GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

BUSINESS STUDIE S

GRADE 11

TERM 3

CHAPTER 16

STARTING A BUSINESS VENTURE ON AN ACTION PLAN

2020

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This chapter consists of 7 pages

CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES

Learners must be able to:

- Outline/Mention/Explain/Discuss aspects that must be considered when initiating a business e.g.:
  - Strategy

- Operations
- Productivity
- Size of a business etc.

- Outline/Mention/Explain/Discuss factors that must be considered before start-up e.g.:
  - Culture of the organisation
  - Environmental changes
  - customer services
  - Business growth
  - Cost saving etc.
- Analyse the above-mentioned factors from scenarios/case studies and make recommendations for improvement.
- Explain/Discuss reasons why businesses need funding.
- Outline/Mention/Explain sources of funding.
- Explain/Discuss/Describe factors that influence the choice of funding e.g. nature of finance, amount of capital needed, risk, cost of finance etc.

TERMS AND DEFINITIONS

TERMS	DEFINITIONS
Strategy	Plans created by the entrepreneur that is spelt out in the business plan and enforced in the action plan
Collateral	The asset that is pledged to the bank in case of a default in the repayment of a loan.
Interest	Money paid as a percentage for the use of borrowed money.
Mortgaged bond	A debt instrument issued for a period of more than one year with the purpose of raising capital from borrowing. thee the purpose of raisi
Incentives	Cash or tax relief to encourage investment in economic sectors It could also be a payment to workers to encourage productivity.
Venture capitalists	Financing is given for an ownership share in the business at its start-up.
Equity Capital	The total amount of money and assets invested in a business by the owner that comes from own sources.
Grants	Money given by government or an NGO for a specific purpose e.g funding small businesses.
Bank overdraft	A customer withdraws more than the money that is available in the bank account.
Trade credit	Time, usually between one and three months which a business has before it has to settle the debt.

Angel funding	These are wealthy business people who want to invest in promising small business in return for a profit share in the business.
Micro lenders	Businesses that offer small loans to people at high interest rates without collateral.

1 Aspects that must be considered when initiating a business

1.1 Strategy

- A strategy is a plan of action that must be carried out by an entrepreneur
- An action plan outlines the vision, mission, goals and objectives.
- The action plan must be used to develop the systems and processes for the business

1.2 Operations

- The business plan, action plan identifies the operational plan, timelines and key deliverables
- Operations need to be implemented, staff employed and trained.
- Resources must be acquired and managed continuously
- Constant monitoring & evaluation need to be done to ensure that resources are used effectively.

1.3 Productivity

- The action plan includes budget and financial planning
- Budgets need to be assessed and amended
- Costs need to be decreased and output increased
- to ensure productivity - costs need to be decreased & output increased
- improvements need to be implemented constantly to improve profits

1.4 Size of the business

- The success of a business depends on its management and staff.
- The bigger the businesses the more difficult to manage
- It is difficult to keep control of the quality of each of the employees, work and productivity levels

1.5 Culture, training, and quality of staff

- It is essential to establish an organisational culture from the beginning so that staff are familiar with what is acceptable.
- Staff need appropriate training in order to achieve the desired outcomes and deliver the best quality.
- Managers should ensure that all new staff know the business dress code

1.6 Risk and change

- All businesses need to take risk and amend the original action plan several times.
- The introduction of new technology or new machine may influence a budget and it may be necessary for the business plan to be adapted
- Management and leadership teams must be flexible to adapt to changes in the market and/or macro environment.

1.7 Customer service

- A successful business gives customers what they want.
- Businesses need to change their market plan/adjust their products and prices to ensure sales increase.
- They also need to establish a good relationship with their customers.

1.8 Market research

- Businesses should conduct ongoing market research to identify profitable markets for their product.
- Many businesses benefit from conducting market research in local/familiar markets.
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1.9 Business cycles

- Businesses obtain profit and experience losses.
- Changes in market & macro environment can either have a positive or negative impact on business operations.
- Businesses should constantly make adjustments to reduce costs where possible.
- Reducing cost increases profitability.

2 Factors that must be considered before start-up

2.1 Culture of the organisation

- Establish an organisational culture so that the staff is familiar with what is acceptable.
- Ensure that a code of conduct is in place and enforce it from the start
- The staff must know the dress code and the code of conduct of the business from the start.

- Provided ongoing training to ensure that the staff remain skilled and able.

2.2 Environmental changes

- Continue to network and research to avoid changes in the business environment which may upset the business operations.
- Consider the risk and success factors
- Plan for risks and minimise the impact

2.3 Customer service

- Make an effort to satisfy the needs of customers.
- Change the action plan accordingly to accommodate the needs of customers
- Establish a good relationship with customers.

2.4 Business Growth

- Managed and backed up growth by using a solid strategy.
- The success of a business is often dependent on its management and staff.
- Devise a suitable strategy to manage and control a larger group of employees.
- Keep control of the quality of each employee.

2.5 Cost saving

- Cut cost by controlling unnecessary expenditures

2.6 Risk and change

- Management and leadership teams must be flexible to adapt to changes in the market.
- The original action plan may need to be changed and amended several times.
- The introduction of new technology may influence a budget.

2.7 Other factors that must be considered before starting a business.

- Planning and minimising the environmental impact on the business.
- Action plan to satisfy the needs of customers.
- The sources of raw materials/suppliers.
- The sources of funding that the business would use.
- The forms of ownership that will be used by the business.
- The registration of the business.
- The location/business premises to be used.

3 Acquiring funding

3.1 Reasons why businesses need funding.

Businesses require funding to:

- Cover the start-up costs including g premises/machinery/raw materials etc.
- Run the business and have enough money to pay employees/suppliers of raw material etc.
- Pay for cost of input such as wages, telephone other expenses
- Expand the business as the orders/sales increase and bigger premises need to be established.

3.2 Sources of funding

3.2.1 Equity Capital

- Equity capital is the total amount of money and assets invested in a business by the owner that comes from own sources
- Capital that is contributed by the owner is referred to as the owner's interest.
- Owner's equity increases when the owner puts in additional funds to expand the business.
- The benefits of putting own capital into the business is that it encourages a commitment from the owner.

3.2.2 Issuing of shares

- New companies can issue shares to obtain capital.
- Shareholders receive a share certificate as proof of ownership
- The Memorandum of Incorporation and prospectus list the details of the shares that are offered for sale
- Ordinary shares are the most type of share offered by companies to shareholders
- All shareholders receive a portion of the profits called a dividend.

3.2.3 Debt Capital

- Many businesses need to borrow funds.
- The business plan will indicate how much a debt capital is crucial for business funding.
- The following sources of finance are available to the entrepreneur:

Bank loan

- The business can borrow money from the bank.
- The amount will be specified for a set period.
- Interest is payable on the loan.
- The period can be fixed for the time of the loan or variable in line with the current interest rate.

Trade Credit

- This is the time which a business has before it has to settle a debt.
- Suppliers usually allow a small business a period between buying materials and paying for them.

Bank overdraft

- This is when a bank allows a business to draw more than what is deposited in the bank account.
- The bank decides on the maximum amount to be drawn known as the overdraft limit
- The business pays interest on the amount of money they withdraw and for the period they have overdrawn.

3.2.3 Leasing and hire purchase

- Businesses can lease certain assets from suppliers.
- Assets such as machinery/vehicles/computer systems can be leased.
- A fixed amount of money is paid monthly for the use of the asset
- The lease agreement can be renewed when the asset is returned/replaces.

3.2.4 Grants

- Grants are funds that are received from government departments/local development agencies and other organisations that support small business developments.
- The business can qualify for government support to help get started.
- The main advantage of grants is that it is cheap financing.

3.2.5 Venture capital

- Financing is given in exchange for a share in the business at its start up.
- Some venture capitalists also request a position in management or on the board.

3.2.6 Angel funding

- These are often wealthy entrepreneurs who offer financing in exchange for a share in the business.
- This carries a high risk for the investor.

4 Factors that influence the choice of funding

4.1 Nature of finance

- This depends the owners if he/she wants to use own or borrowed capital as well as short- or long-term loan.

4.2 Amount of capital needed

- Business owners usually use their own capital if a small amount is needed.

- The larger the amount of capital that is needed the owners will have to look at borrowed capital as well

4.3 Risk

- Providers of own capital are usually willing to accept greater risks than providers of borrowed capital
- Interest on loan is legally compulsory and may lead to the liquidation of a business in bad economic circumstances

4.4 Cost of finance

- Businesses will generally choose the funding with lower costs/interest
- The income earned on borrowed capital must exceed its cost otherwise it will be to the disadvantages of the holders of own capital.
- Borrowed capital may be cheaper because the holders of own capital require a higher income owing to the higher risk

4.5 Period of financing

- If needed for a long period might rather use own capital because borrowed would be too expensive over a long period.

4.6 Availability

- If more own capital is not available, the business might be forced to use borrowed or other way around.

4.7 Tax considerations

- Interest on borrowed capital is tax deductible. Dividends on own capital are not deductible.