | Costs associated with loading and unloading goods at warehouses or during transit. | Variable |
| Insurance | Coverage against loss or damage during transit. | Variable |
| Delivery personnel | Wages for staff involved in the delivery process such as drivers and warehouse staff. | Variable |

#### Calculate delivery costs

Delivery costs are determined by the distance the product is being delivered, as well as its weight and dimensions. Heavier and larger items will incur more delivery costs.

The formula to calculate production costs is provided.

**Total delivery cost** = Shipping fees + Packaging costs + Handling fees + Insurance

For example, you are selling disposable cameras for weddings and have determined shipping fees to be $10, packaging costs to be $5, handling fees to be $5 and insurance to be $2.

Total delivery cost = $10 + $5 + $5 + $2 = $22

 Resources

To help estimate your delivery fees within Australia, you can use shipping and postage websites such as Australia Post.

Some standard websites have been provided for you to determine your domestic and international shipping costs:

* [Calculate postage](https://auspost.com.au/parcels-mail/calculate-postage-delivery-times/#/) from Australia Post
* [Calculate time and cost](https://wwwapps.ups.com/ctc/request?loc=en_AU) from UPS
* [Shipping quote](https://www.couriersplease.com.au/send/domestic-parcels) from Couriers Please
* [Get a free domestic or international business shipping quote online](https://www.dhl.com/au-en/home/get-a-quote.html) from DHL

### Methods or means of production or operation required for business

Methods or means of production or operation necessary for business refers to the various processes, techniques and resources a business employs to create goods or deliver services.

This section will explain the main methods of production and means of operation.

#### Methods of production

Methods or means of production or operation identify the processes and systems necessary to efficiently and scale up the delivery of products or services.

The main methods of production are:

* **job production**
* **batch production**
* **flow production** (IB Business Management, n.d.)**.**

Each method you may choose has distinct characteristics that make it suitable for different manufacturing processes.

##### Job production

Job production involves creating custom products tailored to specific customer requirements. Each item is produced individually, often requiring skilled labour. Examples include custom furniture, customised name keepsakes or unique wedding cakes.

**Advantages**

* **Quality** – You can meet specific customer needs, increasing customer satisfaction and loyalty.
* **Customisation** – With a focus on individual items, you can maintain high quality throughout the production process.

**Disadvantages**

* **Higher costs** – Producing items one at a time can lead to increased costs and longer lead times.
* **Resource intensive** – It requires skilled labour and may not be scalable for larger orders.

If your business model focuses on unique products or services, job production may suit you. However, be mindful of the costs and time involved in this method.

##### Batch production

In batch production, products are manufactured in groups or batches. Each batch goes through one stage of the production process before moving on to the next. For example, bakeries produce different types of bread and clothing manufacturers make various sizes of a single design.

**Advantages**

* **Efficiency** – Better use of machinery and labour than job production, allowing you to produce multiple items simultaneously.
* **Customisation options** – You can adjust each batch based on demand or seasonal trends, allowing for flexibility in product offerings.
* **Quality control** – Quality checks can be performed after each stage, reducing waste and meeting standards.

**Disadvantages**

* **Set-up time –** This is required to reconfigure machinery between batches, which can lead to inefficiencies.
* **Potential waste** – If errors occur during setup, entire batches may need to be discarded.

Batch production is ideal if you anticipate fluctuating demand or want to offer various products without committing to continuous production. This method lets you respond quickly to market changes while managing costs.

##### Flow production

Flow production (mass production) involves continuous production of standardised products using an assembly line or continuous process. For example, car manufacturing or electronics assembly lines produce identical products in large quantities.

**Advantages**

* **High efficiency and low costs** – Producing large volumes reduces the cost per unit due to economies of scale.
* **Consistent quality** – Standardised processes make maintaining quality across large quantities of products more accessible.

**Disadvantages**

* **Limited flexibility** – It is difficult to customise products once the production line is set up for a specific item.
* **High initial investment** – Setting up automated lines can require significant capital investment.

If your business model focuses on high-volume sales of standardised products, flow production is likely the most efficient method for you. However, you should ensure that your market demand justifies the initial setup costs (IB Business Management, n.d.).

#### Means of operation

The means of operation refers to the various resources, processes and systems a business employs to produce goods or deliver services effectively.

##### Operational plans and organisational requirements

One of the first steps in establishing required resources is to access and review the organisation’s key business planning documents. Organisations develop and implement long-term strategic or corporate plans that outline future directions and strategies to achieve their goals and objectives.

From these broad plans, each department, section or team sets its own goals and develops plans to show what it will do to help achieve the organisation’s goals. These plans, known as operational or action plans, are quite specific in content and generally cover a medium short-term period. The following section mentions the 3 main business planning levels that you need to consider when identifying the business’s resource needs.

* **Strategic plans** – explain the long-term objectives and direction of the organisation.
* **Organisational plans** – explain the structure and key objectives for the next 12 months (fiscal year).
* **Operational plans** – explain the day-to-day objectives, resources, budgets and short-term methods needed to achieve milestones written in organisational plans.

When determining resource requirements, you will need to consider operational plans and organisational requirements. The operational plans should set out the contributions that employees are expected to make to achieving strategic goals and align with the general organisational objectives.

You may refer to operational plans for the identification of:

* team, section or department goals
* means of achieving the goals
* necessary resources for achieving the goals.

The operational plan should include the following details:

* specific goals
* actions required to achieve goals
* human resources required
* physical resources required
* budget required
* an indication of how long goals will take to achieve.

The organisational plans should also outline the steps that should be taken to ensure the business progresses. These requirements may be established after consultation between strategic planners organisational management and employees. Organisational requirements may include:

* the organisation's mission, vision, goals, objectives and priorities
* business and performance plans
* policies
* security and safety requirements
* systems, processes and requirements for quality assurance
* specific change initiatives
* legal requirements, for example, anti-discrimination legislation
* standards (such as for ethical behaviour) and protocols
* confidentiality and security requirements
* defined resource parameters.

##### Resource requirements for support operations

A resource is something that is of value to a person or organisation that helps in the achievement of goals. You will acquire and rely upon various resources to achieve your organisation’s operational goals within business management practices. To be an effective manager, you must help the business achieve organisational goals and objectives. To do this, you must review the existing operational plans and pre-empt the resources required to complete projects, tasks or activities.

Part of this process involves acquiring resources, following budgets and ensuring effective communication between all stakeholders. The 4 main types of resources needed to fulfil the requirements of a day-to-day operational plan:

Table 22: Resources to support operations

|  |  |
| --- | --- |
| Resource | Description |
| Human resources | The workforce required to carry out production tasks |
| Physical resources | Tools and machines used in the production process |
| Financial resources | Capital needed to fund production activities |
| Systems resources | Software applications and management systems such as XERO |

### Staffing requirements to effectively produce or deliver products and services

Staffing requirements are a human resource needed to meet operational demands and deliver products or services effectively.

As a new entrepreneur, it's essential to follow a structured approach to determining staffing requirements. This approach should align your workforce with your business goals and operational demands.

You can use the steps in the table to understand your staffing requirements.

Table 23: Staffing requirement steps

|  |  |
| --- | --- |
| Staffing requirement step | Description |
| 1. Assess business goals | Identify short-term and long-term objectives (See Lesson 1 for a review).  Determine key areas needing additional support or expertise.  Consider upcoming projects requiring specialised skills. |
| 2. Conduct job analysis | Break down job responsibilities for each key role.  Define required skills, qualifications and experience.  Establish specific tasks and competencies needed for each position. |
| 3. Evaluate workload and capacity | Assess current workload and team capacity.  Identify areas where the team is overwhelmed or lacks expertise.  Determine tasks that could be delegated or outsourced. |
| 4. Consider future growth | Evaluate business expansion plans and potential market changes.  Anticipate increases in workload to ensure scalability.  Hire for both immediate needs and future growth potential. |
| 5. Seek expert advice | Consult with mentors, industry professionals or HR consultants.  Obtain insights to identify key roles and develop effective job descriptions (BusinessKitz, 2023). |

For example, a new entrepreneur for an eco-friendly product start-up is aiming to launch their first product line within 6 months and expand internationally within 2 years.

They have identified a need for a Marketing Manager to develop promotional strategies, a Product Developer with expertise in sustainable materials and a Sales Representative to engage customers.

Since the business has yet to start, the entrepreneur will be working alone initially and may consider outsourcing social media management to save time.

Anticipating increased demand after the launch, they plan to hire additional sales staff and a logistics coordinator for international shipping as the business grows.

To refine their recruitment strategy, they will seek advice from a mentor experienced in eco-friendly businesses and consult an HR expert to create compelling job descriptions.

Once you have established your business, you can further anticipate your staffing needs by reviewing past sales data and predicting future staffing needs, ensuring alignment with business goals.

### Workplace procedures for establishing resource requirements

Establishing workplace procedures for identifying resource requirements is crucial for ensuring that projects are adequately supported with the necessary personnel, materials and tools, facilitating effective planning and execution while minimising delays and resource constraints.

#### Organisational requirements

Policies establish an organisation’s commitments, expectations and standards. Procedures explain the steps to follow to meet the relevant policy requirements.

An organisation will establish resource acquisition and allocation policies and procedures to outline how human, physical and systems resources are purchased and implemented in operations. These policies aim to guide those in a position to acquire resources to ensure they meet the organisational requirements, including quality, time, cost, quantity, selection and use of preferred suppliers, methods of implementation and any associated risk.

Organisations will also implement a policy on the total number of vendors. Limiting this can deliver cost savings and enhance the vendor relationship by increasing business with fewer preferred vendors.

Procedures are written to provide detailed guidance on how to cost, acquire and allocate resources. These policies and procedures must be followed to ensure consistent and quality outcomes in the business. It is important to know and follow the organisation’s procedures for different types of purchasing methods that may apply to different resources.

Some purchase methods for particular types of resources are:

* **buy outright** – software, computers, printers, stock and office furniture may be purchased outright
* **tender** – vehicles or plant machinery may be acquired through a tendering process
* **contract hire** – casual staff may be employed on a contract, while temporary staff might be employed hourly.
* **hire** – extra computers, training equipment or machinery may be hired for a specific project
* **lease** – company vehicles, premises or machinery may be leased
* **outsource** – payroll needs, desktop publishing requirements and IT support services may be outsourced.

#### Organisational policies and procedures

You will need to act according to organisational policies and procedures specific to acquiring physical resources. These policies and procedures may vary depending on the types of physical resources required. Your organisation may have preferred suppliers whom you must contact regarding the provision of resources. You may also be required to complete forms of documentation, such as purchase order forms.

You may need to follow this procedure for the acquisition of physical resources:

1. **Identifying requirements** – You should consider what resources are available and how they relate to your organisation's requirements.
2. **Choosing specific resources** – You should make appropriate selections to satisfy established requirements.
3. **Specifying technical specifications** – Establish the technical specifications that physical resources must satisfy.
4. **Researching potential suppliers** – You may conduct various forms of research to identify suppliers who can fulfil physical resource requirements.
5. **Selecting the supplier and arranging the contract** – Once you have made a final decision regarding the supplier, you will need to agree to provide resources.

#### Guidelines for allocating resources

The allocation of resources, be they physical components and objects or human resources, must always meet operational requirements and WHS (work health and safety) standards.

You must ensure that physical resources are allocated in a way that ensures the team can implement its operational plan safely without causing harm to people.

Under the WHS laws, every manager has a general duty of care to:

* recognise the hazards on the worksite
* take reasonable steps to eliminate or minimise the harm that these hazards could cause to people.

Supervisors, team leaders and managers are essential in supporting your organisation's WHS requirements and ensuring your team works safely with appropriate strategies to manage any risks or hazards.

Specific responsibilities of managers and supervisors include:

* providing information to team members about WHS policies, procedures and programs
* implementing and monitoring procedures for identifying hazards and assessing and controlling risks
* consulting with team members about hazards and risks relating to the use of resources
* analysing and solving problems arising from the identification of risks and hazards associated with resource use
* providing sufficient information, instructions and documentation about the safe use of equipment, tools and materials
* training, supervising and guiding team members to ensure they have the skills required to use resources safely
* assessing the skills of workers to ensure they can use resources safely and efficiently
* interpreting and applying WHS policies, procedures and programs to your work team.

Effective workplace procedures for establishing resource requirements involve clear policies, systematic acquisition processes and adherence to safety standards. These procedures ensure that all resources align with business objectives while promoting a safe working environment.

## Calculate prices based on costs and profit targets

Calculating prices based on costs and profit targets is crucial to running a successful business. This process allows entrepreneurs to set prices that cover their expenses and ensure profitability.

Depending on if you are selling a product or service, you will break down your cost and profit targets into either of these 2 categories:

1. Labour pricing
2. Unit pricing

The price you set for labour on the services you deliver or the products you sell is essential to ensure you meet your expenses and make a profit.

### Labour price

If your business model involves providing services, calculating a charge-out rate for labour is essential. This rate determines how much you will charge clients for each hour of work your team performs.

Calculating a charge-out rate for labour involves determining how much to charge clients for each hour of work performed. This method ensures that all costs associated with providing labour are covered while also achieving a desired profit margin.

#### Calculation steps

There are 8 steps to calculate your charge-out rate for labour.

Table 24: Charge-out rate for labour steps

|  |  |  |
| --- | --- | --- |
| Step | Description | Example |
| 1. Annual labour cost | Calculate the total annual cost of all employees involved in the service, including salaries, superannuation and other benefits. | If you have one employee (Lawn Care Specialist) with a salary of $50,000 and benefits of $10,000, the total annual cost is $60,000. |
| 2. Labour availability | Determine how many hours your employees are available to work in a year after accounting for holidays and sick leave. | For a standard 40-hour work week: 40 hours x 52 weeks – (10 holidays = 5 sick days) = 1,870 hours available |
| 3. Labour cost per hour | Calculate the cost of each employee to the business per available work hour. | For the Lawn Care Specialist: |
| 4. Minimum gross profit | Establish your minimum gross profit target to cover overheads and achieve your desired net profit goal. | If your net profit goal is $30,000 and projected overhead costs are $20,000, your minimum gross profit target is $50,000. |
| 5. Labour gross profit target | Determine how much gross profit your labour needs to generate to meet your minimum gross profit target. | If projected material costs are $15,000 with a markup of 30% ($4,500 gross profit), then Required Labour Gross Profit = $50,000 - $4,500 = $45,500. |
| 6. Minimum labour margin | Calculate the gross margin needed to achieve your required labour gross profit based on total available hours and costs. | If total worker costs are $60,000 and required labour gross profit is $45,500 with total available hours of 1,870: Minimum Labour Margin = |
| 7. Billable time | Assess how billable your employees are on average; this is the percentage of time that can be charged to clients. | If your Lawn Care Specialist can bill for 75% of their time: Billable Time = 75%. |
| 8. Minimum labour rates | Calculate the minimum labour rate needed for each employee to cover their costs and achieve your net profit goal based on their billable time. | For the Lawn Care Specialist: Minimum Labour Rate = |

This structured approach helps set competitive pricing and ensures sustainability and profitability in your business operations.

### Unit price

For product-based businesses, determining a unit price is critical to ensuring profitability on each item sold. This involves calculating how much to charge for each product.

#### Calculation steps

There are 5 key steps to help calculate the price of your units or products.

Table 25: Unit price calculation

|  |  |  |
| --- | --- | --- |
| Step | Description | Example |
| 1. Total production costs | Calculate all costs associated with producing the candles, including direct costs (materials, labour) and indirect costs (overheads). | For a candle business, if direct costs (wax, wicks, fragrance oils) total $300 and overheads (utilities, packaging) are $100, total production costs = $300 + $100 = $400. |
| 2. Number of units produced | Determine the total number of products produced in a specific period (such as monthly). | If you produced 200 candles in a month, then the number of units produced = 200. |
| 3. Cost per unit | Calculate the cost incurred for each candle by dividing total production costs by the number of units produced. | Cost Per Unit = |
| 4. Desired profit margin | Establish the profit margin you want to achieve on each candle sold (for example, 40%). | If you want a profit margin of 40%, this means you want to earn $0.80 on each candle ($2 × 0.40). |
| 5. Selling price per unit | Calculate the final selling price by adding the desired profit margin to the cost per unit. | Selling Price = $2 + $0.80 = $2.80 per candle. |

This approach can help you determine the price of the items you are selling in order to make a profit.

Note that these pricing calculations do not account for competitors in the market and should be considered carefully to be sustainable.

A simple way to determine whether your unit and labour price is meeting expenses is to conduct a break-even analysis to determine the price to set to break even and expand into making a profit.

### Break-even analysis

Break-even analysis determines the point at which total revenues equal total costs. This analysis is essential for understanding the financial viability of products or services.

The break-even point (BEP) can be expressed in 2 ways: units and sales dollars. Units are used to determine how many units or services to sell in order to break even, while sales dollars, on the other hand, determine how much sales need to be generated to break even.

#### Break-even point in units

The break-even point (BEP) for units can be calculated using the following formula:

Break-even point (Units) =

* **Fixed costs** – are costs that do not change with the level of production or sales, such as rent, salaries and insurance.
* **Sales price per unit** – is the price at which each unit of product or service is sold.
* **Variable costs per unit** – vary directly with the level of production, such as materials and direct labour.

For example, this calculation can be seen for the candle business EcoGlow.

EcoGlow produces eco-friendly candles made from soy wax infused with natural fragrances.

**Cost structure**

Fixed costs: These are costs that do not change with the production level. For EcoGlow, fixed costs include:

Rent: $1,000 per month

Utilities: $200 per month

Salaries (owner and part-time help): $2,000 per month

Marketing and advertising: $300 per month

Total fixed costs = $1,000 + $200 + $2,000 + $300 = $3,500

Variable costs: These are costs that vary directly with the production volume. For EcoGlow, variable costs per candle include:

Soy wax: $2.00

Wick: $0.50

Fragrance oil: $1.00

Packaging: $0.75

Total variable costs per candle = $2.00 + $0.50 + $1.00 + $0.75 = $4.25

Selling price per candle: EcoGlow sells each candle for $12.00.

Using the formula:

Break-even point units =

EcoGlow needs to sell approximately 452 candles to break even.

#### Break-even point in sales dollars

The break-even point (BEP) for sales dollars can be calculated using the following formula:

Break-even point (sales dollars) =

The contribution margin measures a product or service's profitability by indicating how much revenue is left after covering variable costs.

The contribution margin can be calculated using the following formula:

Contribution Margin (C) = Selling Price Per Unit (R) − Variable Costs Per Unit (V)

The contribution margin ratio expresses the contribution margin as a percentage of total sales revenue. It indicates what portion of each sales dollar can cover fixed costs and contribute to profit.

The contribution margin ratio can be calculated using the following formula:

Contribution margin ratio =

For example, using the same cost structure from EcoGlow previously mentioned…

Contribution margin = 12 − 4.25 = 7.75

Contribution margin ratio =

Break-even point (sales dollars) =

EcoGlow needs to generate approximately $5,418 in sales to break even.

 Practice activity

### Activity 4: Break-even analysis

You have been tasked with working out the break-even point for EcoGlow units. They have provided you with the following values.

Total fixed costs: $4,400

Selling price per product: $15.00

Variable costs per product: $5.25

1. Using the provided scenario, what is the break-even point in units?

## Develop a financial plan

Cash flow refers to the movement of money in and out of your business. Positive cash flow occurs when more money comes in than goes out, essential for maintaining operations and meeting financial obligations.

Critical components of cash flow include:

* **cash inflows** – primarily from sales but can also include debt repayments, asset sales, grants and rebates
* **cash outflows** – expenses such as payments to suppliers, wages, bills and maintenance costs.

Creating cash flow projections is critical to business planning, especially for new entrepreneurs. These projections help ensure a business can meet its operational needs while complying with legal requirements.

### Cash flow forecasting

Cash flow forecasting predicts the amount of cash that will flow into and out of a business over a specific period. This forecasting is crucial for maintaining liquidity, planning for growth and ensuring the business meets its financial obligations. Effective cash flow management helps businesses avoid insolvency and make informed strategic decisions.

Cash flow forecasting typically relies on historical data to make accurate future predictions, such as using a cash flow statement. However, estimates can be provided for new businesses without historical data to forecast accurately. This section expands on these 2 ways of calculating.

#### Projecting cash flows

There are 5 steps to project future cashflows accurately:

1. Decide the forecasting period
2. List all income sources
3. List all outgoing expenses
4. Calculate net cash flow
5. Calculate closing cash balance

##### Step 1: Decide the forecasting period

Determine how far into the future you want to project your cash flows. This could be monthly, quarterly or annually.

How to complete the step:

* Assess your business cycle and choose a period that accurately reflects your cash flow cycles.
* For new businesses, shorter periods may be more reliable due to limited historical data.

For example, you decide to forecast cash flows for the next 12 months.

##### Step 2: List all income sources

Identify all potential sources of cash inflow. This includes sales revenue, investments, grants and any other income.

How to complete the step:

* Create a table with columns for each month and rows for each income source.
* Estimate the expected income for each source based on market research or industry benchmarks.
* Ensure you account for when cash is received (for example, after invoices are paid).

An example for the Gourmet Coffee Co. business:

Table 26: Income source estimate example

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Month | Sales Revenue | Grants | Investments | Total Income |
| January | $150,000 | $0 | $0 | $150,000 |
| February | $140,000 | $0 | $0 | $140,000 |
| March | $130,000 | $0 | $0 | $130,000 |

##### Step 3: List all outgoing expenses

Identify all expected cash outflows for your business operations. This includes fixed costs such as rent and variable costs like utilities.

How to complete the step:

* Create a similar table for expenses with columns for each month and rows for each expense type.
* Estimate monthly expenses based on market research or projections.
* Include one-off expenses that may occur during the forecast period.

An example for the Gourmet Coffee Co. business:

Table 27: Expense estimate example

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Month | Rent | Salaries | Utilities | Total Expenses |
| January | $2,500 | $3,500 | $600 | $6,600 |
| February | $2,400 | $3,400 | $550 | $6,350 |
| March | $2,300 | $3,300 | $550 | $6,150 |

##### Step 4: Calculate net cash flow

Determine your net cash flow by subtracting total expenses from total income for each month.

How to complete the step:

1. For each month, use the formula:

Net Cash Flow = Total Income − Total Expenses

1. Record the results in a new column in your table.

For example, the calculation for January for Gourmet Coffee Co. is:

* Total Income = $100,000
* Total Expenses = $5,500

Net Cash Flow = 100,000 − 5,500 = **94,500**

##### Step 5: Calculate closing cash balance

After accounting for net cash flow, the closing balance indicates how much cash you have at the end of each month (XERO, n.d.).

How to complete the step:

1. Start with an opening balance (initial cash available).
2. For each month, use the provided formula:

Closing balance = Opening balance + Net cash flow

1. The closing balance of one month becomes the opening balance for the next month.

For example, the closing balance for Gourmet Coffee Co. is $99,500, whereas July has an opening balance of $5,000 and a net cash flow of $94,500.

The final cash flow forecast example for Gourmet Coffee Co., combines all these steps.

##### Example cash flow forecast for Gourmet Coffee Co

Table 28: Example cash flow forecast for Gourmet Coffee Co.

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Description | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun |
| Monthly cash in (‘000) | $100 | $110 | $120 | $130 | $140 | $180 | $150 | $140 | $130 | $120 | $110 | $100 |
| Monthly cash out (‘000) | $80 | $80 | $80 | $80 | $90 | $100 | $90 | $85 | $80 | $80 | $80 | $80 |
| Closing balance (‘000) | $20 | $50 | $90 | $140 | $190 | $270 | $330 | $385 | $435 | $475 | $505 | $525 |

### Profit and loss statement

A profit and loss statement (P&L) or an income statement, is a financial report summarising the revenues, costs and expenses incurred during a specific period, typically monthly, quarterly or annually. By comparing total revenue against total expenses, it provides insights into a company's ability to generate profit.

The P&L statement is essential for understanding financial performance and is often used by business owners, investors and creditors to evaluate a business's viability and profitability.

The profit and loss statement (P&L) plays a crucial role in cash flow projections by providing vital information about a business's revenues and expenses over a specific period.

The key components of the profit and loss statement are:

Table 29: Profit and loss statement components

|  |  |  |
| --- | --- | --- |
| Component | Description | Formula |
| Revenue | Total income generated from sales of goods or services | **Total revenue** = Sales revenue + Other income |
| Cost of goods sold (COGS) | Direct costs associated with producing the goods sold, including raw materials, packaging and manufacturing expenses | **COGS** = Raw materials + Direct labour + Manufacturing overhead |
| Gross profit | Calculated as revenue minus COGS; indicates how efficiently a company uses its resources to produce goods | **Gross profit** = Total revenue − COGS |
| Operating expenses | Indirect costs required to run the business, such as salaries, marketing expenses, rent and utilities | **Total operating expenses** = Marketing expenses + Administrative expenses + Rent + Utilities + … |
| Net profit before tax | Calculated by subtracting total operating expenses from gross profit; shows profit earned before accounting for taxes | **Net profit before tax** = Gross profit − Total operating expenses |
| Income tax expense | The amount of tax owed based on net profit before tax | **Income tax expense** = Net profit before tax x Tax rate |
| Net profit after tax | Final profit figure after all expenses and taxes have been deducted; represents the actual profit available to the business | **Net profit after tax** = Net profit before tax − Income tax expense |

For example, the above P&L components have been outlined for the fictitious business EcoGlow.

EcoGlow generated a total sales revenue of $150,000 from candle sales during the reporting period.

COGS includes all direct costs associated with producing the candles:

Raw materials: $15,000 (includes soy wax, beeswax, essential oils and wicks)

Packaging: $5,000 (eco-friendly containers and labels)

Manufacturing: $10,000 (equipment maintenance and production staff)

The operating expenses for EcoGlow were identified as:

Marketing and advertising: $20,000

Product development: $15,000

Operational costs: $10,000

Salaries and wages: $40,000

Delivery costs: $10,000

Rent and utilities: $5,000

Miscellaneous expenses: $5,000

From these figures, the profit and loss statement for the fictitious business EcoGlow, a candle business:

Table 30: Example profit and loss

|  |  |
| --- | --- |
| Item | Income or expenditure |
| **Revenue** | **Amount** |
| Sales revenue | $150,000 |
| **Cost of goods sold (COGS)** | **Amount** |
| Raw materials | $15,000 |
| Packaging | $5,000 |
| Manufacturing | $10,000 |
| Total COGS | $30,000 |
| **Gross Profit** | **Amount** |
| Blank cell | $120,000 |
| **Operating expenses** | **Amount** |
| Marketing and advertising | $20,000 |
| Product development | $15,000 |
| Operational costs | $10,000 |
| Salaries and wages | $40,000 |
| Delivery costs | $10,000 |
| Rent and utilities | $5,000 |
| Miscellaneous expenses | $5,000 |
| Total operating expenses | $105,000 |
| **Other income/expenses** | **Amount** |
| Interest on business loan | $2,000 |
| Net other income/expenses | $2,000 |
| **Net profit before tax** | **Amount** |
| Blank cell | $13,000 |
| **Income tax expense (30%)** | **Amount** |
| Blank cell | $3,900 |
| **Net profit after tax** | **Amount** |
| Blank cell | $9,100 |

These figures can be estimated for new entrepreneurs who may not have historical data.

## Identify sources of finance for required liquidity

### Liquidity

Liquidity in business refers to the availability of cash during times of uncertainty or unplanned cash expenses.

Cash is often described as ‘the freest flowing asset of all’ and is widely used to measure business liquidity. All businesses need access to cash. The more efficiently an asset can be converted to cash, the more liquid and valuable it is. In business, business service or stock should be most liquid – if not, market demand for the products or services is weak.

Assets – like buildings, plant and equipment, computers and motor vehicles – are less liquid.

To ensure profitability, your business must have a level of liquidity, so you will need to account for sources of finance and the costs of finance.

### Sources of finance

In Australia, research suggests that the personal savings of family, friends and owners mainly contribute to financing businesses. This is especially the case for new businesses. Banks and other credit providers are slightly more helpful for established businesses. However, they are still quite wary of exposing themselves to business risks unless a business plan can convince them of the market potential.

As mentioned earlier, there are a variety of sources of finance available for the business operator but some of them will be more rigid or more expensive than others. Some may lock a business owner into a schedule that will reflect on their debt when they seek a better deal when the business is established. It is essential to consider the options and decide on an appropriate one. The main problem businesses need help with when seeking funding is uncertainty.

Certain businesses might need a track record that potential investors, such as banks, can rely on investing. Banks are particularly nervous to invest in some companies or business ventures because they represent a greater credit risk.

There are several potential sources of finance to meet the needs of small and growing businesses.

#### Self-finance

This is where the individual or partnership of the business uses their funds to finance the business. From a financial perspective, the partnership is a separate entity from the individual. Therefore, if the business was funded by one of the individuals or both, it would be listed as either a loan to the partnership or equity in the business.

#### Overdraft financing

This form of financing is often viewed as a short-term method for funding – it is not generally meant as a long-term solution, as the bank or lending institution has the right to demand full payment at any time.

#### Short- and long-term loans

A short-term loan is usually repaid within a year and is used when a business needs ready cash. A long-term loan is for a period of over 10 years. Mortgages and debentures fall into this category.

#### Trade credit

Many businesses use this form of financing. The company that offers it can be a small, medium or large business. By obtaining this form of financing, a business can build its ‘credibility’ by maintaining and adhering to the credit terms it has been offered.

#### Venture capital

Venture capital finance is usually in the form of cash that can be provided by:

* friends
* family
* venture capitalist companies
* ‘angel investors’ – usually entrepreneurs.

The cash is usually offered in exchange for shares in the company.

##### Pitching to venture capitalists

When pitching your business to venture capital investors, it's essential to approach the task with a clear strategy and thorough preparation.

Some essential tips to be mindful of when pitching to venture capitalists include:

* **Creating a toolbox** – Develop a comprehensive set of documents, including an elevator pitch, sales pitch, awareness pitch, one-page description and follow-up materials to communicate your business idea effectively.
* **Finding the right investors** – Identify investors with industry expertise, proven experience and a strong network that aligns with your business goals.
* **Be prepared** – Clearly articulate your capital requirements, business goals, vision for the future and insights into your unique value proposition and market strategy.
* **Know your numbers** – Familiarise yourself with your financials, including realistic revenue projections and past performance data to demonstrate growth potential.
* **Ask for feedback** – Use rejections as learning opportunities by seeking constructive feedback to improve future pitches and explore networking possibilities (Australian Government, 2024).

#### Equity finance

Also known as ‘share capital,’ this form of financing is similar to venture capital financing as it involves trading business shares or equity for cash.

#### Hire purchase and leasing

Both hire purchase and leasing allow the business to access a piece of equipment or machinery via regular payments.

Most businesses will lease cars over a certain period (usually 2 years), exchanging the vehicle for a new model at the end of the lease. In the short term, this benefits the business by assisting with cash flow management due to the regular payments. In the long term, however, the costs charged by the leasing company may outweigh the benefits.

Hire purchase also requires regular payments and differs from leasing in that, at the end of the contract, the business owns the piece of equipment or machinery.

#### Crowdfunding

Crowdfunding is financing your business through loans, donations or exchanging money for rewards or shares in your industry. You generally do this through a crowdfunding website. You can learn more about [Crowd-sourced funding](https://asic.gov.au/regulatory-resources/financial-services/crowd-sourced-funding/) on the ASIC website.

### Costs of finance

Using borrowed funds to operate a business incurs direct and indirect costs. These costs quickly add up, so be sure to get the right type of loan. You may need to seek expert advice.

Examples of costs:

* interest
* monthly fees
* start-up loan fees.

Be aware that there are more than likely late penalty fees, early exit fees and so on.

## Select budget targets

To effectively select budget targets and enable ongoing monitoring of financial performance organisations should follow a structured approach that encompasses several key steps, including:

* review past performance
* set clear financial goals
* develop flexible budgets
* leverage technology.

### Review past performance

Reviewing your business’s past performance allows you to use historical financial data, including income statements, balance sheets and cash flow statements, to identify trends and patterns. This retrospective analysis helps you set realistic and achievable targets based on empirical data.

### Set clear financial goals

Setting clear financial goals allows a business to establish specific, measurable, achievable, relevant and time-bound (SMART) goals that align with the organisation’s strategic objectives. Goals should guide the budgeting process and provide a framework for evaluating performance.

### Develop flexible budgets

Developing flexible budgets allows a business to adapt to changing conditions. This flexibility will enable organisations to accommodate unforeseen circumstances and adjust targets as necessary.

### Leverage technology

Leveraging technology allows the firm to utilise budgeting software and enterprise resource planning (ERP) systems to automate data collection and analysis. This technology enhances accuracy and facilitates real-time monitoring of financial performance against budgeted targets.

### Monitoring finances

There are some simple ways to check your business's progress. Cost activity, profitability, liquidity and debt levels are easy to calculate and good business managers do this regularly.

In practice, a business plan refers to the measures expected to be used and may quote previous figures as evidence of past performance.

One simple tip: **keep your records up to date!**

Accurate, easy-to-read records of business income and expenses are necessary for measurements that can be used to monitor progress. Allocate a small amount of time each day for recordkeeping. A range of software is available for you to help manage and monitor your finances, including programs like MYOB and Zero and many others.

Standard methods to select budget targets are by the profit and loss statement.

#### Ongoing monitoring of financial performance

There are some simple steps to ensure your business is maintaining and monitoring ongoing financial performance. This could be through:

* **Regular reporting** – Implementing a routine reporting schedule that includes monthly or quarterly financial statements. These reports should compare actual against budgeted performance figures.
* **Conduct variance analysis**–Analyse budget variances and the differences between actual results and budgeted amounts to understand the reasons behind any discrepancies. This can give insights into operational efficiency and areas that need improvement.
* **Monitoring key performance indicators (KPIs)** – Establish KPIs that link financial outcomes to operational performance measures. Regularly review these indicators to assess progress towards financial goals and make informed decisions.
* **Foster accountability and communication** – Promote transparency in the budgeting process by encouraging open communication among departments. This ensures that all stakeholders are aligned with the budget targets and can address issues promptly as they arise.

## Develop draft plan

Now that you have gone through the main components, you can see how they all come together in a draft business plan example. For your assessment in this unit, you will be using a Business Plan template provided for your final project assessment to bring together what you learned from this unit.

### Methodology for researching and preparing a business plan

Researching and preparing a business plan involves a structured method to thoroughly consider all critical aspects of the business. These aspects include:

* defining business purpose and goals
* conducting market research and analysis
* addressing legal and compliance requirements
* developing marketing plans
* developing operational plans
* developing a financial plan and budget
* developing risk management strategies
* reviewing and finalising the business plan
* engaging stakeholders and ensuring launch readiness.

#### Define business purpose and goals

Begin by clearly articulating your business's purpose. This includes writing a mission statement that reflects your core values and objectives. Establish specific, measurable goals that will guide your strategic planning, both in the short term and in the long term.

#### Conduct market research and analysis

Gather data about your industry, target market and competitors to inform your business strategy. Use primary research methods—such as surveys, interviews and focus groups—to collect firsthand information from potential customers and secondary research methods—like reviewing industry reports and competitor analysis—to understand market trends and customer preferences. This will help you identify market opportunities and competitive advantages.

For example, the types of products and services you offer, particularly if they target a niche market, the number of direct and indirect competitors and their customer base, your business's online presence and the economic climate, including local, national and global conditions, will dictate your market size and potential.

As an effective first step, you might prepare a general profile of your typical customer to understand the number of people interested in your business.

#### Address legal and compliance requirements

Research the necessary permits, licenses and zoning laws applicable to your business type to ensure compliance with all relevant laws and regulations. Consult legal professionals or resources to understand the compliance requirements in your industry fully. Document all legal obligations to ensure that your business operates within the law.

#### Develop marketing plans

Create a strategy for promoting your products or services to your target audience. Based on your research, define your target market segments. Develop a marketing mix that includes product, price, place and promotion tailored to your audience. Outline specific marketing activities, channels and budgets for implementation.

#### Develop operational plans

Detail how your business will operate on a day-to-day basis. Define the production or service delivery processes and identify key operational resources needed, such as staff, equipment and technology. Create timelines for operational milestones and responsibilities to ensure smooth execution.

#### Develop a financial plan and budget

Create financial projections that outline expected revenues, expenses and profitability. Prepare sales forecasts based on market research findings. Estimate fixed and variable costs to develop a comprehensive budget that includes cash flow projections, break-even analysis and funding requirements.

#### Develop risk management strategies

Identify potential risks that could impact your business and create strategies to mitigate them. Conduct a risk assessment to identify internal and external risks related to finance, operations or market conditions. Develop contingency plans for high-risk scenarios to ensure business continuity in case of unforeseen challenges.

#### Review and finalise the business plan

Once all sections are drafted, review each component for clarity, accuracy and coherence. Seek feedback from trusted advisors or mentors who can provide valuable insights. Make necessary revisions before finalising the document to ensure it is polished and ready for presentation.

#### Engage stakeholders and ensure launch readiness

Involve key stakeholders in the planning process to gain their support for the business plan. Present the finalised plan to stakeholders such as investors, partners or employees to secure buy-in. Confirm that all operational aspects are in place for a successful launch by coordinating activities across departments and ensuring everyone is prepared for execution.

As an example of what your business template could look like when finalised, you can refer to the example for the fictitious candle business EcoGlow, which is provided in the document [BSBESB401\_TL\_SampleBusinessPlan (pdf)](https://share.tafensw.edu.au/share/items/9457f72c-7577-4e45-80a5-a182c7b98023/0/?attachment.uuid=5b2d141e-7e88-4e2b-935a-eb911659e1d0).

 Practice activity

### Activity 5: Drafting your plan

By using your own business idea or [Azure Beach Surf and Skate](https://share.tafensw.edu.au/share/items/1c89b5bb-2698-4ced-91d8-29a58efbaab2/0/?attachment.uuid=74f8070a-c4c0-4c14-a007-aedc47689889), start planning out your draft business plan sections and answer the following sections.

1. Define the purpose and objective of the business (50 to 100 words).
2. Conduct a SWOT analysis for one competitor (30 to 75 words).
3. Identify and list the legal requirements relevant to your business (100 to 200 words).

## Research specialist services and sources of advice

In today's competitive landscape, leveraging research specialist services and expert advisory sources is essential for businesses seeking to enhance their strategic initiatives, optimise operations, and drive informed decision-making.

### Tips for using a specialist

If you seek out a consultant, contractor or employee with specialist knowledge, you must ensure that you:

* are clear about the type of advice you are seeking
* use an initial visit to find a specialist who you get along with and who speaks and conducts their business in a way you can understand
* determine that the specialist has the most appropriate qualifications and experience
* establish that the specialist is a member of their professional body
* review their track record of successes
* ask for fees to be quoted up-front in writing and to clarify any additional charges they may have
* obtain several quotes from various specialists in the field.
* ask questions
* consider price as an important factor but not a deciding factor.

This section of the workbook will examine various specialist service offerings, including:

* Accountants
* Legal professionals
* Financial planners
* Business mentors of coaches
* IT specialists
* Insurance agents or brokers
* Marketing and advertising consultants/agencies
* Employment agencies
* Business plan consultants
* Staff training consultants
* Work health and safety consultants
* Advisory resources

#### Accountants

An accountant is your primary source of information and financial advice.

Your accountant will preferably be a member of the CPA (Certified Practicing Accountants) Australia, the Chartered Accountants Australia and New Zealand (CAANZ)or the Institute of Public Accountants (IPA). Tax accountants need to be registered tax agents. You can check if a tax agent is registered using the [For tax practitioners](https://www.tpb.gov.au/tax-practitioners) page from the Tax Practitioners Board website.

At the start-up or purchase stage, your accountant should be able to guide you with:

* the purchase price of a business you may wish to purchase or the financial considerations associated with buying a franchise
* information regarding income tax, capital gains tax and GST
* selecting a suitable legal structure
* financial forecasts for business planning and presentations to potential lenders
* advice on the financing of the business
* assessment of a feasibility study for a proposed business
* helping to set up recordkeeping systems.

#### Legal professionals

You may find a legal professional valuable at the start-up of your business for:

* advising on the purchase of an existing business and acting on your behalf in the purchase
* negotiation and advice on franchising and leasing
* handling conveyance for any purchase of land or building
* preparing a partnership agreement
* advising on legal structures
* advising on licences, permits, registrations and approvals.

#### Financial planners

Financial planners are qualified investment professionals who assist their clients in meeting their long-term financial objectives. They do this by analysing the client's financial status and establishing a program to achieve the desired financial goals. Financial planners often specialise in tax, asset allocation, risk management, retirement and estate planning. When considering the services of a financial planner, evaluate the differences between those who charge for services versus commissioned agents regarding the independence of their advice. You can find out if a financial planner is registered using the [Financial advisers register](https://moneysmart.gov.au/financial-advice/financial-advisers-register) page on the Money Smart website.

#### Business mentors or coaches

Business coaches provide support and occasional advice to an individual or group to help them recognise ways to improve their business's effectiveness. Be clear whether you want the mentoring or coaching to be about how you should be handling the business operation or the way the business operation is personally affecting you.

#### IT specialists

An information technology (IT) specialist will supply or advise on hardware and software solutions, set up networking or internet connectivity and set up e-commerce or other specialist business systems.

Your IT needs will depend on the complexity of your business, your experience with technology and your long-term vision for the operation.

Many business operators may find off-the-shelf software programs helpful; for example, MYOB (Mind Your Own Business) and QuickBooks provide financial recordkeeping and payroll packages.

#### Insurance agents or brokers

An insurance broker is a professional who not only sources suitable insurance policies for your needs but may also represent your interests if you have to make a claim. An insurance agent will usually represent an insurance company and recommend products from that company. Insurance to consider includes the following:

* Insurance is essential to protect against the loss of business assets due to fire and theft.
* If you employ staff, your business is legally required to have workers’ compensation insurance.
* As an employee of your own incorporated company, it is necessary for you to obtain workers’ compensation insurance to cover yourself.
* Sole traders and partners are not eligible for workers’ compensation insurance; therefore, it is advisable to secure accident and illness insurance as well as income protection insurance.
* Professional indemnity insurance may be necessary if you face a lawsuit for financial loss resulting from errors or omissions, particularly for professionals such as architects, health workers, education professionals, and engineers.
* Public liability insurance will protect you against any injuries suffered by third parties whilst on your property; this can often be included in a fire and theft policy. Even though not legally required, operating without a public liability policy for the business is not recommended.

#### Marketing and advertising consultants and agencies

Marketing and advertising consultants will provide marketing advice.

Ensure you provide the agent with a clear brief detailing business and marketing objectives and budget amounts.

Only sign lengthy advertising plans if you're sure your target market is being reached with the right messages of business benefits.

Professional marketing and advertising consultants can seem expensive for a business. Publications such as Yellow Pages and newspapers employ advisers who can assist with effective advertising in their paper-based and online publications.

#### Employment agencies

It is an employment agency’s business to understand how to hire the best person for the job. You will need to develop clear and concise position descriptions to assist them in doing so.

You can use an employment or recruitment agency for all or part of the hiring process and an agency for recruiting one employee. Alternatively, you may partner with the agency to recruit for all positions as your business grows. You must be clear about how and when you intend to use the employment agency, which will impact the costs and contractual arrangements.

#### Business plan consultants

Business plan consultants will guide you through the steps of planning your business. However, don’t leave the whole plan to the consultant. Make sure you are heavily involved in the research and development of strategies.

Choose a consultant with a relevant background to your plan. For example, accountants often provide business planning services but may need to gain the marketing background required for specific strategic and tactical plans.

#### Staff training consultants

There are numerous training courses available, depending on your required training needs. A training needs analysis can be conducted to determine your training needs. This can be done using a combination of questionnaires and evaluations across staff members. Professional training consultants can conduct training needs analyses and provide this training for your staff. Ensure you:

* are sure your training needs cannot be met in-house
* work closely with your consultants to be sure training programs match the needs of your business
* shop around; since it’s a competitive training market, there are also quite a few government-subsidised programs in different specialty fields.

#### Work health and safety consultants

A work health and safety (WHS) consultant will advise you on your work health and safety laws and the business's work health and safety requirements. They should be able to direct you to government programs that help employers comply with WHS requirements.

It is expected that you will use advisors to assist in developing your business plan. Advisors can save you valuable time and money.

#### Advisory resources

Only some things can be handled by internal people. Consultants or specialists are sometimes needed to help set up, run and grow your business. For example, accountants are commonly required for taxation advice and lawyers are necessary for contractual and other legal issues.

Seek assistance to help you develop any part of a business plan. Common advisors include:

* business advisors
* financial or tax advisors
* Australian Business License and Information Service (ABLIS)
* Australian Business Advisory Services (ASBAS) Digital Solutions
* industry leaders and consultants
* business consultants
* partners and business stakeholders.

## Analyse draft plan and prioritise risks

Analysing a draft plan and prioritising risks is a critical process that enables organisations to identify potential threats to their objectives, assess the likelihood and impact of these risks and develop strategic responses to mitigate them effectively, ensuring the overall success and sustainability of the project.

### Reviewing essential elements of the business plan

Once you have identified the most essential parts of your business plan, you need to review them to ensure that they cover them in enough detail and that enough research has gone into planning in these areas. All information must be accurate and up to date while free from exaggeration or irrelevant data.

For example, if you identify market analysis as one of the most important areas of your business plan, you will need to review competitor analyses, trade prices and customer spending habits in detail to ensure accurate and up-to-date information in these areas.

The essential elements of the business plan are:

* **Specific** – All information should be specific and include specific examples.
* **Up to date** – You should aim to carry out new research regularly.
* **Free from exaggeration** – It can be easy to inflate financial information and figures to improve the standing of your business in the business plan but this will not help your business in reality.
* **Unambiguous** – All language should be clear and easy to understand.
* **Time-bound** – For example, timeframe information is necessary for goals, objectives and financial information.
* **Accompanied by relevant financial information** – For example, budgetary information must be extensive.
* **Accompanied by goals** – Such as SMART goals, objectives and strategies.

### Identifying risks

As an entrepreneur, your first step is identifying various risks that could impact your business operations. Internal risks often stem from within your organisation, including operational inefficiencies, employee turnover and technological failures. For instance, relying heavily on a single supplier for critical components creates a vulnerability that could disrupt your production if that supplier encounters issues.

Internal risks often stem from within the organisation, including operational inefficiencies, employee turnover, technological failures and compliance issues. For instance, if a business relies heavily on outdated technology, the risk of system failures or data breaches increases significantly.

On the other hand, external risks arise from outside the organisation and can include market fluctuations, economic downturns, natural disasters and regulatory changes. For example, a sudden shift in government policy could affect industry regulations or trade agreements, creating uncertainty for businesses operating in that sector.

To identify these risks effectively, engage in thorough research, conduct SWOT analyses to evaluate your strengths, weaknesses, opportunities and threats and consult with your employees who may have insights into specific vulnerabilities.

Refer back to Lesson 1: Prepare to develop a business plan, Lesson 1 for a refresher on conducting a SWOT analysis.

After developing and reviewing your draft business plan, you will assess and prioritise internal and external risks according to workplace procedures. A common method for prioritising such risks is using a risk matrix.

### Assessing and prioritising internal and external risks to business

Effective risk management is crucial for business sustainability and growth. This involves identifying, evaluating and prioritising both internal and external risks. A risk matrix is vital in this process, allowing businesses to visualise and systematically assess potential threats.

#### Understanding the risk matrix

A risk matrix, also known as a risk assessment matrix, is a visual representation that categorises risks based on 2 primary factors – likelihood of occurrence and potential impact. The matrix typically features 2 axes:

* X-axis – Likelihood
* Y-axis – Impact

Risks are plotted within the matrix to determine their overall severity. This method allows businesses to prioritise risks effectively and allocate resources accordingly. These risks can be denoted using low, low-medium, medium-high and high. They can also include number ratings assigned to each quadrant to understand the risk factor accurately.

The table provides an example of the risk matrix template. The impact is shown in the columns (Y-axis) and the likelihood of the risk occurring is shown in the rows (X-axis).

Table 31: Risk matrix template

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Insignificant  1 | Minor  2 | Significant  3 | Major  4 | Severe  5 |
| **5 almost certain** | Medium 5 | High 10 | Very high 15 | Extreme 20 | Extreme 25 |
| **4 Likely** | Medium 4 | Medium 8 | High 12 | Very high 16 | Extreme 20 |
| **3 Moderate** | Low 3 | Medium 6 | Medium 9 | High 12 | Very high 15 |
| **2 Unlikely** | Very low 2 | Low 4 | Medium 6 | Medium 8 | High 10 |
| **1 Rare** | Very low 1 | Very low 2 | Low 3 | Medium 4 | Medium 5 |

To determine your risk levels for specific instances in your business, you would assign the risk to a quadrant in the table to calculate.

For example, Risk level = Likelihood x impact. If you had a supply chain disruption as a risk that was likely and major, your risk rating score would be 16.

### Workplace procedures for risk management

You may have your business policies and procedures you are working towards to outline potential risks and risk management strategies. For those who still need to develop this, you can review an example from Azure Beach Surf and Skate [Workplace Health and Safety Policy and Procedure (pdf)](https://share.tafensw.edu.au/share/items/a4de0654-80ac-474c-b1b2-588f95e4ff1e/0/?attachment.uuid=70fb2de1-0fa0-461a-b438-2d174e9ea2a7). The document mentioned detailed internal risks, such as machinery and slips within the store and provided vital mitigation strategies to avoid this.

 Self-check

### How did you go?

You have completed the lesson: **Draft and create business plan**. Check the boxes for the tasks you feel confident you can complete.

I can address legal and compliance requirements.

I can plan marketing activities.

I can calculate prices based on costs and profit targets.

I can identify sources of finance for required liquidity.

I can select budget targets.

I can research specialist services and sources of advice.

I can analyse the draft plan and prioritise risks.

**Lesson 3:**Finalise business planning

## Overview

In this lesson, you will learn about the importance of risk management in developing a comprehensive business plan. Effective risk management is essential for identifying potential challenges that could impact your business's success and ensuring you have strategies to mitigate these risks. Understanding how to align your risk management strategies with your business goals and compliance requirements will strengthen your overall planning process.

In this lesson, you will learn to:

* develop risk management strategies
* assess the likelihood of non-conformance
* develop a contingency plan
* identify key stakeholders’ interests and objectives.

## Develop risk management strategies

### Common business risks and risk management strategies

Common business risk refers to the potential threats or uncertainties a company faces to achieve its financial and operational goals. Many factors, including changes in market conditions, coemption, economic downturns, technological disruptions, regulatory shifts or internal factors such as operational inefficiencies or management decisions, can cause these risks.

Some of the main risks include:

* financial risks
* operational risks.

### Financial risk management

Financial risk management is the process of identifying, analysing and mitigating risks that have the potential to negatively impact an organisation’s financial position. This form of risk management aims to minimise losses arising from interest rate fluctuations, currency exchanges and market volatility.

Three main risk management strategies are used to mitigate financial risk:

* diversification
* liquidity management
* hedging.

#### **Diversification**

Diversification is a beneficial strategy that spreads investments across various industries, geographic regions and assets to reduce exposure to a single financial risk. By balancing different types of assets, companies can limit losses when one sector underperforms.

#### **Liquidity management**

Liquidity management ensures that a company has enough liquid assets to meet short-term obligations without disrupting core business operations. Maintaining a balance between liabilities and cash reserves helps to mitigate the risk of insolvency during internal or external financial distress.

#### **Hedging**

Hedging involves using financial instruments such as derivatives to offset potential losses. Types of hedging could include currency risk, which is mitigated by purchasing foreign exchange contracts, is another type of hedging.

An example of how to apply specific financial strategies:

EcoGlow Candles is a new business that produces eco-friendly, hand-made candles made from natural ingredients. As the company continues to grow, it faces several financial challenges, such as spreading investments across various industries. To effectively manage this financial challenge, EcoGlow Candles needs to use a certain financial strategy.

The EcoGlow candles mitigating financial strategy:

Table 32 – Ecoglow financial strategy

|  |  |
| --- | --- |
| Financial strategy | Why |
| Diversification | EcoGlow could use this strategy to spread investments across various industries, geographic regions and assets to reduce exposure to a single financial risk. This can limit losses if candle sales underperform or do not hit targets. |

### Operational risk management

Operational risk management is the process of identifying, assessing and mitigating risks arising from a company’s internal operations. These risks can disrupt business processes and impact performance. These risks often result from inadequate systems, process failures, human error or external events such as supply chain disruptions.

Three main risk management strategies are used to mitigate operational risk:

* Process improvements
* Compliance risk management
* Team training

#### Process improvements

Process improvements play a key role in managing operational risk by reducing errors, enhancing efficiency and improving the overall quality of operations. This could be achieved through practices such as refining workflows, automating repetitive tasks, establishing clearer communication and accountability within the team and adopting new technologies.

##### ****What are process improvements?****

These process improvements aim to streamline business operations, introduce consistency and remove bottlenecks to deliver positive results. Techniques like lean management and Six Sigma are commonly used to identify inefficiencies and implement lasting solutions.

##### ****Why are process improvements used?****

**Improving processes minimised the chance of operational failures, which can result in costly delays, regulatory penalties and reputational damage. If continuous refining processes are used, businesses can establish more resilient, adaptable operations that are more equipped to handle uncertainties and prevent risks from escalating into significant issues. This proactive approach helps reduce operational costs while boosting productivity and competitiveness.**

### ****Compliance risk management****

Compliance risk management is a process that involves identifying, assessing and mitigating risks related to laws, regulations, industry standards and internal policies. Non-compliance can lead to financial losses, legal penalties, reputational damage and operational disruptions. Implementing proper compliance risk management strategies ensures that a company operates within ethical and legal boundaries while safeguarding its reputation.

#### Regular audits

Regular audits help identify gaps in compliance, assess whether policies are being followed and ensure that regulatory standards are met. Companies that regularly conduct routine internal and external audits can detect and correct non-compliance issues before they become problematic.

#### Policy updates

Policy updates are essential as regulatory landscapes often change. Regularly reviewing and updating internal policies ensures that a company remains aligned with the latest laws, industry guidelines and best practices. These updates help avoid inadvertent non-compliance due to outdated procedures.

#### Team training

Team training is pivotal in compliance risk management as it involves refining human actions. Continuous training ensures employees understand the latest regulatory requirements, company policies and consequences of non-compliance. Well-trained staff are less likely to make compliance errors and are more capable of identifying potential risks.

### ****Strategic risk management****

Strategic risk management focuses on identifying, assessing and mitigating risks that could threaten a company’s long-term goals, competitive positioning and overall strategy. These risks stem from changes in market conditions, competitor actions, technological disruption, regulatory shifts and poor strategic decisions.

Three main risk management strategies are used to mitigate financial risk:

* scenario planning
* regular strategy reviews
* market research and innovation.

#### Scenario planning

Scenario planning is a valuable tool for managing strategic risks. The process involves exploring future scenarios such as market shifts, economic downturns or technological advancements. Companies can mitigate risks and develop flexible strategies to navigate uncertainties if prepared.

#### Regular strategy reviews

Regular strategy reviews help ensure that the company’s strategic goals align with its external environment and internal capabilities. These reviews assess whether current strategies are still effective or need adjustment based on changing market conditions or performance results. This proactive evaluation strategy helps avoid pursuing strategies that are no longer viable.

#### Market research and innovation

Market research and innovation play a critical role in reducing strategic risks. Continuous research keeps the business ahead of industry trends, consumer demands and competitive moves. This allows a company to adapt its offering and strategy, invest in innovation to prevent obsolescence and position the business towards long-term growth.

 Practice activity

### Activity 6: Define the financial strategy of EcoGlow

EcoGlow Candles is a new business that produces eco-friendly, hand-produced candles made from natural ingredients. As the company grows, it faces several financial challenges, such as offsetting financial losses and ensuring the business has enough liquid assets to meet short-term obligations. To effectively manage these financial challenges, EcoGlow Candles needs to use specific financial strategies to respond to these issues.

1. Using the provided scenario and research, complete the needed financial strategy using the provided table.

Table 33: Define strategy

|  |  |
| --- | --- |
| Financial strategy | Why |
|  |  |
|  |  |

### Developing risk management strategies

Once you have looked at risk management strategies, Identifying and assessing risk is critical but you must also manage/control the risk. Once you have identified the impact of the risks, you can then consider preventative measures. This involves selecting suitable measures to prevent the risks and minimise the impact and likelihood of the risk event occurring as much as possible.

Risk controls may include, for example, any process, policy, practice, device or other actions that minimise disruption to business operations.

Selecting the most appropriate risk controls involves considering both the costs and benefits of the control in relation to legal and business requirements.

Several options can be considered and applied individually or in combination–strategies to control a risk fall into the following categories.

Table 34: Risk strategies

|  |  |
| --- | --- |
| Risk strategy | Control measure |
| AVOID | Eliminate the risk – identify the risk and what steps you could take that would eliminate the risk and have the least impact on the business |
| REDUCE | Reduce the impact of the risk by identifying ways in which both the consequences of the risk and the cost can be minimised |
| TRANSFER | Transfer the risk to another party such as insurer or supplier, as they may be in a better position to carry the risk |
| ACCEPT | Accept some or all the consequences of the risk. Sometimes avoiding or reducing the risk is not viable; you may need to accept some of the consequences of the risk for the business to remain operational |

A risk management plan will help you do this. You may not need a documented risk management plan for all risks but you will require this for the high probability or high impact risks. For those risks that cannot be avoided or eliminated, risk reduction strategies should be employed to reduce or transfer the risks where possible. Commonly used risk reduction strategies include insurance, diversification and succession planning.

## Assess likelihood of non-conformance

Assessing the likelihood of non-conformance is a vital step in risk management, enabling organisations to identify potential deviations from standards and implement proactive measures to ensure compliance and enhance overall performance.

### Assessing the likelihood of non-conformance in business plans

Evaluating the likelihood of non-conformance with each business plan component is crucial for ensuring that the organisation meets its strategic objectives and complies with relevant standards. Non-conformance refers to instances where processes, products or services fail to meet established requirements, which can lead to significant operation risks and reputational damage. This section outlines a systematic approach to assess the risk of non-conformance across various business plan components.

#### Identification of components at risk

The first step in assessing non-conformance is identifying all the business plan's critical components. These may include:

* **Market analysis** – understanding market needs and competition.
* **Operational strategy** – processes and systems for delivering products or services.
* **Financial projections** – revenue forecasts, budgeting and resource allocations.
* **Compliance requirements** – legal and regulatory obligations of the business.
* **Human resources** – staffing plans and employee training.

Each component should be analysed and assessed for potential vulnerabilities that could lead to non-conformance.

#### Evaluation of potential non-conformance risks

Once components have been identified, you need to evaluate the specific risks with each business plan component. This involves:

* **Documenting existing processes** – create detailed records of current practices related to each component.
* **Assessing compliance with standards** – determine if existing processes align with industry standards or regulatory requirements.
* **Identifying historical non-conformances** – review past incidents of non-conformance within similar projects or components to inform risk assessments.
* **Evaluating** these potential non-conformance risks in a business plan is essential as it ensures quality assurance, operational efficiency and regulatory compliance.

#### Root cause analysis

Conduct a root cause analysis (RCA) for each identified risk to understand why non-conformance might occur. Techniques like the 5 Whys or Fishbone diagrams can help identify underlying issues contributing to potential failures. This analysis should focus on systematic issues rather than surface-level systems. These systematic issues could include:

* underlying business issues
* problem-solving inefficiencies
* reoccurring business problems
* limited operational efficiencies
* poor work culture
* lack of continuous improvement.

Conducting an RCA is vital for effectively managing non-conformance risks. It identifies and resolves underlying issues and cultivates a culture of continuous improvement and operational excellence within an organisation or business.

#### Implementation of corrective actions

Based on the likelihood assessment, a corrective action plan should be developed for each at-risk component. This plan should include:

* **Immediate corrective actions** – steps taken to address any current instances of non-conformance
* **Long-term preventative measures** – strategies aimed at mitigating and preventing future occurrences of non-conformance, such as improving training programs or revising operational procedures
* **Monitoring and reviewing mechanisms** – establishing KPIs to monitor compliance and the effectiveness of implemented actions over a specific period.
* Implementing corrective actions in a business plan allows businesses to focus on enhancing operational efficiency, ensuring compliance and fostering a culture of continuous improvement.

#### Continuous improvement

Finally, it would be best to integrate the findings from the non-conformance assessments into a continuous improvement framework. Regularly reviewing processes and updating risk assessments ensures businesses can adapt and change circumstances with new insights from monitoring organisational activities. Some of these continuous improvement frameworks include:

* **Plan, do, check act (PDCA)** – a cyclical process that encourages iterative improvement.
* **Defines, measures, analyses, improves control (DMAIC**) – Primarily used to improve existing processes.
* **Total quality management (TQM) –** is a holistic approach focused on long-term success through customer satisfaction.
* **Agile methodology** – a flexible approach primarily used in project management for rapid iteration and responsiveness to change.
* **Plan, execute, review, revise, repeat (PERRR) framework** – a simplified framework for continuous improvement that emphasises planning, execution, review, revision and repetition.

By systematically assessing the likelihood of non-conformance in each business plan component organisations can proactively manage risks, enhance compliance and improve overall performance.

## Develop a contingency plan

Developing a contingency plan is a vital process that prepares organisations to respond effectively to unexpected events or risks, ensuring business continuity by outlining specific actions to be taken when predefined triggers occur, thereby minimising potential disruptions and losses.

### Contingency plan

A contingency plan is a secondary or alternative plan that can be implemented when the original plan fails. It is your ‘backup plan’ or plan B. It enables your business to adjust as circumstances change and thereby helps the company remain in operation.

Developing contingency plans and referencing them in your business plan is essential.

Irrespective of how much you plan to do, something that drastically changes your business operations may happen. Unforeseeable events can impact your business. When problems like this occur, you need to show that you have backup plans to implement.

The contingency plan should answer the following questions.

* What could happen?
* What will you do in response if the event does happen?
* What can you do in advance to prepare should the event occur?

Contingency plans should be developed for those high-impact or high-probability risks that cannot be eliminated.

Any potential event you have identified that could impact operations should be considered when developing a recovery strategy as part of your contingency plan.

Any recovery strategy should aim to return the project or organisation to normal operational activities as soon as possible.

After you develop your business plan, there is no certainty that it will be followed.

It is a good idea to develop a contingency plan to address possible areas of non-conformance with the plan.

How will you monitor if the business plan is followed or aligned with the business operations?

Contingency strategies are similar to risk management strategies.

Table 35: Non-conformance and controls

|  |  |
| --- | --- |
| Non-conformance | Control measures |
| Staff not having adequate product knowledge | Policy for staff training on induction, regular updates and when there are new products and services |
| ABN registration has expired | Contact authority and re-certify immediately |
| No hits on your Google Banner Advertisement | Evaluate banner ad positioning and message |
| Your revenue is 35% below the target | Readjust business targets, cut costs and analyse marketing activities to identify the business strengths |
| The staff member does not have a working with children (WWC) check | Stop work and re-certify today |

### Developing a business contingency plan for unexpected events and situations

A contingency plan provides a roadmap for continuing operations should disruptions or risk events occur. It may consist of:

* a statement of the objectives of the contingency plan
* the scope of the plan (your recovery strategies), including who will participate in the execution of the plan
* information regarding who is responsible for maintaining and implementing the plan
* what resources (financial and physical) are necessary to implement the plan. Recovery strategies may, for example, include:
  + business insurances – business interruption insurance, public liability insurance, professional indemnity insurance, debtor or creditor insurance
  + diversification of products and services offered by the business
  + succession planning – employees are recruited and developed as ‘back-up’ to fill key roles within the organisation
  + contracting out or outsourcing resources, function sor tasks
  + finding cheaper or alternative or lower quality raw materials and consumables
  + rental, hire purchase or alternative means of procurement of required materials, equipment and stock
  + restructuring of the organisation to reduce labour costs
  + seeking further funding
  + strategies for reducing costs, wastage, stock or consumables.

 Video

Review the video [Common risk responses](https://www.linkedin.com/learning/project-management-foundations-risk-3/common-risk-responses?u=57684225) (LinkedIn Learning, 3:13 min) for information on responses to risks you identify.

These videos will open in a new tab within your browser. You can access the full video by logging in with your TAFE NSW username and password. You can access a transcript of the video on the transcript tab within LinkedIn Learning. When you're finished, simply close the tab and return to your course.

**Video summary**

* Risk response types include avoiding, mitigating, transferring, accepting and escalating risks. Each has strategies to handle threats, such as eliminating risks, reducing their likelihood or impact, shifting them to others, doing nothing for minor risks or escalating those beyond the project scope.
* Positive risks or opportunities, use similar responses with adjusted focus – Instead of avoiding, the goal is to exploit opportunities, share responsibility to maximise benefits or enhance the likelihood and impact of positive outcomes.
* Practical analogies illustrate the responses such as avoidance (changing project materials), mitigation (adding vendor contingencies), transfer (insurance) and escalation (company strategy shifts) demonstrate how these approaches address various risk scenarios in project management.

 Video

Review the video [Mastering contingency planning](https://www.linkedin.com/learning/developing-adaptability-as-a-manager/mastering-contingency-planning?u=57684225) (LinkedIn Learning, 3:08 min) for information on how to plan for contingencies.

**Video summary**

* Effective contingency planning recognises that unexpected challenges and shifts, both positive and negative, can emerge. Preparing for various potential outcomes helps managers adapt quickly and confidently.
* By clearly documenting the expected outcomes and preparing if/then scenarios (like handling different performance levels of new hires), managers can make informed decisions and address issues as they arise.
* Managers can reduce the likelihood of negative scenarios by developing plans to mitigate risks–such as refining the hiring process to prevent poor hires–ensuring a proactive approach to common challenges.

An example of how to apply a contingency plan:

EcoGlow Candles is a new business that produces eco-friendly, hand-poured candles made from natural ingredients. As the company grows, it faces several potential challenges, such as product quality issues, supply chain disruptions, increased competition, high employee turnover, negative customer feedback and revenue drops. To effectively manage these challenges, EcoGlow Candles needs a contingency plan that outlines how to respond to these issues and what preparations can be made in advance.

The EcoGlow Candles contingency plan:

Table 36:Contingency plan example

|  |  |  |  |
| --- | --- | --- | --- |
| Non-conformance Area | What Could Happen? | Response if the Event Occurs | Preparation for the Event |
| Product quality issues | Candles may have defects (for example, uneven burning or scent issues). | Recall affected products and notify customers. | Implement strict quality control checks and staff training. |
| Supply chain disruption | Delays in receiving wax or fragrance oils from suppliers. | Find alternative suppliers and update customers on delays. | Build relationships with multiple suppliers and keep extra stock of essential materials. |
| Market competition increase | New competitors offer similar eco-friendly candles at lower prices. | Boost marketing efforts and consider promotional discounts. | Regularly research competitors and strengthen brand identity through unique selling points. |
| Staff turnover | Loss of skilled candle makers leads to knowledge gaps. | Conduct exit interviews and improve hiring practices. | Develop a strong onboarding process and employee engagement initiatives. |
| Negative customer feedback | Customers may complain about candle performance or scent strength. | Address feedback quickly and offer solutions or refunds. | Monitor customer feedback regularly and enhance customer service training. |
| Revenue decrease | Sales drop due to seasonal changes or economic issues. | Increase promotional activities to boost sales. | Review finances regularly and adjust budgets as needed. |

 Practice activity

### Activity 7: Develop a contingency plan

1. Using your business idea or [Azure Beach Surf and Skate](https://share.tafensw.edu.au/share/items/1c89b5bb-2698-4ced-91d8-29a58efbaab2/0/?attachment.uuid=74f8070a-c4c0-4c14-a007-aedc47689889), pick 2 potential areas of non-conformance and complete the contingency plan using the provided table.

Table 37: Contingency plan

|  |  |  |  |
| --- | --- | --- | --- |
| Non-conformance area | What could happen? | What will you do in response if the event occurs?’ | What can you do to prepare, should the event occur? |
|  |  |  |  |
|  |  |  |  |

1. Use the **minimising risk template** and put each identified risk into the table. Decide on the likelihood, consequence and priority of treatment for each risk, then specify the controls you will put in place and the things you could do to minimise the risk from occurring.

* **Risk** – Describe the risk and potential impact on your business.
* **Likelihood** – Highly Likely, Likely, Unlikely or Highly Unlikely (Choose one)
* **Consequence** – High, Medium or Low (Choose one)
* **Priority** – Combine Likelihood and Consequence to determine Priority. For example, highly likely and high would be a high priority and Likely and low would be a low priority.
* **Management strategies (controls)** – Outline the things you can do to minimise the risk from occurring or minimise the severity of the consequences.

#### Minimising risk template

Table 38: Internal risks

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Risks (Internal) | Likelihood | Consequence | Priority for treatment | Management strategies |
| For example, Service outage | Likely | Medium | High | Upgrade backup generator, install surge protection socket |
|  |  |  |  |  |
|  |  |  |  |  |

## Identify key stakeholders’ interests and objectives

Identifying particular interests and objectives of key stakeholders and confirming their support of planning outcomes is a critical process in strategic and operational planning and this involves several key steps.

### Understanding Stakeholders

Understanding stakeholders is essential for organisations as it involves identifying and analysing the individuals or groups that have an interest in or are affected by the organisation's activities, enabling effective engagement and communication strategies that can enhance project success and foster long-term relationships.

#### Identify stakeholders

The first step is to recognise who the stakeholders are. These can include individuals, groups or organisations vested in the planning outcomes. Stakeholders can be internal (employees, managers) or external (customers, suppliers, community members).

#### Assess interests and objectives

Once identified, it is essential to analyse the interests and objectives of these stakeholders. This involves understanding what they hope to achieve from planning outcomes and how these align with the organisation’s goals.

#### Engagement and communication

Effective communication is crucial for stakeholder engagement. The purpose of involving stakeholders, the benefits of their input and how their feedback will influence decision-making must be clearly articulated. Open communication channels should be established to facilitate ongoing dialogue.

#### Example use of artificial intelligence

For example, suppose you have received feedback from some key stakeholders –

##### ****Sarah Thompson (Investor)****

Comment – ‘I appreciate the detailed financial projections but I would like a clearer breakdown of your revenue streams. What specific strategies will you implement to ensure consistent cash flow?’

##### ****Mohammed Richards (Operations manager)****

Comment – ‘The production timeline seems optimistic. It would be beneficial to include a risk assessment section that identifies potential manufacturing challenges.’

##### ****Sam Patel (Marketing specialist)****

Comment – ‘Your marketing strategies are innovative but we must focus more on digital channels. Can we integrate social media campaigns into our outreach?’

By using AI such as Microsoft copilot, you can understand how to address these comments to ensure support from stakeholders exactly. This interaction can be seen in the provided note box.

You can prompt Microsoft copilot with the feedback you have received and how to address it, for example –

‘Using the feedback from these key stakeholders, outline what I should change in my business plan to gain their support – Sarah Thompson (Investor)

Comment – ‘I appreciate the detailed financial projections but I would like a clearer breakdown of your revenue streams. What specific strategies will you implement to ensure consistent cash flow?’

Mohammed Richards (Operations Manager)

Comment – ‘The production timeline seems optimistic. It would be beneficial to include a risk assessment section that identifies potential manufacturing challenges.’

Sam Patel (Marketing Specialist)

Comment – ‘Your marketing strategies are innovative but we must focus more on digital channels. Can we integrate social media campaigns into our outreach?’

**Microsoft Copilot replied to the above prompt with the following:**

‘Here's how you can address their feedback to make your business plan more compelling –

Sarah Thompson (Investor)

Breakdown of Revenue Streams – Include a detailed section that lists your revenue streams (for example, product sales, service subscriptions, licensing, etc.). Highlight which streams will be primary and secondary.

Consistent Cash Flow Strategies – Outline specific strategies such as diversified product lines, strategic partnerships, subscription models and robust sales strategies. Show how these will ensure consistent revenue throughout different market conditions.

Mohammed Richards (Operations manager)

Risk Assessment – Add a dedicated section for risk assessment. Identify potential challenges in manufacturing and production (for example, supply chain disruptions, equipment failures, workforce issues).

Mitigation Plans – Propose mitigation strategies for each identified risk. For instance, they diversify suppliers to avoid supply chain interruptions or have a contingency plan for equipment maintenance.

Sam Patel (Marketing Specialist)

Focus on Digital Channels – Expand your marketing plan to include a comprehensive digital marketing strategy. This should cover social media campaigns, search engine marketing, content marketing, email marketing and influencer partnerships.

Integration of Social Media Campaigns – Specify how you will use platforms like Instagram, Facebook, LinkedIn and Twitter for targeted advertising. Provide examples of campaign ideas, targeted demographics and engagement metrics.

 Practice activity

### Activity 8: Using Microsoft Copilot

You have received feedback from critical investors on your business plan and are unsure how to address it.

The feedback you have received:

**Tom Richards (Operations manager)**

Comment – ‘The production timeline seems optimistic. It would be beneficial to include a risk assessment section that identifies potential manufacturing challenges.’

**Sophie Patel (Marketing specialist)**

Comment – ‘Your marketing strategies are innovative but we must focus more on digital channels. Can we integrate social media campaigns into our outreach?’

**Jessica Lee (Angel investor)**

Comment – ‘The financial projections look promising but I’d like a more detailed breakdown of your expected revenue streams. How do you plan to attract repeat customers?’

1. Using [Microsoft copilot](https://copilot.microsoft.com/), prompt using the feedback you have received in the scenario and paste in the response from Microsoft copilot.

### Confirming stakeholder support

Confirming stakeholder support is a critical step in project management that involves actively engaging stakeholders to ensure their buy-in and commitment, fostering collaboration and trust and ultimately enhancing the likelihood of project success through clear communication and alignment of interests.

#### Gather feedback

#### Engaging stakeholders through surveys, interviews or collaborative workshops enables the collection of valuable insights. This feedback can help to improve objectives and make stakeholders feel heard and valued.

#### Build consensus

Facilitating discussions among stakeholders can help reach a consensus on critical issues. This process fosters alignment and ownership of the planning outcomes, making stakeholders more likely to support initiatives.

An essential activity you will need to do to build consensus is cascading your business plan.

##### Cascading your business plan

Cascading a business plan entails effectively communicating and implementing your company's strategic goals at all levels of the organisation. This process ensures that each department, team and individual understands their role in achieving the overall goals and focuses their efforts accordingly.

The steps to cascade your business plan:

Table 39: Steps to cascade business plan

|  |  |  |
| --- | --- | --- |
| Step | Description | Example |
| 1. Communicate core components | Clearly articulate the vision, mission, values, strategic priorities and organisational goals. | Host a company-wide meeting to introduce the business plan and distribute detailed documentation. |
| 2. Align departmental goals | Collaborate with department leaders to set goals that support the overall business strategy. | If aiming for a 20% sales increase, marketing sets specific targets for lead generation. |
| 3. Set team goals | Guide department leaders in establishing specific, measurable team goals aligned with departmental objectives. | A sales team sets a goal to close 50 new accounts in a quarter as part of the larger sales target. |
| 4. Foster buy-in | Engage employees by involving them in discussions about their roles in achieving strategic objectives. | Conduct workshops where employees share ideas on achieving departmental goals and feel invested. |
| 5. Track performance | Establish metrics to monitor progress toward goals at all levels and schedule regular check-ins. | Implement a dashboard for teams to report monthly progress and adjust strategies based on data. |
| 6. Reprioritise operations | Assess current operations and realign them with strategic priorities, identifying activities to prioritise or deprioritise. | Allocate resources from less critical projects to focus on a new product line identified for growth. |
| 7. Celebrate successes | Recognise and celebrate achievements at all levels to maintain motivation and commitment. | Host quarterly recognition events to acknowledge teams that meet or exceed their goals (Taylor, 2019). |

By cascading your business plan, you can ensure that everyone in your organisation is on the same page and working towards the same goals.

 Video

To learn more on how to cascade your business plan, review the provided video [How to Effectively Communicate Your Strategy](https://www.youtube.com/watch?v=9XXmT5Bms6k&t=1s) (YouTube, 3:41 min).

**Video summary**

* Effective strategy communication requires tailoring content to internal and external stakeholders, ensuring that each audience receives only relevant parts of the strategic plan based on their roles and interests.
* Using a communication matrix, clarify each audience's essential information (for example, mission, KPIs or action steps) and determine the best medium (for example, meetings, press releases) and frequency for updates.
* Make the strategy engaging by adding visuals, using clear language and presenting with enthusiasm to maintain interest and alignment across audiences.

#### Document support

After confirming stakeholder support, it is vital to document their commitments and any agreed-upon actions or roles they will play in achieving the planning outcomes. This documentation serves as a reference point throughout the implementation phase.

 Self-check

### How did you go?

You have completed the lesson: **Finalise business planning**. Check the boxes for the tasks you feel confident you can complete.

I can develop risk management strategies.

I can assess likelihood of non-conformance.

I can develop a contingency plan.

I can identify key stakeholders’ interests and objectives.

# Answers and feedback

## Lesson 1

Activity 1: Vision and mission statement

1. Create a mission statement using your business idea or Azure Beach Surf and Skate.

Answers will vary depending on proposed business in relation to a mission statement that grounds their vision in practical terms; defines clear goals and objectives; describes what you will do, for whom and why.

1. Create a vision statement using your business idea or Azure Beach Surf and Skate.

Answers will vary depending on proposed business in relation to a vision statement that outlines hopes for the future; identifies a problem to solve; defines big picture changes; unites people in beliefs and values.

Activity 2: SWOT analysis

1. Using research for your own business idea or using Azure Beach Surf and Skate, conduct a SWOT analysis in the provided template.

Table 40: SWOT analysis activity

|  |  |
| --- | --- |
| SWOT analysis activity |  |
| **Strengths**  Answers will vary depending on proposed business in relation to key strengths such as customer service and value for money. | **Weaknesses**  Answers will vary depending on proposed business in relation to key weaknesses such as only having 3 flagship stores. |
| **Opportunities**  Answers will vary depending on proposed business in relation to key opportunities such as possible expansion or other competitor insights. | **Threats**  Answers will vary depending on proposed business in relation to relevant competitor knowledge and research outlining key threats the business may have such as the number of competitors and their share of the market. |

## Lesson 2

Activity 3: Marketing mix

1. Using your business idea or Azure Beach Surf and Skate, identify your **product** strategy.

Answers will vary depending on proposed business in relation to product specific strategies related to their business or for Azure Beach Surf and Skate. Sample answer could include some of the product features.

1. Using your business idea or Azure Beach Surf and Skate, identify your **price** strategy.

Answers will vary depending on proposed business in relation to price specific strategies related to their business or for Azure Beach Surf and Skate. Sample answer could include price penetration strategy.

1. Using your business idea or Azure Beach Surf and Skate, identify your **place** strategy.

Answers will vary depending on proposed business in relation to place specific strategies related to their business or for Azure Beach Surf and Skate. Sample answers could include the product or service offering location.

1. Using your business idea or Azure Beach Surf and Skate, identify your **promotion** strategy.

Answers will vary depending on proposed business in relation to promotion specific strategies related to their business or for Azure Beach Surf and Skate. Sample answers could include promotional Google reviews.

1. Using your business idea or Azure Beach Surf and Skate, identify your **people** strategy.

Answers will vary depending on proposed business in relation to people specific strategies related to their business or for Azure Beach Surf and Skate. Sample answer could include the product or service offerings culture.

1. Using your business idea or Azure Beach Surf and Skate, identify your **process** strategy.

Answers will vary depending on proposed business in relation to process specific strategies related to their business or for Azure Beach Surf and Skate. Sample answer could include the logistics and main distribution channels.

1. Using your business idea or Azure Beach Surf and Skate, identify your **physical evidence** strategy.

Answers will vary depending on proposed business in relation to physical evidence specific strategies related to their business or for Azure Beach Surf and Skate. Sample answer could include the feel of your business branding.

Activity 4: Break-even analysis

1. Using the provided scenario, what is the break-even point in units?

EcoGlow needs to sell approximately 452 products to break even.

Activity 5: Drafting your plan

1. Define the purpose objective of the business (50 to 100 words).

Define the purpose and objective of your business or for Azure Beach Surf and Skate. Sample answer could include ‘empowering communities through sustainable solutions’.

1. Conduct a SWOT analysis for one competitor (30 to 75 words).

Answer outline will vary depending on the proposed business for a SWOT analysis for 1 competitor related to their business or for Azure Beach Surf and Skate. Sample answer could include the strengths, weaknesses, opportunities, and threats to the specified business.

1. Identify and list the legal requirements relevant to your business (100 to 200 words).

Answers will vary depending on proposed business in relation to the relevant legal requirements of their business or for Azure Beach Surf and Skate. Sample answer could include legal compliance such as the *Fair Work Act 2009* (Cth).

## Lesson 3

Activity 6: Define the financial strategy of EcoGlow

1. Using the provided scenario and research, complete the needed financial strategy using the provided table.

Table 41: Define strategy

|  |  |
| --- | --- |
| Financial strategy | Why |
| Liquidity management | EcoGlow could use this strategy to ensure they have enough liquid assets to meet short-term obligations without disrupting their core business operations. |
| Hedging | EcoGlow could use this strategy to offset potential losses from limited sales. This could be through foreign exchange contracts for international operations. |

Activity 7: Develop a contingency plan

1. Using your business idea or Azure Beach Surf and Skate, pick 2 potential areas of non-conformance and complete the contingency plan using the provided table.

Table 42: Contingency plan

|  |  |  |  |
| --- | --- | --- | --- |
| Non-conformance area | What could happen? | What will you do in response if the event occurs?’ | What can you do to prepare, should the event occur? |
| Product quality issues | Customers receive defective or unsatisfactory products. | Implement a return and exchange policy to handle complaints. | Regularly inspect products and establish quality control measures. |
| Supply chain disruptions | Delays in receiving stock or materials affecting sales. | Communicate with customers about delays and offer alternatives. | Develop relationships with multiple suppliers to ensure backup options. |

1. Use the **minimising risk template** and put each identified risk into the table. Decide on the likelihood, consequence and priority of treatment for each risk, then specify the controls you will put in place and the things you could do to minimise the risk from occurring.

Table 43: Internal risks

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Risks (Internal) | Likelihood | Consequence | Priority for treatment | Management strategies |
| Product quality issues | Likely | High | High | Implement a return and exchange policy, regularly inspect products and establish robust quality control measures. |
| Supply chain disruptions | Likely | Medium | High | Communicate proactively with customers about delays, offer alternatives and develop relationships with multiple suppliers to ensure backup options. |

Activity 8: Using Microsoft Copilot

1. Using Microsoft copilot, prompt using the feedback you have received in the scenario and paste in the response from Microsoft copilot.

Sample answers may include…

Tom Richards (Operations Manager)

Risk Assessment Section – Add a section to your business plan dedicated to risk assessment. Identify potential manufacturing challenges such as supply chain disruptions, equipment failures and workforce issues. Propose mitigation strategies for each risk to show you’re prepared for potential hiccups.

Sophie Patel (Marketing Specialist)

Focus on Digital Channels – Expand your marketing section to include a comprehensive digital marketing strategy. Highlight how you’ll leverage social media campaigns, search engine marketing, email marketing and influencer partnerships to boost your outreach.

Social Media Campaigns – Detail how you will use platforms like Instagram, Facebook, LinkedIn and Twitter for targeted advertising. Provide examples of potential campaigns, targeted demographics and expected engagement metrics.

Jessica Lee (Angel Investor)

Detailed Revenue Breakdown – Add a detailed breakdown of your revenue streams. Clarify which streams will be primary and which will be secondary. Include projections for each stream to give a clearer picture of your financial expectations.

Attracting Repeat Customers – Outline specific strategies to retain customers, such as loyalty programs, subscription services, exceptional customer service and regular engagement through newsletters or social media.

# References and attributions

## References

Australian Government. (2024, January 18). *Develop a pricing strategy*. Retrieved from Business: https://business.gov.au/products-and-services/develop-a-pricing-strategy

Australian Government. (2024, January 18). *Develop a pricing strategy*. Retrieved from Business: https://business.gov.au/products-and-services/develop-a-pricing-strategy

Australian Government. (2024, January 18). *Pitch for venture capital*. Retrieved from Business: https://business.gov.au/finance/funding/pitch-for-venture-capital

Australian Government. (2024, July 11). *Set goals for your business*. Retrieved from Business: https://business.gov.au/planning/business-plans/set-goals-for-your-business

b2b International. (n.d.). *What is the Value Proposition Canvas?* Retrieved from b2b International: https://www.b2binternational.com/research/methods/faq/what-is-the-value-proposition-canvas/

Bain & Company. (2023, January 31). *Purpose, Mission, and Vision Statements*. Retrieved from Bain & Company: https://www.bain.com/insights/management-tools-mission-and-vision-statements/

BusinessKitz. (2023, June 1). *Building a winning team: a comprehensive guide to staffing your small business*. Retrieved from BusinessKitz: https://businesskitz.com.au/building-a-winning-team-a-guide-to-staffing/

Clyne, C. (2022, April 14). *Non-financial & Financial objectives – The impact on your business*. Retrieved from There be giants: https://therebegiants.com/non-financial-objectives/

Corporate finance institute. (n.d.). *SMART Goals*. Retrieved from Corporate finance institute: https://corporatefinanceinstitute.com/resources/management/smart-goal/

Deborah Macdonald. (n.d.). *6 Expensive Consequences of Skipping a Business Plan*. Retrieved from Deborah Macdonald: https://www.deborahmacdonald.com/6-expensive-consequences-of-skipping-a-business-plan/

Ferguson, A., & Coyle, J. (2024, March 18). *Market Sizing with TAM SAM SOM (with calculator)*. Retrieved from Seer interactive: https://www.seerinteractive.com/insights/marketing-sizing-with-tam-sam-som

George, T. (2023, January 14). *Primary Research | Definition, Types, & Examples*. Retrieved from Scribbr: https://www.scribbr.com/methodology/primary-research/

IB Business Management. (n.d.). *Operations methods*. Retrieved from IB Business Management: https://www.ibbusinessmanagement.com/ib-business-management-operations-methods.html#:~:text=There%20are%20several%20different%20ways,at%20once%20for%20separate%20items).

Indeed. (2024, April 22). *Distribution Strategy Explained: Types and Examples*. Retrieved from Indeed: https://au.indeed.com/career-advice/career-development/distribution-strategy

M, Y. (2024, October 25). *16+ Business Plan Statistics That You Must Know in 2024*. Retrieved from BusinessDasher: https://www.businessdasher.com/business-plan-statistics/#:~:text=Approximately%2070%25%20of%20businesses%20that,likelihood%20of%20experiencing%20high%20growth.

Peak frameworks. (n.d.). *What is the Product Mix? Explaining Components and Examples*. Retrieved from Peak frameworks: https://www.peakframeworks.com/post/product-mix

Qualtrics. (n.d.). *Your ultimate guide to concept testing*. Retrieved from Qualtrics: https://www.qualtrics.com/en-au/experience-management/product/how-concept-test/

Queensland Government. (n.d.). *Feasibility analysis for new businesses*. Retrieved from Business Queensland: https://www.business.qld.gov.au/starting-business/starting-buying/planning/feasibility-analysis

Taylor, A. (2019, October 17). *Strategy Implementation: How To Cascade Your Strategic Plan*. Retrieved from SME strategy: https://www.smestrategy.net/blog/how-to-cascade-your-strategic-plan

Turits, M. (2023, May 23). *How to Create a Business Budget for Your Small Business*. Retrieved from Nerdwallet: https://www.nerdwallet.com/article/small-business/how-to-create-a-business-budget

Wirth, K. (2024, May 10). *5 Consequences of Skipping a Business Plan*. Retrieved from Bplans: https://www.bplans.com/business-planning/basics/consequences-if-skipped/

XERO. (n.d.). *Cash flow projection for small businesses*. Retrieved from XERO: https://www.xero.com/us/guides/cash-flow-projection/

## Image attributions

Table 44 – Image attributions

|  |  |  |  |
| --- | --- | --- | --- |
| Title | Creator | Licence | Modified/By |
| Cover image – [Shutterstock image 2149939995](https://www.shutterstock.com/image-photo/bussiness-teamwork-professionalism-corporate-meetings-2149939995?irclickid=wzR3oC3ubxyPW9cSl0TOYxaZUkCW8HxPtX1eQc0&irgwc=1&pl=77643-108110&utm_campaign=TinEye&utm_content=108110&utm_medium=Affiliate&utm_source=77643&utm_term=) | Unknown | © Shutterstock copied under licence | N/A |
| **Error! Reference source not found.** – Azure Beach Surf and Skate logo | TAFE NSW | © TAFE NSW 2024 | N/A |
| Figure 2 – [Shutterstock image 2453351789](https://www.shutterstock.com/image-vector/smart-goal-description-effective-target-achievement-2453351789) | Unknown | © Shutterstock copied under licence | N/A |
| Figure 3 – [Shutterstock image 2078728072](https://www.shutterstock.com/image-illustration/tam-sam-som-analysis-estimation-market-2078728072) | Unknown | © Shutterstock copied under licence | N/A |

# Appendix – Links

Below is a list of all URLs linked in this workbook.

Table 45: URLs

|  |  |
| --- | --- |
| Link title | URL |
| Azure Beach Surf and Skate | https://share.tafensw.edu.au/share/items/1c89b5bb-2698-4ced-91d8-29a58efbaab2/0/?attachment.uuid=74f8070a-c4c0-4c14-a007-aedc47689889 |
| Intranet | https://share.tafensw.edu.au/share/items/1c89b5bb-2698-4ced-91d8-29a58efbaab2/0/?attachment.uuid=619dbebb-d353-4953-8e7a-775c44521322 |
| Researching and Referencing: Generative AI | https://tafensw.libguides.com/research/artificial |
| What is a business plan? (LinkedIn Learning, 0:59 min) | https://www.linkedin.com/learning/creating-a-business-plan-2/what-is-a-business-plan?autoplay=true&resume=false&u=57684225 |
| Why you need a business plan? (LinkedIn Learning, 1 :36 min) | https://www.linkedin.com/learning/creating-a-business-plan-2/why-you-need-a-business-plan?u=1504 |
| How To Write Vision and Mission Statements | https://www.indeed.com/career-advice/career-development/how-to-write-vision-and-mission-statement |
| Qualtrics | https://www.qualtrics.com/en-au/lp/market-research/?utm\_source=google&utm\_medium=ppc&utm\_campaign=ANZ-EN|SRC|GEN|SR&utm\_content=Employee\_Engagement&utm\_term=market%20research%20tool&utm\_keyword=p&matchtype=p&device=c&creative=706045898853&gad\_source=1&gclid=EAIaIQobChMIkpqbkZq3iQMVByqDAx3FYCXPEAAYASAAEgJc2\_D\_BwE |
| Askable | https://www.askable.com/ |
| Survey Monkey | https://www.surveymonkey.com/welcome/sem/?program=7013A000000ih75QAA&utm\_bu=SVMK&utm\_campaign=71700000058894454&utm\_adgroup=58700005408390471&utm\_content=43700079965418603&utm\_medium=cpc&utm\_source=adwords&utm\_term=p79965418603&utm\_kxconfid=s4bvpi0ju&gad\_source=1&gclid=EAIaIQobChMI9pzaupq3iQMVB6NmAh0e2h1xEAAYASAAEgKjvvD\_BwE&gclsrc=aw.ds |
| How to identify target audience for business marketing (YouTube, 9:26 min) | https://www.youtube.com/watch?v=piTUa1BLQPo |
| Size the market (LinkedIn Learning, 1:55 min) | https://www.linkedin.com/learning-login/share?account=57684225&forceAccount=false&redirect=https%3A%2F%2Fwww.linkedin.com%2Flearning%2Fcreating-a-business-plan-2%2Fsize-the-market%3Ftrk%3Dshare\_video\_url%26shareId%3D9akUWLkiRjqUFgAVZQHteg%253D%253D |
| Articulate your value proposition (LinkedIn Learning, 2:54 min) | https://tafensw.sharepoint.com/sites/365T-ProductandQualityGroup-Multiple-ExternalProductionChann/Shared Documents/BSB/BSB40320 Certificate IV in Entrepreneurship and New Business/02\_Build/BSBESB401 Research and develop business plans/02\_Additional\_Resources/BSBESB401\_TL\_SW\_old.pdf?CT=1729032549255&OR=ItemsView |
| Register your business name | https://business.gov.au/Registrations/Register-your-business-name |
| Partnership Act 1892 (NSW) | https://legislation.nsw.gov.au/view/html/inforce/current/act-1892-012 |
| Corporations Act 2001 (Cth) | https://www5.austlii.edu.au/au/legis/cth/consol\_act/ca2001172/ |
| Business structures - key tax obligations | https:/ /www.ato.gov.au/businesses-and-organisations/starting-registering-or-closing-a-business/starting-your-own-business/business-structures-key-tax-obligations |
| Work out your business registrations | https://business.gov.au/registrations/work-out-your-business-registrations |
| Fair Work Act 2009 (Cth) | https://www6.austlii.edu.au/cgi-bin/viewdb/au/legis/cth/consol\_act/fwa2009114/ |
| Privacy Act 1988 (Cth) | https://www.legislation.gov.au/C2004A03712/latest/text |
| Australian Privacy Principles | https://www.oaic.gov.au/privacy/australian-privacy-principles |
| Copyright Act 1968 (Cth) | https://www.legislation.gov.au/C1968A00063/latest/text |
| Protection of the Environment Operations Act 1997 (NSW) | https://legislation.nsw.gov.au/view/html/inforce/current/act-1997-156 |
| Industrial Relations Act 1996 (NSW) | https://legislation.nsw.gov.au/view/html/inforce/current/act-1996-017 |
| Work Health and Safety Act 2011 (NSW) | https://legislation.nsw.gov.au/view/html/inforce/current/act-2011-010 |
| Work Health and Safety Regulation 2017 (NSW) | https://legislation.nsw.gov.au/view/html/inforce/current/sl-2017-0404 |
| Safe Work Australia | https://www.safeworkaustralia.gov.au/about-us |
| Anti-Discrimination Act 1977 (NSW) | https://legislation.nsw.gov.au/view/html/inforce/current/act-1977-048 |
| Sex Discrimination Act 1984 (Cth) | https://www.legislation.gov.au/C2004A02868/latest/text |
| Age Discrimination Act 2004 (Cth) | https://www8.austlii.edu.au/cgi-bin/viewdb/au/legis/cth/consol\_act/ada2004174/ |
| Human Rights and Equal Opportunity Commission Act 1986 (Cth) | https://www8.austlii.edu.au/cgi-bin/viewdb/au/legis/cth/consol\_act/ahrca1986373/ |
| Disability Discrimination Act 1992 (Cth) | https://www.legislation.gov.au/C2004A04426/latest/text |
| Racial Discrimination Act 1975 (Cth) | https://www.legislation.gov.au/C2004A00274/latest/text |
| Competition and Consumer Act 2010 (Cth) | https://www5.austlii.edu.au/au/legis/cth/consol\_act/caca2010265/ |
| Private Health Insurance Act 2007 (Cth) | https://www.legislation.gov.au/C2007A00031/latest/text |
| Organisational Structure (pdf) | https://share.tafensw.edu.au/share/items/40eb6511-1796-44e2-b377-f9eee5d9a4b8/0/?attachment.uuid=1d3986cb-53cd-40ce-a737-7e31e35e5978 |
| Develop a pricing strategy | https://business.gov.au/products-and-services/develop-a-pricing-strategy |
| Calculate postage | https – //auspost.com.au/parcels-mail/calculate-postage-delivery-times/#/ |
| Calculate time and cost | https://wwwapps.ups.com/ctc/request?loc=en\_AU |
| Shipping quote | https://www.couriersplease.com.au/send/domestic-parcels |
| Get a free domestic or international business shipping quote online | https://www.dhl.com/au-en/home/get-a-quote.html |
| Crowd-sourced funding | https://asic.gov.au/regulatory-resources/financial-services/crowd-sourced-funding/ |
| BSBESB401\_Comb\_Appx\_BusPlanExample (pdf) | https://share.tafensw.edu.au/share/items/9457f72c-7577-4e45-80a5-a182c7b98023/0/?attachment.uuid=5b2d141e-7e88-4e2b-935a-eb911659e1d0 |
| For tax practitioners | https://www.tpb.gov.au/tax-agents |
| Financial advisers register | https://moneysmart.gov.au/financial-advice/financial-advisers-register |
| Workplace Health and Safety Policy and Procedure (pdf) | https://share.tafensw.edu.au/share/items/a4de0654-80ac-474c-b1b2-588f95e4ff1e/0/?attachment.uuid=70fb2de1-0fa0-461a-b438-2d174e9ea2a7 |
| Common risk responses (LinkedIn Learning, 3:13 min) | https://www.linkedin.com/learning/project-management-foundations-risk-3/common-risk-responses?u=57684225 |
| Mastering contingency planning (LinkedIn Learning, 3:08 min) | https://www.linkedin.com/learning/developing-adaptability-as-a-manager/mastering-contingency-planning?u=57684225 |
| Microsoft copilot | https://copilot.microsoft.com/ |
| How to Effectively Communicate Your Strategy (YouTube, 3:41 min) | https://www.youtube.com/watch?v=9XXmT5Bms6k&t=1s |