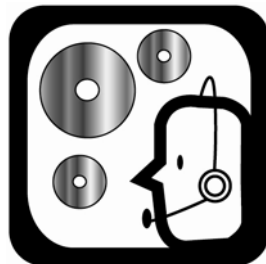


South Australia Society and Environment and Mathematics Framework

Module 10 Planning and running a business



Financial Literacy
Curriculum Resource
2008 Revised Edition

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Introduction

The Commonwealth Bank has been supporting education for more than 70 years, since the introduction of school banking in 1931. In 2003, we strengthened our commitment to education through the establishment of the Commonwealth Bank Foundation.

The Foundation seeks to encourage developments in education, particularly the financial literacy skills of young Australians, and aims to create awareness, skill and understanding of the benefits of a more financially literate community.

By helping our young people understand money management, we will empower them to take effective decisions to achieve their financial goals.

With this in mind, we are pleased to announce the availability of a national financial literacy curriculum resource which has been developed to support the teaching of financial literacy in the classroom.

Developed by a National Steering Committee comprising representatives across a broad range of state and territory education departments, sectors and professional teachers' associations, the curriculum materials have been designed to support the teaching of financial literacy in Years 7 to 10.

This practical and relevant curriculum resource has been designed to be easily incorporated into a number of subject areas and has been mapped to the curriculum in each state and territory.

There are twelve modules covering:

- Earning an income
- Spending and saving
- Consumer decisions
- Consumer protection
- Buying a car
- Financial services
- Managing finances
- Consumer awareness
- Personal investment
- Planning and running a business
- Impact of technology
- Economics of everyday finance

The resource materials can be easily downloaded via the Commonwealth Bank Foundation's website www.commbank.com.au/foundation

We hope you find this resource a valuable tool to use in your classroom.

The Commonwealth Bank Foundation Team



Module 10: Planning and running a business

Background scenario

The case studies are developed around two families: the Drivers and their relatives the Fullbricks; as well as their friends and workmates. The Drivers, Ilse and Laurie, have two teenagers: Elizabeth, aged 15, and Nathan, aged 17. Both work part-time. Ilse has ongoing medical problems and Laurie works for a small trucking company. Grandmother Josefina lives with the family. The second family is the Fullbrick family, to whom they are related through Uncle Frank, Ilse's wealthy brother. Frank Fullbrick runs a construction company, and his partner Sella is a marketing manager. Mark is their teenage son.

Teacher notes

This module is designed for students in Years 9 and 10. It will examine the following:

- the role of a business plan in establishing a business;
- financial considerations in commencing a business;
- putting a business plan into action; and
- avoiding business failure.

Stimulus material provided:

- H.10.1 Business plan.
- H.10.2 Countering the problems.
- H.10.3 Running a business: the headache of management.

There are also general teacher notes available at the beginning of each unit.

Key terms and definitions

Australian Taxation Office (ATO)	The Australian Taxation Office is responsible for the administration of the tax system in Australia. It collects taxes and distributes refunds (where appropriate). The monies collected are passed on to the government for spending.
Business plan	A plan, or a schedule of activities devised by the owner or manager of the business and how they are to be achieved.
Creditors	Those groups or individuals who have lent money.
Enterprise	A project that is of some importance or that requires risk taking or energy.
Entrepreneur	Someone who develops a business or activity or is the financial risk taker for the venture.
Goods and Services Tax (GST)	A broad-based tax of 10 per cent on the supply of most goods and services consumed in Australia. It is paid for by consumers and collected by businesses.
Human resources	The employees and their mental and physical skills.
Insolvent failures	Businesses that have ceased operations because of bankruptcy or liquidation (the business closes owing money to creditors.)

Insurance	Insurance provides protection against loss which causes financial hardship. Its aim is to put the insured as closely back to the same position they were in before the loss was incurred.
Liquidation	Where a business winds up its operations by selling its assets, settling its liabilities and paying the remaining creditors.
Marketing	The mix of strategies (four Ps: product, price, place and promotion) used to attract a target market (group of customers).
Mission statement	A short one sentence statement that captures the purpose of the business.
Place	The location in which the item or service will be sold, or the channels through which it will be sold, e.g. Internet, mail order, shop.
Price	Selling price per unit to the customer or client.
Promotion	The process by which businesses make potential buyers aware of their product.
Salary	Salary is the amount of money received on a yearly basis regardless of the number of hours worked. For example you may receive \$26,000 a year which would equal \$500 a week (gross).
Solvent failures	Businesses that have ceased operations because they are uneconomic. This means they are unable to secure a sufficient return, however they have sufficient funds to pay all creditors.
Statement of financial performance	A report that details the revenues that the business has earned and the expenses that have been paid. Revenues, less expenses, equals profit.
Undercapitalisation	A situation where not enough money is supplied by the owners of a business to support its activities and enable expansion.
Wages	Wages are the income received based on an hourly rate for the work completed during a pay period.

Task 1: Planning a business enterprise

Teacher notes

These activities require students to form groups of about 5-6 students to create a business enterprise. There is also a whole class option. There are three choices available:

- forming a group/business and selling a product or service within the school community;
- forming a group/business and selling online;
- a whole class school activity such as fundraising, running a fete or an end of year activity or excursion.

All members of the group are equally responsible for the business and to decide on a product and develop that product or service to market to the school or community. The group must develop a simple business plan and one option is for the business to be an e-business.

The process of setting up a business, the activity for the survey in Task 1B, will take a few lessons to complete. You may like to introduce some financial statements or may choose to keep the financial analysis to a simple budget, depending on the skills and experience of students.

Scenario

Nathan and Elizabeth decide that they both need more money for the lifestyle they live and decide to start a small business selling old CDs online. Nathan has a friend, Hatmal, who is a web designer and he said he could build them a basic webpage for free. They talk to Aunt Sella to find out about the best way to do things.

Student activities	Standards
<p>Task 1A. A good idea for a business</p> <p>As a class, brainstorm possible products that could be sold to other students in the school or the community. Then, in groups of 5-6, select one product or service. In these groups you will develop a business plan for this product in the next task.</p> <p style="text-align: center;">OR</p> <p>After consultation with your teacher, select a whole class activity.</p> <p>Task 1B. Writing a business plan</p> <p>A business plan outlines a purpose (the mission), goals, management, finance, marketing, and human resources required to start a business. If you need to borrow money, the lenders will want to see the business plan.</p> <p>Using all the headings in <i>H. 10.1 Business plan</i> and the activities below, draw up a business plan.</p> <ol style="list-style-type: none"> 1. Write a mission statement for your business which sets out the overall purpose and aim of your business. 2. Make a list of some objectives your group wishes to 	<p>Society and Environment - Social Systems</p> <p>4.11 Identifies factors that should be analysed by consumers, producers and governments regarding their decisions about goods and services, including people's work.</p> <p>Mathematics</p> <p>Number</p> <p>4.8 Applies appropriate computational tools and strategies to proportional situations involving integers, and rational numbers.</p> <p>5.8 Uses computational tools and strategies fluently and can estimate appropriately.</p> <p>Exploring, analysing and modelling data</p> <p>4.1 Poses questions, appropriately designs a survey, collects data and</p>

achieve in the short term.

3. Develop a simple market research plan for your group (refer to Task 3A Section 3 for more details on market research), taking into account primary research (you undertake yourselves) and secondary research (research done by others). Allocate group members to tasks. You will need to decide what you want to find out, and how you can best do this research. You will need to use your findings to decide on a target market (a group of customers on whom you will focus your efforts). If you can not demonstrate a market, the business might not even start.
4. Use your market research to do the market analysis and SWOT analysis sections of your plan. (A SWOT analysis allows you to consider your **S**trengths, **W**eaknesses, **O**pportunities and external **T**hreats.)
5. Complete the action plan section of your business plan: what has to be done and who will do it? You will need to include marketing strategies to promote your product and human resource strategies (who will you need to do the work?).
6. Prepare a simple budget for the time period that your business will operate and show potential income and anticipated expenditure. You will need to demonstrate that you have sufficient finance to set up and run this business, and make a profit.

These websites can help you with your business plan:

- <http://www.bplans.com/sp/businessplans.cfm> (for sample business plans and calculators useful for cash flow, break even analysis and profitability)
- <http://business.commbank.com.au/> Select “starting a business” under “Business Needs”.
- <http://www.smallbiz.nsw.gov.au> Select “Starting in Business” and then “Getting Started”.

classifies a sequence, collapses, tabulates and represents the data with and without ICTs.

Mathematics **Exploring, analysing and modelling data**

5.1 Plans experiments and surveys; checks data for inconsistencies; and represents and reports on central tendency and spread of data.

4.2 Reads and describes information in given tables, diagrams, line and bar graphs. Makes predictions based on the information, understanding the limitations of data interpretation and the possible social consequences of these limitations.

Task 2: Finance and other issues

Teacher notes

Task 2A looks briefly at some tax issues related to running a business. These are complex areas that are only briefly delved into in this module. You may wish to expand the activity to address taxation and business more thoroughly. Further information to support extension work in this module can be obtained from the Australian Tax Office, <http://www.ato.gov.au>

Scenario

Aunt Sella provided Nathan and Elizabeth with plenty of information to start their business of selling old CDs online, but there were a few matters that they realised also needed to be dealt with if they really are to start this business. They need to find out about tax, finance and what selling online actually means for their business.

Student activities	Standards
<p>Task 2A. Staying on the right side of the taxman</p> <p>Refer to the website http://www.dollarsandsense.com.au and select “Running your own business”, then “What about tax?”</p> <ol style="list-style-type: none"> Write an explanation of the following terms: ABN, GST, Activity statements, PAYG. Why do businesses need an Australian Business Number (ABN)? Why should small businesses pay tax? <p>Task 2B. New opportunities: e-business</p> <ol style="list-style-type: none"> In groups of four, go to http://www.dollarsandsense.com.au Select “Running your own business, then “Do I need a website?” Review the information on the site then discuss the following questions. <ol style="list-style-type: none"> Why is online marketing becoming popular? What sort of goods or services would you be likely to look for online? Have you bought any products online using eBay or another form of marketing? What is the advantage of buying in this mode? Are there any limitations to online marketing? What problems might buyers and sellers experience when trading online? Share some of your answers in a class discussion about the positive and negative features of online trading. 	<p>Society and Environment - Social Systems</p> <p>4.11 Identifies factors that should be analysed by consumers, producers and governments regarding their decisions about goods and services, including people’s work.</p> <p>Mathematics Number</p> <p>5.8 Uses computational tools and strategies fluently and can estimate appropriately.</p>

Task 2C. Have you got the money?

Starting a business can be very costly. There are many expenses in setting up a business, particularly if it involves any manufacturing using equipment. Sometimes it can take a long time for markets to establish and the business may have a shortage of cash for many months until the sales take off.

In these circumstances most businesses have to find the finance (capital) to commence trading.

1. Go to <http://www.dollarsandsense.com.au> Select "Running your own business", then "Don't you need money to start a business?" Review the information on the three forms of finance.
2. Using the information on the website about the pros and cons of each form of finance, write down some examples of businesses that might fit each of the types of finance.

Task 3: Running the business

Teacher notes

The operation of this task will vary depending on the choice made earlier about the sort of venture being run. The class will have:

- formed groups/businesses to sell a product or service in the school community;
- formed groups/businesses to sell a product or service online;
- whole class school activity such as fundraising, school fete or end of year activity/excursion.

If students are apprehensive about actually running their business, Task 4 could be conducted before commencing business. This task explores business failure and contains lots of hints about problems and mistakes that can be made.

Scenario

Nathan and Elizabeth have bought up all the old CDs their friends and family no longer listen to and are now ready to sell.

Student activities	Standards
<p>Task 3A. Putting the business plan into operation</p> <ol style="list-style-type: none"> 1. Check the business plan: Go back and check the business plan to make sure that you have covered all the possibilities and calculated the costs realistically. When your group/class is happy with the business plan then it can be made operational. 2. Taking the risk: Running a business to make a profit involves risk taking and people who take these risks are called entrepreneurs. Your SWOT analysis should identify some of the weaknesses and threats to the business, but now you have to concentrate on the opportunities and strengths to get the business up and running. All this task can do is to ask some questions to help you, but basically from here on you are on your own. 3. Market research: Market research can help the entrepreneur to establish whether or not there is a sufficient market for the product or service. Your group/class might like to conduct some market research before opening for business. When conducting market research the following matters need to be addressed: <ol style="list-style-type: none"> a. Determine the group to be surveyed, e.g. male/female, age groups, incomes. b. Ask questions about the desirability of the product/service/event. c. Ask questions about what people are prepared to pay for various forms or elements of the product/service/event. d. Ask questions about how people find out about such 	<p>Society and Environment - Social Systems</p> <p>4.11 Identifies factors that should be analysed by consumers, producers and governments regarding their decisions about goods and services, including people's work.</p> <p>Mathematics</p> <p>Number</p> <p>5.8 Uses computational tools and strategies fluently and can estimate appropriately.</p> <p>Exploring, analysing and modelling data</p> <p>4.1 Poses questions, appropriately designs a survey, collects data and classifies a sequence, collapses, tabulates and represents the data with and without <i>ICTs</i>.</p> <p>5.1 Plans experiments and surveys; checks data for inconsistencies; and represents and reports on central tendency and spread of data.</p> <p>4.2 Reads and describes information in given tables, diagrams, line and bar graphs.</p>

<p>products/services/events.</p> <ol style="list-style-type: none"> e. Ask questions about competitors' or similar products/services/events. f. How will data be collected, e.g. questionnaires, interviews, online responses? g. Who will collate the data? h. Who is responsible for interpreting and reporting the findings? <p>4. The question of price: It is a common business argument to say the price should be what ever the market will bear. Practically your decision must be one that will allow you to recover set-up costs quickly but to not overprice the product so that few want to buy it.</p> <p>In making this decision you need to understand that a unique product that people want will sell at a high price and yield a high profit until competitors enter the market and compete with you forcing the price to be lowered.</p> <p>Most businesses will be offering a product that is already available (possibly with the exception of a unique event) and therefore you will need to plan how to entice people away from the brand they now buy to purchase your product. Price and advertising are two key factors but product differentiation (making your product seem different/better) is also important.</p> <p>The basic question that you must have an answer for is: Why will people want to part with their money for your product/service/event?</p> <p>5. Questions to consider: Here are some matters to be considered in operating your business.</p> <ol style="list-style-type: none"> a. Have you raised the capital (money) needed to commence the business? If you haven't, where can these funds be obtained from? b. Who in the group is responsible for each task in the running of your business/event? c. When and where are you going to operate from? d. Where are you going to buy your product from? Who are the suppliers? e. Will you require storage space? f. Are you planning to add value to the product to make it more desired by potential customers? g. How are people going to know about your business/event? What advertising and promotion are planned? h. How are you going to keep financial records? Who will receive the money and who will be responsible for counting, entering and banking? i. Will you issue invoices and/or receipts? (You will not have to charge GST because you are not registered for GST) j. Do you have any plans if the sales fall below expectations or the expenses prove too high? 	<p>Makes predictions based on the information, understanding the limitations of data interpretation and the possible social consequences of these limitations.</p>
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Task 4: Avoiding business failure

Teacher notes

A media release from the Australian Government Productivity Commission about business failure (<http://www.pc.gov.au/research/staffresearch/bfacaap/inforelease>) is used to provide information in this task about business closure information in Australia. This can be supported by information about business and business failure in textbooks you have in the school.

Scenario

After getting off to a good start and selling twenty CDs in the first week, Nathan and Elizabeth's business has hit a slow patch. It seems that some the CDs are not really wanted by anyone and their target sales are now well below expectations. They paid the same price for the "slow to move" CDs as the others. They realise that unless they are able to sell them for as near as possible to what they paid for them, they are not going to make very much money for all their effort. Unfortunately it is starting to look like they are going to have to drop the prices significantly if they are going to sell them at all. But they won't have much money to buy more CDs to sell!

They decide to do some research on business failure. They realise that while they will be able to control most things about their business, there are some areas where they need more help. They have found out that there are various reasons for business failure, including:

- insufficient capital;
- financial mismanagement;
- incompetent management;
- ineffective marketing;
- staffing problems;
- general economic conditions.

They also found out about some other problems that may contribute to business failure, including:

- insufficient sales;
- poor location;
- giving too much credit;
- slow moving stock;
- inability to borrow funds;
- poor staff/customer relations;
- lack of product knowledge;
- let down by suppliers;
- poor quality workmanship.

Student activities

Task 4A. Why do businesses fail?

Use the information in the media release available at <http://www.pc.gov.au/research/staffresearch/bfacaap/inforelease> called "Business Failure and Change in Australia" to answer the following questions.

1. It is a common assumption that most businesses fail in the first few years of operation. From the information in the media release, list two points either proving or disproving this assumption.

Standards

Society and Environment - Social Systems

4.11 Identifies factors that should be analysed by consumers, producers and governments regarding their decisions about goods and services, including people's work.

2. What percentage of businesses actually “fails” each year?
3. What is the main reason that businesses cease operations?

Task 4B. Avoiding business failure

1. Using the scenario above, in pairs, complete *H. 10.2 Countering the problems* by writing in the action or skills needed to avoid or fix the problems listed.
2. What would be a good and bad location for the following businesses in your local community? Give reasons for your answers.
 - A fast food shop.
 - A car mechanic.
 - A childcare centre.
 - A motel.
 - A butcher.
 - A solicitor’s office.
 - An amusement arcade.
3. Come together as a class and discuss the worst and best locations for each of the businesses from the locations noted by the class, and the reasons for these.

Task 4C. Management structures: delegating

Effective management can do a lot to ensure an effective business. The following exercise provides you with an opportunity to see if you have the insight to identify the management issues and to deal with them.

1. Read the script on *H. 10.3 Running a business: the headache of management*. Complete a table like the one below, outlining the people involved and skills required in varying stages of running a business.

	Character in script	Skills required or jobs to be done (responsibilities)
Management		
Purchasing officer		
Operations		
Human resources		
Marketing		
Finance		

Mathematics

Number

5.8 Uses computational tools and strategies fluently and can estimate appropriately

H.10.1 Business plan

Business name

Executive summary

A short overview of the plan, highlighting strategies for success.

Business profile

Ownership details and your business mission statement and objectives.

Market analysis

An analysis of the industry, the size of your market, your likely or existing competitors, and likely share.

SWOT analysis

An analysis of your strengths, weaknesses, opportunities and threats.

Strengths	Weaknesses
Opportunities	Threats

Action plan

Detailing who is responsible for what, as well as key dates for completion of major objectives. This will include a marketing plan and human resources plan.

Financial position

Sources of start-up funds. Expected income and expenditure for the period of the business.

Expenditure	Income

Adapted from:

http://business.commbank.com.au/business_display/0,1928,NI2492%255FCH2492,00.html

H.10.2 Countering the problems

Problem	Counter action or skills required
Insufficient capital	
Financial mismanagement	
Incompetent management	
Ineffective marketing	
Staffing problems	
General economic conditions	
Insufficient sales	
Poor location	
Giving too much credit	
Slow moving stock	
Inability to borrow funds	
Poor staff/customer relations	
Lack of product knowledge	
Let down by suppliers	
Poor quality workmanship	

H.10.3 Running a business: the headache of management

Elizabeth: Don't talk to me; I've got an awful headache. I've got too much to do!

Rob: What's wrong?

Elizabeth: What do you mean "what's wrong"? It's been raining for ten days and the back lane is flooded and I told you to order more flour and sausage mince, and all we've got left is bonemeal and peas! It's full of weevils, and that last mince was too fatty! I bet you got that for a bargain! I did my job delegating purchasing to you and all you did was check out Mr Jones' old Ford V8. Also the health inspector Ernie Coli is due any minute to inspect the place.

Rob: I am just going to do it! You always want something five minutes ago.

Elizabeth: Rob, don't pour that oil down the sink!

Lucy: Well Rob, you were given that job because we thought you could do it. I'm the human resources manager and I must have failed in my analysis of your character and skills. You are obviously only suited to...

Shalini: Don't give him my job. I'm operations manager, and I make sure that things run smoothly and improve our activities all the time. Look at what I did to stop the biscuits burning. Talk about continuous improvement and efficiency. I deserve a bonus.

Elizabeth: You did a great job, and I really depend on my managers to solve problems, supervise their staff and co-ordinate their area of responsibility.

Lucy: Teamwork and motivation with this lot is not an easy task.

Mark: I feel I've done a great job, nearly 80 per cent of the girls have bought our Dog Tams and our competitors up the road hardly have anyone in their shop.

Shalini: Well with your aggressive sales and promotional methods with the girls, no wonder! What customer needs do you think you are meeting? I hope the present demand for them continues. You'd better watch out though. I saw a bunch of TV cameras and models up the road. They must be doing another ad and Elizabeth received a notice today that they are re-zoning the warehouse across the road and 15 speciality shops are going in. We are bound to have more competitors soon.

Koshy: You can't do anything like that with finance unfortunately. I've just been trying to keep our head above water, and keep the cash flowing in and making us a profit. You keep wanting to cut prices to attract more customers, but that will send us broke. By the way, our rent is going up next month.

Elizabeth: OK guys. Koshy, keep an eye on our cash flow and profitability, because without these there is no business. Make sure you submit that BAS on time and don't get a fine like last time. It's my job as general manager to ensure we all work together, and to supervise all your activities, so that we stay in business. Good afternoon Mr Coli, be careful you don't slip on the bonemeal.

Ernie Coli: Good afternoon Elizabeth. I need to look at your kitchen.