Citrus Business Management Programme

Module 3

Plan Your Business: Financial Aspects

Learner Guide

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Contents

Directions

Unit Standard Information

Research the viability of new venture ideas/opportunities

SAQA US ID	**UNIT STANDARD TITLE**			
114596	Research the viability of new venture ideas/opportunities			
ORIGINATOR				
SGB Generic Management				
PRIMARY OR DELEGATED QUALITY ASSURANCE FUNCTIONARY				
-				
FIELD			**SUBFIELD**	
Field 03 - Business, Commerce and Management Studies			Generic Management	
ABET BAND	**UNIT STANDARD TYPE**	**PRE-2009 NQF LEVEL**	**NQF LEVEL**	**CREDITS**
Undefined	Regular-Fundamental	Level 4	NQF Level 04	5
REGISTRATION STATUS		**REGISTRATION START DATE**	**REGISTRATION END DATE**	**SAQA DECISION NUMBER**
Reregistered		2015-07-01	2018-06-30	SAQA 10105/14
LAST DATE FOR ENROLMENT		**LAST DATE FOR ACHIEVEMENT**		
2019-06-30		2022-06-30		

In all of the tables in this document, both the pre-2009 NQF Level and the NQF Level is shown. In the text (purpose statements, qualification rules, etc), any references to NQF Levels are to the pre-2009 levels unless specifically stated otherwise.

This unit standard does not replace any other unit standard and is not replaced by any other unit standard.

PURPOSE OF THE UNIT STANDARD

This Unit Standard is aimed at learners who wish to identify and screen new ideas and/or opportunities with the intention of establishing and/or participating in a new venture.

The qualifying learner is capable of finding information about different industry sectors; explaining the purpose of potential new ventures; identifying characteristics of successful ventures and evaluating new venture opportunities.

The qualifying learner will be able to:

- Identify and assess own business ideas/opportunities for a new venture.
- Analyse the viability of a selected idea/opportunity against specific screening variables.
- Research the potential of a particular idea/opportunity as a new venture.
- Analyse a range of risks associated with a new venture.
- Evaluate new venture ideas/opportunities based on research findings.

LEARNING ASSUMED TO BE IN PLACE AND RECOGNITION OF PRIOR LEARNING

Learners accessing this qualification will have demonstrated competence in Computer Literacy, Mathematical Literacy and Communications at NQF level 3 or equivalent.

UNIT STANDARD RANGE

- Risks include demand, competition, capability to produce/service at an economic and marketable price, level of capital require.
- Failure factors include capital management, credit management, technical ability, market access and size, marketing/selling skills, management capability, business growth, personal life conflict.
- Evaluation refers to the size and type of market segment, product range, sources of supply, physical facilities, essential services, financial resources, return on investment, staffing needs, technology requirements, legal/regulatory compliance, growth potential.

Produce business plans for a new venture

SAQA US ID	UNIT STANDARD TITLE			
114592	Produce business plans for a new venture			
ORIGINATOR				
SGB Generic Management				
PRIMARY OR DELEGATED QUALITY ASSURANCE FUNCTIONARY				
-				
FIELD			**SUBFIELD**	
Field 03 - Business, Commerce and Management Studies			Generic Management	
ABET BAND	**UNIT STANDARD TYPE**	**PRE-2009 NQF LEVEL**	**NQF LEVEL**	**CREDITS**
Undefined	Regular-Fundamental	Level 4	NQF Level 04	8
REGISTRATION STATUS		**REGISTRATION START DATE**	**REGISTRATION END DATE**	**SAQA DECISION NUMBER**
Reregistered		2015-07-01	2018-06-30	SAQA 10105/14
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This unit standard does not replace any other unit standard and is not replaced by any other unit standard.

PURPOSE OF THE UNIT STANDARD

This Unit Standard has as its core purpose to equip learners with the necessary knowledge and skills to produce business, financial and/or operations plans for implementing a new venture. It will also address the economic and administrative issues that prevent the starting of a new venture and contribute to the inability of an entrepreneur to sustain a new venture

The qualifying learner will be able to:

- Identify, gather and analyse the relevant information needed to compile a business plan.
- Formulate an ethical framework for the operational plans of a new venture.
- Establish and prioritise business, financial and/or operational goals and objectives for a new venture.
- Design and present business, financial and/or marketing plans based on a budget for a new venture.

LEARNING ASSUMED TO BE IN PLACE AND RECOGNITION OF PRIOR LEARNING

Learners accessing this qualification will be competent in Computer Literacy, Mathematical Literacy and Communications and NQF level 3 or equivalent.

UNIT STANDARD RANGE

- Legal business types for new ventures.
- Legislation applicable to the sector in which the new venture is situated.
- Legal registrations include PAYE, VAT, UIF, RSC, COIDA, Skills Development Levy and Industry registrations.
- Business, financial, marketing and/or operations plans.
- Elements of a business plan.
- Codes of ethics and conduct.

Apply the principles of costing and pricing to a business venture

SAQA US ID	**UNIT STANDARD TITLE**			
263455	Apply the principles of costing and pricing to a business venture			
ORIGINATOR				
Task Team - New Venture Creation				
PRIMARY OR DELEGATED QUALITY ASSURANCE FUNCTIONARY				
-				
FIELD			**SUBFIELD**	
Field 03 - Business, Commerce and Management Studies			Generic Management	
ABET BAND	**UNIT STANDARD TYPE**	**PRE-2009 NQF LEVEL**	**NQF LEVEL**	**CREDITS**
Undefined	Regular	Level 4	NQF Level 04	6
REGISTRATION STATUS		**REGISTRATION START DATE**	**REGISTRATION END DATE**	**SAQA DECISION NUMBER**
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LAST DATE FOR ENROLMENT		**LAST DATE FOR ACHIEVEMENT**		
2019-06-30		2022-06-30		

In all of the tables in this document, both the pre-2009 NQF Level and the NQF Level is shown. In the text (purpose statements, qualification rules, etc), any references to NQF Levels are to the pre-2009 levels unless specifically stated otherwise.

This unit standard replaces:

US ID	**Unit Standard Title**	**Pre-2009 NQF Level**	**NQF Level**	**Credits**	**Replacement Status**
114594	Apply the principles of costing and pricing to a business venture	Level 4	NQF Level 04	6	Complete

PURPOSE OF THE UNIT STANDARD

This Unit Standard is for learners who are required to applying the principles of costing and pricing in determining profit margins for a new venture. The Unit Standard will assist the learner in determining the future profitability by establishing whether the costs involved will generate sufficient profit to justify the launching of the new venture.
Learners credited with this unit standard will be able to:

- Explain the criteria of a price setting policy for a new venture.
- Analyse internal and external factors that impact upon pricing decisions.
- Demonstrate an understanding of the relationship between costs, revenue and profits.

LEARNING ASSUMED TO BE IN PLACE AND RECOGNITION OF PRIOR LEARNING

It is assumed that the learner has the following knowledge and skills:

- Mathematical Literacy at NQF Level 3.

UNIT STANDARD RANGE

N/A

Using the Learner Guide

This learning material has been developed to assist the learner wishing to complete this unit standard. The guide contains all necessary learning to ensure that the learner will attain the competencies required by the unit standard.

The learner guide is accompanied by formative and summative portfolio of evidence (PoE) guides. Please ensure that you have access to these guides as well. The learner guide was designed to be used by a learner during the presentation of a skills programme based on the unit standard and to be kept afterwards by the learner for reference purposes. The PoE guides were designed to be completed during and after the presentation of the skills programme and forms part of the assessment process.

Background Information

The main theme of this module is guidance for entrepreneurs in the financial considerations and planning aspects that need to be taken into account when starting or running an emerging business.

The module will cover aspects such as:

- ❖ Determining business viability
- ❖ Step-by-step guidance for business planning
- ❖ Costing and pricing concepts and decisions

This module contributes to the exit level outcome and associated criteria:

3. Demonstrate an understanding of basic economics within a market economy.
   3.1. An understanding is demonstrated of new venture financing sources and opportunities.
   3.2. An understanding is demonstrated of the principles of micro and macroeconomics.
   3.3. Potential threats and opportunities within the economic environment are identified for future business decision making.
   3.4. An understanding is demonstrated of business competitiveness.

Range: Business competitiveness includes but is not limited to factors such as inflation, exchange rates, interest rates, economic indicators and competition.

This module comprises of 3 unit standards and attracts 19 credits.

This module is aligned to unit standards:

Viability	114596	Research the viability of new venture ideas / opportunities	C	4	5
Business Planning	114592	Produce business plans for a new venture	C	4	8
Costing and Pricing	263455	Apply the principles of costing and pricing to a business venture	C	4	6

Learning Outcomes

This learner guide has the following learning outcomes:

Section 1 – Determining Business Viability

1. Identify and assess own business ideas / opportunities for a new venture.
   - 1.1. An own business is discussed in terms of its advantages and disadvantages for the owner, the labour market and the business sector.
   - 1.2. Sources and methods of access to general and commercial business information are identified for proposed business venture.
   - 1.3. Reasons for selecting or rejecting a particular new venture idea / opportunity are explained with examples.
   - 1.4. Essential features of the new venture are identified in terms of market share, sales volume, asset value, and extent of independence from outside control.
2. Analyse the viability of a selected idea / opportunity against specific screening variables.
   - 2.1. The aptitude, interests and values of the potential owner are screened for suitability to the new venture.
   - 2.2. The market conditions are assessed to determine the viability of the new venture.
   - 2.3. An assessment is made of the competition the new venture is up against.
   - 2.4. The access to relevant technology and other resources needed for the new venture is analysed to aid a decision on the viability of the new venture.
3. Research the potential of a particular idea / opportunity as a new venture.
   - 3.1. A personal profile of an entrepreneur is matched to the type of work, product or service that has potential as a new venture to ensure compatibility.
   - 3.2. Training needs to ensure the success of the new venture is identified for all persons involved in the venture.
   - 3.3. Market research is conducted including analysis of demand for the product/service and competitor analysis.
   - 3.4. The most suitable location for the new venture is investigated to aid a decision on the location of the new venture.
   - 3.5. Constraints on trade and applicable by-laws are investigated to ensure that there are no legal obstacles to the establishment of the new venture.
4. Analyse a range of risks associated with a new venture.
   - 4.1. The concept of risk management is explained with examples.
   - 4.2. The potential risks and factors that may threaten the new venture are identified and analysed with a view to eliminating and / or minimising them.
   - 4.3. The risks associated with being an employer are explained.
   - 4.4. The possible measures to reduce risk are explained with examples from a real or simulated new venture.
   - 4.5. The insurance and security needs associated with risks in the new venture are investigated.
5. Evaluate new venture ideas / opportunities based on research findings.

5.1. Criteria are established for evaluating the success of a new venture.

5.2. A preliminary evaluation of the proposed new venture is produced in the form of a written report, using the identified criteria.

Section 2 – Business Planning

1. Identify, gather and analyse the relevant information needed to compile a plan for a new venture.
    - 1.1. The purpose and importance of a business plan is discussed in terms of its contribution to a successful business.
    - 1.2. The different elements of a successful business plan are listed and described with examples.
    - 1.3. Information on the resources needed and procedures to be followed to achieve the plan is compiled.
    - 1.4. The industry specific and legal requirements for own venture are identified and explained in terms of how they will affect the venture.
2. Formulate an ethical framework for the operational plans of a venture.
    - 2.1. Legislation and relevant regulations relating to the type of venture are identified for use in drawing up a code of ethics for the business.
    - 2.2. Non-statutory regulations applicable to the sector are identified and used for drawing up a code of ethics for the business.
    - 2.3. Codes of conduct that are used by similar organisations in the sector are evaluated and elements identified for inclusion in an ethical framework for the business.
    - 2.4. Social and ethnic considerations are identified for inclusion in the ethical framework of a new venture.
    - 2.5. Personal values are identified for modifying an ethical framework for a new venture.
    - 2.6. An ethical framework and codes of ethics and conduct are drawn up for the new venture.
3. Establish and prioritise business, financial and / or operations goals and objectives for new venture.
    - 3.1. Personal objectives are clearly articulated and aligned to the plans of own venture.
    - 3.2. Business objectives are analysed and specific goals formulated to achieve objectives set out for own business.
    - 3.3. A vision statement of a new venture is compiled to represent goals and objectives set for own venture.
    - 3.4. Specific short and long term goals are formulated allowing flexibility for possible changing circumstances.
    - 3.5. Possible contribution to community and regional growth objectives are identified and considered.
    - 3.6. Cultural values and beliefs of prospective employees and expected consumers are incorporated into the plans of own venture.
4. Design and present business, financial and / or marketing plans based on a budget for a new venture.

4.1. The business of the venture is introduced and described based on research and analyses of competitors.

4.2. Structure and layout of the business plan is designed to be compatible with the nature of own venture.

4.3. Marketing and promotion of the own venture is concisely presented in the business plan.

4.4. Finance requirements for the business are stated in the business plan.

4.5. The projected income and expense items for own venture are tabulated in the business plan.

4.6. The costs, risks and proposed infrastructure of the operations plan is presented in the business plan of own venture.

4.7. Relevant documentation is compiled to support the business plan.

4.8. Business plan information is presented in relevant and clear format.

4.9. Procedures to present the business plan for own venture to a financier is explained.

Section 3 – Costing and Pricing

1. Explain the criteria of a price setting policy for a new venture.

   1.1. The flow of the trading cycle is explained and illustrated for a new venture.

   1.2. The concepts of costing and pricing are differentiated in terms of a product or service.

   1.3. The difference between fixed costs, variable costs and total costs are explained in the context of own venture.

2. Analyse internal and external factors that impact upon pricing decisions.

   2.1. The internal factors impacting upon pricing decisions are identified and discussed in relation to the profitability of own venture.

   2.2. The external factors impacting upon pricing decisions are identified and discussed in relation to the profitability of own venture.

   2.3. The business activity levels are recognised and specified in terms of their limitations.

   2.4. Variations in pricing decisions are to be calculated in terms of the impact on the break-even point.

3. Demonstrate an understanding of the relationship between costs, revenue and profits.

   3.1. Available costing methods are reviewed in relation to own business.

   3.2. Profit markup is calculated and analysed for own business.

   3.3. A distinction between types of profit is made in relation to own business venture.

   3.4. Competitive pricing is investigated and compared to inform effective costing and forecasting of operating a business.

It is important that you pay attention to the following knowledge elements of the module:

1. Terminology and definitions associated with financial situations and business planning
2. Estimation and approximation
3. Business competitiveness factors such as:

3.1. Inflation

3.2. Exchange Rates

3.3. Interest Rates

3.4. Economic Indicators

3.5. Competition

Note that the following critical outcomes are also developed and assessed in an integrated manner, as part of this learning module:

1. Identifying
2. Collecting
3. Communicating

Keep these learning goals in mind throughout your work related to this module.

There is an opportunity for self-assessment and a progress check at the end of this learner guide. Make time to assess yourself and ask the facilitator, assessor, your workplace mentor or coach for help if you are unsure of the answers.

Section 1: Determining Business Viability

Learning Goals and Pathways

Before one can start or successfully run a business, you should make sure that the idea is viable and that the business has a good chance of success.

This section will help you to work through a step-by-step research process to help you determine the viability of any kind of business idea you may have.

This section is presented in the first 5 chapters of the guide.

The learning goals for this module include:

1. Assessing business ideas and opportunities.
2. Analysing viability of the business idea.
3. Researching the enterprise potential.
4. Evaluating potential risks to the enterprise and planning for risk management.
5. Analysing the characteristics of a successful entrepreneur.
6. Evaluating new business ideas and making decisions based on research findings.

Chapter 1
Assessing Business Opportunities

Introduction

There are many factors that impact on the viability of an enterprise. These factors must be unpacked and carefully considered before proceeding with a new business idea. In this chapter, we look at the most important factors.

Service or Product Demand

What is the use of being able to produce a specific product, or to provide a service if there is no demand for that product or service? Often a good business idea is based solely on the demand for that product. Remember demand is based on both a customer "needing" that product, but also on a customer "wanting" that product.

If the consumer or client or customer does not want or need our product, we can say that there is no demand for our product. If we have already produced that product, and there is no demand, we have wasted a lot of money and time in producing that product. This is a very difficult situation to be in and can be avoided by first making sure that there is a demand for the product before we begin production. If there is a demand for our product but our price is wrong this may influence our customers or clients or the consumers not to buy our product.

Service or Product Pricing

You cannot sell oranges at R 20 per orange. At that price, consumers will rather buy something else. Your price influences the demand for your product. Price is one of the main ways that shops compete with each other. This is bad news for entrepreneurs.

Entrepreneurs are trying to earn as much as they can from their products or services. At the same time, the consumer is trying to buy your product or service for as little as possible! Your problem is that you need to cover your input costs and overheads. The problem for the consumer is that he needs or wants to buy as many things as possible with his money.

That point at which you cover your input costs and overheads, and the consumer feels comfortable to pay the price, is the point at which the exchange or the sale is made. It is where demand and supply balance.

Competition within Business Sector

While your business may not have a competitor that is supplying the same product and / or service that you provide, your potential customers may choose to purchase other goods and services instead. For example, you may be the only store that sells clothing in your area. That does not mean you will have a corner on the market. Instead, people may decide not to purchase clothing and instead purchase furniture for their homes.

Make sure your business plan describes the competition you face including those businesses that are different from yours but are also competing for your customers' money.

Ability to Supply Service or Product

Do you have the knowledge or skills to produce the identified product or to provide the specific service? Alternatively, do you see yourself as the business manager, but you know someone who has the necessary technical skills? Be careful about going into a business that you do not understand. Most business owners start a business based on their skills or service attitude.

example

You may not be good at growing flowers, but you have worked on a citrus farm for a long time and understand all the aspects of the production cycle. It would be better to start a citrus farm than to go into tunnel farming in floriculture.

But beware, do not start an agribusiness if you do not know anything about good agricultural practices, crop establishment, irrigation, crop protection, food safety, harvesting or agricultural production management and marketing.

If you are good at managing labour teams during harvest or in the packhouse, then rather provide that skill as a service. You can ask a fee for your service.

Capital Requirements

Do you have the capital resources to implement the business?

Starting a spaza shop may not require much capital investment, but starting a citrus production unit needs much more.

Starting a highly mechanised business such as a citrus packhouse requires a lot of money to buy the equipment, but buying citrus from the market, and distributing it to local businesses or selling it at a farm stall does not require a large capital expense.

Thus, when you've found a business idea that interests you, do not immediately think of going "big". You may be able to start the business in a smaller way and build it up to a larger enterprise. Most transport companies started with only one truck! They then built up a reputation, identified their market, provided quality service to their clients and invested their income in buying more trucks.

If you really believe that your business idea, although "big", will be a huge success, then you will probably be able to convince a bank or other financial institution of the same. If you can convince them, then you could obtain the finance to cover your capital requirements. Do not be nervous about lending money. If you have a good business idea, and the bank agrees, then you should take a deep breath and take the risk! In the current economic climate financial institutions are generally risk averse (scared of taking risks). Thus, if they are willing to support you, you must be onto something good.

Market Share

The basic idea of market share is simple. Market share is the amount of a product or service (usually expressed as a percentage) that a business sells in a given market area. Most of the time a business with a large market share will have lower operating expenses and thus be more profitable than smaller competitors. Changes in market share are a valuable clue to a company's future prospects. For example, if the management of a company sees that their market share is decreasing, this can be an indicator that their competitors are using more effective strategies to attract new business. While the basic concept of market share is simple, it can get complicated when you want to define market share in a particular situation. The steps below tell you how to define market share for different scenarios.

- Decide which product or service you want to find the market share of. A business may want to know how it is doing overall. For example, a shoe retailer will want to know their market share compared to other shoe retailers. In other cases, the information desired is more specific (for example, what market share does the retailer have in sport's shoes alone).
- Determine the target market area. A target market can be local, regional or national (even international). A small business that operates in a single town does not have much use for a "market share" that takes the whole country as the market. In this case, the target market is that town alone. (At the other end of the scale a multinational firm may want to know its market share in entire nations. Large corporations often want this same information on a local level as well to evaluate how a particular division is performing.)
- Choose whether to measure market share in terms of units or revenue (or both). The most common form of market share calculation measures revenue. However, there are times when the number of units sold is of interest. For example, a car dealership might want to know their market share based on how many units (new cars) have been sold in their target market.
- Compile the company data you need after you've defined the particular market share information you are after. This will include company sales records for the products and services of interest along with unit figures if needed.
- Research the information you need on industry revenues in your market area. Industry revenue figures are usually available from trade journals, financial publications and government agencies at the local, regional and national level. Suppliers keep tabs on how much they are selling and may be willing to provide you with useful information on specific products in a target market. This will probably be your best source of information in a small town.
- Find out the market share of competitors if possible (perhaps from suppliers). For publicly owned corporations this is usually not difficult. Often you need no more than a copy of their annual report. When dealing with privately held firms the situation is more complicated since they do not have to publicly disclose their revenue figures. You may simply have to make a rough estimate.

Independence from Outside Control

The more independence you have as a business manager the more decision-making power you have yourself. If you are managing a large business, or are the managing member of a co-operative, and you need a new piece of equipment you will probably need approval for the purchase from a board of directors or co-operative board. However, if you own the business yourself you do not need to get approval from someone else first.

You also need to determine whether the type of industry you are entering is regulated in some way. For example:

example

If you deal with fresh fruit and food items, then food safety and hygiene legislation will affect some of your operations.

Sources of Information

Very often we feel that there are no business opportunities to pursue around us. However, part of entrepreneurship is to see a need and to develop a product or service to meet that need. This requires creativity and an open mind! Let us do an exercise together to practise searching for business opportunities.

practical

Complete the following formative assessment:

F114596.1 – Group Discussion and Conclusion Worksheet

Chapter 2
Assessing Viability

Market Assessment

Information about your market is critical to your success. From your assessment of your market, you should be able to answer the questions below. Contacting trade organisations, reading trade publications and other professional literature, and doing your own original research will help you to find the answers. Include as many statistical details as possible. Be sure to cite the sources of your statistical data.

Who are your customers? Are your customers consumers or commercial businesses? What is their buying power? What demographic information describes them most accurately, for example, age, status, income, or length of time in business? Customers may come from different segments of the market. Describe each market segment.

What products and / or services do they need from your business? Be specific about the products and / or services you expect to sell to each segment of the market.

Why do they purchase these products and / or services? Describe the need you are filling by selling your customers these products and / or services.

When do they purchase these products and / or services? Understand how often your customers make these types of purchases. Do they buy these products daily? Weekly? Monthly? Seasonally? Annually? Include this information in your business plan.

Where do they purchase these products and or services? Do your customers go to a place of business to purchase these products and / or services? Do they order online? Do they order them over the phone from catalogues? Be thorough and specific.

Who is the competition? Chances are, your customers are filling their need for your product and / or service in some other way at the present time. Perhaps they are buying it from another business. Realise also that several businesses are always competing to fill people's needs.

Collecting Market Information

It is clear that market information is essential to determine whether there is a demand or need for your product or service, how to improve your product or service (as compared to the competition), whether you are targeting the correct segment of the market, and whether the target segment can afford to purchase your product or service.

Information can be obtained from a variety of sources. These include:

Desktop Research

Generic information is available from a multitude of sources including municipal offices, public libraries, publishers of trade magazines, chambers of commerce, telephone directories and shopping centre administrators.

Do not be overwhelmed by too much information. Be selective. Decide whether a piece of information will be useful to you or not.

Fieldwork

Especially in small, isolated towns (like Kokstad), generic market information may not be particularly relevant. Then it becomes necessary to find out what other people think about your product or service. There are several ways to find this information.

- **Surveys** are often called statistical surveys and are used to collect quantitative information about items in a population. These surveys are often in a question and answer format.
- Using **focus groups** is a form of qualitative research in which a group of people are asked about their attitude towards a product, service, concept, advertisement, idea or packaging. Questions are asked in an interactive group setting where participants are free to talk with other group members.
- **Personal interviews** refer to face-to-face contact between the researcher and the person who is the source of information. The interviews are often structured with the purpose of gathering and collecting specific information from the person.
- **Observation** as a research technique involves the researcher or researchers making observations. There are many positive aspects of the observational research approach. For instance, before undertaking more structured research a researcher may conduct observations in order to form a research question.
- **Field trials** is a test of the performance of some new product under the conditions in which it will be used. They are also called experiments.

Focus Groups

Assemble a group of people who match the customer profile of your target market as closely as possible and tell them that you want to research the market for the product. Remind the people that you need honesty from them and that you do not want only "polite" answers.

Let them handle / taste / use the product as much as they like. Watch their reactions and take notes.

Ask for open and honest feedback and offer incentives to participants who come up with insightful observations (regardless of whether they constitute positive or negative feedback).

If relevant, offer special prizes to individuals who find the product's weak points. Examples include sharp edges on a baby's toy, a switch that breaks easily or a kitchen appliance that is difficult to re-assemble after cleaning.

Interviews and Surveys

The table below presents various ways that interviews can be conducted.

Format	Advantages	Disadvantages
Personal (face-to-face)	This format offers the interviewer an opportunity to clarify points if necessary and observe respondents' body language.	Time-consuming, therefore low productivity.

Format	Advantages	Disadvantages
Telephone	Increased productivity yet still quite personal, offers the interviewer an opportunity to clarify points.	Face-to-face contact is lost; also an increasing number of people resent the intrusion, causing a possible backlash for the brand.
Mail	Questionnaires sent by mail can be extremely specific and have additional information attached.	Low response rate (often less than 10%); lack of direct contact makes it difficult to spot misinformation and responses take a long time to arrive.
Electronic media	Email – speedy mass distribution at low cost, almost instant response. Internet – worldwide accessibility, quality of message at low cost.	Low response rate because people resent the intrusion. Relatively low response because in South Africa access is still limited.

Research Questionnaires

Whatever interview format you decide on, draw up a questionnaire with all your questions as well as space for the recording or respondents' answers. Make copies of the questionnaire and use a separate sheet for each respondent. It is important that each respondent has their own separate questionnaire for several reasons:

- Unless you ask questions in a standard format, individual respondents may interpret them differently and this could distort their answers.
- The use of a standard questionnaire simplifies the process of recording responses. You may just need to tick a box.
- In the heat of the moment, you may forget to ask one or more respondents one or even several important questions. Once you are back at your office and evaluating results, you will be in no mood to go back into the street and repeat the exercise. Instead, you will be tempted to guess what people would have said if you had asked them the question.

Here are some tips to keep in mind when designing a questionnaire:

- Start off with a qualifying question. For example, if you want to research the market for a new type of golf ball but the respondent does not play golf, terminate the interview immediately.
- Construct the questionnaire with your customer profile in mind. Selecting respondents who fit your customer profile and formulating questions to match their standard of education will improve the quality of the answers you receive.
- Keep the number of questions to a minimum.
- In some instances, it is useful to include an identifying question, for example, the respondent's occupation, as you can use this to determine the cross-section of the population that has been interviewed (and whether they correctly fit into your target segment).
- Keep the questions simple and to the point. Ask only what you need to know.
- Formulate questions so that they encourage factual answers instead of eliciting opinions.

- Offer respondents a set of possible answers, this could be either "yes", "no", "I do not know" or a minimum of four alternatives.
- Once you have drawn up your questionnaire, make a few copies and test it. By monitoring respondents' reactions and asking probing questions, you can hone your questionnaire to perfection.
- The larger the sample, the more reliable the result.

Assessing the Competition

Whether you are a mature business, growing business or a new business, you will have competitors. They want to outsell you and take your customers.

These are the questions to look out for in terms of analysing one's competition:

- Exactly who are your competitors? If you are not sure, check the phone book or the web.
- Are they big, franchises, or small? This will tell you the financial resources they have available.
- What are their strong points? Can you do it better or at least the same?
- Do they have niche products? Are any of these products patented or can you offer a similar product?
- Are the owners on-site? If the owner is absent, it will take them longer to respond to your changes.
- What is their pricing strategy? Are they expensive, rock-bottom or middle priced?
- Are they opening a new location? You may be able to find this out by asking commercial realtors or brokers.
- How many employees do they have? You may be able to find this out by visiting their store asking people who work there or their customers.
- How do they pay their employees? High, medium or low; the quality of their work will be in proportion.
- How are their customers treated? Be a customer and find out or send a friend to browse.
- What are their weaknesses? Poor quality, rude service, small selection, late delivery - do it better!
- Where are they? Near or far from you and, if a store, are they easily accessible?
- How do they market? Advertising, direct mail, signs, coupons or very little.
- How do they react to you? When you make changes, do they counter or do nothing and how quickly?

Accessing Relevant Technology

If you decide to pursue a technologically-oriented business, you will need to determine whether you can obtain access to the technology and resources needed for your business.

example

Technology requirements

Let us assume that the business you are interested in is the manufacture of a new brand of sparkling juice (like Appletiser or LiquiFruit). You had this business idea when you bought a bottle of sparkling water and you realised it was not a "big-name" brand, but a product produced by a small farm in the Karoo which has a spring that is known for its pure water. You have a similar spring in your village and the elders have long spoken of the healing powers of this water. You also have a juice processing plant nearby. You decide that you could bottle the water (whilst marketing the virtues of its "healing" powers), with a dash of natural herbs and added carbonation to make it "sparkling". It could even be marketed as a health juice, which some people may buy because of the herbal properties and health benefits, rather than regular juice.

You may need to determine that you have access to:

- The water itself (and first to have it tested that it is of the required level of purity and fit for human consumption)
- The flavourants (perhaps something indigenous like "buchu" or "honeybush tea"
- The machine to put the carbonation into the drink (the fizziness)
- A bottling machine
- Labelling machines
- Packaging machine

Once you have determined that you can obtain all of this testing, equipment and inputs, you will need to determine whether you have the skills to actually manufacture the product.

Do a careful analysis of the technology and resources you will need on an on-going basis which will seriously affect the viability of your new venture. For example, in the example above, you may find out that:

- The spring dries up for nine months of the year
- The flavourant you want to use is scarce and seasonal
- You will need to have regular supplies of gasses delivered to your factory and there are no suppliers in your area.

practical

Complete the following formative assessment:

F114596.2 – Paired Research Analysis and Report

Chapter 3
Researching Enterprise Potential

Determining Human Resource Requirements

One of the greatest challenges for a business person is when they have a fantastic business idea but they cannot find skilled people to implement the vision! In South Africa, there is a shortage of skilled individuals. Even though unemployment is high, there is not enough skilled labour. We can debate the reasons for this for hours!!! However, that is not going to solve the problem.

The right skills and capabilities are needed to manage business resources such as capital and cash flow, technical processes, networking and the physical resources such as the raw materials, office and equipment. It is also necessary to have good leadership in the new venture in order to meet the demands of the target market and to ensure the growth of the new venture. Let us look at the leadership qualities required in business:

- Good business skills
- Strong interpersonal skills
- Willingness to learn
- Fortitude (endurance)
- Strong commitment to the business
- Enthusiasm

Good business leaders require certain personality traits, however, every position in an enterprise has certain technical and personality requirements.

Let us see if we can determine some of these requirements.

Evaluating Available Human Resources

Once you have identified the human resources that are required for your new venture it is important to evaluate the available capacity and the role that the existing human resources can play in your new venture. The human resources of a venture should be able to make a meaningful contribution to the success of the new venture. Also, one needs to assess whether the new venture can also assist with the growth and development of the employee. This will help you to use your available human resources to grow and be eager to find all the opportunities that will ensure that your new venture grows.

Each element of the enterprise may need specific skills and personality traits. Are your available resources meeting these needs? Are there some roles and responsibilities that can be shared by single individuals? Would they be able to handle the added responsibilities and workload? Can the business still function efficiently if these roles are not filled?

It is difficult to make inadequate skills fit into a new venture that is reliant on a specific skills set. If you do not have the human resources to fulfil your business vision, it would be unwise to pursue the enterprise. Keeping people on the payroll who are not contributing 100% is a waste of resources and time!

For example, someone in the business will have to deal with human resources issues. Let us take a look at what this person should be able to do:

- Handle payroll as well as all PAYE (Pay-As-You-Earn), UIF (Unemployment Insurance) and SDL (Skills Development Levy) registrations and payments to SARS (before the 7th of every month).
- Ensure that all employees are registered with the compensation commissioner.
- Keep a record of all sick, family, study and vacation leave and the administration involved.
- Carry out wage and salary surveys to ensure that the organisation's wage and salary levels are in line with those of other related organisations.
- The development of incentive schemes such as compensation systems to increase employee efficiency and motivation.
- Implementing pension schemes and advising employees with regard to their pension and other privileges.
- Maintaining personal details and statistics (personnel files for every employee).
- Preparing accurate job descriptions and other recruitment aids (such as interview sheets, advertising and induction).
- Implementing health and safety regulations, accident prevention, and first aid facilities.
- Manage employee training and development, and succession planning.
- Employee communication, for instance, sending out important information to employees through newsletters, notice boards, information sessions and business meetings.
- Be able to complete and submit annual Workplace Skills Plans and Annual Training Reports (to the relevant SETA).
- Be aware of and ensure company compliance with all labour legislation.
- Be aware of BBBEE and Employment Equity requirements.

Human Resource Needs

When you go into a new business or are running a business, a human resource analyses can be conducted in order to determine the way things are (the way in which the organisation and individuals are performing) and the way in which they are expected to perform. This can be achieved by determining the current state of skills, knowledge and abilities of people currently employed or to be employed in the new venture and comparing these to the skills that are required. This analysis will focus on the necessary roles in the new venture, as well as skills needed to perform these responsibilities successfully.

Techniques which can be used when conducting needs analyses can include:

- Questionnaires
- Observation
- Interviews
- Focus groups
- Assessments / tests
- Work samples
- Records and report samples

Human Resource Cost Implications

The basic ambition of recruitment is to find, at the least cost, competent applicants who will remain with the new venture. It is imperative to get people who are qualified and not people who are underqualified or overqualified. They might get frustrated and eventually leave the new venture. Sometimes you may be very positive about an applicant that you have recruited but it turns out to be an unsuccessful recruitment for reasons you did not consider at the time of the interview. In order to ensure that the recruitment exercise is worthwhile, a cost-benefit analysis can be undertaken. Costs that should be taken into consideration when undertaking a recruitment exercise include:

- The cost of advertising vacancies
- The cost of reviewing applications
- The cost of interviewing applicants
- The cost of testing / assessing a large group of applicants
- The cost of orienting and training new applicants

These costs should then be compared to the benefit that the employee will bring to the enterprise. Is the position a key position to increase the income, market penetration and sales of the enterprise? Would the employee bring about cost savings by, for example, reducing staff turnover? Would the new employee free up the time of a more costly employee?

When this cost-benefit analysis is done you will see that it makes sense to spend a bit more money on the recruitment of a key employee as compared to an employee that will not make a strategic impact on the bottom-line (for example a gardener).

When important employees are recruited it makes sense to do a thorough recruitment exercise. Do not cut corners! Take time to assess ALL applications, spend enough time interviewing each short-listed candidate. Take the time to call references provided on CV's. Organisations often do not know, except in extremely costly situations, how much potential they have lost when they reject an applicant who could have been a successful employee.

Suitable Location

If you know what products and / or services you are selling, why people will buy them and who your customers are, you need to figure out where to locate your business so that you can effectively reach your customers.

Your customers may need to come to your business. If so, your location needs to be easily identifiable and reachable for them. For example, if your customers are professionals on their lunch break, then you may want to locate your business near their offices. If your customers are travellers, then you may want to locate on the road with easy on and off access.

If customers do not come to your business, but instead you transport your products and / or services to them, then be sure to locate your business so that you can reach them. If you transport your product to a nationwide retailer, make sure you are located with access to transport.

This would also apply to a business whose storefront is an internet web page or a catalogue. While it is important that your web page or catalogue is easily accessible, the physical location of your business may not matter so much to your customers as your ability to deliver your products and services once they have contacted you.

Legislative Requirements

No activity within a business is allowed to be illegal. You are also not allowed to give an employee of any business an instruction that would result in that person doing anything illegal.

Every company will have laws with which they should be familiar. Saying that you did not know is no excuse. If you break the law you are liable to a fine or imprisonment, depending on the offence.

Rules are there to protect the consumer and producer or business person. Not all people are knowledgeable about the dangers around us. The government and regulatory bodies make some rules to reduce the incidence of harm.

Copies of legislation are available from the Government Printer in Pretoria or from attorneys. The Government Gazette can be checked for new or amended legislation.

Also check your local municipality or regional council for local or regional legislation, such as municipal by-laws, that may have an influence on what types of businesses are not allowed and locations where certain business types are not allowed (for example motor mechanics may not be practised in a residential area, or raw meat may not be sold from a street vendor).

Some of the rules and regulations that affect businesses are listed below.

State and Local Government

- Business Names Act, 1960 (as amended)
- Companies Act, 1972 (as amended)
- Copyright Act, 1978 (as amended)
- Environment Conservation Act, 1982
- Finance Acts (annual)
- Income Tax Act (amended annually)
- VAT Act, 1991 (as amended)
- Licences Act, 1962
- Maintenance and Promotion of Competitions Act, 1979 (as amended)
- Merchandise Marks Act, 1941 (as amended)
- Patents Act, 1978 (as amended)
- Price Control Act, 1964 (as amended)
- Protection of Businesses Act, 1977 (as amended)
- Road Transportation Act, 1977 (as amended)
- Stamp Duties Act, 1968
- Trade Marks Act, 1963 (as amended)
- Local fire and other regulations

Employees

- Basic Conditions of Employment Act, 1983
- Education and Training Act, 1979 (as amended)
- Factories, Machinery and Building Work Act, 1941 (as amended)
- Income Tax Act, 1962 (as amended)
- Labour Relations Act, 1956 (as amended)
- Machinery and Occupational Safety Act, 1983
- Manpower Training Act, 1981 (as amended)
- Registration for Employment Act, 1945
- Wage Act, 1957 (as amended)
- Workmen's Compensation Act, 1941 (as amended)

Customers

- Advertising on Roads and Ribbon Development Act, 1940 (as amended)
- Bills of Exchange Act, 1964 (as amended)
- Credit Agreements Act, 1980
- Foodstuffs, Cosmetics and Disinfectants Act, 1972 (as amended)
- Limitation and Disclosure of Finance Charges Act, 1968 (as amended)
- Prescription Act, 1869
- Standards Act, 1982
- Trade Metrology Act, 1973
- Trade Practices Act, 1976 (as amended)

Other

- Rent Control Act, 1976
- Rent Acts and amendments

Remember, laws have been created to prevent people harming themselves and others. If you do not obey the law you could go to jail! Always make sure that you know what the regulations are before undertaking a practice that is potentially harmful to yourself, others or the environment.

practical

Complete the following formative assessment:

F114596.3 – Team Research Analysis and Presentation

Chapter 4
Risk Management

Introduction

Risk is one of the most overlooked areas in small businesses in spite of the fact that it is clear to most small business owners that operating any business involves risk. While taking a risk and winning is fun, prudent business owners take care to minimise the risk, just as you would in any other type of risky venture you undertake. A good risk management system is a continuous process of analysis and communication.

Risk management involves five steps:

- Identifying risk
- Measuring it
- Formulating strategies to limit it
- Carrying out specific tactics to implement those strategies
- Continuously monitoring the effort

Identifying Potential Risks Factors

Risks in a small business may include the risks of illness, disability, damages, losses, injuries, and disasters such as floods and fires.

A good risk management system not only has adequate insurance coverage to compensate you for losses which might occur, but it also includes a plan to prevent losses, if possible, and to manage unexpected events as they occur.

Risk management strategies will include issues such as insurance, paying attention to environmental issues, OSHA standards, financial safeguards, security services, backup systems and government regulations - all of which are valid risk control systems, but are specialised areas for consideration.

Part of the difficulty is that each business will have different types of risks, so it is difficult to generalise. Insurance covers the ones that are most common. Specialised insurance for particular risks that are inherent to your particular field of endeavour is also available for some businesses. However, insurance is only part of the package you as a business must consider. Contingency planning for other potential hazards is just as important as insuring against losses.

Employer Risks

Employers are required by law to always have two types of insurance in place. These are unemployment insurance (UIF) and workers' compensation.

Unemployment insurance benefits are payable for every salaried person in your employ. Employer payments (based on total payroll), along with a deduction from the employee contributes to the programme. You pay unemployment insurance as part of your taxes. This payment is made to SARS along with PAYE payments before the 7th of every month.

Workers' compensation insurance protects your employees if they suffer job-related injuries. The policy pays the medical bills for the employee who is injured on the job. Worker's compensation is paid once a year.

Reducing Risks

Insurance is a critical part of the risk management system for a business. It is a way to protect yourself against unforeseen losses. An insurance policy is a legally binding contract with an insurer to provide compensation for a specified damage, loss or injury suffered by your business in return for a sum of money (premium) paid.

Just as you do not want to drive without vehicle insurance, you do not want to run a business without business insurance. However, because there are so many kinds of businesses and subsequent risks they may face, there are a wide variety of insurance types, not all of them necessary for every business. Insurance needs differ for each business so look at your risks and choose what is appropriate for your situation.

There are a variety of risks you may wish to insure yourself against. Some of the types of policies you might consider:

Insured Party	**Type of Insurance**
Property	Property Insurance
Employees	Unemployment Insurance Workman's Compensation Insurance Health Insurance Disability Insurance Key Employee Insurance
Customers / Others	Liability Insurance
Business Operations	Business Interruption Insurance Key Employee Insurance Surety Bonds Employment Practices Liability Insurance

Other types of insurance may be necessary or unique to your particular business. For instance, a book author or consultant may want to carry a policy that will protect them from libel, plagiarism or negligence lawsuits. For professionals, like these, professional liability or malpractice insurance is important.

One thing that should be clear from this discussion is that you need to find a good insurance agent who you can trust. Spend some time in choosing your agent. You need someone you can be comfortable with on a long-term basis - someone who will advise you well so you can spend your time on your business, not worrying about the fine print of the coverage.

Your overall risk management system, while it does not need to be formal, needs to have contingency plans in place for whatever "surprises" might occur and employees need to be trained in how to handle these "surprises." "Surprises" may include:

- Someone entering your retail store with a gun and asking for all the money in the register.
- It could be the river in town overflowing and flooding your place of business.
- It could be you having a heart attack unexpectedly.
- It could be your best supplier closing its doors.

Only you, the business owner, know what adequate insurance coverage for your operation is. What can you afford to write off in the event of a loss (like fire and theft) for which you have no, or limited, coverage?

The insurance coverage you choose will be the difference between security against unforeseen losses (including lawsuit defence and judgment) and responsibility for such losses out of your own pocket. If you do not feel the possibility of risk of loss outweighs the payment of yearly premiums, then going without insurance may work for you. In that case, you may simply want to self-insure.

For most small businesses a loss can be catastrophic, and the premium cost is worth the peace of mind.

You need to not only be aware of the amount of insurance you want to carry but also what is insured should there be a loss. All insurance claims are based on five considerations involving the person, property, peril, exclusions and conditions:

- Is the person involved in the loss or accident an insured person under the policy?
- Is the property being claimed listed on the policy declarations?
- Is the peril (cause of loss) a covered loss under the policy?
- Is the event causing the loss or accident excluded under the policy?
- Does the loss or accident meet the conditions set forth in the policy?
- Is it limited in any way by the conditions set forth in the policy?

Each of these must be addressed when determining what insurance you want to carry. Your first step should be to take stock of what it is that you want loss protection for. Here are some items you may wish to carry insurance on:

- Equipment (for example computers, fax machines)
- Inventory
- Buildings, land or fixtures
- Liability
- Business interruption
- Only vehicles registered to the business
- All vehicles owned by you
- Any vehicle, even those owned by employees while being used in the business, or which your business temporarily uses
- Key employees in the business

Decide how much each is worth, should a loss occur. Be realistic. You want to have sufficient insurance, but you do not want to pay for more than you need.

Once you know what you want to insure, decide what kind of coverage you need. What is it you would like to be protected from?

- Everything possible?
- Fire?
- Theft?
- Catastrophes?
- Accidents?

- Loss of income?

You will also need to determine who you would like covered.

- All employees?
- Selected employees?
- Customers?

With this information in hand, find a professional insurance agent to shop around for the best prices for the package which fits your need. Also, discuss the exclusions and conditions which exist on the policies of the insurance companies the agent recommends. Will any of these exclusions or conditions serve to restrict your operation? If so, seek another type of policy or determine if there are endorsements (an alteration to your policy which may decrease or increase, limit or render void the coverage) that can be added to the policy to counteract the exclusion or condition.

For those operating home-based businesses, take a close look at your homeowner's policy. Most homeowner policies limit, or even exclude, coverage for any business-related equipment. This includes personal computers, fax machines, laptops, and inventory. You may be able to get an endorsement to cover your home-based business on your homeowner's policy or buy a limited insurance package tailored specifically towards home-based businesses.

Investigating Insurance and Security Needs

Planning for the risks that will occur in your business is critical to your success. Here are some basic steps to help you make certain you have an adequate risk programme in place.

- Write your business plan.
- Go through your business plan critically, looking at every area that could involve risk and make a list of what areas you need to consider.
- Take time, preferably with others who know your business, to brainstorm all the possible catastrophes that might occur.
- From your lists developed in steps 2 and 3, decide what action or coverage is needed to handle that possibility.
- For those risks that can be handled by insurance coverage, determine how much and what type of insurance is needed.
- Choose a reasonable amount of insurance to cover those risks.
- Contact more than one insurance agent to get quotes on the insurance that is needed.
- Arrange for insurance coverage to begin before the doors open for your business, if possible.
- For those risks not covered by insurance, put together a contingency plan for handling each of the risks identified.
- Train all employees in what to do in any if any of these (or other) emergencies arise.
- Put your plan in a place where it can be located quickly if needed. Have an extra copy in a safe location.
- Review your plan annually, including input from all employees.

Tips:

- Common risks to consider are employee and client safety, theft or fraud and disasters.
- What constitutes a "reasonable" amount of insurance varies from individual to individual depending upon how risk averse you are.
- You can lower insurance rates by taking high deductible levels.

practical

Complete the following formative assessment:

F114596.4 – Team Discussion, Conclusion and Mind Map

Chapter 5
Evaluating New Business Ideas

Establishing Criteria for Evaluating Success

Every business venture begins with an idea. The critical questions to answer at this point are listed below. These questions should be answered even if you are assessing an existing business.

What is the status of the industry? Contact industry organisations, read trade publications and other professional literature as well as doing your own original research. In addition to providing a general description of the industry, you will want to know how your industry is changing, what challenges it is facing, and any trends that are developing. Provide this information in your business plan.

What products and / or services will I sell? Be very specific about your plans to sell particular items or services. You should be able to state within one or two sentences precisely what products and / or services you will sell. Realise that almost all products are sold with some service. For example, you may sell Chinese food, craft supplies, or manufacture electric tools. But you may also sell the services of delivering these products in a timely, friendly manner and taking care of problems that may arise with the products or during the sales.

How will I obtain my products and / or services? Will you make your own products? Will you buy them from a supplier? Will you provide the services? Will you employ or contract others to provide the services? Be specific.

Why will my customers want to buy my products and / or services? It is important to remember that you are not just selling products and / or services, but that you are filling a need. This need is why people will buy your products and / or services. Consider these examples.

- ❖ You may plan to sell Chinese food, but what you really may be selling is a convenient means of grabbing a quick lunch.
- ❖ You may plan to sell craft supplies, but what you really may be selling is a way for people to express their creativity.
- ❖ You may plan on manufacturing and selling an electric tool wholesale, but you may really be selling the means for the retailer to sell his customer a reliable piece of equipment so that his customers will return for future business.
- ❖ You may plan on selling housekeeping services to local residents, but you may really be selling free time to families who do not have time to clean their own homes.

Once you understand the need that you are filling by selling your products and / or services, then you can better plan the rest of the details of your business.

Who will want to buy my product(s) and / or services? Now that you understand the need that you are filling, you can better understand specifically who will want to buy your products and / or services. Consider these examples:

- ❖ If you are selling Chinese food as well as a means of grabbing a quick lunch, then your customers may be professionals on their lunch break.

- If you are selling craft supplies as well as a way to express creativity, then your customers may be students or craft teachers.
- If you are selling electric tools as well as reliability and safety, then your customers may be nationwide retailers with a reputation for quality products.
- If you are selling housekeeping services as well as free time, then your customers may be two-income households who spend most of their time at work or other activities outside the home.
- If you are selling hotel rooms as well as comfort and safety, then your customers may be travellers along a busy road.

Where will I locate my business? You know what products and / or services you are selling, why people will buy them and who your customers are. Now you need to figure out where to locate your business so you can effectively reach your customers.

Your customers may need to come to your business. If so, your location needs to be easily identifiable and reachable for them. For example, if your customers are professionals on their lunch break, then you may want to locate your business near their offices.

If your customers are travellers, then you may want to locate on the road with easy on and off access. If customers do not come to your business, but instead you transport your products and / or services to them, then be sure to locate your business so that you can reach them.

If you transport your product to a nationwide retailer, make sure you are located with access to transport. This would also apply to a business whose storefront is an internet web page or a catalogue. While it is important that your web page or catalogue is easily accessible, the physical location of your business may not matter as much to your customers as your ability to deliver your products and services once they have contacted you.

How will I price the products and / or services? Will you price your products and / or services below the standard market prices? The same as your competitors? Higher than your competition? Justify your decision. Realise that the prices you charge can tell your customers quite a bit of information about your product.

For example, if you price your products and / or services below market prices you may be telling your customers that they are getting a good deal. If you price higher than your competition you may be indicating that your products and / or services are superior in quality. The prices you charge should be consistent with the overall image of your business and the quality of the products and / or services you offer.

What advantages will my business have? Describe the opportunities that your business will have in the market. Explain how you plan to make the most of these chances to grow a profitable business.

What difficulties will my business face? Every business faces difficult challenges. Some of these challenges can be overcome with research and preparation. Explain the challenges you expect to face in your business and how you plan to deal with them.

practical

Complete the following formative assessment:

F114596.5 – Team Discussion, Conclusion Rating Scale and Mind Map

Section 1: Self-Assessment and Progress Check

Identify and assess own business ideas / opportunities for a new venture.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
An own business is discussed in terms of its advantages and disadvantages for the owner, the labour market and the business sector.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
Sources and methods of access to general and commercial business information are identified for proposed business venture.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
Reasons for selecting or rejecting a particular new venture idea / opportunity are explained with examples.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
Essential features of the new venture are identified in terms of market share, sales volume, asset value, and extent of independence from outside control.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
Analyse the viability of a selected idea / opportunity against specific screening variables.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
The aptitude, interests and values of the potential owner are screened for suitability to the new venture.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
The market conditions are assessed to determine the viability of the new venture.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
An assessment is made of the competition the new venture is up against.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
The access to relevant technology and other resources needed for the new venture is analysed to aid a decision on the viability of the new venture.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment

Research the potential of a particular idea / opportunity as a new venture.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
A personal profile of an entrepreneur is matched to the type of work, product or service that has potential as a new venture to ensure compatibility.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
Training needs to ensure the success of the new venture are identified for all persons involved in the venture.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
Market research is conducted including analysis of demand for the product / service and competitor analysis.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
The most suitable location for the new venture is investigated to aid a decision on the location of the new venture.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
Constraints on trade and applicable by-laws are investigated to ensure that there are no legal obstacles to the establishment of the new venture.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
Analyse a range of risks associated with a new venture.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
The concept of risk management is explained with examples.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
The potential risks and factors that may threaten the new venture are identified and analysed with a view to eliminating and / or minimising them.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
The risks associated with being an employer are explained.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
The possible measures to reduce risk are explained with examples from a real or simulated new venture.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
The insurance and security needs associated with risks in the new venture are investigated.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment

Evaluate new venture ideas / opportunities based on research findings.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
Criteria are established for evaluating the success of a new venture.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
A preliminary evaluation of the proposed new venture is produced in the form of a written report, using the identified criteria.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment

Section 2: Business Planning

Learning Goals and Pathways

Once you have determined that your business idea or concept is viable, you should start a detailed business planning process. A business with a detailed business plan has a far better chance of success.

This section will help you to work through a step-by-step business planning process to prepare a detailed business plan for your venture.

This section is presented in chapters 6 – 9 of the guide.

The learning goals for this module include:

1. How to identify, gather and analyse the relevant information needed to compile a plan for a new venture.
2. How to formulate an ethical framework for the operational plans of a venture.
3. How to establish and prioritise business, financial and operations goals and objectives for the new venture.
4. How to design and present business, financial and / or marketing plans based on a budget for a new venture.

Chapter 6
The Business Plan

Introduction

A business plan is a written document that details exactly how a business will be established and run. It considers all the material aspects of the business, such as:

- Form of ownership
- The proposed trading activities
- Management duties and responsibilities
- The marketing plan
- The production plan
- Human resources plan
- Financial plan

A business plan should describe what the business wants to achieve, when it plans to achieve it and how it plans to achieve it. A business plan is normally used as a planning tool when going into business or starting a new project.

A business plan can be seen as a paved road to get to your goals or to get to your destination. It will help you to go from self-management, goal setting and implementation to evaluation of your business.

A good business plan should be as objective as possible. A well-prepared business plan forces objectivity and reality on the business owners and the business. It should be a well-presented document in which all the material facts and issues relating to the business and its environment are documented.

When driving a car you need to know where you are going and what the shortest and best route would be to get to your final destination. To help you plan your route you use a road map.

In the same way, a business plan helps an entrepreneur to determine the best route to take to get to your intended financial "destination" or goal.

The purpose of a business plan is:

- To describe all the important aspects of the business.
- To help you as an entrepreneur to think ahead.
- To summarise and simplify the activities that you are thinking about.
- To describe and list the resources (money, equipment, assistance) the entrepreneur will need.
- To define and focus your objectives.
- To help you borrow money or obtain other resources.
- To help you make business decisions.
- To help reveal omissions and weaknesses in your planning.

- To solicit opinions from people already in your intended business who usually will be happy to share invaluable advice.

A business plan is precisely that: a plan for a business. You should write one if any of the following apply to you:

- You intend to start a business.
- You already own a business.
- You anticipate the need for additional outside investors or lenders.

The process of writing a business plan is just as important as the finished document. This is because writing a business plan makes you:

- Define your business
- Assess your market
- Develop your marketing strategy
- Analyse your financial situation
- Clarify how your business will be managed

Once completed, you should use your business plan as a guide to starting your business and running your business. Any potential investors or lenders will want to read your business plan as well.

After completing your business plan, you may decide that you do not want to pursue the venture at this time. This is an acceptable conclusion to reach. It is better to reach the conclusion through writing your business plan that your idea is not feasible now than to take an uninformed gamble and find out later that the business is not profitable.

Importance of a Business Plan

- It forces you to organise your ideas in a logical way.
- It helps you to focus on the goals you put into your business plan.
- It helps you to look at reality and to foresee problems.
- It helps you to work according to an action plan or guideline.
- It is an aid when applying for financial assistance.
- It helps you to reduce the potential flaws in your idea.
- It is an important tool that will help you make decisions.

Elements of a Business Plan

There are seven major sections of a business plan, and each one is a complex document.

The 7 elements are:

1. Executive summary
2. Business description
3. Marketing plan and strategy
    - Market profile or market analysis
    - Market share projections
    - Business positioning in terms of the market, including:
        - Pricing strategies
        - Distribution plans
        - Promotion plans
        - Sales potential analysis
        - Competitor analysis
4. Design and development plan, including:
    - Scheduling and costs
    - Development budget
    - Risk assessment
5. Operations and management plan
    - Organisational structure, including:
        - Labour and personnel forecast
        - Your personnel numbers (headcount)
        - Schedule of overhead expenses
6. Capital requirements schedule and cost of goods schedule
7. Financial statements, including:
    - Income statement
    - Cash Flow statement
    - The Balance sheet

This guide will take you through each of these sections step by step. It will tell you the questions you need to ask yourself, the research you need to do and it will help you to compile that information into a plan you can use.

The final evidence for this unit standard (and learnership) will be a well-thought-through business idea, complete with marketing research, and a careful consideration of all the resources needed to run the business to reach its goals.

Title Page

Before you get stuck into the detail of the business plan, prepare a title page. The title page for your business plan should clearly and attractively display the following information. This information will tell the reader what they are reading and how they can contact you.

- Your name
- Business name

- Company logo, if any
- The words, "Business Plan"
- Address
- Telephone number
- Fax number
- E-mail address, if any

Element 1 - Executive Summary

The executive summary is the first section that will appear in your business plan, but you will write it last. Lenders, investors and others will read the executive summary first to determine if the business plan is worth their time to read. The information you provide in the executive summary will let the reader judge how thoroughly you have worked through the process of writing the business plan and how viable your business is.

The executive summary should be brief but complete. One to three pages is adequate. It should summarise information from the sections of your business plan. Be sure to include information on the following:

- Business idea
- History of the business including notable accomplishments
- Industry and market information
- Owner (s) and key personnel
- Financial situation
- Financial requirements
- Industry and market information

The statement should be kept short and business-like, preferably no more than half a page. It could be longer, depending on how complicated the use of funds may be, but the summary of a business plan, like the summary of a loan application, is generally not longer than one page. Within that space, you will need to provide a synopsis of your entire business plan.

Key elements that should be included are:

- **Business concept**. Describes the business, its product and the market it will serve. It should point out just exactly what will be sold, to whom and why the business will hold a competitive advantage.
- **Financial features**. Highlights the important financial points of the business including sales, profits, cash flows and return on investment.
- **Financial requirements**. Clearly states the capital needed to start the business and to expand. It should detail how the capital will be used, and the equity, if any, that will be provided for funding. If the loan for initial capital will be based on security instead of equity, you should also specify the source of collateral.
- **Current business position**. Furnishes relevant information about the company, its legal form of operation, when it was formed, the principal owners and key personnel.

- **Major achievements**. Details any developments within the company that are essential to the success of the business. Major achievements include items like patents, prototypes, location of a facility, any crucial contracts that need to be in place for product development, or results from any test marketing that has been conducted.

When writing your statement of purpose, do not waste words. If the statement of purpose is eight pages, nobody is going to read it because it will be very clear that the business, no matter what its merits, will not be a good investment because the principals are indecisive and do not really know what they want. Make it easy for the reader to realise at first glance both your needs and capabilities.

Remember that the purpose of the executive summary is to give the reader (a potential lender or investor) a quick overview of your business plan. Keep it short and interesting. You will provide the actual details of your business in the plan itself.

The added benefit of writing the executive summary when you have finished the rest of the business plan is that if you can summarise and highlight the important ideas, then you really understand the business you are planning to undertake.

Element 2 - Business Definition and Legislation

Every business venture begins with an idea. This section will help you further define your idea. The critical questions to answer at this point are listed below. Some of these questions will be answered generally at this point. You will deal with them more specifically in the sections that follow. These questions should be answered even if you are writing this business plan for an existing business.

The business description usually begins with a short description of the industry. When describing the industry, discuss the present outlook as well as future possibilities. You should also provide information on all the various markets within the industry, including any new products or developments that will benefit or adversely affect your business. Base all of your observations on reliable data and be sure to footnote sources of information as appropriate. This is important if you are seeking funding. The investor will want to know just how dependable your information is, and will not risk money on assumptions or conjecture.

When describing your business, the first thing you need to concentrate on is its structure. By structure, we mean the type of operation, being wholesale, retail, food service, manufacturing or service-oriented. Also, state whether the business is new or already established.

In addition to structure, legal form should be reiterated once again. Detail whether the business is a sole proprietorship, partnership or corporation, who its principals are, and what they will bring to the business.

You should also mention who you will sell to, how the product will be distributed, and the business's support systems. Support may come in the form of advertising, promotions and customer service.

Once you've described the business, you need to describe the products or services you intend to market. The product description statement should be complete enough to give the reader a clear idea of your intentions. You may want to emphasise any unique features or variations from concepts that can typically be found in the industry.

Be specific in showing how you will give your business a competitive edge.

How Will I Profit?

Now you must be a classic capitalist and ask yourself, "How can I make money? And why do I think I can make a profit that way?" Answer that question for yourself, and then convey that answer to others in the business concept section.

You do not have to write 25 pages on why your business will be profitable. Just explain the factors you think will make it successful, like the following:

- it is a well-organised business
- it will have state-of-the-art equipment
- its location is exceptional
- the market is ready for it
- and it is a great product at a fair price

If you are using your business plan as a document for financial purposes, explain why the added equity or debt money is going to make your business more profitable.

Show how you will expand your business or be able to create something by using that money.

Show why your business is going to be profitable. A potential lender is going to want to know how successful you are going to be in this particular business. Factors that support your claims for success can be mentioned briefly; they will be detailed later.

Give the reader an idea of the experience of the other key people in the business. They will want to know what suppliers or experts you've spoken to about your business and their response to your idea. They may even ask you to clarify your choice of location or reasons for selling this particular product.

The business description can be a few paragraphs in length to a few pages, depending on the complexity of your plan.

If your plan is not too complicated, keep your business description short, describing the industry in one paragraph, the product in another, and the business and its success factors in three or four paragraphs that will end the statement.

While you may need to have a lengthy business description in some cases, it is our opinion that a short statement conveys the required information in a much more effective manner. If the business description is long and drawn-out, you will lose the reader's attention, and possibly any chance of receiving the necessary funding for the project.

Below follows a series of questions and considerations that will guide you through writing this section of the business plan:

What is the status of the industry?
Contact industry organisations, read trade publications and other professional literature as well as provide your own original research. In addition to providing a general description of the industry, you will want to know how your industry is changing, what challenges it is facing, and any trends that are developing. Provide this information in your business plan.

What products and / or services will I sell?
Be very specific about your plans to sell particular items or services. You should be able to state within one or two sentences precisely what products and / or services you will sell. Realise that almost all products are sold with some service. For example, you may sell Chinese food, craft supplies, or manufacture electric tools. But you may also

sell the services of delivering these products in a timely, friendly manner and taking care of problems that may arise with the products or during the sales.

How will I obtain my products and / or services?
Will you make your own products? Will you buy them from a supplier? Will you provide the services? Will you employ or contract others to provide the services? Be specific.

Why will my customers want to buy my products and / or services?
It is important to remember that you are not just selling products and / or services, but that you are filling a need. This need is why people will buy your products and / or services. Consider these examples.

- You may plan to sell Chinese food, but what you really may be selling is a convenient means of grabbing a quick lunch.
- You may plan to sell craft supplies, but what you really may be selling is a way for people to express their creativity.
- You may plan on manufacturing and selling an electric tool wholesale, but you may really be selling the means for the retailer to sell his customer a reliable piece of equipment so that his customers will return for future business.
- You may plan on selling housekeeping services to local residents, but you may really be selling free time to families who do not have time to clean their own homes. Once you understand the need that you are filling by selling your products and / or services, then you can better plan the rest of the details of your business.

Who will want to buy my product(s) and / or services?
Now that you understand the need that you are filling, you can better understand specifically who will want to buy your products and / or services. Consider these examples.

- If you are selling Chinese food and a means of grabbing a quick lunch, then your customers may be professionals on their lunch break.
- If you are selling craft supplies and a way to express creativity, then your customers may be students or craft teachers.
- If you are selling electric tools and reliability and safety, then your customers may be nationwide retailers with a reputation for quality products.
- If you are selling housekeeping services and free time, then your customers may be two-income households who spend most of their time at work or other activities outside the home.
- If you are selling hotel rooms and comfort and safety, then your customers may be travellers along a busy road.

Where will I locate my business?
You know what products and / or services you are selling, why people will buy them, who your customers are, now you need to figure out where to locate your business so you can effectively reach your customers.

Your customers may need to come to your business. If so, your location needs to be easily identifiable and reachable for them. For example, if your customers are professionals on their lunch break, then you may want to locate your business near their offices. If your customers are travellers, then you may want to locate on the road with easy on and off access.

If customers do not come to your business, but instead you transport your products and / or services to them, then be sure to locate your business so that you can reach them. If you transport your product to a nationwide retailer, make sure you are located with access to transport.

This would also apply to a business whose storefront is an internet web page or a catalogue. While it is important that your web page or catalogue is easily accessible, the physical location of your business may not matter so much to your customers as your ability to deliver your products and services once they have contacted you.

How will I price the products and / or services?
Will you price your products and / or services below the standard market prices? The same as your competitors? Higher than your competition? Justify your decision. Realise that the prices you charge can tell your customers quite a bit of information about your product. For example, if you price your products and / or services below market prices you may be telling your customers that they are getting a good deal. If you price higher than your competition you may be indicating that your products and / or services are superior in quality. The prices you charge should be consistent with the overall image of your business and the quality of the products and / or services you offer.

What advantages will my business have?
Describe the opportunities that your business will have in the market. Explain how you plan to make the most of these chances to grow a profitable business.

What difficulties will my business face?
Every business faces difficult challenges. Some of these challenges can be overcome with research and preparation. Explain the challenges you expect to face in your business and how you plan to deal with them.

A SWOT analysis is a handy tool to assist with defining your business. SWOT stands for:

- S - Strengths
- W - Weaknesses
- O - Opportunities
- T - Threats

It is of utmost importance to be very honest when determining all these factors. One possible strategy for a business plan is to weigh every decision or every expansion by using the SWOT analysis. Often there will be a correlation between your strengths and your opportunities or a comparison between the weaknesses and the threats. Therefore, it is good practice to try to turn a weakness or a problem into an opportunity.

Do some research and try to get the view of the customer. The view that you might have is sometimes deceiving. Look at the difference between you and the competitor. A SWOT analysis can be used for different criteria such as products, markets, areas or even the customer himself.

Legislation and Regulations

No activity within a business is allowed to be illegal. You are also not allowed to give an employee of any business an instruction that would result in that person doing anything illegal.

Every company will have laws with which they should be familiar. Saying that you did not know is no excuse. If you break the law you are liable to a fine or imprisonment, depending on the offence.

Rules are there to protect the consumer and producer or business person. Not all people are knowledgeable about the dangers around us. The government and regulatory bodies make some rules to reduce the incidence of harm.

Some of the rules and regulations that affect businesses are listed below.

Copies of legislation are available from the Government Printer in Pretoria or from attorneys. The Government Gazette can be checked for new or amended legislation. Check your local municipality or regional council for local or regional legislation.

State and Local Government

- Business Names Act, 1960 (as amended)
- Companies Act, 1972 (as amended)
- Copyright Act, 1978 (as amended)
- Environment Conservation Act, 1982
- Finance Acts (annual)
- Income Tax Act (amended annually)
- VAT Act, 1991 (as amended)
- Licences Act, 1962
- Maintenance and Promotion of Competitions Act, 1979 (as amended)
- Merchandise Marks Act, 1941 (as amended)
- Patents Act, 1978 (as amended)
- Price Control Act, 1964 (as amended)
- Protection of Businesses Act, 1977 (as amended)
- Road Transportation Act, 1977 (as amended)
- Stamp Duties Act, 1968
- Trade Marks Act, 1963 (as amended)
- Local fire and other regulations

Employees

- Basic Conditions of Employment Act, 1983
- Education and Training Act, 1979 (as amended)
- Factories, Machinery and Building Work Act, 1941 (as amended)
- Income Tax Act, 1962 (as amended)
- Labour Relations Act, 1956 (as amended)
- Machinery and Occupational Safety Act, 1983
- Manpower Training Act, 1981 (as amended)
- Registration for Employment Act, 1945

- Wage Act, 1957 (as amended)
- Workmen's Compensation Act, 1941 (as amended)

Customers

- Advertising on Roads and Ribbon Development Act, 1940 (as amended)
- Bills of Exchange Act, 1964 (as amended)
- Credit Agreements Act, 1980
- Foodstuffs, Cosmetics and Disinfectants Act, 1972 (as amended)
- Limitation and Disclosure of Finance Charges Act, 1968 (as amended)
- Prescription Act, 1869
- Standards Act, 1982
- Trade Metrology Act, 1973
- Trade Practices Act, 1976 (as amended)

Other

- Rent Control Act, 1976
- Rent Acts and amendments

Element 3 - Marketing Plan and Strategy

Market Profile or Market Analysis

Information about your market is critical to your success. From your assessment of your market, you should be able to present the following information. Contacting trade organisations, reading trade publications and other professional literature, and doing your own original research will help you answer these questions. Include as many statistical details as possible. Be sure to cite the sources of your statistical data.

Who are your customers?
Are your customers consumers or commercial businesses? What is their buying power? What demographic information describes them most accurately, e.g., age, status, income, or length of time in business. Customers may come from different segments of the market. Describe each market segment.

What products and / or services do they need from your business?
Be specific about the products and / or services you expect to sell to each segment of the market.

Why do they purchase these products and / or services?
Describe the need you are filling by selling your customers these products and / or services.

When do they purchase these products and / or services?
Understand how often your customers make these types of purchases. Do they buy these products daily? Weekly? Monthly? Seasonally? Annually? Include this information in your business plan.

Where do they purchase these products and or services?
Do your customers go to a place of business to purchase these products and / or services? Do they order them from internet web pages? Do they order them over the phone from catalogues? Be thorough and specific.

Who is the competition?
Chances are, your customers are filling their need for your product and / or service in some other way at the present time. Perhaps they are buying it from another business. Realise also that several businesses are always competing to fill people's needs.

While your business may not have a competitor that is supplying the same product and / or service that you provide, your potential customers may choose to purchase other goods and services instead. For example, you may be the only store that sells clothing in your area. That does not mean you will have a corner on the market. Instead, people may decide not to purchase clothing and instead purchase furniture for their homes.

Make sure your business plan describes the competition you face including those businesses that are different from yours but are also competing for your customers' money.

Market strategies are the result of a meticulous market analysis.

A market analysis forces the entrepreneur to become familiar with all aspects of the market so that the target market can be defined and the company can be positioned in order to garner its share of sales.

A market analysis also enables the entrepreneur to establish pricing, distribution and promotional strategies that will allow the company to become profitable within a competitive environment. In addition, it provides an indication of the growth potential within the industry, and this will allow you to develop your own estimates for the future of your business.

Begin your market analysis by defining the market in terms of size, structure, growth prospects, trends and sales potential.

The total average sales of your competitors will provide you with a fairly accurate estimate of the total potential market.

Once the size of the market has been determined, the next step is to define the target market.

The target market narrows down the total market by concentrating on segmentation factors that will determine the total addressable market (the total number of users within the sphere of the business's influence). The segmentation factors can be geographic, customer attributes or product-oriented.

For instance, if the distribution of your product is confined to a specific geographic area, then you want to further define the target market to reflect the number of users or sales of that product within that geographic segment.

Once the target market has been detailed, it needs to be further defined to determine the total feasible market. This can be done in several ways, but most professional planners will delineate the feasible market by concentrating on product segmentation factors that may produce gaps within the market. In the case of a citrus farm that plans to grow a very specific cultivar like Clemengold, the total feasible market could be defined by determining how many consumers of premium Easy Peelers there are in the target market.

It is important to understand that the total feasible market is the portion of the market that can be captured provided every condition within the environment is perfect and there is very little competition.

In most industries, this is simply not the case. There are other factors that will affect the share of the feasible market a business can reasonably obtain. These factors are usually tied to the structure of the industry, the impact of competition, strategies for market penetration and continued growth, and the amount of capital the business is willing to spend in order to increase its market share.

Market Share Projections

Arriving at a projection of the market share for a business plan is very much a subjective estimate.

It is based not only on an analysis of the market but also on highly targeted and competitive distribution, pricing and promotional strategies.

For instance, even though there may be a sizable number of consumers demanding easy peelers in the total feasible market, you need to be able to reach them through your distribution network at a price point that is competitive, and then you have to let them know it is available and where they can buy it. How effectively you can achieve your distribution, pricing and promotional goals determines the extent to which you will be able to garner market share.

For a business plan, you must be able to estimate market share for the time period the plan will cover. In order to project market share over the time frame of the business plan, you will need to consider two factors:

- Industry growth which will increase the total number of users.
- Conversion of users from the total feasible market.

Defining the market is but one step in your analysis. With the information you've gained through market research, you need to develop strategies that will allow you to fulfil your objectives.

Business Positioning in Terms of Market

When discussing market strategy, it is inevitable that positioning will be brought up.

A company's positioning strategy is affected by a number of variables that are closely tied to the motivations and requirements of target customers as well as the actions of primary competitors.

Before a product can be positioned, you need to answer several strategic questions such as:

- How are your competitors positioning themselves?
- What specific attributes does your product have that your competitors' do not?
- What customer needs does your product fulfil?

Once you've answered your strategic questions based on research of the market, you can then begin to develop your positioning strategy and illustrate that in your business plan. A positioning statement for a business plan does not have to be long or elaborate. It should merely point out exactly how you want your product perceived by both customers and the competition.

Pricing Strategies

How you price your product is important because it will have a direct effect on the success of your business. Though pricing strategy and computations can be complex, the basic rules of pricing are straightforward:

- All prices must cover costs.
- The best and most effective way of lowering your sales prices is to lower costs.
- Your prices must reflect the dynamics of cost, demand, changes in the market and response to your competition.
- Prices must be established to assure sales. Do not price against a competitive operation alone. Rather, price to sell.
- Product utility, longevity, maintenance and end-use must be judged continually, and target prices adjusted accordingly.
- Prices must be set to preserve order in the marketplace.

There are many methods of establishing prices available to you:

- Cost-plus pricing
- Used mainly by manufacturers, cost-plus pricing assures that all costs, both fixed and variable, are covered and the desired profit percentage is attained.
- Demand pricing
- Used by companies that sell their product through a variety of sources at differing prices based on demand.
- Competitive pricing
- Used by companies that are entering a market where there is already an established price and it is difficult to differentiate one product from another.
- Mark-up pricing
- Used mainly by retailers, mark-up pricing is calculated by adding your desired profit to the cost of the product. Each method listed above has its strengths and weaknesses.

Distribution Plans

Distribution includes the entire process of moving the product from the factory to the end user. The type of distribution network you choose will depend on the industry and the size of the market. A good way to make your decision is to analyse your competitors to determine the channels they are using, then decide whether to use the same type of channel or an alternative that may provide you with a strategic advantage.

Some of the more common distribution channels include:

- Direct sales

- The most effective distribution channel is to sell directly to the end-user.
- OEM (original equipment manufacturer) sales
- When your product is sold to the OEM, it is incorporated into their finished product and it is distributed to the end user.
- Manufacturer's representatives
- One of the best ways to distribute a product, manufacturer's reps as they are known, are salespeople who operate out of agencies that handle an assortment of complementary products and divide their selling time among them.
- Wholesale distributors
- Using this channel, a manufacturer sells to a wholesaler, who in turn sells it to a retailer or other agent for further distribution through the channel until it reaches the end user.
- Brokers
- Third-party distributors who often buy directly from the distributor or wholesaler and sell to retailers or end-users.
- Retail distributors
- Distributing a product through this channel is important if the end user of your product is the general consuming public.
- Direct Mail
- Selling to the end user using a direct mail campaign.
- As we've mentioned already, the distribution strategy you choose for your product will be based on several factors that include the channels being used by your competition, your pricing strategy and your own internal resources.

Promotion Plan

With a distribution strategy formed, you must develop a promotion plan. The promotion strategy in its most basic form is the controlled distribution of communication designed to sell your product or service. In order to accomplish this, the promotion strategy encompasses every marketing tool utilised in the communication effort. This includes:

- Advertising
- Includes the advertising budget, creative message(s), and at least the first quarter's media schedule.
- Packaging
- Provides a description of the packaging strategy. If available, samples of any labels, trademarks or service marks should be included.
- Public relations
- A complete account of the publicity strategy including a list of media that will be approached as well as a schedule of planned events.
- Sales promotions

- Establishes the strategies used to support the sales message. This includes a description of collateral marketing material as well as a schedule of planned promotional activities such as special sales, coupons, contests and premium awards.
- Personal sales

  An outline of the sales strategy including pricing procedures, returns and adjustment rules, sales presentation methods, lead generation, customer service policies, salesperson compensation, and salesperson market responsibilities.

Sales Potential Analysis

Once the market has been researched and analysed, conclusions need to be developed that will supply a quantitative outlook concerning the potential of the business. The first financial projection within the business plan must be formed utilising the information drawn from defining the market, positioning the product, pricing, distribution, and strategies for sales. The sales or revenue model charts the potential for the product, as well as the business, over a set period of time. Most business plans will project revenue for up to three years although five-year projections are becoming increasingly popular among lenders.

When developing the revenue model for the business plan, the equation used to project sales is fairly simple. It consists of the total number of customers and the average revenue from each customer.

In the equation,

- "T" represents the total number of people
- "A" represents the average revenue per customer
- "S" represents the sales projection

The equation for projecting sales is: (T) (A) = S

Using this equation, the annual sales for each year projected within the business plan can be developed. Of course, there are other factors that you will need to extrapolate from the revenue model. Since the revenue model is a table illustrating the source of all income, every segment of the target market that is treated differently must be accounted for. In order to determine any differences, the various strategies utilised in order to sell the product have to be considered. As we've already mentioned, those strategies include distribution, pricing and promotion.

Competitor Analysis

Step 1 - Identify and Analyse Your Competition

The competitive analysis is a statement of the business strategy and how it relates to the competition. The purpose of the competitive analysis is to determine the strengths and weaknesses of the competitors within your market, strategies that will provide you with a distinct advantage, the barriers that can be developed in order to prevent competition from entering your market, and any weaknesses that can be exploited within the product development cycle.

The first step in a competitor analysis is to identify the current and potential competition. There are essentially two ways you can identify competitors. The first is to look at the market from the customer's viewpoint and group all your competitors by the degree to which they contend for the buyer's Rand. The second method is to group competitors according to their various competitive strategies so you understand what motivates them.

Once you've grouped your competitors, you can start to analyse their strategies and identify the areas where they are most vulnerable. This can be done through an examination of your competitors' weaknesses and strengths. A competitor's strengths and weaknesses are usually based on the presence and absence of key assets and skills needed to compete in the market.

To determine just what constitutes a key asset or skill within an industry, David A. Aaker in his book, *Developing Business Strategies*, suggests concentrating your efforts in four areas:

- The reasons behind successful as well as unsuccessful organisations
- Prime customer motivators
- Major component costs
- Industry mobility barriers

According to theory, the performance of a company within a market is directly related to the possession of key assets and skills. Therefore, an analysis of strong performers should reveal the causes behind such a successful track record. This analysis, in conjunction with an examination of unsuccessful companies and the reasons behind their failure, should provide a good idea of just what key assets and skills are needed to be successful within a given industry and market segment.

Through your competitor analysis, you will also have to create a marketing strategy that will generate an asset or skill competitors do not have, which will provide you with a distinct and enduring competitive advantage.

Since competitive advantages are developed from key assets and skills, you should sit down and put together a competitive strength grid. This is a scale that lists all your major competitors or strategic groups based upon their applicable assets and skills and how your own company fits on this scale.

Step 2 - Create a Competitive Strength Grid

To put together a competitive strength grid, list all the key assets and skills down the left margin of a piece of paper.

Along the top, write down two column headers: "weakness" and "strength." In each asset or skill category, place all the competitors that have weaknesses in that particular category under the weakness column, and all those that have strengths in that specific category in the strength column.

After you've finished, you will be able to determine just where you stand in relation to the other firms competing in your industry.

Once you've established the key assets and skills necessary to succeed in this business and have defined your distinct competitive advantage, you need to communicate them in a strategic form that will attract market share as well as defend it. Competitive strategies usually fall into these five areas:

- Product
- Distribution

- Pricing
- Promotion
- Advertising

Many of the factors leading to the formation of a strategy should already have been highlighted in previous sections, specifically in marketing strategies.

Strategies primarily revolve around establishing the point of entry in the product life cycle and an endurable competitive advantage. As we've already discussed, this involves defining the elements that will set your product or service apart from your competitors or strategic groups. You need to establish this competitive advantage clearly so the reader understands not only how you will accomplish your goals, but also why your strategy will work.

Element 4 – Design and Development Plan

The purpose of the design and development plan section is to provide investors with a description of the product's design, chart its development within the context of production, marketing and the company itself, and create a development budget that will enable the company to reach its goals.

There are generally three areas you will cover in the development plan section:

- Product development
- Market development
- Organisational development

Each of these elements needs to be examined, from the funding of the plan to the point where the business begins to experience a continuous income. Although these elements will differ in nature concerning their content, each will be based on structure and goals.

The first step in the development process is setting goals for the overall development plan.

From your analysis of the market and competition, most of the product, market and organisational development goals will be readily apparent. Each goal you define should have certain characteristics.

Your goals should be quantifiable in order to set up timelines, directed so they relate to the success of the business, consequential so they have an impact on the company, and feasible so that they are not beyond the bounds of actual completion.

information

Factors influencing planning

Plans are generally produced on the basis of current and expected circumstances or assumptions. If these change, the plan has to be adapted accordingly. Plans and the process of planning, therefore, have to be flexible, allowing changing circumstances to guide their relevance and validity.

For example, the pest and disease control plan will have to be adapted if a ban is placed on the use of one of the key chemical products intended for use. Similarly, the plan would have to be changed if a new destructive pest or disease is discovered in the orchard.

Other factors which influence the planning process include:

- New legislation
- Labour disputes
- Resource availability
- Market circumstances
- Financial viability

Goals for Product Development

Goals for product development should centre on the *technical* as well as the *marketing* aspects of the product so that you have a focused outline from which the development team can work.

For example, a goal for product development of a new export citrus cultivar might be:

- Establish orchards for new citrus cultivar
- Establish production protocols for new citrus cultivar
- Establish post-harvest treatment and packaging protocols for new citrus cultivar

Whereas an example of a goal for product development of a new citrus iced tea might be:

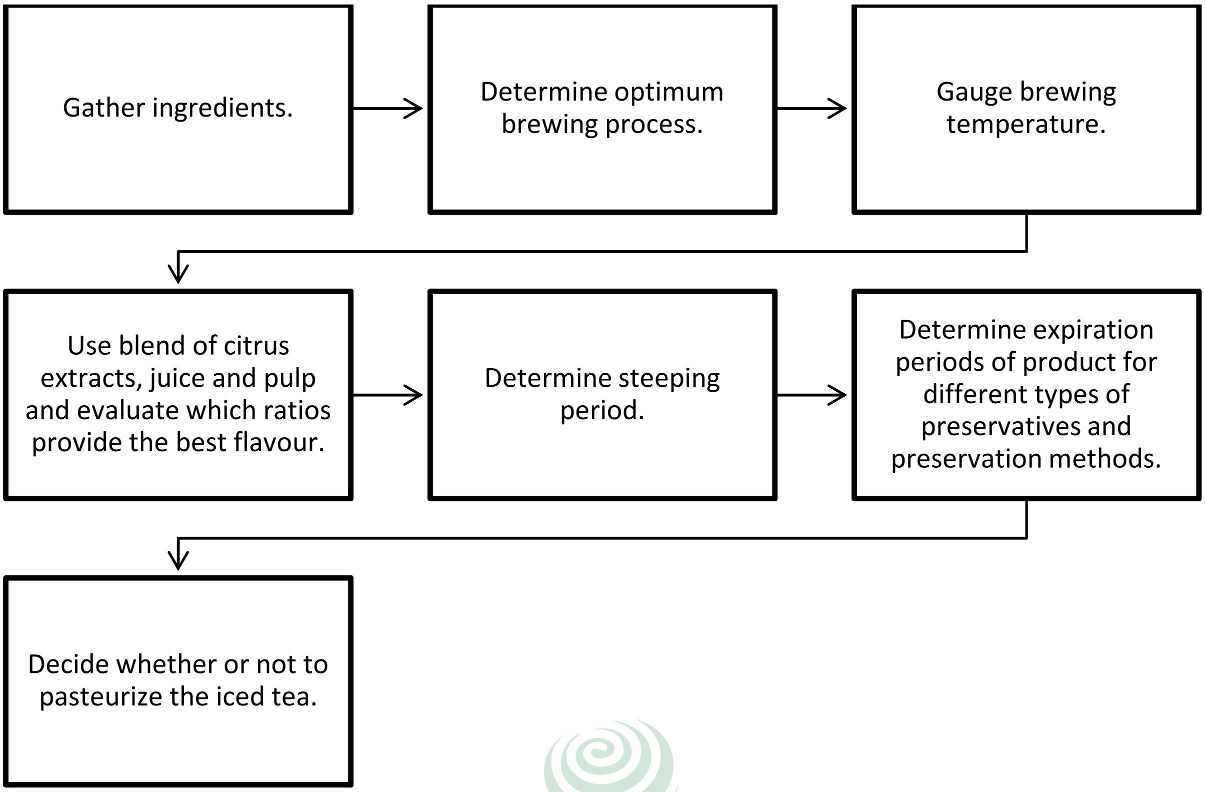
- Produce recipe for citrus iced tea
- Create packaging for citrus iced tea

In terms of market development, a goal might be, "Develop collateral marketing material." Organisational goals would centre on the acquisition of expertise in order to attain your product and market development goals. This expertise usually needs to be present in areas of key assets that provide a competitive advantage. Without the necessary expertise, the chances of bringing a product successfully to market diminish.

Standard Operating Procedures

With your goals set and expertise in place, you need to form a set of procedural tasks or work assignments for each area of the development plan. Procedures will have to be developed for product development, market development, and organisation development. In some cases, product and organisation can be combined if the list of procedures is short enough.

Procedures should include how resources will be allocated, who is in charge of accomplishing each goal, and how everything will interact. For example, to produce a recipe for citrus iced tea you would need to do the following:



The development of procedures provides a list of work assignments that need to be accomplished, but one thing it does not provide are the stages of development that coordinate the work assignments within the overall development plan.

To do this, you first need to amend the work assignments created in the procedures section so that all the individual work elements are accounted for in the development plan. The next stage involves setting deliverable dates for components as well as the finished product for testing purposes. There are primarily three steps you need to go through before the product is ready for final delivery:

- **Preliminary product review.** All the product's features and specifications are checked.
- **Critical product review**. All the key elements of the product are checked and gauged against the development schedule to make sure everything is going according to plan.
- **Final product review**. All elements of the product are checked against goals to assure the integrity of the prototype.

Scheduling and Costs

This is one of the most important elements in the development plan.

Scheduling includes all of the key work elements as well as the stages the product must pass through before customer delivery. It should also be tied to the development budget so that expenses can be tracked. But its main purpose is to establish time frames for completion of all work assignments and to highlight them within the stages through which the product must pass.

When producing the schedule, provide a column for each procedural task, how long it takes, start date and finish date. If you want to provide a number for each task, include a column in the schedule for the task number.

Development Budget

That leads us into a discussion of the development budget. When preparing your development budget, you need to take into account all the expenses required to design the product and to take it from prototype to production.

Costs that should be included in the development budget are:

- **Material.** All raw materials used in the development of the product.
- **Direct labour.** All labour costs associated with the development of the product.
- **Overheads**. All overhead expenses required to operate the business during the development phase such as taxes, rent, phone, utilities and office supplies.
- **General and administration costs.** The salaries of executive and administrative personnel along with any other office support functions.
- **Marketing and sales.** The salaries of marketing personnel required to develop pre-promotional materials and plan the marketing campaign that should begin prior to delivery of the product.
- **Professional services.** Those costs associated with the consultation of outside experts such as accountants, lawyers, and business consultants.
- **Miscellaneous costs.** Costs that are related to product development.
- **Capital equipment.** To determine the capital requirements for the development budget, you first have to establish what type of equipment you will need and whether you will acquire the equipment or use outside contractors. If you decide to acquire the equipment, you must choose whether you will lease or purchase it.

Personnel

As we mentioned already, the company has to have the proper expertise in key areas to succeed. However, not every company will start a business with the expertise required in every key area. Therefore, the appropriate personnel have to be recruited, integrated into the development process and managed so that everyone forms a team focused on the achievement of the development goals.

Before you begin recruiting, however, you should determine which areas within the development process will require the addition of personnel. This can be done by reviewing the goals of your development plan to establish key areas that need attention. After you have an idea of the positions that need to be filled, you should produce a job description and job specification.

Once you've hired the proper personnel, you need to integrate them into the development process by assigning tasks from the work assignments you've developed. Finally, the whole team needs to know what their role is within the company and how each interrelates with every position within the development team. In order to do this, you should develop an organisational chart for your development team.

Risk Assessment

Finally, the risks involved in developing the product should be assessed and a plan developed to address each one. The risks during the development stage will usually centre on the technical development of the product, marketing, personnel requirements, and financial problems. By identifying and addressing each of the perceived risks during the development period, you will allay some of your major fears concerning the project and those of investors as well.

Element 5 – Operations and Management

The operations and management plan is designed to describe just how the business functions on a continuing basis. The operations plan will highlight the logistics of the organisation such as the various responsibilities of the management team, the tasks assigned to each division within the company, and capital and expense requirements related to the operations of the business. In fact, within the operations plan, you will develop the next set of financial tables that will supply the foundation for the "Financial Components" section.

The financial tables that you will develop within the operations plan include:

- The operating expense schedule
- The capital requirements summary
- The cost of goods schedule

There are two areas that need to be accounted for when planning the operations of your company. The first area is the organisational structure of the company, and the second is the expense and capital requirements associated with its operation.

Organisational Structure

The organisational structure of the company is an essential element within a business plan because it provides a basis from which to project operating expenses. This is critical to the formation of financial statements, which are heavily scrutinised by investors. The organisational structure, therefore, has to be well-defined and based within a realistic framework given the parameters of the business.

Although every company will differ in its organisational structure, most can be divided into several broad areas that include:

- Marketing and Sales (including customer relations and service)
- Production (including quality assurance)
- Research and Development
- Administration

These are very broad classifications and it is important to keep in mind that not every business can be divided in this manner. In fact, every business is different, and each one must be structured according to its own requirements and goals.

The four stages for organising a business are:

Establish a list of the tasks using the broadest of classifications possible.

Organise these tasks into departments that produce an efficient line of communications between staff and management.

Determine the type of personnel required to perform each task.

Establish the function of each task and how it will relate to the generation of revenue within the company.

Labour and Personnel Forecast

information

In this section of the business plan, the following needs to be addressed:

- Outline the educational qualifications, previous work experience and training courses attended by the owners
- Indicate how many staff are required
- Indicate what their jobs titles are and what they will be required to do
- Indicate what the remuneration packages are likely to be
- Indicate what fringe benefits are offered (if any)
- Indicate what the personnel policies of the business are (such as conditions of service, dismissal, grievance procedures)
- Indicate how you will recruit suitable staff

Once you've structured your business, however, you need to consider your overall goals and the number of personnel required to reach those goals.

In order to determine the number of employees you will need to meet the goals you've set for your business, you will need to apply the following equation to each department listed in your organisational structure:

C / S = P

In this equation,

- **C** represents the total number of customers,
- **S** represents the total number of customers that can be served by each employee, and

- **P** represents the personnel requirements.

For instance, if the number of customers for first-year sales is projected at 10,110 and one marketing employee is required for every 200 customers, you would need 51 employees within the marketing department: 10,110 / 200 = 51

Once you calculate the number of employees that you will need for your organisation, you will need to determine the labour expense.

The factors that need to be considered when calculating labour expense **(LE)** are the personnel requirements **(P)** for each department multiplied by the employee salary level **(SL).**

Therefore, the equation would be:

P x SL = LE

Using the marketing example from above, the labour expense for that department would be: 51 * R 40,000 = R 2,040,000

Schedule of Overhead Expenses

Once the organisation's operations have been planned, the expenses associated with the operation of the business can be developed. These are usually referred to as overhead expenses. Overhead expenses refer to all non-labour expenses required to operate the business.

Expenses can be divided into:

- **Fixed** (those that must be paid, usually at the same rate, regardless of the volume of business)
- **Variable or semi-variable** (those which change according to the amount of business)

Overhead expenses usually include the following:

- Travel
- Maintenance and repair
- Equipment leases
- Rent
- Advertising & promotion
- Supplies
- Utilities
- Packaging & shipping
- Payroll taxes and benefits
- Uncollectible receivables
- Professional services
- Insurance
- Loan payments
- Depreciation

In order to develop the overhead expenses for the expense table used in this portion of the business plan, you need to multiply the number of employees by the expenses associated with each employee.

Therefore, if NE represents the number of employees, and EE is the expense per employee the following equation can be used to calculate the sum of each overhead (OH) expense:

OH = NE x EE

Element 6 – Capital Requirements Summary and Cost of Goods Schedule

Capital Requirements Summary

In addition to the expense table, you will also need to develop a capital requirements summary that depicts the amount of money necessary to purchase the stock and equipment you will use to establish and continue operations.

It also illustrates the amount of depreciation your company will incur based on all equipment elements purchased with a lifetime of more than one year.

In order to generate the capital requirements summary, you first have to establish the various elements within the business that will require capital investment. For service businesses, capital is usually tied to the various pieces of equipment used to service customers.

Capital for manufacturing companies, on the other hand, is based on the equipment required in order to produce the product. Manufacturing equipment usually falls into three categories: testing equipment, assembly equipment and packaging equipment.

example

Capital elements in agribusiness

In agribusiness, the capital requirements are normally based on the cost of the land, the orchard establishment costs and equipment required to produce the crop.

The number of potential sales units in a citrus production unit is expressed at *yield* or *pack-out volume.*

With these capital elements in mind, you need to determine the number of units or customers, in terms of sales, that each equipment item can adequately handle. This is important because capital requirements are a product of income, which is produced through unit sales.

In order to meet sales projections, a business usually has to invest money to increase production or supply better service. In the business plan, capital requirements are tied to projected sales as illustrated in the revenue model shown earlier in this chapter.

For instance, if the capital equipment required is capable of handling the needs of 10,000 customers at an average sale of R 10 each, which would be R 100,000 in sales, at which point additional capital will be required in order to purchase more equipment should the company grow beyond this point. This leads us to another factor within the capital requirements equation, and that is equipment cost.

If you multiply the cost of equipment by the number of customers it can support in terms of sales, it would result in the capital requirements for that particular equipment element.

Therefore, you can use an equation in which **capital requirements (CR)** equals **sales (S)** divided by **number of customers (NC)** supported by each equipment element, multiplied by the **average sale (AS),** which is then multiplied by **the capital cost (CC**) of the equipment element.

Given these parameters, your equation would look like the following:

CR = [(S / NC) x AS] x CC

The capital requirements table is formed by adding all your equipment elements to generate the total new capital for that year.

During the first year, total new capital is also the total capital required.

For each successive year thereafter, total capital (TC) required is the sum of total new capital (NC) plus total capital (PC) from the previous year, less depreciation (D), once again, from the previous year.

Therefore, your equation to arrive at the total capital for each year portrayed in the capital requirements model would be:

TC = NC + PC - D

Keep in mind that depreciation is an expense that shows the decrease in value of the equipment throughout its effective lifetime. For many businesses, depreciation is based upon schedules that are tied to the lifetime of the equipment.

Be careful when choosing the schedule that best fits your business. Depreciation is also the basis for a tax deduction as well as the flow of money for new capital. You may need to seek consultation from an expert in this area.

Cost of Goods Schedule

The last schedule that needs to be generated in the operations and management section of your business plan is the cost of goods table.

This schedule is a spreadsheet and is used only for businesses where the product is placed into inventory. For a retail or wholesale business, cost of goods sold—or cost of sales--refers to the purchase of products for resale, also known as the inventory.

The products that are sold are logged into cost of goods as an expense of the sale, while those that are not sold remain in inventory.

For a manufacturing firm, cost of goods is the cost incurred by the company to manufacture its product.

This usually consists of three elements:

- Material or Input Costs
- Labour

- Overhead

As in retail, the merchandise that is sold is expensed as a cost of goods, while merchandise that is not sold is placed in inventory. Cost of goods has to be accounted for in the operations of a business. It is an important yardstick for measuring the firm's profitability for the cash flow statement and income statement.

In the income statement, the last stage of the manufacturing process is the item expensed as cost of goods, but it is important to document the inventory still in various stages of the manufacturing process because it represents assets to the company. This is important to determining cash flow and to generating the balance sheet.

That is what the cost of goods schedule does. It is one of the most complicated tables you will have to develop for your business plan, but it is an integral part of portraying the flow of inventory through your operations, the placement of assets within the company, and the rate at which your inventory turns.

In order to generate the cost of goods table, you need a little more information in addition to what your labour and material cost is per unit.

You also need to know the total number of units sold for the year, the percentage of units which will be fully assembled, the percentage which will be partially assembled, and the percentage which will be in unassembled inventory.

Much of these figures will depend on the capacity of your equipment as well as on the inventory control system you develop. Along with these factors, you also need to know at what stage the majority of the labour is performed.

Element 7 - Financial Statements and Analysis

Financial data is always at the back of the business plan, but that does not mean it is any less important than the up-front material such as the business concept and the management team. Astute investors look carefully at the charts, tables, formulas and spreadsheets in the financial section because they know that this information is like the pulse, respiration rate and blood pressure in a human. It shows whether the patient is alive and what the odds are for continued survival.

Financial statements, like bad news, come in threes. The news in financial statements is not always bad, of course, but taken together it provides an accurate picture of a company's current value, plus its ability to pay its bills today and earn a profit going forward.

The three common statements are:

- a cash flow statement
- an income statement
- a balance sheet

These three statements are interlinked, with changes in one necessarily altering the others, but they measure quite different aspects of a company's financial health. It is hard to say that one of these is more important than another. But of the three, the income statement may be the best place to start.

Income Statement

The income statement is a simple and straightforward report on the proposed business's cash-generating ability. It is a scorecard on the financial performance of your business that reflects when sales are made and when expenses are incurred. It draws information from the various financial models developed earlier such as revenue, expenses, capital (in the form of depreciation), and cost of goods. By combining these elements, the income statement illustrates just how much your company makes or loses during the year by subtracting cost of goods and expenses from revenue to arrive at a net result, which is either a profit or a loss.

For a business plan, the income statement should be generated on a monthly basis during the first year, quarterly for the second, and annually for each year thereafter. It is formed by listing your financial projections in the following manner:

- **Income.** Includes all the income generated by the business and its sources.
- **Cost of goods.** Includes all the costs related to the sale of products in inventory.
- **Gross profit margin.** The difference between revenue and cost of goods. Gross profit margin can be expressed in Rands, as a percentage, or both. As a percentage, the GP margin is always stated as a percentage of revenue.
- **Operating expenses**. Includes all overhead and labour expenses associated with the operations of the business.
- **Total expenses.** The sum of all overhead and labour expenses required to operate the business.
- **Net profit.** The difference between gross profit margin and total expenses, the net income depicts the business's debt and capital capabilities.
- **Depreciation**. Reflects the decrease in value of capital assets used to generate income. Also used as the basis for a tax deduction and an indicator of the flow of money into new capital.
- **Net profit before interest.** The difference between net profit and depreciation.
- **Interest.** Includes all interest derived from debts, both short-term and long-term. Interest is determined by the amount of investment within the company.
- **Net profit before taxes.** The difference between net profit before interest and interest.
- **Taxes.** Includes all taxes on the business.
- **Profit after taxes.** The difference between net profit before taxes and the taxes accrued. Profit after taxes is the bottom line for any company.

Following the income statement is a short note analysing the statement. The analysis statement should be very brief, emphasising key points within the income statement.

Cash Flow Statement

The cash flow statement is one of the most critical information tools for your business, showing how much cash will be needed to meet obligations when it is going to be required, and from where it will come. It shows a schedule of the money coming into the business and expenses that need to be paid. The result is the profit or loss at the end of the month or year. In a cash flow statement, both profits and losses are carried over to the next column to show the cumulative amount.

Keep in mind that if you run a loss on your cash flow statement, it is a strong indicator that you will need additional cash in order to meet expenses.

Like the income statement, the cash flow statement takes advantage of previous financial tables developed during the course of the business plan. The cash flow statement begins with cash on hand and the revenue sources.

The next item it lists is expenses, including those accumulated during the manufacture of a product. The capital requirements are then logged as a negative after expenses. The cash flow statement ends with the net cash flow.

The cash flow statement should be prepared on a monthly basis during the first year, on a quarterly basis during the second year, and on an annual basis thereafter. Items that you will need to include in the cash flow statement and the order in which they should appear are as follows:

- **Cash sales.** Income derived from sales paid for by cash.
- **Receivables.** Income derived from the collection of receivables.
- **Other income.** Income derived from investments, interest on loans that have been extended, and the liquidation of any assets.
- **Total income.** The sum of total cash, cash sales, receivables, and other income.
- **Material / Merchandise.** The raw material used in the manufacture of a product (for manufacturing operations only), the cash outlay for merchandise inventory (for merchandisers such as wholesalers and retailers), or the supplies used in the performance of a service.
- **Production labour.** The labour required to manufacture a product (for manufacturing operations only) or to perform a service.
- **Overheads.** All fixed and variable expenses required for the production of the product and the operations of the business.
- **Marketing / Sales.** All salaries, commissions, and other direct costs associated with the marketing and sales departments.
- **Research and Development:** All the labour expenses required to support the research and development operations of the business.
- **General and Admin (G&A).** All the labour expenses required to support the administrative functions of the business.
- **Taxes.** All taxes, except payroll, paid to the appropriate government institutions.
- **Capital.** The capital required to obtain any equipment elements that are needed for the generation of income.

- **Loan payment.** The total of all payments made to reduce any long-term debts.
- **Total expenses.** The sum of material, direct labour, overhead expenses, marketing, sales, G&A, taxes, capital and loan payments.
- **Cash flow.** The difference between total income and total expenses. This amount is carried over to the next period as beginning cash.
- **Cumulative cash flow.** The difference between current cash flow and cash flow from the previous period.

As with the income statement, you will need to analyse the cash flow statement in a short summary in the business plan. Once again, the analysis statement does not have to be long and should cover only key points derived from the cash flow statement.

Balance Sheet

The last financial statement you will need to develop is the balance sheet. Like the income and cash flow statements, the balance sheet uses information from all of the financial models developed in earlier sections of the business plan. However, unlike the previous statements, the balance sheet is generated solely on an annual basis for the business plan and is, more or less, a summary of all the preceding financial information broken down into three areas:

- Assets
- Liabilities
- Equity

To obtain financing for a new business, you may need to provide a projection of the balance sheet over the period of time the business plan covers.

More importantly, you will need to include a personal financial statement or balance sheet instead of one that describes the business. A personal balance sheet is generated in the same manner as one for a business.

As mentioned, the balance sheet is divided into three sections. The top portion of the balance sheet lists your company's assets. Assets are classified as current assets and long-term or fixed assets. Current assets are assets that will be converted to cash or will be used by the business in a year or less.

Current assets include:

- **Cash.** The cash on hand at the time books are closed at the end of the fiscal year.
- **Accounts receivable.** The income derived from credit accounts. For the balance sheet, it is the total amount of income to be received that is logged into the books at the close of the fiscal year.
- **Inventory.** This is derived from the cost of goods table. It is the inventory of material used to manufacture a product not yet sold.
- **Total current assets.** The sum of cash accounts receivable, inventory, and supplies.

Other assets that appear in the balance sheet are called long-term or fixed assets. They are called long-term because they are durable and will last more than one year.

Examples of this type of asset include:

- **Capital and plant**. The book value of all capital equipment and property (if you own the land and building), less depreciation.
- **Investment.** All investments by the company that cannot be converted to cash in less than one year. For the most part, companies just starting out have not accumulated long-term investments.
- **Miscellaneous assets.** All other long-term assets that are not "capital and plant" or "investments."
- **Total long-term assets.** The sum of capital and plant, investments, and miscellaneous assets.
- **Total assets.** The sum of total current assets and total long-term assets.

After the assets are listed, you need to account for the liabilities of your business. Like assets, liabilities are classified as current or long-term. If the debts are due in one year or less, they are classified as a current liabilities. If they are due in more than one year, they are long-term liabilities. Examples of current liabilities are as follows:

- **Accounts payable**. All expenses derived from purchasing items from regular creditors on an open account, which are due and payable.
- **Accrued liabilities.** All expenses incurred by the business, which are required for operation but have not been paid at the time the books are closed. These expenses are usually the company's overheads and salaries.
- **Taxes.** These are taxes that are still due and payable at the time the books are closed.
- **Total current liabilities.** The sum of accounts payable, accrued liabilities, and taxes.

Long-term liabilities include:

- **Bonds payable**. The total of all bonds at the end of the year, that are due and payable over a period exceeding one year.
- **Mortgage payable**. Loans taken out for the purchase of real property that are repaid over a long-term period. The mortgage payable is that amount still due at the close of books for the year.
- **Notes payable.** The amount still owed on any long-term debts that will not be repaid during the current fiscal year.
- **Total long-term liabilities.** The sum of bonds payable, mortgage payable, and notes payable.
- **Total liabilities.** The sum of total current and long-term liabilities.

Once the liabilities have been listed, the final portion of the balance sheet (owner's equity) needs to be calculated. The amount attributed to owner's equity is the difference between total assets and total liabilities. The amount of equity the owner has in the business is an important yardstick used by investors when evaluating the company. Many times it determines the amount of capital they feel they can safely invest in the business.

In the business plan, you will need to create an analysis statement for the balance sheet just as you need to do for the income and cash flow statements.

The analysis of the balance sheet should be kept short and cover key points about the company.

Key Questions for Financial Analysis

When preparing this section of the business plan, the following questions can be asked:

- Do you know how much capital you will need to start up? (Plant and equipment, fixtures and fittings, office furniture and equipment, tools of the trade, legal and accounting fees, motor vehicles, initial supplies of raw materials / stock, initial rent and bond, electricity and other utility bonds, legal and accounting fees)
- What will be your monthly expenses? (Raw materials, wages, sub-contractors, accountants fees, advertising, bank charges, electricity, fuel, insurance, rent, motor vehicle expenses, maintenance, rates and taxes, postage, stationery, telephone and fax, computer costs, lease or hire purchase agreements, interest payments on loans, personal needs)
- How long will it take for the business to start showing a profit?
- How much money is required to start and run the business until it is profitable?
- What does your monthly cash flow look like for the first 12 months?
- What sources of finance do you propose using? (Commercial banks, venture capital, own capital, investor capital, finance companies, leasing, factoring)
- What are the terms of the finance?
- Does the plan provide for an adequate return on the money that you propose investing in the business?
- Will you be able to repay any loans that you may need to borrow?
- How feasible is the business proposal if:
  - Sales will be 10% below forecast?
  - The cost of imported supplies increases by 10% because of currency deviations?
  - Production capacity is 6% below expectations?
  - The interest rate on proposed loans increases by 5% per annum?

example

Annexures or addendums

Annexures or Addendums to the Business Plan could include the following documents:

- Copy of Trading Licence
- Copy of PTO (permission to occupy)
- Copy of Curriculum Vitae or resume

example

- Copies of quotations
- Copies of proof of own contribution
- Copies of proof of items offered as security
- Plant layout plan
- Shop / office layout plan
- Copies of proof of tender acceptance documents
- Organogram (plan of who will do what in the business)
- Copies of the financial statements
- Copies of proof of orders
- Maps showing location
- Copy of work permit
- Copy of identity documents
- Copy of latest bank statement

practical

Complete the following formative assessment:

F114592.1 – Team Research Questionnaire, Brainstorm, Conclusion and Class Presentation

Chapter 7
Ethical Framework for Operations

Ethical Frameworks and Codes of Conduct

definition

Ethical framework or code of ethics

The definition of code of ethics is a standard of morals by which a group makes decisions about what is right or wrong.

Code of conduct

A code of conduct is a set of rules outlining the responsibilities of, or proper practices for, an individual, party or organisation.

It is also a set of conventional principles and expectations that are considered binding on any person who is a member of a particular group.

Related concepts include ethical, honour and moral codes, as well as religious laws.

Purpose of an Ethical Framework and a Code of Conduct

The main purpose of drafting these frameworks and codes is to serve as a central guide and reference for users in support of day-to-day decision making within the business. It is meant to clarify an organisation's mission, values and principles, linking them with standards of professional conduct. As a reference, it can be used to locate relevant documents, services and other resources related to ethics within the organisation.

example

Example of typical elements included in a code of ethics or ethical framework

- Confidentiality
- Ethics
- Duty of care
- Conflict of interest
- Contracts

example

- Pricing
- Payment
- Food safety and moral rights
- Quality assurance
- Professional conduct
- Equality and discrimination

Legislation and Regulations

The previous session identified several pieces of legislation (laws) that may have an impact on the way that you may do business in South Africa. Remember, you may not necessarily be doing anything illegal, but you may be omitting to do something which could be of benefit to yourself, the community or the environment. Thus, you are making an error of omission, rather than doing something deliberately illegal.

If you pay attention to legislation and incorporate this legislation into your business's "way of doing business" or "code of conduct" or "code of ethics" then there are often really good results. The government has created several incentive schemes to ensure that the citizens of the country move in a certain direction.

example

Incentives for doing business in an ethical manner

- The government may make tax rebates available to people who incorporate unemployed learners into their businesses (part of Skills Development Act)
- The government assists you to up-skill employees within your business (part of Skills Development Act)

The government procurement process ensures that businesses that have high BBBEE scorecards (which includes elements of ownership, management, employment equity, skills development, procurement, community development, enterprise development) will obtain higher scores on tenders (which assists in winning tenders).

Thus, it makes business sense to know the law and to apply it to the benefit of your business bottom-line!

Corporate Governance and Codes of Conduct

Although the government has placed legislation in place to guide people in the direction in which they would like citizens to operate, there are also "non-statutory" regulations that may control an industry or sector. These "rules" are called "codes of conduct" or "codes of ethics".

Codes of conduct can be explained as: "Principles, values, standards, or rules of behaviour that guide the decisions, procedures and systems of an organisation in a way that contributes to the welfare of its key stakeholders, and respects the rights of all constituents affected by its operations."

Unlike labour law, corporate codes of conduct do not have any authorised definition. The concept "corporate code of conduct" refers to companies' policy statements that define ethical standards for their conduct. There is a great variance in the ways these statements are drafted. Corporate codes of conduct are completely voluntary. They can take a number of formats and address any issue - workplace issues and workers' rights being just one possible category. Also, their implementation depends totally on the company concerned.

Potential authors of a code are the founder, board of directors, CEO, top management, legal departments, and consultants. The process can involve employee representatives and / or randomly or otherwise selected employees.

information

Consumer power and an incentive for ethical business

While the long arm of the law is a factor in business decision making, sometimes the arm of ethics is longer still. Consumer power is increasingly being wielded to affect company behaviour. The boycott mechanism has long been a means for political protest. For many years, a significant number of consumers avoided buying South African products.

Recently, however, boycotts have been called to protest against the actions of specific companies. Nestlé's sales suffered from the boycott protesting about their policy on selling baby milk in the third world, and Shell was forced to change their plans for disposal of the Brent Spar oil platform when German consumers stopped buying Shell petrol.

In agriculture there are clear quality assurance schemes to verify ethical and fair trade, for example:

- GlobalGAP
- Fairtrade principles
- Organic production principles

example

Monetary incentives for doing business in an ethical manner

- The government may make tax rebates available to people who incorporate unemployed learners into their businesses (part of Skills Development Act)
- The government assists you to up-skill employees within your business (part of Skills Development Act)
- The government procurement process ensures that businesses that have high BBBEE scorecards (which includes elements of ownership, management, employment equity, skills

example

development, procurement, community development, enterprise development) will obtain higher scores on tenders (which assist in winning tenders).

Incorporating Personal Values

Although industry norms and standards and generic codes of conduct may exist for every industry and business type, it is the business owner's own personal values, and the current social and ethnic considerations in a country (or even region of a country, or even town) that will ultimately guide the "Codes of Conduct" of a business. Creating a business is a creative and personal challenge and an entrepreneur often says to himself, "In my business, we are going to do things like this, or like that." When you were working for an employer, did you not sometimes think, "When I have my own business, I will do things differently!"?

Establishing a "Code of Conduct" for your business is your chance to do things "your way".

example

Examples of including personal values in codes of conduct or ethics

In some cases, the business owner may have a set of personal values that goes beyond the normal business standards for ethics and conduct. Instances of these values are often found in terms of cultural or religious belief systems. Each of the examples listed below includes a possible value that the person may choose to include in his or her business ethical framework.

- **Xhosa Traditionalist:** To allow all young males a period of 30 days paid leave to attend initiation school.
- **Devout Christian:** Not to have any work activities on Sundays.
- **Devout Muslim:** To close business activities at 11:30 on a Friday and allow all workers to attend Mosque or to have short work days during the holy month of Ramadan.

Drafting Employee Codes of Conduct

example

Example of code of conduct

Code of Conduct for Workers of Best-Milk-Ever Dairy Farms

Date: 30/06/2014

Best-Milk-Ever Dairy Farms' general principles:

- Accountability

example

- Leadership
- Openness and objectivity
- Honesty
- Respect

Safety

We value the people on the farm. To this end, we all follow standard operating procedures that ensure tasks are undertaken to a safe standard.

Punctuality

The dairy industry is based around routine and cows need to be milked at regular intervals. Hence we value our people being prepared to start work as agreed. We understand that there may be occasions where people may need to make other arrangements if they are unavailable to ensure the necessary farm operations actually happen. It is a requirement to take appropriate action to inform others of the inability to meet a time commitment.

Communication

The business has a policy of communicating any information relevant to those in the team. Share information with your colleagues and encourage open communication and staff participation, this principle will keep all team members appropriately informed.

Confidentiality

All staff members must take care to maintain the integrity and security of the businesses records and information including personal information concerning staff.

Teamwork

Teamwork is essential for us to achieve our goals and perform well under pressure or in stressful circumstances. We expect all staff to establish effective collaborative relationships with other people in the business and interact appropriately and successfully with people of all different types and at different levels.

Work ethic

We have a commitment to work within the boundaries of what is a reasonable industry expectation. During agreed work hours, we expect that most of the efforts of people on the farm will be put towards the operations of the business. We appreciate that people need time for personal activities and will provide appropriate opportunities for this to occur.

Acceptance of direction

Taking direction and following operational guidelines is essential. However, we encourage team members to suggest appropriate improvements to procedures that improve efficiencies and the safety and welfare of animals.

We have high regard for the welfare of our stock. At all times, it is expected that animals will be handled in a manner such that it does not breach the guidelines of the national code of animal welfare.

Discrimination

The workplace is free from all forms of harassment, discrimination, and workplace bullying and resolves workplace disputes and grievances in a fair and timely manner.

example

Respect

All staff is treated courteously and with respect.

Efficiency

We ensure that work is performed in an efficient, economical and effective manner and to a standard acceptable to the business. We are conscientious in carrying out our duties and make the most productive use of our time while on duty. We work cooperatively and effectively within the team environment.

Training

The business has a policy of inducting and training all staff into new tasks and skills. It also strives to give people an opportunity to pursue career development in dairying through training and education within the business.

Environmental awareness

This business respects and complies with all relevant environmental legislation, regulations and government policies. It adheres to all approved environmental guidelines and standards applicable to the area of work and minimises pollution and environmental impacts as a result of any activities.

Alcohol and drugs

No-one consumes alcohol or drugs when working, or works when under the influence of alcohol or drugs.

Phone use

Phone use for work purposes only is permitted during work hours. Use of phones including text messaging is only allowed at designated work breaks. Phones are not permitted to be used in vehicles whilst driving.

information

Keeping duties of workers and employers in mind when drafting the code of conduct

Basic Duties of Workers

Ethical conduct dictates the duties of a worker, for example:

- Work honestly and comply with all agreements
- Never injure capital, nor steal from the employer
- Never outrage the person of the employer
- Never employ deceit nor violence in presenting a cause
- Never consort with agitators or men of evil principles

information

Basic Duties of Employers

It is also important to set some ethical conduct for employers themselves. Employers have the sacred task of caring for their workers. Theirs is the golden opportunity to become the ethical man for others. They must be fair-minded and generous in their dispositions.

The following are their basic duties towards their workers:

- Appreciate their work
- Respect the human dignity of the workers
- Never treat them as slaves for making money
- Never assign them task beyond their strength, do not employ them in work not suited to their age or sex
- Give them commensurate wages
- Provide for their health and social recreation
- Provide them time for the practice of their religion
- Instruct them on how to use their money wisely
- Instruct them to love their family
- Provide them with the opportunities for promotion.

All of these things that should be stipulated in every corporate ethical conduct code are supposed to promote the goodwill of every individual who is a member of the labour force. In this way, they can promote goodwill in the whole community, as they continue to practice their profession according to the highest standards set by ethical conduct.

Using Codes of Conduct in Conflict Management

Office conduct codes are generally created to help the company, as well as the employees, face the problems within the work environment. It seeks to deal with conflicts between employees and also with their employer. The main goal of the office conduct code is to minimise the emotive element and to substitute it with a rational pragmatism. With the guidance of an office conduct code, the manager of a company can consider the point of view of each employee irrespective of his own opinion. The office conduct code enables individuals to reach a compromise, thereby ensuring that the common good is greatly observed and adhered to.

Ethics deals with emotions as factors affecting human motivation and behaviour. Instead of rejecting them, it calls for their refinement. This means that man is expected to act not only with his mind and body but also with his heart and soul. Man does not act the way a robot does, without feeling or emotions. Man does experience certain sentiments, and his decision or intention to perform is swayed by his emotions.

It is in this context that every company seeks to hire people who are able to express their emotions in a refined way. This means that they would rather hire people who can offer them great service in conformity to their unsullied work ethics.

Guilt, anxiety and anger are common negative emotions that must be managed carefully. The employer should show his employees that feelings of guilt will not repair whatever untoward action he has done. Anxiety will not prevent a future event that causes fear. Anger is not an appropriate or helpful response to any situation. A company must represent a more reasonable point of view to suppress negative emotions.

The office conduct code clearly defines what kind of behaviour is acceptable in the office set-up. For instance, the kind of respect that you give to your employer and to your colleagues should not be neglected when corporate affairs or events take place.

Corporate evenings and social functions may have a social context but bear in mind that these are still business events. Hence, you should always behave properly according to those things stipulated in the office conduct code. If not, simply going a little overboard on occasions like these could actually ruin your career.

All of this boils down to the fact that conflicts, problems, and dilemmas are unavoidable when people interact at work. If faced with these challenges, adopting a positive and rational approach is the best way to avoid or at least lessen any heightened emotions. Guidelines should be clearly stated and defined in an office conduct code.

Keep in mind that the aim of creating an office conduct code is not to turn the employees into automatons. Rather, it hopes to transform an employee by encouraging him / her to have a stable emotional disposition. This would not only help them to be efficient in handling office matters but would also be beneficial in their emotional being as a whole.

information

Additional recommended reading

- Toolkit for the Company Director (Based on the findings of the King Report), KPMG - available in the Scientific Roets library Reference no: 407.12.
- Jagdish Bhagwati, Corporate Conduct, - available in the Scientific Roets library Reference no: 373.21
- Tom Browne, Assessing Corporate Social Responsibility - available in the Scientific Roets library Reference no:373.29

practical

Complete the following formative assessment:

F114592.2 – Team Class Discussion and Key Notes, Mind Map and Key Notes

Chapter 8
Goals and Objectives

Business Goal Setting

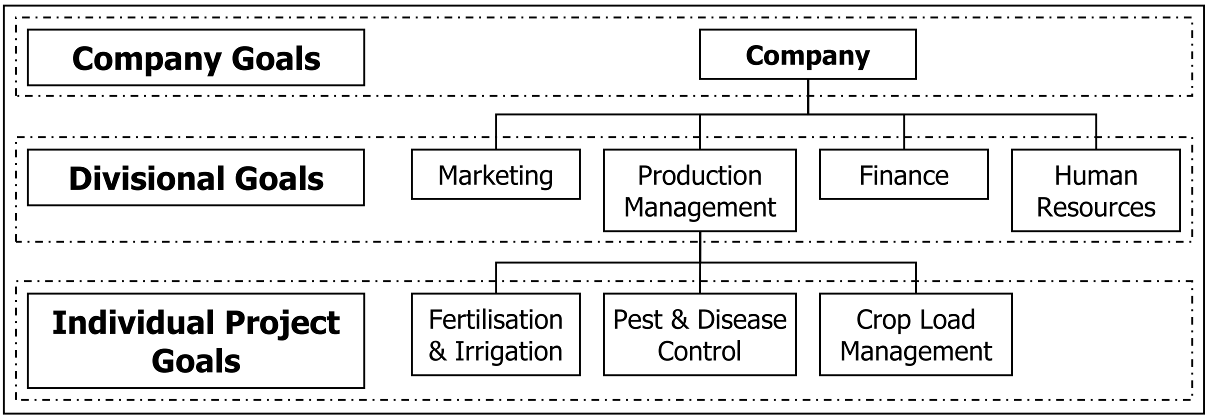
"Begin with the end in mind". This is a well-known phrase, which expresses the importance of starting off any project with a picture of how things should look once the work has been successfully completed. For large-scale and long-term undertakings, this picture is referred to as the vision. For smaller and shorter scale operations, this picture takes the form of specific outcomes and is commonly referred to as objectives or goals. The vision or goal is, therefore, the "what" of any project. It can simply be defined as "the end one strives to attain". As mentioned in a previous section, planning focuses on the steps that have to be taken to achieve the goal, being the "how". There are many types of goals, for example:

- **Long-range** goals are for the company as a whole.
- **Shorter-term** goals are for divisions, departments or other groupings within the company.
- **Business** goals include marketing, technical, production, management, and financial goals.
- **Outcome** goals specify and quantify the required results.
- **Performance** goals set requirements relating to the performance, skills or knowledge to be acquired by groups or individuals.
- **Activity** goals list the activities that are to be measured, for example, the number of meetings to be attended.
- **Personal** goals cover the aspirations of individuals.

The most critical issue relating to goals and goal setting within an organisation is that the goals set at various levels for various purposes and functions must all be aligned towards meeting the overall goal, or vision, of the organisation. For citrus production, this means that the goals of the production department must align with those of the company as a whole, and the goals of individual projects or activities within the department must align with the production department's goals. This concept is illustrated in the figure below.

information

Relational goal setting



Analysing Business Objectives

Different businesses will have different goals (aside from making a profit!).

We want to be able to offer a pleasant service to our customers, look after the environment, enjoy a happy and productive means of earning our livelihood, be of service to people in need, or explore our own creativity by creating beautiful and unique items.

Goals should be SMART:

- **S** – Specific (For example manufacturing only tables and chairs)
- **M** – Measurable (For example 10 tables and 40 chairs)
- **A** – Attainable (Every 3 months)
- **R** – Relevant (No glass will be used only wood)
- **T** – Traceable (Each part of the unit will be monitored throughout the production process – first raw wood, then cut, then sanded, then assembled, then varnished)

Goal Setting Mechanisms

Goal setting is a process to answer the question: "Where do I want to be in relation to where I am now?" Answering this question requires a participative process to get the buy-in of all stakeholders. There are various ways in which this can be achieved.

In most cases, the company's overall goal, or vision, is set by senior management and the board of directors. Thereafter, the vision and objectives are cascaded down to the various levels in the company through a participative process led by divisional and department heads. As mentioned above, the goals set at each level have to be aligned with the vision and objectives of the company as a whole.

The sessions at which individuals contribute to the setting of their department's goals will use various tools and techniques to ensure good order and full participation.

Such techniques could involve the recording of verbal responses to questions such as: "What are the strengths, weaknesses, opportunities and threats relating to the business?" This mechanism is referred to as a SWOT analysis.

All such methods require some form of environmental analysis or scan. This can be done in various ways but boils down to answering the question: "What are the likely scenarios that our production unit could face in the next 24 months?" The answer to this question requires consideration to be given to the various political, economic, social, technical, legal, and environmental issues which could impact on the production unit. Goals cannot be set unless:

- The present situation is known.
- The effect that various internal and external factors which could impact on the business are known and evaluated.
- The purpose and objectives of the business are clear.

There are various ways in which the above can be achieved. These include:

- Conducting a SWOT analysis in which the present strengths, weaknesses, opportunities and threats are considered and evaluated.
- Conducting an environmental scan where all political, environmental, social, technical, economical, and legal issues that could possibly impact on the business are considered.
- Considering what the company would be saying and doing if it was operating in the perfect way.
- The setting of clear company objectives at the highest level.

Goals are set by people, not by processes or techniques. It is, therefore, important that when goals are being set, whether it is at the divisional, departmental and individual level, there is an alignment between the aspirations and goals of the individuals involved in the goal setting and implementation process, and that of the company. For example, it is senseless for a manager to set goals which may require taking technical shortcuts when his personnel is committed to carrying out diligent and thorough work.

In order for it to be successful, goal setting requires open communication, motivation and the complete buy-in and understanding of the bigger company objectives by those tasked with the job of setting lower order goals.

Goals Typically Relating To Citrus Production Systems

The total citrus production process can be seen as the sum of a number of smaller production systems working together to achieve the desired result. The production process will have three or four primary or overall goals. The sub-systems will have their own goals, which are aligned with the overall goals.

If one of the overall production goals were to increase average per hectare yields across all orchards to 30 tonnes, there would have to be a number of lower level goals set to enable this to happen. Such lower level goals could, for example, be to:

- Apply all nitrogen fertiliser applications by 30th July
- Girdle all trees older than 6 years by 25th August
- Apply first pest control sprays by 15th September and follow-up sprays six weeks later
- Increase the frequency of irrigation applications from 1st October

The end result would reflect the extent to which these lower-level goals had been met.

Setting and Discussing Theoretical Goals for a Variety of Citrus Production Systems

The goal setting process involving different functions or departments should not happen for each of these functions in isolation. It is important for the individual heading up each function to be aware what the goals are of the other functions.

For each goal, there needs to be an action plan. The action plan lists what has to be done, by whom and by when. Since common resources are required to meet these goals, it is important that there is an integrated approach to goal setting involving those leaders of the different functions.

example

Components of a Planting Plan for 20 ha of Grapefruit

This process comprises a number of steps. Firstly, the market potential must be assessed. Thereafter, the production potential for the intended venture must be considered. Then a SWOT analysis is needed to determine whether the organisation is positioned to undertake such a venture, meaning that the risks involved must be assessed. Finally, assuming the SWOT analysis has a positive result, the production goals and production plan are put in place.

1. Marketing Potential

Evaluating the marketing potential involves an assessment of the following:

- World grapefruit production
- World grapefruit exports
- RSA grapefruit production
- RSA grapefruit exports
- RSA's competitive position
- Factors affecting the demand for RSA grapefruit
- Availability of export and local markets

2. Production Potential

Evaluating the production potential involves an assessment of the following:

- Climate
- Soil
- Water and irrigation
- Existing plantings
- Cultivar selections for new plantings
- Estate infrastructure
- Agrochemicals and consumables

example

3. SWOT Analysis

After the above assessments have been completed, it is important that an assessment is made of the potential success of the intended venture. A SWOT analysis is a handy tool for identifying the present status and future potential of the operation. This is done through discussion with managers and staff in a coordinated session. An example is given below:

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Strengths

- Grapefruit quality
- Early maturity
- Secure and plentiful water
- Excellent soils
- Good range of high-quality rootstocks
- Committed ownership
- Good citrus production technical skills
- Good PR skills – well connected
- Labour in abundance
- Close to port
- Innovative management
- Low per-unit labour costs
- High labour literacy (100%)
- Good market potential

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Weaknesses

- Poor labour skills
- Importing of inputs difficult and costly
- No GlobalGAP (environmental) compliance
- No local factory outlet
- Poor quality and unreliable machinery
- Packhouse in bad condition
- No regular management accounts
- No market access to key markets
  - Japan
  - USA
- High pest pressure
  - Thrips
  - Fruit fly
  - False codling moth (FCM)
- Low export percentage
- Lack of available logistics to exploit early maturity of grapefruit

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Opportunities

- Expand red grapefruit production into market gaps left by other farmers who have removed trees
- Reduce electricity costs
- Obtain GlobalGAP (environmental) accreditation
- Improve labour skills by training
- Upgrade equipment reliability
- Improve systems
  - Production and packing records
  - Human resource
  - Finance and reporting
  - Marketing
- Explore market niche opportunities
- Investigate lime production
- Investigate local processing
- Gain access to Japan
- Improve nutritional management
- Improve pest control

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Threats

- Water availability
  - Floods – medium risk
  - Drought – low risk
- Phytosanitary pests and diseases
  - Black spot
  - Fruit fly
  - FCM
- Management succession
- Labour unrest
- Political unrest
- Security
- Low market prices
- Environmental requirements
- Lack of management depth

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example

4. Production Goals

The production goals would include:

- Establishment of phased planting of 5ha per annum over the next four years, with the first planting commencing in September 2017. Note that as discussed elsewhere, there would be many sub-goals attached to this primary, long-term goal.
- Installation of accredited environmental system by January 2018.
- Initial production objective of 10 tonnes of exportable fruit in the first year of production (2021).
- Costs of establishing the orchards and annual operational costs will be covered for each block of trees planted in the 7th year after planting.

When in full production (2028), the annual yield will be 400 tonnes of export fruit / annum going forward, giving some 30,000 cartons of export fruit at a net profit of R 150,000 per annum.

5. Production Plan

The production plan consists of a list of actions required to achieve the above objectives, each with a target date and interim milestones so that progress can be reviewed on a regular basis.

Strategic Planning

If goals are long-range, meaning that it will take more than a few years to achieve, or strategic, meaning that they apply to the farming operation as a whole, the planning involved in achieving these objectives will likewise be long-range and strategic in nature. If, on the other hand, goals are short-term, such as applying fertilisation before a certain date, a short-term operational plan or action plan is required.

Planning is concerned with thinking through, and when necessary listing, the steps and actions required to progress from the present situation to the desired situation.

We plan our everyday activities automatically, such as getting up and dressed in the morning. However, when it comes to more complex actions or tasks we have to put more effort and care into planning. For example, fixing a roof leak requires as a first step, a plan. This plan will include how it will be fixed, what tools and materials are required, where these must be obtained, who will be responsible for overseeing the process and who will do the actual work, what sequence the process should follow, the costs involved, and by when it should be completed. Planning, therefore, concerns the how, where and when of any operation or task we may perform, before we perform it.

Without planning, there would be no step-by-step sequence of actions taking us from where we are to where we want to go. Our actions would be random and we would waste time, energy and money in repeating certain steps and leaving out others while compromising our chances of reaching our goal. In the process, we could do things that threaten the future of the business and harm the environment.

information

Methods of strategic planning

Companies often use strategic planning sessions to develop and update their strategic goals. Typically strategic planning will include the following activities:

- Developing or revisit the company vision, mission, and values
- Conduct a situational analysis, including:
  - Stakeholder analysis (What do we want from them, what do they want from us, how do we want to be perceived, what is our message to them)
  - External analysis (threats and opportunities)
  - Internal analysis (strength and weaknesses)
- Defining the objectives required to achieve the deliverables
- Formulate action plans, including defined activities, indicators, timeframes, responsibility, resources and budgets for each project.

information

Resources

A useful planning tool is the 10 R Planning Framework by Grant Jackson (2006). Ask yourself the following questions when planning your business strategy:

Relationships: Who are your key (internal and external) stakeholders? What do you expect from them?

Reputation: How are you perceived by your key stakeholders? What is your message to stakeholders?

Responsibilities: What do your key stakeholders expect from you? How are these responsibilities organised within your organisation / function / department?

Routines: What regular activities are performed? How are they triggered? How do they flow through the department?

Resources: What resources are required to discharge responsibilities / perform routines? What are your monthly operating expenses? What is your stock of capital items?

Restraints: What bottlenecks exist inside the company? What bottlenecks exist outside the company? How are these bottlenecks overcome?

Regulations: What statutes / agreements regulate your activities? Where are you non-compliant? What are the consequences of non-compliance? How is compliance achieved?

Risks: What can go wrong? What is the trigger / likelihood? What is the consequence / severity? How are risks mitigated?

Reports: How do you report on performance measures? How do you report on project milestones? What information do you require to make decisions?

Reinvention: How do you ignite, capture and convey innovation? How many innovations are expected over a specific time period?

Characteristics of Objectives

Well-formulated business objectives have the following characteristics:

- Established or approved by the company
- Complementary at business unit level (different divisions must be aligned)
- Set expectations within a time period
- Require evidence of compliance (of achieving objective)
- By defining the expected result of one or more processes, objectives ask for specific information about process performance
- Must fall within assigned functional responsibility
- Expressed in terms of process constraints
- Provided for all employees (all employees have certain objectives)

A company should set objectives within all eight business functions, namely:

- Human resources
- Public relations
- Marketing
- Production
- Administration
- Purchasing
- General management
- Finance

The Vision

A vision defines your company's position and should inspire and motivate and provide direction and foster success. It is essential to the future of the company.

When formulating a vision, consider these 7 C's:

- Customers
- Competition
- Challenges
- Cooperation
- Creativity
- Costs
- CSR (the triple bottom line = sustainability, economics, social responsibility)
- Communication

A vision identifies:

- The company's approach regarding the triple bottom line
- The moral / ethical position of the enterprise
- Desired public image
- Key strategic influence for the business
- Description of the target market
- Description of the products / services
- Geographic domain
- Expectations of growth and profitability
- Challenging
- Big enough to be a threat
- Reflects some bigger purpose
- Goes beyond everyday goal of getting a good product out the door
- Sufficiently future oriented
- Requires more than just completion of a list of actions over the next 6 months
- Requires more than quality management – sufficiently different from what we are doing now
- Picture of the ideal future of the organisation or system
- Visioning is a deep voyage into the heart and soul of an organisation
- Visions must be big and hairy- "Little visions are not worth committing 10 years of your life to create"
- Focuses on end state and not how to get there

The Mission

A company's mission statement is a short statement of its major purpose. It is a statement of its reason for existence. It answers the question: what is our business? And it is what the organisation does in order to achieve its vision. When there is no explicit mission statement, the most general objective should be regarded as the mission.

A good mission statement should:

- Be specific enough to exclude certain activities and comprehensive enough to allow creative growth.
- Distinguish the company from others in the same field of activities.
- Be the basis for evaluating the overall performance of the organisation.
- Be the basis for resource allocation.
- Be such that all internal and external actors can understand it.

For clarity and comprehension of the mission, it should have two parts:

- An introductory paragraph, which generally includes the purpose, the products, and the clients of the organisation.

- The "body" of the statement, which expands on the introduction and touches on strategic aspects.

In summary, the mission states the "what" and "how". In common with the vision and value statements, the mission statement must be reviewed every time an organisation does a strategic plan.

Formulating Short and Long Term Goals

To develop effective short, medium and long-term goals for your business, you firstly need to determine:

- What are you … what business are you in?
- What do you do … what is your product / market category?
- Who are your key stakeholders? – identify
- What do you want from them? – quantify stakeholder objectives
- What do they want from you? – quantify stakeholder delivery expectations

Secondly, you need to determine your capabilities. Do you have what it takes (knowledge, staff, skills, equipment, and procedures)? If you do not have the capabilities (or they need to be improved) you should develop objectives of capability building projects and activities aimed at maximising the value delivered and captured, minimising economic cost, and approaching economic volume.

There are two types of strategic objectives:

- Stakeholder objectives, for example, increase fees from existing clients by 40%
- Capability objectives, for example, appoint four new technical staff

When you are formulating your business objectives, your vision, mission and codes of conduct, you may want to include "greater order" objectives into your planning. These may be objectives such as:

- Decrease unemployment
- Reduce litter in your community
- Promote a crime-free town

See whether you can feasibly incorporate any greater order objectives into your business's strategic objectives. Tip: There are often government, provincial, or local business incentive schemes that may make it worth your while to consider higher order objectives in your business planning and implementation!

When you are formulating your code of conduct you should consider how your company will respond to both internal and external clients (customers and employees) regarding issues such as:

- Race
- Gender
- Religion
- Sexual orientation
- Disability

If you include clear and direct statements in your company documentation regarding non-discrimination and compliance, you can assist to ensure that these groups of people are treated kindly, fairly and equitably.

Have you included a statement (or section) regarding non-discrimination and equity in your company documents? Ensure that you do.

information

Objectives in citrus production

Setting objectives is concerned with the farming operation, meaning finding answers to the question "What do we want to achieve?" Some goals and objectives that apply to citrus production were discussed in chapter 1. In summary, the citrus production manager is faced with a variety of challenges the most important of which are to:

- **Achieve per hectare yield targets** – This means that the production per hectare must achieve the targets that have been set in the annual budget. Annual targets for mature trees could vary from 30 to 60 tonnes/ha, and depend on the age of the orchard, the cultivar being produced, and other factors relating to the production site.
- **Ensure the end products meet market specifications** – The production manager must for example set production objectives to achieve the requirements of the markets in terms of size, colour, and internal quality.
- **Ensure that the process is sustainable -** This means ensuring that the environment is not adversely or unnecessarily disturbed by the production processes, for example by pest control chemicals and fertilisers, so that high levels of production can be sustained over the lifetime of the orchard.
- **Remain within the framework of Good Agricultural Practices (GAP)** – GAP calls for care in the use of chemicals to ensure safety for all operators, the use of pesticides, fungicides and fertilisers in a systematic, careful and planned way, and the judicious application of water to prevent wastage, contamination, and erosion.

Secondary objectives may apply to individual farming operations, but meeting the objectives stated above will ensure the overall success of the operation.

practical

Complete the following formative assessment:

F114592.3 – Team goal setting analysis worksheet

Chapter 9
Draft and Present a Business Plan

information

Holiday project and supplementary reading

As part of your holiday work, you will be expected to draft a complete business plan for a business associated with the citrus sector.

It is important that you also access the following learning materials available from the Citrus Academy to deepen your understanding and guide you through the process:

- N2 116115 – Production Management
- N3 116218 – Production Management
- N4 116288 – Production Management
- N2 116126 – Marketing
- N3 116259 – Marketing
- N2 116081&116127 – Enterprise Selection and Planning

practical

Complete the following formative assessment:

F114592.4 – Paired planning session and framework development

Section 2: Self-Assessment and Progress Check

Identify, gather and analyse the relevant information needed to compile a plan for a new venture.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
The purpose and importance of a business plan is discussed in terms of its contribution to a successful business.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
The different elements of a successful business plan are listed and described with examples.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
Information on the resources needed and procedures to be followed to achieve the plan is compiled.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
The industry specific and legal requirements for own venture are identified and explained in terms of how they will affect the venture.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
Formulate an ethical framework for the operational plans of a venture.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
Legislation and relevant regulations relating to the type of venture are identified for use in drawing up a code of ethics for the business.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
Non-statutory regulations applicable to the sector are identified and used in drawing up a code of ethics for the business.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
Codes of conduct that are used by similar organisations in the sector are evaluated and elements identified for inclusion in an ethical framework for then business.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
Social and ethnic considerations are identified for inclusion in the ethical framework of a new venture.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment

Personal values are identified for modifying an ethical framework for a new venture.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
An ethical framework and codes of ethics and conduct are drawn up for the new venture.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
Establish and prioritise business, financial and / or operations goals and objectives for new venture.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
Personal objectives are clearly articulated and aligned to the plans of own venture.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
Business objectives are analysed and specific goals formulated to achieve objectives set out for own business.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
A vision statement of a new venture is compiled to represent goals and objectives set for own venture.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
Specific short and long term goals are formulated allowing flexibility for possible changing circumstances.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
Possible contribution to community and regional growth objectives are identified and considered.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
Cultural values and beliefs of prospective employees and expected consumers are incorporated into the plans of own venture.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
Design and present business, financial and / or marketing plans based on a budget for a new venture.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
The business of the venture is introduced and described based on research and analyses of competitors.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment

Structure and layout of the business plan is designed to be compatible with the nature of the own venture.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
Marketing and promotion of the own venture is concisely presented in the business plan.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
Finance requirements for the business are stated in the business plan.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
The projected income and expense items for own venture are tabulated in the business plan.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
The costs, risks and proposed infrastructure of the operations plan is presented in the business plan of own venture.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
Relevant documentation is compiled to support the business plan.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
Business plan information is presented in relevant and clear format.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
Procedures to present the business plan for own venture to a financier is explained.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment

Section 3: Costing and Pricing

Learning Goals and Pathways

Once you have determined that your business idea or concept is viable, and you have prepared the basic layout of your business plan, you will find it necessary to make some decisions around costing and pricing of your products and services.

This section will help you to work through the planning processes, calculations and considerations that you should take into account when making decisions surrounding costing and pricing and understanding how it may impact the financial welfare of your future business.

This section is presented in chapters 10 - 12 of the guide.

The learning goals for this module include:

1. Understanding the criteria of a price setting policy for a new venture.
2. Analysing the internal and external factors that impact upon pricing decisions.
3. Understanding of the relationship between costs, revenue and profits.

Chapter 10
Costing

The Trading Cycle

When you start to run a business, your aim is to **manufacture**, **produce**, **supply** or **market** a quality **product** or **service** to a willing **consumer** who **demands** your product at a **price** that will cover your input costs as well as leave you enough to make a **profit,** and at a price that offers your client **value** for money.

example

The Trading Cycle

Our inputs are:
- Bread
- Jam
- Butter
- Packaging
- Our skill or labour or idea

Our equipment is:
- Knives
- A breadboard
- A cloth

Our infrastructure is:
- A hygienic work area
- A table

The process is:
- We slice the bread
- We spread the butter
- We open the jar of jam
- We spread the jam
- We package the sandwich

The final product is:
A sandwich that we can sell.

Thus, the making of the sandwich is the **process** by which we change the inputs into the final product, utilising the equipment, our skill, and the infrastructure, which we then sell to our clients.

All businesses have this type of **production conversion process** or **trading cycle**. Farming has a production conversion process. Offering welding services has a production conversion process. Banking services entail a production conversion process. All businesses require certain inputs or resources and then something is done with those inputs or resources to convert them into outputs or final products and services to sell.

Can you see that any business consists of a process whereby inputs (resources), equipment, skills and infrastructure are used to produce a product or service which is sold?

If the correct inputs, equipment or infrastructure is not supplied to the production process, the production process for that product or service is not adequate. The resulting product or service will be of poor quality, or the product or service will take longer than usual to reach the stage where it can be sold to the consumer, which increases labour costs and probably the price at which it can be sold.

However, no business runs separately from the world outside it. It offers services and products to its clients, and in turn, it draws on the expertise, inputs and services of outside service providers to attain its own goals. In this way, a business can concentrate on its **core** function – that activity which is the mainstay of its business.

So, for example, providing chicken-based fast-foods to consumers is the core business of Kentucky Fried Chicken. It does not sell any products containing beef. Even though it has a bank account, it does not provide banking services to its customers. Each branch may have a printer or fax machine, but it does not rent these out to the public. It concentrates all its energy on its core business – providing chicken-based fast-foods to consumers. When it needs banking services it goes to the bank and utilises those banking services, and when it needs a printer cartridge for the printer it buys it at a stationery shop.

However, each resource or input into your business has a cost. These costs are called input costs or expenses.

Citrus Production Cycle

The production cycle for citrus is a year-round process and is closely related to the annual growth cycle of the citrus tree. This cycle is discussed shortly in the introduction to this learning material. The production cycle is designed to provide the tree with what it requires to optimally support the current growth stage.

Using the annual cycle in the introduction, the production cycle is related to the growth stages of the tree as set out in the table below. Please note that the approximate phenology of a valencia orange tree was used to develop the production cycle that is reflected in this table, and that the phenology of various types and cultivars of citrus fruit can differ slightly.

example

The annual production cycle for a valencia orange

Month	*Cell Processes*	*Fruit and Flower Development*	*Production Processes*					
			Fertilisation	Pest and Disease Cont	Irrigation	Pruning	Harvesting	Packing
July	Flower Initiation	Flowering						
August	Cell Division							
September								
October		Fruit Set						
November								
December	Cell Enlargement							
January		Fruit Growth and Maturation						
February								
March								
April								
May								
June								

Production Cycle and Production Factors in Citrus

Production systems involve the use of a variety of **production practices** that are employed to produce a crop of the highest possible standard in terms of quantity, quality, and size, in order to achieve **production objectives**. Coordinating the production systems requires effective **production management**.

definition

Production practices

Production practices are the actions and processes carried out to achieve **production objectives**, such as fertilisation, irrigation, pest and disease control, pruning and harvesting.

Production systems

Production systems are concerned with the production practices required to **convert resources** into the desired **product**, which in this case is a marketable citrus crop.

Production management

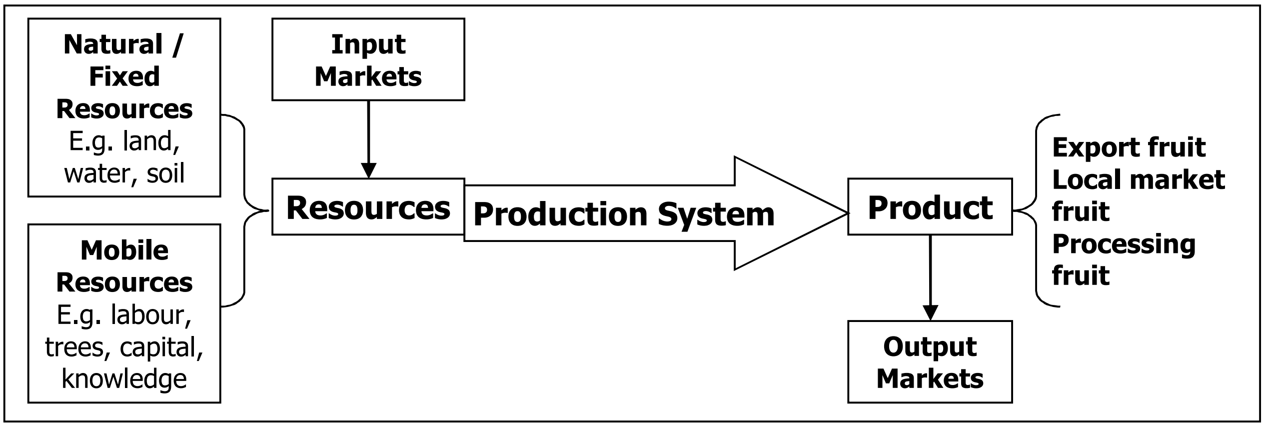
Production management is the management of **production systems** and **production practices**.

Production objectives

Production objectives are measured in terms of yield (volume), export percentage, number of export cartons per hectare, fruit size, and external and internal quality.

example

Production conversion in agriculture



Costing and Pricing

example

Costing

In our example, we analysed all our inputs to the process of creating a tasty sandwich to sell. To be able to work out the price at which we should sell the sandwich to our customers we need to determine the costs of each of the inputs to the sandwich.

Item	**Cost**	**Notes**
Inputs		
Bread	R 1-00	R 10-00 per loaf, 20 slices per loaf, two per sandwich R 10-00 / 20 X 2 = R 1-00
Jam	R 2-00	R 20-00 per 250ml jar, 25ml used per sandwich R 20-00 / 250 x 25 = R 2-00
Butter	R 0-60	R 15-00 per 500g, 20g used per sandwich R 15-00 / 500 x 20 = R 0-60
Packaging	R1-50	R 20-00 per 30 plastic bags R 20-00 / 30 = R 1-50
Our skill or labour or idea		A cost cannot be attached to an idea – this is the contribution from the entrepreneur, for which he or she will receive the profit from the business
Equipment		
Knives	R 45-00	Breadknife – R 30-00; butter knife – R 15-00
A breadboard	R 50-00	
A cloth	R 5-00	
Infrastructure		
A hygienic work area	R 500-00	Rent paid
A table	R 300-00	
Process (labour cost)	R 1-00	It takes 3 minutes to make a sandwich, a worker is paid R 20-00 per hour R 20-00 / 60 x 3 = R 1-00
Total coat	**R 906-10**	

From the above example, we can see that it costs R 906-10 to make a sandwich. But surely this cannot be right? Of course it is not. Can you spot the problem? Surely we do not need to buy new equipment and infrastructure for every item that we produce, and surely we do not pay a month's rent for the facility to produce only one item. This serves to illustrate the difference between two types of costs, namely direct input cost and capital expenses.

Input Costs

Input costs are inputs that are used up in the production process of an item or service. The costs of these inputs are therefore directly related to the production of that item or service, and the costs must be covered completely by the selling price of the item.

example

Costing – Input costs

In our example above, the bread, butter, jam, packaging, and labour are all input costs.

Item	Cost
Bread	R1.00
Jam	R2.00
Butter	R0.60
Packaging	R1.50
Labour cost	R1.00
Total input coat per item	**R6.10**

example

The value chain in citrus production

Links in the Value Chain (Cost Element)	% Contribution to Cost
1&2 – Production and Picking	11.5%
3 – Packing	13%
4 – Transport	1.5%
5 – Harbour Handling	3.5%
6 – Shipping	18.5%
7 – Receiving and Transport	13%
8 – Sales	30%
Other Costs	9%
Total	**100%**

Capital Expenses

Capital expenses are related to equipment and infrastructure, meaning items that are needed for the production process, for an item or service to be successful, but that is not used up during the production of a single item or provision of a single service.

Many of the items or services can be produced using the same equipment and infrastructure.

How do we then calculate the capital expense for producing a single item, so that we can include it in the costing of the item? We cannot just leave it out because we can easily end up charging too little for an item because we will not be covering our capital investment. We might end up thinking we are making a profit because we are selling individual items for more that the input costs, but find in the end that we are running at a loss because we did not take into account that we still have to pay for capital costs. Let us see how this calculation can be done, using our previous example.

example

Costing – Capital Expenses

In order to make these calculations, it is necessary to make a number of assumptions, or estimates. It is important that these assumptions must be accurate. It is good practice to research other businesses that produce the same types of items or services, or that use the same types of production processes. Industry standards are also handy in this regard, as is personal experience. Experts can also be consulted, although this may require you to pay a consulting fee.

Capital Expense	Cost per Item	Notes
Equipment		
Knives	R 0-02	We estimate that we can make 2,000 sandwiches with the same set of knives before they will be worn out and need to be replaced. R 30-00 + R 15-00 = R45-00 / 2000 = R 0-02
A breadboard	R 0-07	We estimate that we can make 1,000 sandwiches on one breadboard R 50-00 / 1000 = R 0-05
A cloth	R 0-05	We estimate that we can make 100 sandwiches before we need to get a new cloth R 5-00 / 100 = R 0-05
Infrastructure		
A hygienic work area	R 0-21	Our worker can make a sandwich in 3 minutes, which means she can make 20 sandwiches in an hour. Allowing for breaks, we can assume that she is able to produce around 120 sandwiches per day, which means 2,400 sandwiches in a 20-day month. R 50,000-00 / 2,400 = R 0-21
A table	R 0-01	We estimate that we will need to replace the table every two years, i.e. every 57,600 sandwiches R 300-00 / 57,600 = R 0-01
Total capital coat per item	**R 0-36**	

Note how the above calculations assume efficiency in your production process – it assumes that the worker will consistently produce 120 sandwiches each day that you will be able to sell all those sandwiches that the equipment will be taken care of to ensure that they reach their estimated

example

lifespan. It is essential to be aware of these efficiencies that you assume when costing your product and to manage your business in such a way that these efficiencies are maintained. Not maintaining efficiency can have disastrous implications for the profitability of your business.

Pricing

Once you have accurately calculated the cost of the production process for an item or service, you need to add on a profit margin.

This profit margin, also called a gross profit margin or a markup (a term used more commonly in the retail sector), must be large enough to result in a gross profit from which you can cover all other overhead costs (electricity, stationery, accounting fees, telephone, and insurance), but it cannot be so large that you end up with a product that is so expensive that nobody can buy it. The selling price of the product must present good value for money to the consumer.

In the next chapter, pricing is discussed in detail.

Other Cost Classifications

There are other ways to classify costs, which are commonly used in financial planning and management.

Fixed Costs

These are costs in a business that do not, in the short-term, vary with the number of goods produced or sales levels. Examples of fixed costs are:

- Rent on property
- Rent on equipment
- Insurance or interest expenses
- Depreciation

Fixed costs do not change. Regardless of the number of products produced and sold, they remain the same.

Variable Costs

These costs vary depending on the production levels of the enterprise. Examples of variable costs in crop production include:

- Seed
- Fertiliser
- Chemicals
- Fuel
- Labour

In poultry or livestock production, variable costs may include feed, labour, and medicines.

In the example of the sandwich shop above: the variable costs would include the bread, the butter, and the jam.

The fixed costs would be the costs of the furniture.

Direct Costs

Direct costs include all those costs that are incurred in the direct production of the product. For example, if a company is involved in growing tomatoes, then the direct costs include the costs of labour, seed, fertiliser and water. Direct costs include materials and other expenses specifically incurred to produce a specific product or provide a certain service. In the example of the sandwich provided above the direct costs would be the bread, butter, jam, and labour.

definition

Various definitions of direct costs:

- Those costs that can be specifically identified with a particular project or programme or product.
- Resources that must be committed to implement a programme or produce a product. FOR EXAMPLE, programme staff salaries.
- Those costs (labour, material, and other direct costs) that can be consistently related to work performed on a particular project or product. Direct costs are best contrasted with indirect costs that cannot be identified to a specific project or product.
- Total costs directly attributable to carrying out a grant project including salaries, fringe benefits, travel, equipment, supplies, professional development and consulting services.
- Costs that specifically identify with a particular enterprise of the farm. For example, the cost of seed maize is specifically identified with the maize enterprise.

Indirect Costs

These costs can be defined as those costs incurred by the business which cannot be directly associated with any particular product or service which that business provides for its customers. These costs are called 'indirect' costs because they are different to "direct" costs that can be directly attributed to a particular end product or service of the business. This principle is the same for all types of business in all sectors of operation being private or public sectors.

The same principle applies to indirect costs incurred in each functional area of the business: production, selling, distribution and general administration.

Examples of indirect overheads are things such as rent, utilities (water and lights), building maintenance and renovation, labour and materials, and insurance. In the example of the sandwich provided above, the table can be seen as an example of indirect costs since the table could also be used to make a different product, or it could be used for meetings.

definition

Various definitions of indirect costs:

- These are the costs which are not directly related to production of the goods or service, such as utilities and administrative costs. Such costs need to be apportioned.
- Costs that do not contribute directly to the product or service being produced, for example, security staff. Indirect costs are often called overheads.
- Indirect costs are any overheads, legal and finance costs.

Cost Considerations in Citrus Production

Natural Resources

- Market demand and the physical properties of the potential site play the biggest role in planning a new citrus planting.
- Citrus is a perennial, evergreen, long-term crop and therefore constitutes a long-term investment.
- The successful production of citrus requires good plant material, a suitable microclimate, suitable soil, good quality water and irrigation, and good management.
- Natural resources are the elements in the natural environment that are required for the production of a crop and include soil, water, climate, indigenous vegetation, landscape and topography, infrastructure, and people.
- Citrus is grown in sub-tropical climates, where winters are not too cold and relatively frost-free, spring and summer temperatures are not too high, the relative humidity is not too low, water is fairly available, and there is no or little hail and wind. Temperature, the wind, rainfall, and hail are climatic conditions which most affect citrus production.
- Indigenous vegetation of the area must be known and taken into account when a planting is being planned.
- Topography refers to the lie of the land, also referred to as the physio-geographic characteristics of the land.
- The water source, irrigation capacity, and water quality must be considered when assessing the suitability of the water supply.
- Soil potential is determined by the soil fertility, available water, and soil permeability.
- The suitability of soil for citrus production is determined by the texture, structure, layering, chemical and mineral composition, and depth.
- Soil erosion occurs when soil particles are removed by wind or water at a greater rate than it can be formed. The dangers of erosion must be taken into account when planning a planting.

Environmental Conservation

- Prior to developing land, it is important to survey the area to be planted to establish whether it may endanger the surrounding environment and what should be done to ensure an ecologically sensitive development.
- The environmental pattern for a specific land area includes types of soils that are on the farm, microclimate of the area, water and water sources, types of animals that naturally occur, how the land is formed in the area, and the people, buildings and activities that happen in this area.
- Citrus cultivation has the potential to impact most significantly on soil, water sources and ecosystems.
- Cultivation impacts on the soil both when a new farm or planting is established and on an ongoing basis through production practices, such as fertilisation and irrigation.
- The greatest danger that the establishment of a new farm or planting poses to the soil is causing or accelerating soil erosion, which occurs when soil is removed through the action of wind and water at a greater rate than it is formed.
- Water erosion causes two types of problems, being on-site loss of agricultural potential, and the off-site effects of downstream sedimentation, causing flooding and the silting up of reservoirs. The main forms of water erosion are sheet erosion, rill erosion (channel erosion), and gully erosion.
- Wind erosion occurs when the land surface is left bare in regions that are arid enough to allow the soil to dry out, and flat enough to allow the wind to carry the soil away over several consecutive days.
- There are various factors determining soil erodability, the most important being slope, soil texture, soil structure, terrain unit, organic material, and vegetation cover.
- It is important to develop the farm in such a way that it will not endanger water supply in any way.
- If a citrus farm is developed in an area where a specific veld type occurs, it is important to identify all actions which could endanger the natural ecosystem and to develop an action plan with the help of soil conservation committees or the Department of Agriculture, Forestry and Fisheries.

Infrastructure

- Infrastructure is the support structure necessary for successful establishment of a citrus farm or planting.
- Infrastructure is not a determining factor when a decision is taken to develop a citrus farm, but it plays a very important role in the planning process.
- For external infrastructure, access roads, the locality of the farm, communication systems, and the availability of service providers and community services must be investigated.
- Internal infrastructure includes fencing, farm roads, irrigation and water supply systems, electricity supply, and farm buildings.

- The most common types of fencing are security fencing, cattle fencing, and game fencing. The type and location of fencing depends on the needs of the farming enterprise.
- Roads must be located to provide easy access to the main buildings on the farm while limiting movement in and around the orchards.
- Irrigation infrastructure includes dams, pumps and pump houses, and in-field irrigation. The system must be designed and installed by a qualified irrigation engineer.
- Electricity infrastructure includes the main supply and the reticulation system and must be designed and installed by a qualified electrical person.
- Farm buildings include housing, stores, offices and, in some cases, packhouses. Buildings must be placed so that they can be easily accessed but still provide security and control.
- When an existing farm is purchased, the infrastructure must be evaluated against the planned activities on the farm.
- Existing infrastructure that must be evaluated includes fencing, housing, water supply, electricity, and roads.

Cultivars and Production Stock

- Two types of stock are required on a citrus farm, being the plant stock, meaning the type and cultivar of citrus that is being planted, and production stock.
- Citrus is classified in four groups being oranges, soft citrus (mandarins), grapefruit, and lemons.
- The production stock required on a citrus farm is plant material, agrochemicals, tools, machinery and equipment, maintenance items, fuel, and other consumables.
- The choice of cultivar and rootstock is one of the most important decisions that must be taken when planning a citrus planting.
- Plant material must be purchased from a nursery that is accredited by the Citrus Improvement Programme (CIP) and that can supply trees that are true-to-type and of high quality. Each consignment of trees must be certified in terms of GlobalGAP requirements.
- The tools, machinery, and equipment required depends on production practices and the size of the farm.
- Agrochemicals are chemical products that are used in pre- and postharvest agricultural production processes and include chemicals for soil preparation, fertilisation and crop protection, and postharvest processes.
- Maintenance items include lubricants, spare parts, tyres, irrigation emitters, pipes, and other items that are needed to maintain the vehicles and equipment and the irrigation system on the farm.
- Fuel refers to the diesel and petrol that is required to operate the vehicles and equipment on the farm.

- Other consumables include items such as protective clothing, cleaning material, and all other items required for the management and administration of the business.

Production Cycles

- The citrus production cycle is closely related to the growth cycle of the tree and is designed to provide the tree with what it needs during each stage for optimal growth.
- Record-keeping monitors internal and external factors that can influence the outcome of the production process.
- A record-keeping system should be such that it is possible to trace the origins of any fruit, even back to the orchard.
- Actions and observations that are to be recorded include blossom dates of all cultivars, weather data, irrigation scheduling, details of fertiliser applications, and details of pest and disease control applications.
- Marketing of fruit is done either by the grower directly, or more likely by a marketing agent. It is essential that the grower should be aware of the requirements of the markets that he intends selling his fruit in.

Harvest Practices

- The basic requirements for preparing for the harvesting process are crop estimates, management, equipment, and the workforce.
- The crop estimate must include the expected crop volume, projected fruit size spread per cultivar, external quality, and expected time of ripening.
- Management preparations must be made by ensuring that all supervisors and workers are properly trained and that systems are in place to monitor the quality of the fruit and the overall picking and packing process.
- The harvesting equipment that is required includes tractors, picking trailers, bins, ladders, clippers, picking bags, and picking gloves.
- The crop estimate is used to calculate the number of workers needed for the harvest.
- Two harvesting systems are commonly used, being bins and picking trailers.
- Before the harvest commences a final crop estimate must be made, the internal and external fruit quality must be compared with market standards, the workforce must be secured and equipped, and equipment must be prepared and cleaned.
- The picking process must be monitored constantly to ensure that quality and cleanliness standards are maintained.
- Fruit must be transported to the packhouse in such a manner that injury to the fruit is prevented and the fruit quality is not compromised.
- The Occupational Health and Safety Act of 1993 must be adhered to in order to ensure that the health and safety of workers is protected.
- A hygiene risk analysis must be carried out prior to the harvesting process to ensure that prescribed standards are maintained.

- The internal and external fruit quality must adhere to the market standards, and the residue levels of crop protection products must be monitored carefully to ensure that it adheres to international minimum residue levels.

Postharvest Practices

- Proper packing material and well-trained employees are essential for postharvest practices and packing.
- Postharvest practices include receiving fruit, product identification and traceability, decay control, the wash line, grading, labelling, sizing, packing and marking, and palletization.
- It is essential that all fruit must be traceable to its origins, and therefore each trailer or bin should be clearly marked with the name of the grower, the orchard, the variety, the date picked, and must carry the supervisor's signature.
- Care must be taken to ensure that fruit is not damaged during the picking process. Other measures and treatments are used to control postharvest decay.
- The wash line includes wet or dry dumping, high-pressure descaling, brushing, drying, and fungicide application.
- Grading is dependent on the human element and can be influenced by a number of factors, and must be monitored very carefully.
- The correct labels must be used to comply with market requirements.
- Carton erection must be monitored to ensure that the cartons are not damaged and that sufficient glue is used.
- The packing of fruit must be monitored regularly to ensure compliance with market requirements.
- Cartons must be palletised in such a way that the pallets are stable and can withstand handling.
- Health and hygiene principles must be applied carefully in the packhouse, while quality standards must be maintained at all times

practical

Complete the following formative assessment:

F263455.1 – Group Discussion, Team Poster and Presentation

Chapter 11
Factors Impacting on Pricing

Internal and External Factors

Just like every other businessman, a citrus grower runs his business in order to make a profit. How do you make a profit from farming with citrus? With very few exceptions, citrus farming is profitable only when the majority of the fruit produced on the farm is sold on the overseas market, where you can sell citrus for more money than on the local market.

We are lucky in South Africa to have land, water, and the right climate to produce a wide range of citrus fruit for a big part of the year. The fact that we are in the southern hemisphere also means that our citrus is ready for the market at a different time of the year from northern hemisphere countries.

Because of these favourable conditions, we are able to produce good quality citrus fruit and supply it to people living in countries where they either do not produce citrus – because they do not have the land, water, and right climate – or during a time of year when their fruit is not ready for the market.

Impact of Supply and Demand

Supply and demand both have an impact on the price of a product.

As entrepreneurs, we may spend most of our time concentrating on those factors that influence supply (production) but we may ignore demand considerations.

If you want to be a successful entrepreneur, one that can sell all his products or services to the market at a good price, you also need to understand how demand can influence price.

Through a consumer survey or a market survey, you will realise that there are many things that the consumer wishes to see in a product that he / she is willing to buy. You will also see that several things will influence the price that the consumer is willing to pay for the product or service.

Just because there is a demand for a product also does not mean that a consumer will buy your product. You cannot sell tomatoes at R 20 per tomato. At that price, consumers will rather buy something else. Your price influences the demand for your product. Price is one of the main ways that shops compete with each other. This is bad news for entrepreneurs.

Entrepreneurs are trying to earn as much as they can from their products. At the same time, the consumer is trying to buy your product for as little as possible! Your problem is that you need to cover your input costs. The problem for the consumer is that he needs or wants to buy as many things as possible with his money. That point at which you cover your input costs, and the consumer feels comfortable to pay the price, is the point at which the exchange or the sale is made. It is where demand and supply balance.

example

Impact of supply and demand

- You are really talented at baking the most delicious cakes. So you concentrate on making the most beautifully decorated, tasty cakes. You spend all your time sourcing the most interesting icing and toppings and fillings, and you spend hours making the decorations perfect – However, have you found out if anyone will buy cakes that are so elaborately decorated??? (Product considerations)
- You are very good at welding. You make security gates for doors and burglar bars for windows – However, can the people in your community afford to install these items????? (Price considerations)
- You have bought a taxi and have an excellent driving record. You have joined a regional taxi association and obtained all the necessary permits – However, are there enough clients for your services in your rural village which will even cover the petrol costs??? (Market size considerations)
- You have just returned to your village after studying at university for four years. You studied accounting and have started an accounting business. You want to help the people of your village to better manage their scarce incomes. – However, do they know that you are back home and want to provide this service to them? (Marketing and publicity considerations)

Can you see that just being able to supply a product and service does not mean that you will have a successful business?

Value and Profit

The big question is now: how much does the consumer pay for the fruit?

If the consumer looks at the product and thinks that it is good value for money, she will pay enough to cover all the costs that we have listed above, and there will be a little left for the grower to make a profit.

The value is, therefore, more than the costs of producing, packing and shipping the fruit. This is of course mostly the case – there are enough growers in South Africa that are able to make a decent living from producing citrus to prove that it can be a profitable business.

The Value Chain

When we look at the value chain for South African citrus, we look at the chain of events that must take place to bring our citrus to the market overseas.

We call it a value chain because getting the fruit to the market is not enough – we must make sure that the fruit that arrives in the market is what the consumer wants in terms of how it looks, what it tastes like, and how it was produced. This means we must comply with the quality standards and requirements of the consumer. This is what gives the fruit value, and what makes the consumer willing to pay money for the fruit.

Before we look at the links of the value chain, we need to understand the meaning of the term ‘value’. A useful definition of this term is the ‘benefit that you can expect for something, normally measured in money’. People perceive the value of a thing differently, mostly depending on how much they need the product, how unique the product is, and how much the product meets their own expectations and requirements.

The **value** of a thing is not set by the cost of producing it – it is set in the mind of the person who holds the money, and if that person does not think it is worth spending money on, the product has very little value.

definition

Value

The benefit that you can expect for something, normally measured in money.

Links in the Value Chain

Please note that in this module, we use a simple example of a value chain to explain to you how it works, and we have included industry averages for the percentage cost that every link in the chain adds to the final cost of export fruit.

Remember that cost structures of different operations and value chains are different, depending on cultivar, production practices, packaging, market and shipment of the fruit.

Your value chain may also include steps that we have not included here, such as fruit being repacked overseas before being sold. But it is important that you understand these principles, that you are able to analyse your own costs, and above all, that you understand how easily the value of your fruit can be lost.

Link 1 – Production

The first step in the value chain is the production of citrus fruit. Production includes every step up to the point where fruit is hanging on the tree, including:

- Choosing the right variety and cultivar
- Planting the orchard
- Taking care of plant nutrition and irrigation
- Pruning the trees when necessary
- Protecting them from pests, diseases and competition from weeds

All of these activities are aimed at producing the best possible quality fruit, and fruit that the consumer wants and will spend money on.

All of these activities also cost money. The grower pays the capital costs of establishing the orchard, including the land and land preparation, the irrigation system, the trees and so on, and he must buy the machinery and equipment that he will need.

After that, he must pay all the input costs for producing good quality fruit, including salaries, water, fertiliser, plant protection products and fuel.

Production is driven by two factors: **quality** and **volume**. The grower must produce fruit in volumes that justify the money he spent on capital and input costs. Volume is normally expressed in tonnage per hectare. The quality of the product is essential in creating value, meaning something that the consumer will pay money for. If the grower fails in either of these two respects, his farm will not be profitable.

If the grower and his workers do all their production tasks well, they will come to the harvesting season with a good volume of superior quality fruit hanging on the tree. We have already said that there has been considerable cost involved in getting the fruit to this point, but let us consider what the value of the fruit is.

It is obvious that it must have some value, and that good quality fruit of a superior cultivar will have more value, but what exactly is the value? In terms of realising the value that we aim for – the money that an overseas consumer pays for the fruit – it is not much at all. In order to realise this value, the fruit has only taken the first step on a long journey. We need to add more value, which means that we have to spend more money. Up to this point, we have only spent about 11.5% of what it will eventually cost us to get the fruit to the consumer.

Link 2 - Picking

The next step is to harvest the fruit and send it to the packhouse. This adds more costs, because pickers and supervisors have to be paid for their work, and equipment is required for harvesting. This cost is included in the 11.5% above.

Link 3 - Packing

Once the fruit reaches the packhouse, it is in some cases de-greened, washed, treated, waxed, sorted, graded, sometimes wrapped and labelled, and then packed into cartons, which are then stacked on pallets and inspected to make sure it is fit for export. In some cases, fruit will be pre-cooled at the packhouse before being transported.

The cost that is added in this process can be quite a lot and depends on the type of citrus you have and the market for which it is meant. But on average, packing adds another 13% of your total cost.

Link 4 - Transport

The next link in our chain is moving the fruit from the packhouse to the port from where it is shipped to an overseas market.

Pallets can be loaded onto flatbed, tautliner or refrigerated trucks, depending on the cultivar and the market. Refrigerated trucks are used to transport fruit that has been pre-cooled at the packhouse.

The fruit can also be packed into containers at the packhouse, with the packed container then shipped on a truck. Another option that is gaining popularity in South Africa is transporting containers or loose pallets by rail.

The distance that the fruit has to travel to the port depends on where you are in the country and where the port is from where your fruit will be shipped.

The distance and method of transport determines how much it will cost you, but on average, transport makes up about 1.5% of your eventual cost.

Link 5 – Harbour Handling

Before the fruit is loaded onto a ship, it may have to be stored at the harbour terminal for a period of time, where it is either cooled in pre-cooled facilities or kept in holding rooms that maintain the temperature of the fruit if it has already been pre-cooled.

This also costs money, and together with the handling fee that the fruit terminal charges, it adds another 3.5% to your costs.

Link 6 - Shipping

The fruit is now loaded onto ships, either in containers or as loose pallets. On the ship, fruit must be kept at the temperature to which it has been pre-cooled, and is sometimes also exposed to cold a sterilisation treatment, depending on the market it is going to.

Shipping of fruit, including insurance, makes up about 18.5% of your total cost.

Link 7 – Receiving and Transport

When the fruit arrives in the overseas market, it is again handled in the harbour, sometimes stored, and transported to the point where it is sold to the consumer.

The grower also carries these logistics costs, which is about 13% of the total cost.

Link 8 - Sales

The fruit is now eventually sold to the consumer. The retailer adds on his profit margin, which is normally around 30% of the final costs, and the consumer buys the product.

Other Cost

The last cost item that we must add is the commission of the export agent and the importer, and the various levies and inspection fees that are paid on export fruit.

This adds the final 9% to the cost.

Pricing Strategies

Different approaches can be used to set prices for your products, such as:

- **Negotiation between the buyers and the sellers:** In the past, this was the main approach used in pricing. The prices were set by negotiations between the buyers and the sellers. This meant that companies or entrepreneurs had to allocate time to negotiate prices with individual customers.
- **One-price policy:** This is the modern method of pricing that developed as a result of large retailing shops that were selling many different products and at the same time having the responsibility to supervise a lot of employees. There is thus little time to negotiate with every single customer about the price of every single item in the store.
- **Internet price:** This is a high-tech method of purchasing in which customers can negotiate prices through internet services such as eBay.com and PriceCheck.co.za. Through these internet services, customers are able to compare prices for products and they can buy the items using the internet services.

It is, however, necessary to have a strategy in place that allows you to structure the decision –making process and to ensure that you take all factors into account. The following six steps are the basis for a handy strategy:

- Selecting the pricing objective

- Determining demand
- Estimating costs
- Analysing competitor's costs, prices and offers
- Selecting a pricing method
- Selecting the final price

Selection of the Pricing Objective

Price is one of the four P's of marketing and it is the only one that brings income into the company, therefore it needs to be done properly so as to make sure that the business remains sustainable and profitable (The other three Ps of marketing are: product, promotion and place).

The pricing objectives of a business provide direction to the whole pricing process and is the first step that must be put in place when developing a pricing method. Some pricing objectives include:

- Maximise long-term profits
- Maximise short-run profits
- Increase sales volume (quantity)
- Increase sales
- Increase market share
- Obtain a target rate of return on investment
- Obtain a target rate of return on sales
- Stabilise market or stabilise market prices
- Company growth
- Maintain price leadership
- Desensitise customers to price
- Discourage new entrants into the industry
- Match competitors prices
- Encourage the exit of marginal forms from the industry
- Survival
- Avoid government investigation or intervention
- Obtain or maintain the loyalty and enthusiasm or distribution and other sales personnel

It is important to clarify your pricing objectives for a product that is new to the market or when entering bidding (tendering) for a contract to supply products or services because price is a major determinant of competition between companies. Most customers will opt for less expensive products or services, especially if the quality of the products or services is the same.

The second major determinant of customer preference is the product quality, therefore the two aspects must be considered carefully by any company. The following table shows a price-quality segmentation with 9 different price-quality strategies that can be used to set prices for products.

		Price		
		High	**Medium**	**Low**
Product Quality	**High**	1. Premium strategy	2. High-value strategy	3. Super-value strategy
	Medium	4. Overcharging strategy	5. Medium-value strategy	6. Good-value strategy
	Low	7. Rip-off strategy	8. False economy strategy	9. Economy strategy

Determining Demand

"Demand" for goods or services refer to the level to which they are needed and wanted by the market or clients. Demand can be measured by the number of clients that want your products and the rate at which your products are taken up (or consumed) by the market. The demand for your products can be determined and quantified through a thorough market investigation exercise (this could be in the form of a feasibility study and a business plan).

Setting the right price for your products is a matter which must be balanced between the following two marks:

- The lowest price that the seller will be willing to ask for the products
- The highest price that the consumer will be willing to pay for the product

The price must be high enough to cover your costs. The "Market" is one of the three basic factors that must be taken into consideration when fixing prices for products. This is followed by "Competition" and then the "Cost" of producing the product.

The location of your shop or the place from where your distribution will be done must be strategically placed because the market is the place where the sellers and buyers come together and a transaction occurs. The market also refers to customers and potential customers who are willing to buy your products. Your pricing strategy is also dependent on who your target market is. If you are targeting your products at rich consumers, the quality must be exceptional and you may be able to charge higher prices. If your target market is the mass consumer (the average or middle-class consumer), then your prices will need to be lower.

information

Citrus market information

South African citrus is exported to more than sixty countries around the world. Even though only 67% of the total citrus we produce is exported every year, exports generate more than 90% of the income created by the industry.

It is therefore extremely important for us to understand where the different citrus types are exported to, and what volumes each export market absorbs. We also need to understand that there are standards set by these markets, which all growers and packhouses must comply with.

information

Citrus usage

Firstly we will look at the overall splits in terms of how the 2 million odd tonnes of citrus that are produced in South Africa annually is divided between export, processed and local consumption.

On average 67% of citrus is exported, 25% is processed into fruit juices and citrus oils and 8% is consumed on the local market.

If you look at the different varieties there is a big difference between what the breakdown is between those markets.

For example:

73% of oranges are exported whereas only about 10% is sent to the local market and the balance of 17% is processed.

Grapefruit, on the other hand, is mostly exported, just under 60% the remaining 40% is processed with very few sales on the local market, less than 1%.

information

Citrus markets and market demands

You can get more information on this subject by watching the Audiovisual Learning Material for the Citrus Post Harvest Series, Module 4 on Citrus Markets.

Estimating Costs

There are two main categories of costs in a company. These are the fixed costs and the variable costs. The company's performance can be categorised as either being at a loss, break-even or profitable. These measurements help the owner/s to determine whether the company can pay its costs (fixed and variable costs).

The cost of producing your products is a serious consideration in setting prices for products. These costs (expenses) include all the inputs that you have combined to be able to produce that product and refers directly to all your fixed costs and variable costs, in other words, total costs (these were discussed in earlier chapters).

Competitor Analysis

Competition refers to other businesses or individuals who are selling the same product that you are selling or similar products that may be purchased by clients instead of your products. When you set up your own prices you need to take into consideration what your competitors are charging for their products. Also, you need to determine what other services or "added value" your competitors offer to clients in order to get more business from them. By doing such an exercise you will be able to identify the weak points of your competitors and take advantage of these weak points to your advantage.

Selecting a Pricing Method

Depending on the products that your business is supplying and also the type of market that you supply, any of the following pricing methods can be implemented. You must choose the method that will work for your particular situation:

- Value pricing: This pricing method charges fairly low prices for products that have high quality. It means the client is getting a quality product for a fairly cheap price.
- Cost-plus price: This method is done by making sure that fixed and variable costs are covered and profit is added in order to arrive at the product price. To avoid loss one must make sure that all direct and indirect costs are added to the profit to arrive at the final price.
- Competitive pricing: If the product that you are supplying already exists in the market and there is already an established price for it, then you need to set your prices competitively. If one opts for this pricing method, you must make sure you can sustain them.
- Promotional pricing: This refers to pricing which plays a big role in marketing and competitive pricing. It is set occasionally to promote a particular product by attracting as many customers as possible.
- Markup pricing: This is done by adding a specific amount to the cost of the products and is usually done by retailers.
- Demand pricing: This entails giving a better deal to clients who can buy products in greater quantities (bulk) e.g. a manufacturer will give a better deal to clients such as wholesalers or retailers who buy his products in large quantities. This pricing method is based on a perceived value of the products by the customers.

Selecting the Final Price

After selecting a pricing method for your product, your final price range will be narrowed down. You can then consider some additional factors in your pricing decisions. These include psychological pricing, the influence of other marketing-mix elements on price, company pricing policies, and the impact of price on other parties.

- Psychological pricing: Consumers associate price with product quality. Products with high prices are perceived to be of high quality and low-cost products to be of low quality. To take advantage of this perception, most businesses will set their prices based on customer perception. Because of this perception, an increase in prices can sometimes increase consumer demand for the products.
- Secondly, customers will create a "reference price" for a product. They do this by associating the product's price to its surrounding products. Retailers manipulate this attitude by placing a product amongst expensive products. For example, in clothing stores, men's clothes are displayed separately from women's clothes and also they are displayed according to different prices.
- Thirdly, consumers perceive a price ending with an odd number (such as R 199-99) as being in the range of R 100-00 rather than R 200-00. Also, customers associate such a price with "discounts" and "bargains". However, if you want to be seen as selling expensive products, you must avoid prices ending with odd numbers.

- The influence of other marketing mix elements on pricing: If marketing has been done properly for the product, consumers are usually willing to pay higher prices. Therefore, when you set your prices you must consider how much marketing has been done for the product already. Setting higher prices for products that the customer is not aware of can result in losses.
- Company pricing policies: Any company should have a formal pricing policy (rules and regulations) in place. This will ensure that your prices are consistent and uniform, that the sales persons quote prices that are reasonable to customers and that the prices are profitable to the company.
- Impact of price on other parties: When pricing products, due consideration must be given to the impact that your prices will have on the distributors of your products, the sales personnel (will they be willing to sell at that price?), the competitors' reactions, and the suppliers' reactions (will they also raise their prices?). An important consideration is whether the government will intervene to prevent this price. For example, the South African government has introduced a bill that regulates the prices that the pharmaceutical companies can charge the public for pharmaceutical products. This provides a good caution for other vendors: Do not use a manipulative strategy in business because it may just attract the government's intervention – especially if your product is seen as necessary to human rights.

After considering all these aspects, you must then arrive at the final price for your products.

practical

Complete the following formative assessments:

F263455.2 – Team Research Diagram and Presentation with Key Notes

Chapter 12
Profit

Types of Profit

Unless your business is a non-profit organisation, it is in business to make a profit. This profit is either used to grow the business, to enrich the entrepreneurs who started the business or the shareholders or to benefit the community in some way.

definition

Profit

Profit can be defined in various ways. Below are some of the definitions of profit extracted from the internet:

- Profit is: "The surplus of revenue generated over expenses incurred for a particular accounting period. Operating profit refers to the profit generated before interest and tax has been taken into account."
- A company generates a profit when its revenues and gains are greater than its expenses and losses. Profits increase a company's retained earnings and generally an owner's equity value.
- Profit is the excess of income over expenses. Loss is the excess of expenses over income.

From the definitions above, it is apparent that when the business is profitable it is able to pay all its expenses and remain with some money in its bank account. This is the only way that an enterprise can grow. If this is not the case, the business will either be running at a break-even point or at a loss and eventually, it will have to close down.

Without profit, a business may not be able to attract outside capital investment and even the owners of such a business will be tempted to withdraw their capital from such a business.

In accounting terminology, the different types of profit are:

- Gross profit is profit before selling, general and administrative costs, like depreciation and interest; it is the sales less direct cost of goods (or services).
- Net profit (before tax) is the sales of the firm less the costs such as wages, rent, fuel, raw materials, interest on loans and depreciation.
- Net profit (after tax) is after the deduction of either corporate tax (for a company) or income tax (for an individual).
- Operating profit is a measure of a company's earning power from ongoing operations, equal to earnings before the deduction of interest payments and income taxes.

Why are these different definitions of profit important? Some entrepreneurs get very excited when they see that they have made a profit at the end of the year. However, you must remember that you will pay tax on that profit to the Receiver of Revenue (SARS). Only once you have paid your taxes can you say that the money left over at the end of the financial year is available to you to spend as you like.

Break-Even Point

A new or start-up business may find it difficult to make a profit from the beginning of operations. However, the business should at least break-even from the beginning. This means that enough income is generated to cover ALL the costs (including salaries) from the beginning.

The break-even point (BEP) is the point at which cost or expenses and revenue are equal: there is no net loss or gain, and one has "broken even". Therefore has not made a profit or a loss.

practical

Complete the following formative assessments:

F263455.3 – Team Worksheet

Section 3: Self-Assessment and Progress Check

Explain the criteria of a price setting policy for a new venture.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
The flow of the trading cycle is explained and illustrated for a new venture.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
The concepts costing and pricing are differentiated in terms of a product or service.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
The difference between fixed costs, variable costs, and total costs are explained in the context of own venture.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
Analyse internal and external factors that impact upon pricing decisions.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
The internal factors impacting upon pricing decisions are identified and discussed in relation to the profitability of own venture.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
The external factors impacting upon pricing decisions are identified and discussed in relation to the profitability of own venture.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
The business activity levels are recognised and specified in terms of their limitations.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
Variations in pricing decisions are to be calculated in terms of the impact on the break-even point.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
Demonstrate an understanding of the relationship between costs, revenue and profits.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment

Available costing methods are reviewed in relation to own business.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
Profit markup is calculated and analysed for own business.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
A distinction between types of profit is made in relation to own business venture.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
Competitive pricing is investigated and compared to inform effective costing and forecasting of operating a business.	❒ I have the answer and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment