



YOUNG ENTREPRENEURSHIP PROJECT

2019

A collaborative project by:



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Business Plan Development

Business Idea

What is your business idea?

How does it serve or solve a problem in your high school/local community (i.e. help the local community)?

Explain how your business idea is (a) realistic and (b) implementable (for example can be started with a limited budget - i.e. ZAR 4000 max. - for example at your local high school/local community)

Explain how your business idea is (a) sustainable (long lasting) and (b) scalable (able to grow).

Business Mission and Values

What is the ultimate goal of your business (what keeps you and your employees coming to work every day)?

What steps will you take as an organization to get there?

What are your business' core values?

Target market

Who will buy your product target market (describe in terms of demographics and lifestyle)?

What needs will your product or service fulfil (remember, people don't need goods or service, they need solutions to their problems)?

How does your target market meet the criteria for a viable target market?

Size (how large is this target market? Is it worth pursuing?):

Expected growth (determine if growth is best expressed in the number of potential customers, projected sales, or whatever best fits your business and your audience):

Competitive position (how well are they being served by your competitors? Low competition equals attractive market.):

Cost to reach (Is this market accessible, both with communications and logistically, with your tactics?):

Compatibility (how aligned is this market to your organizational goals? In what ways do they share your values?):

How does your business idea provide value (increase benefits and/or reduce costs) to your target market (e.g.: Are you saving your target market time, effort, or money? Are you enhancing their net worth, their self-confidence, or their potential? Are you enriching their skills, their sense of security, their self-esteem, health? Are you minimizing risks, fears, or liabilities? Do you promote recycling or clean energy or healthier lifestyles?)

Market trends

What are market trends? What factors seem to be changing the market, or changing the business?

What developing trends can make a difference? Market trends could involve changes in demographics, changes in customer needs, a new sense of style or fashion, or other factors that may influence the purchase behaviour of your market. Much of this depends on what business you are in.

Competition

Is your product new to the market?

Competition: (a) Who are your key competitors and (b) how are they presently meeting the needs of your target market?

Describe your major competitors in terms of the factors that can most influence revenues. Include (a) their size, (b) the market share they command, (c) their comparative product quality, (d) their growth, available capital and resources, image, marketing strategy, target markets, and any attributes you consider important. Or perhaps you may not have a direct competitor yet. You can "rate" the performance of each (potential) competitor.

Market position

Positioning Statement: Create a statement that identifies how your product uniquely meets the needs of your target relative to your competition. You can fill in the blanks for the following statement:

For [target market description] who [target market need], [this service] [how it meets the need]. Unlike [key competition], it [most important distinguishing feature].

SWOT analysis

A valuable step in your plan is an analysis to assess your firm's strengths, weaknesses, opportunities and threats. A SWOT analysis is a helpful method for completing this assessment.

The SWOT analysis begins by assisting you in conducting an inventory of your internal strengths and weaknesses. You will then note the opportunities and threats that are external to the organization based on your market and the overall environment. Don't be concerned about elaborating on these topics at this point. Bullet points may be the best way to begin. Capture the factors you believe are relevant in each of the four areas. You will want to review what you have noted here as you work through your plan.

The primary purpose of the SWOT analysis is to identify and categorize each significant factor, positive and negative, into one of the four categories and allow you to take an objective look at your business. The SWOT analysis will be a useful tool to develop and confirm your goals and plan. The objective is to leverage the strengths of the business to take advantage of the available

opportunities, offset or improve the stated weaknesses, and minimize the risk of potential threats.

If possible, you may want to take on the task of playing the role of a potential customer and gain information from that perspective.

Strengths (Internal Conditions)

Weaknesses (Internal Conditions)

Opportunities (External Conditions)

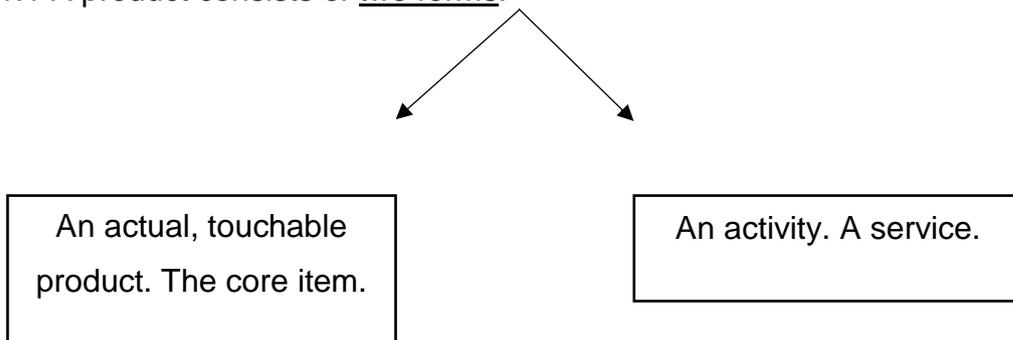
Threats (External Conditions)

Product and Value

1. What is a product?

A product can be defined as an offering to a buyer in exchange for money.

1.1 A product consists of two forms:



1.2 Examples of products:

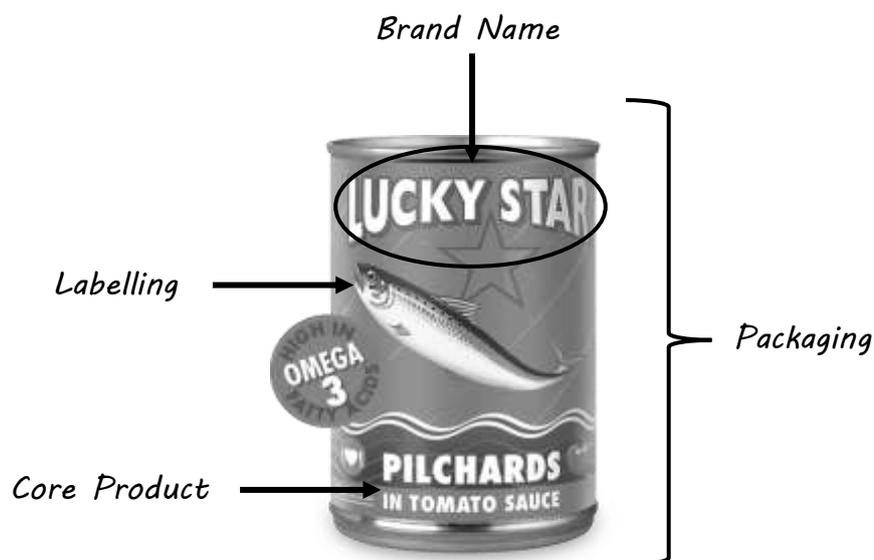
Touchable products:	Services:
Clothes	Education
Food	Public transport
Textbook	School tuck shop
Computer	Healthcare
Car	South African Police Service

1.3 Identify two touchable products and two services within your everyday environment:

2. What are the characteristics of a product?

- The packaging
- The core product
- Labelling
- Brand name

2.1 Diagrammatic representation of the touchable product:



2.2 Product characteristics further explained:

2.2.1 Functions of packaging

Packaging contains and protects the core product. It also promotes the manufacturer's product by allowing the customer to easily identify the manufacturer's brand, listing the ingredients and user instructions, enabling a

product to look different compared to other similar products, and increasing the marketing possibilities of the product. Packaging makes it easier to use and keep the product. It must be environmentally friendly and recyclable.

2.2.2 The core product

It is the part of the product that is consumed or used.

2.2.3 Labelling

The label is part of the packaging. It helps a customer select a product according to their needs. The label contains all the necessary information about the product.

2.2.4 Brand name

The brand name is positioned on the label. It helps a customer recognize the seller's product.

3. How can the characteristics of a touchable product be recognised within a service?

Using a takeaway coffee service as an example; we are able to see how the characteristics of a touchable product are applicable within the service environment.



3.1.1 The service

Warm (coffee) drinks made on the spot. A customer orders a beverage which can be personalised. The beverage is paid for. The beverage is made on the spot. The customer collects and enjoys the beverage.

3.1.2 The packaging

The packaging of the service is the entire stand that can be seen in the picture above as well as everything they offer to the customer. It includes:

- The menu with instructions.
- The cups in which beverages are served.
- The self-service table with sugar and spices.
- The label and brand name.

3.1.3 Labelling

In this case, the label is everything that can be seen when looking at the stand. It includes:

- The menu.
- The cups with the brand name.
- The wall logo with the brand name.

3.1.4 Brand name

The brand name here can be clearly seen on the wall logo. It is **Deja Brew**.

4. What does adding value to a product or service mean?

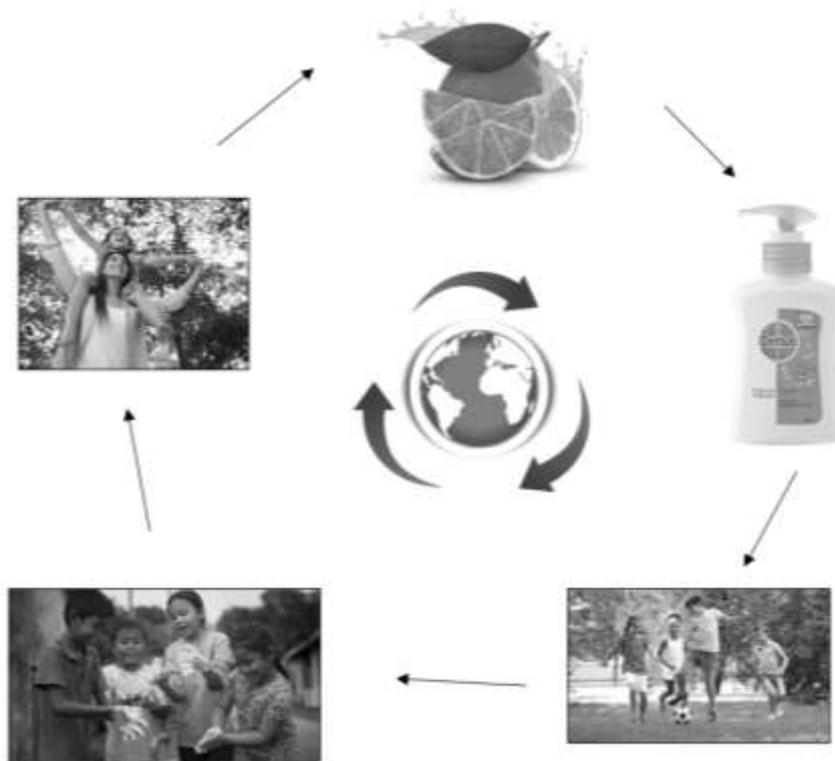
Value is added to a product when there has been a physical change to the form of the product. Value within a service is created through how the activity is perceived and experienced by the user.

4.1 Reasons for value creation in products and services:

- To satisfy the need or want of the customer.
- The product solves a problem.
- To improve the lives of the customer.
- Receiving more than what you paid for.
- Customer service.

- Differentiation of service/ product.

4.1.1 Visual **example** of how value is created:



5. What does it mean to have a unique selling point?

- A unique selling point enables a product or service to be different from other similar products or services.
- This creates a sustainable competitive advantage for the sellers of the product or service.

5.1 Features of a product or service that can create a unique selling point:

- Quality
- Price
- Image
- After-purchase service
- The life span of the product

5.2 Example of a local branded product and how they make use of a unique selling point:

- The unique selling point for each product is the sauce.



Exercise

1. Looking at the image below, please draw arrows to match the words in the text boxes to the corresponding product characteristics



2. For every word in column A, please mention whether it is a product or a service:

Column A	Column B
Car wash	
Food delivery	
Soap	
Book	
Library	
Church	
Car	
Bread	

Let's work on your business!

Who is more important: Customer or Product?

“Love your customer more than you love your product!”

Business Plan Checklist:

What product do you offer?	What service do you offer?
What features of your product meets the client's needs?	What features of your service meets the client's needs?
How will the customer use your product?	How will the customer use your service?
What is the name of your product?	What is the name of your service?
Is it a catchy name? Does it mean something?	Is it a catchy name? Does it mean something?
What does the packaging of your product look like?	What does the packaging of your service look like?
How is your product different from your competitors?	How is your service different from your competitors?
Describe the life cycle of the product.	Describe the life cycle of your service.

Promotion / Communication

1. Definition

Promotion refers to the entire set of activities, which communicate the product, brand or service to the user.



The idea is to let people know about your product, in order to convince them to like it and eventually buy it.

2. Why use promotion?

The main reason to use promotion is to *communicate* your product or service to your customers. By communicating your product or service you tell your potential customer about your product.

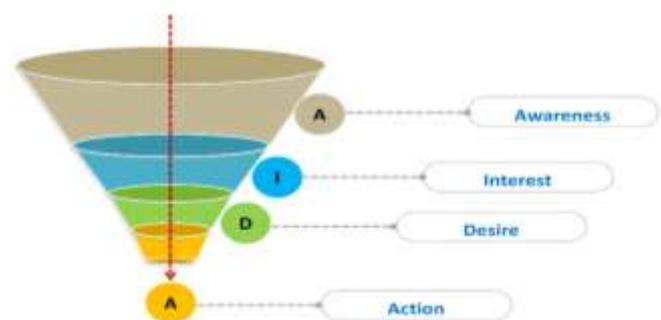
To know how to communicate your product to your customers you first have to know how your customers look at your product. We can use the model below (AIDA) to find out where the customer is. This model has four stages where the customer always starts at the first stage called “awareness” and ends at last stage that is called “action”.

To get to know this model you can first read all the different stages of this model:

AIDA Model

A - Awareness: Making sure your customer knows about your product or service

I - Interest: Getting interest from your customer about the benefits of your product or service to encourage them to want to know more about your product or service.



D - Desire: Let the customer get a “emotional connection” to the brand by showing the brands personality.

A - Action: Let the customer buy your product or service

Now you know all the stages of this model we are going to look at the different types of promotion.

3. Four different types of promotion

There are four different ways to promote your product or service. The four different types of promotions that are used the most, are:

1. Advertising
2. Public Relations
3. Sales Promotion
4. Direct Marketing

3.1. Advertising:

Advertising is any paid form of media communication. This can be done in different ways. For example, you could advertise your product or service in a magazine or a newspaper. But you can also advertise on the radio or TV. Another way to advertise your product or service is by using billboards.



On the photo on the right you can see an example of advertising by using a billboard.

3.2. Public Relations:

The meaning of public relations is building a relationship between your business and organisations. This means that an organisation tells a good story about your business without you paying them to say something. Like the vegetable garden at the Makupula secondary, this has been in the news because something like that has not been done before.

3.3. Sales Promotion:

Sales promotion is a paid form of promotion which has to stimulate sales through activities. This promotion method is often used for a short period to boost sales. Examples of sales promotion are discounts, contests and demonstrations.

Discounts	Contests	Demonstrations
		

3.4. Direct Marketing:

Direct marketing is selling products or services directly to the customers. Examples of direct marketing are handing out leaflets, couponing and face-to-face selling.

Handing out leaflets	Coupons	Face-to-face selling
		

All these types of promotion can be used in a different stage of the AIDA model (the model in chapter 2). In the table below you can see which type of promotion has to be used at each different stage:

Stage	Type of promotion
Awareness	Advertising Public relations
Interest	Direct marketing
Desire	Sales promotion
Action	(Here they buy the product, so no promotion type is needed)

4. How to use promotion

The aim of promotion is creating interest in your company. This will be done by telling your customers about the main message of your company. You have written the core values of your business (at the business mission and value), you can use this to create your main message. When using your main message people will get to know the unique things about your company. This is because the main message includes every important aspect of your company and the product or service you offer.

Example: McDonalds



The main message of McDonalds is "I am loving it". This way they want to communicate that their food is so delicious, everyone will love it.

5. Pros & Cons of Promotion

The pros and cons about using promotion are:

Pros	Cons
<ul style="list-style-type: none">• Increase of sales• Increase in customer value• Improve reputation	<ul style="list-style-type: none">• You have a standard to uphold• Can be costly• May lower a brand image

Exercise

Question 1.1. - By focussing on the awareness stage (getting attention from your customer about your product or service) what kind of promotion type can you use?



Question 1.2. - If you look at the advertisements above of both 7up and Coca-Cola, which one is better and why?

Question 1.3. - Which one of the promotion sales type (discounts, contests and demonstrations) attract you the most as a customer?

Question 1.4. - Which one of the direct marketing types (handing out leaflets, couponing, face-to-face selling) is the most common in your community? And why do you think this type is used the most?

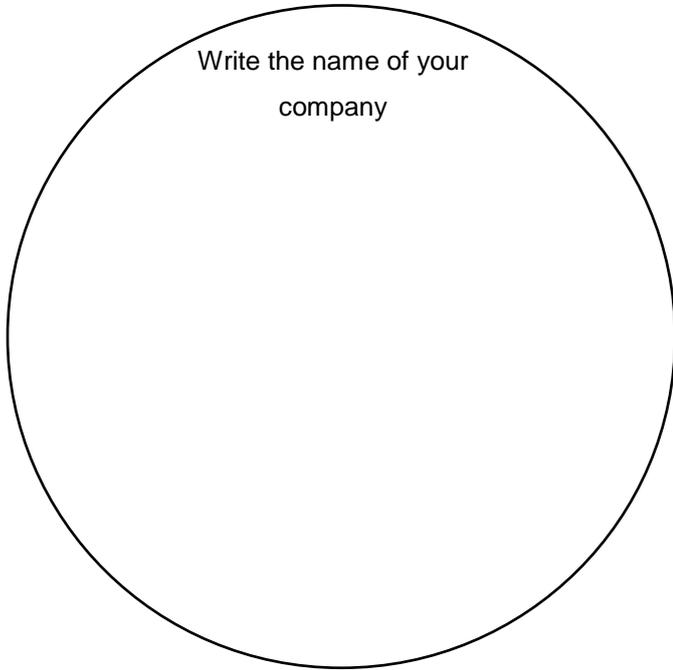


Question 1.5. - If you look at the picture above, what is the main message NIKE would like to get across?

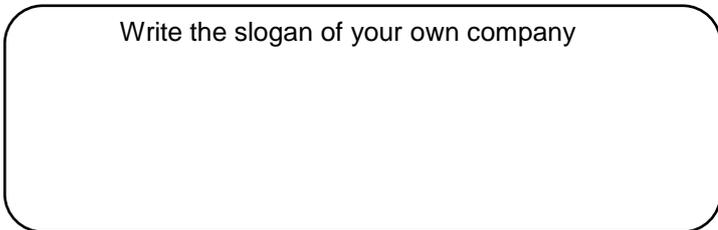
Question 1.6. - Which promotion types cost money?

Question 1.7. - Design your own leaflet using the template below

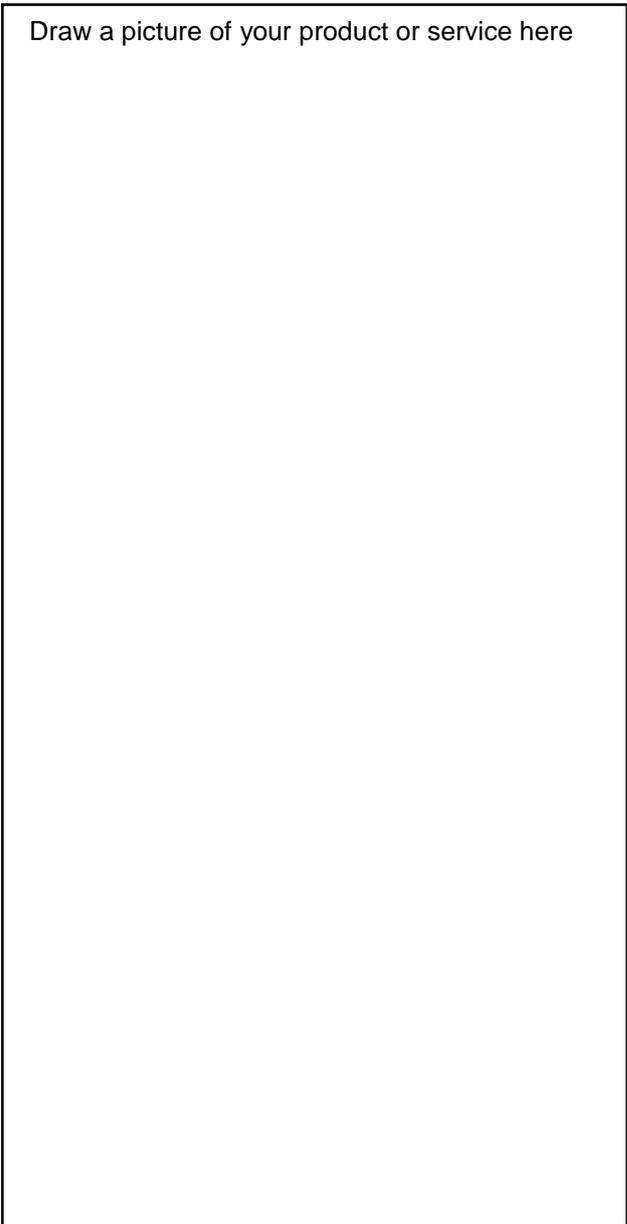
Write the name of your company



Write the slogan of your own company



Draw a picture of your product or service here



Write the main message of your company



Let's work on your business!

Question 2.1. - What is the main message that you want to get across to your (potential) customers?

Question 2.2. - What are the ways that you can communicate this message with your (potential) customers?

Question 2.3. - How are you going to communicate this main message of your company?

Question 2.4. - Where are going to communicate this main message of your company?

Place / Logistics

1. Place

The third P in the marketing mix is Place. Place is where the consumer finds it appealing to buy their desired products, according to the 5 senses (sight, smell, touch, hearing, taste). When looking at the place you are to choose, you need check where your customers/target market is and if it close or convenient enough for them to be able to buy the product from the place that you have chosen. Things to think about

- Location: The place needs to be close to the target group and to the supplier of raw materials or products that the business
- Accessibility (Of the location and the goods within the place)
- Cost: the amount of money it takes to use that place

An example of a familiar place that sells products like Sasko bread, Surf washing powder, Coca Cola etc. And it is near the residents Kayamandi that buy their products, which makes its location good.

Picture 1: local Madiba Supermarket

Visibility is....

The ability to see and recognize the store or the product in the store.

- placement of the store
- interesting colours
- a sign outside the store for the name of the store
- signs outside the store about the products and services that you provide in the store.



As you learned earlier, you can also provide a service. The service can be location based, or the service that is provided can come to you (movable), wherever you are. For example, the local hairdresser who has their own place, but will also come to your place. If you don't pick the right place you can lose customers, which means you won't sell as much.

Store Layout

Picture 2: Shelves at a checkers store



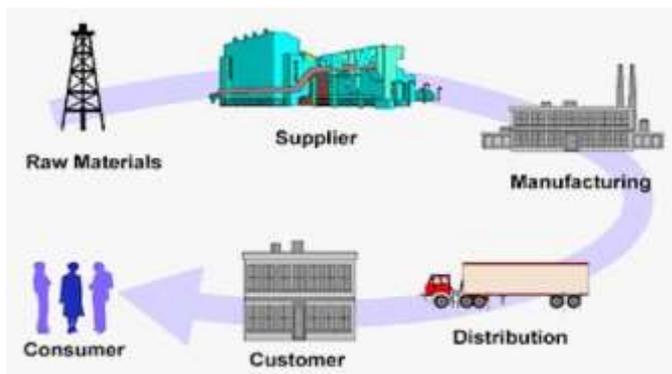
The picture to the right is an example of good visibility, because

- you can see the products well
- there are labels to show what prices are for each of the products they are selling.
- And another to point out is that there are no empty spaces on the shelves which makes the store and shelves look good.

2. Logistics

Do you ever wonder, how the products that you use get into the stores? Well, that happens via **Distribution Channels**.

But what are distribution channels!?



To simplify it, these are the steps that it takes from raw material to the product that you buy in the store. We go from raw materials, for example potatoes, then we have a supplier who adds the flavours, packaging, labelling and colouring. Then the potatoes and the added supplies go to the manufacturer, who makes the chips and packages as well as labels to products. To get the final product you get at your local store.

But how do they move the supplies from raw materials to consumer? Via modes of transport.

Modes of transport:

- Trucks
- Cars
- Aeroplanes
- Train
- Ship
- Bike



So, how do you choose the right mode of transportation for your business? There are things that you need to consider when you are looking for the right mode of transport.

- time (How long it takes to deliver supplies or products)
- quantity (How many products it can carry)
- weight (How much weight can the mode of transport carry)
- distance (How far is the travel distance is from the manufacturer to your business to your client)
- cost (how much money will it take to use that mode transport vs. how much money you have for transport) and availability (is that mode of transport there in your area)

3. Why is logistics important?

Although many small businesses focus on the design and production of their products and services to best meet customer needs, if those products cannot reach customers, the business will fail. That's the major role that logistics plays.

But logistics also impacts other aspects of the business, too.

The more efficiently raw materials can be purchased, transported, and sorted until used, the more profitable the business can be. On the customer side, if the products cannot be produced and shipped in a timely manner, customer satisfaction can decline, also negatively impacting a company's profitability and long-term viability.

Exercise

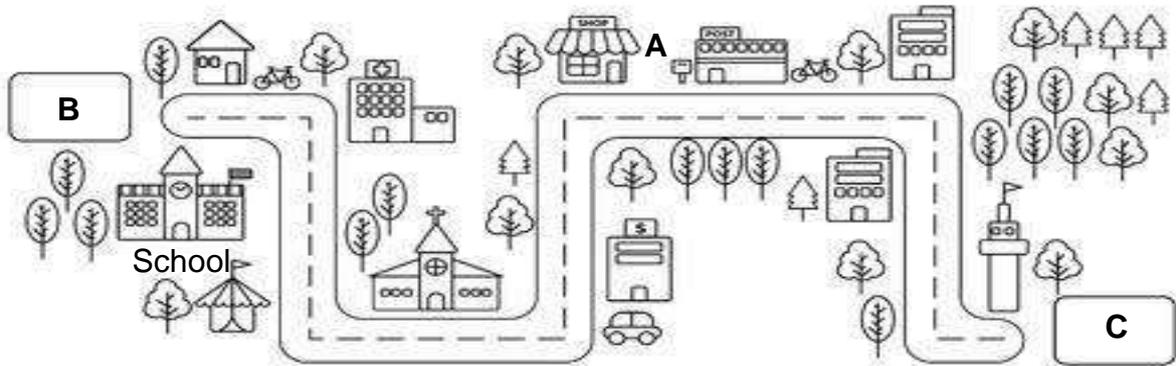
Place

1. What locations do you have in mind for your business?

2. Why did you choose that location for your business?

3. Which factors make a location a good place for selling?

4. In the map below where would you place a store that sells sweets? And why?



Logistics

1. What modes of transport can you recognise in Kayamandi? (Circle rights answers)

- a. Aeroplane
- b. Bus
- c. Bicycle
- d. Truck
- e. Train
- f. Ship

2. Which mode of transport will be the cheapest from the list above

3. What mode of transport would be the fastest? (Select from the list above)

4. Why is logistics important for your business?

5. What kind of goods do you need to run your business and which mode of transport will you use to transport them?

People & Processes

1. Process

A process is a repeatable series of actions that leads to a result. A few examples of processes might include:

- Preparing breakfast
- Cleaning a room
- Playing outside
- Changing oil in a car
- Putting gas in the car

A process is necessary for the division of labour because the task isn't just in one person's head anymore. The goal is to have a process that maximizes the product or service sold at the lowest cost over the shortest time period.

1.1 Process overview

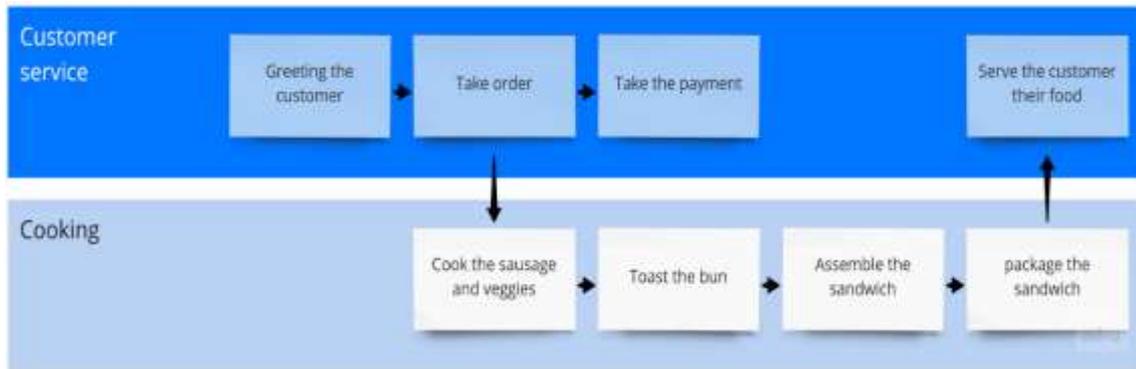
The process overview maps out the steps that need to be taken to get to the desired end result. By making a process overview you bring all the steps together in a single diagram.

1.2 Why use a process overview:

- Overview of the tasks that need to be done
- You see in what order they need to be performed
- Helps not to forget tasks
- A well thought out process overview helps you to deliver great service to your customer

Example:

A street food vendor. What is the process that takes place when serving a customer?



The objective is to serve the customers their food. The arrows indicate when a step follows from another step. Remember, different processes can happen at the same time. For example: Taking the payment and toasting the bun. You can make an overview like this for any process. It helps to organise, divide and plan the tasks required to run your business.

1.3 Preparation

Considering the process overview, there might be things that need some preparation beforehand. Preparations also includes buying all the materials you will be using during your process.

Example:

A street food vendor. The product the customer is getting is a hot dog with some vegetables. The employee could cut the vegetables for every customer at every order individually. What are the positive aspects and the negative aspects of this?

- **Positive** - *You have freshly cut vegetables for every customer.*
- **Negative** - *It takes a lot of time to cut the vegetables while the customer is waiting.*

By cutting the vegetables before an order is made will highly reduce the time it will take to produce the product.

But what will you do if you don't get any customers? It will all be a waste of food.

That's why it is very important to know what the demand for your product is to prepare accordingly.

Example:

Preparing more vegetables on cold days than on warm days because people tend to eat more hot dogs when it's cold in your neighbourhood.

Exercise:

1. Why should you make a process overview?

2. Make a list of the preparations before making and selling a sandwich.

3. Make a list of the preparations before washing a car.

4. Joe works at a supermarket and sells different products. A customer comes by and wants to buy a packet of chips. Make a process overview for Joe's supermarket with this packet of chips.

2. People

2.1 Who are the people

People in a business refers to all the individuals who play a role in the business and their objective is to effectively optimize the process.

Different people with different personalities, skills and qualifications will be assigned tasks.

A **skill** is one's ability to do something well. skills are developed partly through talent, but mostly through practice. almost anybody can learn any skill. Examples of skills are:

- Good communication.
- Leadership.
- Decision making.
- Time management.
- Self-motivation.

A **qualification** is an accomplishment that enables a person to do something specific. Examples of qualifications are:

- A degree.
- Specific industry knowledge.
- Number of years of experience.
- Ability to perform certain tasks such as heavy lifting or resisting extreme temperature.

Looking at the process overview, specific tasks can be identified in every business. The person allocated to a specific task will depend on what is required for the task.

2.2 Characteristics to look at when hiring

Five things to keep in mind when hiring someone to do a job is: reliability, responsiveness, assurance, empathy and tangibles.

- **Reliability** is the ability to complete the task effectively and consistently.
- **Responsiveness** is the willingness and well organised way to help the customers.
- **Assurance** is confidence in having the necessary ability to perform tasks.
- **Empathy** is the ability of the employee to care for the customer and the customers' needs.
- **Tangibles** or physical aspects are the appearance of the physical facilities, equipment, staff and communications material. This includes making sure that your staff has basic hygiene and clean clothes.

2.3 Personality

An individual's personality also plays a role in assigning them a task.

Personality is defined as the behaviours, way of making decisions and emotional patterns of an individual.

Personality traits can generally be categorized into four colours:

- **Green** (caring, encouraging, patient),
- **Yellow** (sociable, enthusiastic),
- **Blue** (precise, formal)
- **Red** (competitive, demanding).

It is always helpful to identify the dominant 'colour' of your employees to effectively assign tasks.

Here are a few examples of characteristics:

<p>BLUE</p> <p>Caution</p> <p>Precise</p> <p>Deliberate</p> <p>Questioning</p> <p>Formal</p>	<p>RED</p> <p>Competitive</p> <p>Demanding</p> <p>Determined</p> <p>Strong-Willed</p> <p>Purposeful</p>
<p>GREEN</p> <p>Caring</p> <p>Encouraging</p> <p>Sharing</p> <p>Patience</p> <p>Relaxed</p>	<p>YELLOW</p> <p>Enthusiastic</p> <p>Persuasive</p> <p>Sociable</p> <p>Dynamic</p> <p>Demonstrative</p>

2.4 Values

Your workplace **values** are the guiding principles that are most important to you about the way that you work.

Some examples of workplace values include:

- **Trustworthiness** - Be honest. Don't deceive, cheat or steal. Be reliable - do what you say you'll do. Be loyal.
- **Respect** - Treat others with respect. Be tolerant of differences. Use good manners, not bad language.

- **Responsibility** - Do what you are supposed to do. Use self-control. Be self-disciplined and accountable for your choices.
- **Fairness** - Play by the rules. Take turns and share. Be open-minded. Don't take advantage of others.
- **Caring** - Be kind. Be compassionate. Express gratitude. Forgive others. Help people in need.
- **Community** - Do your share. Be a good neighbour. Obey laws and rules. Respect authority. Protect the environment.

Your business's workplace values set the tone for your company's culture, and they identify what your business, as a whole, cares about. It's important that your people's values align with these.

2.5 Ethics

Ethical behaviour:

- Ethical behaviour is the right way to behave.
- It is choosing the right and good.
- It is based on morals.
- Ethical behaviour refers to that conduct that is beyond reproach
- Standards of a society, organization or institution.

For example: honesty and obedience to company policy and rules.

Unethical behaviour:

- Unethical behaviour is any action that is aimed at taking advantage of another without their knowledge or consent.
- Manipulating someone without his or her permission.
- Unethical behaviour is a way of acting that society disapproves of.
- It is the behaviour that is bad/wrong in a particular setting.

For example: lying, acting violent towards others, stealing, accepting bribes, faking accounting numbers, not paying taxes, not paying employees enough.

Corruption is a form of dishonesty or criminal activity undertaken by a person or organization entrusted with a position of authority. Corruption may include many activities including bribery and stealing. All criminal activities are unethical.

2.6 A few questions to consider:

- What will make your employee want to stay at your business?
- What benefits can you provide your employee?
- What wage will you be able to pay your employees (depending on the profit, minimum wage is R20 per hour)?
- What is the relationship like between the employer and the employee?
- Will the management team of the business provide the employees with the option of furthering their skills and qualifications through courses?

Exercise:

1. What personality colour describes the people?

Thabo is a calm and patient introvert. He is task-oriented and values logic.

Karen is detail-oriented and organised. She is very precise and persistent.

John is very competitive and tends to take the lead. He loves a challenge.

Rethabile is enthusiastic and spontaneous. She loves to be around people.

2. Which colour are you and why?

3. Connect every person to a characteristic with a line

Teacher

Motivator

Accountant

Caring

Food vendor

Precise

Soccer coach

Cleanliness

4. Which characteristics do you have?

Price / Finance

1. What is price

If we look at the price in general, there are two different types of prices we're learning now, the **cost price** and the **selling price**.

A **(selling) price** is the amount of money that your customers have to pay in exchange for your product or service. Determining the price for your product or service can be a bit tricky, which is why we have to spend time on looking for the right price.

The cost price is a price that you pay to receive or produce your products. If you make sure that your **cost price** is less than your selling price, you have the right price.

Example: Imagine that a shop buys its chips at a factory for R10. That means that the **cost price** of crisps for the shop is R10. If the shop decides to sell it for R25 it means that the selling price is higher than the **cost price**, which is a right thing to do, as we learned.

To decide what price we are going to sell the products or services, we have to choose a **pricing strategy**. A **pricing strategy** is a tactic that a company uses to sell their products for the right prices.

The pricing strategies we are going to learn are: **Cost based, Competitive based** and **Value based**.

1. **Cost based:** This method calculates the selling price based on the cost of making the product. A percentage of the total cost will be added to the cost price, which results in the **selling price**.
2. **Competitive based:** With this strategy a company prices its product based on the competitor's pricing. The companies usually use a competitive based strategy when several companies sell the same products. An example for this is Coca Cola and Pepsi Coke. The price for

a Coca Cola or Pepsi Cola will be more or less the same because if Coca Cola raises their prices people are more likely to buy Pepsi.

3. **Value based:** A product that people associate with a contribution to their happiness or status, for example, a car, can have a higher selling price, because it adds something to the value of a person's life.

In order to choose the right pricing strategy you should take into consideration the fixed expenses and variable expenses of your business. The fixed expenses and variable expenses will also be used to calculate your break-even point.

Fixed expense = Expenses that do not change when the number of products you sold change for example, rent, insurance, advertising and salaries you pay your workers, these are considered fixed expenses.

Variable expense = Expenses that changes based on the number of products made. For example the cost to produce a product is a variable expense. For example, direct material, direct labour and the cost to make a bag of crisps in a factory, is a variable expense.

The break- even method is used to calculate the number of products you need to sell.

Break-Even Point (number) = Fixed expense ÷ (Selling price per Unit – Variable Expense per Unit)

The business should set sales objectives/goals, which means the number of products they want to sell. The business's sales objective/goals should be more than the break-even point.

For example say the selling price for a one bag of crisps is R20, the variable expenses for one bag of crisps is R10 and the total fixed expense is R100000. Then the break-even point would be calculated as follows:

Break-Even Point (number) = Fixed Expense ÷ (Selling price per Unit – Variable Expenses per Unit)

$$= R100000 \div (R20 - R10)$$

$$= R100000 \div R10$$

$$= 10000 \text{ units}$$

10000 bags of crisps will have to be sold in order to make a profit.

The business's sales goals should be more than 10000 bags of crisps in order to increase profit.

To make a realistic estimate you should use the target market to determine how much sales you make.

The break-even point can also be calculated online here:

<https://goodcalculators.com/break-even-calculator/>

2. Why is finance important

Finance is important because it is used to **start up a business, keep the business running** and **to grow the business**.

Expenses associated with the start-up of the business is commonly **advertising, new equipment and location/building, which is generally a fixed expense**.

Finance should be enough to run daily activities and should be able to cover your business's expenses.

2.1 Income Statement

Income Statement= An income statement is key to determine whether your business makes a net profit or a loss. The income statement shows the total amount of income that the business has made and the expenses that the business spent money on.

Income = Money your business received for services or selling a product.

Expense= Money your business spent for something

Total Expense = Variable expense + fixed expense

Net Profit = Income - expense/Total expense

Income statement for XYZ business for the period ending 31 st of December 2010		
	R	R
INCOME		94,600
Services rendered	<u>94,600</u>	
EXPENSES		(60,366)
Salaries	25,000	
Telephone & internet	6,500	
Water & electricity	16,000	
Property rates and taxes	1,000	
Insurance	7,300	
Advertising costs	1,000	
Fuel	2,500	
Stationery	412	
Bank charges / interest paid	654	
Tax expense	<u>3,414</u>	
NET PROFIT		<u>30,820</u>

2.2 Finance options

- 1) **Bank loan** = Go to a bank of your choosing and follow the lending application process of the bank. If you are successful, the bank will approve your application. Example of banks in South Africa are Standard bank, Nedbank, FNB and ABSA.

Advantages:

- You have immediate access to the finances/funds when your application is approved, which means it is a fast way to gain funds for your business.

Disadvantages:

- You have to pay interest* on the amount you received. So you end up paying more than the original amount.

**Interest means the cost of borrowing money during a certain period of time.*

2) **Investors= Investors** are people or companies who put money into your business with the goal/expectation to receive a profit. In order to convince investors you should have a good business idea and business plan.

Advantages:

- They can invest money and also their time and experience.
- The payback can be different than in money.

Disadvantages:

- The investors expect shares* in return, which would result in them making the decisions.
- An investor can disagree with your business plans.

Example: Imagine having 4 investors in your project and they start having disagreements with each other. This can cause a lot of trouble.

**Shares are small pieces of a company owned by the founder of the company.*

3) **Crowdfunding=** To fund a project by raising money from a large number of people who each contribute a small amount of money. For examples you can check www.kickstarter.com and www.jumpstarter.co.za

Advantages:

- Low financial risk and don't have to pay back any money.
- More exposure which means more people can see your idea and business plan

- It can be done online which means it is easy and doesn't take long to get it running.

Disadvantages:

- You have to reach your funding goal, so you aren't guaranteed funding, so there is a risk of failure.
- There is a higher chance that someone will copy your idea because the amount of people that can view your business idea.

Exercise

1. If your Cost Price for a bag of crisps is R10 and the Selling Price is R25, is this the right price? YES/NO

2. How do you decide what price you should sell your product/service for?

3. The pictures below show value based and competitive pricing strategy. Connect the strategy with the picture:

Value based pricing



Competitive pricing



4. What do you consider the most interesting pricing strategy?

5. Name down the most important expenses for your business idea. For example, promotion.

6. Fill in below whether the expenses are variable or fixed by writing it down next to the expenses.

Promotion	
Direct Materials	
Direct Labour	
Salaries	
Telephone & Internet	
Fuel	
Insurance	

7. Write down the formula for break-even point.

8. Say the selling price for a one bag of crisps is R15, the variable for one bag of crisps is R10 and the total fixed expense is R50000. Then the break-even point would be calculated as follows:

9. Try and think of some additional advantages and disadvantages from the financing methods you've learned.

- **Bank loan**

Advantages	Disadvantages

- **Investors**

Advantages	Disadvantages

- **Crowdfunding**

Advantages	Disadvantages

10. So what do you think is the best method to use for your financing?

Income statement for your Business	
Income per month	R
Products sold/Services rendered	
Expenses per month	
<i>Variable</i>	
Direct labour	
<i>Fixed</i>	
Promotion	
Net profit per month	

Glossary

A

Accessibility is the quality of being able to be reached or entered

Added value: including special elements that are additional to the basic product.

Advertising is any paid form of media communication

AIDA Model, which stands for Attention, Interest, Desire, and Action model, is a promotion model that identifies the stages that an individual goes during the process of purchasing a product.

Appealing is when something looks good to you

Assurance is confidence in having the necessary ability to perform tasks.

B

Business values are standards of behaviour that a company wants each member of the organization to follow. Example: integrity and ethical values; direct, open, and honest communication; commitment to clients; product quality and reliability; continual self-improvement / self-renewal; having fun; people as the source of our strength; team-orientation / commitment to each other

C

Core product: The part of the product that can be used or consumed.

Corruption is a form of dishonesty or criminal activity undertaken by a person or organization entrusted with a position of authority.

Cost price is a price that you pay to receive or produce your products.

Convenient is a word that describes when something is made easy for you to get or to visit

Crowdfunding is to fund a project by raising money from a large number of people who each contribute a small amount of money.

D

Decline is when something becomes smaller or less

Differentiation: The process of making a product different from other similar products.

Direct marketing is selling products or services directly to the customers.

Distribution Channel is the path that goods and services take from the business to the consumer

Demographics are information about the characteristics of a population, such as the age, gender, race and income of the people within the population

E

Empathy is the ability of the employee to care for the customer and the customers' needs.

Efficiently is a word used to describe a process that is cheap, quick and that makes a lot of goods

Ethical behaviour is the right way to behave, choosing to do the right and good.

Expense is money your business spent on something.

F

Fixed expenses are expenses that do not change when the number of products you sold change

G

H

I

Interest means the cost of borrowing money during a certain period of time.

Income = Money your business received for services or selling a product.

Investors are people or companies who put money into your business with the goal/expectation to receive a profit.

J

K

L

M

The **main message** of your company includes every important aspect of your company and the product or service you offer.

Morals are formed out of a person's values.

Movable is something is able to be moved

N

O

P

Personality is defined as the behaviours, way of making decisions and emotional patterns of an individual.

Pricing strategy is a tactic that a company uses to sell their products for the right prices.

Process overview: a way to visually represent all the tasks in the company.

Product: An offering to a buyer in exchange for money.

Promotion: refers to the entire set of activities, which communicate the product, brand or service to the user.

Production is the steps taken to make a product

Profitable is able to make money

Public relations is building a relationship between your business and organisations.

Q

A **qualification** is an accomplishment that enables a person to do something specific.

R

Responsiveness is the willingness and well organised way to help the customers.

Reliability is the ability to complete the task effectively and consistently.

S

Sales promotion is a paid form of promotion which has to stimulate sales through activities.

Satisfaction is meeting people's needs and likes.

Selling price is the amount of money that your customers have to pay in exchange for your product or service.

Service: A product defined as an activity.

Shares are small pieces of a company owned by the founder of the company.

A **skill** is one's ability to do something well. It is partly talent but mostly practice.

Sustainable competitive advantage: A unique selling point linked to sustainability.

T

Tangibles or physical aspects are the appearance of the physical facilities, equipment, staff and communications material.

Transportation is when something is moved from place to place

Trends are a general direction in which something is developing or changing.
Example: fashion trends

U

Unethical behaviour is any action that is aimed at taking advantage of another without their knowledge or consent.

Unique selling point: The unique product characteristic that no other similar product has.

V

Values are the guiding principles that are most important to you about.

Variable expense = Expenses that changes based on the number of products made.

Viability is when something is able to work successfully

Visibility is the state of being seen and noticed

X

Y

Z

