

# Sarina Russo Group

# GUIDE TO BUSINESS SUCCESS

## A Resource Book for Certificate IV in New Small Business

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# 1 INTRODUCTION

This manual is part of the 'Starting and Running a Small Business' package for learners seeking to gain a Certificate IV in New Small Business Management. The manual will help you to:

- investigate and evaluate your business idea;
- find out what you need to do before you start your business;
- plan your business;
- manage and grow your business;
- manage risk; and
- sell, pass on, or close your business.

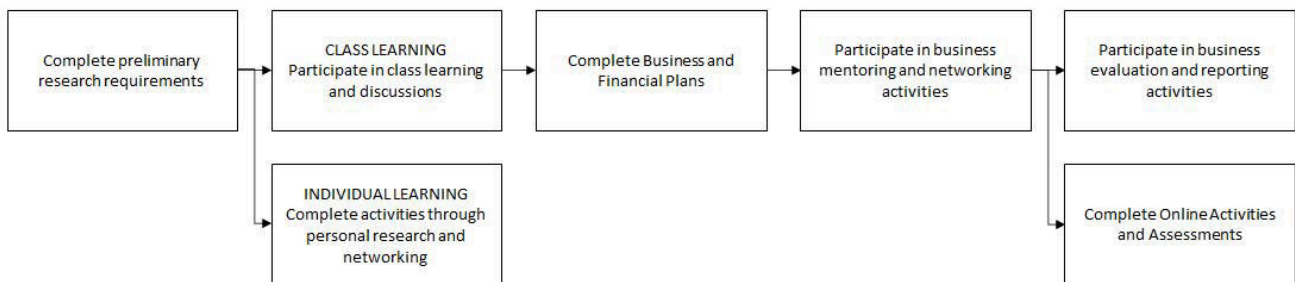
This Certificate IV in New Small Business course covers the competencies noted below. Elements of the competencies appear in different parts of the Business Plan, thus are not necessarily confined to one chapter. For example BSBSMB404 Undertake Small Business Planning has activities covered in most chapters, whereas BSBSMB421 Manage Small Business Finance specifically relates to the financial management section of the textbook.

UnitCode	Title
BSBSMB401	Establish legal and risk management requirements of small business
BSBSMB421	Manage small business finances
BSBSMB403	Market the small business
BSBSMB404	Undertake small business planning
BSBSMB301	Investigate micro-business opportunities
BSBRES411	Analyse and present research information
BSBMKG401	Profile the market
BSBREL401	Establish networks
BSBWOR424	Develop a time management plan
PSPGEN028	Provide a quotation

In covering the content of this manual you will gain additional skills and knowledge to assist in completing the assessments for the Certificate IV in New Small Business.

The learning process for the Certificate IV in New Small Business is set out in Figure 1.1. As you progress through the training and read the additional resources you will contextualise the theories and implement them within your business plan activities and other assessments. Learning occurs through research, discussion, practical exercises, business operation and completion of assessments. Completion could take up to twelve months.

Figure 1.1 - Learning Process



Note:

- Personal research = Business Diaries + Use of the Guide to Business Success
- Business Mentoring and Networking = Monthly Contacts and Mentoring, Participation in networking events if any
- Business Evaluation and Reporting = Financial Reports and Mentoring

## 2. OWNING AND OPERATING A BUSINESS

### INTRODUCTION

Starting a business is both exciting and challenging and is a big step to take. Whilst it seems to offer you freedom to be your own boss, live your dream and run your own life, it requires hard work, and often long hours. You will face frustration and setbacks. Things outside your control may affect your business and therefore your income and security. As you take this step you need to think about those who depend on you, and the change it might make to your lifestyle and family.

Often there are people who are really good at making something or doing something, and they decide to go into business for themselves. Just because they have a skill to make or do something really well doesn't mean they are able to run a business in it. Running a successful and resilient business requires certain skills.

Some people seem to be more successful than others in running a business, and it is not about the product or service they provide, it is about the qualities and skills they have as a person. What are your motivations for going into business and what are your strengths and weaknesses in terms of running a business? Are you suited to running a business?

### 2.1 BEFORE STARTING YOUR BUSINESS

#### Your Motivation

Motivation is great to get through tough times. It can help you to focus your efforts to tackle your problems and to make the most of your opportunities. Having goals helps you to remain on track.

#### Activity One

Briefly answer the following question:

Why do you want to start your own business?

#### Activity Two

Briefly answer the questions below:

What are your business goals withing six months, one year and five years?

Six Months:

One Year:

Five Years:

#### Your Family

You may or may not have family commitments or other community commitments, but you need to consider any commitments and how they will be affected by you having less time. What are your family responsibilities now and how may they be affected once you are running your own business e.g. picking children up from school, caring for someone, attending commitments such as sport?

Time will become very precious and will be one of the hardest things to manage. Running your own business may affect the time you spend with your family, holidays, socialising or doing sport.

### Activity Three

Briefly answer the following:

Consider your family commitments and note how you will manage these once you become less available?

### Your Skills and Personality Traits

Running a business requires you to have a range of skills. Some examples are: financial management; marketing; customer service; selling; leadership; managing staff; communication; developing relationships and building networks; planning; and problem solving. You need to evaluate your skills to see where the gaps are, and make decisions about improving or obtaining skills you don't have, or buying expertise from someone else.

### Activity Four

Fill in the table below by self-assessing your skills on a scale of 1 - 5 (1=nil; 2=limited; 3=reasonable; 4=strong; 5=very strong):

Skill	Rating	Skill	Rating
Financial		Marketing	
Selling		CustomerService	
Leadership		Managing Staff	
Communication		Planning	
Problem Solving		Relationships & Networks	
Research - Information		TimeManagement	

This course aims to provide you with these skills if you don't have them, or enhance them if you do. At the end of the course you can come back and re-assess your skills.

There are also personal qualities that can help with running a business, such as patience, determination, self-discipline, creativity, thoroughness, and self-confidence.

### Activity Four (b)

Fill in the table below by self-assessing your personality traits on a scale of 1 - 5 (1=nil; 2=limited; 3=reasonable; 4=strong; 5=verystrong):

Trait	Rating	Trait	Rating
Patient		Determined	
Self-Disciplined		Thorough	
Creative		Self-Confident	
HighlyMotivated		Energetic	
AdaptabletoChange		Inspirational	
Strong Leader		Committed	
Detail Oriented		Outgoing	

### Your Knowledge

Running a business also requires you to have and keep up to date particular knowledge in areas such as: legal requirements; industrial relations; tax compliance; financial management processes and documentation; operational ethics; customer rights and responsibilities; and employee rights.

### Activity Five

Fill in the table below by self-assessing your knowledge on the subject matter on a scale of 1 - 5 (1=nil; 2=limited; 3=reasonable; 4=strong; 5=verystrong):

Subject Matter	Rating	Subject Matter	Rating
Financial Management		Requirements to Operate Legally	
Buying & Selling Under Contract		Risk Management	
Customer Rights		Tax Compliance	
Advertising Code of Ethics		Operational Ethics	
Industrial Relations		Occupational Health & Safety	
Marketing Techniques		Pricing	

### Your Financial Situation

You want to be able to earn enough money from your business to have drawings that will pay your bills, and also to make a profit. Do you know how much your living expenses are? Most people have regular payments that must be met.

### Activity Six

Identify your current living expenses in the table below:

Item	Amount
TOTAL	

(This information to be included in Table 4 of Financial Risk. Insert Additional lines if required)

## DISCUSSION

In small groups discuss the following:

1. What are the top three knowledge/skill areas that you think a business owner should be competent in, and why?
2. From your experience of buying goods/services, what are the top three personality traits that make a good business operator when dealing with customers, and why?

## 2.2 BUSINESS PLANNING

### Introduction

Fundamental to starting and running a successful business is research and planning. Each chapter in this manual provides information and references to other sources of information to assist you with your research. The findings from the research are to be used to prepare your business plan.

Why plan? Whilst there is a place for spontaneity in life, running a business successfully is based on having a good plan. This will help you to understand where you are, to identify where you want to be, your business goals, and how you will get there. Planning and developing strategies and actions to deliver the plan will take you to where you want to be. Along the way, events and situations and the business environment will change, sometimes threatening your business, or presenting new opportunities.

Your plan must take account of risks and threats and be flexible enough to be able to be adapted. Your business plan is a living document that should be reviewed and updated as your business grows and matures, or is required to respond to changes, threats and new opportunities. Your business plan is also a useful document when seeking funds from the bank or investors.

A business plan usually covers the following topics:

- Executive summary (written after you have finished your plan, that summarises the main parts of your plan);
- Vision and Mission statement (broadly what you want to achieve and how you will achieve it) and more specific business goals and objectives (profit, sales, etc. that should be short and long term);
- Profile of the business and its structure;
- Outline of products and service;
- Legal requirements to operate;
- Risk assessment, management and continuity planning;
- Market research, analysis and marketing strategy;
- Financial assessment and financial management strategy;
- Business operations, including production processes if this applies;
- Human resource management;
- Succession planning; and
- Business plan review date.

Researching information for your business plan will help to build your knowledge of different areas of business operations and potentially provide an opportunity to discuss business practices with experts and other business operators.

### Cultural Diversity and Business Planning

Managing cultural diversity should be factored into business planning, as its influences and effects extend across many areas of business activity and staff, for example:

- Employing, managing and retaining staff;
- Market development and marketing strategies;
- Importing/exporting activities;
- Customer service;
- Communication;
- Legal requirements; and
- Workplace health and safety.

It has become increasingly important because of:

- The development of a global economy;
- Workforce mobility across the globe in response to labour shortages and earning opportunities in different countries;
- Global supply chains;
- Diversity in consumer markets driving demand for specific goods and services;
- Global communication; and
- Legislation and regulatory requirements.

Effectively managing cultural diversity can result in:

- Improved employee productivity;
- Improved employee inter-relationships;
- Safer workplace;
- Reducing conflict in the workplace;
- Improved customer relationship management;
- Enhance relationships with suppliers or buyers, particularly overseas; and
- Reduced staff turnover.

Throughout this text there will be reference to approaches that help to address cultural diversity that should be incorporated into your business plan. Check the link in the reference section of this Chapter for further information on managing cultural diversity.

## 2.3 BUSINESS EXPERTISE

There is a wealth of business expertise out there to help you research and develop your business plan. Useful expertise will be:

- Accountant;
- Marketing advisory;
- Lawyer or solicitor;
- Human Resource advisor;
  - Chamber of Commerce;

- Industry Associations;
- Australian Taxation Office;
- Your bank; and
- Human Rights Commission.

## 2.4 REFERENCES

NOTE: THE INTERNET HAS VAST VOLUMES OF INFORMATION. CONSIDER THE RELIABILITY AND TRUSTWORTHINESS OF THE INFORMATION YOU ACCESS. TRY TO USE TRUSTED SITES AND SOURCES.

Starting a Business Checklist:

[www.business.gov.au/Information/pages/Startingyourbusinesschecklistcontents.aspx](http://www.business.gov.au/Information/pages/Startingyourbusinesschecklistcontents.aspx)  
<https://www.business.gov.au/planning/templates-and-tools/checklists/starting-your-business-checklist>

Business Planning Case Study:

[www.business.gov.au/Pages/default.aspx](http://www.business.gov.au/Pages/default.aspx)  
<https://www.business.gov.au/planning/templates-and-tools/business-plan-template-and-guide>  
[www.business.gov.au/Howtoguides/Thinkingofstartingabusiness/Pages/Howdowriteabusinessplan.aspx](http://www.business.gov.au/Howtoguides/Thinkingofstartingabusiness/Pages/Howdowriteabusinessplan.aspx) [https://creativeplusbusiness.com/wp-content/uploads/2014/02TEMPLATE\\_Business\\_Plan\\_for\\_Creatives.pdf](https://creativeplusbusiness.com/wp-content/uploads/2014/02TEMPLATE_Business_Plan_for_Creatives.pdf)

Small Business Support:

<https://www.business.gov.au/>  
[www.ausindustry.gov.au/programs/small-business/sbsl/pages/default.aspx](http://www.ausindustry.gov.au/programs/small-business/sbsl/pages/default.aspx)

Managing Cultural Diversity:

[www.amf.net.au/library/uploads/files/MCD\\_Training\\_Program\\_Resource\\_Manual.pdf](http://www.amf.net.au/library/uploads/files/MCD_Training_Program_Resource_Manual.pdf)

Advisor Finder:

<https://www.business.gov.au/planning/new-businesses/advice-and-support-in-your-state-or-territory>  
[www.business.gov.au/AdvisorFinder/AdvisorFinder.aspx](http://www.business.gov.au/AdvisorFinder/AdvisorFinder.aspx)

### 3. OUTLINE OF THE BUSINESS

#### 3.1 RESEARCH YOUR BUSINESS IDEA

##### Introduction

A lot of businesses fail in the early years. To help you to avoid this risk you need to be well prepared and informed. A business idea can seem like a great idea, but you need to find out if there is a market for your product/service, know who your competitors are and what they offer.

It is also important to understand how the industry that you are in operates. This includes the inputs and suppliers to your business and the distribution channels and markets you supply (I.e. this is your supply chain), the standards and regulations that apply, and the strength and growth potential of the sector?

This section looks at how to research your business idea. Remember, you should note your sources of information. You can do this by providing a reference list at the end of your business plan or put a footnote to web sites, books, articles that you have used at the bottom of the page. This will be a useful source of references for you when reviewing your plan. If you are directly copying tables or statistics, you must note the source under the table/diagram.

##### Background

Finding out about your business will include two types of research:

- Primary research: such as surveys, interviews or focus groups; and
- Secondary research: from published data and information.

Before looking at the different types of research, you need to identify the type of business you will run and the industry sector. For example, a person making children's clothing is a manufacturer and they are part of the textile, clothing and footwear industry sector.

##### Type of Business

A business can be: an agricultural producer, resource (mining) extraction, manufacturer, service provider, wholesaler, retailer, entertainer, or a combination of these activities.

##### Industry Sector

Your business operates in a particular industry sector. Some examples of sectors are: agriculture; textile, clothing and footwear; construction; tourism; personal services; accommodation, cafes and restaurants; food processing; metal manufacturing, marine, aviation, transport; communication; finance; education; health; entertainment; culture and recreation.

##### Activity One

Provide examples of businesses in each of these business types:

Business Category	Example
Agricultural Producer	
Manufacturer	

##### Activity Two

Write the sector category beside the appropriate service/product:

Sector Categories			
A	Agriculture, forestry and fishing	B	Construction
C	Personal Services	D	Cultural and Recreation
E	Accommodation, Cafes & Restaurants	F	Manufacturing

Service/Product	Answer
Tutoring Service	
Mobile Coffee Van	
Sail Maker	
Souvenir Shop	
Real Estate	
Beauty Therapist	
Floor Tiler	

## Industry Sector Analysis

Finding out the industry profile and trends will help you to understand how the industry you are entering works, some of its challenges, and whether it has a strong and positive outlook. Chapter 6 deals with Marketing and provides more detail on what to include in an industry sector analysis.

## Target Market

Who is your target market? You will need to profile this market so that you can understand what might make people or businesses in your target market buy from you. What you find out will give you demographic and geographic details about your potential customers and help you to market your business.

The profile should include details like the gender, age, education level, marital status, occupation, income, nationality, lifestyle and interests. The geographic location may be local, regional, country- specific, or global. You will also need to look at market trends.

If your target market is other businesses rather than people, the profile will include the type of business and the industry sector. The size of the business may be important (micro, small, medium or large) and the structure such as sole operators, companies or franchises may also be relevant. Geographic location may be important in terms of transport and distribution planning and management.

You will find out more about developing your customer profile and details of your target market in Chapter 6 Marketing.

## Industry Trends

A trend is a tendency, style or pattern of change in the industry sector or its market. Trends can be driven by influences such as innovation of products and services; new technology; regulatory changes creating restrictions or increased costs to production; economic booms or downturns; consumer fashion and fads; or perhaps new information about products and services affected by health and environmental research. How do you find information on trends? Trends can be identified through research and analysis, for example in statistical information such as industry performance, general economic performance and demographics; analysing sales trends and performance; reviewing media and public reports and checking industry association journals; and monitoring social media.

Following industry trends, including market trends will help you to fine-tune your business to make sure you are meeting your market, your customers' expectations, as well as being a risk management strategy to plan ahead for changes that will affect your sales, profit and bottom line.

### Activity Three

Identify target markets, demographic and geographic profiles for the following two businesses:

Nail technician and beauty therapist:

Art-deco furniture manufacturer:

## Consumer Views

You can gather additional information by conducting primary research into your target market to find out things like buying preferences; how often a customer would use a product or service; the price the customer would be willing to pay; the quality and service expected; and where they may already be buying the product or service. This may be an activity you undertake as part of your marketing.

## 3.2 RESEARCH METHODOLOGY

### Primary Research

Primary research includes activities like observation, surveys, focus groups and interviews (either face to face or virtual using technology). This information is directly from the real world and can provide very specific information. Well-designed primary research can be very useful. However, the skill is in choosing the best approach and being able

to design the research tool (interview, survey, focus group agenda) to find out the information that you want. As this form of research involves people or observing them you need to gain their permission and explain how you will be using your research. In other words, you need to conduct your research ethically. The Australian Privacy Act 1988 sets out standards for the collection, storage and use of personal information. This applies to undertaking research that involves collecting such information.

There are positives and negatives to all primary research methods. Interviews can give you rich information, but are generally conducted one-on-one and take time. Surveys are fairly rigid in the information they gather, depending upon the design. Observation relies on the abilities of the observer to record accurately and without bias, and then to analyse what is observed. Focus groups can also provide rich information, but take time to set up, and can be hard to manage and record, and later analyse. There are software tools that are available to help in primary research which are listed in the reference section at the end of this Chapter.

Driving your research inquiry should be two questions:

- What do I want to find out?
- How do I want to use what I find out?

Primary research process:

1. Identify what you want to find out;
2. Identify the best method of research (surveys, focus groups, interviews etc.) to find out the information;
3. Identify the target group or sample who will participate;
4. Identify how you will actually engage with your target group of participants;
5. Prepare information for participants about why you are conducting research and how you will use the information;
6. Develop your research tool e.g. survey, questions, focus group agenda etc. and remember to check whether the tool will actually gather the information you need;
7. Conduct a trial run and adjust your research tool if necessary;
8. Organise where and when you will conduct your research and how you will contact or approach proposed participants;
9. Conduct the research;
10. Transcribe information (if required such as from interviews/focus group discussions) or sort and collate the data/information from surveys; and
11. Analyse data and information and develop some preliminary findings.

### Research Ethics

In undertaking research you must conduct yourself ethically:

- Clearly explain what you are doing, and why;
- Be professional in the way that you speak to participants;
- Seek permission to interview/survey and if you are electronically recording the conversation;
- Respect an individual's rights to decline to participate or withdraw from participating;
- Respect people's privacy and abide by the principles in the Australian Privacy Act 1988; and
- Confirm and then ensure that no personal information about participants is passed on.

### Surveys and Interviews

#### Surveys

The construction and wording of your questions is important and the way in which you record the responses may vary. You may be collecting qualitative information as respondents describe or explain something. Alternatively you may construct a survey using ratings so that you can do a quantitative analysis. Some examples of ways to construct the question are shown below:

1. Having seen the demonstration, rate your assessment of the ease of use of this product on a scale of 1 – 5 (1 = very hard; 3 = neutral; 5 = very easy).  
Alternatively you can show this as a scaled line, using words that are at the extreme end of the scale (very hard - neutral - very easy).  
You may use a selection of words from which the participant chooses to best describe their view. The words suggest a scaled response from negative to positive (1 = very hard; 3 = neutral; 5 = very easy).
2. Circle the word which best describes your opinion of the quality of this product (poor - adequate - neutral - good - excellent).
3. You could ask a series of simple closed ended questions requiring 'yes' or 'no' responses. For example:  
Would you buy this product? Yes or No

## Interviews

Interviews can take place face-to-face, over the phone, online in chat environments or by email.

Face-to-face you can adjust your questioning if it is clear that someone doesn't understand what you are asking.

Phone interviews are often seen as intrusive and interrupt people's busy days, but can mean you can contact people who are geographically distant and target people who may not have the internet.

Email interviews can be another way to overcome geographic distance and capture established customer views. They are less personal than face-to-face. Some people may decline to participate, being insecure about this format and where the information is stored.

Online interviews use social chat locations on the Internet. Some prime examples are: Facebook, Messenger, WhatsApp, Instagram, and Twitter. You can adapt the questions depending upon the response you receive, but non-typists are likely to give you brief responses. Again, concern about the security of the internet may limit responses or opinion.

To set up the interview, make sure the participants are clear about why they are being interviewed and what the purpose is. Not everyone will want to participate, accept that.

Before starting the actual interview, ask the person if they have any questions and try to establish a rapport through some general talk. Once conducting the interview, listen carefully, always sound interested and take careful notes. If you are going to electronically record the interview, you need the participant's permission. Don't pester or push people for comments. If it will enrich your findings explore views that will be useful, but beware of getting off topic!

## Designing Questions

Making up questions may seem easy, but you need to think about your questions. Use clear, simple language. Try to start with who, what, where, when, why or how as this helps to focus your question.

1. Don't ask two questions in one. For example, "Would you buy this product and why?"  
Revise to ask: "Would you buy this product?"; then "Why would you buy this product?"
2. Don't lead or influence the response with your question. For example, "You look like you keep fit so you would probably be interested in this exercise equipment, is that right?"  
Revise to ask: "Do you like to keep fit?"; then "Would you use this exercise equipment as part of your fitness regime?"
3. Don't give a bias just by asking the question. For example, "Don't you think that the water charges are too high?"  
Revise to ask: "What do you think about the cost of the new water charges?"
4. You can have open questions where you will get lots of qualitative information, but it may be hard to record and analyse this information. For example, "Why do you prefer this product compared to that product?" or "In looking at home security systems what kinds of things would influence you to buy one?"
5. You may use closed questions, which are more precise, but limit the information you will get and occur in surveys or in interviewing where you only ask for a 'yes' or 'no' answer.

### Activity Four

Write three interview questions that you might ask to find out more about your target market and customer profile for a home window cleaning service:

- 1.
- 2.
- 3.

### Activity Five:

Write an example of the following question types, and then how it should be asked:

Biased question:

Open ended question:

Closed question:

### Analysing Your Results

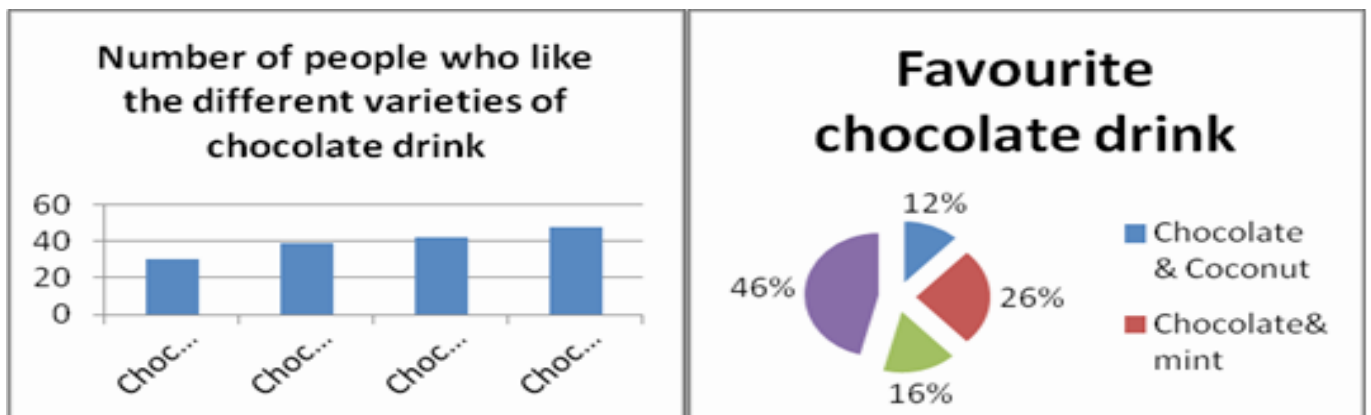
If you have created unbiased questions, your results have a better chance of being a more accurate reflection of what people thought. Unfortunately, you have to remember also that some people may not give true answers to the questions.

When analysing your results you need to be careful that you don't over generalise your findings and think that they apply to every client/customer or market.

### Quantitative Results

You can quantify responses from surveys into graphs and charts using Excel. Visual aids like this can be clearer than a written explanation for some people. Look at the results in Figure 3.1 showing 50 customers tasting samples of different types of chocolate drink. What do these charts tell you?

Figure 3.1 - Chocolate drink samples (customer feedback results)



### Qualitative Results

Qualitative information analysis is a little more difficult. You can search for key words, themes or common issues/opinions and group these first. You can then sort your recorded information into these groupings. This will enable you to see those which have the greatest number of responses/similar comments and also to see the isolated views. The skill comes in explaining your findings in relation to what you were investigating. A good question to keep asking is, 'What does this tell me about what I was trying to find out?'

### Secondary Research

Undertaking secondary research can be an overwhelming experience, particularly now that so much information is so readily available through the internet. Challenges include where to look for information; how to sort the rubbish from the useful; and how to analyse and consolidate the information so that it is useful. The following may help to guide you through the process:

- Defining the information you need:
  - What do you want to find out?; and
  - How do you want to use what you find?
- Secondary research process:
  - Identify potential information and data sources, for example; libraries, footnotes or reference lists of books/internet articles already on the topic you are researching, public data repositories, government departments, trade and industry organisations and journals, universities for academic research reports,

internet, ask colleagues, friends and your business advisor/accountant;

- Assess data/information you are finding for its reliability – the internet is full of bogus information! Credibility of your source is important;
- Gather data/information to respond to questions (a) and (b) above. If information is not going to answer these questions, it is probably not relevant, despite being interesting;
- Record the sources of data/information you need as a reference list. You can later place footnotes in your business plan to acknowledge the sources or in the reference list at the end of your plan;
- Sort and analyse information and data that may be quantitative, as with statistical information (percentages, averages), or qualitative, where you make deductive/descriptive statements and draw conclusions, and constantly check that information/data you have found is answering questions (a) and (b);
- Normalise numerical data if you need to – this means making data from different sources comparable; and
- Summarise and report your information and findings in a format appropriate to the particular area of your business plan.

### Using the Internet

The internet contains large volumes of information, which can be a problem when you are trying to write something concisely. You can end up wandering off into very interesting, but totally useless sources of information! The internet is convenient and generally quick to access information. Make sure that you go to trusted sources and sites where credentials are obvious and publication information is provided. Sites and journals that are part of accepted research networks are preferred. You cannot tell credibility just by it being a registered domain name. Looks can also be deceiving, great sites might not have accurate information, just as poorly designed sites may have reliable and well-researched, sound information.

Web information exists in the visible area through search engines such as Google, which searches by key words. Results can contain people who have paid to advertise. There is also the invisible web information not found by search engines, but by going to specific repositories of information such as library tools like JSTOR.Org (stands for Journal Storage). Web directories offer categories for searches, and meta-search engines combine results from a number of search engines. Be aware that not all information repositories allow you to access information and data for free.

### Boolean Operators

Boolean operators help to define your search. For example:

- ‘and’ finds all the searches results where you combine key words ‘horses’ and ‘holidays’;
- ‘or’ looks for both and finds pages with at least one ‘horses’ or ‘holidays’; and
- ‘not’ excludes one ‘Horses’ not ‘Racing’.

You can see that by using Boolean operators you will get different results. Try it!

You can define a search using quotation marks so that pages only containing the words in the quotation marks will be returned “Vegetarian restaurants”.

Remember you can use a synonym, that is, words with the same meaning, to search more on a subject. For example, auto and car.

Check the date the websites you access have been updated or the date of the online articles, DVDs or journals you use or written to see how current it is. Check the copyright and if you are going to use some of the material, record the site and/or article, online journal, research paper details in your reference list.

#### Activity Six

Conduct a boolean search on these two topics - “Solar” and “Barbeques”. Note the different results:

Look for directories of industry associations and organisations to find out if there are any associated with your industry/sector:

## 3.3 IMPACTS ON YOUR BUSINESS

To remain in business you need to be aware of the types of changes or events that will affect your business’ profitability and future. Chapter 4 looks more closely at this topic from the perspective of risk management. However, as part of researching your business idea, you do need to think about what could affect your business and your target market. This could be things beyond your control, like the global financial crisis, a serious natural disaster or changes of

regulations that may mean you have to change your product or service, or your costs go up. Table 3.1 may help you to consider what factors may affect your business.

Table 3.1 - Factors and influences on business profitability and future

Factors	Influences
Business supplies luxury products/services	Economic downturn reducing disposable income; sub-situation by competitors
Business supplies essential products/services	Price change; reduction in availability
Business imports items that contribute to the product/service	Industrial action; political instability in source countries; regulatory requirements; import duty
Business consumes lots of energy in the supply of its products/service	Rising production/service costs
Business is highly regulated	Rising costs; change in production or service delivery to comply
Business would be negatively impacted by extreme weather events	Loss of market; drop in market demand
Aging population	Increased need for aged health related services.

### 3.4 BUSINESS EXPERTISE

Potential business expertise to help you with your research could include:

- Accountant;
- Small business advisors through your State Government; and
- Australian Bureau of Statistics.

### 3.5 REFERENCES

NOTE: THE INTERNET HAS VAST VOLUMES OF INFORMATION. CONSIDER THE RELIABILITY AND TRUSTWORTHINESS OF THE INFORMATION YOU ACCESS. TRY TO USE TRUSTED SITES AND SOURCES.

Business Information:

[www.business.qld.gov.au](http://www.business.qld.gov.au)

[www.ablis.business.gov.au](http://www.ablis.business.gov.au) (Information on licences, permits; approvals, codes of practice)

<https://ablis.business.gov.au/>

[www.cciq.com.au](http://www.cciq.com.au)

[www.ato.gov.au](http://www.ato.gov.au)

[www.smallbiz.nsw.gov.au/start/Pages/default.aspx](http://www.smallbiz.nsw.gov.au/start/Pages/default.aspx)

<https://www.smallbusiness.nsw.gov.au/>

[www.toolkit.smallbiz.nsw.gov.au/chapter/24/115](http://www.toolkit.smallbiz.nsw.gov.au/chapter/24/115) (useful videos to watch)

<https://www.sydneybusiness.org.au/neis/small-biz-toolkit>

[www.sd.qld.gov.au/dsdweb/htdocs/slol/](http://www.sd.qld.gov.au/dsdweb/htdocs/slol/)

<https://www.bli.net.au/qld/>

[www.business.gov.au/Pages/default.aspx](http://www.business.gov.au/Pages/default.aspx)

<https://www.business.gov.au/>

Advisor Finder:

[www.business.gov.au/AdvisorFinder/AdvisorFinder.aspx](http://www.business.gov.au/AdvisorFinder/AdvisorFinder.aspx)

Online Survey Tools:

[www.kwiksurveys.com](http://www.kwiksurveys.com)

[www.surveymonkey.com](http://www.surveymonkey.com)

[www.zoomerang.com](http://www.zoomerang.com)

Industry Associations and Organisations:

[www.marketingminds.com.au/links/industries.html](http://www.marketingminds.com.au/links/industries.html)

<http://www.marketingminds.com.au/regulation.html>

[www.export61.com/link.asp?code=INAS&sid=49&llist=1](http://www.export61.com/link.asp?code=INAS&sid=49&llist=1)

Industry Information:

[www.swinburne.edu.au/lib/database/](http://www.swinburne.edu.au/lib/database/)

[www.twitter.com/ABSStats](https://www.twitter.com/ABSStats)

[www.innovation.gov.au/Industry/Pages/default.aspx](http://www.innovation.gov.au/Industry/Pages/default.aspx)[www.abs.gov.au/ausstats/abs@.nsf/mf/1\\_301.0](http://www.abs.gov.au/ausstats/abs@.nsf/mf/1_301.0)

[www.austrade.gov.au/industry-overview-index/default.aspx](http://www.austrade.gov.au/industry-overview-index/default.aspx)

[www.tourism.australia.com/en-au/default\\_6111.aspx](http://www.tourism.australia.com/en-au/default_6111.aspx)

[www.serviceskills.com.au/sites/default/files/TourismHospitalityEventsScan\\_Print.pdf](http://www.serviceskills.com.au/sites/default/files/TourismHospitalityEventsScan_Print.pdf)

Statistical Information:

[www.oesr.qld.gov.au](http://www.oesr.qld.gov.au)

<https://www.qgso.qld.gov.au/>

[www.abs.gov.au](http://www.abs.gov.au)

Business Information About Different Businesses that may be useful:

[www.business.qld.gov.au](http://www.business.qld.gov.au)

## 4. LEGAL REQUIREMENTS

### INTRODUCTION

There are a number of legal requirements to operate a business. Some are legislated by Acts, have Regulations, and Codes of Practice which must be adhered to, may require specific licences, certificates or registration before you begin operating. The requirements are set down by different levels of government. The nature of your business, your business structure, whether you are employing others, and how you want to protect your business determines your legal requirements.

The legal aspects of running a business are therefore many and varied. A selection of the most common across all levels of government and including some industry requirements is set out below. As States and Territories develop their own Acts and Regulations, you will also need to check the government regulations relevant to your State/Territory. Note: Regulations are constantly being reviewed and amended. Always make sure that you are acting on the most up to date information.

### SUMMARY

Table 4.1 - Legal requirements summary

Federal	<ul style="list-style-type: none"><li>• Australian Business Number (ABN)</li><li>• Goods and Services Tax (GST)</li><li>• Tax File Number (TFN) – for personal, partnership or company</li><li>• Fringe Benefits Tax (FBT)</li><li>• Superannuation</li><li>• Workers Compensation</li><li>• Trade Marks and Patents</li><li>• Environmental Requirements</li></ul>
State	<ul style="list-style-type: none"><li>• Business Name</li><li>• Workplace Health and Safety</li><li>• Children and Young People's check</li><li>• Contractor Licence</li><li>• Environmental requirements</li></ul>
Council	<ul style="list-style-type: none"><li>• Town Planning</li><li>• Health Certificate</li><li>• Building Approval</li><li>• Licence to Operate</li><li>• Hairdressing</li><li>• Skin Penetration</li><li>• Signage</li><li>• Environmental Requirements</li></ul>
Industry/Trade	<ul style="list-style-type: none"><li>• Trade Qualifications and Registrations</li><li>• Australian Performing Rights (APRA)</li><li>• Industry Codes of Practice</li><li>• Permits to Operate</li><li>• Equipment Certification Standards</li></ul>

More detail is provided about many of the common business legal requirements in the sections below to help you identify what you need to do to fulfill legal obligations with starting and running your business. Don't forget to also check your State's requirements.

#### 4.1 BUSINESS REGISTRATION

This section looks at some registrations that may apply to a business in order to operate legally. Your business structure and likely turnover will determine whether you register for some, for example registration for GST.

##### Business Name Registration

A business name is the name under which you conduct your business. Unless the name you choose is in the category which does not have to be registered, you must register your business name. You don't need to register your business name if you:

- Are trading under your own first and last name (for example, John Smith);
- Have a registered company and the business name is the same as the company's name; or
- Are a partnership and the business name consists of the partners' names.

Registering your business name doesn't give you exclusive trading rights over the business name, and will not stop

someone registering something similar, or registering the name as a Trade Mark. Your name is therefore not protected like a Trade Mark, nor do you have intellectual property rights on the name as a 'brand'. (You can find out more information on protecting your name as a Trade Mark later in this Chapter.)

You must check that your proposed business name does not infringe an existing registered Trade Mark by someone else. IP Australia has a free online Trademark search called TM Check. (A link to this site is included in the reference section for this Chapter.)

A few things to note:

- You can have multiple business names to one ABN;
- If you have a trademark name, you need to protect that separately through IP Australia;
- When registering a business name the ASIC screen will show you if there are other similar names;
- You can register your business name on the ASIC site once you have an ABN;
- You will get a record of your registration, but do not need to display it;
- Cancelling or updating a business name can be done online; and
- You must pay a fee for business name registration. This can be paid online or by invoice with payment required within ten days.

<u>Activity One</u>	
Place a tick beside names which need to be registered:	
<input type="checkbox"/>	EasyGoHorse Floats
<input type="checkbox"/>	PJ Wilson and R Blooms
<input type="checkbox"/>	GV Torlinni and Partners, Lawyers
<input type="checkbox"/>	L Sanders Pty Ltd (A Registered Company)

### So, What's In A Name?

Quite a lot really! Your name is a major identifier for your business and a way to be remembered. It can let people know what you do, so is a marketing tool. For example, consider the difference between 'Joe Smith and Sons' and 'Joe Smith and Sons Painting'. The second name lets you know what the business does. People often spend a long time coming up with clever names, but depending upon your market, you have to make sure that your clever name doesn't misrepresent what you do, or just doesn't communicate to your customers!

However, that said, there are some extraordinary business names that for some reason stand out and are memorable and immediately get known for the business they represent. This is because of multiple factors, such as providing a product/service that becomes well known and in high demand very quickly. It may also have been the subject of some form of promotion through the internet and on social network sites, or discussion by customers.

<u>Activity Two:</u>	
Identify what these businesses offer and indicate whether you think the name is a good or bad choice, and why:	
<input type="checkbox"/>	Snug as a Bub:
<input type="checkbox"/>	Fantastic Fragrance:
<input type="checkbox"/>	Debt Busters:

### Australian Business Number (ABN)

Another registration is an Australian Business Number (ABN). Your ABN is a unique 11 digit identifier for your business that will help you to claim goods and services tax (GST) credits and claim fuel tax credits for which you may qualify. It also allows businesses with whom you wish to trade to easily confirm your details for ordering and invoicing. If you don't have an ABN or do not provide one to other businesses with whom you deal, they may withhold funds from their

payments to you, under the pay as you go (PAYG) withholding arrangement.

If you are likely to turnover less than \$75,000 the decision to get an ABN rests with you, the business owner. Above \$75,000 you must register for GST and to do that you need to have an ABN.

To get an ABN, go to [www.abr.gov.au](http://www.abr.gov.au). You can apply for an ABN online. If your details can be validated by the system, you will get your ABN straight away, with written confirmation sent afterwards. Sole Traders need a tax file number to get an ABN.

Once you have an ABN you must maintain the details and any changes that need to be made should be made within 28 days of the change occurring in your business. To update your ABN details via the Australian Business Register you need an AUSkey. Visit Online Services for more information about getting an AUSkey. Alternatively, see your tax agent or phone 13 28 66 to update your details.

### Domain Name Registration

Businesses wishing to have a website and to conduct online business must register a domain name. This is a unique electronic address for your business. You must buy a domain name through an internet service provider.

There are two types of domain names:

- Ones that end in .com, .net, .biz – which can be used by anyone in the world and are referred to as 'global domain names'; and
- Ones that have a country extension such as .com.au, .org.au, or .net.au are in the '.au domain space' administered by .au Domain Administration Ltd (auDA).

The decision about which to choose is more about whether you are just doing business in Australia, or are seeking to do business globally. If you want to buy a '.com.au' or '.net.au' you have to be a commercial entity in Australia and have either an ACN or an ABN. To be eligible to register a domain name if you are a sole trader or partnership, you must have a state registered business name, and if you are a company you need an Australian registered company.

Before setting your heart on a particular domain name, you need to check whether it is available at <http://222.mywebname.com.au>. It is suggested that you also read the auDA's policy on domain name eligibility and allocation.

To register your domain name, contact an accredited registrar. Registrars offer different services and have differing prices, so shop around to find one that meets your requirements. In the references at the end of this Chapter are a series of podcasts that provide information about the .au space.

An important consideration for small business entering the cyberspace world is security. The following are some guidelines to help you consider this important aspect of business protection. Domain names in the 'au' registry are password protected. Like a bank password, you need to keep this safe because if a person knows your domain name password, they can access your domain name, website and emails.

Once you have registered your domain name, make sure you maintain accurate and up-to-date domain name registration details and contact details to reduce the risk of losing your domain name. Regularly check your domain listing through WHOIS on the registry at [www.ausregistry.com.au](http://www.ausregistry.com.au). To make any changes, contact your registrar of record which is displayed in WHOIS. Your domain name, if it is .au, has a fixed 2 year licence period. Keep a record of when your renewal is due and make sure you renew it. Failure to do so may mean you lose your name!

#### Activity Three:

Write down the steps to get an ABN:

Write down the steps to register a domain name as a .au:

### Registering for Goods and Services Tax (GST)

In Australia there is a Goods and Services Tax (GST) tax of 10% on most goods, services and other items sold or consumed in Australia. For example, if a business has a GST turnover of \$75,000 or more, or provides taxi travel, the business must be registered GST. For a business with a turnover below this amount, registration is optional. If you register for GST you must stay registered for 12 months. A business owner can register at the Australian Business Register ([www.abr.gov.au](http://www.abr.gov.au)). Registration must be cancelled if the business ceases. Registration for GST occurs only

once, even if a number of businesses operate from the one structure, for example two businesses operating under one company.

Once registered for GST, it needs to be included in most goods or services (unless exempt - refer to the Australia Taxation Office). The GST credits can be claimed by the business for the GST included in the price of goods or services the business purchases from other businesses. These business transactions must be reported by completing a Business Activity Statement (BAS) every month or quarter or an annual GST return. If registered for GST the business must provide an invoice which shows the GST charged. The GST registered customers will need tax invoices from the business to claim their GST credits for its business purchases that have GST in the price.

Goods and services that must have GST included are called taxable sales. Some goods and services do not have GST, such as most basic foods, some education, medical, health and care products or services. Input taxed sales also do not have GST and include lending or borrowing money and renting residential premises for example. Some sales may be partly taxable and partly GST-free and if you are able to separate the identifiable parts, you need to do so. It is recommended that you talk to your accountant if you need to find out anything about GST and your product/services. You can also go to the Australian Taxation Office website link in the reference section at the end of this Chapter and do your own research too.

If a business is not registered for GST, it cannot include GST in the price of its sales and cannot claim credits on any GST paid for business purchases. However, if the expense is claimable as a business expense in the tax return, the entire cost including GST can be claimed. If a business is not registered for GST, an accountant can provide guidance on any business expenses that might be able to be claimed.

If you are trading online and have customers in Australia, then GST applies to all online transactions, except for those that are exempt. The rule of thumb is, if the transaction would have GST in the real world, it will online for Australian customers. GST rulings are different for purchasers outside Australia, as GST is not applicable then. GST is not applicable if an overseas organisation sells goods or services from overseas worth A\$1,000 to an Australian customer. Always check the Australian Taxation Office website for updates on rulings about GST.

**NOTE: As with all taxation and regulatory matters applying to small business, the onus is on the small business operator to check for changes and updates to ensure compliance.**

## 4.2 LEGAL STRUCTURE

There are a number of different legal structures for a business. You need to think about what structure will best suit your circumstances. To make an informed choice you need to understand what the differences are between the different structural arrangements. This includes things like the cost of establishment, complexity of setting up and maintaining the structure, owner's control, tax and liability implications, options for growth or ceasing the business. It is advisable to get professional advice. Legal structures such as not-for-profit, government organisations, franchise and cooperatives are not considered within the context of starting a small business.

Four types of business structures are set out in Table 4.2: sole trader; partnership; company; and a trust. You will also need to check specific requirements in your State/Territory.

Table 4.2 – Business structures summary (Note: It is important to check your State/Territory's specific requirements for each structure)

Item	Sole Trader	Partnership	Proprietary Limited Company	Trust
Description	Single person owning and running a business	Two or more people operate the business as co-owners, and can operate on behalf of each other. This is a general partnership. "Limited Partnerships" are available in some States (limiting powers and benefits), and can be set up rather than the usual in a general partnership. This type of partnership needs to be separately registered with your State's Fair Trading Office/Consumer Affairs department.	Structure is a distinct legal entity separate from shareholders. May be a 'public' company usually formed by raising funds publicly by listing shares on the stock exchange; or a 'proprietary limited' company which cannot raise funds from the public.	This structure is where a Trustee (individual or company) carries on a business for the beneficiaries. It is not a legal entity. The Trustee can decide how profits are distributed. Commonly a Trustee is a company (a corporate Trustee).
Number of People	1	2 - 20	1 - 50 Shareholders	Set out in the Trust Deed
Suitable For	Very small businesses and home-based businesses	New businesses with the potential to grow. Husband/wife/partner teams where the partner has a defined role in running the business.	Ideal for larger operations; where the business is likely to experience some risk/s; or is dealing with government departments.	Not applicable (Generally a personal decision for reasons not necessarily related to the type of business).
Control	<ul style="list-style-type: none"> <li>You are the owner - profits and assets are yours.</li> <li>Fewer statutory provisions and government regulations on how you operate.</li> <li>Don't need to disclose profits to the public – so greater privacy.</li> <li>You have sole responsibility.</li> </ul>	<ul style="list-style-type: none"> <li>Partners, generally through a Partnership Agreement.</li> <li>Partners have the right to participate in the management of the partnership, unless agreed otherwise (and this can lead to conflict).</li> <li>Profits and losses are shared between partners according to their share as noted in the Partnership Agreement.</li> <li>More operational flexibility allowing partners to take holidays, sick leave etc.</li> <li>Don't need to disclose profits to the public as companies must do – so greater privacy.</li> <li>There is the ability to change the structure to a company.</li> <li>Business is shared as per the Agreement. Generally partners cannot transfer ownership to external part.</li> </ul>	<ul style="list-style-type: none"> <li>Board of Directors control the company.</li> <li>There is a requirement to lodge details of capital; structure; shareholdings; and all publicised documents with the Australian Securities and Investment Commission.</li> </ul>	<ul style="list-style-type: none"> <li>Operation of the business is limited by conditions in the Trust Deed.</li> <li>Extensive regulations apply.</li> <li>An 'Appointer' is the person who has the power to remove and replace the Trustee who has ultimate control of the trust/</li> <li>The 'Trustee' manages the trust.</li> <li>'Beneficiaries' are those who benefit from the Trust Deed and can include immediate family, distant relatives, charities, and family companies.</li> <li>A 'Family Trust' is restricted to close relatives and family companies.</li> <li>A Company can act as a Trustee and thus also provides the benefit of a company in the business.</li> <li>Members of a family business company govern the Trust as Directors of the Trustee Company. Beneficiaries of the Trust and income produced by the Trustee Company can be allocated to the Directors/Beneficiaries during the financial year, with final allocation at the end of the financial year.</li> </ul>
Establishment Costs	Inexpensive	\$500 - \$700	\$800 + Accountant Fees. Can buy a 'shelf' company that has been set up by an Accountant or Solicitor - \$1,000 potentially.	It is the most expensive of the business structures to set up and is set up by a professional.
Establishment Time	Quick - 1-2 days	At least 1 week	At least 1 week	At least 1 week

Item	Sole Trader	Partnership	Proprietary Limited Company	Trust
Complexity	Easy to run. Can choose a business name.	Partners can carry on the business under a trading name. Reasonably simple to administer. Easier and less expensive than a company. Greater resources for the business as partners can agree to combine resources.	Rules to establish and run a company are complex. More regulated than other business structures. Extra reporting requirements.	A Trust is a complex structure. Solicitor or Accountant must set them up. Trustees have obligation to hold and manage property for the exclusive benefit of the beneficiaries.
Legal Documents Required	<ul style="list-style-type: none"> <li>• Business name registration, if required.</li> <li>• Tax File Number.</li> <li>• Possibly an ABN.</li> <li>• Trade Mark, if required.</li> <li>• Industry licences/permits, if required by the sector.</li> <li>• Council approval, if required.</li> </ul>	<ul style="list-style-type: none"> <li>• Business name, if required.</li> <li>• ABN</li> <li>• Trade Mark, if required.</li> <li>• Industry licences/permits, if required.</li> <li>• Tax File Number for Partnership.</li> </ul>	<ul style="list-style-type: none"> <li>• Certificate of Incorporation.</li> <li>• Requires Memorandum of Association and Articles of Association.</li> <li>• Company Seal.</li> <li>• Requires an Australian Company Number (ACN).</li> <li>• Business Name, if required.</li> <li>• Trade Mark, if required.</li> <li>• Industry licences/permits, if required.</li> <li>• Tax File Number for the Company.</li> <li>• Company and Business Name – plus the ACN on all documentation.</li> </ul>	<ul style="list-style-type: none"> <li>• A Trust Deed sets up the Trust and determines how the Trust operates (its rules).</li> <li>• Require an ABN and Tax File Number.</li> </ul>
Legal Status	No separate legal identity.	No separate legal identity.	Separate legal entity and shareholders are separate from the business.	A Trust is not a legal entity – it simply holds property for its beneficiaries.
Taxation	<ul style="list-style-type: none"> <li>• Personal Tax on profits – which may be higher than Company Tax.</li> <li>• You need to put money aside to pay tax or you could have cash flow problems at tax time.</li> <li>• Less tax concessions.</li> </ul>	<ul style="list-style-type: none"> <li>• Each partner paid from the business pays Personal Tax on share of profits.</li> <li>• Tax is charged at personal tax rate – so as business earnings increase so does the tax.</li> </ul>	<ul style="list-style-type: none"> <li>• Company Tax.</li> <li>• Any employed Directors pay Personal Tax on wages.</li> <li>• May incur Fringe Benefits Tax.</li> <li>• Separate tax returns for the company and for the individuals.</li> </ul>	<ul style="list-style-type: none"> <li>• Can be more tax effective and flexible.</li> <li>• A Discretionary Trust provides this flexibility in the distribution of income and capital gains amongst beneficiaries.</li> <li>• Beneficiaries of a Trust pay tax on income they receive at their own marginal rate.</li> <li>• Trusts receive discounts on Capital Gains Tax payable on capital assets held for more than 12 months.</li> <li>• Losses in a Trust are not distributable and cannot be offset by beneficiaries against other income.</li> <li>• A Trust cannot retain profits like a company without having penalty rates of tax – expansion can be limited.</li> </ul>
Liability	Unlimited liability by owner for all debts.	All partners are together responsible for business debts and individually liable for debts incurred by other partner/s ('joint of severally liable')	Directors may have to give personal guarantees. Directors may be held personally liable for negligence, dishonesty or incompetence. Limited liability. Shareholders can only lost the value of their shares and aren't liable for the company's debts. Legal arrangements are in the company name. Company can trade anywhere in Australia.	Provides asset protection and limits liability of business. Separates the control of an asset from the owner of the asset and can therefore protect the income or asset from the owner of the asset (such as in the situation of protecting income or asset of a young person or family unit). Beneficiaries are not generally liable for trust debts.

Item	Sole Trader	Partnership	Proprietary Limited Company	Trust
Termination	Simple. Termination may result from death; sale; bankruptcy; or closure. Selling the business allows you to keep after-tax gains.	May be complex. Termination may be as a result of death of a partner; bankruptcy; or retirement of a partner. Business closure or selling the business requires the agreement of Partners. Sale of all or part of the business; decision to close or change the nature of a partnership for semi-retirement requires agreement from all Partners.	May be complex. Shareholders must decide. Business may have to go into receivership. Business can continue as an entity on the bankruptcy; death; or retirement of an owner – or be wound up.	The Trust does not dissolve on the death; retirement; or bankruptcy of a family member. The life of the Trust is determined by the Trust Deed.
Business Succession Planning	Unless the business is to be inherited or other prior arrangements are made, succession planning is harder for a sole trader. A business would usually cease to operate.	Partnership should consider succession planning and may include it in the Agreement.	Complex. Shareholders must decide. A succession plan should be prepared and agreed.	n/a
Human Resources	The only resource to run the business.	Partners run the business.	May have employees. Greater superannuation benefits because owners of the company can become employees.	n/a
Time Commitment	You are limited in the time you can have away from your business – whether holidays, sickness or accident.	Partners can negotiate time commitment to fit in with agreed business priorities and family life – e.g. for holidays etc.	Small companies may face challenges regarding time commitment and outside the business commitments. But those employing others may have greater flexibility.	Takes time to manage and is closely scrutinised by the tax department.
Options for Grown & Other Limitations	Limited in time and resources. Sometimes hard to raise finances.	Partners need to agree degree and direction of growth.	Lenders, suppliers and lenders are reluctant to lend money or enter contracts with companies, unless Directors or Shareholders provide personal guarantees.	n/a

#### Activity Four

Answer the following:

Jerry's House Washing and Concrete Cleaning is a business run by Jerry and two others. In time they want to expand to include roof cleaning and resealing. What would be the best business structure for them?

Why?

What would be their liability under the structure you've proposed?

#### Tax Implications

As you can see from Table 4.3 different structures have different tax implications. In choosing a structure the business owner needs to think about the tax implication in relation to the desired income level and obligations. Tables 4.3 and 4.4 show how the different structures affect tax. These Tables can help to form your decision about the best structure for your business. It is recommended that the tax implications for a business a discussed with an accountant.

It is important to remember that if a partnership is set up the tax department may wish to assess whether the 'partner' is really involved in and contributing to the business. Couples considering forming a partnership should discuss with their accountant to ensure that the role would be acceptable to the tax department and is not just income-splitting to reduce tax.

Table 4.3 - Current taxation rate table

Taxable Income	Tax on this Income
\$0 - \$18,200	Nil (tax free threshold)
\$18,201 - \$37,000	\$0.19 for each dollar over \$18,200
\$37,001 - \$90,000	\$3,572 + 32.5% for amounts over \$37,000
\$90,001 - \$180,000	\$17,547 + 37% for amounts over \$90,000
\$180,001 +	\$54,547 + 47% for amounts over \$180,000

Table 4.4 - Tax implications for Sole Trader, Partnership and Company

	Sole Trader	Partnership (2 Partners)		Company
Net Profit	\$40,000	\$40,000		\$40,000
		\$20,000 Partner 1	\$20,000 Partner 2	
Tax Payable	\$4,180	\$342 Partner 1	\$342 Partner 2	\$4,547

A sole trader is taxed as an individual and must declare all earnings from the business, after allowable deductions, together with any other sources of income. The taxation office will determine the level of tax to be paid.

A partnership is not a separate legal entity, so does not pay tax. Each partner will pay tax on their share of the net partnership income.

A company is a legal entity, regulated by the Australian Security and Investment Commission. Companies are run by Directors and owned by shareholders. Companies are taxed differently to individuals and partnerships and must lodge an annual tax return. Employees in the company are paid according to the taxation rates applicable to employees. Companies are obliged to pay superannuation for eligible employees.

### Company Tax

The company tax rate was 30% in 2014-2015. From 1 July 2015, small companies (annual turnover of less than \$2 million) will pay 28.5%.

**(Note: The Australian Government regularly reviews, and changes aspects of taxation. The onus is on Business owners and operators to regularly check the ATO website and also consult with their accountant to ensure compliance with any changes and to gain the most benefit from their tax arrangements).**

#### Activity Five

Calculate the tax payable for the following:

Sole Trader - \$40,000 net profit as taxable income	
2 Partners - \$60,000 net profit as taxable income	
Company - \$80,000 net profit	

## Partnership Agreements

Forming a partnership can often be seen as a good way to combine resources, work together in the one business and create a stronger business because of the additional resources and expertise available from the partners. Whether the partnership is formed with a family member, friend or business acquaintance, it is advisable to formalise the arrangement through a Partnership Agreement. This is as much for setting the guidelines for the business relationship of the partners as it is to protect partners and the business. Businesses go through rough patches and these experiences can stress relationships, challenge decisions and lead to a break down in effective business operations.

Partnership Agreements are a way to:

- Clarify the partners' roles;
- Clarify the partners' responsibilities;
- Entitlements to profits and other funds;
- Control and decision making;
- Authority to spend money;
- Bank accounts;
- How to dissolve the Partnership and succession planning;
- Managing investments;
- What assets each partner brings to the business – and what happens to the assets if the business ceases; and
- Dispute resolution arrangements.

You can get a standard Partnership Agreement, but may wish to consult a professional to help you complete the Agreement and to ensure it covers everything you feel is important. A checklist of items that the Partnership Agreement should include/address is set out in Table 4.5.

Table 4.5 - Partnership Agreement (Contents)

Topic	Check
Partnership Name	
Names and addresses of all Partners	
Nature and purpose of the Partnership Business	
Name of the Partnership Business	
Business address	
Start date and duration of the Partnership	
Capital to be contributed to the Partnership by each Partner	
Details of any loans made by Partners to the business	
How profits and losses will be shared among the Partners	
Arrangements for Partnership salaries/drawings/income	
Managerial roles of each Partner	
Specific roles and responsibilities for each Partner	
Any limitations on the authority of each Partner in making decisions or signing financial and legal documents	
How decisions will be made by the Partnership	
Partnership meetings to maintain good communication	
Agreement to engage certain consultants - such as: lawyers, accountants or other business advisors in certain matters	
Accounting details for the Partnership	
Details of bank accounts for the Partnership	
Financial delegation arrangements	
Provision for the death; bankruptcy, permanent disability or retirement of a Partner	
Provision for dispute resolution between Partners	
Provision for the addition of new Partners or non-capital Partners	
Provision for the sale of the business	
Provision for the appointment of a receiver in the event of business failure	
Provision for the dissolution of the Partnership (including the method of valuation and distribution of assets etc)	

### 4.3 ACTS AND REGULATIONS

There are Acts and Regulations that apply to running a business. Which Acts and what Regulations will depend on what your business does, the business structure, and whether the business employs staff. Table 4.6 sets out some of the key Australian Government Acts, their compliance requirements and the implications for a business.

You need to check your own State legislation for each area, as many States/Territories also have Acts and Regulations that apply to business operations. If you are from outside Australia, you need to check your own country's Acts and Regulations for business operation.

(Note: Acts and Regulations are constantly changing. There is an onus on the business owner/operator to keep up to date with changes to ensure compliance. The best way to do this is to regularly visit the sites of the agencies responsible for the legislation).

Table 4.6 - Acts that may apply to your business

Act	Description of Purpose	Compliance	Implication for Small Business
<p>Work, Health and Safety Act 2011 (Cth)</p>	<p>The Act imposes obligations on people in the workplace to ensure:</p> <ul style="list-style-type: none"> <li>• a fair, healthy and safe workplace; and</li> <li>• compliance with Health and Safety Practices.</li> </ul> <p>There are significant responsibilities for office holders in Companies and generally for 'officers' in the business or undertaking.</p> <p>The Act includes a broader definition of 'worker'. This is anyone who undertakes work in any capacity or as part of a business.</p> <p>Examples are:</p> <ul style="list-style-type: none"> <li>• an employee;</li> <li>• contractor or subcontractor;</li> <li>• employee of contractor or a subcontractor;</li> <li>• employee of labour hire company working in the business;</li> <li>• an outworker;</li> <li>• apprentice or trainee;</li> <li>• student gaining work experience; and</li> <li>• volunteers</li> </ul>	<p>The new laws also include a person conducting a business or undertaking (PCBU) being required to ensure:</p> <ul style="list-style-type: none"> <li>• the provision and maintenance of a safe workplace;</li> <li>• the provision and maintenance of safe plant and structures;</li> <li>• the provision and maintenance of safe systems of work;</li> <li>• the safe use, handling, storage and transport of plant, structures and substances;</li> <li>• the provision of adequate facilities and ease of access to the facilities by workers to support the welfare at work of workers;</li> <li>• the provision of information, training, instruction or supervision to protect all persons from risks to their health and safety from work done for the business or undertaking; and</li> <li>• that adequate monitoring takes place of the workers' health and the conditions at the workplace, to prevent illness or injury arising from the conduct of the business or undertaking.</li> </ul> <p>Workers have obligations, which include to:</p> <ul style="list-style-type: none"> <li>• take reasonable care of their own health and safety;</li> <li>• take reasonable care that conduct does not adversely affect other;</li> <li>• comply, so far as she/he is reasonably able with instruction; and</li> <li>• co-operate with reasonable notified policies or procedures.</li> </ul> <p>A business needs to comply with any Work Health and Safety Regulations and Codes of Practice that apply.</p>	<p>Businesses must ensure that they:</p> <ul style="list-style-type: none"> <li>• are fully informed about their obligations;</li> <li>• assess their risks;</li> <li>• put in place appropriate measures to remove or reduce risk; and</li> <li>• set up appropriate records for recording incidents.</li> </ul> <p>Businesses must encourage a culture of health and safety in the workplace, through proper induction, training, a regular review of risks and the development and implementation of management strategies.</p> <p>If Codes of Practice apply to the business activities, business owners/operators must ensure they are applied.</p>
<p>Business Names Registration Act 2011 (Cth)</p>	<p>The purpose of this Act is to:</p> <ul style="list-style-type: none"> <li>• be able to identify a business by its name and those person carrying on business under that name;</li> <li>• simplify business name registration across Australia by having a nationally established register;</li> <li>• help to resolve difficulties arising from similarly named businesses; and</li> <li>• control the use of offensive or misleading names.</li> </ul>	<p>Businesses are required to register their business name – unless it falls into an exempt category.</p>	<p>Register the business name.</p>
<p>Privacy Act 1988 (Cth)</p>	<p>The purpose of this legislation is to set out who organisations, including small businesses, manage personal information.</p> <p>Personal information is information that identifies you or could identify you.</p> <p>The Office of the Information Commissioner oversees the application of the Act. Their key role is to investigate complaints regarding breaches of privacy.</p>	<p>Organisations that fall under the Privacy Act will need to comply with the National Privacy Principles or have an approved code when handling personal information.</p>	<p>Business operations should familiarise themselves with the Australian Privacy Principles to ensure that the manner in which they set up their processes, systems and record keeping of personal information complies with the Act.</p>

Act	Description of Purpose	Compliance	Implication for Small Business
Corporations Act 2001 (Cth)	Outlines requirements relating to companies, financial products and services	<p>Must have at least one Director – not necessarily a Secretary.</p> <p>The Director and Secretary if the company has a Secretary, must ensure company details are kept up to date; maintain the register; ensure adequate records are kept and lodged when required; and annual review fees are paid.</p> <p>Consent can be given for the registered office to be separate to the business location – for example, your Solicitor or Accountant.</p> <p>Written consent and agreements must be lodged with the company application.</p> <p>Registration will provide the company with an ACN. The company must be registered and hold a Certificate of Registration.</p> <p>Businesses must display the company name where they conduct business. The name and the ACN must be placed on every public document issued, signed or published by, or on behalf, of the company, including eligible negotiable instruments (checks), as well as on all documents that have to be lodged with ASIC under the Act.</p>	<p>Proprietary companies must have: at least one Director who is a resident of Australia; a registered office in Australia that is not a post office box; maintain minute books and a statutory register; and notify the Australian Securities and Investment Commission (ASIC) of any changes to shareholders or members.</p> <p>Proprietary limited companies must organise their internal governance using replaceable rules, its own constitution, or a combination of both. The constitution/ rules don't need to be registered when the company is registered, but must be kept with the company's records so it is available if required.</p> <p>If the business operation is a Director or Secretary they must comply with all legal obligations.</p>
Anti-Discrimination Act 1991 (Qld)	<p>The purpose of the Act is to promote equality of opportunity for everyone by protecting them from unfair discrimination in certain areas of activity, including work, education and accommodation.</p> <p>Discrimination includes:</p> <ul style="list-style-type: none"> <li>• age discrimination;</li> <li>• gender issues;</li> <li>• impairment discrimination;</li> <li>• pregnancy and breastfeeding;</li> <li>• racial and religious discrimination;</li> <li>• sex discrimination;</li> <li>• sexual harassment; and</li> <li>• sexuality discrimination.</li> </ul>	<p>Compliance relies on an individual not treating or not proposing to treat a person less favourably than another person, based on one of the areas noted in the Act.</p> <p>This includes indirectly discriminating by using a term or criteria that would discriminate against persons in certain categories under the Act.</p> <p>Job descriptions, employment terms and conditions, opportunities for promotion, daily interaction and management of staff, discipline and/or dismissal are examples where discrimination must not occur.</p>	<p>Businesses need to be aware of what constitutes discrimination and the rights of individuals to expect non-discriminatory treatment and consideration in all dealings in the business (hiring, day-to-day operations, firing, training, disciplinary action, promotion etc.)</p> <p>The business in all its dealings with customers/clients must not treat the customer/client in a discriminatory fashion or publish discriminatory advertisements</p>
Competition and Consumer Act 2010 (formerly known as the Trade Practices Act 1974)	The purpose of this Act is to enhance the welfare of Australians through the promotion of competition and fair trading, and provision for consumer protection.	The Act covers most of what a business does in terms of trading and supplying goods or services.	Businesses should consider all aspects of their business activities and how they are carried out within the context of the Act. For example, advertising and marketing, customer servicing, repairs and warranties, and pricing. The Australian Competition and Consumer Commission has information that will assist businesses to ensure that they develop the correct policies, procedures, staff roles and responsibilities and codes of behaviour to support compliance.

Act	Description of Purpose	Compliance	Implication for Small Business
Disability Discrimination Act 1992	<p>The purpose of the Act is to:</p> <ul style="list-style-type: none"> <li>eliminate discrimination against people with disabilities;</li> <li>promote community acceptance of the principle that people with disabilities have the same fundamental rights as members of the community;</li> <li>ensure as far as practicable that people with disabilities have the same rights to equality before the law as other people in the community.</li> </ul>	<p>The Act requires that businesses and organisations seek to put in place policies and practices that ensure compliance in all areas of the entity's operations. This includes areas such as employment, accessibility and customer servicing.</p>	<p>Businesses should assess their policies, procedures, Code of Conduct, access and physical premise layout in relation to persons with a disability. Following assessment, the business can then put in place measures to ensure compliance.</p>
Industrial Relations Act 1999	<p>The Act provides a framework for industrial relations that supports economic prosperity and social justice. It provides rights and social justice for all employees and employers.</p> <p>The Act contains requirements that aim to:</p> <ul style="list-style-type: none"> <li>prevent or eliminate discrimination;</li> <li>ensure equal remuneration for men and women;</li> <li>foster work life balance;</li> <li>ensure fair wages and conditions to support living standards;</li> <li>promote industrial relations and democratic decision-making; and</li> <li>regulate awards, dispute resolution mechanisms and collective bargaining.</li> </ul>	<p>Businesses must comply with provisions in the Act in relation to employee rights. This includes pay, conditions, equal opportunity, support work life balance and dispute resolution.</p> <p>The Act is supported by a range of regulations in the Industrial Relations Regulation 2011 covering workplace agreements, wages and industrial action.</p>	<p>Businesses need to check the awards, work conditions, and have the required record keeping in place to prove compliance.</p>
Age Discrimination Act 2004	<p>The purpose of the Act is to ensure people are not treated less favourable on the grounds of age in various areas of public life such as:</p> <ul style="list-style-type: none"> <li>employment;</li> <li>provision of goods and services;</li> <li>education; and</li> <li>the administration of Commonwealth laws and programs.</li> </ul> <p>The Act supports positive discrimination. This includes actions that can target and assist disadvantaged persons because of their age in areas such as superannuation, migration, taxation, social security and some health matters. These provisions may be at a Commonwealth or State level.</p> <p>The Age Discrimination Act 2004 was amended in May 2011 to create an Age Discrimination Commissioner within the Australian Human Rights Commission.</p>	<p>The Human Rights Commission plays a strong role in the implementation of this Act.</p> <p>Business activities, policies and procedures must not discriminate against a person due to age, thereby limiting the person's access to opportunities in areas such as employment, provision of goods and services, and training.</p>	<p>Businesses must be aware of the human rights associated with this Act and ensure that these rights are addressed in areas such as their policies, procedures, engagement and management of staff, training, and provision of goods and services.</p>

Act	Description of Purpose	Compliance	Implication for Small Business
Racial Discrimination Act 1975	<p>The purpose of the Act is to ensure people are not treated less favourable on the grounds of age in various areas of public life such as:</p> <ul style="list-style-type: none"> <li>• employment;</li> <li>• provision of goods and services;</li> <li>• education; and</li> <li>• the administration of Commonwealth laws and programs.</li> </ul> <p>The Act supports positive discrimination. This includes actions that can target and assist disadvantaged persons because of their age in areas such as superannuation, migration, taxation, social security and some health matters. These provisions may be at a Commonwealth or State level.</p> <p>The Age Discrimination Act 2004 was amended in May 2011 to create an Age Discrimination Commissioner</p>	<p>The Human Rights Commission plays a strong role in the implementation of this Act.</p> <p>Business activities, policies and procedures must not discriminate against a person due to age, thereby limiting the person's access to opportunities in areas such as employment, provision of goods and services, and training.</p>	<p>Businesses must be aware of the human rights associated with this Act and ensure that these rights are addressed in areas such as their policies, procedures, engagement and management of staff, training, and provision of goods and services.</p>
Sex Discrimination Act 1984	<p>Delivers of Australia's obligations under the Convention on the Elimination of all Forms of Discrimination Against Women, and certain aspects of the International Labour Organisation (ILO) Convention 156.</p> <p>The main intent is to:</p> <ul style="list-style-type: none"> <li>• promote equality between men and women;</li> <li>• eliminate discrimination on the basis of sex, marital status or pregnancy; and with respect to dismissal, family responsibilities; and</li> <li>• eliminate sexual harassment at work; in educational institutions; in the provision of goods and services, and accommodation; and the delivery of Commonwealth programs.</li> </ul>	<p>The Human Rights Commission plays a strong role in the implementation of this Act.</p> <p>Business activities, policies and procedures must not discriminate against a person due to gender, marital status, pregnancy, sexual orientation, thereby limiting the person's access to opportunities in areas such as employment, provision of goods and services, and training.</p>	<p>Businesses must be aware of the human rights associated with this Act and ensure that these rights are addressed in areas such as their policies, procedures, engagement and management of staff, training, and provision of goods and services.</p>

Act	Description of Purpose	Compliance	Implication for Small Business
Fair Work Act 2009	<p>The purpose of the Act is to provide a balanced framework for co-operative and productive workplace relations and social inclusion for all Australians.</p> <p>Provisions include:</p> <ul style="list-style-type: none"> <li>• workplace relations laws;</li> <li>• a guaranteed safety net of fair, relevant and enforceable minimum terms and conditions through the National Employment Standards, modern awards and national minimum wage orders;</li> <li>• guaranteed safety net of fair, relevant and enforceable minimum wages and conditions;</li> <li>• assisting employees to balance their work and family responsibilities by providing for flexible working arrangements;</li> <li>• fairness and representation at work;</li> <li>• prevention of discrimination, protecting against unfair treatment and discrimination;</li> <li>• accessible and effective procedures to resolve grievances and disputes;</li> <li>• effective compliance mechanisms;</li> <li>• emphasis on enterprise level collective bargaining and</li> <li>• acknowledging the special circumstances of small and medium sized businesses.</li> </ul>	<p>Compliance requires certain records to be maintained and particular work conditions and arrangements to be complied with.</p> <p>Fair Work Regulations set out regulations that apply to enterprise bargaining; employers' and employees' rights and responsibilities; dismissal; leave; industrial action; employer obligations; and records.</p>	<p>Businesses should ensure they are familiar with workplace relation laws and the Fair Work Regulations to ensure that any employment agreement and management of staff comply with employee's rights and responsibilities.</p>

### Activity Six

Choose two Acts that would generally apply to a small business and explain how a small business operator would ensure they complied with the Act:

Act 1:

Act 2:

### Licences, Permits and Codes of Practice

It is important to check whether your business needs a licence, permit, or registration in order to operate. These documents may be required by Federal, State or Local Governments. Not having the right licences or permits can lead to fines and possibly closure. There may also be a Code of Practice that applies to your business.

The type of business, its structure and location, and whether staff are employed, determines whether the business needs a licence/permit and its type. For example, the following businesses are required to be licenced before they commence (Note: this is not an exhaustive list):

- real estate;
- security providers – including bodyguards, crowd controllers, private investigators, security equipment installers, security advisors, security officers and security firms;
- second-hand dealers and pawn brokers;
- motor dealers, brokers, salespeople and wreckers – there is no maximum or minimum number of cars so check first;
- pest control operators;
- building trades;
- travel and tourism operators – including travel agents, foreign tour guides and inbound tourism operators;
- residential services – such as boarding houses, hostels, retirement village operators, residential park owners (including manufactured homes);
- debt collectors and process servers;
- introduction agents;
- funeral providers; and
- fitness centres.

To work out what licences or permits are required, talk with similar businesses and write down all the business activities you undertake – then contact the Australian and Business Licence information service (contact details are included at the end of this Chapter).

### Codes of Practice

Codes of Practice are referenced in an Act or Regulation. They can include general principles and practical advice on how a business/industry should operate, and will detail business practices that must be following for a business to comply with the Code.

Under the Work, Health and Safety Act 2011 there are a number of Codes of Practice designed to give practical advice about ways to manage exposure to risks common to the industry. Businesses should check the Codes of Practice list, and if a Code applies to the business activity, this must be applied in order to comply. If there is no Code the business may apply other methods such as technical or industry standards that are equivalent to, or higher than, the Code's requirement.

The Code gives standards and how risks should be managed, and applies to anyone with a duty of care in the situation described in the Code of Practice. The Code relates to specific risks and doesn't cover all hazards or risks in a workplace. Anyone in a position as an "Officer" under the Work, Health and Safety Act 2011 has a duty to consider all risks, not just those in the Code. It should be noted that in the Code 'should' is used to describe a recommended course of action; and 'may' is used to indicate an optional course of action. Parts of the Code referring to 'mandatory' and 'requires' indicate a legal requirement. You must also check in your own State/Territory regulations for Codes of Practice that apply.

### Activity Seven

Bob and Mick run a ground clearing business. They own and operate graders, diggers, front end loaders and chain saws. Undertake research to identify any Codes of Practice that apply to the operation of machinery – and what guidelines are in the Codes:

## 4.4 RECORD KEEPING

Keeping accurate and up-to-date business records is crucial to running a business. Records help to monitor a business and some are necessary to comply with legal requirements. Records are also useful for reviewing and developing a new business plan, selling a business, and are invaluable when recovering from a natural disaster or event impacting on the business, or when seeking finance.

Record keeping is very often a weakness for business operators and is an important part of risk management (refer to the Risk Management section). The weakness may be the result of lack of time, lack of knowledge about how to keep records, or poor self-discipline in terms of regularly updating and reviewing records. If a business is going to use software to maintain financial records, it is important to check with the Australian Taxation Office (ATO) that the software is accepted by their systems. This can be done through the link provided in the reference section at the end of this Chapter, or by checking with an accountant.

A business does not just maintain financial records, but must keep records for areas such as work health and safety, contacts, sales performance, stock and employment records. This section provides information on some of the common business records requirements. When writing your business plan each section will include a checklist for the type of records that are required or would be ideal to maintain for that part of your business.

### Company Records

If you are going to set up a company there are a number of records that you MUST keep. The link in the reference section at the end of this Chapter provides information from the Australian Security and Investments Commission (ASIC). A company must keep up-to-date financial records of transactions, including those as a trustee. The records must show the company's financial position and performance. The records must be able to be properly audited if necessary and also show that the company is obeying the tax laws. Small proprietary companies or small companies limited by guarantee (as defined in the Corporations Act 2001), don't usually have to prepare financial reports to lodge with ASIC each year, but will need to have adequate financial records to manage and monitor the company and for tax purposes. Company records must be retained for 7 years.

Company records can include:

- a general ledger for all transactions and balances;
- cash records;
- debtor and sale records;
- creditor and purchase records;
- wage and superannuation records;
- register of property, plant and equipment;
- stock;
- investment records;
- tax returns and calculations; and
- deeds, contracts and agreements.

### Financial Records

The law requires businesses to keep some records that document all business transactions and includes all documents that determine your income and expenditure.

For business activity records can include: profit and loss statement; cashflow statement; budgets; and balance sheet.

For loans or finance contracts you need to keep the loan application and finance contract.

For tax purposes you need to keep: your personal tax return; partnership tax return; company tax return; fringe benefits tax, capital gains tax; PAYG withholding tax; PAYG instalment tax' GST tax invoices; and GST activity statements.

For receipts and purchases records include: records of sales; cash register tapes; deposit books; and bank statements. Purchase records include: expense payment records; receipts from small cash purchases; cheque butts; and log book for care expenses.

For wages you need: payment records; current employment declaration; tax file number; withholding declaration; and superannuation.

For assets you need to keep a register of assets.

For end of year you should keep records of stock, creditors, debtors and have a depreciating asset spreadsheet.

The ATO requires that you keep the following records for 5 years:

- receipts for suppliers;
- cash register(till) tapes or totals;
- depositbooks;
- bank statements;
- records of business acquisitions and other expenses;
- expense payment records;
- invoices and statements for acquisitions;
- receipts from small cash acquisitions;
- cheque butts;
- log book for car expenses;
- employee records; and
- 'pay as you go' PAYG.

You also need to keep receipts for supplies including credit card dockets and cash register tape for one month if they are reconciled with actual sales, or five years if they are not reconciled.

### Legal Records

Legal records include:

- keeping copies of contracts with suppliers or for your business to supply others;
- tenders;
- partnership agreements;
- company registration, seal and meeting minutes;
- other agreements – for example with suppliers or customers;
- Federal, State and Local government registration/permits/licences;
- trade association registration/permits/licences;
- evidence of ABN registration;
- copies of Trade Marks/ patents/copyright;
- environmental licences/permits and records of testing if required;
- work health and safety records – incident reports, training, first aid provision, hazardous materials, safety sheets and checks, audits and inspection, equipment maintenance records;
- building approvals;
- insurances; and
- leases on equipment/property.

The documents need to be kept in an organised and easily accessible system. It is suggested that you keep a register of all your documents and the date that they are to be reviewed/renewed. If you have an electronic calendar, you could also place a reminder in this. Forgetting to renew a licence or insurance can have unfortunate consequences. For example, if you forget to renew a licence or insurance it may mean you end up operating illegally or are unable to claim a loss on the insurance. As part of risk management it may be useful to scan or store off-site, copies of important documents.

### Employee Records

It is suggested that you talk with your accountant or a representative from the ATO about your tax record obligations for employees. Records that you must have are explained below.

A Tax File Declaration (NAT 3092) is required for each employee when they commence. One copy is sent to the ATO and one copy retained for your records.

Payment of wages should be by cheque or bank transfer – and you must keep a copy of wages paid in a wages book or electronically. Information required to be documented includes: employee name; hours worked; pay rate; gross payment; net payment; amount withheld; superannuation contribution; and the name of the superannuation provider.

Fringe benefits provided to employees must be recorded.

Superannuation records should include: documenting how the superannuation has been calculated – including advice from trustees of superannuation funds; the date contributions were made and if you incurred superannuation guarantee charges; the amount paid and the final calculation. You need to demonstrate that you provided a choice of superannuation fund to eligible employees. This could be written information to the employee and then written proof of the fund selected. You are also required to have evidence that you have made payments such as receipts, and be able to prove that the fund meets insurance requirements.

Pay As You Go (PAYG) is a way to withhold tax from payments to employees. This must cover income tax, any Higher Education Loan Program (HELP) repayments and the Medicare Levy. The amounts must be reported to the ATO and the amounts withheld sent to the ATO. You must provide payments summaries to employees and lodge an annual report with the ATO at the end of each income year. **For guidance on the amounts, speak with your accountant and/or check on the ATO website.**

### Operational Records

For customers you can keep records of credit applications; customer database; summary of debtors and creditors; copies of warranties provided; and a complaints and resolution register.

For staff you need to keep records of employment contracts; work health and safety records; superannuation (noted in the Financial Record section); annual reviews; resumes; training records; tax file number declarations; leave – including sick, annual and other types of leave; withholding tax; workers' compensation; time sheets; and pay.

For stock you should have a record of current supplies; delivery dockets; and claims for damaged or non-delivered goods.

For suppliers records can contain contact details for current and back-up suppliers and details of delivery arrangements, regular orders etc.

For a vehicle used in the business you need to keep records of registration; insurance; servicing and repairs; fuel; depreciation (if purchasing); leases; log book; driver's licence; association membership; and fuel cards.

For equipment you should have records of separate insurance (if this applies); repairs and maintenance; and dates and details of safety checks.

Weights and measurement – if you sell goods by weigh or measure you will need to maintain records of testing and results. The peak body in Australia for weights and measurement is the National Measurement Institute (refer to the reference at the end of this Chapter).

Note: Depending on the nature of your business you may require other testing – for example, health testing for chemical/bacteria. Records of these tests and results will be required.

<u>Activity Eight</u>			
Joanne is an electrician and sole trader. Write down three examples of financial, legal and operational records which should be kept for this business.:			
Record Type	Example 1	Example 2	Example 3
Financial			
Legal			
Operational			

## 4.5 CONSUMER PROTECTION

Today there is greater protection for consumers against fraudulent, faulty and dangerous goods and services than there was 10 years ago. It is important for you to make sure that you are abiding by the Acts and Regulations that provide consumer protection at the National and State/Territory levels. It is advised that you regularly check the national and state websites dealing with consumer protection – as new rulings or guidelines appear quite regularly.

On 1 January 2011 the Australian Consumer Law commenced – with national laws covering:

- unfair contract terms for standard form contracts;
- guaranteeing consumer rights when buying goods and services replacing existing laws on conditions and warranties;

- a product safety law and enforcement system;
- unsolicited consumer agreements replacing existing State and Territory laws on door-to-door sales and other direct marketing;
- rules for lay-by arrangements; and
- new penalties, enforcement powers and consumer redress options.

Imaging what you would consider a fair deal and good customer service is a useful guide as to what you might consider doing to resolve the problem for your customers. Ask yourself: “What would I want to be done if I was this customer with this problem?”

### Customer Guarantees

Since 1 January 2011 consumer guarantees apply automatically to just about every product of service provided by businesses in retail, service, online and hire activities. Under Australian law, consumers can seek remedies to problems with goods or services bought. The consumer guarantee applies even if the product or service comes with a voluntary warranty or extended warranty. These warranties do not override or limit your obligation and you must honour consumer guarantees.

### Goods

You need to be aware of the meaning of the terms ‘acceptable quality’ or ‘standard’ as it applies to the goods or service you are selling. These terms mean the product should be safe, durable and free from defects. Goods must be acceptably finished, appear in good order, and have spare parts or repairs available for a reasonable amount of time after purchase. The goods must also do or achieve all the things that they would ordinarily be expected to do.

You need to be able to guarantee that the goods you supply have a clear title and not have hidden securities or charges that the customer is not made aware of at the point of sale. If you make particular verbal guarantees about your goods or services, you must honour them. For example, if you say that if there is anything faulty they can just bring the item back and you will replace it, then you must replace it.

### Services

Consumers have a right to expect service providers to provide the service with due care and skill, to the standard expressed, and for the service to be completed in a reasonable time. The service provider must also ensure no loss or damage occurs to the customer or customer’s property in the delivery of the service. Should your service not meet these expectations, consumers have a right to take action against you, even if the problem originates from the manufacturer.

### Repair, Replacement or Refund on Goods

Consumers have the right to ask for replacements if the goods you sold were faulty, unsafe, look unacceptable, or don’t do what they are supposed to do. They also have this right if the goods you sold do not fit the purpose discussed with them at the time of purchase; match the description of the product sold; match the sample or demonstration product; or have the extra qualities they were told about at the time they bought them. There is no time limit for this right, but you can apply a reasonable evaluation to the time frame since it was purchased. You should also take into account what the product or service is, and the impact on performance of ordinary use of the product or outcome from the service provided.

### Repair, Replacement or Refund on Services

Consumers can ask for a repair, replacement or refund if the services you sold were not delivered completely or with adequate skill and care; did not fit the purpose or give the results that you and the consumer agreed to; or were not delivered within a reasonable time.

### Refunds

It is illegal for a business to tell customers or to have a sign displayed saying that they do not in any circumstance give a refund. However, businesses don’t automatically have to provide a refund. For products, the customer has to show proof of purchase and whether a major problem exists. If a major problem does exist the consumer has the right to ask for a refund or replacement. You do not have to provide a refund or replacement if the customer has just changed their mind, but some businesses may do so to keep their customers happy and to hopefully attract more customers.

For minor problems you can offer to repair, replace or fix the problem. If you are repairing the item, this must be done in a timely manner. Remember to think of what you would expect as a consumer if you were in the customer’s shoes.

If the issue is with a service provided the consumer can ask for a drop in price as compensation for the lower value of service, or a refund.

### 'Major Problem' Definition

A major problem is something that would mean a normal person would not have bought the product or service if they were aware of the problem. For a product it would be something that made it unsafe, was very different from a sample or the description provided, or did not do what you said it would do when they were buying it, and is a problem that cannot be fixed.

For a service, a major problem may mean that it cannot be rectified in a reasonable time, or doesn't fulfil the purpose the customer asked it to fulfil. If the problem can't be rectified the consumer can terminate the contract and request a full refund or seek compensation for the difference between the value of the service provided compared to the price paid.

### 'Fit for Purpose' Definition

'Fit for Purpose' means that is good enough to do the job it was designed to do.

This can be the purpose that the customer explicitly defined or that you explained when talking about the product or service. 'Fit for Purpose' can also be an implied purpose such as a domestic washing machine being to wash clothes.

### Recreational Services

People providing a 'recreational service' such as a sporting activity or leisure pursuit similar to a sport and involving a significant amount of physical exertion or risk, may want to exclude, limit or modify liability when they do not meet the consumer guarantees to provide services. Examples of activities are sky diving, bungee jumping, paintball, etc. Being able to change your liability is not clear cut and it is recommended that you seek professional advice about your ability to adjust or waiver liability for these types of activities.

### Warranties

Effective 1 January 2012, new arrangements regarding 'Warranty against defects' were put in place. If you choose to provide a 'Warranty against defects' to consumers, your documentation must comply with the Australian Consumer Law (ACL) requirements. A 'Warranty against defects' means you will repair or replace the goods or part of them; resupply or fix a problem with a service or part of a service; or provide compensation to the customer if the goods/ service or part of them are defective.

The representation of a warranty can only be made at, or around, the time the goods or service are supplied. You need to be aware that a promise made about what you as the supplier or manufacturer will do if something goes wrong can be considered as a warranty under the ACL, even if not a formal document. Wording on packaging or in descriptions of services can imply a warranty. For example, if the packaging indicates that a repair or replacement will be supplied if the product is faulty.

### Advertising

The Competition and Consumer Act 2010 replaced the Trade Practices Act 1974 – and took effect on 1 January 2011. It is important that your advertising does not contravene consumer law. Consumers should be able to receive what they expect to receive based on your advertising. This means the benefits and qualities you claim about your product/ service should be true. You are obliged to give your consumers truthful and accurate information about their purchases from you. You will be breaking the law if your advertising is found to be misleading. For example, if your overall impression about price, value, or quality is incorrect. This means you need to think carefully about the wording used in your advertising and your claims.

Some businesses may not mean to mislead, but just make extravagant claims to attract customers. Don't be guilty of 'puffery' or wildly exaggerated or vague claims. The other extreme is of course, silence. If you don't disclose certain facts to the consumer, this could be construed as misleading. You cannot rely on fine print to advise consumers about important facts relating to a good or service. They should be prominently displayed.

In designing advertisements, beware of making promises, giving an opinion, or predicting something will occur following the purchase of your goods or service. For example, a phone seller may indicate free calls, but fail to highlight it is only to mobiles using the same company, or a business with a sign saying '20% off all stock' may then withhold some stock. These are examples of using a promise to entice customers. Some businesses get into trouble using bait advertising of an item at a low price, but have insufficient product to supply. They then urge consumer to buy something similar at a higher price or lower quality.

It is illegal to make false or misleading claims about goods or services concerning price, value, standard, or age, for example descriptions referring to 'antique', place of origin, 'made in'; 'grown in', quality or grade. Do not make up testimonials from people to promote your products/services. Any statements about sponsorship, approval, performance characteristics, accessories or benefits must be true and be able to be proved or demonstrated, or don't make them!

## Illegal Selling Tactics

Other areas where a business can get into trouble concern what is termed 'unconscionable conduct'. This refers to how a business operator/owner or salesperson behaves towards a consumer, such as applying undue pressure or influence to force the consumer to buy. This includes taking advantage of a person who is vulnerable or ignorant. Examples include: not properly explaining conditions of a contract to a person who doesn't speak English or has a disability affecting ability to understand; not allowing time to read a contract, ask questions or get advice; or using a friend to influence the customer.

Other illegal selling tactics include what is known as 'referral selling' where a business persuades a consumer to buy something by making promises about benefits, commission or rebates they will get if they get others to buy the product. However, if a customer voluntarily does enter into such an arrangement after the sale is complete, that is not illegal.

Pyramid selling is also illegal. This involves recruiting people, not selling, and involves getting members to pay to join. The only way to get your money back is to get others to join. This type of scheme is not the same as a multi-level marketing scheme, where people can make money by selling the product or services themselves, rather than just recruiting others.

## Unfair Contracts

There are many standard consumer contracts in our lives today. Many of these contracts are set up by one party, such as a phone service supply company and there is no negotiation with the consumer party. Some common examples are contracts with telecommunications; finance; domestic building; cars; gyms; travel; and utilities. Further general information about contracts is provided in a separate section in this Chapter.

As a business operator, you need to know about what constitutes an unfair contract. An unfair contract will have a significant imbalance between the parties' rights and obligation. The restrictions in the contract are not necessary to protect the legitimate interests of the business. Contract terms must not cause detriment to another party when applied.

Unfair terms could include contracts that:

- permit only one party to: avoid or limit performance of the contract; terminate the contract; vary the contract; renew the contract; or vary the upfront price payable on the contract – without the right of the other party to terminate the contract;
- penalise only one party for breach or termination of contract;
- give rights to one party to vary the characteristics of goods or services in the contract, land sale, financial goods, etc.;
- permit only one party to determine when a breach of contract occurs;
- assign the contract to the detriment of the other part without their consent; and
- limit one party's right to sue the other party; one party's vicarious liability for its agent; the evidence of one party in proceedings relating to the contract.

## Product Safety

Businesses that manufacture and/or sell products should be aware of their responsibilities to ensure the products are as safe as possible and provide comprehensive instructions about using the product. There are products that have mandatory safety standards and businesses should check to see if their products are listed on both the national product safety register, as well as in their own State/Territory. For the national product safety list you should visit Product Safety Australia. The link is in the reference section at the end of this Chapter. Banned products are also listed under Product Safety Australia.

It is an offence to supply, manufacture, offer to supply or have possession of the control of the good that does not comply with product safety standards. There are special rules for export goods only, but you need to seek legal advice if you are exporting your goods. There are Commonwealth, State and Territory regulators that monitor the market, have a responsibility to encourage safe practices, enforce regulations and also work out how to address hazards. Businesses should also monitor product recalls through Product Safety Australia.

## Second Hand Goods

Whether an item is new or second-hand, it should be safe for the intended purpose. Some goods, even if second-hand, must comply with a product's mandatory standards. As a prudent business owner/operator you should check all second-hand goods you intend to sell. This applies to selling items on eBay too. Check things like:

- does it have safety instructions/warnings that would normally accompany it if it was new (for child restraints, electrical items, car jacks etc.)?
- is it damaged or have parts missing and how will this affect the safety?

- are special tools required for assembly?
- has this product been part of a safety recall in the past?
- if it is an electrical product, does it need a safety tag?
- are metal parts corroded? and
- are any of the product's safety features missing?

If you find any of your answer to the above questions is 'no', there will be risks to you and your business if you proceed with the sale of these items.

### OnlineBusiness

Just because you are unlikely to ever meet your customers/clients does not mean that you have limited or no obligation to them. In fact, you may have to work harder at proving to customers that you are a business with integrity, and excellent customer service! The internet and online trading is viewed by some consumers as risky, lacking the security and customer service commitment of face-to-face business.

A Best Practice Model guide for business was developed by the Commonwealth Government to help foster consumer confidence in eCommerce. Based on the Best Practice Model guidelines for online business the key principles for businesses seeking to have an online presence and to conduct ebusiness are:

- providing contact details including a street address;
- if using trust marks or seals, they should be easy to verify and relevant;
- providing secure online payment or provision of an offline alternative;
- terms and conditions should be clearly written, displayed, and easily accessed by the consumer – and also should comply with local and federal laws;
- warranty and refund arrangements are still important to consumers and should be clearly displayed and easily accessed;
- products and services should comply with the relevant Australian standards such as safety standards;
- advertising and any claims about the product or service should be accurate with no hidden fine print;
- prices must be accurate and consumers need to be aware of what currency the price is in;
- a reliable complaints handling procedure should be evident, as well as offers to provide help if required;
- dealing with minors is fraught with difficulty and therefore you need to require appropriate consent from a child's parent or guardian; and
- you may need to make sure that your site is accessible by people with a disability.

Check other useful references at the end of this Chapter for online business operation.

As an online business it is to your advantage to aim to generate confidence in the quality, integrity, and commitment to excellent customer service. This includes ensuring that if you save contact and personal information of your customers, you are required under the Privacy Act 1988 to tell your customers that you are doing this and to explain how you will use their information.

A significant issue with customers accessing goods and services from online businesses is the likelihood of receiving Spam, which is electronic junk mail sent out in bulk to promote products and services. Under the Spam Act 2003 it is illegal to send unsolicited commercial electronic messages. To comply with the Act you must have consent from contacts to send information; clearly identify your business and who is sending the message; and provide a way for people to 'unsubscribe' to receiving this information.

### ActivityNine

What are 'consumer rights', as guaranteed under the Australian Consumer Law:

### Activity Ten

What action can a consumer take if goods sold or a service delivered fail to meet what was promised by the seller:

Faulty product:

Inadequate or poor service:

### Activity Eleven

Maria has set up an online business. Identify four things she should do to build trust with her customers and to help maintain the integrity of the site:

1.

2.

3.

4.

## DISCUSSION

In small groups discuss the following:

An exercise 'home gym' was sold by a gym equipment retail outlet. It took some time to be delivered and was installed by the retailer's technical installation service. Within two weeks and item had broken.

1. What consumer rights and obligation apply to the business?
2. What should be done to rectify the problem?

## 4.6 PRIVACY LAWS

Business operators have a responsibility to comply with privacy laws. This means you must maintain personal information of customers/clients and staff in a safe and secure manner and not disclose this information, unless required to do so by law. The Australian Government has developed ten privacy principles that can guide you in how you manage personal information and data. These principles cover: collection of information; use and disclosure; information quality and security; openness about how an organisation manages personal information; access and correction by individuals; use of identifiers for individuals; protection of anonymity; trans-border data flows; and sensitive information. To find out more about complying with privacy laws contact [www.oaic.gov.au/about/contact.html](http://www.oaic.gov.au/about/contact.html)

## 4.7 HUMAN RESOURCES

For many small businesses, employing staff may not be a priority while the business is small and possibly only a sole operator structure or a couple of partners, however, if you want to grow your business, or diversify into other products or services, the chances are you will be looking at employing staff. This may be on a casual, permanent part-time or full-time basis. In all situations you have legal obligations to your employees that stem from employment-related legislation. These obligations are in areas such as tax and pay, annual leave, time off, sick pay, and the rights of parents. Details about employment conditions are noted in section on Employment Conditions. Other aspects of human resource management are dealt with in Chapter 8.

In terms of record keeping, specific employee records required for taxation purposes are noted in Section 3.4 Employee Records. Additional human resource records that should be maintained include:

- Employee training records
- WHS incident reports
- Performance appraisals and reports
- Work agreements
- Completion of induction training

### Work, Health and Safety

Under the Work, Health and Safety Act 2011 in Queensland (and similar Acts in other States), business owners and operators have certain legal requirements which include:

- assessing and managing risk in the workplace;
- putting in place compliant reporting and recording procedures; and
- encouraging a culture of safe work practices in their workplace.

If you set up your business as a company you need to consider your responsibilities as a director of the company. Any 'officer' of an entity has a 'due diligence' responsibility to ensure the entity meets work, health and safety obligations. The officer must ensure that the entity has in place processes, procedures and records that will ensure compliance with the Act, and that everyone in the entity is aware of them.

Businesses are required to record and report an incident which is 'notifiable'. This includes incidents resulting in: death; serious bodily injury; work-caused illness; dangerous events; major accidents; and serious incidents e.g. electrical incident, explosion, chemical spillage. Staff must be trained in what to do in the event of an incident that would be considered 'notifiable'. The business is obliged to investigate the incident and undertake actions with the intent of ensuring the incident will not occur again. For staff victims, Workers' Compensation will apply and a policy to support and assist staff return to work should be in place.

Business operators should be aware that under the Act, workers have the right to cease work if a health and safety issue arises in the workplace. Businesses/entities have an obligation to notify Work, Health and Safety when an incident occurs that results in death, serious injury or serious illness or involves a dangerous incident.

For some industries Safe Work Australia has set out National Codes of Practice. Businesses should check their site and also the relevant State Department in their State for Codes of Practice that may apply to their industry. [www.safeworkaustralia.gov.au/sites/SWA/Pages/default.aspx](http://www.safeworkaustralia.gov.au/sites/SWA/Pages/default.aspx)

### Workers Compensation

Businesses must be familiar with the regulations and required actions to be undertaken in relation to the compensation of workers affected by a health and safety issue at work. A businesses or entity should:

- have worker's compensation;
- assess risks in the work place and ensure control methods are implemented and regularly reviewed;
- apply any regulation that describes how to prevent or minimise a risk;
- apply any applicable code of practice describing how to minimise risk;
- choose an appropriate way to manage exposure to risk, if there is no regulation or code to apply; and
- take reasonable precautions and exercise diligence in the work place under their duty of care.

### Record Keeping

You are required to keep the following records:

- workplace incident report;
- workplace risk register and management plan;
- WHS training records;
- evacuation and emergency training
- if you have WHS officers and first aid attendants, names and contact details;
- first aid incident register;
- Material Safety Data Sheets; and
- chemical storage records.

## Activity Twelve

List four ways that an employer must protect employees:

- 1.
- 2.
- 3.
- 4.

List three records that must be kept:

- 1.
- 2.
- 3.

## Employment Contracts

Businesses that employ staff have legal responsibilities to meet in relation to their employees. Some of the legal responsibilities have already been noted, for example, those relating to tax, and work, health and safety obligations. Whether an employer has a formal employment contract or agreement in place with employees or not, conditions of employment are regulated by the Fair Work Act 2009. Additionally, from January 1, 2010 National Employment Standards now apply to employers and employees. These standards cover minimum conditions and entitlements such as leave; public holidays; termination notices; redundancy pay; rates of pay; and minimum wages. The standards cannot be altered by the employer if doing so means they disadvantage the employee.

When employing someone, it must be made clear to the prospective employee what type of employment they have. Employment may be full-time, permanent part-time or casual. Each type of employment has slightly different conditions and arrangements for termination. Employers need to be aware of these arrangements and adhere to them, and employees must be made aware of these conditions.

Businesses must also be aware of the obligations they have when terminating employment, whether this is due to having to make someone redundant or dismissing an employee for some breach of the Code of Conduct. A fair dismissal guide for small businesses employing less than 15 staff is at [www.fairwork.gov.au/termination/small-business-fair-dismissal-code/pages/default.aspx](http://www.fairwork.gov.au/termination/small-business-fair-dismissal-code/pages/default.aspx)

## Induction

All new employees should be inducted into the workplace. Greater detail about induction is contained in Chapter 8 on Human Resources. However, for noting in this section induction should cover at the minimum:

- expected work standards and behaviour;
- process to apply for leave;
- what must occur if an employee is unwell, late or needs to leave work early;
- work, health and safety practices, including training on any equipment (as required) and using safety equipment and responding to emergency issues;
- wearing a uniform (if this applies);
- any regulations or codes that apply;
- support, supervision and complaints process;
- work performance reviewing and training; and
- information relevant to trainees and apprentices\*.

\*There are particular requirements relating to employment contracts if a business takes on an apprentice or trainee. This includes lodging the required training documents and meeting supervision obligations under the training contract. To ensure that the business abides by the requirements for employing apprentices or trainees, the following should be done:

- check the payment award that applies through Award Finder;
- contact the Australian Apprenticeship Centre to find out what documentation, supervision, facilities and support you must provide and any financial incentives that may apply to you for employing a trainee or apprentice; and
- provide induction training to the apprentice/trainee.

## Employing Contractors

Contractors run their own business and supply your business with goods/services. They are usually paid for specific goods and services as determined by you. Contractors are free to manage their time and work activities; most likely use their own tools and equipment; and generally carry the risk of fixing faulty work or making amends for delivering services that may have caused damage or loss. From a tax perspective you do not have to withhold tax for a contractor, unless there is an agreement to do so. If you are unsure as to whether your employment arrangement with a worker is as a contractor or an employee, you can use a tool provided by the Federal Government at [www.ato.gov.au/Calculators-and-tools/Employee-or-contractor/](http://www.ato.gov.au/Calculators-and-tools/Employee-or-contractor/)

The contractor will negotiate fees and work terms. Contractors may provide goods or services to more than one client. If you want to find out about contractor rights and responsibilities, check the link in the reference section of this Chapter. The contractor is responsible for paying their tax, needs to have an ABN, and most likely must be registered for GST.

## 4.7 ANTI-DISCRIMINATION AND EQUAL OPPORTUNITY

A business owner/operator is also legally responsible for adhering to the national and state laws that govern anti-discrimination. You should understand your rights and responsibilities, and put in place policies and practices that support anti-discrimination and anti-harassment behaviour and actions. As an employer you should be able to show that you have taken 'reasonable steps' to reduce your liability in this area. As an employer, you have what is known as 'vicarious liability', which means you can be held liable for the actions of employees if it can be proven you have not taken reasonable steps to prevent discrimination and harassment.

In planning how to manage this area of responsibility you need to take into account the size of your business and resources available; the business tasks and what may be involved in inter-personal relationships, jobs, accommodation; gender balances; work culture; age spread of staff; industrial award provisions; and level of supervision. The Fair Work Ombudsman can provide assistance to both employers and employees about discrimination.

There are national and state Acts governing anti-discrimination and equal employment opportunity. The Australian Human Rights Commission has legislative responsibilities for the implementation of these Acts. At the national level they include (and note that these may change):

- Age Discrimination Act 2004;
- Disability Discrimination Act 1992;
- Racial Discrimination Act 1975;
- Sex Discrimination Act 1984;
- Racial Hatred Act 1995;
- Human Rights and Equal Opportunity Commission Act 1986; and
- Racial Vilification Act 1996.

NOTE: AS ACTS AND REGULATION ARE CONSTANTLY BEING REVIEWED AND UPDATED IT IS IN YOUR BEST INTEREST TO REGULARLY CHECK BOTH AREAS TO ENSURE THAT YOU COMPLY. TO HELP YOU COMPLY, YOU CAN DEVELOP POLICIES AND INCLUDE BEHAVIOURAL STANDARDS IN YOUR CODE OF CONDUCT.

### Activity Thirteen

List three actions that must be undertaken to comply with the Work, Health and Safety Act 2011:

- 1.
- 2.
- 3.

#### Activity Fourteen

Steven and Pete run a small engine servicing business and have a new employee starting. List at least five actions/items that should be included in the new employee's induction:

- 1.
- 2.
- 3.
- 4.
- 5.

## 4.9 COUNCIL REGULATIONS

### Home-Based Business

You may have the kind of business that you think can be operated from home. This includes online businesses. Whilst this may mean that you have more flexibility in lifestyle you need to consider this choice carefully and also seek information from your local council. There are advantages and disadvantages to operating from home.

Advantages	Disadvantages
<ul style="list-style-type: none"><li>• Lower overheads and costs to reduce risk of starting a business.</li><li>• Use of email and internet may also reduce cost of a shopfront.</li><li>• Reduces commute time – allowing more time on the business.</li><li>• Flexible lifestyle and more time with family outside the business.</li><li>• Council and government regulations may limit your activities.</li></ul>	<ul style="list-style-type: none"><li>• Council and government regulations may limit your activities.</li><li>• You may feel isolated operating alone from home.</li><li>• Long, inconsistent hours may be required as you try to get your business going – straining relationships with others in your household.</li><li>• Family and friends can be a distraction.</li><li>• May affect your household insurance.</li><li>• May affect your relationships with your neighbours, even if you have council permission to operate from home and are complying with all requirements.</li></ul>

Home-based businesses must register business/company names, register for GST (if applicable) and obtain licences/permits if they apply to the activities you are undertaking. Each State and council may have different requirements and regulations, so check what applies to your business in your home location.

As you are operating in a residential setting, even if on larger blocks, there may be council regulations or restrictions that apply to your operation, such as the hours you operate; and likely environmental impacts including noise, traffic; and polluting emissions. Councils usually regulate areas such as parking; signage; noise levels; and health impacts. You must contact your local council and ensure that you have in writing, any conditions that apply. This application or letter must be kept in your business records.

You may be required to have a licence from State or Local Government for the activity/industry sector you are in. Keep licences/permits with other legal documentation and place a date in your calendar for review or renewal. Your business activity may also fall under an industry code that is either mandatory, or voluntary, relying on self-regulation. Mandatory codes must be followed and it is in your best interest to self-regulate if the code is voluntary.

Operating from home also requires you to consider your insurance. It is recommended that you speak with a professional regarding risks and liabilities operating from home. Homeowner policies don't cover the same things as business policies. Types of insurance to consider include: public liability; business equipment; tools of trade; office and computer equipment; workers compensation if you employ any one; fire; theft; storm cover for stock and equipment; professional indemnity if in a service industry; loss of income due to personal accident or illness; business interruption and possible insurance if you send products by freight carriers or post.

### Operating from Premises in Commercial or Industrial Areas

If you are operating your business from premises in a council designated area for commercial or industrial activities, you still need to check with the council about regulations and permits that you may require to operate legally. There are likely to be local regulations about signage and advertising, waste management, parking, use of footpaths and storage of chemicals.

## 4.10 LEASING, RENTING OR BUYING

When considering the options about whether to work from home, rent or buy a premise you need to consider the following things:

- what can you afford?;
- what are the risks?;
- what is the nature of your business - i.e. what do you do and what space do you need?;
- how do you reach your market - do you need a place of high volume passing traffic?; and
- are you likely to want to expand?

A short-term rental arrangement would be suitable if you expect your business to grow quickly. Longer-term leasing can give stability and save on the expense of moving. Buying premises, if you have the funds and find the right location can become a business asset. For other people, they may be considering starting their business from home initially, as this lowers overheads and can give more work-life balance.

### Leasing

A lease is a legally binding contract and sets out your rights to a property for the term of the lease. It is important that you understand the terms and conditions. If you don't, it could cost you money in the future or create legal issues with the lessor. It is suggested you ask a solicitor to review any lease you are considering. They may also be able to help negotiate terms to suit you and your business.

Things you need to consider when looking at the lease include:

- legal costs to establish the lease;
- start and end date of the lease – timeframe it covers and whether this suits your business;
- sufficient time in the lease to get a return on your investment in the lease;
- is the lease price asked reasonable for the area and what you are being offered - have you checked prices in other premises in the area?;
- renewal terms - when and for how long and the costs associated with renewal;
- bonds or deposit requirements;
- payment arrangements – weekly, monthly, quarterly and whether in advance;
- arrangements for rent increases and how they are worked out;
- conditions relating to late rental/lease payment;
- whether there are additional charges for rates; water consumption; tax; garbage; air conditioning; security; and advertising - and if so, how the charges are worked out;
- inclusions or additions such as cleaning; electricity; repairs; and maintenance;
- in terms of maintenance, are you responsible for any maintenance and at whose cost;
- whether you or the lessor can make alterations and any conditions that apply;
- subletting – whether allowed or not and what conditions;
- transferral of lease and any expenses involved in doing this;
- what insurances are included?;
- whether there are any restrictions such as hours of operations or goods and types of goods stored;
- when you leave the premises – e.g removal of fixtures and fittings you put in; must the premise be left in its pre-lease condition; and
- assessment of the impact of lease terms on the profitability of your business.

### Activity Fifteen

Ahmed has just started an import business for sporting goods that he distributes to outlets in Australia and online to overseas customers. What premise and lease arrangements would be suitable?

## 4.11 INTELLECTUAL PROPERTY (IP)

Some businesses have created goods, designs or logos, written material or inventions that are a fundamental investment and advantage for a business. If something you create gives you an edge or niche in the market place and has the prospect for making your business highly successful, it is worth thinking about protecting. It is also important to make sure that you don't inadvertently infringe someone else's IP as this can lead to legal and financial issues for you and your business. The research to check whether there is already a patent, trademark etc. can also inform you about what new products or services are on the market.

Your ideas are your intellectual property or IP. The definition of IP according to IP Australia is something 'that represents the property of your mind or intellect'. This can include a new process, business model, new product or improvement on a product, new use for a product or service, new products or services. You can't copyright your idea, but there are different ways to protect your IP to prevent other businesses from using it to make money. IP Australia grants patents, Trade Marks, protects designs and plant breeder's rights. The Attorney-General's department is responsible for the automatic rights involved in copyright and circuit layout rights.

If you do want to protect your IP, it is worthwhile seeking professional help. A potential list of IP Attorneys is on IP Australia's website. IP Australia only protects IP in Australia, to find out more about international protection visit IP Australia's site and look for the international area.

Protecting IP is potentially an ongoing process. It is recommended that you regularly review the protection you have on your business ideas and also check other registered protection. You may create new logos and ideas as your business grows and changes and you may need to protect these. A Trade Mark needs to be renewed every 10 years.

The sections below present information on a range of IP protection mechanisms and provide you with a description of what each covers and information on how to go about getting the particular form of protection.

### Patent

A patent is 'a right granted for any device, substance, method or process which is new, inventive and useful' (IP Australia); is legally enforceable; and allows you to protect (as long as you renew it) your idea for the extent of time you commercially exploit it. The process to apply for a patent may be complex. There are two main types of patent, a standard patent and an innovation patent. A standard patent in Australia lasts for 20 years, an innovation patent lasts for up to 8 years and a pharmaceutical patent can last up to 25 years.

Innovation patents are simple and quite quick to get (usually within a month of application). An innovation to be protected must be an innovative step, not an invention, this means it makes improvements to existing technology and is therefore different to what was known/done before.

You must not go public with your idea until you have got your patent. If you do, you may not be granted one if you apply. You can protect computer-related inventions; biological inventions; business methods; micro-organisms; and other biological material. Patents on software can only apply to software for industrial application.

The main steps for getting a patent are:

- search the patent database (Auspat), magazines and websites to make sure that your invention isn't known about publicly;
- decide on what type of patent you need;
- file your application – fees will be required at different parts of the process;
- make sure the patent is granted and published in the official journal;
- standard patents require mandatory examination and you must request this in order for the patent to be enforced; and
- you need to pay annual fees to maintain the patent.

### Trade Marks

A Trade Mark can be a word; phrase; letter; number; sound; smell; shape; logo; picture or aspect of packaging – or a combination of these, such as the Cadbury's logo and purple colour. Trade Marks help to identify your business and its product/service. You need to check that none of these areas of your business contravene someone else's Trade Mark. IP Australia is where you will both check other Trade Marks and register your own. To have a Trade Mark you must be an individual, company, incorporated association or a combination of these. You can't register a Trade Mark under your business name.

Of course you don't have to register your Trade Mark to use it and there is some degree of protection against misrepresentation under the trade practices/fair trading legislation. However, if you don't register it is more difficult and expensive to take action under common law. You can make your initial registration for 10 years and continue to renew every 10 years by paying a fee. If you do not use your Trade Mark, then you can lose the protection on the grounds of non-use.

It is important to remember that registering your business name doesn't protect the business name. If you want to protect your business name, you need to register it as a Trade Mark. This means you can control its use or any part of the name. Trade Mark protection can extend over a letter, word, phrase, number, sound, scent, logo or image.

### Designs

You can also protect your designs, which IP Australia defines as: 'features of shape, configuration, pattern or ornamentation which, when applied to a product, gives the product a unique appearance' (IP Australia). You cannot register your design unless it is new and distinctive, and as with Trade Marks, you should search IP Australia for existing designs. You have six months from when you put your application in to register or publish some or all of the design/s in the application. The person filing the application must be entitled to do so. Check IP Australia's website for a person's eligibility. Registering a design allows a person exclusive rights to use, licence to another or sell a design.

The steps to register a design are:

- search for similar designs in trade magazines, on the web and other registered designs;
- obtain the design registration application kit and forms;
- your design needs to be represented through a drawing or photograph;
- the application undergoes a formalities check to verify it is in order and to determine fees, if required. You can request registration after the formalities check, but this must be done within six months;
- a second formalities check will be made for registration. The design will be registered in the Australian Official Journal of Designs;
- you may wish to have your design published, but this does not give you rights such as those in a registered design. It stops others from obtaining a certificate for the same design; and
- you will have a copy of the design number and filing date of your application.

### Copyright

Copyright protects 'original expression of ideas, not the ideas themselves' (IP Australia). Unlike other forms of IP protection, it is free and automatic. You should place the copyright symbol and date on any work your business produces. This would include your website. Copyright applies to original material that falls into the following categories: literary; art; dramatic works; musical works; film; broadcast; multimedia; and computer programs (source code). Copyright generally last for 70 years. The Copyright Act 1968 protects copyright in Australia. Unfortunately copyright doesn't protect you against someone creating a similar work and it is hard to take legal action. The ability to reproduce and use different media e.g. film, broadcast, multimedia products make this more difficult. You could use a copyright notice of the owner's name and date and can act as a deterrent. Copyright is lost if you add 3D representation of the material. More information on copyright can be obtained from the Australian Copyright Council.

### Circuit Layouts

Protection in this area covers three-dimensional configuration of electronic circuits in integrated circuit products or layout designs, such as computer circuits often referred to as 'chips' or 'semi-conductor chips'. You do not have to register the layout design to be granted rights. As the original owner you have right to copy the layout in a material form; make integrated circuits from the layout; and exploit it commercially in Australia. Protection comes from the first commercial delivery of the design and continues for 10 years – as long as the first commercial delivery occurred within 10 years of the layout being designed.

### Plant Breeder's Rights

A plant breeder's right protects 'new varieties of plants that are distinguishable, uniform and stable' (IP Australia). The rights are legally enforceable and the owner can commercially use the plant; sell it; direct the production; sale and distribution; and receive royalties from others selling the plants. Undertake basic research into the variety in trade magazines, horticultural/agricultural reference sites and journals, and the Plant Breeder's Rights database on the IP Australia website. The application process is in two steps and is quite complex. Part one you provide your details, information about the origin of the variety and initial case for eligibility. There are time limits if you are to commercialise in Australia or overseas. You must make sure that part one of the application is received before the expiry of the eligible prior sales period or you cannot be eligible for protection.

Part two is where you provide evidence to support your claims in part one. This involves a detailed description of variety, and clearly identifying the differences of your plant from similar varieties. You can use the Interactive Variety Description System (IVDS) online for lodging variety descriptions.

### Activity Sixteen

What is the difference between a patent and a Trade Mark?

What else can you legally protect?

### Activity Seventeen

Shari has developed a series of videos about teaching children first aid and safety. How can she protect her product, and where will she go to get information?

### Online Web Content

If you have engaged someone to develop your website it is advisable to have a contract that outlines the rights and responsibilities of you and the website developer. This includes the Terms and Conditions for the contractor; description of work to be undertaken; ownership of software or content created/used on the website; responsibilities regarding third party licensing; warranties and indemnities; and schedule containing the functional specifications for creating the website.

## 4.12 CONTRACTS

The contents and interpretation of contracts can become the subject of a legal case. It is important that business owners/operators understand such aspects of a contract as: what makes up a contract; the different types of contract; standard contracts; pitfalls; dispute resolution; ending contracts; contracts on the internet; and the paperwork and documents involved. Contracts can form an important part of day-to-day business activities in many businesses, and to not understand your commitments and liabilities under a contract puts both you and your business at risk. Contracts may cover common business areas such as: leasing and hiring; receiving and quoting; obtaining finance; engaging contractors or consultants; franchising; renting equipment out; tendering and quoting; credit arrangements; joint ventures; partnerships; dealerships and distributorships; apprentice/training employment; and formalising an alliance.

Whilst this information is provided to help you understand contracts, if you are considering setting up a contract or are required to sign one in your business dealings, it is important to understand what is in the contract, and it is recommended that you seek professional advice.

Like many other areas of business operation, you must also manage your contracts and be diligent about ensuring that you and the other party/s to the contract are abiding by the contract. You must be aware of when the contract will end and clauses about early exit.

In terms of laws that control contracts, common law is not the only law. The Australian Consumer Law and similar laws in States and Territories for the sale of goods or contracts will regulate contracts. You need to check with your own State or Territory as to what applies.

### What's In A Contract?

Business activities such as: providing quotes; tendering; discussions with suppliers, agents and clients; or making offers, constitute agreements. A contract is 'legally binding' requiring the parties in the contract to comply with the contract. There are four main parts to an agreement that would make it legally binding:

- an offer;
- acceptance of offer;
- intention of legal consequences; and
- consideration.

An offer: must be clearly stated and have a specific intention to do something. The 'offer' can be withdrawn before it is 'accepted'. A 'standing offer' is one that last for a set period of time. It is important not to confuse an 'offer' with comments that are just part of the discussion before an offer is made. For example, advertising an item with a specific price is not an offer, but when a customer proposes to pay that amount, then it becomes an offer. An offer can lapse if a specific timeframe has been provided for it to be considered, or a reasonable time has elapsed in relation to the nature of the offer.

An acceptance: must also be clearly stated and the terms of the offer confirmed, as any changes to the original offer would be considered a counter offer. This would then cancel the original offer under Contract law. If an acceptance is given with conditions applying – 'a conditional contract', the acceptance is not complete until the conditions are fulfilled. An acceptance can be given verbally, in writing or by an action that shows the offer has been accepted. Lack of response does not mean the offer is accepted, for example advertising material that suggests that if you do not reply in a set time, it will be assumed that you have accepted the offer. Other forms of acceptance may be mail or fax.

An intention of legal consequence: for example, contracts can be binding, even if there is no statement about you intending a legal consequence if the contract is not met. This means you need to be clear about the nature of any Agreement you may have with another person. Commercial contracts assume that you are legally bound. However, parties to an Agreement can agree not to be legally bound by the Agreement. If this is to be the case, this must be clearly understood by both parties.

A consideration: is usually in a form of a payment or promised payment of money or an item of value, not necessarily of equal value. A consideration may also be an offer not to do something, such as exercising a right.

### Influence of Marketing on Contract Interpretation

Marketing material can be critical in determining what was offered. This includes claims in marketing material or sales presentations; brochures; product specifications; and timeframe for payment, etc. This is why it is important for you to understand your risks and obligations in advertising. Marketing material or activities help to determine when an offer was made, rather than being an invitation to trial something. Critical information used to determine if an offer was made could include what was offered, how it would be accepted and whether what was said led to the person to being persuaded or convinced to enter into the contract. These are known as 'representations' and could be enforceable. If any of the 'representation' information is false or misleading it could make the contract invalid.

If a written contract differs from the verbal arrangement, the written contract is the one that will generally apply. It is therefore important to make sure in any written contract that what was verbally agreed to and understood by both parties is included in the contract. It should be noted that it is harder to end a written contract.

### Contract Validity

Contracts can be considered invalid if it can be proven that the following occurred:

- making dishonest or careless statements or claims;
- taking advantage of a person's situation (disability, non-English speaking for example);
- anti-competitive agreements between competitors, such as: fixing prices; rigging bids to win work; or sale based on a condition you agree to purchase other items. Actions like these are prohibited under law).

### Contract Contents

Contracts can be complex, but all have the same structure and items. A good contract will identify what is required of each party and the limits that apply. The contract will also indicate payment terms, including credit and address risks for both parties signing the contract. The main elements of a contract are the Terms, Conditions and Warranties.

Terms of the contract: which may be 'expressed' and 'implied'. Terms concern how and under what circumstances the contract is to be fulfilled. Express terms are those terms specifically agreed to and noted in the contract. Implied terms may relate to a requirement of law such as 'consumer guarantees' (discussed earlier in this Chapter), a standard industry practice, a reasonable expectation or common sense, about what the agreement means. You need to consider what the implied terms are in any contract that you sign.

Conditions: of the contract are different to the terms as they spell out in detail what is required to fulfil the contract. Failure to comply with these explicit conditions may result in the contract being terminated and require compensation to be paid to the other contract party/s.

Contract warranties are terms of less importance and if not complied with, would not result in termination of the contract.

Understanding the difference between terms, conditions and contract warranties is important for your understanding of the contract. It is suggested that you discuss any contract you are developing or considering signing with a professional.

## Contract Communication

In developing a contract and getting it signed some correspondence plays a specific role.

A letter of intention is what you or the other party would send explaining that you intend to set up an agreement and may include what you are agreeing to have in the contract. Some businesses send a letter of intention to successful tenderers to make an offer of a contract. Under law, letters of intention are not seen as a contract.

A Memorandum of Understanding often known as a MoU may be the first stage used before signing a contract. The MoU usually contains statements about the potential contractual relationship that you will be agreeing to formalise with a contract, therefore a MoU is usually not considered to be legally binding.

Contract variation and side letters are used to vary the contract. Details of changes to the original Agreement must be identified and agreed to and signed by contract party/s.

A Heads of Agreement is used to note the major elements and issues of a contractual relationship before setting up the contract.

Non-Disclosure Agreements are usually used in business with potential contractors or employees. This type of Agreement requires the signing party/s not to disclose information about the business gained through their business relationship and would include things like strategic plans; tenders; prototypes; pricing arrangements; marketing plans; and details of specialised technical or manufacturing processes.

## Contracts on the Internet

Contracts on the internet may be made electronically by email or an internet site, i.e. an electronic transaction. Such electronic contracts are controlled by an Electronic Transactions Act in every Australian jurisdiction. There are some risks and issues with electronic contracts, which means you need to be very careful in ensuring that you understand any electronic contract that you are about to sign, or provide clear explanations of terms and conditions of any electronic contract you have developed for E-commerce activities. With electronic contracts it is also important to have some form of record or procedure to track what is sent and received as well as who is authorised to action, sign or pay. It is suggested that you seek professional advice about setting up your own electronic contracts, and to check on electronic contracts you are about to sign. A precautionary principle before you commit to an electronic contract is to think about the implications of the contract for you and your business, before you press the "I agree" button.

## Dispute Resolution

Contract disputes should be addressed as quickly as possible as they can become costly in time and money. In the first instance it is best to try to discuss and negotiate and attempt to work out a resolution with the other contract party/s. You may use more formal ways to resolve the dispute such as the State or Commonwealth Ombudsmen, or Ombudsmen for particular areas, for example finance, telecommunications, energy supply. Consumer Affairs bodies may also be helpful. Another course of action may be to approach a tribunal or commission at the State or Commonwealth level such as the Small Claims Tribunal. As a last resort, the dispute can go to court, but this can be very expensive.

## Ending Contracts

A contract without problems or extensions will come to an end by the date agreed in the contract and the parties no longer have a commitment to each other, except in relation to any confidentiality or warranty provisions.

Contracts can be brought to an end through agreement with the other party/s. Causes for ending a contract may include: activities becoming illegal; breach of contract where one party fails to complete a fundamental part of the contract; where a contract is shown to be unfair, unequal or unconscionable; and where one party becomes bankrupt.

If you wish to bring a contract to an end before the contract end date you need to seek professional advice as this can raise issues of compensation or expose you to claims for damages.

## Checklist

When drawing up a contract, or signing one, you need to check to make sure that the contract covers what you want it to cover, and that it is clear. Seek professional advice on wording and interpretations. Keep written records of discussions when the contract is being drafted, and make sure that the signing party/s agree that the content of the contract is the same as what has been discussed. Also make sure any changes are agreed by all parties and that all parties have copies of the updated contract. Table 4.7 suggests some areas and asks questions to help you with developing or reviewing a contract.

Table 4.7 – Developing /reviewing contracts checklist

Area or Question	Tick when complete
You have clearly determined why you need a contract.	
You have identified the important things that need to be covered in your contract.	
You will be getting the commercial return you want from the contract.	
You have considered the role of the contract in growing your business/ strengthening your business.	
You understand the relationship the contract sets up with the other signatory/ies.	
You have considered what the contract means for the other signatory/ies.	
Check the objectives of the contract and make sure you understand what they mean.	
Check which objectives are the most important.	
Does the contract meet the objectives you had in mind?	
Consider the risk to your business relationship set up by the contract.	
Check that the contract protects the rights and obligations of each person signing and ensure you understand them.	
You have identified and defined how long the contract will last.	
You have identified the contract conditions you require and checked that they are all covered (e.g. reliability of supply, price, cost of credit, volume of business, market share, market exposure etc.)	
Are the critical conditions for each signatory included in the contract?	
Are the needs and expectations of each signatory met by the contract?	
You have checked wording interpretations and understand what they mean for you and your business.	
The contract meets your bottom line requirements for business.	
You have checked the risk areas in the contract, and clearly understand who bears them.	
Are you comfortable with the level of risk that you will bear?	
Are the terms of termination set out and have been agreed by you and other signatory/ies?	
<p>The following issues have been considered (where relevant) and covered as required:</p> <ul style="list-style-type: none"> <li>• change of ownership in either business;</li> <li>• scale and frequency of interest rate/rental/price adjustment;</li> <li>• resignation or death of key personnel;</li> <li>• payment delay/default; and</li> <li>• delivery delay; quality issues.</li> </ul>	
Check the 'fine print' to make sure you understand the implications for you and your business.	
The contract outlines when and how changes can be made and the rights of signatories.	
Check the contract for 'penalties' that may apply if it is not fulfilled and ensure both parties agree to the penalties.	
Check the contract identifies reasons and conditions for termination and ensure both parties agree.	
Check that any 'exclusions' identified are understood and agreed by both parties.	

### Activity Eighteen

What are the four main parts of a contract and what is the difference between 'Terms' and 'Conditions' of a contract?

### Activity Nineteen

In a contract dispute describe two courses of action you could take.

What is the purpose of a side letter or contract variation?

## DISCUSSION

In small groups discuss the following:

A contract was signed by Jerry and Louis to formalise a supply arrangement between their two businesses during a construction job. Jerry then found another supplier who was much cheaper and proceeded to go with this supplier most of the time, but still occasionally dealt with Louis.

1. What contract issues arise from this?
2. What action could Louis take?

## 4.13 INSURANCE

Insurance can be considered from two perspectives - as a legal requirement and for risk management. Insurance that you must have to operate legally includes:

- workers' compensation (for businesses with employees, but does not cover self-employed people, partners, volunteers or contractors);
- compulsory third party insurance on any vehicles you use which covers people injured in an accident, but not the driver. If the driver is an employee they would be covered by Workers Compensation. This insurance does not cover damage to property;
- required industry insurance such as professional indemnity if you provide advice; and
- warranties on building construction.

It is suggested that you consult the relevant industry organisation about required insurance for the industry sector in which you operate. Insurance to protect your business from a range of risks is explored in greater detail in Chapter 5.

## 4.14 LAW OF TORTS

There are four areas most commonly associated with the Law of Torts:

- Negligence
- Trespass
- Defamation
- Nuisance

Under the law of tort, if a person suffers physical, legal or economic harm as a result of the action or non-action of another person, they may be able to sue that person. If the court determines that the suing is valid, damages may be awarded to the victim.

There are three main categories of torts: negligent, intentional and strict liability torts.

Negligence includes civil wrongs caused by negligent behaviour or failure to apply due diligence and duty of care to people affected by our actions. Not applying good hygiene practices in the kitchen of a restaurant may lead to transmission of disease or food poisoning that could result in an action, if proven.

Intentional torts cover areas where someone has deliberately meant to harm another person, such as defamation of character, physical Battery, fraud, false imprisonment and intentional interference with business or company records which has economic consequences.

Strict liability tort covers product liability and would apply if someone used a product as per the instructions, but some injury was received due to, for example, a poor design feature, or inadequate instructions.

Tort law covers nuisance issues like noise pollution and livestock roaming loose. Nuisance is difficult to prove as it relies on the definition of 'nuisance'.

Law of Torts includes trespass, which does not only cover trespassing on someone's property, but also using a person's computer without permission.

It should be noted that damages may not only be physical, but also economic in a sense of costing someone money, for example, to replace something, or through a loss of reputation, that could lead to economic impacts such as affecting employment or business opportunities.

#### 4.15 BUSINESS EXPERTISE

Business expertise that is useful to consult for further information in this chapter includes:

- Australian Tax Department;
- Accountant;
- Solicitor;
- Insurance broker and assessor;
- Work, Health and Safety advisor; and
- Intellectual Property advisor

#### 4.16 REFERENCES

NOTE: THE INTERNET HAS VAST VOLUMES OF INFORMATION. CONSIDER THE RELIABILITY AND TRUSTWORTHINESS OF THE INFORMATION YOU ACCESS. TRY TO USE TRUSTED SITES AND SOURCES.

Company Registration and Regulations:

[www.asic.gov.au/asic/asic.nsf](http://www.asic.gov.au/asic/asic.nsf)

Australian Business Number Registration:

[www.abr.gov.au](http://www.abr.gov.au)

Information on Business Licensing, Permits and Registration:

[www.ablis.business.gov.au/pages/home.aspx](http://www.ablis.business.gov.au/pages/home.aspx)     [www.business.qld.gov.au/business/support-tools-grants/tools/ablis](http://www.business.qld.gov.au/business/support-tools-grants/tools/ablis)

<https://ablis.business.gov.au/>

<https://www.business.gov.au/registrations/licences-and-permits>

Trademark Registration:

[www.pericles.ipaustralia.gov.au/ols/tmcheck/](http://www.pericles.ipaustralia.gov.au/ols/tmcheck/)

<https://www.ipaustralia.gov.au/>

Domain Names:

[www.auda.org.au](http://www.auda.org.au)

[www.auda.org.au/ea-policy](http://www.auda.org.au/ea-policy)

<https://www.auda.org.au/>

[www.auda.org.au/registrars/accredited-registrars/](http://www.auda.org.au/registrars/accredited-registrars/)

[www.icann.org](http://www.icann.org) – the international policy authority for domain names

Online Business Operations:

[www.letstalknet.com.au](http://www.letstalknet.com.au) – pod casts about entering the cyberworld [www.digitalbusiness.gov.au/securityand-legal/your-computers-security/](http://www.digitalbusiness.gov.au/securityand-legal/your-computers-security/)

<https://www.letstalknet.com.au/consumer-alerts/year/>

[www.digitalbusiness.gov.au/e-commerce/e-commerce-essentials/](http://www.digitalbusiness.gov.au/e-commerce/e-commerce-essentials/)

<https://www.business.gov.au/marketing/websites>

<https://www.business.gov.au/>

Tax:

[www.ato.gov.au/businesses/content.aspx?doc=/content/25193.htm](http://www.ato.gov.au/businesses/content.aspx?doc=/content/25193.htm)

<https://www.ato.gov.au/>

[www.ato.gov.au/content/downloads/BUS25193n19080711.pdf](http://www.ato.gov.au/content/downloads/BUS25193n19080711.pdf) - guide for small business

[www.softwaredevelopers.ato.gov](http://www.softwaredevelopers.ato.gov) – tax software developer products that are accepted by the ATO

<https://softwaredevelopers.ato.gov.au/>

<https://www.ato.gov.au/Newsroom/smallbusiness/General/Small-business---expanding-accelerated-depreciation/> - information about the new ruling on expanded depreciation

## Employing Staff:

Information about wages and employment conditions from Fair Work Australia on 13 13 94 (National Infoline), 1300 799 675 (National Helpline) or visit [www.fairwork.gov.au](http://www.fairwork.gov.au)

[www.justice.qld.gov.au](http://www.justice.qld.gov.au)

<http://www.fwa.gov.au/index.cfm?pagename=awardsfind> - finding awards (minimum terms and conditions of employment)

## Employing Contractors and Contractor Agreement Information:

[www.business.gov.au/BusinessTopics/Independentcontractors/Documents/Independentcontractsmadesimple.pdf](http://www.business.gov.au/BusinessTopics/Independentcontractors/Documents/Independentcontractsmadesimple.pdf)

<https://www.business.gov.au/people/contractors>

<https://www.business.gov.au/new-to-business-essentials/series-three/information-for-contractors>

<http://www.fairwork.gov.au/how-we-will-help/templates-and-guides/fact-sheets/rights-and-obligations/independent-contractors-and-employees>

## Apprenticeships and Traineeships:

[www.fairwork.gov.au/employment/apprentices-and-trainees/pages/faqs.aspx](http://www.fairwork.gov.au/employment/apprentices-and-trainees/pages/faqs.aspx)

## Contractors:

[www.fairwork.gov.au/factsheets/FWO-fact-sheet-Independent-Contractors-Employees.pdf](http://www.fairwork.gov.au/factsheets/FWO-fact-sheet-Independent-Contractors-Employees.pdf)

<http://www.fairwork.gov.au/how-we-will-help/templates-and-guides/fact-sheets/rights-and-obligations/independent-contractors-and-employees>

## Consumer Protection:

[www.australia.gov.au/topics/economy-money-and-tax/consumer-protection](http://www.australia.gov.au/topics/economy-money-and-tax/consumer-protection)

<https://www.australia.gov.au/information-and-services/public-safety-and-law/consumer-protection>

## Termination of Employment:

[www.fairwork.gov.au/resources/fact-sheets/conditions-of-employment/pages/termination-of-employment-fact-sheet.aspx](http://www.fairwork.gov.au/resources/fact-sheets/conditions-of-employment/pages/termination-of-employment-fact-sheet.aspx)

<http://www.fairwork.gov.au/how-we-will-help/templates-and-guides/fact-sheets/minimum-workplace-entitlements>

## Hotline for Small Businesses:

Small business helpline 1300 302 021

A series of videos are located on the following links dealing with various aspects of Consumer law:

[www.fairtrading.qld.gov.au/business-guarantees-warranties-refunds.htm](http://www.fairtrading.qld.gov.au/business-guarantees-warranties-refunds.htm); [selling-telemarketing.htm](http://www.fairtrading.qld.gov.au/business-guarantees-warranties-refunds.htm#selling-telemarketing);

<https://www.qld.gov.au/law/laws-regulated-industries-and-accountability/queensland-laws-and-regulations/selling-your-products-and-services/guarantees-warranties-and-refunds>

[www.fairtrading.qld.gov.au/unfair-contract-terms.htm](http://www.fairtrading.qld.gov.au/unfair-contract-terms.htm)

## Product Safety:

[www.productsafety.gov.au/content/index.phtml/itemId/974064](http://www.productsafety.gov.au/content/index.phtml/itemId/974064)

[www.recalls.gov.au/content/index.phtml/itemId/952401](http://www.recalls.gov.au/content/index.phtml/itemId/952401) - recall checklists (This should be checked regularly)

Product safety Mandatory standards and bans\_factsheet.pdf - fact sheet on product mandatory standards and bans

## Sales Practices:

Download Sales practices - A guide for businesses and legal practitioners (PDF, 2.9 MB)

## Privacy Laws:

[www.oaic.gov.au/about/contact.htm](http://www.oaic.gov.au/about/contact.htm)

<https://www.oaic.gov.au/>

## Home-Based Business:

[www.business.qld.gov.au/starting/business-startup-options/starting-home-business/running-home-business-case-study-video](http://www.business.qld.gov.au/starting/business-startup-options/starting-home-business/running-home-business-case-study-video) - video on running a business from home

<https://www.business.qld.gov.au/starting-business/types-legal-structures/start-up-options/home-business-setting-up>

#### Leasing Premises:

[www.justice.qld.gov.au/data/assets/pdf\\_file/0004/27985/JAG7834-Retail-Leasing-Guidelines-Booklet\\_Cover\\_web.pdf](http://www.justice.qld.gov.au/data/assets/pdf_file/0004/27985/JAG7834-Retail-Leasing-Guidelines-Booklet_Cover_web.pdf)

<https://www.business.qld.gov.au/starting-business/premises-location/leasing>

#### Business Protection:

[www.ipaustralia.gov.au/get-the-right-ip/choosing-the-right-ip/](http://www.ipaustralia.gov.au/get-the-right-ip/choosing-the-right-ip/) - an excellent online tool to help you identify what type of protection you may need

[https://www.ipaustralia.gov.au/sites/default/files/tm\\_application\\_guide.pdf](https://www.ipaustralia.gov.au/sites/default/files/tm_application_guide.pdf)

Search IP Australia's Trade Marks Online Search System ([www.ipaustralia.gov.au/trademarks/search\\_index.shtml](http://www.ipaustralia.gov.au/trademarks/search_index.shtml)) to check that your name is not infringing a registered trade mark.

<https://www.ipaustralia.gov.au/trade-marks/applying-for-a-trade-mark/searching-trade-marks>

IP Australia has a database of patent and trademark attorneys

#### Copyright:

Australian Copyright Council

Patents Patents Guide Trade Marks

Trade Mark Guide

#### Designs:

Designs Act 2003

Australian Official Journal of designs

Plant Varieties:

Interactive Variety Description System (IVDS) - online system for lodging variety descriptions

Search for a PBR - search the PBR database.

Apply for a PBR - information to help you apply for a PBR.

Renew your PBR - information to help you renew your PBR.

PBRAC - The Plant Breeder's Rights Committee

Plant Varieties Journal - Official Journals for Plant Breeder's Rights

#### Workplace, Health and Safety:

[www.deir.qld.gov.au/workplace/publications/multimedia/index.html](http://www.deir.qld.gov.au/workplace/publications/multimedia/index.html) - video about intent

[Workplace, Health and Safety have a DVD lending library. To borrow, please phone 3225 2389 or 3247 3962.](#)

[www.deir.qld.gov.au/workplace/law/whslaws/index.html](http://www.deir.qld.gov.au/workplace/law/whslaws/index.html)

<https://www.worksafe.qld.gov.au/laws-and-compliance/workplace-health-and-safety-laws>

[www.fire.qld.gov.au/training/](http://www.fire.qld.gov.au/training/) - fire training

<https://firetrainingqld.com.au/>

<https://www.business.qld.gov.au/running-business/employing/employee-rights/obligations/training>

#### Anti-Discrimination:

[www.adcq.qld.gov.au/main/information.html](http://www.adcq.qld.gov.au/main/information.html)

[www.hreoc.gov.au/about/index.html](http://www.hreoc.gov.au/about/index.html)

<http://www.hreoc.gov.au/>

#### Record Keeping for Companies:

[www.asic.gov .au/asic/asic.nsf/byheadline/What+books+and+records+should+my+company+keep%3F?opendocument](http://www.asic.gov.au/asic/asic.nsf/byheadline/What+books+and+records+should+my+company+keep%3F?opendocument)

<https://asic.gov.au/for-business/running-a-company/company-officeholder-duties/what-books-and-records-should-my-company-keep/>

#### Contracts:

[www.innovation.gov.au/SmallBusiness/LegalHelp/Pages/default.aspx](http://www.innovation.gov.au/SmallBusiness/LegalHelp/Pages/default.aspx) - Legal help for small business

#### Insurance:

[www.business.qld.gov.au/business/starting/starting-a-business/business-insurance](http://www.business.qld.gov.au/business/starting/starting-a-business/business-insurance)

#### Weights and Measure:

[www.measurement.gov.au/Pages/default.aspx](http://www.measurement.gov.au/Pages/default.aspx)

#### Record Keeping from ASIC:

[www.asic.gov.au/asic/ASIC.NSF/byHeadline/Road%20map%20financial%20reporting](http://www.asic.gov.au/asic/ASIC.NSF/byHeadline/Road%20map%20financial%20reporting)

## 5. RISK MANAGEMENT - BUILDING A RESILIENT BUSINESS

### 5.1 RISK MANAGEMENT

#### Introduction

One of the most important ways to ensure that you will be able to stay in business is to manage your business risks. You need to consider what could affect critical areas of your business and how severe the impact would be on you and the business. For example, what would happen if you lost power for a few days, or your key documents were destroyed? What would be the impact if your major supplier failed or a key staff member left? The aim of this section is to help you to identify and manage the risks to your business and help you to develop a risk management plan.

The impacts are known in a general sense. They most likely will include one or more of the following: loss of income; reduction in profit; increased expenses and debt; loss of market share and/or market; cash flow problems; interruption or stopping of production/operation; loss of staff; damage to image/reputation; and loss of market position.

The accumulation of impacts can lead to your business not being viable, having to be down-scaled, sold or closed. These are just the practical business related issues; however impacts on a business also cause personal trauma and hardship for you and your staff too that will need to be managed.

Identifying your risks empowers you to be able to work out how to manage, reduce or eliminate those risks. The bottom line is - not attending to risks can cost you your business and livelihood, and may have significant and irreversible impacts or consequences on others.

So what are your risks and how do you identify them? The Australian Standard (AS/NZS ISO 31000:2009 Risk Management) explains risk as 'the chance of something happening that will have an impact on objectives'. Risks can be divided into direct risks internal to the business that you can control, and external risks over which you have no control. Those that are internal to your business you can take steps to eliminate or reduce significantly. External risks will need to be managed well to reduce their impact.

Some examples of areas of risk are: financial, operational, environmental, legal, privacy, data and information, human resources, and intellectual property. External factors are things over which you have no control such as political unrest, supply chain or market failure, government regulation and policy changes, social issues, technology changes or environmental impacts that negatively affect your business.

A suggested approach to identifying risk is to consider each area of your business plan, and think about what could happen that would mean you cannot implement the plan for each area. What could jeopardise you staying in business or cause considerable loss or damage? Business advisors, other business operators, insurance advisors, bank business advisors and risk management specialists are all sources of information to help you consider your business risks. There are also plenty of resources that look specifically at this topic. Check the references at the end of this chapter.

#### Identifying Risk

In the introduction we noted that there are a wide range of risks to your business. Risks may be internal to your business or occur externally and be beyond your control. In considering risks, you also need to consider indirect risks, such as something affecting your suppliers or your market, which in turn will impact on your business. If suppliers are affected you may run out of products or inputs. If your market is affected, it may mean that people are unable to buy, or do not want your product or service. This will reduce demand and therefore your income. Other examples of indirect impacts can be failure of utilities and services that may stop you operating, communicating or cause perishable items to go bad; political instability; changes in regulations limiting, prohibiting or requiring changes in some of your business activities or range of products and services you offer. Industrial action affecting your workforce or the workforce of your suppliers and distributors is also a risk.

To help you consider risks to your business Table 5.1 lists some of the most common risk areas. You can use this checklist to consider your business risks, and ask yourself 'What if...?'

Table 5.1 – Business risk areas

Area	Check
<b>INTERNAL</b>	
Insurance - liability for product/service	
Damage/loss to equipment, stock, premises, records	
Technology failure	
Environmental accidents on your premise or in your location	
Work, Health and Safety	
Security (fraud, theft, loss of intellectual property through breach of confidentiality, personnel, vandalism)	

Area	Check
Input product/service such as product or service safety, bans, recalls	
Debtors	
Suppliers	
Staff and human resource related risks – disputes, theft, accidents	
Contracts	
Leases	
Business rights (IP, Trade Mark, Copyright etc.)	
Succession or business exit planning	
Compliance with Acts, Regulations and Codes of Practice	
Compliance with financial and taxation requirements	
Business structure risk implications	
Public liability	
Product liability	
Financial viability	
Security of information breaches	
EXTERNAL	
Natural disaster (flood, cyclone, storms, bushfires, drought, earthquake etc.)	
Pandemic	
Global financial downturn	
Political unrest	
Newtechnology	
Changes in Acts and Regulations, including government policy changes	
Environmental impacts such as climate change	
Changes in consumer preferences/demand	
Health scares	
Transport disruption	
Utilities and services interruption or increase in costs	
Supplier failure	
International events affecting imports or export	
Terrorism	
Business interruption arising from external factors (strikes, freeze, road works etc.)	
Negative image of a high profile business in your industry sector that affects demand for your product/service	
Communications disruptions	

#### Activity One

Paul runs a small manufacturing business building decorative rock pools for gardens in fibreglass moulds. He supplies to nursery retailers and purchases his resins and other input items from an inter-state company. He employs one apprentice. In the Table above, tick the risk areas you think apply to this business.

To help you think about risks, a number of risk areas are discussed in more detail below.

#### Natural Disasters

No one expects a natural disaster and so this area of risk management often goes overlooked. It is an external risk that may be a direct risk to you, or affect you indirectly through your supply chain. Natural disasters include such events as floods, fire, tornadoes, earthquakes, cyclones and droughts. Being prepared for such an eventuality gives you a better chance to recover. To best protect your business you should have an emergency plan in place that will help to minimise the impact on your business.

This plan will include preparation activities such as:

- assessing the impacts to your business, staff and market;
- preparing emergency contact lists including for the State Emergency Services in your State/Territory, and sources of information such as the council, local radio station;
- allocating staff with tasks to prepare and protect your business, including a staff safety plan;
- ensuring you and your staff are familiar with the local disaster plan (potentially on local council or State Emergency services websites);
- keeping copies of all important documents and financial records off-site;
- having a manual way of recording and storing information while there is no power or you replace technology record and purchase systems;
- protecting critical stock and equipment from damage (i.e. relocation, secure storage);
- checking flood maps to work out the affect on your business, or your transport and distribution;
- routes and staff journeys to work;
- checking the safety of your premises and surrounds bearing in mind flood and fire risk. This would include removal of rubbish, overhanging branches and other overgrown vegetation, and safe storage of chemicals;
- having adequate insurance cover;
- having an evacuation plan with which all staff are familiar; and
- having an emergency bag contents noted at the end of this chapter and first aid kit.

### Legal Risks

Chapter three identified the legal obligations and requirements that apply to different areas of running a business. Whatever applies to your business should also be assessed for risk factors. These risks are internal and can be eliminated or significantly reduced. Simple things like forgetting to renew permits or licences can mean that you are operating illegally and risk being closed down or fined. Not taking steps to fulfil your work, health and safety or tax obligations can result in fines or legal action. Table 5.2 provides examples of possible legal risk areas you should consider in your risk assessment.

Table 5.2 – Legal risk examples

Area	Check
Risks associated with your business structure	
Business name registration	
Legal requirements to operate from Federal, State or Local Government (licences, permits, registration, certification)	
Employment and staff obligations (employment; work, health and safety; dispute management, training)	
Consumer obligations	
Intellectual property protection	
Public and professional liability	
Environmental regulations	
Privacy and personal information data	
Tax and GST obligations	
Financial obligations; loans	
Company reporting obligations	
Fair Trading - claims, advertising, unconscionable conduct, warranties and refunds, product safety	
Exporting and importing	
Business failure (insolvency and bankruptcy)	
Business operations on the Internet	
Codes of Practice	
Contracts	
Liability	
Guarantees and warranties	
Legal obligations associated with closure, selling or passing on a business	

Fundamental to managing legal risk is: maintaining currency of knowledge about what you must do to comply or fulfil legal obligations; having up-to-date legal documentation; having appropriate insurance; and putting in place processes and record keeping mechanisms that will help you to take timely action to ensure you operate legally, comply with Acts and regulations and are adequately informed.

#### Activity Two

Give examples of legal risks associated with the following:

Retaining customers' personal information in a database on your computer.

Being a business coach and advisor.

Becoming a second hand goods dealer.

#### Global Events

At first glance, this would seem an unlikely area to affect a small business operator providing goods or services to a local market; however in recent years there have been global events that show how businesses can be affected by global events. Some examples are the threat of a pandemic (e.g. Swine or Avian influenza) and the global financial crisis. Impacts from these more distant influences are usually in the form of flow-on effects that could include such things as a reduction in disposable income and consumer uncertainty about financial security that affects their decisions to purchase non-essential or luxury goods and services. Another impact may be from changes to global travel from events like terrorism, bad weather, and pandemic threats. Impact on travel may also affect supply and distribution networks. Anything which affects your market demand or supply and distribution is a risk to your business viability.

#### Information Technology Failure, Security and Social Media Risks

Increasingly business operators have come to rely on information technology (IT) to run their business, maintain their records and for communication. IT use can be as simple as a computer being used for ordinary office functions and record keeping, to highly computerised production systems, warehousing control or a business operating totally online, using data, information and technology-aided analysis. Examples of IT risks that are internal include hardware and software failure resulting in lost or corrupted information; human error; security issues such as spamming, viruses and malicious attacks to disrupt your computer's functions. Of course there are also the external factors such as effects of natural disasters that can disrupt power and communications that may result in data loss or corruption, or external server or data storage service failure.

Strategies to reduce the risk of technology failure may include identifying a reliable technology service provider; undertaking back-up saves in external hardware or the 'Cloud' environment, (online virtual service repositories for back-ups); installing viral protection software; and regularly servicing and upgrading equipment. Where possible, it is useful to have a basic manual system for conducting business and keeping records. If you do develop a back-up manual system, make sure all staff know how to implement it.

IT security is an increasing concern for business and consumers alike. Data theft and fraud are two of the greatest risks to a business. Hackers can get into your systems, thieves may break into the office and steal equipment. Staff could copy and remove data using portable media and communication devices. Such breaches may be for financial gain or revenge, so you need to consider how you store data, secure it physically and electronically and control access to it.

In the first instance, undertake a risk assessment of the data and information you have that is sensitive, relating to all aspects of your business operations, employees and customers, and assess how critical it is to your business. Remember your obligations under the Privacy Act 1988 regarding access to and use of personal information noted in Chapter 3. Some basic IT security risk management strategies are:

- installing and maintaining security software and undertaking regular scans;
- have automatic updates on your software, particularly operating systems and applications;
- use passwords that are regularly changed throughout your system and ensure staff have security passwords on their computers and other IT devices;

- scan attachments before opening;
- research the integrity of suppliers from whom you purchase online;
- only make payments through trusted sites;
- apps to be downloaded should be from reputable publishers;
- be aware of the need to monitor privacy settings on social networking sites;
- maintain a copy of crucial data in a separate location;
- regularly checking the Federal Government's Scam watch website;
- beware of emails from people or businesses that you do not know;
- undertake a risk assessment of your data and personal information held;
- restrict access to sensitive data and information;
- you can install data loss prevention software; and
- put in place strict policies regarding access and use of information and data and remote access.

Check the references at the end of this chapter for more information on IT protection and data security.

An emerging risk associated with the Internet is social media. The risk particularly posed by employees who may use the business' social media sites for inappropriate messages and pranks. To protect the integrity of a business' brand/ image and reputation in social media circles, the business can put in place a social media policy and include staff behavioural standards in the Code of Conduct concerning both the social media sites for the business and their own social media activities. This can be included in the Internet policy and Conduct guidelines. Check references at the end of the chapter for guidelines on developing a social media policy.

### Regulatory and Government Policy Changes

Changes to regulations and policies can also impact your business viability. Some examples include: the water restrictions that resulted in requirement for some businesses that used a lot of water to purchase water efficient equipment during the last drought in Queensland; the national carbon emission restrictions and tax; and the introduction of GST. As part of your risk management strategy, you should regularly check government agency websites for updates and changes to regulations and new policies that may affect your business operations. You can then consider how the changes will affect your business and determine what action you will need to reduce the negative impact. Of course not all changes to regulations or policy would have a negative impact. Instead they may present an opportunity for you to diversify your business or specialise.

### Environmental

One of the most significant environmental risks to business in recent times may be climate events and climate change. This may include extreme weather events affecting your business or your overseas suppliers, and a decrease in demand for goods and services that are not environmentally friendly i.e. produce pollutants, do not use recyclable material or have a high carbon impact. Change can be driven by consumer concerns about the environment. There may also be changes to policies and regulations that increase costs to businesses in order to comply with new environmental regulations relating to emissions, wastes and the use of some input materials.

Risk management strategies to manage environmental risk are based on ensuring that you keep informed about the environmental policies and regulations that apply to your business. You should also investigate programs, information and business support to address your identified risks and to improve your business' environmental performance and reduce its carbon footprint. Many of these programs can result in business savings on your bottom line, for example reduction in energy consumption.

### Property and Equipment

Insurance is expensive, but so is the loss of equipment, stock or premises. Table 11 later in this chapter lists the most common types of insurance. In assessing risk to property and equipment, you need to consider the affect and costs of damage or loss of property or equipment on your business. Risk management strategies would include taking out insurance, but are also closely linked with actions you take to protect your equipment and premises from damage and theft as part of your security and disaster management.

### Work, Health and Safety

Under the Work, Health and Safety Act 2011, as a business you must provide a safe workplace for yourself, your employees and your customers and visitors. Work health and safety risks can occur arising from work systems, the physical environment, handling of goods and dangerous substances, inter-personal behaviour, threats from customers/clients, and operating machinery, equipment or driving vehicles. As noted in chapter three, the business is legally required to report and keep a record of 'notifiable' incidents that include: death, serious bodily injury, work-cause illness, dangerous events, major accidents and serious incident, for example electrical incident, explosion, chemical spillage. Staff must be trained in what to do in the event of an incident that would be considered 'notifiable' and this should be part of induction training for all new staff.

Actions you can take as part of your risk management strategy for work health and safety include: assessing work health and safety risks and putting in place actions to manage them; encouraging staff to adopt safe work practices; adhering to Codes of Practice if they apply to the type of work you do; providing adequate information, instruction, training and supervision to workers; having workers' compensation insurance if you employ staff; and putting in place a safety and incident response plan for staff.

Your safety and incident response plan will include staff security (greater detail provided under 'security') such as procedures to be followed when working early and leaving late and dealing with threats such as bombs, suspicious mail and armed robbery; use of alarm systems, including duress alarms (if relevant); evacuation plan and secure location for assembly; business travel safety; communications during and after a safety or security breach; and a telecommuter and/or remote worker policy.

### Security

Security issues can arise in a number of areas of your business and this is an important part of your risk assessment. Risks exist whether you rent or own your premise, or operate from home. Your location and premise (e.g. building design and integrity, fences, landscaping and lighting, car parking); managing cash and other valuables; storage areas; IT systems and data; and staff are some of the main areas to consider in relation to security. Breaches of security include vandalism, armed robbery, burglary, shoplifting, asset theft, suspicious mail, bomb threats and civil unrest. Check the references at the end of this chapter to assist you with your security risk assessment.

As part of your risk management plan, you should have a security or risk management plan that includes how you would respond to a security breach. Strategies to address security issues include taking out insurance and ensuring that it is up to date and adequate in its amount and coverage; putting in place security systems, locks, security tags on merchandise and safes; approaching owners of premises about any premise security weaknesses; and training staff in work procedures that enhance the security of the business. You have an obligation to your staff to ensure that you have put in place measures to ensure their security. This includes training regarding the safe handling of cash and valuables; training on monitoring security risks areas, and putting in place ways that staff raise alarms to an incident. IT security strategies were dealt with earlier under information technology failure and security.

A breach of security may involve theft of your business' intellectual property (IP). Chapter three covered the different types of IP protection available. Business IP may be a new process or new business model, improvement on how old products and services can be used, design and development of new products and services, and the use of new products and services. You may wish to protect designs, new plant breeds, your Trade Mark, software, circuits, and audio, visual or written material.

Your risk management strategy therefore involves taking steps to protect your IP, depending upon what it is that you are protecting. This takes time and money (except for copywriting material). You should regularly review your business IP as your business grows and changes and you come up with new ideas. As part of your employment contracts you may consider setting up a confidentiality agreement.

### Financial Risk

Financial risks in your business stem from the way you manage the flow of money into and out of your business and your business investments. Three common areas of risk are discussed below.

Debtors – As part of a strategy to manage debtors, you should set up a good record keeping system that provides reminders of overdue payments and means that you can easily check outstanding accounts and amounts. These should then be followed up. Tax law requires you to keep a record of debtors.

Offering credit – offering credit as a way to attract customers carries its own risk if they then become debtors. Offering credit also reduces your cash flow and profit margin, and may increase the cost of administration. Part of your risk management strategy can include having potential credit applicants complete and sign a credit application. This will include their signature indicating that they have read and understood the terms and conditions of credit and agree to them. This will also provide a source of identification; contact details and permission to conduct a credit check if necessary. If dealing with another business a good practice is to ask for details of directors, partners and owners, at least three trade credit references and require the business applicant to sign the application indicating that they have read and understood the terms and conditions and agreed to them.

Interest rate increases – interest rates change regularly and if the financial climate is such that they are going to continue to increase, you will need to consider the longer term financial implications and risk to your business. Speak with your financial advisor and look at the affect on credit, debt and cash flow. You can then work out strategies to manage the effects.

Economic downturn - this creates a slowing of economic activity often over a longer time frame than other events, and is often triggered and improved by activities beyond your control. Examples include the Asian Financial Crisis in the 1990's and the global financial crisis in the late 2000s. Generally economic crises cause unemployment, falling share and house prices, a drop in investment, business closures and downsizing, and poor consumer confidence, so reluctance to spend money. It is important to consider how these consequences might affect your business.

Your risk management approach should include you not only monitoring the economic environment, but also your business' sales, revenue, profitability and cash flow. You need to consider what you can put in place to minimise the impacts on your business, such as strategies for managing cash flow, debtors and creditors (recovering funds to improve cash flow to pay bills, wages and taxes), expenses (to see where costs can be reduced, rationalised or cancelled), stock (ensuring levels are not tying up valuable cash), and suppliers (negotiating for better prices or terms), and reviewing your pricing strategies. Other parts of this manual set out ways to undertake many of these activities.

Whilst cash flow and finance are a big part of managing a business in hard economic times, you should also focus on improving and streamlining other aspects of your business such as enhancing your customer service, communication and marketing strategy, and diversifying your products/services to meet new customer needs.

Economic downturns can also mean you have to rationalise your own staff. You need accurate details of your staffing costs to help costing your products and services. It is important to maintain staff morale and encourage staff to assist in finding solutions to the impacts on the business. If you need to reduce staff hours or let staff go, you will need to check your obligations regarding employment so that this is managed properly. In handling staff releases, remind yourself: 'How would I like to be told/managed if this was happening to me?'

### Human Resources

Some of the human resource risks are linked to areas that have been covered or explored previously, namely work health and safety, and security. Other areas include industrial relations and involve effectively managing and communicating with your staff. Fundamental to managing risk in human resources is ensuring compliance with Acts and regulations, such as those associated with anti-discrimination and equal employment opportunity. Breaches of the law can be costly and seriously affect your business' public image. Chapter 9 provides more detail on managing human resources.

To reduce the risk of breaking the law and having to manage the consequences you can: develop policies and practices in consultation with staff and their union; consult industrial or professional associations and the Australia Human Rights Commission; distribute and promote the policy (provided in different languages if necessary) throughout your business; include the topic in your induction program; display posters in staff areas; train line managers about compliance and work culture; include as part of the selection criteria for managers and supervisors requirements to adhere to Acts and regulations; prohibit staff from displaying offensive material and inappropriate use of computer technology to access offensive material.

Conflict with employees can be a serious impact on business productivity, profitability and public image, as well as affecting the rest of your workforce. Turnover in staff is extremely costly. It is worth developing good management practices and procedures to deal with conflict in your business. The most common sources of conflict are: breaching of employment agreements; poor performance; lack of skills; misunderstanding due to lack of information or clear directions; conflicting interests and values; discrimination or harassment; management style; mental illness; and illegal or corrupt behaviour. Greater detail on conflict management is in chapter 9.

What strategies can you put in place to better manage conflict? Firstly, as a business owner or operator, make sure that you are aware of best practice conflict management strategies and try to adopt these for yourself. Skills that support conflict management include communication, negotiation, and mediation. If your business is large enough, you may employ someone with these skills to manage staff. Refer to the link at the end of this chapter for the Fair Work Ombudsmen's dispute resolution guide for more help. Your dispute resolution procedure should support quick action, be fair to all involved, demonstrate sensitivity to individuals, and be transparent and understood by employees. Each State also offers mediation services that you may wish to adopt as part of your dispute resolution policy.

Other strategies to manage work performance and behaviour include developing a Code of Conduct for staff (greater detail provided in Chapter 9); providing training to staff and supervisors, or do the training yourself on how to manage staff performance, behaviour or conflict. Maintaining effective communication and information for staff is the key to fostering good relationships.

### Supply Chain

Supply chain management is covered in Chapter 7 on business operations, so this section will cover the risk in general. Your supply chain concerns all the businesses that are involved in changing raw materials and components into a finished product or service delivered to a customer. If you produce eco-friendly hiking kit bags, your supply chain begins with the organic cotton/hemp and other natural raw materials used to create the material, to the fabric manufacturer, your business' manufacture of the product, through transport and distribution to the retail outlets where you sell your product. There are many businesses along the supply chain that provide products or services that contribute to the end product and the operation of your business. If any part of this chain fails, the whole chain will be affected.

Supply chain failure means that businesses can experience reduced income, decrease in market share, inflated costs or damage to business reputation and image that in turn affects customer confidence.

External risks to your supply chain may occur in areas such as: demand levels; supplier failure; social, economic,

environmental (including weather), finance or political impacts; and physical risks relating to issues and events that affect a supplier's premise. Businesses risk management capability in the supply chain, to manage their own risk, also affects the integrity of the supply chain.

The best strategy to manage supply chain risk is to understand what the risks are and to prepare for their consequences on your business. This can be done by preparing a simple impact analysis on the critical areas of your business and then considering how disruptions to your suppliers, those you supply to and the market, may affect the critical areas of your business. This would form part of your business continuity and recovery planning dealt with later in this chapter. You can then put in place strategies to manage these effects. As with other risks the impacts are likely to be loss of income, loss of customers and market share, increased costs and debt, and possibly contractual penalties. Management strategies will therefore look at actions that will reduce costs, find alternative markets or suppliers.

### Market Changes

Market changes also pose a risk, if your business is not flexible enough to respond. Consumer demand can drop due to a range of external factors that affect spending confidence and consumer buying patterns or business profitability such as natural disasters, global financial crises, and increase in interest rates. Alternatively the demand for a product can rapidly increase, posing a risk to small operators who cannot respond to meet the demand. Whilst this seems like an opportunity to make money, if you do not have the capacity to supply, it becomes a missed opportunity for you. The risk is that a competitor will respond and you will end up losing market share in the longer term.

Innovation and new technology can also cause change in market demand, with some products becoming obsolete very quickly. With internet businesses and a global market place, consumers have the opportunity to purchase many goods and services from global suppliers, often at cheaper rates. Regularly checking what your competitors are providing, locally and overseas, and the fads and trends promoted through social networks and communication media should be part of your risk management strategy to monitor market changes.

### Utilities and Services

The interruption of utilities and services represents a significant external risk area to businesses. This includes water, waste, communication and energy services. Failure and an increase in costs are the main risks. Businesses often don't think about risks associated with utilities and services, until something happens. For example, do you know how long you could operate without electricity, water or a waste collection? How would an increase in the cost of these services affect your profit margin and how would you manage that impact? Additionally, the loss of utilities and services is very often an impact following a natural disaster. If you have perishable items, do you have a generator as a back-up and is it of an adequate size to operate longer than a few hours? Your supply chain could be affected by a loss of utilities and services, interrupting your supply, distribution or market, but not you. This is an indirect risk, and as noted earlier you still need to consider it.

### Record Keeping

Most businesses these days have a large amount of their record keeping maintained electronically. Loss, damage or corruption of electronic records makes it very difficult to continue to run your business. As part of your business continuity planning, which is covered later in this chapter, you should think about how you can store your records to minimise the risk of losing them. Should you not have a records risk management strategy and you lose your records, the CPA 'Australia's Disaster Recovery toolkit for business' has a section on 'Reconstructing financial records after a disaster' that may help. Look at the link in the reference section at the end of this chapter. The strategy includes working with your accountant, financial advisor or book keeper; requesting records from your bank and any financiers; tax office; customers and suppliers; auditors; insurers; government certification agencies; titles office; and ASIC.

### Protecting Personal Information

A business is responsible for the personal information that it collects, stores and uses. Another potential breach of security is the loss or misuse of personal information. A business operator should have in place a policy that inform staff of their responsibilities under the Privacy Act 1988 . This may include having restricted access using a password to this information and a log that records who accesses the information and when.

### Succession Planning and Business Closure

Whilst it may seem odd to consider these two areas as a risk factor when you are planning to start a business or are running a successful business, they are risks. All business operators will eventually leave the business, either by choice or circumstances that force their exit. Leaving the business may involve passing it on to others to run (succession), selling it or closing down. There are many reasons to exit the business: illness, decision to take up a job opportunity, too much competition, the business becomes unprofitable or at risk of being insolvent, desire to retire, or wanting to hand over to other family members, employees or business partners to give employment and business opportunity for the future.

Succession is the handing-on of the business to be continued by others and can also include arrangements for when the business operator is on holiday or has to take a significant amount of time away from the business, for example accident, illness or family issues.

Business closure may be by choice or is forced. Closing the business may be caused by external circumstances that mean the business is no longer viable, or there is no succession plan when the business operator retires, so the business closes. It may be that the business operator just has a desire to 'move on', so makes the decision to close, rather than sell the business.

Selling a business can be an exit strategy that is from choice in order to move on or retire. Selling may be the chosen strategy when succession is not a choice or desirable, or when the business operator wants to capitalise on a good business and move on. The other time when a business is sold is when the business is failing, which is not an ideal sale situation. However it may be a way the business operator pays debts.

Succession, business closure or sale must be planned. Because of the risks associated with failing to plan it should be part of a business risk management plan. The risks areas are financial, legal, operational and staff obligations, (if you employ people). Dealing with succession, business sale or business closure is emotionally draining. This in turn can affect the health and wellbeing of the business operator, their family and any staff employed. Whilst this is noted in this section as a risk factor, the topic is so important that it is dealt with in more detail in Chapter 10 of this manual and the business plan.

**Activity Three**  
 For each of the following businesses, identify two common risk areas featured above that should be addressed and note the risk to the business, if they are not. You can discuss the businesses with others in your group, or if learning online, with a group of friends.

Online business selling camping equipment		
Gourmet seafood take-away packs		
Recycled timber furniture store that offers credit terms		
Designer and manufacturer of unique pure silver and gold jewellery		
Mobile physiotherapist		

## 5.2 RISK ASSESSMENT

Having looked through the additional information on some of the common risk areas, you need to consider each type of risk and assess the possibility of it occurring and the level of impact on your business. Table 5.3 below is an example of a risk assessment that you can use for your business. You could use the checklist in Table 5.1 to help you complete your risk assessment using the table below as a template.

Table 5.3 - Risk assessment

Risk	Likelihood of Occurring (high; likely; unlikely)	Level of Impact (high; medium; low)

Another way of analysing risk is through a matrix such as the one below. Risks that fall into the high and medium impact and high and medium probability or likelihood of occurring will have the greatest detrimental effect on your business and should definitely feature in your risk management plan. Others will feature, but are seen as a lower risk overall.

IMPACT	High			
	Medium			
	Low			
		Low	Medium	High
		LIKELIHOOD		

### 5.3 RISK MANAGEMENT PLAN

Having identified the risks to your business, and the level of likelihood and level of impact, you can develop your risk management plan. This plan should set out what your risks are and the strategies that you will put in place to manage them. Your risk management plan can be incorporated into your business plan as a separate section if you wish. Larger businesses may develop a separate document. At the very least you need to have a list of risks and how you will eliminate, reduce or manage these risks. Table 5.4 can be used to capture your risks and risk management strategies. Other chapters of this manual will have recommended actions that help to manage risk, either because they address legal requirements, or improve the operation of the business. Deal with the high impact high likelihood, high impact medium likelihood and medium impact high likelihood (red) first.

Table 5.4 - Risk management table

Risk	Impact Level & Likelihood	Strategy
Fire (example only for a premise that has solvents etc)	High/Medium	Fire equipment; training for use and storage of inflammable liquids and fire-fighting equipment; smoke alarms; insurance.

### 5.4 INSURANCE

Taking out insurance is one strategy that you can use to protect different areas of your business. Chapter 3 noted the types of insurance that are compulsory, such as workers' compensation for businesses that employ staff and compulsory third party insurance for vehicles. This section looks at other forms of insurance that a business may consider taking out following a risk assessment for your business. Table 5.5 lists some of the more common insurance that businesses take out.

Table 5.5 - Common areas of insurance protection

Type of Insurance	Purpose
Fire	Protects buildings, contents and stock
Business Interruption	Varies but can include loss of profit, ongoing staff costs and additional costs resulting from an event such as a fire
Public Liability	Liability to third parties for personal image or damage to property
Employer's Liability	Includes Workers' compensation, which is compulsory for all businesses employing staff
Burglary	Theft from locked premises
Money	Insurance for money in transit, on your premise and in personal custody
Fidelity Guarantee	Fraud or dishonesty committed by employees
Glass	Breakage of internal and external glass
Professional Indemnity	Against you for negligent acts, errors and omissions when providing professional advice or services. The cover can include (up to your insured limit) legal defence costs, third party's legal defence costs and court awards against you.
General Property & Equipment	For tools, equipment, mobile phones or stock samples
Electronic Breakdown	Specific insurance for cover of computers and machinery
Marine & Transit	For goods being transported by sea, air, road or rail
Marine & Transit Construction Risk	For builders and tradespeople
Motor Vehicle	Third party insurance to cover injury to other people and comprehensive insurance which covers injury and property damage to yourself, vehicle and other vehicles, people or property. This may be for private, singular or fleet vehicles.
Director & Officer's Liability	Against breaches of duty
Employment Practices Liability	Covering damage and costs arising from practices that involve for example anti-discrimination, unfair dismissal or harassment actions.
Industry Specific Insurance	For example, warranties on home construction from Building Services Authority insurance.

For those operating a business at home, insurance is no less important. Some home-based operators make the mistake of thinking their home insurance covers their home-based business. This may not be the case. Types of insurance you will need to consider includes: public liability, insuring business equipment, inventory, tools of trade, office furniture and computer equipment; workers' compensation if you employ others in your home; loss/damage to stock and equipment; professional indemnity if you provide professional advice; loss of income; business interruption and marine insurance if you are sending things via freight carriers or the post.

#### Activity Four

Note at least three types of insurance a mobile physiotherapist would have for their business. They have some portable equipment they use in providing their services:

- 1.
- 2.
- 3.

Building a resilient business combines risk management with continuity and recovery planning. This means that if something does happen you will have a plan in place to get your business up and running and back on track. The following sections outline ways in which you can prepare your business and your staff.

#### Being Prepared

A big part of building a resilient business is to be prepared. This includes putting in place your risk management plan and then your business continuity and recovery plans. Small businesses may combine these plans into one plan or have this as a section in their business plan. Undertaking risk management and being prepared for potential impacts such as natural disasters will contribute to making your business more sustainable.

Natural disasters and seasonal fluctuations based on climate factors are areas for which you can prepare. You can review natural disasters records to assess what have been the most frequent in your area and region. In Australia you can check the Australian Emergency Management data hub site. This would include developing an emergency and recovery plan for the business, having adequate insurance and training your staff in first aid and evacuation. Most States and Territories have checklists for businesses covering such events. Check the reference section at the end of this chapter for some useful checklists from different states for different types of disaster events.

Something you should bear in mind when preparing and using your business continuity plan is that an event or crisis will have impacts and influences that may be challenging to manage. There could be physical danger and this would determine priority action that you take to reduce the exposure to danger of staff or members or the public. There will also be psychological responses from both staff and members of the public that may need to be managed. There may be confusion, conflict, stress and fatigue; and key staff may be unavailable to assist. You may also require external expertise such as energy companies to reduce risks from damage to electricity infrastructure, gas leaks or engineers and state emergency services personnel in case of serious structural damage. Media coverage influencing the message/image of your business may also need to be managed.

#### Business Continuity Plan

Having identified risks and some strategies to minimise them, the business continuity plan helps you to prepare for and then recover after an incident or crisis. As a small business, your plan may not be particularly complex, but this will depend upon the size and complexity of your business. For example, your business continuity plan might include your risk assessment and management strategies in the first section (drawing on information from the previous sections), then deal with specific incident response plans, and conclude with a recovery plan to bring all the critical parts of your business back to functioning again. You may include business continuity and recovery strategies as sections in your business plan.

In the specific incident response area, you will cover events that are more common such as fire, or storm damage, but your continuity plan must also include steps to take to help you to respond more effectively, no matter what occurs. Once you have a plan, you should test it, review it and update it. Your staff should know about the plan and their role in

it. The plan should be covered as part of your induction training for new staff. Some suggested content of a business continuity plan is set out below as a reference source for you to develop your own plan.

### Business Continuity Plan Content

Listed below are suggested business continuity plan content headings. Figure 5.6 sets out a simple template to record some of the information for a continuity plan, if that is preferred.

1. Plan information - would include date plan prepared, version number, review date
2. Emergency contacts – staff and for the area
3. Executive summary - summarise main parts of your business continuity plan such as key risks to business continuity, critical business functions to be maintained, priority actions to ensure critical functions are maintained and main steps in recovery. You can mention any specific incident response plans included in your plan, for example fire evacuation.
4. Introduction covering:
  - simple overview of the business;
  - purpose of the plan (what general areas it covers);
  - chain of command to deliver the plan;
  - where the plan is kept including a copy in an off-site location;
  - when the plan should be activated - what must occur to require it to be triggered;
  - contact details of key staff;
  - contact details for major suppliers and customers (who should be kept informed);
  - details of those who need copies of the plan; and
  - summary of common terms and acronyms used in the plan.
5. Risk assessment and management – these can be drawn from your business plan or separate risk management plan
6. Critical business functions – to help you identify the critical business functions, try listing your daily business activities for each area of your business and the main longer term ones, then rate the impact on the business if they were to be seriously interrupted, or cease. You could use a scale of 1 - 5, with 1 being low impact and 5 being high impact. Once you have done this, you can prioritise what you must work on getting functional and then the steps that you will take to be able to operate these areas again. Areas that you should consider include records and documents used every day; resources and equipment used daily; access to premises; staff skills and knowledge that run the business; suppliers and customers; and any legal obligations you must meet.
7. Business impact analysis – to be undertaken for critical business areas. This will help you to understand the resources and skills that are required to maintain the business, the cost to the business if these critical areas failed and how long your business might survive (this dictates your recovery timeframe), if these areas were not operating. It will also highlight the level of dependency you have to operate your business, on external parties.
8. Incident response plan - this will identify the main common incidents likely to occur in your business that would require specific response activities. You should outline the priority actions to respond to the incident. Incidents that you may consider for specific responses could include natural disaster events; threats to personal security; major accident etc. You need to identify what will trigger the specific incident response plan; who activates it; the response team and their roles and responsibilities; communication procedures and contact lists for staff and emergency family contacts and emergency services. Other plans that underpin your incident response plans will include your evacuation plan detailing when it would be triggered, alarms, evacuation route and assembly points, chain of command, staff responsibilities, managing disabled customers/staff, and premise checks.

Many businesses develop an emergency kit that can be taken off-site when an incident occurs.

Figure 5.6 - Continuity planning

Staff emergency contacts:		Local emergency contacts:	
Triggers to activate the plan:			
Chain of Command:			
Action or Task	By Whom	By When	Information or Brief Summary of
Risks assessed & documented			Highest risks are:
Mitigation actions undertaken			List of primary mitigation activities for each Risk noted
Critical business functions identified			List of top 5 business functions and how these will be restored

Potential impacts identified			List of impacts
Undertake a business impact analysis			Summary of analysis findings
Identify most likely incidents			List main incidents
Set out main action steps for each incident selected			List action steps under a heading for each one

9. Recovery plan – In preparing to manage the first eight steps of this continuity plan, you and your business will be in a stronger position to commence recovery activities. You will have identified the critical timeframe to recovery in the business impact stage. The critical business functions and impact assessment will help you to prioritise your recovery activities. Your aim is to minimise your financial losses, and loss of market share, customers and labour (if you employ staff).

When an impact occurs, no matter what it is, the first thing to do is to assess what the event and impact means for your business both on physical things like your premises, equipment and stock, as well as for your staff and ultimately your business survival. You should talk to emergency services personnel regarding safety, take photos of damage, list losses and damage, rank the damage in relation to impact on your business. You need to assess what resources you have for recovery, as well as alternative suppliers and premises if necessary. You will also need to reassess the market, which may be very changed post a disaster or serious event, as well as assessing your financial situation.

Apart from security, the safety and well-being of you and your staff (if you have any) is important so you need to contact relevant expertise for assistance, depending upon what has happened. This may include people such as your insurer, bank, tax office and accountant, local council, State Emergency Service, or Police. Whether you have sustained damage or loss, a priority will be to assess your financial situation and what financial resources you can draw on to meet commitments and reinstate your business activities.

It is also useful to consider ways that cash flow can be boosted. These may include applying for financial assistance, overdrafts and credit, drawing on cash reserves, considering short term loans, chase up debtors. However, it is important to seek professional advice and counselling when making these decisions.

To inform continuity planning you should have worked out how long you and your business can survive. To do this you need to look at your average daily and weekly income and outgoings such as fixed costs, wages, other financial and contractual commitments. If you are without an income or have significantly reduced income, the timeframe before your business and personal financial situation become critical is a key indicator of the recovery timeframe for which you must plan to re- instate your business.

The steps to reinstate business activity may include using back-up for essential services such as power; mobile phone for communication; relocation to a temporary or shared premise; have a 'virtual office'; draw on the staff with the skills to get the business going to commence work, if feasible for them (cross-training staff gives you back-up personnel for key areas); and set up alternative ways to sell your product/service. It also means working with your supply chain member businesses, who may also be suffering similar impacts.

In rebuilding the business, consider what physical and practical changes should be made to reduce a similar risk in the future.

Lastly as an employer (if the business has staff), you need to consider how to manage staff coming back to work and discuss options for work arrangements. Re-establish all the systems such as pay- roll and other human resource records. You may have to arrange counselling for employees.

As part of being prepared for an emergency or critical incident, it is useful to put together an emergency kit. You should have copies of key documents, contacts for staff, major customers, main suppliers, main products and stock lists with specifications (if applicable), insurance companies, accountant, copy of continuity and recovery plans or that section from your business plan, and repairers for equipment and machinery you use. Other items include back-ups of financial information, data sticks for storage, spare access keys, portable radio, wind-up torch, mobile phone and charger with credit on the phone, first aid kit and manual, tape, hammer, screw driver, knife, plastic bags and sheeting. gloves, masks, disinfectant and safety glasses. This emergency bag should be kept off-site from your place of business.

Your recovery plan sets out the steps to reinstate your critical business activities in an achievable timeframe, manage your financial risks, make best use of the resources you have and stage your recovery into manageable steps. This can also be set out in a table such as the one in Table 5.7.

Table 5.7- Recovery plan critical tasks- steps to re-instate and staff responsibility

Critical Task	Steps to reinstate & resources required [people, equipment, funds]	Person responsible	Timeframe & whether reliant on another area being restored
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### Activity Five

Ben and Tom run a small engine mechanical workshop in a light industrial area. They rent the premise and have a loan to expand the business into servicing outboard motors and have an employee to focus on this part of the business. They have a lot of repeat business and provide spare parts for people who do their own repairs and maintenance. Following a fire in their premise that damaged some stock and tools, what four critical areas should they work on for recovery and list a couple of actions they should do for each one:

- 1.
- 2.
- 3.
- 4.
- 5.

## DISCUSSION

In small groups discuss the following:

A group of businesses are working together to provide marketing and promotion to business. There is a graphic artist, a software writer and web developer, a printer and manufacturer of promotional items, a marketing specialist; a photographer and an events specialist. They call their group 'The Marketing Machine'. They are not co-located, so communicate entirely through the internet. Identify the risks to them as a group and as individual businesses; assess the risks to find the top 5 risks and determine what strategies can be put in place to eliminate, reduce or manage the risk.

If they were also to put in place a business continuity plan, what would be the critical factors for the business and the first three recovery steps that should be activated?

## 5.5 BUSINESS EXPERTISE

Business expertise that you can consult to help identify and manage risk:

- Insurance assessor;
- Insurance broker;
- Australian Taxation Office;
- Work, Health and Safety advisor;
- IT security advisor;
- Import/export advisor; and
- IP Australia.

## 5.6 REFERENCES

NOTE: THE INTERNET HAS VAST VOLUMES OF INFORMATION. CONSIDER THE RELIABILITY AND TRUSTWORTHINESS OF THE INFORMATION YOU ACCESS. TRY TO USE TRUSTED SITES AND SOURCES.

Information about Wages and Employment Conditions:

Fair Work Australia on 13 13 94 (National Infoline), 1300 799 675 (National Helpline) or visit  
[www.fairwork.gov.au](http://www.fairwork.gov.au)  
[www.justice.qld.gov.au](http://www.justice.qld.gov.au)

Natural Disaster Preparation:

Checklist to help businesses prepare an emergency plan for their business - [www.business.qld.gov.au/business/running/cyclone-flood-disaster-recovery/preparing-business-natural-disaster](http://www.business.qld.gov.au/business/running/cyclone-flood-disaster-recovery/preparing-business-natural-disaster)  
Australian emergency management data hub site to research disasters - [www.emknowledge.gov.au/disaster-information](http://www.emknowledge.gov.au/disaster-information)  
<https://knowledge.aidr.org.au/>

Cyclone and storm surge preparation checklist - [www.business.qld.gov.au/running/risk-disasters/cyclone-flood-disaster-recovery/preparing-business-natural-disaster/disaster-storm-surge](http://www.business.qld.gov.au/running/risk-disasters/cyclone-flood-disaster-recovery/preparing-business-natural-disaster/disaster-storm-surge)

Severe storm preparation checklist - [www.business.qld.gov.au/running/risk-disasters/cyclone-flood-disaster-recovery/preparing-business-natural-disaster/disaster-storm-checklist](http://www.business.qld.gov.au/running/risk-disasters/cyclone-flood-disaster-recovery/preparing-business-natural-disaster/disaster-storm-checklist)

<https://www.business.qld.gov.au/running-business/protecting-business/disaster-resilience/preparing-disasters/severe-storm-checklist>

Flooding checklist - [www.business.qld.gov.au/running/risk-disasters/cyclone-flood-disaster-recovery/preparing-business-natural-disaster/cyclone-flood-checklist](http://www.business.qld.gov.au/running/risk-disasters/cyclone-flood-disaster-recovery/preparing-business-natural-disaster/cyclone-flood-checklist)

<https://www.business.qld.gov.au/running-business/protecting-business/disaster-resilience/preparing-disasters/flood-checklist>

Bushfire preparation checklist - [www.business.qld.gov.au/running/risk-disasters/cyclone-flood-disaster-recovery/preparing-business-natural-disaster/cyclone-bushfire-checklist](http://www.business.qld.gov.au/running/risk-disasters/cyclone-flood-disaster-recovery/preparing-business-natural-disaster/cyclone-bushfire-checklist)

<https://www.business.qld.gov.au/running-business/protecting-business/disaster-resilience/preparing-disasters/bushfire-checklist>

Preparing an emergency kit - [www.business.qld.gov.au/running/risk-disasters/cyclone-flood-disaster-recovery/preparing-business-natural-disaster/cyclone-emergency-kit](http://www.business.qld.gov.au/running/risk-disasters/cyclone-flood-disaster-recovery/preparing-business-natural-disaster/cyclone-emergency-kit)

<https://www.qld.gov.au/emergency/dealing-disasters/prepare-for-disasters/emergency-kit>

Evacuating your business - [www.business.qld.gov.au/running/risk-disasters/cyclone-flood-disaster-recovery/preparing-business-natural-disaster/cyclone-evacuating-business](http://www.business.qld.gov.au/running/risk-disasters/cyclone-flood-disaster-recovery/preparing-business-natural-disaster/cyclone-evacuating-business)

<https://www.business.qld.gov.au/running-business/protecting-business/disaster-resilience/preparing-disasters/cyclone-evacuating>

Emergency contact information - [www.business.qld.gov.au/running/risk-disasters/cyclone-flood-disaster-recovery/preparing-business-natural-disaster/cyclone-emergency-contact](http://www.business.qld.gov.au/running/risk-disasters/cyclone-flood-disaster-recovery/preparing-business-natural-disaster/cyclone-emergency-contact)

<https://www.qld.gov.au/emergency>

Drought preparation checklist - [www.business.qld.gov.au/business/running/cyclone-flood-disaster-recovery/preparing-business-natural-disaster/drought-preparation-checklist](http://www.business.qld.gov.au/business/running/cyclone-flood-disaster-recovery/preparing-business-natural-disaster/drought-preparation-checklist)

<https://www.business.qld.gov.au/running-business/protecting-business/disaster-resilience/preparing-disasters/drought-checklist>

CPA Disaster recovery toolkit for business - [www.cpaaustralia.com.au/cps/red/xbcr/cpa-site/disaster-recovery-toolkit.pdf](http://www.cpaaustralia.com.au/cps/red/xbcr/cpa-site/disaster-recovery-toolkit.pdf)

<https://www.cpaaustralia.com.au/professional-resources/business-management/business-recovery/disaster-recovery-toolkit/immediately-following-a-disaster>

#### General Security:

The Queensland Police provide information on developing a business security plan - [www.police.qld.gov.au/programs/cscp/businessSecurity/Business+security+plan.htm](http://www.police.qld.gov.au/programs/cscp/businessSecurity/Business+security+plan.htm)

#### Internet Security:

[www.scamwatch.gov.au/content/index.phtml/tag/OnlineScams](http://www.scamwatch.gov.au/content/index.phtml/tag/OnlineScams)

[www.staysmartonline.gov.au/small\\_and\\_medium\\_businessprevent\\_data\\_theft](http://www.staysmartonline.gov.au/small_and_medium_businessprevent_data_theft)

<https://www.staysmartonline.gov.au/>

[www.digitalbusiness.gov.au/security-and-legal/your-computers-security/](http://www.digitalbusiness.gov.au/security-and-legal/your-computers-security/)

#### Developing a Social Media Policy:

[www.humanresources.about.com/od/policysamplesb/a/blogging\\_policy.htm](http://www.humanresources.about.com/od/policysamplesb/a/blogging_policy.htm)

<https://www.humanresources.com/>

<https://www.thebalancecareers.com/how-to-develop-a-social-media-policy-1919167>

#### Dispute Resolution:

[www.fairwork.gov.au/BestPracticeGuides/10-Effective-dispute-resolution.pdf](http://www.fairwork.gov.au/BestPracticeGuides/10-Effective-dispute-resolution.pdf)

#### Environmental Sustainability:

[www.environment.gov.au/archive/settlements/industry/corporate/eecp/publications/pubs/profitingsds.pdf](http://www.environment.gov.au/archive/settlements/industry/corporate/eecp/publications/pubs/profitingsds.pdf)

## 6. DETAILS OF PRODUCTS / SERVICES

### INTRODUCTION

The products and/or service of a business generate the income. Effectively matching the product/service to market demand and opportunity are critical to building a successful business. A challenge for most businesses today is that the market place is global and people can purchase many goods and services from businesses across the world. Of course there are still products and services that are only purchased locally, within a State or Australia. However, the global marketplace is changing the nature of how businesses operate, and identify and meet their market demand. For example, competitors may find additional services that they can offer, but sub-contract these services to businesses outside the country; alternatively competitors may source inputs more cheaply from overseas. As a business operator you need to be aware of influences on the market beyond your own local area.

Whether you are thinking about setting up a business, or if you have already selected your product/services, you need to consider their prospects as income generation for your business from a variety of different perspectives. What are the features and benefits of your product/service? You have competitors so what is your competitive advantage and your unique selling proposition? What innovations are there and how can you further develop your business in the future?

This chapter helps you to define your product/service, look at competitors to determine your competitive advantage and unique selling proposition. This information will be drawn on in Chapter 6 on marketing.

### 6.1 PRODUCTS/SERVICES

A business operator and their staff must know and understand the products/services they sell intimately, and be able to talk confidently about them to customers. You can gain additional information by:

- researching more widely about other products/services that are the same, which can enhance your knowledge of competitors;
- refer to your own experience in using the product/service;
- talk with sales staff;
- visit the manufacturers of products (where practicable);
- seek customer feedback; and
- refer to trade or industry journals and associations that can provide information on such topics as quality standards and best practice.

Detailed information about your product/service should be in your business plan. Table 6.1 is one way you can present summary information about a business' products and services.

Table 6.1 - Products/services details

Name of product / service	Description (for a service - what the service involves)	Features	Benefits	Classify product or service as: <ul style="list-style-type: none"><li>• A need</li><li>• A want</li><li>• A feel-good</li></ul>	Price	Whether IP is protected	Competitors (at least two main ones should be identified)	Competitive edge of your product/ service (difference or strength compared to competitors)	Brief outline of proposed further development / innovation

### 6.2 FEATURES AND BENEFITS

A business operator and their sales staff should know both the features and the benefits of the product/service being sold. Many people confuse features and benefits.

Features are the characteristics of the product/service: the purpose/use; technical specifications, capabilities and performance; physical properties; how it works; manufacturing process; quality checking; warranties; price; comparison with other products/services; and strengths and limitations. A feature is not a benefit in itself, but can lead to benefits.

Feature example: Cloth manufactured to be UV protective to a registered standard

Product benefits result from the combination of features. For many people, in a marketing sense, it is about 'How does this product/service fulfil my need/want?' 'What benefit do I get?' Product benefits may include things like: saving money, reliability, durability, satisfying a need/want, ensuring consumer protection such as through repairs/refunds; high quality; or safety for user or the environment.

Benefit example: UV protective material used for clothing can protect the skin covered by the cloth, potentially

reducing the risk of skin cancer in those protected areas.

Customers are generally interested in both features and benefits, as they may have specific features in mind, because of the benefits those features provide. However, it is generally the benefits that convince the buyer. It is worth remembering that today customers will most likely have researched their purchases online and compared both features and benefits of products/services they are intending to buy.

Activity One	
Below are the features for three products. Write a benefit for each feature in the other column. Ask yourself for each feature 'What does this mean as a benefit to the customer:	
Product Features	Product Benefits
Camping Crockery: <ul style="list-style-type: none"> <li>• Stainless steel</li> <li>• Each of the three containers fits into the other</li> <li>• Each has a fold back handle to convert to a cooking pan</li> </ul>	
Computer Sales Tracking Software: <ul style="list-style-type: none"> <li>• Compiles daily, weekly and monthly sales reports including analysis and graphs</li> <li>• Identifies poor performing products or services</li> <li>• Sales linked to stock so will alert to low stock</li> </ul>	
New Vehicle: <ul style="list-style-type: none"> <li>• All wheel drive</li> <li>• Fuel efficiency measure</li> <li>• Service alert</li> <li>• Side and front air bags</li> </ul>	

### 6.3 COMPETITORS AND YOUR COMPETITIVE ADVANTAGE

#### Competitor Profile

An important part of market research is identifying your main competitors, finding out what market they target; what they offer (both the same as your business, as well as additional or different products/services); how and where they market their product/service; branding; prices; customer service policies; delivery methods; and warranty policies.

Information on competitors can include, where publicly available, turnover and market share, pricing structure, product/service offerings, and promotional tactics.

The aim is to identify where market opportunities exist, by looking at gaps and differences to your business, and of course to determine your competitive advantage over them. This is also a way to improve your business by considering any weaknesses or deficiencies compared to competitors. Assessing your competitors will help you to identify your competitive advantage. Sources of information for competitor research include:

- business directories providing approximate numbers of similar businesses;
- internet directories that can give you an idea of online presence;
- benchmarking information for industries;
- official offices such as licensing bodies;
- undertaking a Google word search;
- competitor websites;
- visiting competitor businesses;
- gathering and assessing competitor advertising material and prices;
- blogs and complaints sites;
- telephone inquiry to competitors regarding products/services;
- Australian Securities and Investment Commission for information about companies;
- complaint and review blogs and chat sites;
- past clients;
- suppliers; and
- competitor advertising (printed, audio, visual, internet including social networks).

Once information is gathered on competitors, the table in Table 6.2 is one way to present your findings.



### Activity Two

Anita and Fred run a dog grooming business in your town/suburb. The business is based in a local shop and mobile. They sell all natural products for dog grooming and have a part time vet visiting twice per week who specialises in skin conditions in dogs. Research the competition and insert the information you find into the table above.

### Competitive Advantage

Now that you have looked at your competitors, you can work out what your competitive advantage is. A competitive advantage is what will make you stand out from competitors. You need to compare and consider your business in relation to a number of key areas of your competitors such as:

- location – particularly for 'local' focused products and services;
- products/services range or performance – the features;
- processes – for example being more efficient or environmentally sustainable;
- relationships and customer servicing – how you manage and support your customers and warranties;
- expertise – breadth of knowledge, years in the business, qualifications providing specialist to advise customers;
- uniqueness – of products and services, possibly innovations;
- quality – high quality, compliance with standards; and
- timeliness and delivery mechanisms.

### Activity Three

Two businesses (A and B) manufacture canvas and canvas-like waterproof items for boats. Both have warranties that cover faulty workmanship, but business 'A' has an additional element of warranty that allows for free repairs up to within six months of purchase, with a proof of purchase.

Business 'B' has developed a range of camping/caravanning products, such as collapsible buckets and washing up bowls and solar showers.

Both businesses do custom work. Business 'A' guarantees to have certain products ordered completed within 2 days. Business 'A' has been operating in the business for 20 years. Business is slowing for Business 'A'. Compare these competitors and identify their competitive advantages.

Business A:

Business B:

You can compare your product/service with competitors in a table, like the one in Table 6.3 (below).

Of course to find out why customers are buying products/services from competitors you may need to survey potential customer in your target market. This will be to find out information such as:

- why customers buy the products/service you will be selling;
- from where customers are currently buying;
- for what price;
- how often do they buy;
- whether they are satisfied with the product/service;
- what the good things are about the product/service;
- what could be improved;
- customer service expected from a supplier; and
- examples of good or bad customer service.

Refer back to Chapter 3 about undertaking surveys. Market research surveys and customer surveys are further explored in Chapter 7.

The competitive advantages of a business should be clearly defined, promoted and highlighted in marketing material and in conversations with customers. As markets and competitors change, it is important to regularly undertake market research and adjust your business products/services and operations accordingly. The competitive advantage will be central to determining your unique selling proposition.

Table 6.3 - Products/services comparison

Product / Service	Target Market & Market Share	Customer Benefits - convenience, quality, price	How & Where Marketed	Pricing	Customer Service & Warranties	Delivery Method	Strengths	Weaknesses
Your Product/ Service								
Competitor Product/Service								

#### Activity Four

The 'Misty Mountains' band specialise in country and western, Australian and Irish folk music. They perform for parties and at rural shows. Recently they teamed up with a line and bush dancing display group (who then teach spectators) and have permission to promote to schools. Using the table above, research at least two competitors.

## 6.4 UNIQUE SELLING PROPOSITION

The point of difference or superiority uncovered in exploring the competitive advantage is your unique selling proposition or USP, a term first used by Rosser Reeves<sup>1</sup>. A USP is about the greater value and uniqueness of what you have to offer. It is something that will help your business stand out from other businesses. Often USP lines refer to qualities such as 'the lowest prices', 'most friendly and helpful staff', 'quickest service', 'on time and in budget'.

To develop a USP you will need to know your competition and have considered your product/service in relation to your competition by looking at such things as your image/branding (the public face of your business); pricing; quality; features and benefits; customer service; and delivery method and timeframe. Remember, price is not necessarily the only thing which makes a person buy.

Building on your knowledge from your competitor analysis in the previous section, you should have a fair idea of what is special or unique about your business, whether it is how you do business, your overall image, or your product/service compared to your competition. What about your customers? How does your business fulfil their needs or wants compared to competitors? What do customers expect from your business and the products/services you supply and why would customers continue to come back to you?

The USP you develop can then form the catch-phrase for your marketing. Some examples of well-known USPs are:

- FedEx Corporation - When it absolutely, positively has to be there overnight;
- Domino's Pizza - You get fresh, hot pizza delivered to your door in 30 minutes or less or it's free; and
- DeBeers - A diamond is forever.

#### Activity Five

Develop a USP for a local pet minding service. The target market is people who have pets that need to be minded, fed, exercised, cared for while they are away either at work or on holidays. The business employs six people and services an area in a radius of 15 km. Staff all have experience in caring for animals. One other business operates in the area that focuses on dogs and cats.

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1 Reeves, Rosser (1961), *Reality in Advertising*, New York: Alfred A. Knopf

Table 6.4 - Products and/or services overview

Name of Product/Service	Description (for a service - what the service involves)	Features	Benefits	Classify product or service as:	Price	Whether IP is protected	Competitive edge of your product/service (difference or strength compared to competitors)	Brief outline of proposed further development/innovation

### Activity Six

For Table 6.4 look up two businesses (in a phone book or on the internet) – one selling a product and one selling a service. Fill in details about the product and service. You may have to visit the websites of businesses for ideas or read promotional material obtained from the business. If it is a product that may have intellectual property protection, then check the IP website. Make your own judgment about whether there is growth potential and consider that if you were selling this product/service what opportunities there may be for further development. Complete as much as you can in this the Table about the two businesses.

## 6.5 INNOVATION OR DIVERSIFICATION IN THE FUTURE

Even start-up business operators will need to think about where they want to take their business in the future. Innovation and diversification are ways that you can strengthen and grow your business, increase profits, improve customer satisfaction, keep ahead of competitors and maintain a highly efficient and effective business that is resilient in times of change and challenge. For example, the last twenty years has seen incredible change in the market in relation to communications technology. Adoption of new technology for communication, manufacturing and delivery are ways that a business can innovate and diversify.

To be proactive in your business, developing an innovative and entrepreneurial approach to reviewing and updating your business activities and product/services can help to maintain a competitive edge in the market place. Customers and employees can be good sources of ideas for improvements and innovation.

Innovating can involve such activities as: designing and developing new products or services; enhancing products or services; or finding better ways to manufacture/deliver your product or service. In the case of diversification this can include developing new products/services, entering new markets, or an allied industry sector

To inform your planning to innovate or diversify you should research trends and emerging markets that relate to your business. It is also worth investigating formal research that may be occurring in your industry sector and what your competitors are doing.

Innovation and diversification carry risk and therefore the business operator needs to consider options for innovation/diversification, cost the options, and then assess the risks and plan for the desired options. The value of your proposed innovation/diversification in the medium and long term should also be assessed. Innovation and diversification may require additional funds and your costings and planning will be important in seeking funding/ investors or potential partners.

If the innovation involves new designs and products, then research and trialling is necessary prior to commercialisation. You may also need to consider IP protection (refer Chapters 3 and 4.)

Table 6.5 sets out an overview of proposed innovation/diversification for the future. A separate plan would need to be developed to action this.

Table 6.5 - Proposed innovation/diversification overview

Area	What the opportunity is for the innovation / diversification	Research that may be required	Resources required including specialist expertise, equipment, technology	Likely funds required	IP Protection (if required)	Target Market	Risks	Potential Partners / Joint Venture Arrangements	Timeframe to delivering change	When & How reviewed for success
INNOVATION										
New product / service (details)										
Improved product /service										
Improved operational processes (details)										
Improved										
DIVERSIFICATION										
Product / Service										
Market										

## DISCUSSION

With a group of friends or in class discuss these two businesses from the perspective of product/service features and benefits, competitive advantages against each other, a possible unique selling proposition for each one and opportunity for diversification or innovation.

Business A: All home Services is a home maintenance, cleaning (internal and external), gardening and pool service provider. It is a family run business involving a husband and wife and their young adult son and daughter. The target market is split between time poor double income homes and retirees. They have been in business for 25 years. The son is a landscape designer. They have contracts with a number of retirement settlements, over 40 regular clients in the double income target, and a small number of retirees in their own homes. They offer significant discounts for retirees.

Business B: Home Beautiful is also a family run business involving a husband and wife and their three sons. One son and the father are registered builders. The wife was an interior designer before she started to do all the administration for the business. The target market is double income time-poor home owners and builders doing display homes. The business also includes house and roof washing, deck cleaning and re-oiling, pool maintenance and 'prepare your house for sale' service.

## 6.6 BUSINESS EXPERTISE

The following expertise may assist in identifying your market advantage:

- Marketing advisor; and
- Business advisor.

## 6.7 REFERENCES

NOTE: THE INTERNET HAS VAST VOLUMES OF INFORMATION. CONSIDER THE RELIABILITY AND TRUSTWORTHINESS OF THE INFORMATION YOU ACCESS. TRY TO USE TRUSTED SITES AND SOURCES.

Unique Selling Proposition:

Learn how to create your unique selling proposition - [www.business.qld.gov.au/running/marketing/marketing-communications/advertising/create-selling-proposition](http://www.business.qld.gov.au/running/marketing/marketing-communications/advertising/create-selling-proposition)

[www.business.qld.gov.au](http://www.business.qld.gov.au)

Innovation:

The Innovation Toolbox - [www.innovationtoolbox.com.au/improve-process](http://www.innovationtoolbox.com.au/improve-process) (website has information on improving business processes)

[www.business.gov.au/BusinessTopics/Innovation/CaseStudies/Pages/default.aspx](http://www.business.gov.au/BusinessTopics/Innovation/CaseStudies/Pages/default.aspx)

<https://www.mindtools.com/pages/article/improving-business-processes.htm>

<https://www.business.gov.au/change-and-growth/innovation>

<https://www.business.gov.au/change-and-growth/innovation/business-research-collaboration>

Case Studies:

[www.business.gov.au/Expert-insights-and-business-case-studies/Pages/default.aspx](http://www.business.gov.au/Expert-insights-and-business-case-studies/Pages/default.aspx)

Research and Development:

[www.business.qld.gov.au/business/business-improvement/research-development](http://www.business.qld.gov.au/business/business-improvement/research-development) <http://www.ausindustry.gov.au/programs/innovation-rd/RD-TaxIncentive/Pages/default.aspx>

Commercialising Ideas:

[www.business.qld.gov.au/business/starting/before-you-start/business-idea/commercialise](http://www.business.qld.gov.au/business/starting/before-you-start/business-idea/commercialise)

[www.ausicom.com](http://www.ausicom.com)

Inventors:

[www.ausicom.com/inventors\\_guide.php](http://www.ausicom.com/inventors_guide.php)

Australian Securities and Investment Commission:

[www.asic.gov.au](http://www.asic.gov.au)

## 7. MARKET RESEARCH AND MARKETING STRATEGY

### INTRODUCTION

The world of marketing has undergone a great change over the last ten years. Access to information by ordinary people has meant businesses can find out more about their industry sector, the market and customers. Marketing tools and channels have changed too, enhancing access to the market and customers, with many avenues being freely available and far reaching. This chapter covers market research and will help you to develop a marketing strategy.

Despite the changes referred to in the previous paragraph, many businesses fail because inadequate market research was undertaken before the business started. You may have a product/service you think that people will buy, but will they, and who and where are they? How big is your market and will it sustain a business? Who else also supplies in that market and what would be your competitive edge over them? Will your product/service respond to an unmet demand in the market? These and other questions are important to answer before you start planning and running a successful business.

Market research can provide information about the industry, and market factors that may include legal, economic, social or political aspects, as well as information about competitors and customers. Market research can uncover information about the demographics of the target market, sociographics (people's beliefs, interests, values, attitudes and lifestyle preferences), and market trends, so that you can identify market opportunities, gaps and risks. The information can then be used to inform your decisions about pricing, promotion, developing product/service mixes, delivery methods and customer servicing. It will also help you to understand your competition and how the industry you are in works.

Market research isn't something you do just once when starting a business, but is an ongoing strategy to help you to not only stay in business, but to improve business competitiveness. Market research should be undertaken when the business plan is updated, and used to fine tune business activities to respond to the changing market conditions and customer preferences.

This chapter builds on information given in Chapter 5 and looks in more detail at the main elements of market research: industry sector analysis; target market; market analysis; and customer profiling. The information collected from these activities can then be used to determine the marketing objectives and goals, market position, product/service mix, and pricing approach. The final two sections of the chapter help you to develop a marketing strategy and advertising.

#### Preparing for Market Research

Before you begin, it may be useful to set out a simple market research plan. Table 7.1 is an example.

Table 7.1 - Market research plan

Activity or Task	Purpose	Methodology to be used	By whom	By when	Costs & Resources
Industry sector analysis					
Target Market					
Customer profile					
Market analysis					
Marketing strategy					

As with any research, have a clear idea of the market research objectives and what information is required. Some examples of marketing research objectives may be to find out:

- if there is a market demand for your product/service and how big it is?;
- customer perceptions and expectations of your product/service;
- new market opportunities;
- opinions regarding new products or services to be launched, or about current products/services;
- in comparison with competitors;
- the best tools and channels for marketing the products/services; and
- the best pricing levels and market position.

Once you have decided on your market research objectives you will need to refer to these regularly to make sure that your market research activities deliver on the objectives.

The next step is to decide on research methods that will provide accurate and useful information to fulfil the objectives. You will need to determine how you will use the information, because how you gather it and the data it produces will dictate how useful it is. Assess the problems and barriers that may occur during the market research and work out

how to manage or overcome them to ensure market research objectives can be fulfilled. Issues may include factors such as time available for conducting research, budget limitations, social or cultural conflicts and sensitivities, and difficulties accessing research participants or information.

### Select the Market Research Methodology

The methodology may include primary and secondary research. Refer to Chapter 3 on research methodology as a refresher. Primary research involves surveys/interviews/focus groups or observation. Research should be targeted and tailored to suit the information required. Secondary research information can be drawn from books, journals, the internet, studies and reports.

Research will result in quantitative or qualitative information. Examples of quantitative information are: price ranges, frequency of purchase, sales figures, financial trends, demographic percentages etc. Qualitative information captures feelings, views, opinions that can be the motivators for buying or not buying.

The final step is to analyse the data and information and draw conclusions that will guide the development of the marketing strategy. The information and data must be sorted and categorised into groups, trends or themes; or mathematically analysed to draw conclusions. Depending on the focus of the research activity and questions, keep asking yourself: 'What does this tell me about my market....my product/service.....my competitors....my customers?' and 'How can I use this information to develop a marketing plan?' and 'Does this affect my original marketing objectives or business goals in any way?'

In drawing conclusions from research, keep the market research objectives and business objectives in mind at all times.

## 7.1 INDUSTRY SECTOR ANALYSIS

Table 7.2 sets out the type of information you can include in your industry sector analysis. Some of the information is quite hard to find and you will need to search on the internet as well as through your local library. Possible sources of some information include industry sector magazines, journals and reports; Government Department reports and studies; government agencies responsible for statistical information; and companies that specialise in industry sector reports such as IBISWorld, which can be purchased. Industry associations may also be able to provide information. The more comprehensive an industry sector analysis, the better informed a business operator can be about their particular business operational environment. Some sources of information are noted under references at the end of this Chapter to help you to compile your own.

Table 7.2 - Example of content material for an industry sector analysis

Industry Description	
Products and services and main activities	What the industry produces and main activities in the sector.
Industry lifecycle stage	Identify whether it is a new, emerging, growth, or declining industry.
Supply chain	Sectors from which the industry buys and sectors to which the industry supplies and any issues or trends associated with these that may affect the business.
Seasonality	Note whether the industry is based on seasonal demand or subject to seasonal fluctuations or has a steady demand.
Level of stability	This can be described as stable, volatile, highly volatile. Research through industry journals to get an indication. Also industries that are influenced by global factors and seasonality such as commodity prices are generally considered more volatile.
Industry annual growth and outlook prospects	Estimate percentage growth and whether there is anticipated growth in demand. This will require looking at information from government or industry reports.
Industry trends	Trends may involve political, social, economic, financial, environmental, climatic and fashion factors, as well as technology changes. The factors create trends in buying patterns and demand e.g. a greater interest in boutique and specialist breads compared to years ago; and changes to how an industry might operate e.g. focus on energy conservation, having recyclable packaging or healthier food choices.
Issues and challenges for the industry now and in the future	This can include economic, social, environmental, regulatory, supply, and technology influences that will affect the operation and profitability of the industry sector in the future.
Size	
Value of the industry to Australia (or your country)	\$ value or contribution to Gross Domestic Product – government reports and industry journals are sources for this information.
Number of people employed in the industry	Number of people working in the sector – information can be sourced from census data, government statistical agencies and industry journals.
Number of businesses operating in the industry	Number of businesses – information can be sourced from census data, government statistical agencies and industry journals.
Market Profile	
Drivers of the market	Factors that affect demand e.g. safety and security, eco-efficiency, investment, health consciousness, fashion, value-for-money, quality.

Major markets geographically	These may be local, regional, state, interstate, international.
Target market consumer general profile	Age, gender, income, nationality, etc. from government statistical sources.
Major operators	Major companies or operators in this sector.
<b>Operational Details</b>	
Capital investment required	General comment on the level of investment in plant and equipment required to operate in the industry, of particular importance if it is specialist and highly expensive as this can be a barrier to entry.
Key factors to be successful in the industry	Cost efficiencies, customer service levels and warranties, efficient delivery systems, security, quality, reliability.
Industry benchmarks for operation	Standard costs of operation across the industry lets you know what to aim for in your business. Many sources of industry benchmarking exist for example through government taxation offices, industry journals and specialist benchmarking firms.
Acts or regulations that govern the sector	Certification, licences, regulation and compliance requirements, the complexity and cost of which may create a barrier for entry.
Research and innovation	Research activities investigating improvements in production processes or the end product/service and potential emerging markets or trends.
Barriers to entry	These can be factors such as large capital investment, regulations, dominance of large companies.

### Activity One

Choose one of the following businesses: a garden maintenance service; a pop music band; a car camper trailer manufacturer; a speciality shop for tea and coffee supplies; an accounting service; a home-based clothing manufacturer.

Jot down information that could go into an industry profile. Undertake a small amount of research on the internet or at your local library. You are not expected to have detailed figures and statistics, but capture at least some of the main features of the industry sector analysis such as industry description, market profile and general operational details.

## 7.2 TARGET MARKET PROFILE

The information in this section will help you to identify your customers and understand their needs and wants. Information can also help in appropriately pricing products to suit what customers are prepared to pay, potentially increasing sales, as well as shaping your customer servicing strategies.

Your target market is the group of people or businesses that are most likely to buy your product/service. The target may have similar characteristics such as gender, age, income, recreational interests, lifestyle or education. Business customers may be in a specific industry sector, be a certain size or structure. The target market profile will influence marketing and pricing strategies.

Each piece of information forms part of the picture of the target market, for example income information can indicate the likely disposable income the target market may have to buy products/services. If the product/service is a luxury item then limited disposable income reduces the likelihood of purchasing luxury items and means when economic climate is tough, people may choose to cut back on such items.

Table 7.3 could be used to capture details of the target market. If there are categories or groups of products/services, it is suggested that each group is set out in a separate Table. In looking at the target market individual elements, estimate the size and potentially the portion of the whole target that will be targeted. Remove either business or non-business customer lines, as suits the business' target market being completed.

### Activity Two

Choose one of the following businesses: a garden maintenance service; a chamber quartet group specialising in weddings, anniversaries and baby naming celebrations; a mobile mechanic; a speciality shop for tea and coffee supplies; an accounting service; a home-based clothing manufacture of unique fashion one-off designs.

Identify the main product/service and complete a target market analysis using Table 7.3. Do as much as you can on the Table.

Table 7.3- Target market analysis

Category	Information & Description	Estimated size/ number of whole target (e.g. population size, business count)	Estimated percentage of the market your business will target	Estimated level of market demand (Is this a staple or luxury item?)	Potential for growth
<b>PEOPLE</b>					
Geographic locations (local, regional, state, interstate, international or target country)					
Age					
Gender					
Marital status					
Income range					
Occupational					
Ethnic group					
Educational level					
Children					
Ethnicity					
Lifestyle					
Home ownership					
Interests					
Information Technology usage					
Buying patterns					
Trend follower					
Values and Attitudes					
<b>BUSINESS</b>					
Industry sector					
Business size (number of employees)					
Business structure					

Category	Information & Description	Estimated size/ number of whole target (e.g. population size, business count)	Estimated percentage of the market your business will target	Estimated level of market demand (Is this a staple or luxury item?)	Potential for growth
Geographic locations (local, regional, state, interstate, international or target country)					
Company information (stability check)					
Sales volume					
Purchasing practices (local suppliers only, volume purchases etc)					
Headquarters & branch office location (if this applies)					
Position in market (leader, innovator)					
Corporate philosophy - environmental, social					
Image & branding					

## 7.3 CUSTOMER PROFILING

Once you have general information on the target market, you can undertake research to create a more refined customer profile outlining exactly the type of customers you are targeting. This requires a more detailed investigation of customers. The more that is known about customers, such as their interests, lifestyle, values and expectations, type of employment, needs and preferences, and where they look for information on products/services, the more likely you will be able to develop marketing strategies and advertising that will be more successful in attracting customers.

Customer profiling must also be done if the target is other businesses. Research could uncover more detailed information such as the business customers' purchasing practices and frequency, preferred delivery mechanism and timeframes, supplier expectations and customer servicing.

Customer profiling can help a business operator to set the right price for their product/service, capitalise on customer buying patterns, and enhance customer service, with a view to increasing customer spending and the business' profits.

Customer research must be planned and carefully designed and developed to be targeted to gather the information required. A budget and timeframe should be set to complete the research. It is important the research methodology results in findings that are accurate, valid and reliable in order to be useful to develop the marketing strategy.

As with all research, the fundamental questions are the same (refer Chapter 2), what do you need to know, how can you get the information, and how will you use the information?

### What do you need to know?

What you need to know depends upon the business and marketing objectives and what will help to focus the marketing strategy. Some suggestions are:

- reasons customers buy;
- frequency of purchases or purchasing patterns
- point of purchase – retail, showroom, online, markets, bulk suppliers, distributors;
- the amount customers are willing to pay;
- how customers find out about goods and services – where they go for information;
- preferred delivery (if applicable);
- customer service expectations;
- customer satisfaction (after sales);
- opinion/view of current suppliers of the same product/service as the business undertaking research;
- opinion/view of a trial/sample or current offering;
- level of Brand recognition; and
- how will you get the information.

### Common Methods of Research

Common methods of research include:

- surveys by post, email, phone or face-to-face;
- interviews (face-to-face, by phone);
- hold a focus group;
- observation of customers;
- seeking feedback at the actual point of sale if a business is already in operation;
- product/service trialling with a group who then provide feedback; and
- established businesses can undertake regular survey and customer feedback activities to monitor their market, the success level of promotional activities, and customers.

### Surveys

Survey questions can be multiple choice, yes/no, true/false, rankings or scales associated with specific statements, as well as having some open ended questions. Creating a survey or series of questions that is not too long, yet covers the main areas of information you want to collect is a challenge. The second challenge is finding people prepared to participate. There are a number of ways to source participants. You may be able to use the Internet - look at websites, newsgroups, forums and Listserv (email software management), and social media for opportunities to conduct surveys or seek feedback. There are many online survey mechanisms where you can construct your own survey and the results are analysed for you. (Kwiksurvey, SurveyMonkey, Zoomerang are but a few.)

You can conduct surveys from a businesses in your supply chain (not competitors) - for example if you have a product or service that relates to gardens you could contact a local nursery, to find out if they will ask customers to complete a survey. You could also arrange with the nursery owner to run a demonstration or put in a display and have permission to seek customer feedback. Providing some reciprocal support in promoting the business that allowed you to do this

is a good way for both businesses to mutually benefit.

### Focus Groups and Interviews

Focus groups and interviews tend to use a set of questions or discussion point to stimulate conversation. This approach is useful for obtaining qualitative information. Focus groups discussions or interviews must be effectively managed to ensure that you cover the questions and obtain information required. Questions in this kind of setting should be open-ended questions. To ensure that responses are understood, they should be repeated, and if necessary, further questions asked to clarify views. One way to record a focus session is to use a white board; alternatively a person can record or write down key points from the discussion.

### Designing the Questions

As previously noted, refer to Chapter 3 again, section 3.2 about primary research. In developing a survey or questions for interviews or focus group there are some fundamental elements of the customer profile that should be collected in some way:

- age group;
- gender;
- occupation;
- broad income range (for disposable income indication);
- family situation (single, no children, dependents at home); and
- more specific questions will depend upon what you are trying to find out about your customers.

Some reasons may be that you want to:

- introduce a new product/service;
- find out about brand recognition and opinions about competitors;
- assess how successful advertising has been;
- review customer satisfaction;
- find out why customers buy or if they will buy; and
- gauge price sensitivity.

The reason for needing information will determine the area that questions will target. Examples are provided below:

Psychographic information such as lifestyle, leisure activities, hobbies, interests and opinions

Geographic location of where they live such as a post code, and where they shop or purchase goods or services such as the ones the investigating business sells

Behavioural information such as how products are used or the reason for purchasing a particular service, and how often the customer purchases

Market awareness such as how they find out about the product/service – TV advertising, newspaper, radio, brochures, publicity stunts, social media (blogs, review sites, Facebook, Twitter etc.

Preferred purchase methods such as through retailers, online, from catalogues, attending demonstrations and exhibitions

Benefits and features preferences such as information on what benefit the customer gains from the product or service and what features are important to them

Consumer protection and customer servicing such as what expectations they have regarding warranties and dealing with issues, and what they consider as good customer service

Customer motivation for buying (see note below on 'Why do people buy?')

Your brand and customers' awareness of the brand or brand status compared to competitors

Customers' opinions of your product/service from their perspective or in comparison to competitors, for example value-for-money, quality, price

### Why Do People Buy?

Generally there are three basic reasons why customers buy: to satisfy a need, to solve a problem, or to feel good. However, other factors also influence the buying decision, for example purchases may be based on:

- Quality;
- Customer service/personalised service;
- Speed and efficiency;
- Price;
- Because they have a family;
- Because of their age;
- Value-for-money;
- Low income and limited budget;

- Saving time;
- Improving their image;
- Supporting a lifestyle;
- Contributing to leisure activities;
- Providing security;
- Having no children;
- Being time-poor;

Information gathered from questions relating to these additional reasons for buying will inform your marketing and advertising strategies and can help to refine the wording of your USP.

To maintain knowledge of customers' preferences and expectations and to improve customer servicing and sales methods, many businesses arrange an ongoing activity with customers/clients to seek their feedback about the products/services, satisfaction with level of customer service received and about competitor products. This may be done face-to-face, over the phone or by email. Some businesses also employ mystery shoppers in order to find out about customer servicing, selling approaches and staff behaviour towards customers.

### Activity Three

Choose one of the following businesses:

Hors D'Oevres Extraordinaire – manufacturer of Hors D'oevres speciality catering packs for vegetarians, vegans, general consumers, food intolerance (nuts, lactose, gluten), kosher, and halal certification. Supply to the general public and caterers. They have a manufacturing outlet and deliver throughout the capital city in refrigerated vehicles.

Extreme Cleaning – residential cleaning service for rental properties (bond cleans etc) and owner preparation for sale. Services include house washing; cleaning windows, roofs and gutters; blind repairs; clearing up gardens, sheds, and garages; internal property clean-up, carpet cleaning, paint and grout touch-ups; and pest control.

What information do you need to know about prospective customers?

Give examples of a question:

### Analysing the Data and Information Gathered

Prior to undertaking market research, the business operator will have identified the information that is required to develop a targeted marketing and advertising strategy. Quantitative data can be analysed, with findings represented as diagrams and graphs or pictograms that clearly show the strengths, common responses and so on. Qualitative information can be analysed for themes and trends.

Analysis will uncover opportunities and issues. Findings should be discussed in relation to the questions that were to be answered. Both qualitative and quantitative data and information should be summarised and statements made about the implications of the findings for marketing and advertising. A simplistic example could be if most of the target market is in the 25-45 yr age bracket and use social media a lot, this may be a useful tool for marketing. If the target market are retirees on low incomes value-for-money, budget pricing and 'specials' may be relevant.

### How Can You Use The Information?

Depending upon the research objectives, the findings can be used to develop:

- the competitive advantage and USP and/or slogan wording;
- advertising messages in material including for TV, radio, brochures, advertorials, DVDs, social media posts and blogs;
- the most suitable channels for advertising;
- sales pitches for sales personnel;
- customer servicing practices;
- pricing approach; and
- product/service mix.

#### Activity Four

A business is setting up a seniors' assistance service providing a complete spectrum of help covering garden, home, transport, personal care, meal preparation, security and health. The business has a network of people who speak different languages and are connected to ethnic service groups and also aims to offer opportunities for outings for social (cultural, ethnic and sporting events) and academic/intellectual events (conferences, exhibitions, seminars) as well as providing opportunities for aged persons who are interested in technology assisted learning, forums and business. The business intender has discovered the following:

- There are five suppliers of complete in-home aged care, (one of which is a local council, another is through Veterans Affairs, two are private companies and one is a portal where people register to be carers/in-home helps or for people wanting a carer/in-home help to post an advertisement), and three suppliers of only health care in-home. There are many garden services and home handymen services that can also service older people.
- The population demographics of the target market geographic location indicates that of a population of 380,000, there were 50,014 aged 65 and over.
- There is a predicted 3% growth in persons 65 years and over in the target geographic area.
- Statistics noted that 5% of the total population were in need of core assistance, but this figure is not only aged persons.
- There are 15 retirement villages with standard care services in the area, with an estimated 5.8% of those aged 65 and over being accommodated in these villages.
- Over 60% of persons in the 65+ category are on an old age pension, with the remaining being a mixture of self-funded and partially self-funded incomes.
- Following a short survey of a sample of 200 people from the target market comprising 45 men, 68 couples and 87 women, the business operator discovered that only 10% had the internet, 32% regularly attended a club for social activities and hobbies, 56% indicated that they would use one or more of the services offered, 12% already were using services and the remainder were not interested. 17% had serious health issues, 15% no longer drove, 62% looked through the free delivered newspaper and the phone book when seeking a service, and valued respect, honesty.

Based on the information gathered, what are the implications for the marketing strategy for this business? (e.g. types of marketing, promotional channels, messages in marketing, customer service)

## 7.4 SWOT ANALYSIS

A useful way to begin analysing a business' prospects within the context of the market and industry sector is to look at the strengths, weaknesses, opportunities and threats. This is called a SWOT analysis. The findings from a SWOT can be used in the business planning process. Weaknesses and threats represent an opportunity to improve and strengthen a business through risk management and taking action to address the weaknesses. Opportunities can help to grow or diversify a business' product/service or market, and strengths may be part of the business' competitive advantage.

From a marketing perspective, some of the strengths may be able to be used when developing marketing material; weaknesses may provide an opportunity to explore or overcome a market weakness through a new marketing strategy; the marketing strategy can also assist in accessing market opportunities and countering some market threats. Undertaking a SWOT can lead to developing more effective marketing messages, a stronger image/brand and identify new promotional channels and tools better suited to reach the target market.

### Activity Five

Undertake a general SWOT for a home-based business that was providing a residential and commercial window cleaning service, servicing an area of up to 20km from their home containing 20,000 households and 500 businesses, including retail. The business offers its service 6 days a week and uses a waterless window cleaning product sourced from one company overseas that is environmentally friendly, and is a key focus of its marketing. The business employs 4 people and has 2 vehicles. The business has just expanded into installing, maintaining and repairing roller security blinds for windows and awnings, which are subcontracted to another business. There are 60 window cleaning services in the area, none of whom promote waterless window washing. Some of these are home handyman operators or domestic and commercial cleaners.

Strengths	Weaknesses
Opportunities	Threats

## 7.5 MARKET ANALYSIS

To undertake a market analysis you will need to refer to Chapter 6 and the previous five sections. Some suggested areas to cover in the market analysis:

- overview of the industry sector – key players, notable trends or issues;
- competitor summary – strengths and weaknesses, market share, position in the market, customer perception of competitors;
- general profile of the target market – geographic, demographic, sociographic, estimated size and value (if this can be ascertained) of the market;
- the business' competitive advantages and unique selling proposition;
- lifecycle stage of the product/service proposed to be sold or being sold;
- potential market size and value;
- market opportunity;
- market demand, particularly any unmet demand Barriers for entry into the market;
- market risks;
- market forecast and opportunities for growth; and
- conclusion about the implications of the analysis for the business and the marketing strategy.

Graphs and diagrams can be used to illustrate specific aspects of the market analysis.

### Size and Value of the Market

This is worked out by taking the business' known figures for unit sales/customers serviced/dollar value and dividing it by the total market to work out the percentage.

The size of the total market can be estimated by firstly finding out how many people/businesses are in the target market that generally fit the target profile. Government agency reports, statistics or industry sector reports may be a source of information. As a business will not secure the whole market, the business operator should estimate the portion of the potential target that is most likely to be serviced. If the value of the market is known and the business operator can work out the value of the portion of the market it intends to service or is currently serving, this can be expressed as a percentage value of the whole market. It is important to remain realistic about the size that can be secured and serviced.

The following steps will provide an estimate of the value of a market if numbers of potential customers can be identified:

- estimate the potential number of customers in the target market;
- determine the average annual purchase per customer, which will vary in amount, depending upon whether the product/service is a staple or luxury and disposable or not (i.e. bought repeatedly);
- work out an average price for the product/service (based on prices of items);
- multiply the number of potential customer numbers by the average selling price and then by the average estimated purchases for a year e.g. number of customers 500; average purchase for a year 4; and average price \$350 means the target market value is potentially \$700,000; and
- size of market share can be estimated based on:
  - share of unit sales of the business product/service if the total sales of units in the target market are known;
  - share of customers serviced by the business, if the total number of customers serviced in the target market is known;
  - share of dollar value if the total dollar value sold by the target market is known;
  - the target level of sales is how many sales you want to make that will both fulfil your financial business goals and gain your share of the market. Sales targets are discussed in more detail in section 6.9;
  - estimating the market size for a business that is online is difficult. Some mechanisms to do this include using.

## 7.6 MARKET DEMAND, OPPORTUNITY AND GROWTH POTENTIAL

The information from the industry sector analysis and target market profile can be used to highlight the potential market demand and opportunity as well as growth potential.

### Market Demand

Survey information collected in customer profiling about the demand/desire for the product/service is a very general indicator of likely demand. The business operator will also need to take into account the lifecycle stage of the product/service and industry. For example if it is an emerging or growth market, market demand is likely to increase. Once the cycle plateau occurs demand will even out and when the cycle moves into decline, demand will decrease. Of course there are factors that can instantly affect demand, such as a health scare associated with a food item; an economic downturn that will affect demand for luxury items; or an identified safety issue relating to a product. Some products may have a rapid growth and then quick decline such as those that are fashionable or a fad.

### Market Opportunity

There are a number of reasons a market opportunity may be identified, for example because of:

- a competitive advantage
- a fad or fashion currently creating demand
- a change in government policies or law such as requiring water tanks to be fitted to all new houses built
- release of a new product/service meeting a growing consumer need/demand or in respond to a change in consumer demand
- an identified market gap
- unmet demand because there are insufficient providers of the product or service
- an opportunity to value-add to competitors' standard product/service
- growth in demand due to economic, social or environmental trends
- competitive pricing
- an identified new market using same or similar core products/services
- capacity to customize/modify products/services to accurately meet customer needs
- re-segmenting the market to meet segments that are expanding such as an increase in retirees

Other general opportunities for the business that may improve access to or servicing the market would include:

- Strengthening or widening networks and partnerships across the business' supply chain;
- improving a business' internal processes and systems or distribution methods that can result in outcomes such as higher quality goods/services, greater efficiencies in production and/or distribution that improves the timeframe to supply; and
- risk management and planning for growth.

Before pursuing an opportunity, the business operator should assess the opportunity by considering:

- resources required (human, technological, and financial) – does the business have the capacity to support growth?;
- financial value to the business, for example having an adequate profit margin etc.;

- risks of pursuing the opportunity and not pursuing it; and
- required changes to internal process, distribution, staff numbers, skills, and sales knowledge required to fulfil the opportunity and develop a plan to guide the changes.

Working out the potential return on investment (ROI) over a two to three year timeframe – ROI can be worked out using the total amount required to develop the growth opportunity, the increase in sales this will generate and the associated net profit and turning this into a percentage of the initial investment figure.

### Growth Potential

Identifying growth potential requires the operator to be aware of the market conditions, the business' actual or potential performance capacity and the activities and performance of competitors. In looking at growth potential, the business operator should also consider the findings of the SWOT analysis and financial plans for the business. Intelligence for opportunities for growth may come from listening to customers (issues, problems, desires), identifying differences the business has compared to competitors that may be able to be exploited, and watching market trends.

The focus of growth for the business may be to increase:

- turnover;
- market share or market reach;
- profit;
- sales;
- staff; and
- product/service range or volume.

Growth potential may exist in one of the following:

- new or associated market areas (market diversification, but with the same or similar products/services);
- new market segments;
- market share by increasing customer base, capturing competitors' customers, repositioning in the market, or adjusting pricing to be more competitive;
- diversifying products/services to target new markets or market segments;
- population growth increasing the level of available consumers;
- emerging markets spurred by new technology and innovation and potentially less competition;
- forming joint ventures, partnerships or consortia (refer to Chapter 3 on legal requirements for such arrangements); and
- mergers and acquisitions.

<u>Activity Six</u>	
Based on the business investigated in Activity 4, compile a market analysis for the business, including at least two points under each heading for the analysis. In doing the activity, use your local area/region:	
Topic area of market analysis	Comment
Overview of the industry sector – key players, notable trends or issues	
Competitor summary – strengths and weaknesses, market share, position in the market, customer perception of competitors	
General profile of the target market – geographic, demographic, sociographic, estimated size and value (if this can be ascertained) of the market	
The business' competitive advantages and unique selling proposition	
Lifecycle stage of the product/service proposed to be sold or being sold	
Potential market size and value	
Market opportunity	
Market demand, particularly any unmet demand	
Barriers for entry into the market	
Market risks	

## 7.7 MARKET POSITION

Market positioning of your product/service is about how you want your customers to perceive what you have to offer, compared to your competitors. Branding, image and reputation are powerful ways for positioning products/services in the minds of consumers and in the market place. The market position will dictate to some degree what and how the business is promoted.

Key mechanism that determine the position are pricing, quality, service commitment, ways for distribution and packaging and potentially geographic location. Examples of market position include: market leader; innovator; niche market; or budget area of the market.

To determine market position, identify the target market and its consumer values, buying drivers, buying habits, and expectations of the product or service. Be aware of competitors, where and how they are positioning themselves, and what their strengths and weaknesses are. For a business that is operating in a global market place, the internet, social media and viral marketing can be strong influences on consumers, so it is worth researching how competitors position and promote themselves through these channels. Deciding on the market position is almost like a market triangulation process - 'This is my target market, these are my competitors in the market, this is where I want to be'.

### Activity Seven

Choose a well-known car, sport product and a service. Note down for each one their position in the market from your perspective; the elements that have contributed to that position (e.g. price, quality, customer service, value for money); their target market; and one competitor.

Car:

Sport Product:

Service:

## 7.8 MARKETING OBJECTIVES AND GOALS

In Chapter 1 you were asked to think about your business goals. Marketing objectives and goals are directly linked to your business goals. Business goals may state things like achieving a particular profit figure, being recognised as a leader in the industry sector/sub sector, raising the brand profile, increasing the market share, or diversifying and developing new markets or products.

The findings from the market research will affect how to achieve the business goals. For example if the business goal is to reach a specific level of sales in the first year and the target market comprises 25% of the population in a given location amounting to roughly a market of 3600 people, the marketing goal may be to go gain 2% of the market, or develop a customer base of at least 50 people in the first year.

Marketing objectives outline what is achieved as outcomes as a result of undertaking the marketing activities. They are generally broad, for example the marketing objective may be to raise brand awareness in a particular target market or become a leader in a specific industry. Marketing goals are more specific such as reaching a particular sales volume or dollar target, increasing the number of repeat customers by a certain percentage or launching a new product. Marketing objectives and goals should be clearly defined, have a timeframe for achievement, be measurable, and achievable.

### Activity Eight

A business manufactures small trailers for motor bikes and quad bikes. The business has operated for three years, promoting its products locally and interstate through bike shops. The business has no internet presence, but advertises in bike magazines and has attended a number of bike and car shows around the country promoting the product. The trailers are light, versatile in size and design and the business can also custom-build. The business sold 200 units in the last financial year and has been steadily growing. Write down a marketing objective and a marketing goal for the business.

Marketing objective:

Marketing goal:

### Review

It is also important that you review your marketing goals in line with your financial review activities and that sales reports/records are also assessed. This may occur weekly, monthly, quarterly or half yearly. It is certainly better undertaken more regularly so that corrective action can be carried out before there is too great an impact on the business' finance.

For businesses that have sales teams and a person responsible for developing and overseeing the delivery of the market strategy, changes and downturns indicate the need to collectively review and address the situation through new or refined approaches.

## 7.9 PRODUCT AND SERVICE MIX

Your product/service mix should meet your customers' needs or wants and achieve the business' profit goals. Having a range of products/services can help in meeting different target markets and reduce the risk of 'all eggs in one basket', for a business. However the risk of having a big range and multiple target markets is that it is difficult to manage effectively. There is a risk that unprofitable areas are not identified and removed.

The right mix of product/service can help to maximise sales and profits, increase market share or raise awareness of a business' brand. The product/service mix may be influenced by factors such as economic conditions, fashion, supply and demand, competitor activity, or climatic and seasonal conditions. For this reason the mix should be regularly reviewed to ensure that the business adjusts in response to changes in the market.

In determining the product mix, the Pareto<sup>2</sup> principle can be applied to sales. This is known as the 80:20 rule meaning 80% of sales will come from 20% of customers. Having undertaken market research a business operator should have a reasonable idea of who the 20% customers are and where in the market they are.

A business may use short life span products to generate income and increase sales for the short term. Long term items that have a steady demand are likely to form the foundation of a mix contributing to the resilience of the business. At the end of the day, you don't want to be wasting time and money on products/services that bring little to the business, cost or lose you money! To avoid this happening sales value and volume should be regularly monitored. Some businesses only do this when forced to do so in downturns, and then are surprised when they discover that some product/service offered is not very profitable and may have been slowly contributing to running the business down.

As a guide to developing a product/service mix, consider what products/services:

- are core business and regularly purchased or asked about (long term and stable);
- are in high demand in the market place and will sell easily (improve cash flow and sales);
- provide the best cash flow (financially attractive);
- give you the greatest profit margin and sell well (financially attractive);
- have potential to be further promoted (can be growth for the future);
- are new and may have an easy short term sell (generate sales and increase customer interest); and
- are 'in fashion' and easy to sell in the short term (short term generators of income and increasing customers).

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<sup>2</sup> Joseph Moses Juran (1904-2008) coined the phrase the 'Pareto Principle' after the Italian economist Vilfredo Pareto who spoke of what became known as the Pareto Principle when explaining that 80% of the land in Italy was owned by 20% of the people, also known as the 'Law of the vital few' or 'the principle of sparsity'.

Your aim is to achieve a high level of high value sales (in terms of profit) and to increase numbers of customers, so the mix should maintain a steady cash flow, support growth opportunities, and use the short term products as occasional boosters.

To identify your best selling, good cash flow and highest profit margin product/service you look at the gross margin. To work out the gross margin, take the product sales minus the cost of goods sold including direct labour and then divide the gross profit by the net sales to get a gross profit margin. The gross profit margin percentage can be used to compare products. Highest value products/service should represent at least 60-70 per cent of your product/service mix. Other products/services that have high volume of sales can make up most of the remaining mix. If you have new products/services, you can add these into your mix, but as an unknown area of demand and sales, this should only be a small part of the marketing mix.

In developing the product mix, market research findings should be used, such as trend patterns in the industry sector. Financial considerations must also be included such as the cost of production and the profit margins you desire to fulfill business goals, through the financial analysis in Chapter 9.

#### ActivityNine

A cafe attached to a gym specialises in healthy, organic meals and drinks. They have a range of packaged snack foods for after exercise and to take to sporting competitions. The owners are both qualified nutritionists and are available for consultation. A range of the meals and snacks are available to suit people with dietary problems such as gluten intolerance and nut allergies. The gym has a good cross-section of population of males and females. The bulk of the clientele are aged between 25 and 45. The gym has just started to target older people for special sessions with a personal trainer who specialises in older person's fitness. Outline what you think would be a good product and service mix for the café in percentages and explain why:

## 7.10 PRICING APPROACH

Price of products/services affects achieving business goals, profitability and viability of the business. Pricing will contribute to determining the market position of the business, whether intentionally or not. Pricing is a balancing act between making a profit, a fair price for your customers and not pricing yourself out of the market.

Pricing is also guided by your business objectives and goals that may be to:

- maximise profits;
- increase volume of sales;
- partially recover costs only; and
- survive.

This section highlights what should be taken into account when considering a pricing approach. Pricing should:

- cover your costs (base cost of goods, fixed costs);
- provide the profit margin that will help you to reach your financial business goals;
- take account of average pricing range within your industry sector;
- take account of the number of competitors in relation to your target market;
- reflect customer value (what the customer generally is prepared to pay for the product or service);
- suit the level of demand for your product/service;
- take account of factors that will influence the level of demand (known as demand elasticity or inelasticity. For example, customers may still buy a product/service irrespective of a price rise – showing inelasticity. If customer demand is affected by price changes this demonstrates elasticity);
- take account of whether your product or service is a luxury or a necessity (of relevance to demand elasticity or inelasticity);
- take account of whether there are substitute or alternative products/services in the market; and

- abide by pricing and consumer regulations and laws.

Pricing approaches may include:

- skimming (a higher price for a new product/service that may be paid by those wanting to buy something new/innovative);
- penetration pricing (for products/services not targeting elite market and for which you want volume of sales without a high profit margin);
- image pricing for luxury or high customer value items;
- seasonal pricing;
- cash/early payment discounts;
- discount pricing targeting lower end of the market, but having low profit margins;
- loyalty pricing specials for repeat customers;
- bulk buying pricing for volume customers; and
- loss leaders, which are often a heavily discounted price sometimes used to entice customers that can be for a low profit or loss (not recommended long term).

Pricing should be flexible to respond to opportunities, rising costs, increased demand and negative impacts on your business. Selling on line, you need to ensure that you make clear to your buyers the currency being used in your pricing and any shipment and other costs that will be included.

### Activity Ten

For the items below identify whether pricing needs to take account of demand elasticity:

Bread:

Sports car:

Children's shoes:

Jewellery:

Beside each type of pricing, name a product or service for which this approach might be suitable

Skimming:

Penetration pricing:

Discount pricing:

Loss leader pricing:

## 7.11 SALES TARGETS AND MARKET SEGMENTATION

Having found out about and analysed the industry, target market, and customers, you will be well placed to set realistic sales targets to meet the market opportunities uncovered. Sales targets are the number of products/services that must be sold to meet the business' profit goal. The sales target should be clear and achievable (pending no extraordinary circumstances that affect the market, economy or supply). If you employ staff, sales targets can be set for sales staff and incentives provided to encourage staff to reach/exceed the target. Sales levels must be monitored to ensure that both business and marketing goals are met.

A Table can be used to record the target both as a dollar value and volume as shown in Table 23. Products/services can be grouped and differentiated by segment within the Table. Sales targets need to be realistic, taking into account

potential size of market and percentage that you may win, competitors, industry trends and activity and the business' capacity to reach out to the market and promote the business. Setting your sales targets should be guided by the profit margin. You should work out the profit margin on each product and sale levels required to achieve the overall profit margin for the business. This is where understanding the gross profit margin or percentage of each dollar that is profit, comes in. Chapter 8 investigates this in more detail.

Table 7.4 - Sales targets

Product/Service	Gross profit required from sales	Sales target (\$ value)	Sales target (volume)	Timeframe

### Market Segmentation

If a market is not segmented, your business is appealing to the mass market. This means there is no focus to the marketing activities, little capacity to understand and respond to consumers and their needs and expectations, or to identify areas of the market that are more lucrative. Your marketing segmentation means you can tailor your marketing activities to the market.

Market segmenting can be based on specific characteristics of customers e.g. age, gender, income group, geographic location, behavioural characteristics such as regular purchaser, brand loyalty, or psychographics such as lifestyle. Marketing activities can then be tailored and targeted to each segment, however it is important to make sure that the market isn't so segmented that it is difficult to monitor and manage.

For business customer markets segmentation may be based on location, size, type of business, industry sector, and behavioural characteristics such as purchasing practices.

Effective market segmentation can result in being able to fine-tune marketing thereby increasing sales and/or customers, enabling a business to better match customer needs/wants, and providing opportunities for growth.

In making decision about how to segment the market, the following can be used as a guide, the market segment should:

- have clear characteristics;
- be manageable;
- have the potential to be profitable based on market research;
- provide a return on the investment of marketing activities;
- be accessible; and
- last for a reasonable timeframe.

#### Activity Eleven

A business manufactures unique one-off fashion accessories - jewellery, hats, scarves, wraps, handbags and brief cases, ties, cuff links, and tie pins, belts, mobile phone holders, shoe decorations. The target market are medium to high end income earners, both male and female. Describe two market segments into which the market could be divided:

## 7.12 PACKAGING AND PRESENTATION

### Packaging

Packaging can represent a substantial cost to your business, but is an important part of a business' promotion, image and brand. It is also a way that a business can minimise loss and damage that will cost the business money. The bottom line is that your packaging must protect and preserve your product from damage, contamination or deterioration, as well as market the product.

Protection and safety play a strong role in determining the suitability of choice of material and design. Depending upon the size, type of product and way it will be transported, packaging may also require technical expertise for design and testing. This may include testing for impacts relating to factors such as dropping, crushing, dust, vibration,

temperature and moisture changes etc.

Packaging includes the container or wrapping and labelling, which can include a business branding that is a protected Trade Mark. Costs associated with packaging include:

- materials;
- design, development and testing;
- storage of packaging;
- transport of packaging; and
- loss and damage and insurance.

Packaging design and choice of materials are influenced by such factors as:

- social responsibility ensuring labelling contains warnings as required by law;
- environmental responsibility demonstrating a business' commitment to sustainability;
- safety and security both for the product as well as to protect consumers such as children from easy access to products that can cause harm;
- functionality so that a product can be easily stored and used; and
- colour appeal.

In making packaging decisions, consider whether the packaging is:

- unique and distinctive to help to set the business apart from competitors' products;
- contains labelling that clearly identifies the product and business;
- safe and conforms to consumer laws regarding packaging and labelling;
- easy to remove;
- promotes the business and its brand;
- promotes product benefits; and
- visually appealing.

Consumer laws regarding packaging and labelling differ between countries and states, so a business operator should check what applies in their country and state. If a business is importing goods to use as inputs to a product or for a service, the labelling of imported goods should be checked to ensure it complies with the country's laws. Countries also vary regarding the requirement of what must be included on a label in regards to what imported goods are used and the source of these goods. You need to be aware of legal requirements.

Packaging can affect buying decisions, particularly at what is known as 'point of purchase', which is when a buyer who had no intention of buying a product, becomes motivated to do so because a product becomes appealing through packaging and promotional message on the packaging.

### Presentation

Presentation is more than a display in a retail outlet, it includes the packaging, service delivery and other material used to promote the product/service. This interpretation is all encompassing of the collateral and activities that 'present' the product/service to the consumer. In developing the marketing strategy, a holistic view should be taken of how the individual parts of the marketing strategy and tools are used create an impression and present the product/service to the consumer.

## 7.13 SALES, CUSTOMER SERVICE AND DISTRIBUTION

How a product/service is 'sold' and then is delivered to the customer is part of the marketing strategy. It is useful to refer to your own experience on the receiving end of the sales and distribution approaches from a business with which you have recently dealt to think about the important elements of sales and distribution.

Ask yourself: What was good about the sales encounter? What was not so good? What made you decide to make the purchase? How were you treated as a customer by the sales person? How did you receive the goods/service you purchased? What matters to you when a sales person and business are engaged with you? Hopefully your responses to these questions can guide your consideration of the information in this section and the formation of your own business sales and distribution approaches.

This section looks at the key components of selling and some sales techniques, customer management and considers the options for distribution methods.

### Sales Skills and Techniques

Sales are the lifeblood of your business, so developing effective sales techniques and skills is important to stay in business. Good communication, negotiation, relationship-building and listening skills are the basis of sales skills.

You should review your sales outcomes regularly, ensure that staff (if you employ people) have good knowledge of the

product/service the business offers and have the opportunity to improve their sales skills. To help with training there are online webinars, training videos and also business workshops and courses available for business.

A component of sales skills relates to dealing with cultural diversity in customers. Training your sales team in cultural awareness has potential to improve sales levels and enhance your reputation for good customer service. People of different cultures may be sensitive to particularly aggressive sales techniques. Your body language, tone of voice and general demeanor can be seen as threatening or demeaning without that being the intention. The art of listening is important, particularly for quietly spoken cultures. Heavy accents, particularly over the phone, can cause difficulties and lead to frustration from the customer. Discuss with your sales staff strategies and approaches to be used. Seek assistance from cultural organisations if your target market or most common customers are of a particular culture.

### Sales Stages

While the internet has increased the level of self-serve activities, this section is looking at the face-to-face sales techniques. There have been some changes over the years, but the fundamentals still apply:

- establishing a rapport with the customer;
- finding out the customer's needs/wants/problem;
- identifying suitable products/services that may fulfil the need/want or resolve the problem;
- explaining relevant benefits and features of potential products;
- offering options where applicable; and
- closing the sale.

To be able to move through these stages the salesperson must be able to make a positive impression with the customer. There is a view that the first ten seconds are when a person makes a judgement about someone they have just met. First impressions are lasting impressions. The following are hints about how to establish a good sales/customer relationship. The sales person should:

- be well presented;
- convey an approachable and helpful demeanour;
- establish a rapport with the customer that allows open communication and trust to develop;
- actively listen to the customer;
- be helpful and respond to questions;
- know the appropriate time to provide assistance and information;
- be able to identify when the customer is interested in buying; and
- encourage the final decision to buy.

If a customer is reluctant to commit to buying, the sales person can encourage other options for consideration or even refer them to other suppliers. The important point here, is that a sales person must be 'helpful'. Rarely does it work to apply pressure sales techniques. The salesperson's communication should be non-threatening, friendly, building trust with the customer, and demonstrating a willingness to answer questions and give time to the customer.

### Questioning

Helping the customer to find what they want may require asking questions and the way this is done is important. Some examples are outlined below:

Questions may be direct such as "What kind of gym clothing are you looking for?"

They may be open ended such as "Explain how you want to use this product," or "What is your current problem with the equipment?"

You may need to clarify something "Can you explain the checks you did again, to isolate the problem?"

You may need to confirm something such as "So you want to be able to use this product away from a power supply?"

Questions may be to sum up such as "In summary, you want to be able to have a device that is both portable, as well as being able to be used at home, but that is not too heavy and has sufficient functions to do the tasks you outlined to me, is that correct?"

Questioning during sales inquiries will help the sales person to gather more information about the customer's needs and values, thereby finding products/services that meet the customer's needs and values.

### Sales Techniques

There are a variety of techniques that can be used, often in combination. The sales person's own personality may lean towards particular approaches and avoid others. Some common approaches are:

- identifying a customer's needs/wants/problem then promoting features and benefits that meet them – the problem/solution approach;

- outlining the better elements of the business' product/service compared to competitors;
- applying a consultative approach to find out what is wanted and seeking customer feedback on suggestions, then guiding the customer to a decision;
- appealing to customer buying behaviour and decision-making, for example promoting low prices or value-for-money to a customer who communicates that they are budget conscious or focused on value-for-money;
- engaging in conversation and selling through suggestion and reference to your own or other's problem/needs and how the product/service addressed the problem/need;
- pressure selling (not recommended) that involves applying pressure such as timeframes for 'specials', 'hurry while stocks last', 'only one left' and 'several inquiries have already been received';
- building a relationship from the point of selling as well as through customer servicing that makes the customer feel 'special' or 'known and valued', particularly for selling situations that can generate repeat business;
  - the purpose of the product - how it meets the customer's need;
  - how it works - how easy/safe/quick/efficient to use;
  - its quality checks and standard - that it will be safe, durable, good quality and will work;
  - how it is delivered - that this will be timely and at customer convenience;
  - how it is maintained - and whether the business can help with this;
  - strength/durability/limitation - how the product meets the customer's needs and will last if used according to instructions; and
  - comparison with other products of same specifications - how this one meets the customer's needs.
- up-selling and referring to complementary products that may interest the customer;
- provide a free product sample or trial for service for a product/service related to the product/service being sold; and
- offer extended warranties, if this applies.

Following a successful sale, it is important to thank the customer for their business and confirm all details of the purchase, and delivery arrangements if relevant. Customer details should be checked and also whether they are interested in receiving emails and updates (where this applies as a form of customer communication).

You should follow up a few days later to check whether the customer is happy with the product/service or has any problems. This forms part of customer servicing dealt with further on in this chapter.

A common strategy used for sale is known by the acronym AIDA which stands for: Attention, Interest, Desire and Action. The AIDA model proposes these four stages that the salesperson must take their client through. Attract their attention, stimulate their interest, create a desire and cause them to take action to respond to the desire to buy. It sounds simple, but relies on successfully managing the relationship with the customer using the approaches and skills noted earlier.

## The art of conversation

Being good at conversation with customers is critical to building a relationship. This means the sales person should:

- talk with confidence, but not be overbearing and pushy;
- be knowledgeable about the product/service;
- be friendly;
- match the conversational style to suit the customer;
- be truthful;
- be respectful and aware of cultural sensitivities;
- be interested in customer views and comments;
- watch for non-verbal clues in body language from the customer;
- be mindful of their non-verbal cues, such as stance, facial expression, eye contact;
- be aware of social and cultural sensitivities and adjust communication approach to suit the customer;
- be diplomatic and non-discriminatory;
- maintain an appropriate voice tone and be aware of how voice tone can convey disinterest or annoyance;
- speak clearly;
- listen and demonstrate active listening such as indicating with a nod or few words that you are taking in the information or noting the comments;
- convey a positive attitude;
- look the customer in the eye, but not for too long as to appear intimidating; and
- legal and ethical considerations.

You need to be aware of the legal and ethical requirements and issues that apply to the selling process and should therefore check the Acts and regulation relevant to their location. This should be reviewed from Chapter 3 under consumer protection. In all countries, there are a number of Acts and regulations that apply to buying, selling and consumers. In Australia a business operator should be familiar with the following:

- Sales tax exemption;
- Sale of Goods Act;
- Credit Act 2010;
- National Consumer Credit Protection Act 2009;
- National Competition Policy; and Competition
- and Consumer Act 2010

2 Attributed to E. St Elmo Lewis and published later in an article by Frank Hutchinson Dukesmith (1866-1935) in 1904.

Adhering to these is not just about remaining on the right side of consumer law, but is also a way of protecting your business and building a reputation as a fair and honest business. This can help to encourage repeat business and retain customers, as well as reducing the time and effort wasted in dealing with complaints and problems resulting from poor selling practices. Non-compliance can result in fines, closure, or costly legal fees and will almost certainly damage the image and reputation of the business.

The following practices are unlawful in Australia:

- requesting payment for unsolicited (goods the consumer has not agreed to buy) goods/services;
- unauthorised entries or advertisements;
- the sending of unsolicited credit or debit cards;
- pyramid selling schemes;
- multiple pricing for one item/service; and
- not giving proof of purchase with adequate detail if requested by a customer.

In the case of unsolicited goods a business operator must not provide an invoice seeking payment for the unsolicited item unless there is belief they have a right to do so, or the invoice contains wording warning that no money is required.

If a business makes unsolicited contact with consumers these activities must abide by the rules concerning hours when consumers can be contacted, and the 'Do not Call Register Act 2006' that applies in Australia. Door knocking is regulated by the Australian Consumer Law. Unsolicited agreements may result from door-knocking, telephoning or approaching people in a shopping centre or at a display/exhibition

Refer to Chapter 4 for reminders about contracts. However, some things to remember: if an Agreement is drawn up, the business contact details must be provided. There are disclosure requirements from the business who must also inform the consumer that they have the right to cancel the contract within three or six months if the supplier has not met their obligations. The Agreement must be in writing and provide full terms and conditions, total price or how the total price is calculated and additional charges such as postal or delivery charges. Usually there is a ten day 'cooling off' period when the consumer can change their mind.

Agreements can be unsolicited, for example: a customer may have had negotiations with the business in a place other than the business premise; a supplier, salesperson or dealer approaches a customer with an offer to sell, without an invitation from the customer; or a total value for the product/service is not arranged before the agreement is made.

#### Activity Twelve

A business manufactures children's cubby houses and outdoor play equipment from UV stabilised recycled plastic. It is easy to keep clean, doesn't require tools for assembly and has a ten year warranty. Cubby house designs are in themes such as 'cottage', 'tepee', 'log cabin', 'castle', 'space module', 'fort', 'boat'. Equipment carries a weight maximum and has no sharp edges or parts. All equipment is strong and can be slotted together, creating the different cubby houses, tunnels, water play channels and islands. As modular equipment the size and range can be varied to suit the space available.

What would be the best type of packaging and why?

You are a sales person for this business. Explain how you would respond to a customer inquiry from a couple who have three children aged 2, 5 and 7, what steps would you cover in the selling process, how would you find out what they wanted, what would you need to consider in your approach and conversation style.

#### Customer Service and Management

Many businesses choose to include some statement about customer servicing in their business mission and/or objective. Often this is expressed in terms of customer service and valuing customers. Having a customer management set of principles and practices sets a standard of performance for all those in the business who interface with customers.

The development of good customer servicing and management practices means a business operators must be aware of:

- customer expectations of customer servicing;
- competitor customer service practices; and
- legal obligations to customers.

Retention of customers and having positive word-of-mouth promotion from customers is strongly linked to the quality and standard of customer servicing and management practices of the business. Effective customer management is therefore central to the success of the business and a key tool for marketing. A good test all the time is to think of your needs and expectations as a customer.

Customers can be members of the public, internal to your organisation, if you are a larger business, other businesses. However the principles of customer service apply to any customer.

### CustomerService

Customer servicing includes before (dealing with general inquiries, requests to purchase, inquiries about products/ services or to make an appointment), during (how you serve and manage the customer during the sales process) and after sales service (such as confirming the purchase/delivery, warranties and refunds, and options for future communication).

Customer service is about building relationships that are positive and helpful. It is not just about responding to customer inquiries and making sales, but also dealing with complaints and resolving problems, as well as fulfilling customer service warranty obligations. Central to customer service is having good communication and listening skills. This applies whether dealing with customers face- to-face, online or over the telephone. Approaches that are part of good customer service:

- taking time to fully understand the customer's needs and issues;
- accepting both positive as well as negative feedback from customers;
- greeting customers and offering to help, but letting them browse without pressure;
- not being pushy or hovering nearby;
- developing a policy that is non-discriminatory;
- developing a complaints policy and ensuring all who handle customers can apply it;
- if presented with a problem or issue communicate how you will try to resolve it;
- resolve issues as quickly as possible; and
- apologise if there are delays and keep customers informed of progress (for example about orders, repairs or replacements).

Some essential elements of good communication are:

- negotiation;
- culturally sensitivity and non-discrimination;
- active listening;
- empathy;
- respect;
- problem-solving;
- patience;
- openness;
- ensuring the customer understands the information provided;
- advising the customer of what to do if they have problems or concerns; and
- after sales follow-up.

### After-Sales Customer Servicing

After sales customer follow-up provides an opportunity to build on the customer relationship. It can also be a way to seek feedback about the product/service that can be used to improve the product/service or sales process and support for customers. This may be done face-to-face, over the phone, or by email. Online businesses are more likely to use email and customer chat forums for follow-up.

If seeking feedback, the survey or questions should include customer assessment of:

- efficiency of service;
- politeness;
- timeliness;
- provision of adequate and clear information;

- tidiness and cleanliness if providing a service in home;
- whether product/service has fulfilled need; and
- quality of customer service.

For ideas on types of follow-up servicing, the following list can be considered:

- advising that ordered goods have arrived;
- checking that a service or delivery to the customer's site has occurred;
- seeking customer feedback generally, or more formally through surveys by telephone or email;
- providing information or updates on delivery or service dates;
- asking about additional or future needs that the business may be able to provide;
- inviting participation in loyalty programs;
- sending birthday cards;
- directing customers to new offerings, 'specials' or the business' website;
- advising of related products that enhance benefits of the product/service purchased;
- inviting customers to open an online account or to join a product user group
- introducing the business' social media site to the customers; and
- dealing with customer complaints.

### Managing Complaints

It is often highlighted that customers tell far more people about their complaints and poor experiences with a business, than they share good stories praising a business.

Complaints do not need to be completely negative. If handled well, they can help to strengthen the relationship with the customer and be used to identify areas for business improvement. However, if complaints are not handled well and in a timely fashion, the risk to the business can be quite substantial. The negative effects can rapidly be amplified and communicated to many people through social media. To ensure such negative effects do not occur, a business operator should develop a complaints policy and set of procedures, and if they have staff, provide training in applying the policy and procedures.

The complaints handling policy should include processes that record and enable quick resolution that is fair, efficient and courteous. The policy and steps of actions should be explained to customers when they make a complaint. The policy should ensure legal requirements are fulfilled and reflect ethical business practices. It is also important for the business operator to understand the business' rights and responsibilities in the situations of complaint.

Customer complaints may include:

- quality of service;
- attitude of sales staff;
- goods damaged;
- goods not delivered or items missing;
- incorrect delivery;
- incomplete service delivery according to what was agreed/expected;
- administration errors with price, invoices, receipts, orders; and
- online business errors relating to links, incorrect information, poor structure of website, absence of information, misleading information, website faults, purchasing errors.

Obviously the type of complaint may indicate a business process at fault, but can be about the sales staff.

It is also important that in dealing with customer complaints the staff member is aware of customer rights. Refer to Chapter 4 on customer rights.

Some strategies that can help minimise complaints include:

- understanding customer rights and responsibilities;
- being prepared to honour warranties, refunds and repairs – sometimes at a cost to the business in order to retain good relationships with the customer;
- implementing good customer servicing;
- understanding the key steps to working on resolving disputes;
- make it clear you want to help resolve it;
- be courteous at all times;
- treat the customer with patience, empathy and respect;
- clarify the issue and ask questions, noting responses;
- research the issue if required, once you have the facts;
- apply the statutory rights of both the customer and the business;

- seek suggestions for resolution;
- discuss options within the legal and business' capacity to support;
- negotiate and agree a course of action;
- check with senior staff that suggestion resolution can proceed (where this applies);
- engage a third party to help with resolving the issue, if no agreement can be reached such as the alternative dispute resolution processes available in your state;
- record what will be done;
- confirm customer understanding and agreement of the resolution;
- follow-through on agreed course of action and keep the customer updated on progress;
- check that the customer is satisfied once complaint is resolved;
- keep a complaints register - it can be useful for training staff and for improving service and procedures; and
- analyse complaints and work on strategies to prevent them being repeated.

### Customer Management

Customer management concerns the policies and procedures involved in managing customers. This includes collecting and managing the customer/client base of data and information, adhering to privacy and consumer laws, implementing policies to manage complaints, credit payments and warranties, effectively using customer data, customer communication channels and social media tools.

Whether the business deals with large volumes of customers that may never return, or has potential to develop repeat custom, customer management is important. Customer management begins from the moment a customer inquiry occurs. It is useful for you to develop a complete customer management policy to guide staff, if you employ people.

Good customer management supports and strengthens the business and its image; can be invaluable for repeat business, word-of-mouth marketing, future market research opportunities, as well as increasing sales volumes and value of sales per customer. Think of businesses with which you have dealt that have made you feel valued as a customer and completely committed to responding to your needs.

Most businesses these days use computer technology to collect, manage and use customer data and information, which must be done in accordance with privacy regulations. If you are going to use software, research software options for customer records management. Some software can allow for direct marketing to selected customers who have indicated a desire to be kept informed and also from a particular segment of the market. There are also functions that alert the business to make an after-sales follow-up call/email or text.

Customer management records may include:

- customer contact details;
- customer purchases;
- credit information;
- dates of service reminder calls;
- record of problems/complaints and resolution;
- warranty dates;
- loyalty/rewards offers; and
- comments/record of conversations or emails.

You may want to group your customers as 'A', 'B' and 'C' or 'Gold', 'Silver' and 'General' customers – with those as high value repeat customers and reliable payers as 'A' or 'Gold'. This is for marketing purposes and also to analyse your customer base if you are revising your marketing objectives and goals, such as increasing 'A' Grade customer list. The ideal is to grow the 'A' or 'Gold' customer base.

As part of risk management, customer data records should also be copied/updated and stored off- site in the event of business technology failure. Some businesses create a simplified hard copy summary too.

### ActivityThirteen

List what you think are the top five customer service practices a business should adopt:

- 1.
- 2.
- 3.
- 4.
- 5.

List six customer management tools and their purpose:

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.

An elderly customer is trying to ask a question about a service they require and has obviously had a stroke which has affected their speech. The sales person is struggling to understand. What actions would you recommend to provide good customer service?

### Improving Staff Skills in Customer Servicing

Having systems and procedures in place to manage your customer servicing is one thing, but ensuring that staff follow the systems and continuously aim to improve customer servicing skills is another. This can happen because there is always a strong emphasis on the sales part of dealing with customers. However, providing customer service training and opportunities for staff to discuss dealing with different elements of customer servicing in staff meetings are ways to foster good customer service skills in your staff. Role playing is one way to practice skills, including re-playing particularly challenging customer servicing events that have occurred in the workplace to collectively develop strategies to manage such situations in the future.

### ActivityFourteen

Role play in your class group, or with a group of friends if you are undertaking this study online, the following scenarios:

A customer has brought back a faulty food processor purchased in the store. Role play the customer service officer and the customer to resolve this issue. Discuss afterwards what the important steps are in providing good customer service.

A customer purchased some items online and has phoned to say that they still have not arrived. She was told by a staff member that they would call her back once they had looked into the matter. That was three days ago. She has now come to the outlet to find out what has happened. She has already paid for the items. Role play the customer service officer and the customer to resolve this issue. Discuss afterwards what the important steps are in providing good customer service.

## Reviewing and Improving Customer Service Practices

To maintain high quality customer service, that meets consumer expectations, it is important to be able to review your customer service practices. Use data and information collected from customer feedback survey and customer complaints to determine whether procedures need to be improved or staff refresher training courses are required. It is important that staff are involved in the review process, because as frontline staff dealing with the customers/clients, they may be aware of problem areas in the business product or service delivery procedures that cause problems at the customers service part of the business. It is suggested that at least once every six months a review occurs and changes are made to support improvement in customer service, but also any other systems and procedures as well.

The review should include comments regarding:

- number and types of complaints and whether procedures or staff training is required; and
- summary of feedback in terms of efficiency, politeness, timeliness.

## Distribution

Distribution is the way a business gets its product/service to the market and the final consumer. Target market research and customer profiling should have uncovered information concerning from where consumers purchase a product/service, as well as where they source information. The distribution channel is linked to the marketing strategy, as different distribution mechanisms are vehicles for different kinds of marketing.

Distribution can be direct or indirect. Direct distribution is selling directly to the end consumer, such as through the internet or telephone sales or door-to-door and the seller retains the relationship with the customer. The age of technology has changed the nature of distribution for many industry sectors. Today, products, services and information can be distributed through the internet.

Indirect methods include distributors, value-adding re-sellers, wholesalers and retailers. Indirect distribution means that the business does not have contact with or influence over the relationship with the customer. However this method means that a wide geographic coverage and differing segments may be able to be serviced more effectively.

There are different types of distributor relationships that a business can establish. These include: independent distributorships who can stock competitors' products too, and franchises or wholly owned distributorships that reflect the business' policies and image. There are also single or multiple and chain store retail arrangements. The internet may also provide the capacity to engage distributors or arrange affiliated marketing.

What influences the choice of distribution methods? The following are some examples:

- the business goals and objectives;
- the type of product or service being sold;
- the target market's buying preference (e.g. business customers generally buy from wholesalers or direct from manufacturers), including if there are differences across segments;
- budget for distribution;
- marketing activity options through distribution channels;
- scope and range of distribution (single outlet, networks etc.);
- costs (to both the business and to a purchaser);
- efficiency (timeframe from order to delivery);
- product/service range and capacity to meet customer needs and demand levels;
- whether there is a need to constantly find new customers (i.e. purchases are generally one-off);
- value-adding capacity; and
- advantages and disadvantages to overall business profitability of distribution methods.

It is a good idea for a business to develop a distribution strategy. In designing the strategy, the business operator should refer to the business goals and objectives and then identify:

- the target market's preferred purchasing channel/s;
- the target market's geographic distribution;
- percentage of sales anticipated or desired through the different channels;
- costs;
- suitability of the distribution channel for product/service e.g. if perishable goods;
- quality position in the market that affects the type of outlet or distribution method;
- order volume;
- distribution options to suit different segments; and
- potential alliances or partners that may also sell the product/service.

Marketing activities and tools that will be used in the distribution channel – for example if retail outlets are used the business may piggy back on retail marketing activities, or set up special displays or have in-store demonstrations. Table 7.5 is one way to assess distribution options before developing the distribution strategy.



### Activity Fifteen

Using Table 7.5, undertake a distribution options analysis for a business that manufactures educational toys for children aged 3 – 12. The toys fall into the categories of: art and craft; science and technology; social and cultural; and design and construction. There are options for individual as well as bulk purchases. All toys are constructed, where applicable, Australian Safety Standards. The business also has an educational fun party service, where they bring toys, run party activities and provide party bags, for children's parties.

### Exporting

Developing an export market is a step that needs to be carefully planned by a business. Like any decision to enter a new market, it should be based on sound information gathered through research and consultation with both other businesses already exporting as well as export advisors. Information should be gathered on the processes involved in export, timeframes, costs, risks, market opportunities and target market profiles. The business plan will need to be reviewed and updated to include an export market section. An export strategy and plan should be developed. If staff are employed, the plan to export should be discussed with staff, highlighting the likely changes to production or service delivery activities to adjust to an export market.

The Australian Government website for Austrade (check the link in the reference section of this chapter) is extremely helpful in all matters associated with exporting.

The following questions may help in considering becoming an exporter:

- What are the reasons for exporting?;
- Does the business have a strong domestic market?;
- How will the business benefit?;
- What are the risks to the business?;
- Are there sufficient funds to spend on developing an export market without jeopardising the rest of the business?;
- What are the business's current strengths and weaknesses and what effect will they have on becoming an exporter?; and
- How does developing an export market affect the future of the business?

Next you need to learn about the export process and environment by undertaking research and speaking with professional export advisors. It may be useful to undertake Austrade's 'readiness indicator' to assess whether the business is ready to export. This provides a report at the end of the questions and can be completed regularly through the process of preparing for export, to help guide you through the steps of becoming export ready. Refer to the link at the end of this chapter.

In conducting research for the export plan and to inform changes in business operations and procedures, the following questions should be answered:

### Export Information

- What are the export goals or objectives?
- What will be exported?
- What are the target countries and the profile of customers?
- What is known about the market?
- How will the product/service be exported?
- How will the product be priced?
- What costs are there, for example shipping, insurance, duty and taxes, customs fees, warehousing, transport on ground, commissions, labelling and packaging, marketing, communications?
- What protection, rules and regulations are there for exporting?
- What regulations must be met?
- What finance is required and how does this affect the business' financial status and cash flow?
- What constraints, issues or risks exist and how will these be managed?
- What external factors will affect the export process/profitability and how will these be accommodated?
- What lead time is required to be export ready?

It would be useful for you and staff if you employ people to then map the export process to understand the implications for the business and the dependencies on specific areas in the internal and external supply chain.

### Business Process Changes

There will be changes to business processes and these should be considered, together with staff if the business employs staff.

- What information, systems and procedures must be in place to be export ready?
- How does this change your supply chain?
- What regulations apply that will influence systems and procedures?
- What implications or affects are likely on the rest of the business whilst developing the export market?
- What financial and insurance changes are required?
- Who will be responsible for carrying out preparation for and export mark development activities?

### Export Plan Content

The following are suggested content areas for an export plan:

- objectives and goals for export;
- identify export opportunity and products/service that will meet this opportunity;
- outline the target market (size, characteristics, accessibility, trends, seasonality, constraints);
- assessment of key competitors;
- an outline of the export process steps and timeframes;
- details of financial factors – costs, insurance, methods of payment, duties, taxes;
- description of the business process and supply chain changes that must occur;
- summary of staff resources and roles to be involved in exporting; and
- risk assessment and mitigation strategies.

Having adequate finance and managing the different costs and stages of export can be a challenge. The business operator should seek help from a professional advisor regarding such things as trading terms. The Export Finance Navigator is a useful tool for helping small to medium businesses with export financial matters. The Export Finance and Insurance Corporation also assist businesses with finance and insurance. Refer to the links at the end of this chapter for further information.

#### Activity Sixteen

'Delicious Syrups' produces all natural certified organic syrups for use in baking and making both alcoholic and non-alcoholic drinks. Currently the market is only domestic, however the company directors feel there is an export market opportunity, having had some inquiries from overseas manufacturers in China and New Zealand. Outline what information should be collected to inform the decision about becoming an exporter:

## 7.14 MARKETING TOOLS

Marketing has come a long way from signboards, street vendors shouting about their wares, newspaper advertisements and leaflets in the letter box. This section looks at a range of marketing tools available. It is not a finite list and with the burgeoning online and telecommunications channels, tools will continue to be developed that are not covered here. It is therefore strongly recommended that business operators monitor online marketing tools and opportunities, and regularly assess the value and risks of the use of such tools for their business.

In deciding on the best marketing tools to use, a business should refer to their business objectives and goals, market research and analysis findings – particularly where target markets go for information about products/service, and preferred distribution methods. Each of these areas will have factors that will help to identify the marketing tools that are most suitable.

#### Assessing Market Tool Effectiveness

It is also important for a business operator to assess the return on investment and the effectiveness of the chosen tools. One way to track how effective marketing tools have been is to ask customers where they heard about the business/product/service. Another method is to have a code on the promotional tool (advertisement, product, give-away sample etc.), and to ask people to quote the code when seeking to buy a product or service, as this will earn them a discount. This information is recorded and analysed against inquiries and sales generated, and will provide information for market strategy review and when financial reviews are taking place.

## Some Marketing Tool Options

### Newspaper/Magazine/Phone Book Advertising

Many businesses effectively market their product/service through these channels, as there are still people who buy newspapers and magazines or subscribe to the electronic versions.

While not the most expensive form of advertising, print media is not really cheap either and therefore a business operator will want to make sure that this will represent value for money. In creating an advertisement the following may help:

- create a catching headline
- make the advertisement as personal as possible using words like 'you' and 'your'
- provide enough information to satisfy the reader and enable them to take action
- use wording that will rouse curiosity or motivate the reader to respond to the advertisement or select the supplier
- make sure you comply with national and state laws that govern advertising (e.g. in the wording, promises) and
- to write an advertorial is slightly different, as this is disguised as an article. Look at other examples of advertorials in the newspaper or magazine and check with the publication regarding their policy and any guidelines. The following may help:
  - determine the size;
  - develop a catching headline and try to incorporate in a by-line the 'author';
  - use strong and attention grabbing opening and closing lines;
  - make it clear what you are selling;
  - incorporate your 'sales message' into the story and use quotes where possible;
  - avoid advertising clichés; and
  - provide a contact if people want to find out more.

### Radio and Television Advertising

Radio and television advertising hit a wide market, although the time slots and programs may have segmented the listening market to some degree. Radio and television advertising should be clear, succinct, attention seeking and memorable. As we listen to or view these media channels, we become 'numb' to advertisements, as they are such a large component of commercial stations. Designing audio adverts means that the tone, speed and pitch of voice is important and the language used must be simple. Usually the timeframe for the promotional message is short. This means if you have too much information and your message becomes garbled it is likely to be ignored. Words and phrases are much easier to imprint in a mind because audio memory is superior to visual memory.

Some guidelines for developing radio and television advertisements:

- design the message and the tone to suit your target, not you;
- be believable;
- consider using the regular announcer for your advertisement;
- don't make claims you can't back up or deliver;
- use the benefits of the product/service for your target as the message;
- use short sentences;
- humour is effective;
- don't use jargon or overused promotional words and expressions;
- consider some distinctive music, jingle, sound or visual effect that raises attention or makes the advertisement more memorable;
- use images that tell a story and communicate your message;
- long term time slots – market to the same market, so ensure this is your market;
- use 'you' where possible to personalise the message;
- ensure you communicate to consumers what they must do to respond; and
- when developing TV adverts:
  - use people;
  - compile footage that keeps the story going;
  - develop a script that fits into the time slot without being rushed;
  - make the most of the combination of sight, sound and image – ensure they are all powerful;
  - useful to make visual elements effective in communicating the message even if there is no sound; and
  - monitor trends and styles in television advertising, for example use of animation and special effects.

Individual countries and states regulate and monitor commercial advertising on radio and television. The business operator must adhere to laws, regulations and codes of practice. In Australia, the Australian Communications and Media Authority (ACMA) regulate radio and television content through licensing, mandatory program standards, industry codes of practice covering content and presentation and classification, as well as handling complaints. Of particular relevance is the role to ensure the majority of advertisements on television are Australian-made and the Commercial Radio advertising is clearly distinct from other programs. ACMA also administers the national regulatory scheme for internet content, gambling, complaints and spam, and protection of children from exposure to unsavoury material on the internet. Other advertising on commercial television and radio and pay TV is covered by the Advertising Standards Bureau code of practice.

### Exhibition/Trade Shows

Exhibitions and trade shows provide an opportunity to present a business and its offerings to people who are already interested, because they have chosen to come to the event. These events bring buyers, sellers and products/services together. There is potential to meet a larger part of the business' target market and to see what competitors are doing.

The quality of the event may vary in its level of organisation, site facilities, accessibility for the target market, and pre-event promotion. However it is a marketing opportunity and the best way to make the most of the opportunity is to plan for it and ensure that marketing tools are suitably targeted at the attendees.

Planning to participate in an exhibition/ trade show will include the following:

- checking the target and reach of the proposed event (there may be historical performance information from previous similar events) that assure the business operator it is worthwhile;
- develop marketing objectives and goals for attendance, that support overall business objectives and goals – this may include gaining X number of leads or inquiries to be followed up; handing out X number of samples; raising the profile or brand of the business by exposure to X number of people;
- determine the budget available;
- identify the measures to be used for reviewing the return on investment;
- create an action plan indicating activities that must be done, by whom and by when;
- create a checklist for material and equipment to take;
- develop the theme and messages to be conveyed;
- identify suitable marketing collateral and arrange for its production, which will include concept design, development and artwork;
- if relevant, consider undertaking demonstrations throughout the day;
- ensure brand use guidelines are applied to promotional material;
- design exhibition stand to make the most of branding, business visibility, flow-through and servicing of visitors;
- arrange staff attendance roster (if applicable), including roles, responsibilities and contact details;
- meet with staff to discuss how to run the stand, record inquiries and the sales pitch approach and develop a team approach; also discuss how to handle the time-wasting browser who is unlikely to become a customer;
- if there is a new product or service, exhibitions/trade shows may be appropriate places to launch these;
- promote attendance to existing customers – some businesses may promote incentives for people to visit their stand, such as free gifts or trial products;
- investigate media opportunities to promote the business attending the event by pre-inviting journalists and arrange to speak with them;
- developing inquiry cards or data recording software on a computer for those interested in being contacted;
- develop a follow-up schedule for leads and pre-prepared mail-out material or emails;
- arrange a debrief of the team (if applicable); and
- conduct a return on investment assessment after the event.

### Telemarketing and Direct Marketing

Telemarketing involves contacting customers directly to promote or supply products/services. This can be done through landline, mobile, SMS or fax. In the process additional information may be gathered regarding a customer's preferences, tastes and interests. Telemarketing calls must comply with the country and state laws regarding this activity. Telemarketing includes:

- follow-up phone calls from inquiries;
- cold calling from target market lists; and
- contacting current customers to generate new sales.

Direct mail is any form of distribution of information sent directly to potential customers via mail, email or letter box drops. Material can include catalogues, brochures and leaflets, special offer coupons, free samples and invitations to buy or attend promotional presentations.

There is also direct marketing via television that include infomercials (longer items promoting a product/service and asking customers to 'order now' or 'contact this number'), as well as advertisements, also with requests to 'respond now'.

Those conducting direct marketing, including door-to-door sales persons, must abide by the country's and state's consumer laws that apply. In Australia this is overseen by the Australian Consumer Law. It is important that telemarketers are clear about what they cannot do. For example they cannot mislead, which includes omission of important information; call people on the 'Do not call' register; and use high pressure tactics. They must abide by the industry Code of Conduct for the business' industry sector.

Of particular relevance to businesses is the Australian Data and Direct Marketing Association, which is Australia's largest marketing association, with a membership of over 500 (2012). The association's role is to assist direct marketers to comply with legislation and laws, manages issues such as privacy, fair trading, spam and telemarketing, and to provide training. The association has developed an Australian Group Buying Code of Practice and Merchant Guide, and provides information on compliance through a compliance hub. The association has developed a code of practice to which their members must adhere. This covers (from their website: [www.adma.com.au/comply/code-of-practice/](http://www.adma.com.au/comply/code-of-practice/)):

- ensuring business and consumers have access to the product and service information they need to make informed choices;
- minimising the risk of members breaching the Trade Practices Act 1974, Privacy Act 1988 including the National Privacy Principles, the Spam Act 2003 or State Fair Trading legislation;
- promote a culture among members of conducting their business fairly, honestly, ethically and in accordance with best practices; and
- increase business and consumer confidence in doing business with the ADMA members.

#### Flyers/Brochures/Leaflets/Pamphlets/Newsletters

A flyer is a single sheet of paper providing information or promoting a product. They are generally seen as items that could be briefly read and thrown away. They are provided as handouts at events, functions, on the street or delivered to mail boxes.

Leaflets are similar to flyers, but may be printed on larger paper and contain more information. Brochures can be printed on both sides of the paper and are generally folded. The intention is that a brochure would have a longer lifespan and be referred to. They are often used as take-aways from trade shows and conferences and as follow-up material summarising products/services from initial contacts. They can be used in direct mail campaigns. Their purpose is not necessarily to sell something, but to promote the business and its offerings and encourage inquiries.

Pamphlets are generally written to present an argument or perspective on an issue. The purpose is often to change opinions and views about something, such as cruelty to animals, water conservation etc.

Newsletters are designed to contain a lot more information and keep the recipient group up to date with what is happening in the business, new products/services, specials, to invite recipients to events, provide coupons and incentives, and seek consumer feedback. Newsletters have to some degree been superseded by social media tools.

Before designing any one of these tools, ask yourself:

- what do I want this to achieve in a marketing sense? For example:
  - provide information;
  - introduce new product/services;
  - promote the business generally through an overview of business and its offerings; and
  - 'specials' alert call.
- what do you want the customer to do when they receive one of these items?
  - retain for future reference;
  - participate in some event or promotion;
  - be informed of changes and updates and take action in response to change/update; and
  - take up an offer
- what benefit will customer get from this document?
  - be informed about business offering;
  - opportunity to save money; and
  - chance to purchase a limited item.
- has the document got something on it that will draw the customer's attention?
  - striking heading;
  - special offers; and
  - coupons.

When developing the content, the following may help:

- lead with benefits;
- know the 'hot buttons' for the target market and incorporate information that triggers them;
- don't be too technical;
- make it personal and use 'you' where you can;
- don't ask open-ended questions, just ones that require 'yes' or 'no';
- don't put in too much text and make it crowded;
- ensure headings, sub headings and captions will stand out and guide the reader;
- be careful with your choice of colours to ensure that the document is readable, as well as not a colour that may have cultural implications;
- consider adding frequently asked questions;
- don't use bold and italics too much;
- make sentences and paragraphs short; and
- ensure to indicate reader action required as a result of reading the document and provide business contact details.

## Branding

Branding can be a name, sign, symbol, or term. A brand can be a powerful way to reach and remain with customers. To develop a successful brand requires understanding customers' wants and needs, capturing their positive experiences, value for and perceptions about the business. Branding designs should stand out from competitors. The brand must be promoted in all material and communication by the business. The aim is to make the brand distinctive and memorable through both design as well as by constantly displaying it. Refer to Chapter 4 regarding protecting brands and understand the risks if you do not protect your brand.

## Publicity

Publicity involves the art of generating interest in a business and raising its profile rather than marketing specific products/service. There are many ways to generate publicity:

- news stories in newspapers, trade journals, industry sites, magazines and on the radio and TV;
- self authored stories on websites and in industry publications;
- speaking engagements;
- launch events; and
- special publicity 'stunts' to encourage participation in a promotion or highlight a launch.

Publicity, like other forms of promotion should contribute to achieving the business objectives and goals. To develop a publicity campaign the business operator will need to:

- define the purpose/s of the publicity campaign;
- outline the target audience;
- define the key performance indicators to measure the success of the campaign;
- identify the costs and confirm budget allocation;
- assess risks and develop a risk management plan; and
- develop an action plan that identifies key activities, responsibility, timeframe, and cost.

## Online Marketing

Online marketing is an expanding arena of tools and channels. Some are very effective, whilst others take a lot of time to maintain and monitor, but given the global market place, may not be very effective for you. Common mechanisms are:

- email - through which you can advertise products/service, instruct on how to pursue the opportunities and maintain a more person contact, but spamming and unsolicited use of emails must be avoided (Refer to the The Spam Act 2003). You can engage bulk email service providers;
- search engine marketing - also known as 'pay per click' means that you develop text in an advertisement that links to your website and you buy keywords or search terms that customers might use to reach you. When people search by the words you bought your advertisement will appear at the side of the page. You pay for the advertisement if someone clicks on it;
- review sites - where others review your product or service or you can review products and services. There are well known sites for a range of common products and services. Positive and negative reviews occur and it is important that you use negative reviews to improve your business;
- mobile advertising - mobile advertising such as 'pay per click' on browsers, mobile apps, SMS and MMS;

- marketing with maps - this is good if you need customers to know where you are. You can use a range of providers such as: Google Places, Bing Maps, Nokia Maps and Whereis. Some providers allow you to pay for promotion on their site; and
- affiliate marketing - this is linking with another business that sells complimentary products/services and can be mutually beneficial as both you and the business market each other's products.

## Social Media

Social media uses the online social networks established through the Internet. It is fairly low cost in money, but does require time investment or it is not effective. Social media includes channels and tools such as Facebook, Instagram, Youtube, and LinkedIn to name but a few. Social media brings people together to chat, share, discuss and connect. It is marketing by electronic word of mouth (EWOM).

The risk for a business operator is that they may not have researched the scope and the level of required maintenance and monitoring of social media tools and sites to ensure that they are effective. In some instances a business may consider outsourcing the social media element of the marketing. Whilst this is an added cost, if a business does not have the time to effectively manage and maintain social media, it is possibly a good option. The outsourced provider should rate well amongst other businesses; look for current client reviews; investigate a few and compare what is offered and how effectively it will be maintained and monitored as well as the proposed strategy to keep the business informed about performance.

It is important to assess whether using social media is appropriate for a business, as it does not suit all business operations as an effective tool, just as delivering leaflets or undertaking telemarketing is not suited to all businesses.

Social media is used by large and small businesses alike. It can strengthen a business brand and identity, build relationships with consumers, and generate loyalty and 'following' amongst consumers. However social media generally takes time to make a difference to the sales figures.

A benefit of using social media as part of a marketing strategy is the fact that it is an effective way to reach a large market, and may mean that you can store large promotional files like photos and videos on the provider's server rather than your own. Maximising the value of social media can be done by carefully building links across the various social media networks and other internet. For example a Blog can be set up through one of the providers where it is possible to link to FaceBook and Twitter, so that as the blog is updated, so are the posts in those two areas. As further social media and other internet facilities develop, a business operator should review the effectiveness of the links and tools currently used, and embrace new tools that may be more efficient and easier.

Social media isn't a solitary tool, as it must be supported by other elements of suitable marketing strategies in a business. Indeed the role of social media is best as a communication and awareness raising tool with current consumers and to draw new consumers. It can also be a way of extending customer servicing and undertaking some market research.

A selection of social media tools are explored in a little more detail below.

**Facebook:** Facebook can be used to gain new clients and maintain a relationship with current clients and promote or profile your brand. Within Facebook there are different tools that will help a business with marketing. A business can create a profile on Facebook and put photos, videos and posts to keep followers updated. There are categories in which to create a profile including a business; a brand or product; an artist, band or public figure.

There is the choice of Facebook pages and Facebook Groups. A Facebook group is built around a group of people, rather than the business.

A Facebook page allows you to create a business profile and gather followers who may attract other followers. The page can contain information about the business, photos, updates and reports. There are three main categories on offer: local business, brand/product.

**Twitter:**

Twitter is a platform to communicate instant messages to an audience. As an instant way to communicate information, Twitter may be useful for providing news and updates on specials and new product/services, responding to consumer questions, challenges and comments.

Twitter is also a source of information about the market, other businesses and consumer attitudes. A business operator can search for a company and business names, and can see comments about other businesses that may be in the same industry sector as competitors or part of the supply chain. Comments may be useful in target market research where opinions, views and values are being investigated.

**Video:** Increasingly businesses are using electronic methods to promote products/services and provide additional services to customers about how to use/apply or maintain a product. This may result in a business making their own DVD, showing a DVD on their website or loading it onto an Internet viewing site such as Youtube or Vimeo. Youtube is the second largest search engine in the world.

DVDs can be interactive and if well designed can guide customers to making decisions. DVDs are free and can be viewed personally by customers in their own time.

To show a video on Youtube, you must first create a free Youtube account. Youtube information can assist you with developing links to promote the DVD more effectively. The aim of your video is to:

- deliver the promotional message clearly;
- confirm business credibility;
- connect and create a more personal and emotional link with target prospects;
- motivate the buyer;
- build user loyalty; and
- potentially become a viral marketing tool.

Steps to develop and load up the video are:

- identify the goal or aim of the video, the viewing length (not more than 3 minutes for a promotional video), the target audience and therefore the approach for the video and the category of video;
- identify cost and options for production (self-produced or engaging a professional);
- identify key words that can be used as much as possible that sum up what the video is about (use as tags, links as well);
- develop the production schedule and material that both entertains and informs - storyline/key points/script, special effects/activities to be included. If using a professional they will work with you to plan all this;
- clearly communicate as part of the video the actions that viewers should take, including forwarding to others who may be interested;
- to ensure that footage is good quality, make sure lighting is adequate and sound is good quality;
- if filming others, get them to sign a release form;
- post filming you will need to edit footage, which can be done with professional help or using a film making program;
- the completed video can be posted on Youtube and you can embed the link in your own website and promote on iTunes;
- have a supporting page for the video and a transcript of the video so that the video has its own URL;
- insert links to the video from the business' website, blog, Twitter and Facebook accounts; and
- bookmark the video through areas such as Digg, Stumble Upon and Delicious.

### Social Coupons

Much the same way that written advertisements and brochures may have coupons that could be cut off and used, social coupons can be created and used in an electronic field. In the electronic marketing sphere, Groupon was the first mechanism established for this form of offer. Others include Living Social and now Facebook are offering a similar service. These services charge you for the opportunity to advertise very reduced products/services with a view to getting people in the door or to visit the business. Whilst the aim may be to raise awareness and increase traffic, it may not be the type of 'bargain hunting' traffic a business wants, and may also only raise traffic for the time of the offer. It is an electronic loss leader approach. If running a campaign like this, a business must also ensure that they can meet the possible peak in demand.

### Viral Marketing

This is the use of social media to pass on and promote information about products and services. Its success is based on the desire of people to pass on something that they consider has worth or entertainment value to others in their network. However, consumers chop and change in what they want, value or support, so this type of marketing may not always be successful and can be quite short-lived. Youtube may be the mechanism through which a viral marketing message is transmitted, made easier by providing a 'share' button with the video.

### GeolocationUsers

These are applications such as Foursquare, Gowalla, Loopt and Blippy. This social medium uses the consumer's location and GPS. Consumers share their location and then tell others where they are through social media, perhaps inviting them to the shop, café or other business premise, thereby enhancing foot traffic to businesses. A business can list themselves and their specials on one of the providers. The value of this form of marketing is that it taps into local people (to the business' location) and reaches real likely customers, rather than just a broad spectrum of people. This will continue to be developed.

### Pinterest

This is a virtual pin board, operating in a similar way to a public pin board. It is a way to promote products/services for free. A business can load images onto the pin board and also scan the pin board to see what others are putting up

there, potentially providing information on trends and interests.

Before using this method of promotion, a business should evaluate if it is appropriate. If this method of promotion is used, the business operator should: group products/service: design a board that will draw people to view it; use the board to promote the brand; check whether the business has already been 'pinned' by someone else and engage with these people by 'repinning', 'liking' or 'mentioning'. To do this a business operator should search: [www.pinterest.source.com/yoururl.com](http://www.pinterest.source.com/yoururl.com)

#### Activity Seventeen

Using Table 7.6 assess five market tools that would suit one of the businesses noted below:

Mobile car mechanic

Manufacturer of wave skis, canoes and kayaks

Nail and beautician personal service

Table 7.6 - Marketing tool analysis matrix

Tool	Suitable for target market	Affordable (within budget)	Adequate reach (geographic & number)	Raises profile only	Will encourage	Generate leads only	Specify target segment only	General or Mass	Simple preparation	Takes time to prepare	Have expertise to design	Need to contract expertise	Suits distribution channel	Short term impact	Long term impact	Potential to link other tools	Easily updated or improved	Good return on investment	
Newspaper Ad																			
Magazine Ad																			
Industry Journal Ad																			
Newspaper Advertorial																			
Magazine Advertorial																			
Industry Journal Advertorial																			
Radio Ad																			
TV Ad																			
DVD Online																			
DVD - copy for distribution																			
Vehicle Advertising																			
Signage																			

Tool	Suitable for target market	Affordable (within budget)	Adequate reach (geographic & number)	Raises profile only	Will encourage	Generate leads only	Specify target segment only	General or Mass	Simple preparation	Takes time to prepare	Have expertise to design	Need to contract expertise	Suits distribution channel	Short term impact	Long term impact	Potential to link other tools	Easily updated or improved	Good return on investment	
Leaflets & Brochures - general hand out																			
Letter Box Drops																			
Facebook																			
Twitter																			
Blogs																			
Banner Ads Online																			
Telemarketing																			
Sample/Trials																			
Phone Apps																			
Mail Order																			
Party Presentations																			
Exhibition/Trade Shows/Conferences																			
Formal Presentation to Customers																			



## 7.15 ONLINE BUSINESSES AND MARKETING

Businesses that are operating solely online, or have a strong online presence because the product/service marketing is taking place within a global context must abide by consumer and privacy laws and ensure that customer details and payments are handled securely. Refer to chapter 4 for information on risk management relating to online business and internet. To assure customers of the safety of customer information, the operator should provide clear information to the user on ordering, currency, payment, refunds, warranties, privacy and security of information, as well as how to contact the business.

From a marketing perspective, a number of online marketing tools have been identified in the marketing tool section; however there are a number of things that a business can do to improve both their profile and the number of visitors to their website:

- develop a website that has content that means the site will appear high on major search engines' pages;
- make the website easy to navigate and read as the site is a key marketing tool;
- make sure that the website isn't so complex that it takes ages to load; and
- identify key words that would occur in the business' site and type into Google Keyword Tool. This will provide similar words and phrases already being searched on, these should be chosen.

Adverts can appear when searches are performed by adopting the pay-per-click. The business operator chooses specific keywords or key phrases from a search engine. An advertisement for the business' website would show in the paid results section of searches that include the phrase. Should someone click on the add the business then pays a fee to the search engine.

Electronic newsletters are another way to draw people to the business website. The newsletter can contain updates and links to new products/service on the website and invite people to take up specials.

Blogging is another form of promotion and can not only include information and comments for prospective customers and the blog followers, but also be linked to the business website. Search engine analysis looks at the links to and from a business' website, and thus can assist in increasing traffic. Online services like LinksManager can assist with building links.

It is also important to promote the business website in offline material. Print it in all promotional material and mention it in radio and TV advertisements.

Monitor review sites, both to see what may be being said about competitors or the business itself, but also to identify other companies with which the business can deal to purchase products and services or arrange affiliated marketing. Check the reference at the end of this chapter regarding online business operation.

Further information regarding online and internet marketing can be found at the link at the end of this Chapter.

## 7.16 ADVERTISING

Most countries and states have laws and regulations that control advertising. In Australia, the Australian Consumer Law covers Australian Businesses and Consumers all over Australia. Schedule 2 of the Competition and Consumer Act 2010 contains the text for the Australian Consumer Law. In relation to advertising, the law covers false, misleading and deceptive claims.

The Advertising Standards Bureau (as noted on their site) "Administers the national system of advertising self-regulation through the Advertising Standards Board and the Advertising Claims Board." The organisation administers codes and initiatives covering such areas as advertising directed at children, fast food, car sales, environmental claims, alcohol and beverages, therapeutic goods, weight management industries, and codes of practice for commercial radio and TV.

Activities considered as Advertising can include:

- advertisements;
- promises and negotiations;
- information provided by call centres;
- terms, leases and agreements;
- predictions about risk, profitability or value;
- labelling and packaging statements;
- infomercials and advertorials;
- omission or silence about a product/service detail that would be of use to the consumer;
- claims of association with other products or persons; and
- mimicking products and 'passing them off' as originals.

Other sources of codes that guide lawful advertising include:

- the ADMA Code of Conduct (from their website): "The ADMA Code of Practice was developed to set standards

of conduct for direct marketers, minimise the risk of breaching legislation, promote a culture of best practice, serve as a benchmark in settling disputes and increase business and consumer confidence in doing business with ADMA members who are bound to the provisions of the Code'; and

- the Commercial Television Industry Code of Practice administered by the Australian Communications and Media Authority. The code covers accuracy, fairness and respect for privacy in news and current affairs; advertising time on television; placement of commercials and program promotions, and complaints handling.

Care must be taken not to mislead, lead to the wrong conclusion, create false impressions, or to make false or inaccurate claims. A good test is to consider what an ordinary person may understand or believe from the advertising message the business conveys, and what could be misinterpreted or misunderstood.

Before developing an advertisement consider:

- What is being 'sold'?
- What is the desired outcome?
- Who is the target?
- What qualities and knowledge about the target will influence the approach, visuals, wording and message of the advertisement?
- What would trigger a positive response in the target group to achieve the desired outcome?
- What can be afforded in terms of advertising design and copy?; and
- Is the proposed approach, wording, image likely to contravene laws, regulations and advertising industry codes?

Developing a good advertisement is quite challenging and for some businesses, is preferable to engage expertise to do this. If the business operator is developing their own advertisement, the following list may be of assistance. The qualities of a good advertisement:

- attract attention;
- interesting;
- imaginative;
- don't mislead;
- are truthful;
- simple;
- aren't negative about competitors;
- highlight benefits for the consumer;
- have clear graphics;
- headlines that are brief;
- are memorable and distinctive in approach;
- reflect why people buy the product or service;
- communicate their message clearly; and
- directs consumers as to how to respond.

### Advertising Campaigns

The following steps provide some guidance to developing an effective advertising campaign. Keep in mind the overall business objectives and goals:

- define the objectives and measurable goals for the campaign - goals may be short term, like increasing customer inquiries or longer term, such as winning a greater market share;
- work out how much can be spent;
- outline the target audience;
- develop the 'message' to be conveyed to the target audience;
- evaluate and cost different advertising media (see Table 25);
- consider whether there are advertising partners such as the distribution channels the business may use e.g. retailers;
- consider if there are events and other promotions upon which the business can 'piggy back' its advertising e.g. a fair or show, conference;
- what supplementary activities can the business do to support the campaign? e.g. newsletters, flyers in with invoices, alerts to customer database, social media posts;
- develop the campaign budget, based on the chosen advertising media; and
- write out an action plan for the campaign listing tasks to be done, by whom, by when, and costs.

At the end of the campaign, and over the next few months, evaluate the campaign's success against the chosen measures.

### Activity Eighteen

Design two advertisements one for Radio and one to be online for one of the following products or services:

Home handyman, kitchen designer and manufacturer, book keeping and administration services for small businesses, computer servicing and upgrades, badges and trophies, mountain bike safaris (over several days and involving camping).

Remember to think of the target market, the key message, provide contact details and ensure the advertisement complies with advertising codes of practice and the law.

Table 7.7 - Advertising options analysis

Type of Advertising	Target	Message	Contributes to overall business objectives / goals	Market Reach	Cost	Negatives	Positives	Measure of Success

Table 7.7 could be used to analyse your advertising options.

## 7.17 MARKETING STRATEGY

You are now in a position to develop a marketing and advertising strategy using the topics and learning from the previous sections. Ultimately the marketing strategy activities will focus on keeping customers, attracting new customers or selling more to customers.

Many people refer to the 'Ps' of marketing that can guide the development of a strategy. 'Ps' mentioned by marketers include product, position, place, people, price and promotion. Whether this approach is adopted or not the marketing strategy should cover the 'P' areas. Suggested content for the marketing strategy would include the:

- business marketing objectives;
- product/service offering;
- target market;
- market position;
- pricing approach;
- product/service key features and benefits to be promoted;
- desired sales goals;
- marketing tools to be used;
- promotional channels;
- resources required;
- marketing budget;
- costs;
- responsibility;
- timeframe to implement the strategy;
- monitoring activities to measure success as the strategy is implemented;
- review schedule for the strategy; and
- an action plan summarising the marketing strategy actions, resources, responsibility, timeframe, measures, reviewdate.

To assess whether the marketing strategy is providing a return on investment, you must monitor areas such as sales dollar value, sales volume of product/service, number of new customers, conversion ratio of leads to customers, or similar measures linked to the business' objectives and goals. If the marketing strategy is not satisfactorily achieving the marketing and business goals, it should be amended. It is also good business practice to regularly review the marketing strategy in order to maintain optimum business performance in the market place.

Marketing strategies or plans are often developed as separate documents, however the marketing strategy for this course is incorporated into the business plan and will form Chapter 6 of the business plan. The sections of this chapter in the manual have covered the foundation areas of a marketing strategy. In the business plan, each area can be addressed using information from the market research. Once the marketing plan is set out in chapter 6 of the business plan, Tables such as Table 7.8 can be used for the marketing action plan.

### ActivityNineteen

A business that runs a small cabin retreat for bushwalkers/fishermen/photographers (the property has a lot of bush, a large dam stocked with fish and also a river running through it) advertises through the local tourism information centre via brochures, has a website and blog, and runs a facebook photo gallery from visitors. The retreat is usable in all seasons, having fire places and wood supplied for the cooler seasons. It is not flood prone and has good access roads. However sales/occupation of cabins has dropped recently within the last 5 months. The business employs a marketer.

What effect is likely to be seen in the financial area of the business?

How could the operator find out about the cause of sales dropping?

What corrective action could be undertaken?

Table 7.8- Marketing action plan

Product/ Service	Key Features & Benefits	Marketing & Sales	Target Market	Marketing Activities	Responsibility	Resources & Costs	Timing	Measure	Review

A business manufactures gourmet preserves, chutneys, herb and spice infused olive oil for restaurants, boutique hotels, Bed and Breakfast establishments. All products are gluten free and made from certified organic inputs. They have both an online outlet as well as a delivery network, including a number of retail outlets that are stocking their products. Currently the market they have is quite small, but having expanded the production facilities the business is keen to expand their customer base within a 100km radius. They are located in an area that is a popular holiday destination with 40 boutique hotels and B & B's, 27 restaurants and 32 cafes.

Assuming that this was your business, fill in the details below and then choose two marketing activities to outline in Table 7.8.

Target market:

Marketing objectives and goals:

Measures:

Marketing activities (outline at least 4):

## 7.18 BUSINESS EXPERTISE

Business expertise that can be consulted during market research and development of the marketing and advertising strategy include:

- Marketing advisors;
- Copywriter;
- Advertising;
- Events coordinators;
- Accountant; and
- Consumer Affairs.

### DISCUSSION

For class groups, or for those studying by distance to discuss with a group of friends or colleagues, discuss the following two businesses' marketing. Include in your discussion the overall strategy that you think will work for each, the tools and channels to be used, the marketing message, marketing regulations that will apply and the key principles of customer service they should adopt.

Business A is an online business that provides educational workbooks for teachers and parents and sells kits and packs that support the workbooks.

Business B designs and custom builds water tanks and distribution systems for rainwater and grey water to suit residential, agricultural and horticultural businesses.

## 7.19 REFERENCES

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## 8. BUSINESS LOCATION, RESOURCE ALLOCATION AND BUSINESS OPERATIONAL PLAN

### INTRODUCTION

This chapter is predominantly about the day to day running of the business, after the initial section which looks briefly at the business location. Day to day running of the business relies on efficient, effective allocation and use of resources and well designed systems, procedures and processes. The type of business and the industry sector in which the business operates, determine what resources are required and influences the design of the systems, procedures and processes to run the business.

The following areas will be covered:

- business location;
- identifying, costing, purchasing and managing resources, including maintenance and safety;
- checks for equipment;
- assessing and reviewing current and future resource needs;
- resource records management;
- development and review of policies and procedures to guide business decisions, operations production and use of resources;
- business production processes;
- quality assurance and safety; and
- supply chains and supply chain management.

### 8.1 BUSINESS LOCATION

The appropriate business location depends upon the type of business you run. This is because council allocates land according to use and industry zonings. Specific zonings restrict what can be done on land, parking, lighting, noise, signage, traffic - both pedestrian and vehicles. Once you know how your business would be classified in council land use terms, you will be able to identify at least the correct location in terms of operating legally. Once you have identified premises in the correct council location, how do you choose? The following should guide your considerations:

- the need to be near customers (for example a retail business that relies on walk-in custom, not internet sales, or a personal service delivered from premises such as beautician, physiotherapist);
- access to transport - transport for workers, supplies and your distribution;
- the type of premise you require - office, shop, warehouse, manufacturing facilities, laboratory;
- additional specific needs - like turning areas for delivery/distribution, parking, chemical storage facilities, refrigerated storage;
- proximity to other similar business - for example like-business may feed off each other, however there could be advantage in not being near competitors; alternatively there may be an interest in being co-located or near allied or complementary businesses;
- telecommunications - what do you need in terms of speed and data capacity, for example broadband;
- proximity to suppliers - is this important to the efficiency of your operations?;
- timeframe for your travel - this is to your business premise; and
- accessibility for workforce.

When you have considered these factors, how do you make the choice and what do you do with the space?

#### Choosing the Premise

You need a premise that is:

- affordable;
- clean and well maintained if you are leasing;
- secure, or at least does not present security issues, such as being near derelict buildings and vacant lots with rubbish;
  
- will fulfil your needs for a reasonable length of time;
- has options for extensions of lease if required; and
- has attractive lease terms such as options for extension, reasonable outgoings, service provision such as maintenance.

Table 8.1 offers a way of recording premise details so that you can compare. There are premise checklists that also may be useful in the reference section at the end of the Chapter.

					Location
					Proximity to Home
					Proximity to Major Transport
					Telecommunications provision
					Image (clean, well maintained)
					Parking & Accessibility (customers / delivery / distribution)
					Adjacent Business activity/land (a positive or negative)
					layout suits needs
					Security
					Price (lease or to purchase)
					Capacity for expansion
					Outgoings
					Ancillary Buildings
					Storage
					Utilities / Service provision & access
					General neighbourhood & access to fire/police - crime rate
					Other

Once you have premises, you need to consider the layout and fit-out in terms of your business operations both now and in the future. The business process mapping exercise will help you to consider what areas might need to be near each other, what your storage locations should be and how the work should 'flow' to be efficient. The following questions should help with planning lay-out and making adjustments to the premises:

- What type of lighting is required and where is it best located, if it is not natural?;
- What areas will be heavily trafficked in terms of people movement?;
- Do you need storage and loading bays?;
- Do you want to physically separate areas, particularly for protection from noise?;
- Do you need space to have meetings?;
- What staff facilities will you have?;
- Do you need to have reinforced areas such as doors or floors?;
- Do you need to have 3 phase power?;
- What space needs will you require in the future?;
- What key access areas are required for customers and staff and where are they?;
- Do you need to put in an invalid ramp?;
- Where will you position key pieces of equipment and furniture to support business work flow and staff work health and safety needs?;
- Where will fire and security equipment be located?;
- Do you need areas for display or observation windows?;
- Where will you locate hazardous substances if you store it?;
- What type of doors do you need in different locations - swing doors, security doors, fire door?;
- Where will your cables and other telecommunications points be located?; and
- Do you need an audio/visual presentation space?

It is suggested that you obtain building drawings if possible so that you can copy the layout and trial different ideas. If you employ staff, it is important to consult them.

## 8.2 IDENTIFYING RESOURCE NEEDS

The resources used by a business include plant, equipment, tools, staff, finance and consumables. Chapters 7 and 8 covered the planning and management of the financial and human resources for a business. The financial chapter looked at the cost of setting up a business, which included the purchase of plant, equipment and tool, as well as consumables. However this section looks in more detail about how to identify and evaluate resource needs, and technology requirements.

### Plant, Equipment and Tools

As part of establishing a business, the business operator must identify and compile a list of the plant, equipment and tools required to deliver the product or service. As noted earlier, this is one of the costs for setting up a business that is covered in the financial planning business in Chapter 7. Items that are already possessed are included in the list too. If there is a partnership or the business employs staff, the business operator should discuss the resource needs with their partner/s and other staff.

It is suggested that the initial list of items can be prepared in spreadsheet or table, an example of which is in Table 8.2. Business vehicles would also be included in this list.

For an established business operator it is suggested that plant, equipment and tools should be reviewed each year to determine whether:

- replacement is required;
- newer, more efficient or technologically advanced replacement should be sourced;
- how reliable it was;
- whether it was easy to use (feedback from staff is good to ascertain this, if the business has staff);
- there was good back-up sales/service and parts from supplier;
- the warranty was honoured properly - if it was used;
- how easy it was to source spare parts;
- depreciation level reached; and
- performance of the equipment, plant or tools - e.g. adequate for the job, inefficient, costly.

The decision about buying plant, equipment and tools, as opposed to hiring them when needed, or leasing, is influenced by the funds available. Any outlay on capital items should not jeopardise the business. Resource information contained in Table 8.2 can assist the business operator financially plan for these purchases, in consultation with his/her accountant. Grouping items by supplier can help when undertaking research for suppliers.



### Activity One

'Quite Potty' is a pottery manufacturing business that creates quirky functional, decorative pottery pieces for home and garden. They are looking for new premises. Undertake some research to identify the appropriate location for the premise and suggest the types of facilities and layout considerations that should be taken into account.

### Activity Two

Rob and Pedro are going to run a landscaping and garden maintenance business. They need plant, equipment and tools and will offer a number of garden items direct from distributors such as garden seats, fountains, small rock pools and pre-constructed archways, gazebos, cubby houses/forts and ornate pots. (Suppliers likely are The Orient Express, Motjays, and The Savvy Garden and Bunnings) They own a mini earth mover, jack hammer, ladder and a chain saw, all of which are insured with CGU Insurance Limited. They want to lease a concrete mixer, a dumper/large motorised wheel barrow, roller, and hire tile/concrete cutter, chipper/splitter, rotary hoe and pressure cleaner from Kennards Hire. Think of a few other items, particularly tools that can be added. Use the information to fill in Table 8.2.

### Consumables

Consumables are goods that have to be replaced because they are used up and include things such as stationery, toner for printers, cleaning products, and other items that are 'used up' in the process of delivering the business/product or service, for example welding consumables, paint, varnish, glue, brushes.

The business operator would have made a list of consumables when first planning to set up the business and listed the total cost of consumables in the establishment costs Table in Chapter 9. The list can be converted into a consumables inventory such as Table 8.3. This inventory includes useful information that will assist in managing consumables, for example the estimated date for replenishment, supplier details, delivery method, estimated cost and payment method. This is a record that should be kept both on and off-site for risk management reasons.

Table 8.3 - Consumables inventory

Item	Number in Stock	Re-order Date	Unit Price	Total Cost	Supplier Details & Contact	Delivery Method & Timeframe	Payment Method or Terms of Trade	Item Storage Location

### Activity Three

Use table 8.3 to prepare a list of consumables for a dog grooming business, including for administration.

### Stock

Stock includes the following: raw materials, work in progress, finished goods and consumables. In Australia, the Australian Taxation Office describes stock as 'anything you produce, manufacture, acquire or purchase for manufacturing, sale or exchange'.

Stock can be items already purchased for re-sale from warehouses and distributors that are sold directly to the consumer, used in delivering a service, or be parts used to manufacture a product for sale to consumers. Stock also includes consumables for manufacturing or service provision. Consumables and stock can be combined into one inventory list. Grouping stock by supplier can be helpful when sourcing suppliers.

For businesses that hold stock, it is important that a complete inventory of stock should be created in the first instance. This record should include the item description, unit price, quantity held, total cost/value, whether items are insured, supplier details and payment terms. If there is a long and complex inventory list, this would be provided as an appendix to the business plan. This inventory can be used for the stock take, which every business should undertake at least once a year. Details of stock management are covered in Chapter 9. Table 8.4 is an example of an inventory.

Table 8.4 - Inventory

Stock Item	Ref #	Number in Stock	Unit Price	Total Cost	Selling Price	Total Selling Value of Stock	Re-Order Date	Insured - with Whom	Supplier Details & Contact	Payment Method (Supplier Terms)	Delivery Time	Item Location

**Activity Four**  
 In Table 8.4, add the following information to the beginning of the inventory for a medieval children’s costume specialist for medieval themed parties. The clothes are manufactured by the business operator. The insurer is Allianz and the fabric is from Dean Sunshine Textiles, payment 30 days, delivery 1 week.

1-2 yr old pages outfits (5); knight outfits (3-5) 20; knight outfits (6-9) 40; knight outfits (10 - 12) 50; small swords 50; large sword 80; lady outfits (3-5) 20; lady outfits (6-9) 40; lady outfits (10-12) 30; plush fabric red 1 bolt; blue half a bolt; green 1 bolt; gold 1 bolt; purple half a bolt; silk red 1 bolt; blue quarter of a bolt; purple 0; green 1 bolt; gold half a bolt; red 1 bolt; light drill red 0; blue 1 bolt, green half a bolt; brown 1 bolt, black 2 bolts; blue royal half a bolt.

**Technology Equipment**

Technology equipment includes all equipment and tools that will help the business to be run. This will include equipment for administration and sales, such as website, cloud sites, and different types of software involved in administration or production. Examples of administration software include point-of-sale software, accounting software, and inventory software. Examples of production software include software for testing products, data integrated systems and computer aided design and production. Some businesses may have custom-developed software and others will use off-the- shelf software. Table 8.5 is a way of recording details of technology purchases and important information such as registration codes, activation keys, versions and updates, as well as the cost.

Technology changes quite quickly, and for businesses dependent upon technology for most of its operations, it is likely that upgrades and new technology will need to be purchased in order to remain competitive.

Table 8.5 - Technology equipment and software register

Item	Description & Software	Software Registration Codes	Purpose of Software	Version/Model	Updates - automatic/ required	Cost

**Activity Five**  
 For a landscaping business, use Table 8.5 to list the technology equipment and software that would be used. Invent the software registration and activation keys. Do not forget that this will include administration software as well as possibly a software program for garden design. (e.g. Vectorworks Landmark or Dynascape)

## 8.3 SUPPLIERS, PURCHASING

Buying resources for the business, particularly at start-up phase requires the potential business operator to carefully research suppliers and consider the most appropriate solutions to fit the financial status of the business. As noted earlier, an accountant may be able to assist choosing buying/hiring/leasing arrangements to best suit the business' current financial situation and future plans.

For stock and consumables, minimum stock levels are required to get started. This is because a large outlay of stock is a risk for a new business, when the market demand is unproven. As the business is operating the business operator should be monitoring resources and will become familiar with the ideal stock levels to maintain.

For established businesses, there will be a history of market demand, seasonality and changing economic and consumer patterns, upon which the business operator can draw when making decisions about stock levels and investing in new equipment.

### Choosing Suppliers, Supply Arrangements and Relationship Management

#### Choosing Suppliers

Reliable suppliers, providing consistent high quality products or services, with payment or contract- to-supply terms that suit the business are critical to supporting efficient business operations and competitive delivery of the business' own product/service. These desirable qualities apply whether the business is purchasing raw materials, stock for re-sale, business services or utilities. Sourcing appropriate suppliers therefore requires some research by the business owner.

The increasingly competitive commerce and industry environment means that the business operator is potentially in a better position to negotiate good prices and supply arrangements. Once the business operator has experience in dealing with suppliers, they may consider looking for alternative suppliers with more flexible ordering, delivery or better payment terms.

#### Supplier Research

The business operator will have compiled a list of plant, equipment, tools, stock, and consumables in consultation with partner/s or staff (if the business involves these parties). To help in the search for suppliers, the list can be grouped by item type or likely supplier.

To research and compare suppliers, a simple spreadsheet can be compiled to record suppliers names, prices, delivery and purchase arrangements, which can be used to select the primary and back-up suppliers. As part of risk management it is important to avoid, where possible, having a sole supplier. If possible, the business operator should arrange to meet prospective suppliers face-go- face and see their premises.

Whilst the internet is a powerful tool to research suppliers, it may also be useful to ask other businesses, particularly for items that are common across all business operations. Sources of suppliers may be found through:

- websearches;
- Yellow Pages;
- attendance at trade shows and exhibitions;
- industry associations;
- chambers of commerce;
- trade journals for industry sectors that supply to the business; and
- business networks and affiliations.

Selection of suppliers should be based on the following:

- pricing – must be competitive, reasonable, affordable (remember really cheap is not always the best; however a newly establishing business will be keen to find a supplier that is affordable);
- purchase terms (volume, payment timeframes, holding stock in advance);
- credit facilities available;
- suppliers own source of supply – other wholesalers, import companies involved (useful in assessing supply chain risks);
- reliability;
- size of business of supplier – large can mean more reliable, but small means the business has greater opportunity to develop a relationship with the supplier;
- location and distance – how dependent is supply upon transport networks (road access, rail, air or port);
- warranties, returns, damage and loss arrangements;
- companies involved in warnings and recalls (check the consumer protection website relevant to your state, country);
- handling and distribution arrangements;

- stability of the business (how long in business, if a company, check company records on ASIC); and
- credit checking of the supplier business for issues, can also ask for a reference from another business to whom they supply.

Once suppliers are selected and costs are known, the business operator can include costs and details in resource records and financial planning documents.

### Supplier Arrangement

It is also good practice to arrange a supplier agreement, which can set out the terms and conditions of supply. This should be prepared by a lawyer, or at least checked by a lawyer, prior to signing.

Agreements can cover:

- goods/services specifications;
- supply conditions including volume, price, discounts, ordering and delivery timeframes, quality, warranty periods for defective/damaged goods;
- limited liability;
- confidentiality;
- dispute resolution;
- termination and exclusion clauses;
- requirements for variations to the agreement; and
- payment/credit terms.

#### Activity Six

'OrganicFoodPower' is a business that supplies organic food products, including cereals, fruits, vegetables and supplements. All products are certified organic. 80 per cent are to be sourced in Australia, with only the more exotic items sourced from certified organic and Fair Trade suppliers from overseas. Complete the following information:

List three places where the business operator can research potential suppliers:

Explain the desired qualities the business operator will be seeking in a supplier:

List what you think may be included in any supplier agreements that may be developed:

### Supplier Relationship Management

Once suppliers are chosen, the business operator should devote some time to developing a relationship with the supplier. The value of this is that the supplier will get to understand the business' operational cycles and needs. Any relationship between two businesses that involves money and dependency relies on good communication, so the business operator should take time to talk with their suppliers.

It is worth remembering that the supplier is another business serving a market, except its consumers are other businesses. Like the business operator good customer relationships are of value to the supplier business. This is not only because it can attract new business by word of mouth, but if problems occur and are solved quickly the supplier's reputation is not affected.

Even if a supply agreement is not developed, there is benefit to both parties for the business operator to set up standard ordering procedures in consultation with the supplier. This enables both parties to align business processes such as stock takes, and distribution of orders to enable timely stock replenishment, and for the supplier, order to be efficiently fulfilled.

What happens if a supply agreement is in place, but it is breached or disputes arise? The parties should aim to work it out themselves if possible. However if negotiations fail, it is worth considering bringing in a mediator.

Both the supplier and the business operator should be fully informed about the rights and responsibilities of supplier and consumer. Refer earlier to Chapter 3 and also check the Australian Competition and Consumer Commission link in the reference section of this Chapter.

## Supplier Review

It is useful for the business operator to review supplier arrangements each financial year to assess whether changes are required. Unreliability and poor quality products/services from a supplier can cost the business operator money or affect the reputation of their business. The review of suppliers should assess if the supplier:

- delivered on time;
- supplied undamaged goods, and where damaged goods were received they were speedily replaced;
- completeness of orders;
- was easy to deal with;
- had good technical and sales staff who were knowledgeable;
- met design specifications (if applicable);
- competitiveness of price;
- strength of financial position of supplier;
- general performance over the year as a supplier;
- provided helpful after-sales service, and support, if this was part of the supply agreement; and
- was flexible – for example whether a supplier would hold stock for the business, or do bulk orders.

If there are problems, they should not be ignored, but dealt with immediately. This also applies to returning faulty goods. Whilst there will be high expectations from a business operator about the performance of their suppliers, equally suppliers will expect to be paid on time, given adequate notice to fill orders, or advised of difficulties with payment so that a payment process can be negotiated to benefit both parties.

It is also important to remember that a supplier to a business is reliant upon other businesses to supply them, so delays and problems may not rest with the business supplier. This is one of the main reasons that a business operator needs to understand the structure and connections of his/her supply chain, which is dealt with later in this chapter.

### Activity Seven

Explain how to evaluate a supplier:

If there is a problem with goods supplies, i.e. some damage, what process should be followed to rectify the problem:

## Importing Products

For some businesses, product items may not be available in their own country, so importing products is the only option. For other businesses, the attraction of importing products than can be obtained locally, but are cheaper, is an attractive prospect. This means the cost of producing or supplying the item to the business is lower. However it is important to check this assumption by seeking professional advice from a customs broker in order to properly cost importing products. Additional costs incurred may include freight and handling, insurance, as well as taxes and tariffs that may have to be paid.

If importing, the business operator should also refer to the Australian Customs and Border Protection Service reference at the end of this chapter. This is because all goods will need to be cleared by this authority. This agency can provide information about duties, import regulations, restricted and prohibited goods and import permits. Other countries will have similar organisations that control the flow of goods and items into the country.

Supporting the protection of Australia's environment, health and agricultural industries Biosecurity Australia, within the Department of Agriculture, Fisheries and Forestry (as at 2013) inspects and will treat if necessary, imported goods. The aim is to prevent pests and diseases entering the country. There is a database that provides information on import conditions for at least 20,000 foreign plants, animals, minerals and human items. Refer to the links at the end of this chapter relating to quarantine.

In most states there are networks and organisations that help Australian businesses to source local suppliers. Other countries will also have similar organisations. It is worth a business operator investigating potential local suppliers first. There are benefits to purchasing locally, for example being able to easily communicate with the supplier, obtain extra items more easily or make changes to orders (if supplier agreement allows and/or supplier able to oblige), lower costs for freight and handling and insurance. If there are supply or quality problems, dealing with a business within

the country is potentially easier than dealing overseas.

In comparing local supply with importing, the following should be considered:

- price;
- convenience;
- additional charges - Other taxes, tariffs, customs duties, clearance fees, GST etc;
- cost of biosecurity treatment;
- delays;
- freight and handling;
- insurance;
- packaging and damage risk; and
- issues of dealing off-shore compared with in-country (communication, delays in dispatch, handling errors, political unrest).

### Ordering Over The Internet

Goods can of course be purchased via the Internet. This may be from companies within Australia (or the business operator's country), but can also be from overseas. The business operator should check whether the item/s they are purchasing are allowed into Australia. This can be done by checking the information in the link to the database held at a national level about imported product provided at the end of this chapter. Should the purchase be something that is banned or needs to be quarantined or treated by the quarantine authority, the purchaser has to wear the cost.

### Labelling Considerations for Imported Products

As has been noted earlier in this book relating to consumer and seller rights and responsibilities, a business operator importing goods for re-sale or using imported goods to manufacture products must not make false or misleading claims about the origin of goods/ingredients.

#### Activity Eight

Salma runs a bike shop and is looking at providing a range of accessories for bike safari trekking including full waterproof panniers, camel packs, light weight tents, collapsible bowls, thermal lightweight sleeping sheets, water purifiers, compact solid cube fuel stove etc. Research potential local and overseas suppliers for at least two products and then list some advantages and disadvantages of overseas versus local supplier.

### Purchasing Policy

Very small businesses and sole operators, or businesses with very limited number of purchases (for example one's supplying a service using their intellectual skills) are unlikely to need a purchasing policy, however the principles of sound purchasing practices still apply. Goods need to be of the right quality, quantity and price and received on time. If a business grows or does purchase many items, it is of value to put in place a purchasing policy. It may also be useful to either employ a purchasing officer or, for a smaller business, delegate a staff member (and a back-up) who is responsible for the purchases for the business. This helps to ensure that purchasing is coordinated, planned and aligns with the needs of the business, as this staff member would be required to liaise with other areas of the business including sales, manufacturing and stock management.

There are a range of purchasing options: one-off (particularly plant, equipment and tools), regular ordering for consumables and stock, ordering based on stock take, blanket ordering over an agreed timeframe for set items used regularly, or through a contract, potentially with an annual fixed price.

Other factors that need to be considered by the business operator or delegated purchasing officer relating to purchases for the business include the required lead time for delivery, items that have a quick turnover for sale, blanket or bulk order offering discounting, and monitoring price rises. All of these areas have implications for the financial management of the business. The business operator can apply this information when updating cash flow forecasting.

## Elements Of A Purchasing Policy

When developing a purchasing policy, or even simple guidelines for staff, the following areas should be included:

- who has authority to purchase and the financial value limit, and approval process for over the financial limit or for one-off items such as plant, equipment or tools, other policy exceptions;
- the system used for selecting suppliers, including tender process;
- the triggers for purchasing such as stock takes, or a standard timeframe arrangements;
- when and how supplier agreements or contracts are to be set up and the terms and conditions of these agreements;
- the ordering system used, including an ordering schedule if one is set up, such as monthly blanket ordering for a specific timeframe;
- outline the documentation involved for example:
  - purchase orders, which are a formal request to purchase providing details to the supplier of the items ordered, quantity and quality, prices agreed, delivery date, payment terms on business headed paper with all contact details. Up to three copies of these forms are useful, one for the business, one for the supplier and one for the accounting area of the business if it is separate. Integrated accounting software may include these forms electronically;
  - order or packing list will accompany the order and should be checked against the purchase order and the contents of the package;
  - invoice that is likely to be sent by the supplier after the order is dispatched, unless other payment terms are negotiated such as cash-on-delivery. Invoices should be checked against the packing list and the purchase order before payment; and
  - authority to pay form if required by an accounting area, once order received is checked.
- system to advise the accounting area, or inputting details into purchasing/financial software used for administration;
- required quality control and checks for all orders;
- the approach to resolve errors, omissions, return of damaged goods and general supplier disputes;
- outline of the records system for purchases; and
- outline of the credit and payment terms.

### Activity Nine

Summarise what Tyrone and Shelley should include in their purchasing policy. They have employed a staff member to undertake the purchasing for their business, which sells exotic decor items from India, South America, Japan and China. They specialise in pottery and stone carvings. Their sales mean that they only order when stocks are low. They complete a purchase order. Shelley does the accounts. Payment terms negotiated are 30 days. They use MYOB for inventory and all financial record keeping.

Use the information above to provide a list of policy headings and brief summary of content.

## 8.4 BUSINESS RESOURCES MANAGEMENT

This section deals with managing the records associated specifically with business resourcing that supports the business operations, and does not include financial or staff records as these have been covered elsewhere in this text book. Records covered include stock management; and plant, equipment and tool maintenance, safety and certification schedules.

### Stock Management

Australian taxation law requires a business to record the value of all trading stock at the beginning and end of the financial year (1 July and 30 June respectively). This assists in determining whether the business has taxable income. To determine the value of stock, businesses usually perform a stock take at the end of the financial year. The difference between stock at the beginning of the year and the end of the year may form part of assessable income from a taxation perspective. In Australia, if a business has stock value change of less than \$5000, a stock take may not be necessary. However, for good stock management, it is suggested that an annual stock take still occurs.

Holding stock costs a business money and therefore there is great benefit in a business operator establishing tracking and control mechanisms to know exactly how much money is tied up in stock. Too much stock is an expense to the business and can lead to cash flow issues. Too little stock may mean that the business loses sales because they run out of stock. Not having the right stock to meet demand wastes money and also may cause customers to consider the business has a poor stock range and then to go elsewhere. The levels a business retains will depend upon the type and size of business and the market buying patterns and demand.

Finding the balance and having the right stock means that the business can satisfy demand, potentially increase sales, increase customer confidence in product/service availability, and improve cash flow.

It is therefore critical for a business to know what stock they have, what needs to be bought and what volume of stock to order, as well as to understand about how the stock moves - seasonally, some items more popular than others etc. Stock items that are perishable or seasonal influence the level of stock maintained. Perishable stock must be tracked from when the stock was received, and also the level of spoilage and waste that occurs.

It is also important for the business operator to know the optimum level of stock to be held, so that the business can meet demand, but not have too much money tied up in stock. It is not only the value of the stock that costs the business, but the other costs associated with holding stock, including insurance, warehousing, and distribution.

A stock management procedure should address:

- how often stock levels are reviewed, including legal obligations for stock;
- how and when stock takes are performed;
- what a stock record includes;
- where and how stock is stored;
- stock recording system to be followed, including tracking sales (whether manual or computer- based);
- maintenance of stock security;
- insuring stock;
- procedures for managing perishable stock;
- procedure to manage old or out-of-date stock;
- recording of damaged stock or stock theft;
- packing and shipping of stock for distribution (if this applies);
- recording of faulty stock and 'returns' of stock; and
- maintaining a 'first in first out' approach to using stock to ensure older stock is sold.

If the business has suppliers that will hold stock for them and distribute it directly to customers, this should be included in the procedures. For perishable stock, the procedures put in place must ensure out-of-date stock is removed and recorded. If staff are employed, ensure that staff are trained in and follow the stock management procedures.

### Stocktaking

Stocktaking will occur for both stock for manufacturing/sale and consumables. The small business could use Table 8.6 or can create a separate stock record. If using software, such as Stocktake Wizard or inventory in MYOB, details of stock will need to be inserted into the database for these kinds of programs. Accurate stock item records can include:

- item descriptor;
- a reference number for item;
- quantity in stock;
- cost per unit;
- selling price per unit;
- total value of number held in stock;

- location of the stock;
- detail of supplier;
- applicable tax; and
- any point-of-sale details if required.

To satisfy Australian taxation requirements, if the business has to do a stocktake, the stocktake records must include: the stock list showing each article of stock on hand and its value, who performed the stocktake, how it was performed and when it was done, as well as who valued the stock and the method of valuation. If software or an Excel spreadsheet is used, the formula for stock valuation is evident. Table 8.6 is an example of a spreadsheet with this information recorded in it.

Table 8.6 - Stocktake record

Date of Stocktake									
Stocktake done by									
How stocktake performed									
Valuation done by									
How stock was valued									
Item Descriptor	Reference #	Quantity in Stock	Cost per Unit	Selling price per unit	Total Value of Item in Stock	Location of Stock	Supplier Details	Tax	Point-Of-Sale Information

### How Much Stock and Stock Turnover Ratio

The business operator should work out how much stock is required to run the business. The ratio of stock turnover is a good indication. This ratio was noted in the financial chapter, chapter seven. The ratio enables the operator to see how much stock has been bought and sold or ‘turned over’ during the year. The lower the figure the less stock has been sold during the year. Some bank business websites have a calculator that can be used to work out stock turnover ratio. Check the reference at the end of this chapter.

Whilst this may be the basis for assessing likely turnover for the future, if the business is new or intends to grow, this will influence estimating the optimum stock levels. This figure combined with stock records will help the business operator identify stock that is not moving, which can be replaced by better selling items, and also help to determine minimum stock levels.

A business can benchmark itself against other businesses in the same industry to see how its stock turnover ratio measures up against the industry average. Understanding stock movement is useful to inform the marketing and business plan review. The stock turnover figure can also be used to demonstrate the strength of business performance if the business operator is looking at selling the business.

When making decisions about buying stock, the following should be considered:

- the ideal amount to be held;
- minimum level to trigger reordering;
- scheduling re-ordering to fit in with the delivery timeframes of the supplier;
- whether to establish fixed orders or interval reordering for stock (if use is predictable);
- alternative suppliers; and
- arrangements for emergency stock or if there are issues with stock (damage, lateness).

Monitoring stock levels should occur all the time through good record keeping. This may be performed automatically through the use of software when sales are made, or can be a manual system. A business should also perform an annual stock take and compare with previous year’s annual stock take. As noted earlier, an annual stock take may be a legal requirement for some businesses.

A manual system is most likely to be used by a business that has small volumes of stock and may include a stock book that records: stock bought and sold; item codes; price; number in stock; cost (value); and where item is located in storage. Tables 8.3, 8.4 and 8.5 or a combination could be used for stock recording for stock takes.

Computerised systems vary from quite simple programs to ones that are complex and include capabilities for shipping tracking and confirmation of receipt by signature. Some industry sectors have industry-specific software available and it is worth the business operator checking with their accountant or industry association about software that may be available. Other business operators may also be a source of information about suitable systems, because those who use the software will have information about issues and effectiveness of performance for business. For off-the-shelf software, the business operator may find it useful to check the internet for reviews.

### Just-In-Time Stock Management

A business may operate what is known as 'just in time' stock control, which means that a minimum of stock is held and is replenished only when stock is sold or used. Software is often used for tracking stock to support such an approach as it relies on a business having a very accurate stock records system.

If the business finds reliable suppliers and builds a good relationship with the supplier, they may be able to negotiate that the supplier holds stock or even sends stock directly to the customer. A good supplier may offer payment terms that mean the business could require a 30 day payment from customers and a longer timeframe to pay the supplier, thus assisting the business' cash flow.

#### Activity Ten

Raksha and Bella run a tourism gift shop business. Their income is seasonal and very busy between November and April. They hold stock that is manufactured locally as well as a range of imported goods sourced through an Australian souvenir wholesaler. Generally the value between opening and closing stock is between \$55,000 and \$80,000. The turnover is approximately \$450,000.

Should they do an annual stock take?

How should they record a stock take? You can suggest a manual or computerised method, but must indicate the information that is required for a stock take.

### Plant and Equipment Maintenance and Safety Records

A fundamental part of business operations involves ensuring that plant, equipment and tools are properly maintained and safe, the rationale being:

- business have generally invested a fair amount of financial resources in plant, equipment and tools, and the staff to operate/use them;
- maintenance extends the life of plant, equipment and tools, thereby potentially reducing costs of repair and replacement;
- the plant, equipment and tools are critical to producing/delivering the product/service; and
- failure and accidents cost business time and money.

Checking plant, equipment and tools should not be restricted to the maintenance and safety schedule. It is good practice that before use they are checked for wear and tear, damage, and signs of fatigue. Staff induction training should include this as standard practice. Some industry codes under Work health and safety for certain equipment require such action before use.

If the item is leased, maintenance is likely to be included in the lease. If the item is purchased, the operator guide will most likely indicate required maintenance schedule and list maintenance activities.

In preparation for creating a maintenance and safety schedule, it is recommended that the following steps are undertaken:

- research the plant and equipment to be purchased to find out about operational times, servicing requirements (hours of operation, distance, loadings etc), recommendations regarding use;
- consult other business operators or research forums on the internet for feedback about weaknesses or

issues relating to safety and performance;

- when purchasing discuss with the sales person maintenance and safety schedules and note any information that can be used in the business' maintenance and safety schedule;
- identify what plant/equipment and tools can be maintained in-house and what will require an external technical provider for example the photocopier, machinery that has to be calibrated and certified;
- train staff for the in-house maintenance and safety checks;
- ensure that there the proper equipment is available to undertake in-house maintenance and safety checks; and
- include maintenance/servicing costs in budget and cash flow.

If the business is hiring equipment short term inspect first and note wear and tear, evidence of fatigue etc and advise hire company. After use, provide feedback on the state of the equipment and its performance

A spread sheet such as in Table 8.7 can be compiled to record the maintenance, safety and certification checks required. Business operators may separate safety and maintenance checks, as safety checks should be carried out before each operational use as part of the standard operational procedures for running the plant/equipment/tool.

There are many examples of maintenance and safety checklists on the Internet that may be able to be adapted to suit the business' own plant and equipment and operations.

In conducting safety checks, issues/failure should always be recorded and communicated to management. In the event of an accident the maintenance and safety check records are likely to be investigated in seeking the cause of accident.

Check references at end of the Chapter for certification and safety information.

#### Activity Eleven

'Greatfun Parties' hire equipment for children's parties for kids aged between 3 and 10. There is different equipment available for 3-5 year olds, than for 6-10 year olds. The equipment includes inflatable jumping Castle, Wizard cave, Spaceworld, climbing structures involving bars, nets and climbing walls that are kit assemblies, ball pens and crawl pens that are also kit assemblies, as well as simple obstacle course equipment and team game equipment comprising of balls, bats, scoops, traps, nets and pots.

Outline some of the safety and maintenance required. You may need to undertake some research into children's play equipment to provide a bit of background for your comments.



## 8.5 DEVELOPING POLICIES AND PROCEDURES

Very small businesses and sole operators may not feel the need to develop policies and procedures, but once there are employees or contractors in the business and the business grows, the greater the need to develop policies and procedures to guide business operations, staff performance and behaviour, and work activity. However, it is recommended that policies and procedures for key activities are developed. These are then available to guide anyone who might enter the business, for instance to take care of it during long absences by the owner/operator, or when preparing for succession planning to provide a foundation for those taking on the business.

Policies and procedures enable the business operator to guide and control how the business is run and how the staff perform and ensure that the business operates legally and upholds regulatory requirements for operations, staff obligations, work health and safety, and ethically. Policies and procedures standardise how tasks and responsibilities are carried out and are therefore a management tool. They provide clear definitive direction about staff actions, responsibilities and accountabilities. They can help to protect both employees and the business. Policies and procedures can be used to guide the business through tough times such as through emergencies or severe economic downturns, and can improve business operations and productivity.

When businesses develop a number of policies, they usually keep a policy manual that lists all policies, provides a brief summary of each policy, note the policy purpose and the date approved, and the policy review date. Policies and procedures should be regularly reviewed and updated.

### Difference Between A Policy and A Procedure

Policies and procedures are different, but linked. A policy is an over-arching, high level document that sets out an organisation's specific direction, associated principles and required course of actions in a general sense, for a specific outcome. Policies therefore support an organisation's strategies to achieve its objectives and goals.

Policies identify rules and regulate how the organisation functions and the decisions and actions of its people. A policy also outlines decision processes and rationale for decisions within a given framework of objectives and goals. They identify who and what is covered by the policy and levels of approval required regarding items in the policy.

Procedures on the other hand abide by policies and support policy implementation. A procedure is a set of steps and specific actions to follow in order to deliver a consistent outcome or result that may be contained within a policy. Procedures direct actions and are rigid. Actions are explained and alternative actions provided where relevant. Procedures can include cautions and warnings and will also refer to the relevant documentation required for records and reporting. Procedures help to support quality assurance (dealt with later in this chapter) and maintaining standards for business operations and product/service.

Both policies and procedures should clearly outline what must be done to comply and be consistent and written so that they can be understood.

### Policy Development

As mentioned earlier, once there are staff involved in the business, there is likely to be a need to develop some policies as a way to manage and control staff and how the business operates. The business plan, business mission, vision, goals and objectives and business processes will help to determine what policies are required and the purpose for each policy. Once developed, policies should be included in staff induction programs to ensure that all staff are aware of the policies and the expectation that they will apply the policies in their daily work and behaviour as employees in the business.

Examples of common policies a business may have:

- Human resources - staff recruitment, staff training; leave and entitlements; work health and safety; performance management, disciplinary action and handling grievances;
- Customer service - including after sales and managing complaints; sales practices; record keeping; collecting and storing information;
- Financial management - purchasing, financial planning and reporting;
- Sales, marketing and promotions - including approval for the use of Trademark and logos and promotional products and collateral; maintaining consistent messaging and image;
- Quality assurance;
- Information technology use;
- Administration; and
- Emergency management.

## What Makes A Good Policy?

A good policy should be easy to read and understand and:

- contribute to delivering the business objectives and goals;
- have a purpose and desired outcome that is clearly stated;
- should have involved consultation with staff, and industry expert, where applicable;
- identifies what the policy is addressing and why it is important;
- identifies any legal requirements that must be met;
- clearly defines obligations of the organisation and its staff and consequences if these obligations are not met; and
- sets out desired courses of action, responsibilities and decision-making steps.

The checklist in Table 8.8 can be used as a checklist in developing policies.

Table 8.8 - Policy development checklist

Item	Detail	Check when done
Policy Title		
Policy version control and author		
Other relevant policies to which this policy is connected	Provide title and brief outline as to why linked	
Purpose of the policy	What issues or need or obligation does it address?	
Contribution to business goals and objectives	Outline how the policy contributes to business mission vision, goals and objectives	
Policy statement, purpose, goal	This will be specific to an area of business operation or desired outcome	
Personnel to whom the policy applies	People for whom the policy is relevant	
Definitions	Definitions of terms used in the policy	
Outline consultation undertaken	Consult with business partners and staff on what the policy should cover and possibly industry/work area specialists	
Gather information that will inform the policy	<ul style="list-style-type: none"> <li>• Check whether there are laws, codes of practice or other regulatory requirements that would underpin the policy;</li> <li>• Check whether there are reports of issues relating to the policy topic;</li> <li>• Investigate if the policy area has some industry 'best practice' guidelines;</li> <li>• Check if there are formal or internal established standards and principles that must be met by the policy or that the policy will support;</li> <li>• Check that the proposed policy will help to contribute to achieving the business' goals and objectives; and</li> <li>• Check websites for copies of similar policies or guidelines on writing a policy for the topic/activity.</li> </ul>	
Create a draft policy	Write the draft policy noting date and version and forward to staff to review (if relevant). If no other party is to be consulted, it is still suggested that a business colleague reviews the policy or a person with expertise in the area.	
Policy content	Who must abide by the policy and what happens if they do not. Any laws or regulations or rules set down by the business that apply.	
Finalise the policy	This would be following consultation and changes, if these occurred.	
Policy approval	Gain approval, or approve the policy and ensure that it is made available for staff. This may involve placing it on the intranet, providing copies to staff.	

Include a copy in the induction program		
Set a policy review date		

The structures of policies are very similar. The following headings provide some guidance as to how the policy would be set out:

- title
- policy number
- to whom the policy applies 'Applicability'
- version
- effective date
- approved by
- definitions and key words
- previous policy
- policy review date
- policy overview - description
- purpose/rationale/scope
- failure to comply
- policy details:
- policy statement
- required actions
- rules/regulations/performance standards
- associated procedures
- forms used.

#### Activity Twelve

Jordan heads up a CAD design area in a small business that custom designs sheds and storage areas for business, agricultural and residential use. He has become aware that a designer has been using his computer to purchase personal items and going to chat rooms. If the business was to develop a policy regarding computer use, list the policy headings and what would be included.

#### Developing Procedures

Procedures break down tasks and activities into steps that deliver policy intent and provide specific direction and instruction on how to perform the steps. Many small businesses do not develop procedures, particularly if they are sole operators. However as mentioned in the beginning of section 9.4, it is good practice to have procedures documented, in case others will be involved in the business due to absence and illness, or to assist with succession planning. Also procedures help to guide contractors and employees so that tasks are carried out to a consistent standard. Procedures are tools to train new staff and can help to contribute to a safer workplace. There are many industry codes of practice that can guide the development of procedures. Refer to the reference section at the end of this chapter.

Common areas for which procedures are developed:

- security – opening/ closing premises; safeguarding plant, equipment, tools and stock; worker security, operating plant, equipment and using tools, including emergency shut-downs, maintenance and safety;
- emergency response including individual incident response, maintaining business continuity, and premise evacuation;
- dealing with complaints;
- administration;
- accounting; and
- work health and safety including reference to codes of practice and incident reporting.

An example of a simple procedure would be:

Title: Closing up at night (Version 2)

Purpose: To ensure that the premises are secure at night. This procedure covers the steps to check doors, windows, equipment and set alarms.

Procedure:

1. Check all doors and windows are locked and bolted.
2. Turn off computer and unplug at the point.
3. Lock filing cabinet.
4. Check that no obstructions have been left in walkways, doorways or near the fire equipment.
5. Turn off the Zip hot water heater and air conditioning.
6. Turn off all lights, except emergency lighting.
7. Sign, insert date and time in the 'Security' book as the person closing up for the day
8. Enter the security code and set the alarm.
9. Close and lock the back door.

Records: A security book is kept recording who was the last to leave and therefore responsible for the close-up.

Table 8.9 provides a checklist to for use when developing a procedure.

Table 8.9 - Developing procedures checklist

Item	Details	Check when done
Procedure version control	Record date of procedure development, version and by whom	
Procedure title		
Purpose and scope	Outline purpose and what the procedure covers	
Staff responsibility	Outline who is responsible for implementing procedures	
Outline procedure	Divide into individual steps and decision points. This may be as a flow chart, checklist or number steps and needs to indicate: <ul style="list-style-type: none"> <li>• when actions are to occur;</li> <li>• how they are to be carried out; and</li> <li>• what tools and equipment are used</li> </ul>	
Documentation used	Provide examples of documents used (where applicable) which show how they are to be completed	
Records required	Outline when and how to complete records relevant to the procedure	
Procedure tested by staff	Testing is to make sure no steps are omitted or incorrectly sequenced	
Procedure approved	Sign off by relevant staff delegated to do so and dated	
Procedure review date		

#### Activity Thirteen

Write out a procedure for starting a lawn mower. Do not forget to mention safety checks and maintenance checks.

## 8.6 QUALITY ASSURANCE

### Quality Assurance

Quality assurance is one mechanism that can give a business an advantage over competitors. Quality assurance enables a business to monitor and constantly improve performance and the quality or standard of the product/service they supply. Quality assurance covers all aspects of the business and can be applied quite widely, for example from dress code, to performing tasks, achieving a desired quality of product or service and delivering a set standard of customer service.

A quality assurance system therefore directs employees to perform tasks to a specific standard to achieve a quality output. It provides direction and goals for workers and can foster a culture of pride in delivery high quality products/services.

To be effective, quality assurance should be applied across the entire business, because different elements of business processes influence the quality and standard of other areas in the business. An example is customer service, where the following other areas in the business do affect the quality of customer service: the product/service quality, efficiency of production/service delivery, effectiveness of dealing with complaints, honouring guarantees, product or delivery reliability, and quality of inputs (raw materials, components).

Developing any quality assurance system is based on a number of key elements:

- precise organisation;
- documented rules and procedures that must be followed and defined standards that are to be met (these may include regulated standards, such as for safety);
- precise instructions to perform tasks that include directions about checking conformance to standards;
- defined product/service specifications that meet the standards;
- control mechanisms for suppliers to ensure supplies and inputs meet required standards;
- measurement or testing procedures and equipment;
- ways to control non conformance;
- record keeping;
- reporting; and
- corrective action for non-conformance.

Many small businesses don't formalise quality assurance, considering that it will take too much time and become onerous to apply. However, this does not need to be the case. At the simplest level, it is about:

- documenting what defines the quality and/or standard of the product or service the business delivers to meet the demands and expectations of customers;
- examining the business processes and the procedures that are in place to make sure that they will deliver the desired quality and standard, or modifying them if they don't meet the standard; and
- ensuring that they are followed through regular checks and monitoring.

If however, a business is interested in developing a more robust and thorough quality assurance system, a quality assurance plan can be developed and then implemented to put in place a quality assurance system. Details of what can be in the plan are set out below:

Quality objectives - begin by outlining quality objectives for the business in terms of customers needs and expectations. The quality objectives may well be reflected in a business' vision, mission and business objectives already, but have not been set out specifically in a quality assurance management plan.

Business process map - the plan can contain a business process map that captures what happens in the business from input to output stage and noting where quality assurance checks may be applied

Business procedures - the plan will refer to procedures that should be written so that by following them the delivered outcomes will meet the quality standards identified in the objectives and prevent non-conformance. The procedures will also cover what must be done to correct non-conformance and can be referenced in the business process map.

Staff roles and responsibilities - the plan will set out the roles of staff responsible for achieving the quality standard objectives. This may include a role for a quality assurance manager, or be built into a supervisory or inspectorate role. The staff member's role and line of authority should be explained and the channels of communication used to report on quality assurance outcomes and non-conformance. Larger businesses are likely to have a person delegated specifically to a quality assurance manager role.

Specifications and standards - The plan will outline the specifications and standards that must be met through the business process and documented in the procedures. This may include descriptions, quantifiable measures, standards and metrics. The standards chosen can be checked against industry benchmarks and regulatory requirements that may apply.

Quality criteria - the plan will outline what quality criteria that must be met at each stage of the business process e.g. having no orders overdue by more than a day; having a 98% perfect product run for each manufacturing run.

Product/service deliverable - the plan would describe the end product/service, timeframe for delivery, resources required and the required quality and standard for the resources. This is like a summary of what is delivered by the business to customers.

Quality control mechanisms - the plan will outline how the quality standards will be monitored and controlled, including audits, spot checks and tests, reporting and recording.

One of the most well-known quality standards is ISO 9000, which was created by the International Organisation for Standardisation, a federation of 132 national standard bodies. The standards in ISO 9000 quality management systems are general so that they can be applied to any manufacturing or service industry. They do not relate to specific products or services, but deal with the processes that create them. To have this certification, a business must meet all the criteria in the ISO standards and pass an audit. In some industries this standard has high regard.

### Activity Fourteen

Kerry runs a small home-based business making semi waterproof play overalls for children 2- 4. She prides herself in the high quality of her work and materials. If she wanted to put in a quality assurance for her products, using the headings above for a quality assurance plan, briefly outline what might be included in each section about her business.

## 8.7 BUSINESS PROCESS MAP

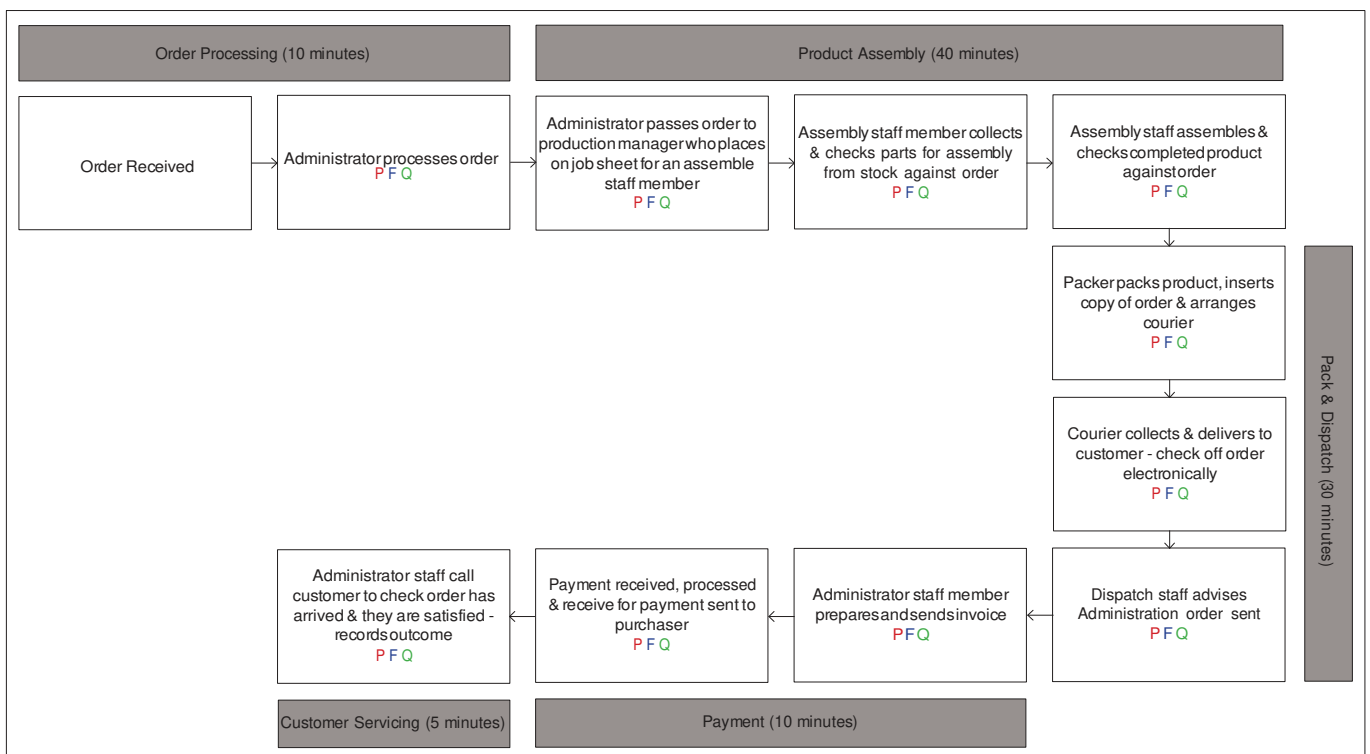
It is useful for a business operator to be able to map out or draw a flow chart to illustrate the business processes involved in delivery of the product or service. This includes manufacturing procedures (if relevant), staff involved and their role. It is useful to note where a policy applies or standard procedures are available to guide a particular stage or activity in the business process. Mapping the process also enables the business operator to analyse and refine the processes to improve efficiency, consistency, higher quality and cost reduction.

Business process mapping is useful when selecting premises, because it becomes obvious about layout needs for close proximity, access to power, pathways for equipment etc. to achieve efficiencies.

The production process encompasses the full spectrum of business activities from receiving the orders and material inputs through to actually delivering the product or service to the consumer. By documenting the process, efficiencies in flow become more evident and the business operator also becomes aware of the critical dependencies within the business production process.

The simple business process flow chart in Figure 8.1 shows the work flow for a business that takes orders and assembles goods that are delivered by courier to customers. The business process aims to have orders correctly assembled, checked and dispatched within 2 hours of receipt of order. The red 'P' denotes a procedure is in place, and the blue 'F' indicates a form is used. The green 'Q' is where a quality assurance check occurs against procedures and required specifications noted in the procedures for the parts, product or the process.

Figure 8.1 - Simple Business Process Flow Chart



Business process mapping can be a lot more complex than above, including decisions points and options for action depending upon decisions. The map can record actual specifications at each stage, note work health and safety issues that must be applied or monitored at particular points, including application of codes of practice, and then an actual map of the physical layout of the premises. Checking images of 'business process mapping' through Google will illustrate just how varied process maps can be. What is important is that they are clear and useful and can inform other business planning activities, and improve staff understanding about the dependencies and connectivity between areas of activity.

There are many software programs that can be used to map business processes, but often with the simpler processes and business arrangements, it is just as easy to sketch, whiteboard or use sticky notes.

Examples of more detailed information that may be included in business process mapping are:

- the specifications or description of the end product/service to be delivered;
- time it takes to produce the product for sale/deliver the service;
- work health and safety elements;
- type of premises required and the best use of layout in those premises to support efficient handling;
- processes involved that change inputs to the output product/service;
- the materials required;
- the equipment, plant, tools and consumables required;
- costs of production;
- staff resources required;
- standards and quality control checking points; and
- application of policies, codes of practice or procedures.

#### Activity Fifteen

Sketch out a business process map for a business that sells freshly squeezed health juices on demand. They have one staff member who takes orders and money, four staff members who squeeze the juice using high powered juicers and one staff member who cleans and rinses juicer fittings as they are swapped over. Orders are given a number which appears on a screen (or if technology fails, yelled out) for purchasers to collect and self serve for covers and straws.

## 8.8 TIME MANAGEMENT, TRADING HOURS AND SEASONAL VARIATIONS

In terms of business operations, effective use of time is critical. This means not only trading and dealing with customers, but also setting aside time to manage the business. Many small business operators work in the business and work very hard, but don't work on the business. In order to plan for sufficient time to undertake not only delivering the business product/service, but also to administer and manage the business, the business operator should create a timetable and calendar that covers the following:

- opening and closing times (if not an online business), that reflect customer expectations, industry standards and competitors (where possible);
- financial management and banking activities;
- administration – filing, record keeping, taxation obligations;
- human resource management if staff employed – time to meet with staff on a regular basis;
- marketing – must be done regularly, not just when sales are low;
- billable hours per week, if the business is a service or trade business (developed when creating cash flow and other financial tables);
- personal time/family time to ensure that the business isn't all consuming;
- business planning dates and review dates for other documents; and
- staff and operator holidays, public holidays and school holidays as this can affect business operations or markets.

Many businesses have high and low periods caused by seasonal variations in demand for their product/service. Managing a business that has significant, but particular peaks and troughs is more challenging and requires sound financial planning to enable sufficient funds to be available for business fixed costs during the troughs. However, on the plus side, the troughs often provide time to work on the business and should be used for such activities.

#### Activity Sixteen

Bobby and Jalina run a doggy day care centre. It is open from 5.30am to 7.00pm. They are open every day except Xmas day and have two back-up couples who mind the centre on weekends on a roster. Create a timetable for the operation of this business. It should include administration time, time for business planning and marketing activities, maintenance of facilities etc. The centre can hold up to 20 dogs. Each dog is fed either treats left by owners or from the centre, once a day after being exercised. Pens have to be cleaned.

## 8.9 LOGISTICS AND DISTRIBUTION

### Introduction

Logistics means the transport, distribution and storage of goods. Many small businesses store and distribute their products themselves, but for those who do not, this section provides some guidance on choosing transport and storage providers. Whatever logistics solutions a business uses, they must be efficient and effectively monitored to ensure correct delivery, on time. As consumers, we know only too well how frustrating it is if an order we have with a business is late, damaged, or lost, and how these issues affect our view of the business that was supplying us. Efficient distribution and short delivery time are elements of business operation that can give it a marketing edge.

Table 8.12 - Supply chain mapping

Supplier	Information	Raw Materials/Parts	Utilities/Services	Technology	Specialist expertise	Communications	Packaging	Manufacturing Plant/ Equipment	Maintenance Services	Security	Business Services (Accounting, Marketing, Legal, Insurance)	Transport	Storage	Distributor	Retailer	Wholesaler	Market Segment	Consumer
Weller's Vegetable Wholesaler		Vegetables supplied daily																
Energex			Electricity / Rates															
Sunwater			Water; Bulk water suppl															
Wilson's Waste Removal			Waste - hard and liquid															
Silca's Laboratory Service					Food testing													
Milton Smith					Dietician													

Distribution and storage also occurs internally in a business that comprises different departments and/or locations. The same principles apply regarding movement and storage of inventory as for external transport and storage suppliers. This includes appropriate storage and efficient procedures for moving and tracking inventory.

Chapter 7 included a section on distribution and provides a tool to assess distribution options in Table 7.5, this section therefore deals in more detail with setting up business processes for transport and storage.

### Transport

With internet purchasing, there has been an increase in courier delivery services and there is considerable competition to claim rapid delivery timeframes, which are often quite costly, both for the business and the consumer. Many businesses offer lower cost, slower delivery choices, as well as more costly rapid services.

Some businesses don't actually hold the stock, but forward orders to a warehouse or distributor for direct distribution to customers. When this is the case, it is important that the business from which the purchaser orders advises a timeframe for delivery which the warehouse/distributor's can fulfil. Larger businesses may use contract logistics suppliers that offer complete transport, storage and distribution services. Smaller businesses may deliver goods themselves, employ drivers, contract drivers or use courier services.

Whatever method is chosen, it must be affordable, reliable and trackable. In making decisions about transport options consider:

- speed versus cost;
- industry practices and what other similar businesses use;
- different modes of transport and their associated costs, including type of containers in which items are packed;
- whether specialised carriers are required e.g. refrigerated;
- whether the business or transport supplier will pack goods;
- the delivery timeframes consumers expect;
- what kind of insurance and the cost to cover goods in transit;
- what risks there are in the transport choices and what mitigation strategies will need to be put in place;
- loss, damage or delay impacts and the terms and conditions different transport suppliers offer in relation to mitigating these particular risks;
- tracking methods for delivery; and
- a delivery agreement if transport and distribution is out-sourced.

To compare transport services the small business operator should contact suppliers and request details of services and costs. These can be noted in a Table 8.10 so that comparisons can be made.

Table 8.10 - Comparison of Transport Providers

Supplier	Contact Details	Transport Capabilities	Delivery Terms & Timeframes	Cost- including for door-to-door	Insurance	Tick is worth requesting a quote from this supplier	Tracking System	Flexibility -such as backfilling, shared loads

### Activity Seventeen

Verity runs a gourmet cake business and has been delivering the cakes herself. She has 20 outlets in a fairly small geographic area. She has had inquiries from beyond her current delivery area from another 8 places, and knows that she cannot deliver these herself. What are her options and recommend one option? Explain why you have made the choice you have as her best option.

### Storage

Storage of goods and raw materials is expensive. It is not just the cost per square metre, but additional costs, for example security, insurance, and the fact that money is tied up in the stored items.

Many small businesses store goods on their own premises because it is cheaper, more convenient and the level of goods/materials requiring to be stored doesn't warrant a separate premise or storage/warehousing supplier. If extra storage is required, but it is not a large amount of space, some businesses use self-store facilities, purchasing the space that suits the volume of goods to be stored. However many of these facilities do not have a controlled storage environment.

For larger amounts of goods/materials, a business may choose a storage company. Access to stored inventory is by appointment. The facility has permanent staff that manage the facility. They have systems and procedures in place for receiving and releasing goods, quality control, stock control, procedures to deal with loss and damage to goods, removal of damaged/obsolete goods and disposal. These suppliers often use computer-based programs to plan and manage the warehouse. The main objective of such facilities is to provide efficient, cost effective warehousing facilities for business. However, they can be expensive.

What must not be forgotten about storage of goods and materials is that it must mean they are easily and quickly accessed, and that the storage arrangements keep items in good condition. If items are for consumption, or deteriorate over time, it is very important that the business operator has in place systems and procedures that ensure the integrity of such goods/raw materials.

What are the key elements of good storage?:

- well organised;
- clean and easy to keep clean;
- controlled environment (dry, dust and vermin free, appropriate temperature if this is applicable);
- secure;
- efficiently packed and stacked to make the best use of space, which can minimise cost;
- excellent records system and mechanism to find and retrieve items with accurate records of remaining inventory; and
- fire protection - for example fire equipment such as smoke detectors and sprinklers/ hoses.

If the business operator chooses to manage their own storage either on their premise or in self storage, the following Table 8.11 has a checklist that can help select, plan and set out a storage area: Table 8.11 - Preparing storage area checklist

Item/Action	Check
Determine space need	
Determine speed of access requirements	
Determine access requirement for parking for deliveries and distribution	
Determine whether an area is required to sort, label, pack goods (if required)	
Determine best location (if not on-site) proximity to business or transport routes	
Determine security and fire safety provisions	
If on-site, determine best location for storage, given flow of business operations, deliveries and distribution needs	
Determine desired level of maintenance of site (cleanliness, safety, security, accessibility)	
Determine floor and shelf weight required	
Identify environment control needs	
Identify handling equipment needs	
Nature of goods to be stored and any special needs in relation to them	
Determine likely duration of storage	
Waste disposal provisions	
Employee facilities required if staff will be there regularly	
Charging of equipment batteries, if required	
Space arrangements required - movement, stacking, loading, unloading, disposal area	
Determine packing and storage space and equipment needs	
Determine whether there will be hazardous items (combustible, corrosive, poisons, compressed gas etc.) and if so, storage to comply with regulations (usually separate to general items)	

To run the storage area effectively the business operator should put in place systems and procedures to maintain the integrity of the stored goods and enable inventory to be quickly retrieved and the level of inventory tracked. These include:

- record, track and manage movement of inventory;
- removal and disposal of damaged/obsolete inventory;
- detection of stock loss/damage;

- quality control of systems and of stored inventory; and
- work health and safety (particularly in relation to operation of lifting and moving equipment).

### Activity Eighteen

Tareah and Kyra run an art class and supply business. They hold classes in different locations, advertising in local papers and school newsletters (for holiday programs) as they run both child and adult classes. Generally they are using hired halls, classrooms, outdoor locations. The classes are based on themes and media and always conclude with an exhibition. They also have a website from which people can purchase their kits and DVDs. As a mobile business, Tareah and Kyra need to store art materials. Some items are temperature and humidity sensitive and some items are quite flammable. They require about 6 cubic meters of space all up. Undertake some research and list potential storage options using table 8.11 to help determine needs.

### Online Business Operators

Some aspects of operating a business online have been covered in Chapter 3, relating to risk, and chapter 6 in relation to marketing. This section looks at some of the main elements of managing online business operations. Information for this section is drawn from the Australian Government's Digital Business website. Check the reference at the end of this chapter for detailed information and guidance on all aspects of setting up and running a business online.

Once a business has established its online presence, there will be specific online business operations that should be regularly undertaken to run the business. If the business employs staff, some of these tasks may become role responsibilities and have documented procedures to be followed. These include:

- regularly analysing and reporting on website traffic and use in order to improve marketing, product/service demand and respond more effectively to customers' needs;
- regularly updating the website to keep the content interesting and current;
- managing social media mechanisms that are being used for promotion and customer relations;
- updating the back-up of the website each time it is updated;
- monitoring performance from online marketing tools and regularly adjusting these;
- regularly checking search engine optimisation to remain at the top of the heap;
- implementing strategies to increase web traffic;
- attending to online customer service that may include email response, online chat rooms, developing and keeping updated 'Frequent Asked Questions';
- monitoring the 'Stay Smart Online' website (refer details at the end of this chapter) and 'ScamWatch' managing online feedback, if this is in place;
- manage online market places, if the business is using this mechanism to sell;
- managing records and data associated with the business - these may be stored locally, but increasingly 'cloud' environments are being used (Basecamp and Dropbox are two examples, also collaborative cloud mechanisms such as Google Drive, Google Apps and Soho); and
- regularly backing up data in more than one form (hard drive, USB, Cloud, external hard drive etc.).

### Activity Nineteen

Tom and Jerry are two chefs who have decided to set up a website to sell their recipe books, DVDs, sauces and spice mixes, kitchen equipment and provide an online chat room to discuss menus, food preparation, cooking tips etc.

What business processes should they put in place to maintain their online business?

## 8.10 SUPPLY CHAIN MAPPING AND MANAGEMENT

### Introduction

A supply chain can be internal to a business between its departments or different work areas. It can also be external to the business, where the business is part of a supply chain in the industry sector in which the business operates. The supply chain shows the flow of resource, funds, information, and expertise up and downstream involved in producing a product/service and bringing it to the market.

Main activities in the supply chain are associated with the buying, manufacturing/assembling or service provision, storage, transporting and distributing goods (if applicable), and selling the good or service to consumers. Critical to high performing supply chains is the efficiency of the individual business' involved in the supply chain. Poor business operators in a supply chain jeopardise the integrity of others within the supply chain. For this reason, business operators should be familiar with the other businesses in their supply chain and the performance and reputation of their operations, and seek to work with them to strengthen and improve supply chain performance, or find alternatives.

Chapter 5 looked briefly at supply chain risk management, particularly in terms of developing strategies to include in a business continuity plan. This section provides more detail about supply chains, supply chain mapping, and supply chain management, not only for risk, but to develop a competitive and resilient supply chain.

### Globalisation and Supply Chains

Globalisation has greatly impacted on how we do business. It has increased the volume of potential target market for consumers and suppliers. It has extended the geographic spread of supply chains. Globalisation has also increased competition and connects local and international economies. It has created supply dependencies for industries across continents, introducing incredible opportunities and yet also posing threats to businesses operating in this global market place. It has increased the volatility of supply and demand, influenced by factors often occurring in other countries or as flow- on effects from global economic downturns. Currency fluctuations are one example.

Supplying internationally introduces new challenges such as having a business that is active 24 hours a day, time/distance /cost issues for transport and distribution, greater vulnerability to the effects of currency fluctuations on business profitability, and communication challenges reliant on technology. With a global market place, consumer buying patterns and expectations have also changed, with an expectation for speedier communication, secure payment processes and trackable delivery options.

Small businesses that import/export products or services, or are Internet-based businesses are particularly affected by globalisation. Businesses that provide products or services to meet a local, regional or national market place only, can be less vulnerable to the influences of globalisation.

What does globalisation mean for managing a small business and supply chains? It has made control more challenging and introduced cheap products from overseas into many supply chains and markets. Trends and buying patterns change rapidly and combined with global social communication networks means the life cycle of products is shortened. It has made supply chains complex; delivery, transport and distribution potentially more expensive; and has meant that supply chains now often incorporate multiple suppliers contracted in different countries, to supply to into that country, rather than exporting the product/service.

### Supply Chain Mapping

One way for a business operator to gain a greater understanding of his/her supply chain in order to develop strategies to manage it, is to map it. A supply chain map shows the inputs of information, goods and services used in manufacturing or preparing to deliver a service, including specialist expertise and equipment; the use of technology and other business service providers; utilities and services, the output product/service, the suppliers of transport and distribution networks if applicable, the target market segments and the consumer.

Mapping assists the business operator to understand:

- the connectivity and inter-dependencies between different parts of the supply chain;
- the vulnerabilities, risks and inefficiencies;
- the geographic influences affecting delivery times, transport and distribution channels, costs and reliability;
- specialisation (of skills, technology, other plant and equipment used).

Table 8.12 is one way to map a supply chain. The suppliers are listed at the side, including back- up/alternative suppliers and the type of supply is listed across the top. The boxes under the list across the top can be shaded to indicate what the supplier at the side provides. The box can also contain a description of what is supplied and the terms of supply, if more detail is required (refer to examples). Another way to map a supply chain is in a flow diagram, see Figures 8.2 and 8.3.

Checking supply chain map images on Google will illustrate just how different supply chain maps can be.

Figure 8.2 - Supply chain map for an environmental test service

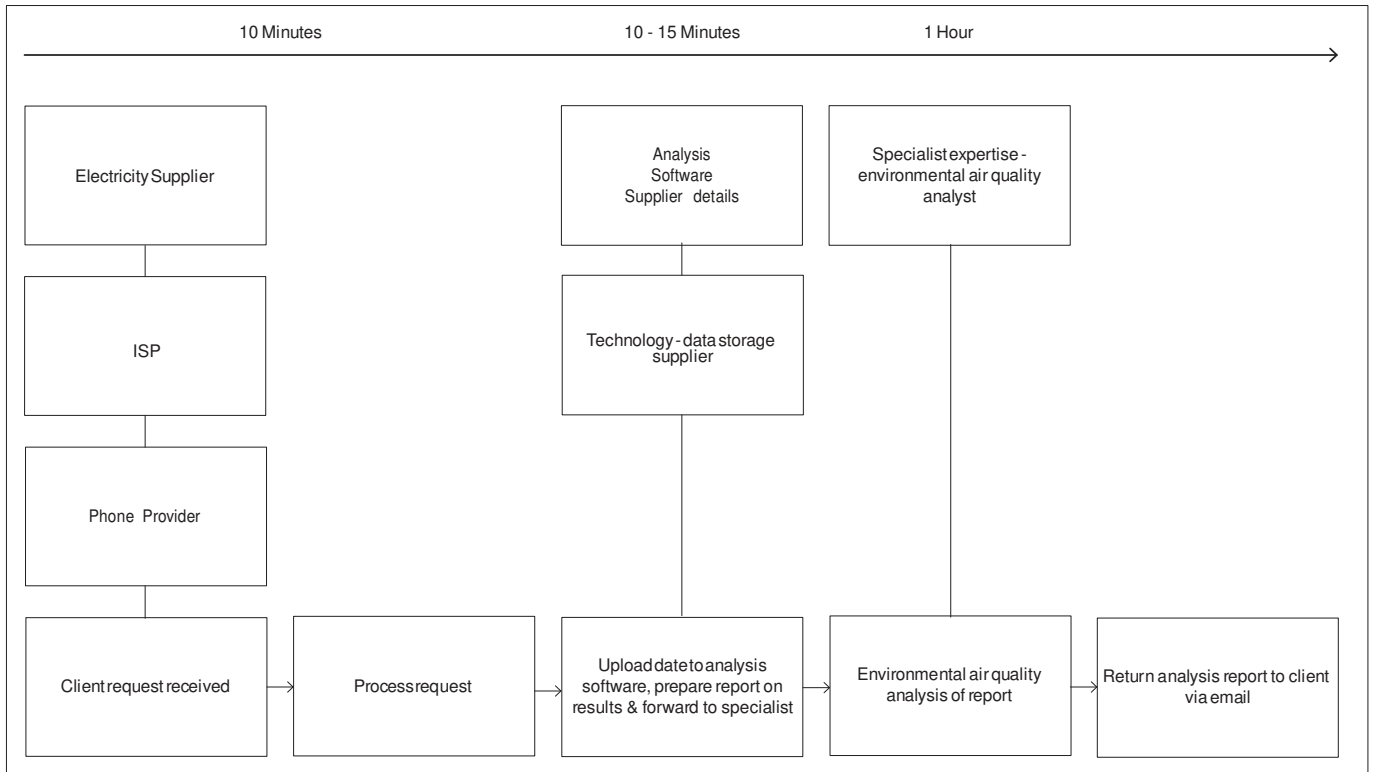
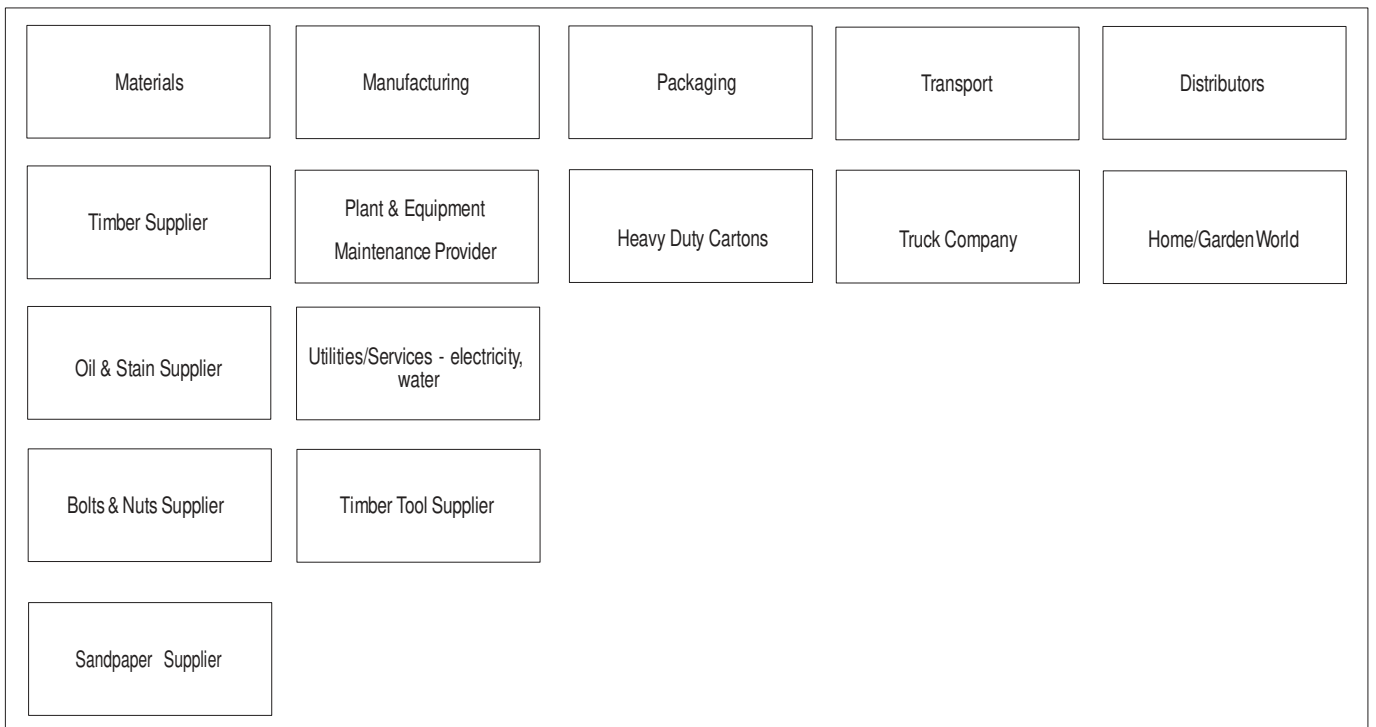


Figure 8.3 - Rustic outdoor timber furniture manufacturer timeline



### Activity Twenty

Map out a supply chain for one of the following:

- A car trailer manufacturer; or
- A mobile car detailing business.

### Supply Chain Management

What is supply chain management? It is monitoring and managing the up and downstream flow of supply to deliver a product or service to the market so that customers receive goods and services that meet their needs and demands. It is also so that the businesses in the supply chain achieve a competitive advantage over competitors' supply chains through efficiencies and cost reduction.

### Supply Chain Issues

Supply chains are ideally lean, efficient and responsive to market demand. The effectiveness of the whole chain is influenced by the performance and capacity of the individual member businesses.

Key issues that affect how well as supply chain operates include:

- inefficiencies relating to waste and under-utilisation of: inventory, labour, machinery and equipment, space, technology;
- inefficiencies as a result of equipment failure;
- time lags and delays in one part of the chain with flow-on effects to other parts;
- inability of supply chain members to manage uncertainty and variability of supply and demand;
- wastage, damage and spoilage;
- poor cost control;
- limited knowledge of the end consumer;
- recalls and bans on products or raw material inputs;
- changes within individual businesses such as increased costs and new products, with flow-on to other parts of the supply chain;
- managing multiple markets/customers resulting in competing priorities for supply and production;
- poor coordination and integration of systems within supply chain businesses; and
- break-down of relationships across supply chain.

### Supply Chain Risk Management

Risks can be ones that are outside the control of the business operator such as interruptions or changes in supply and demand, political unrest or change, environmental issues and factors such as climate occurring, economic risks such as downturns, terrorism, social risks, physical limitations of a supplier's location or capacity to comply with regulations, legislative changes, changes to supply business or industry operational capabilities or ones that are within his/her control.

Internal risks that can affect the supply chain could include disruptions to production and internal processes, machinery breakdown, loss of utilities, loss of key personnel, general business risks resulting from poor management, planning, risk management, workforce issues such as strikes and go-slow.

Any disruption/interruption to a supply chain will cost the supply chain member businesses to lose money and possibly customers, and if unable to operate for some time, they may also lose staff. Business reputations may be damaged and there could be penalty payments for non-delivery for some businesses.

As noted in Chapter 4, the key to removing or reducing risks to the supply chain is to be prepared for them. To do this the business operator should analyse the supply chain to identify risk areas and weaknesses and develop strategies to overcome them as part of the supply chain management. Supply chain contingency planning should be included as a sub section of the business continuity plan, and may be broken into individual incident response sub-plans to cover things like: loss of utilities and services, machinery break down, transport disruption.

### Benefits of Supply Chain Management

If a supply chain is not effectively managed, then interruptions to supply or failure in the distribution end of the chain can have serious impacts on participating businesses. Supply chain failures reduce profit, affect cash flow, decrease market share and can damage business reputation and customer confidence in the business.

Effective management of the supply chain can help make a business more competitive, reduce costs and timeframes for delivery. If supply chain members work together to ensure that the chain is efficient and responsive, then when external impacts occur such as climate events, strikes, regulatory changes, all members can work together to minimise the impact on the supply chain and therefore on the individual businesses. Good relationships and communication are therefore essential across the supply chain membership. Good management supports the businesses by:

- enabling businesses to have adequate inventory;
- reducing wastage;
- providing good communication between buyers and sellers;
- greater efficiency in the use of raw materials and equipment;
- making the best use of employee effort and finance;
- recognising business inter-dependencies and encouraging businesses to work together;
- reducing costs; and
- sharing risk and collectively addressing the risk with other businesses in the supply chain.

### Supply Chain Management Activities

A well managed supply chain is based on processes and systems that ensure the supply chain is coordinated, and involves collaboration between different partners, suppliers and organisations where necessary:

- map the supply chain;
- establish relationships with suppliers and customers (i.e. up and down the supply chain);
- collaborate on developing a high performing supply chain;
- assess risk areas and develop mitigation strategies;
- monitor the market and economic trends;
- anticipate issues (impacts from economic downturns, climate events, legislative change impacts on costs and capacity to deliver etc.);
- discuss with other members cost control strategies– freight, labour, technology, regulatory demands, building economies of scale – identify critical ones for which actions can be developed;
- identify global sourcing opportunities where practicable and relevant; and
- encourage all members to develop supply chain contingency plans to protect their own capacity to participate in the supply chain.

Table 8.13 is a checklist for supply chain performance and management. The business operator can use this list to identify what factors are likely to affect his/her supply chain and then to propose mitigation action.

Table 8.13 - Supply Chain Management and Action Checklist

Factor	Likelihood of Occurrence (low,medium, high)	Impact (low, medium, high)	Consequence	Mitigation Action
Machinerybreakdown			Cessation of production; loss of revenue; cost of repairs or alternate production supplier	Ensure maintenance schedules are followed. Source possible backup machinery or manufacturers with space capacity
Delay in receiving raw materials, parts, goods				
Inputs unavailable (different reasons will result in different mitigation action)			Cessation of production	Use backup alternate supplier. If shortage is due to external factor affecting the suppliers industry, potential alternate products/service may need to be investigated
Wastage of machinery capacity				
Wastage of inputs				
Fluctuating demand				
Fluctuation in supply				
Seasonal supply				
Damaged supplies				
Increased costs of inputs and/or overheads				

New regulations affecting either processing/ manufacturing or end product and its sale				
Interruption of utilities/ services				
Transport disruption				
Debtors in supply chain				
Inability to pay creditors in the supply chain				
Failure of communication or other technology				
Loss of market				
Cashflow issues				
Recalls and bans				
Event such as fire/ industrial accident				
Other				

### Activity Twenty

Complete Table 8.13 in relation to:

- A business that provides pool maintenance and on-sells pool maintenance supplies; or
- A business that manufactures curtains and blinds.

## 8.11 MEMBERSHIP AND AFFILIATIONS

Although not a business process, membership of business and industry organisations can assist the business operator. Such organisation may provide members with benefits such as reduced cover for insurance, opportunities for training, industry information and assistance for example when regulations change, industry benchmarking and access to specialists in the sector to help the business operator. Membership usually costs so the business operator will need to consider the costs in relation to the benefits of belonging.

## 8.12 BUSINESS EXPERTISE

Developing efficient and effective business processes will benefit from discussion and assistance from business experts. These may include:

- Accountant;
- Inventory management;
- Manufacturing process and efficiency experts;
- Logistics;
- Export market advisors;
- Supply chain management advisor; and
- Systems and procedures analyst (such as specialist in lean manufacturing practices).

### DISCUSSION

For class groups or for those studying by distance, discuss with a group of friends or colleagues:

A business imports electrical computer components to insert into remote controlled toys for children 8 and above. The toy moulds are also imported from China, to a design specification from the business. The products are assembled at the business premise, packed and forwarded to a distributor that distributes to toy shops.

Discuss what supply chain risks there are and how this business can mitigate these risk.

On completion of this chapter, ATIs 1, 2 and 3 (the business plan) should be done.

## 8.13 OPERATIONAL PLAN ACTION PLAN

Table 8.14 - Operational Action Plan

Operational Action Plan	By When	By Whom	Cost	When to be reviewed	Completed
Start-up					
Details of plant & equipment prepared					
Details of inventory prepared					
Technology requirements in place					
Web page prepared					
Online sales set up					
Customer communication in place					
Payment procedures set up					
Warranties & refund policy & documents in place					
Supply chain contingency - alternate suppliers in place					
Quality control systems in place					
Ongoing					

## 8.14 REFERENCES

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## 9. FINANCIAL MANAGEMENT

### INTRODUCTION

The financial management plan within a business plan is the foundation for both setting up as well as running a business. The financial plan sets the business' financial objectives and goals and looks at the costs of getting started and running the business. The plan also makes financial projections, based on sound rationale developed through the financial planning process. The financial projections can help you steer a course to achieve the financial objectives and goals set for the business.

It is important to monitor the financial status of your business, and make adjustments to the plan to be able to achieve your financial goals for the business. Monitoring a business' financial performance is also a risk management strategy and is critical to helping the business stay in business by enabling you to be aware of financial issues or changes as they start to occur and before they become critical. This means that timely corrective action can be taken.

This chapter discusses financial objectives and goals; outlines set up costs, so that the initial capital and cash needs are known; discusses options for sources of funding; links to the marketing plan by outlining the pricing strategy and sale projections; looks at operational costs and then provides the tools to set up records for monitoring and management. It is strongly recommended that in preparing the financial plan part of a business plan that the business operator consults an accountant or financial advisor.

### 9.1 FINANCIAL OBJECTIVES AND GOALS

The financial objectives and goals of the business provide a yardstick to measure business performance and also to guide business decisions, for example: to reduce business activities or expand the business; borrow funds; invest in new plant, equipment or expertise; or to undertake research or innovate. The Vision and Mission of the business, and business objectives and goals help to shape the financial objectives and goals.

For example a business may have as an objective to increase its customer base in the first year. The increase may be by a specific number such as an increase by 40 customers. A financial goal may be that an average sale of \$200 per year per customer is achieved or that a net profit of \$40,000 is achieved. Financial objectives and goals will be different for each business depending upon the stage of the business, the type of business, the market and external factors influencing the business and the business resources that are being used. In developing financial objectives and goals, the following areas should be taken into account:

- desired sales revenue/turnover – what sales revenue do you want and need to achieve?;
- cost of goods sold and/or overheads – make sure you identify all your costs;
- other expenses that will be incurred by the business;
- personal drawings – how much do you need to draw from the business?;
- the break-even point – how much income or what sales are required to make sure that you can pay all your bills; and
- desired gross and net profit – what percentage or dollar figure do you want as a profit/return on investment in the business – if you have invested in your business, what level of return do you want?

Remember objectives are broad and general, whereas goals are specific and should be clearly defined, achievable, measurable, have a timeframe in which they are to be achieved, and are supported by actions to deliver them. A start up business will have different financial objectives and goals compared to an established business. To help develop financial goals and objectives it may be useful to benchmark the business against other businesses in the same industry. Sources of benchmarking in Australia are in the reference section at the end of the chapter.

Financial objectives may include: increasing sales or profit, reducing costs by a certain percentage, attracting \$200 000 in investment, generating sufficient profit to be able to invest in new product development. Financial goals may stipulate the actual amounts such as \$300,000 sales revenue, 15% cost reduction, or net profit of \$60,000.

#### Activity One

Sparkling Swimming Pools is a new business that has just started. It is near to a new residential development of 3000 homes. Two other pool services are in the area. Suggest some financial objectives and financial goals for this business.

## Assumptions

Because you cannot know all the costs and projected sales, financial objectives and goals, and cash flow forecasts will be developed based on a number of assumptions that affect a business' finance. These may include things like, but are not limited to:

- interest rates;
- anticipated selling volumes;
- average selling price;
- anticipated selling and distribution costs;
- tax rates;
- depreciation;
- wage rates;
- estimated fixed costs;
- time frame from production to sales;
- anticipated sales growth;
- impact of seasonality;
- average debtor payment timeframes; and
- average creditor payment timeframe.

In making financial projections it is important that the business operator indicates the assumptions and associated explanation upon which the projections are based. For example loans calculated at an interest rate of X%, anticipated sales in the first year of XX units; or anticipated sales growth of 10% for the second year that is based on having established a customer base in the first year and then actively expanding and targeting this customer base for the second year.

Clearly defining your assumptions provides the context and rationale for your cash flow projections. If a business operator is seeking loans or investment, the bank or investor can then understand the basis for the projection figures. Whilst preparing the financial plan, it is suggested that a list of assumptions is compiled and noted, particularly as the various financial tools for recording and reviewing the business' finances are developed.

For a new business, it may help to look at benchmarks from similar businesses to make sure that outlandish assumptions are not made, and once a business is established, previous financial performance can be used to develop some assumptions, as well as benchmarking with other businesses in the same industry. If it is a new business, reference can be made to findings in the market research such as the size of the market, price that customers will pay, and anticipated sales volume.

### Activity Two

'Fantastic Nails' has been operating for one year, has a regular client base of 25 people, with an average of 5 clients a month being one-off visits for special occasions – usually word of mouth. The business operates in the same premises as a small jewellery and make-up store. The operator is about to start 'Do your own Nails' classes, using products from the retailer and has also developed a range of 'specials' involving nail services combined with vouchers to purchase nail and make-up products at reduced rates. The store has just engaged a resident make-up artist and formed an affiliation with some bridal businesses. The nail technician pays a small amount of rent and has a partner agreement with the retailer to do joint marketing and collaborate on developing joint services and product sales.

If you were preparing a cash flow forecast, write down a list of at least five assumptions that this business may use in preparing the forecast.

- 1.
- 2.
- 3.
- 4.
- 5.

## 9.2 ESTABLISHMENT AND OPERATING COSTS

Many business intenders struggle with setting up a business because they do not identify all the start-up costs and then the funds required to operate the business during its early stages. Determining the establishment and running costs means the would-be business operator is aware of what funds are required, and what costs are to be met in order to run the business until it generates adequate income.

Costs may be fixed or variable. A fixed cost does not change, irrespective of how busy and productive the business is, for example rent, equipment leases, interest on loans, rates, insurance, asset depreciation. Variable costs are costs that change because of increased production, sales and business activity affects them. Variable costs include things like cost of raw materials, freight, packaging, production, sales commissions, vehicle running costs, advertising.

### Establishment Costs

Depending upon the business, start-up costs may include, but not be limited to the list in Table 9.1. Some items are purchased assets and others are general expenses, some of which will be ongoing, but are required to start to be paid when the business commences. A business intender may already have some of the assets and these could be recorded on this Table as 'owned'.

Table 9.1 - Establishment costs checklist

Establishment Cost Area	Owned & the Value (usually for assets)	To be purchased & the Cost
Conducting market research prior to commencement		
Product development		
Legal fees for consultation and costs to set up the business		
Accountant fees		
Council fees and charges		
Costs associated with setting up a particular business structure		
Security deposits/bonds		
Purchase or hire of office furniture		
Telephone/fax and internet connections		
Vehicle purchase/lease		
Specialist plant and equipment purchase or lease		
Rent/lease in advance		
Refitting premises		
Signage		
Salaries/wages		
Raw materials		
Power/gas/water connection one-off fee		
Security (installation and/or service provision)		
Total insurance costs – public liability, professional indemnity, building and contents, product etc.		
Payment of statutory fees for licences and permits		
Inspection fees		
Initial marketing material and advertising collateral and activities to get started		
Stock purchase		
Packaging		
Transport/distribution costs		
Information technology computer equipment hardware and software		
Registration of business names and domain names		
Initial stationery and office supplies		
Advertising for staff		
Vehicle fit-out if required (specialist food van etc.)		

Establishment Cost Area	Owned & the Value (usually for assets)	To be purchased & the Cost
Membership fees for professional associations		
Contingency funding		
TOTAL OWNED		
TOTAL TO BE PURCHASED		

For new business operators, it may be useful talking with other business operators in the same industry and looking at industry benchmarks to get an idea of costs. When developing the establishment costs for your business plan, use the template of Table 5a in the Financial Records for this course.

### Activity Three

Using Table 9.1 identify the establishment costs for a lawn mowing and garden maintenance business. The business intender has a vehicle and trailer worth \$25 000, is going to operate as a partnership, has a computer and mobile phone, and will be operating from a home premise. The intender still has to buy two lawnmowers, two whipper snippers, two shovels, four spades, two rakes, two hedge trimmers, two pairs of shears, two chain saws, large rubbish bags, and fuel and oil containers. They also have to register the business name and have not yet done any advertising, however they have undertaken a door-to-door market research activity in the area they hope to service to find out the level of interest.

### Operating Costs

Operating costs also include fixed and variable costs such as those noted in section 7.2.1. Costs therefore include the Cost of Goods Sold (COGS), overhead or running costs and other incidental expenses that may not be part of the profit and loss statements. Knowing your operating costs will help to determine the operating capital you will need.

Costs can include, but are not limited to: rent or mortgage payments; lease/hire payments; communications; office consumables; vehicle expenses; insurance; equipment servicing and maintenance; utilities and services; renewal of licenses and permits; raw materials; packaging; freight; security; advertising and marketing; and professional fees. Table 9.2 has grouped the costs and can be used as a checklist to identify your running costs. Once running costs are identified then the details of actual or estimated amounts can be included in the cash flow statements and cash flow forecasting.

### COGS

The COGS only includes costs that are directly related to the product or service such as materials, consumables, and direct labour costs. Superannuation is included, but the business operator's own labour costs are not included and neither are distribution or sales costs.

A simple way to work out the COGS take the \$ value of the beginning stock or inventory for a month, add any further stock or inventory purchases for the month and subtract the end of the month stock or inventory. For example if a business has \$300 000 stock at the beginning of the month, purchases

\$200 000 during the month and ends the month with a stock value of \$150 000, the COGS is  $\$300\,000 + \$200\,000 - \$150\,000 = \$350\,000$ .

Another method to work out COGS is to identify the total stock value at the beginning of the month (A), add the cost of materials purchased for production for the month, other production costs and direct labour for the month (including any benefits or superannuation paid) (B). You then identify the end of month stock value (C) and subtract that figure from the A+B figure. For example if a business had beginning stock value of \$300 000, cost of materials, other production costs and direct labour for the month of \$80 000 and an end of month stock value of \$90 000 the COGS would be:  $\$300\,000 + \$80\,000 = \$380\,000 - \$90\,000 = \$290\,000$ .

Services generally don't involve COGS, so all costs are overheads. Overheads can be indirect, running and fixed costs. They may include things like accounting fees, electricity, insurance, internet, rent, non-production salaries or wages, vehicle registration, insurance, advertising, leases, fuel, repairs and maintenance, licences and permits.

In order to work out the costs, you may need to obtain quotations. Ensure that these are accurate and correctly provided, giving you all the details required in a quotation. Make comparisons between suppliers/providers in order to choose the best value-for-money supplier/provider.

Table 9.2 - Annual running costs

Item		Note whether Fixed (F) or Variable (V)	Cost per month	Total Annual Cost
Product/Service materials	Raw materials (itemised)			
	Stock (itemised)			
	Packaging			
	Storage			
	Insurance			
Staff	Wages/salaries			
	Bonuses/ overtime			
	Holiday Pay			
	Long service leave			
	Worker's compensation			
	Training			
	Clothing/uniforms			
	Disposable safety equipment			
	Superannuation			
	Sickness and accident benefit			
	Staff amenities			
	Contractors			
	Commission/retainers			
Premises	Rent/mortgage payment			
	Security services			
	Building insurance			
	Repairs/maintenance			
	Cleaning			
	Signage			
	Rates			
Finance	Taxes (GST)			
	Loan payments			
	Bad debts			
	Supplier creditor payments			
	Personal drawings			
	Depreciation			
	Bank fees and interest rates			
	Payroll tax			
	Income tax			
	Fringe benefit tax			

	Item	Note whether Fixed (F) or Variable (V)	Cost per month	Total Annual Cost
Office and Business Administration	Phone/fax/mobiles			
	Postage			
	Stationery			
	Printing			
	Office equipment lease			
	Office equipment maintenance and services			
	Accountancy fees			
	Director's fees			
	Legal fees			
	Bank fees and interest			
	Professional membership			
	Intellectual property protection - including renewals			
	Licences/permits/registration renewal			
	Inspection fees			
Production or service provision	Production equipment leasing			
	Production equipment maintenance and servicing			
	Storage			
	Packaging			
	Delivery/freight			
	Vehicle lease			
	Vehicle registration			
	Vehicle fuel and maintenance			
	Workshop tools replacement			
	Vehicle running costs			
	Advertising and promotion			

#### Activity Four

John has started a mobile accounting and booking keeping business for small businesses. He operates from an office premise on his block of land that is separate to his own home and uses his own car and laptop. He is a sole operator. In Table 9.2, tick the items that could be his running costs. Insert the following items into the correct areas and indicate whether they would be a fixed or variable cost:

- lease on his vehicle of \$120 a week;
- \$640 membership fee to CPA;
- leased photocopier/fax and printer for \$250 a month;
- personal drawings of \$3,000 a month; and
- vehicle running costs of an average of \$90 a week.

### 9.3 FINANCE REQUIRED AND SOURCE

Having identified the start-up and running costs for a business, this section looks at how the funds can be sourced. In starting a business, there are risks that insufficient funds will be available to establish the business properly, or to keep it running within the first year until a healthy cash flow is established.

If a business is already running, then sourcing funds is likely to be associated with business growth, trying to pull the business out of a decline, or diversification into new product or service areas. Whatever reason for seeking funds, being adequately funded is critical, otherwise the business and possibly personal assets and funds could be at risk, should the business falter or fail.

The key question then is how much money is needed? If the business is already established, the business operator will need to take into consideration the business stage, for example early operation, growth or mature. In the early stages of a business, insufficient funds are generated so funds are most likely to be required to pay for some running

cost expenses; however for a growth business, additional funds would probably be required for investment to further develop products or markets.

Where can you get money? Here are some sources of funds:

- loans from a bank or other type of financial institution such as Finance Companies;
- Credit Unions/Building Societies;
- insurance companies;
- finance broker;
- accountants and Solicitors sometimes provide funds;
- personal savings;
- selling personal assets to raise funds;
- borrowing money from friends and relatives;
- venture capital;
- grants and subsidies from the Government or other organisation that invests this way;
- partner investment; and
- crowd funding.

Each source of funding carries its own benefits and risks and the business operator must weigh up what suits both the reason for seeking funding as well as the financial well-being of the business, and the owner.

The two main ways to finance a business are debt and equity financing. A more recent source of funding known as 'crowd funding' is also growing in popularity. To help you consider the relative risks and merits of funding, a brief description of the types of funding is set out below.

### Debt Financing

The business operator borrows money that is paid back with interest over an agreed time frame. This includes bank loans, overdrafts, mortgages, credit cards and leasing and hiring of equipment. It is important that the business operator considers the impact of the payments for debt financing and captures the payments in cash flow statements and cash flow forecasting. Debt financing is a liability to the business and would be recorded in current liabilities if loans have to be repaid within 12 months or non-current liabilities for medium and long term loans of more than 12 months for repayment.

Advantages – the business operator retains control over the business; the interest on business loans are tax deductible; the profits retained from the business by owner.

Disadvantages – new businesses may find it hard to secure loans; business must be able to generate the income to pay back the loan; failure to make payments affects the credit rating and potentially ability to raise loans in the future; there is an impact on cash flow as regular loan payments must be made, irrespective of business income; bankruptcy risk if unable to pay the loan, and this may also mean loss of personal assets that may have been used to secure the loan.

There are different types of loans, depending upon how the money is to be used. Short term loans include:

- Bank overdraft allowing overdrawing of the account up to a certain limit, interest is charged and can be secured against an asset (often used for running a business if cash is short);
- Line of credit, which is similar to an overdraft (used for running the business if cash is short);
- Trade credit where the business receives stock before it is sold, can be 'on consignment', which means the stock does not have to be paid for until sold. (One way to obtain stock);
- Bridging loan is used when funds are required immediately, but a loan would only be available a few months from now, often used in property and generally attract a higher interest rate than other loans. (Used as a way to get short term finance);
- Debtor factoring where the business sells its business accounts to a finance company. As the finance company pays the accounts, less commission, it then collects from the customers; however bad debts are written back to the business, so caution is required and advice should be sought from an accountant. (This helps to give working capital to keep the business going); and
- Commercial bills are given to the bank from the business, for an agreed amount. Interest has to be paid and at the end of the month the business has to pay the bank. Caution is required with this type of finance, so advice should be sought from an accountant. (Used for working capital).

Medium and long term loans include:

- Term or fixed loans can be drawn on straightaway and the business repays the loan with regular payments of the principal and interest. These loans are generally secured by an asset, often the borrower's house. (Used for purchasing long term assets, plant, equipment or property)
- Leasing where the business leases plant or equipment from a company and the business pays rent or the

lease each month for a certain period. The lease term will not exceed the life of the asset. Sometimes there is a residual value for the asset, which is what it will be worth at the end of the term of the lease. This can be useful to help cash flow. There is no down-payment or security required; interest rates are generally competitive and fixed payments make financial planning easy, with payments being tax deductible. However the lessee is responsible for repairs and maintenance, does not own the asset, but can offer to buy the asset at the end of the term at the residual value (Used to obtain plant and equipment).

- Hire purchase where a business hires, but does not own an asset. A down payment is made and then there are regular payments on the item, plus interest. The asset is then owned by the business when the contract is complete. (Used for buying plant or equipment).
- Sale and lease back is where a business sells an asset and leases it back, which give capital for the business. This means that the asset is owned by the buyer, but the business possesses and uses the asset. (Used for buying plant and equipment)
- Personal loans should not be used for business purposes and would generally only be available to sole traders for the purchase of a specific asset, with a fixed term and monthly repayments plus interest required.

### Equity Finance

Equity finance includes the business operator investing their own money or someone else's money in the business. Funds may be provided by family and friends, business partner or be from a business angel (wealthy person who invests in businesses) or venture capitalist (a professional investor generally investing from \$2-\$10 million).

For sole traders, equity capital is the money they put into their own business, and in a partnership, it may be the funds that each partner puts into the business. For a Limited Liability Company the equity capital is often raised by shareholders buying shares in the company. Larger companies may publicly float the company and raise money by issuing shares to the public.

There are risks in equity funding and so many lenders want some kind of security and also want certainty about the business' ability to repay the loan to them. This may be in the form of straight pay-back payments, an agreed share of profit, or dividends. Alternatively instead of payments, the investor may become involved in the business. The business plan, financial projections and details of the business owners' capabilities to run the business will help encourage equity financiers to invest.

Advantages – For venture capitalists and business angels there is no need to make repayments on funds provided; there is an opportunity to access expertise and support from business investors; and if the business is successful there is a possibility that investors will provide subsequent funding for expansion, innovation etc.

Disadvantages – in return for funds invested, investors may want some control of the business, share in the profits and a right to have a say in the business' operations; this approach can affect relationships between those from whom the business has borrowed (friends and family) and the business owner, particularly if the business fails; it is time consuming and costly to prepare business to be investor-ready.

### Crowd Funding

This type of funding is based on people being prepared to donate money and share networks and resources to support a business project. In return for the investment, these 'backers' may receive incentives such as free or reduced price merchandise; online support or other products and services not generally included in a package. This type of funding suits businesses that use technology and this approach can help the business access capital, support, exposure and customers. There are websites that promote these opportunities. Businesses interested in crowd funding post the project and the business profile, the timeframe for the funding goal, the incentives a backer gets and outline the product or service idea.

Advantages – the project is not part-owned by any backer; if the financial goal is not reached, no money transfers; commitment is low and fairly risk free; allows testing of ideas with customers who provide feedback; can provide a customer or fan base for future products and to support your product before it reaches the market; opportunity to engage with market. This may be a useful funding source for new businesses, or a business that does not have a long trading history and would otherwise have difficulties gaining funds from banks.

Disadvantages – time required to be invested in writing information and presenting the 'pitch' to potential backers; no guarantee that financial target is reached; risk of over-promising and under-delivering; time required to maintain relationship with backers; requires effort to develop incentives; there are thousands of competitors.

Like any campaign, the business operator should plan out the campaign. Set out idea and goals and timeframes; research from other crowd funding campaigns for mistakes and issues; invest time in creatively promoting the idea to make it stand out from other opportunities and interact online regularly. Use social media to interact with followers through areas such as Facebook, Twitter, YouTube, and blogs.

### Activity Five

Explain the types of funding that can be sourced to buy plant and equipment and to raise capital, and the advantages and disadvantages of each:

Plant and Equipment:

Raise Capital:

For your business plan you can use the template in Table 5b for Capital to record details of loans. Table 9.3 is a copy of this Table.

Table 9.3 - Loan details

Name of Lender:	
Estimated Loan:	
Stamp Duty:	
Application Fees:	
Other Loan Costs:	
Total Required:	
Total Loan:	
Loan Term (months):	
Interest Rate (pa):	
Monthly Payments:	
Average Monthly Principal (Year 1):	
Average Monthly Interest (Year 1):	
Average Monthly Principal (Year 2):	
Average Monthly Interest (Year 2):	
Total Amount Repaid:	

### Activity Six

Imagine that you are wanting a business loan for \$10 000. Research from a bank what the costs would be, interest, monthly payments and principle and complete the information in Table 9.3.

Whatever the reason for requiring funds, it may be useful to develop a simple funding strategy to set out the main information about each funding source. The plan can be a reference for the preparation of cash flow documents, balance sheet and profit and loss statements.

If you are applying for funds from the bank or other investors, you will need to build a case to support your request for funds. Even if you don't formalise the plan, you will need to consider the following:

- funds required;
- purpose of funding;
- date when funds are to be paid out or returned if borrowed;
- funding sources;
- when payments fall due;
- when investors will receive returns (If applicable); and
- risks and mitigation strategies to protect the business, the business operator and the funding providers (banks, investors, family and friends) that can be incorporated into the risk management strategy developed from Chapter 4.

In preparing the section of the business plan relating to funding, the information above could be placed in a Table, such as Table 9.4.

Table 9.4 - Funding strategy summary

Finance required and purpose	Date funds required	Source- and whether confirmed	Paid out by (date)	Payment due dates, amount & interest rates, other pay back arrangements or explain how the 'investor' is getting their return (e.g. share of the business or profits)	Risks and mitigation actions

**Activity Seven (a)**

Jason and Maria are starting a business specialising in refurbishing and refitting live-aboard boats and caravans. Maria's parents have loaned them \$20,000 to purchase tools and equipment and are happy for Jason and Maria to repay the amount in five year's time. Jason and Maria will be leasing a vehicle for \$420 a month and after five years they will own the vehicle. They are getting a personal loan of \$7,000 to purchase a. They have current orders to refurbish the interior of two boats and three caravans, which will provide them with work for the first five months of operation, being worth \$165,000. They are using \$15,000 of their own savings to purchase materials and consumables and have also purchased a computer, accounting software and other office equipment on a Visa credit card to the value of \$6,500.

Using this information, fill out Table 9.4. You will need to investigate repayment terms from a bank for the personal loan and the Visa credit card payment requirements.

Explain whether the funds generated from their first three jobs will be adequate to cover the costs during the five months that they have incurred getting funds, giving reasons for your view.

## 9.4 BUSINESS OWNER ASSETS AND LIABILITIES AND PERSONAL BUDGET/SCHEDULE OF DRAWINGS

Going into business carries financial risk. As part of the preparation for setting up a business, you should assess your own net worth, and take account of your own assets and liabilities. This is particularly important if using savings or selling assets to fund a business start-up or expansion. Also, as was noted in Chapter 4 the structure of the business determines the risk to the owner of the business, of losing personal assets if the business fails.

Table 9.5 can be used to document the Table 3 of the Financial Records to record assets and liabilities.

Table 9.5 - Assets and liabilities (business owner)

Assets (You Own)		Liabilities (You Owe)	
Cash available		Bills unpaid	
Bonds and shares		Personal loans	
Superannuation account		Balance owing on lease contracts	
House		Amount owing on house	
Other real estate		Bankcard	
Furniture		Credit Cards	
Personal effects		Other Accounts	
Vehicles			
Tools of the Trade			
<b>TOTAL ASSETS</b>		<b>TOTAL LIABILITIES</b>	
<b>TOTAL NET WORTH (total assets - total liabilities)</b>			

### Activity Eight

The following details have been provided by a business intender. Please use this information to complete Table 9.5.

Cash \$15,000; House \$380,000; Personal effects \$80,000; Vehicle \$32,000; Unpaid bills \$1,200; Personal loan \$7,000; Amount owing on house \$180,000; Credit cards \$12,500.

There is always a risk that the line between business and personal expenses becomes blurred, or that the business operator has not accurately identified their own personal budget that may be covered by drawings from the business. This can lead to ad hoc withdrawals from the business account to pay for unexpected personal or additional personal expenses not factored into the 'drawings' figure. This is why it is important for the business operator to develop a personal budget and accurately identify the level of personal drawings they are going to take from the business, if this is to be the case. Table 9.6 is one way to capture details of expenses for a personal budget. In preparing your own business plan financials, use Table 4 in the Financial Records.

Table 9.6 - Personal budget for drawings

Category		Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total
INCOME (A)	Government Allowance													
	Interest received													
	Interest from other investments													
	Other income													
	TOTAL INCOME (A)													
EXPENSES (B)	Mortgage or rent													
	Lay-by													
	Personal loans													
	Insurance/Superannuation													
	Child care													
	School fees													
	Credit cards													
	Personal pocket money													
	Planned savings													
	Other													
	Other													
	Other													
	Other													
	Total fixed monthly expenditure													
	Food													
	Power													
	Gas													
	Clothing													
	Recreation													
	Contributions (religious etc)													
	Fuel (vehicle)													
	Medical expenses													
	Phone													
Other														
Total variable monthly expenditure														

Category		Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total	
EXPENSES (B)	Insurance (house, car, personal)														
	Medical insurance														
	Annual subscriptions														
	Property rates/taxes														
	Union fees														
	Magazine subscriptions														
	Education														
	Car registration														
	Other														
	Total Fixed Infrequent Expenditure														
	Gifts														
	Holidays														
	Car repairs														
	Homemaintenance														
	Dental fees														
	Durable goods purchase														
	Donations														
	Other														
	Total variable infrequent expenditure														
	TOTAL EXPENSES (B)														
PROPOSED DRAWINGS (INCOME - EXPENSES) (A-B)															

### Activity Eight

Using Table 9.6 insert the following information in the relevant areas for a business operator:

Government allowance \$885.60 per month; other income \$490 per month; rent \$780 per month; credit cards \$40 per month; personal cash \$200 per month; food \$520 per month; phone \$30; power \$60 per month; car registration \$650 annually; fuel \$80 per month; car maintenance \$80 per month; health \$40 per month.

What will the drawings be from the business based on these figures?

## 9.5 PRICING AND PROVIDING QUOTATIONS

There are many influences on consumer demand and buying patterns, which in turn influences pricing. Influences include external factors such as economic growth or downturn, shortage of supply of goods and services, whether a good or service demand is 'elastic'. As noted earlier in the chapter on goods and services, this means that price rises may result in people choosing not to buy, particularly for luxury items or those where there are cheaper substitutes. On the other hand if demand is 'inelastic', this means that price rises don't stop people from buying, for example staple items such as bread.

Pricing goods and services draws information from different parts of the business and is influenced by the changes the business experiences that affect the financial health of the business. Business areas that inform pricing include:

- financial objectives and goals for the business and therefore what pricing and volume of sales are required to achieve them;
- the current financial status that may determine the need to raise or drop prices;
- market research that may indicate a price range or amount that customers are willing to pay;
- marketing objectives, goals and strategy that identify sales volumes required;
- legislation and regulations; and
- financial analysis and management.

The legal requirements relating to pricing in Australia are contained in the Competition and Consumer Act 2010, which can be accessed through the Australian Consumer Law website noted in the reference section of this chapter. A document entitled 'Sales Practices – A guide for Businesses and Legal Practitioners' is a useful reference covering aspects of pricing regulations in chapter 4. Business operators should familiarise themselves with all the requirements and regulations.

In developing product or service prices, the business operator should take into consideration:

- the costs for production of products or delivery of the service;
- the break-even point for products or services;
- competitor pricing strategies;
- what the market will bear from market research undertaken to identify pricing ranges for target markets;
- the pricing approach identified in the marketing chapter that reflects the business' position chosen in the market place;
- financial objectives and goals and desired profit margin;
- cash flow situation of the business;
- legal obligations regarding pricing; and
- benchmarking information on similar businesses.

Determining the right price is a balancing act between making sufficient money and suiting the customer's buying capacity and desires. The business may run into financial trouble if prices are too low and income doesn't cover costs or if prices are too high and few sales are made. Prices may need to be flexible. It is always easier to lower prices than to raise them.

First, you must work out the amount of money each month that the business requires to cover the COGS and overheads, or the break-even point for that product or service or group of products or services. The cash flow statement can be used as a reference for costs.

Next you should refer to the financial objectives and goals and the desired profit margin. To work out the profit margin, you should consider the annual costs, the annual income, operating expenses, and also the return on borrowed capital, and for future growth.

Any findings from market research should also be considered as well as the approach and method that best suits the target market and position chosen in that market for the business.

Then you should also examine competitor pricing and industry benchmarking if available. In Chapter 6 of the manual you undertook a competitor analysis, which included noting competitors' pricing. The competitor pricing can be set

out as a reference using a table such as Table 9.7. Other influential factors will include how many competitors there are, competitors' 'unique selling propositions' and customer promises, the image and reputation of competitors in the target market.

Having looked at all these elements a price can be set.

Table 9.7-Competitor pricing

Product/Service	Competitor A	Competitor B	Competitor C
Provide description			
Provide description			
Provide description			

#### Activity Ten

In working out your pricing, why would you consider the following?

Cost of goods:

Break-even:

Cash flow situation of the business:

Desired market position:

#### Methods For Working Out Prices

There are different ways that prices can be worked out:

**Mark-up** - add the same percentage to the total cost of each item, for example 50%. There may be an industry standard so check with suppliers and other businesses and your accountant or financial advisor. This can be used for different items/services and also to reflect a pricing strategy such as skimming or penetration pricing. For example cost price is \$10 and the business operator has found out that a mark up of 50% will achieve the desired profit margin, so the item's sale price is \$15.

**Costing** - work out all fixed overheads and add to the cost of sales, which is the variable cost to sell each product or service, then add the desired profit. This method can be time consuming if there are many products or services, but helps to ensure a profit. This relies on having accurate knowledge of all costs.

For example the fixed overhead cost is \$20 and cost of sales is \$15 and desired profit is \$20, then the price will be \$20 + \$15 + \$20 = \$55.

**Charge by the hour (services)** - calculate number of hours worked per year (start with hours per day, then per week and then for the year); work out the hours for holidays, sick leave and other leave like public holidays by working out the number of days this would include and multiplying it by the number of hours worked for a day. Subtract those hours from the total hours worked that will give the total hours available to work. Calculate the total turnover for the year, which is estimated overheads plus desired profit for the year, then divide the turnover by the total chargeable hours, this will give an hourly rate.

For example a business works 8 hours per day, which is 40 hours per week for a five day week. This is 2080 hours a year. Holidays and estimated sick days are 40 days multiplied by 8 hours, which is 320 hours. Total hours available is 2080 minus 320 hours. 1760 hours are available for work. Overheads are \$90,000 and profits are \$80,000, so turnover is \$170,000. Divide turnover by number of hours and the hourly rate is \$96.59.

### Activity Eleven

A mobile snack food business operates from a car park area in a large industrial estate. They offer a range of pies cost price \$0.80 each, sausage rolls or feta and spinach rolls cost price \$1.40, cookies cost price \$0.40, muffins cost price \$0.80 and pre-packed sandwiches cost price \$1.20. A previously closed snack bar opens up nearby, offering similar snacks Pies are sold at \$2.40, sausage or feta and spinach rolls are sold at \$2.60, cookies are sold at \$1.20, muffins are sold at \$1.80 and pre-packed sandwiches are sold at \$3.00.

How should the mobile snack business set his prices, mark-up or costing and explain why:

### Changing Prices

Pricing should be regularly reviewed as part of good business practice, but also in response to changes in business profitability and financial status. For example, the cash flow and profit and loss statements may show changes that trigger a decision to raise prices, or a new competitor with lower prices appears on the market. Also external factors like economic downturns/upturns, and trauma events like disasters, may require price changes to enable the business to stay in business or to capitalise on an opportunity. Some examples of other triggers are:

- starting to sell a new product/service;
- cost changes; and
- competitor price changes.

This means that you should regularly review the sales and financial performance of the business to monitor business changes, and set up a regular price review date (monthly, quarterly, half yearly).

Whenever changing prices is being considered, it is suggested that different scenarios are run to see what effect price changes will have on cash flow and profit. Any price changes should be communicated to customers and a check made to ensure that all advertising material and websites reflect the price changes.

If prices are increasing customers may want to know why or what additional value is being added. If it is due to an increase in costs, there is a risk that customers may turn to competitors. A strategy that some businesses can use is to offer customer loyalty discounts, highlight additional benefits being provided (if they are), or focus on improving customer service in order to retain customers.

### Activity Twelve

What pricing approach might you take if you were just starting to sell a new product and why?

When you change prices, outline at least two things you should do in terms of your customers:

### Providing Quotes

Many businesses win work based on quotations. It is important that you can be both competitive to win quotes as well as covering costs and making a profit on each job. The way a quote is presented speaks volumes about the business operator's thoroughness and good business practices. A point worth noting is that an estimate isn't generally binding for costs, but a quotation is binding once a customer accepts a quote. Quotes should:

- describe the job components clearly and accurately;
- itemise materials and resources;
- detail costs and taxes;
- have defined terms and conditions upon which the quote is based; and
- be priced to cover costs and allow for a profit.

Steps to prepare a quotation:

- write down details of the job;
- get written customer's request in writing, detailing specifics if required;
- clarify details and note anything that may not be fully resolved or to be decided based on initial work;
- work out the costs to do the work, including hidden costs, making sure that all costs are covered and the profit margin desired is included;
- work out the break-even point for the job;
- detail the costs for the customer;
- list materials and resources;
- provide the quotation on headed paper giving details of the business name, address, contact numbers, ABN;
- note total cost of the job;
- outline what is covered and what is not;
- give a breakdown of costs;
- if applicable, highlight any variations that could change the cost, timeframe etc. such as having a different item or product used, or providing an additional service at a specific stage;
- provide a schedule of work and timeframe, and make it clear if job is dependent on variables such as good weather or ordered parts coming;
- provide your business name, physical location, postal and phone details, ABN and licence details (if required), email, website;
- outline payment terms and conditions, any upfront charges to be paid and preferred method of payment;
- provide an expiry date for the quotation; and
- provide a space for customer signature and date on acceptance of the quote.

#### Activity Thirteen

Set a draft template for a quotation, making sure that you have all the details required. You can research online or at the local library for examples for further ideas for layout.

## 9.6 SALES TARGETS AND PROJECTIONS

### Sales Target

Setting sales targets contributes to achieving the business' financial goals and provides the business operator and sales staff with a goal, if staff are employed. Making projections of sales based on targets helps to show how the business will fare financially into the future. Sales targets should be monitored and adjusted if necessary. Sales targets must cover costs and be over the break-even point if they are to contribute to developing a profit. In other words they should be realistic in terms of sustaining the business. They must also be achievable.

Many factors affect sales levels for example: external factors such as economic changes, natural disasters; or internal to the business factors like the loss of key staff, equipment failure or issues with supply chains. The business operator should set up sales records to effectively monitor sales against the sales target. This can be done manually, or electronically using Excel spreadsheets or customised sales software linked to stock and/or production.

A sales target can be:

- the number of products or services that must be sold;
- a set number of products/services sold at an a particular average price range;
- a dollar value of sales to be achieved on a weekly or monthly basis; and
- fulfilling a nominated profit level by selling sufficient product to cover fixed and variable costs, and leave the state profit (work out the number of sales that can achieve that profit and this becomes the sales target).

Table 9.8 sets out the sales target that will achieve the gross profit margin. This is percentage by which the sales revenue exceeds the cost of producing and selling the product/service

TABLE 9.8 - Sales target to achieve a gross profit margin

Product/service (Set out as individual line items if applicable)	Gross Profit Margin	Target Sales per Month

### Activity Fourteen

Using Table 9.8, fill in each column based on the following information:

A product is being sold at \$250.

The gross profit margin is 20% and the sales goal is \$3,000.

How many products must be sold to reach that goal?

### Sales Target By Market Segment

You may group your market by types of customers with similar needs and characteristics, or buying purpose, such as in Table 9.9. They may also be grouped geographically, demographically, by occupation or psychographics. To achieve sales targets to specific market segments will require you should target the marketing of the product or service to the market segment.

If this is done geographically, this may include having sales representatives working in specific 'regions' This approach lends itself to developing sales targets by region, rather than specific products.

Table 9.9 - Sales target by market segment

Product/service (Set out as individual line items if applicable)	Market Segment	Target Sales per Month

### Sales Projections

Working out sales projections allows you to determine whether the pricing and volume of sales are going to achieve the financial outcomes that are desired. Sales projections can be done as both number of units as well as dollar value. Established businesses can use previous figures to base projections on, but a new business has to estimate potential sales volume and value, based on market research, pricing and so forth. Sales projections can be done weekly, monthly, or annually, depending upon the purpose and the type of business. Sales forecasts need to be reflected in cash flow projections and other financial forecasting.

A number of elements inform the sales projections:

- the break-even point – which identifies how many sales must be made for the business to make even, so the projections must cover this;
- the cost of goods – which has informed the pricing and the break-even; and
- the target market – which should include estimated size that will influence sales volume that you estimate.

What do you use for sales projections? The simplest way is to work out how many products/services are anticipated to be sold each week, multiply by 4 to get a monthly total. This may have to be done for individual products or services or groups of products or services. Use the selling price for each unit, or average selling price if products or services are grouped. Multiply the unit or average price by the number of sales estimated for the month. To prepare an annual forecast, think about whether the seasons, times of the year such as just before the end of the financial year or Christmas, will affect likely sales. Adjust monthly volume and value to reflect changes over the year. Estimations must be realistic, particularly for business start-ups.

Larger businesses may divide sales forecasts by departments selling different products/services. The total sales forecast are then added together for a total business sales forecast. The sales projections can be prepared in a Table as per Table 9.10 or as a graph.

Table 9.10 - Sales projections

Product or group of products Service or group of services	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun

### Activity Fifteen

A business manufactures outdoor timber furniture and supplies to ten retailers in different furniture showroom sites. Furniture sets come priced at \$150, \$370 and \$680. The stores order on average 5 of each different priced set per quarter, except between May and July where orders tend to drop to 2 sets of each. A new garden centre, also selling outdoor furniture, is opening in November and has asked for 3 of each set.

Using this information and Table 9.10 fill in sales projections for the year for each product set.

## 9.7 SALES MIX

Determining the sales mix requires the business operator to be aware of the volume and total value of the different goods or services sold. For example if you sold coordinated beachwear which included hats, swimsuits, reef shoes, sandals, towel capes, and sarongs and tracked the sales levels of each type of product, it is likely that some products would sell faster than others or be more profitable than others. Looking at your sales mix and costs could highlight the need to drop a product or increase the volume of another.

For businesses that sell a wide range of products or services, it is important to be aware of how the different items are contributing to the profitability of the business.

To assess how the sales mix may contribute to the business' profitability, a sales mix forecast spreadsheet can be set up, such as in Table 9.11. Information would be drawn from the sales goals of how many are to be sold per month, the pricing strategy and the cash flow forecast for cost of sales or time take to deliver a service if charged by the hour.

The aim of a business is to sell the most profitable mix of products/service. When the sales mix is changed it can cause variations in profits. For example if the business operators changes from high margin products or services to lower ones this might drop the profit, even though more products may be sold. If the opposite change occurs from low profit margin to high profit margin products or services, a higher profit may be made even if less products/services are sold.

Table 9.11 - Sales mix

Item or service (one per item)	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Selling price per item/service												
Total sales												
Cost of sales												
Sales tax												
Time taken (hours)												

The business operator can also compare the individual items or services for sale in relation to the volume sold and consider the individual contribution of the product or service to the business' profitability. Table 9.12 is a way that the comparison can be set out.

Table 9.12 - Sales mix analysis

Financial Information Required	Product/ service 1	Product/ service 2	Product/ service 3	Total
Sales in units or offering				
Sales in dollars				
Less variable costs as a percentage of sales				
Contribution margin as a percentage of sales				
Percentage of the sales mix				
Break-even				

Analysing and re-arranging the sales mix will affect the overall break-even of your business.

## 9.8 SETTING UP BANKING ARRANGEMENTS

It is important to set up a separate bank account for the business, and not use the business your own personal account. This enables you to track business financial movements (incomes and expenditures). Many banks offer business advisory services to help with determining the banking arrangements for a business, including suitable transaction banking and merchant facilities. It is recommended that you speak with an accountant regarding your business' banking needs.

You should compare interest rates, overdraft terms and bank fees for different banks before choosing one. The best will improve cash flow and streamline business operations. Do not sign any arrangement for banking and financial

services without being completely clear about what is offered, what the costs, fees and charges are and the limitations. In economic down-turns, many business owners find themselves faced with financial arrangements that are inflexible and unforgiving.

Transaction banking products enable a business operator to access and monitor a business' financial transactions. Common products are:

- business accounts (accessed by cheque, ATM, EFTPOS, phone and internet);
- Bpay;
- overdraft and similar facilities that apply a limit to expenditure;
- cheque book; and
- payroll processing.

Merchant facilities tend to be favoured by most customers as they don't need cash, but use a credit or debit card. This means that having an Electronic Funds Transfer at Point of Sale (EFTPOS) terminal is the most efficient way to provide this service, rather than having to fill out written forms to claim funds. EFTPOS also allows over-the-phone transactions to be recorded.

### Online Business - Payments and Banking

Increasingly, consumers are purchasing goods and services online, and more and more businesses are either setting up online banking facilities or providing an online purchase opportunity, as well as traditional trading methods.

There are a number of benefits to business to establishing online banking. It is convenient 24 hour access, relatively secure, efficient in that all transactions and current balances are available straight away and it can be time-saving by setting up direct debits and automatic payments. Online business has the potential to reach a global market (where that is relevant to the business). Risks are primarily associated with the security of the payment service used.

There are many options for providing online payment facilities for customers:

- Credit card – convenient as most people have one, but it is important to protect customer credit card details. Some credit card providers have established systems that make purchasing more secure, for example MasterCard SecureCode and Verified by Visa. Both methods rely on stores or businesses from which you are purchasing to be participating in their scheme. When a credit card transaction takes place the business will receive a message confirming approval or decline of the amount being paid. Different credit cards charge different fees, so a business operator should compare the fees in making a decision about which cards to accept. The business may need a merchant account to accept credit card payments. It is suggested that the business operator consults with their bank;
- Debit card – this uses a credit card payment processing technology to access funds in the cardholder's account. The card generally uses a Personal Identification Number (PIN). Generally if there are credit card facilities on the business website, a debit card can be used;
- Direct deposit and direct credit – direct debit requires the business bank account details to be provided to the customer who can then transfer funds from their bank to the business' account. The business operators should ask the customer to identify their payment either with a code or short word description. Direct debit requires an arrangement with the bank to pay the organisation/business from the business account of the business purchasing the goods or service;
- Online payment services – there are a number of these services available. Examples include PayPal, Paymate and eWay. These services are the intermediary between the business and customer, which means the business does not have access to the customer's credit card or bank account. These are facilities that help to protect your customer's privacy;
- Electronic bill paying – Larger organisations use this process for bill paying. It is used when the business or organisation is billing many people and is not suited to one-off purchases. BPay and Australia Post Bill Pay are two examples; and
- Cheques and money order – the purchaser provides a cheque or money order to pay for the product or service. This way of payment is declining, but if used requires some form of identification with the cheque/money order by the payee as a record of what is being bought.

Whatever methods used, goods should not be sent, or service provided until the payment has been received. Additional information on financial management for online business is at the link in the reference section of this chapter.

#### Activity Sixteen

Maree runs a business where she decorates and sells denim jeans, skirts and jackets with embroidery, beadwork and patches which she sells through a local market. These are both credit card and cash sales. She has decided to set up a website and also sell online. What payment arrangements should she set up?

## 9.9 FINANCIAL TOOLS

Good financial management relies on the use of good record keeping and a number of financial tools. Tools commonly used to manage and monitor a business' finances include:

- break-even point;
- balance sheet;
- profit and loss;
- cash flow statement and forecast; and
- financial ratios.

Each of these tools has a purpose and they are linked.

### Break-Even Point

The break-even point is the point at which there is enough income to cover the operating costs from the sale of products or services. To work out the break-even point you need to identify all the fixed costs of providing the product or service and work out how many products or services must be sold to cover these costs.

If a business only achieves an income below the break-even point, then the business is running at a loss. Income over the break-even point is profit. The break-even point helps the business operator to work out prices and sales budgets and to determine most profitable sales volumes, the average production costs and sales prices.

Whilst a business might turn over a lot of money, it might actually be losing money. Businesses can use the break-even to look at how profitable a product or service is; the level of sales that would cause a loss in the business; the effect of an increase or decrease in the volume of product or service sold and the impact on profits; and what level of pricing or volume is required to cover increases in fixed costs.

To work out the break-even point you must estimate the minimum level of sales or minimum price to charge that will cover operating costs. Operating costs are divided into fixed and variable expenses. Fixed expenses are those that do not change, irrespective of how many sales are made and include things like rent. Variable expenses include expenses that may change if the volume of sales or production change occurs, such as wages and inventory.

The following steps will help to work out the break-even point:

- estimate expected sales in the defined period;
- work out fixed and variable expenses;
- calculate the gross profit margin; and
- the gross profit margin is the percentage of sales dollars left after subtracting the COGS.

One way to work out the break-even point is:

- Fixed costs divided by gross profit margin. For example if you had fixed costs of \$80,000 and a profit margin of 80%: Break-even would be  $\$80\,000 \div 80\% = \$100,000$ .

For a business with COGS, the break-even is worked out by dividing the overheads for a year by the gross profit. For example with overheads of \$20,000 and Gross profit of 40% the break-even is  $\$20,000 \div 40\% = \$50,000$ .

If you were looking at a weekly break-even, for a business with a COGS, divide \$50,000 by 52 to get weekly sales required.  $\$50,000 \div 52 = \$961.53$

For businesses without a COGS you can use the amount required to cover overheads. So if overheads are \$15,000, to break-even \$15,000 of sales needs to occur. In order to work out how many products/services will reach the break-even point, you would divide this figure by the cost of the product or service. For example, if a product cost \$20.00 you would need to sell  $\$15,000 \div \$20.00 = 750$ .

### Activity Seventeen

A business has overheads of \$18,000. The service provided costs \$240. How many services would be required to break-even?

A business has a gross profit margin of 70% and fixed costs of \$90,000 a year. What is the dollar value required to break-even?

To work out the break-even for your business plan use Table 9, the template provided in the financial appendix to the business plan.

## Business Balance Sheet

Another financial tool is the balance sheet. This sets out the business' financial status including all the assets, liabilities, and owner's equity in the business, and drawings from the business. The balance sheet captures the business' financial situation at a given time, what money it has, where it is, what is owed and to whom.

A balance sheet shows the financial status, strengths and issues of the business and is indicative of the liquidity of the business. Balance sheets can be compared over a number of years to help identify trends, such as increasing debtors, or a gradual decrease in cash. The balance sheet is a tool, which when used together with other financial statements by banks and investors inform financial decisions about investing in the business or providing credit.

Some terms that appear in a balance sheet with which you should be familiar are:

- An asset is an item that the business owns that has a monetary worth. A liability includes debts and financial obligations of the business to creditors, suppliers, banks payable within the year;
- A fixed asset is an item owned such as land, buildings, plant and equipment, furniture, fixture and fittings and vehicles. Fixed assets have to be depreciated over time. This means the original cost is shared over the years of useful life. Business operators must check with their accountant or the taxation office about depreciation schedules;
- Intangible assets are assets that are not something solid, such as goodwill in a business, patents and copyright. They are difficult to quantify in monetary terms;
- Owner's equity is the money invested in the business by the owner(s). The owner(s) can have any assets remaining after the liabilities have been deducted. If the business has a single owner then owner's equity is shown as retained earnings. In a company the remaining funds are shown as shareholder's claims as well as earnings or accumulated funds for the business;
- Current assets that could be converted to cash in less than 12 months such as cash, accounts receivable, and stock;
- Noncurrent assets, which are assets that would take more than 12 months to be converted to cash. This could be plant and equipment or vehicles;
- Currently liabilities are those that would be due within 12 months, such as credit card debts and accounts payable; and
- Noncurrent liabilities are debts and obligations due beyond 12 months.

Once assets and liabilities are noted, the owner's equity or net worth can be worked out. The equity is the difference between the total assets and the total liabilities.

Table 9.13 can be used as a template for a business balance sheet.

Table 9.13 - Balance Sheet

Business		Date	
ASSETS		LIABILITIES & OWNERS' EQUITY	
Current Assets		Current Liabilities	
Cash		Credit Card - closing balance	
Petty Cash		Accounts payable	
Debtors (accounts receivable)		Taxes payable	
Stock		Warranty owing	
Prepaid Insurance		Wages	
Prepaid Rent			
<b>TOTAL CURRENT ASSETS</b>		<b>TOTAL CURRENT LIABILITIES</b>	
Non Current Assets		Non Current Liabilities	
Motor Vehicles		Long term business loans	
Business Premises			
Plant and Equipment			
Less: Accum. Depreciation			
<b>TOTAL NON CURRENT ASSETS</b>		<b>TOTAL NON CURRENT LIABILITIES</b>	
<b>NET ASSETS (or net worth)</b> Assets - Liabilities			

### Activity Eighteen

Using Table 9.13, fill in the following in the balance sheet.

Cash \$2400, petty cash \$40, debtors \$ 1500, stock \$3000, prepaid insurance \$750, credit card closing balance \$1500, accounts payable \$2050, taxes payable \$300, wages \$1700, vehicle \$15 000, plant and equipment \$4 500, accumulated depreciation \$800, business loan \$10 000

What are the total current assets?

What are the total current liabilities?

What are the total noncurrent assets?

What are the total noncurrent liabilities?

### Profit and Loss, Cash Flow Statement and Forecasting

#### Profit and Loss

A key tool for managing and monitoring business finances is the generation of a profit and loss statement. The statement enables analysis of the business performance against business and financial goals and objectives and to see how the business is tracking i.e. the actual performance against the predicted performance. This tracking informs the business operator about the viability of the business.

The report will have two sections – Income, which includes funds from secondary sources as well as the business, if the funds are used in the business. The other section looks at expenditure on all costs such as materials and labour and any losses incurred in the timeframe being charted. However the profit and loss statement can be more complex. Generally a profit and loss will include Sales or turnover, cost of sales or 'direct' costs which would be subtracted from the sales or turnover to give a gross profit, then other expenditure such as fixed business overheads such as rent, rates, salaries that are subtracted from the gross profit. This gives the net profit before tax. From this tax can be subtracted leaving the net profit. The level of net profit is important, indicating whether there are enough funds to continue trading.

You can use the gross profit figure to work out your gross profit margin by taking the gross profit, dividing by sales or turnover and multiplying by 100. For example if you have sales of \$2 000 000 and gross profit of \$800 000 the gross profit margin is  $\$800\,000 \div \$2\,000\,000 \times 100 = 40\%$ . This means that for every \$100 of sales \$40 goes to expenses and net profit. If this margin declines the business operator should investigate why.

You can work out your net profit margin by taking the net profit, dividing it by sales or turnover and multiplying by 100. For example if you have a net profit of \$400 000 and your sales are \$2 000 000 the net profit is  $\$400\,000 \div \$2\,000\,000 \times 100 = 20\%$ . Again this figure should be monitored. If it declines it suggests that a greater portion of funds are going on expenses.

It is advisable for the business operator to generate a monthly profit and loss statement, so that corrective action can be taken in the next month to address any financial issues that are brewing.

A copy of a profit and loss statement is below as Table 9.14. When preparing your own profit and loss statement for your business, use the template provided in the financial appendix to the business plan, Table 7.

Table 9.14- Simple profit and loss

Profit and Loss	Amount
<b>Income</b>	
Product Sales	\$14,000
Service Sales	\$ 5,000
<b>TOTAL INCOME</b>	<b>\$19,000</b>
<b>Expenditure</b>	
Cost of goods sold	\$ 5,000
<b>GROSS PROFIT</b>	<b>\$14,000</b>
<b>Overheads</b>	
Rent	\$ 1,200
Insurance	\$ 270

Profit and Loss	Amount
Professional fees	\$ 200
Motor Vehicle costs	\$ 560
Office supplies	\$ 200
Telephone	\$ 300
Advertising	\$ 1,200
Utilities	\$ 250
TOTAL OVERHEADS	\$3,880
OPERATING INCOME	\$10,120
Other Income (Expenses)	
Loan Interest	(\$500)
EARNINGS BEFORE TAX	\$9,620
TAX	\$1,500
PROFIT	\$8,120

### Activity Nineteen

Using the simple profit and loss table above, answer these questions:

What is the total income?

What are the earnings before tax?

What is the net profit?

If you find your net profit margin is reducing, what does this mean?

### Cash Flow Statement

A cash flow records the money coming into the business and the funds going out of the business that are drawn from the funds generated by the business. Once a cash flow is set up, it can be updated on a weekly or monthly basis. Whilst software can be purchased that prepares cash flow statements and forecasts, it can be prepared in Excel. Funds should be recorded in the month they are expected to be received or spent. The prepared cash flow can be used to create an annual cash flow forecast.

Proper management of cash flow will ensure that fixed costs and loans can be paid. As already noted, cash flow can be affected by practices such as providing customers with credit and the payment terms set for debtors. Monitoring the cash flow will soon highlight negative impacts of debtors, or inadequately priced products or services.

Monitoring the flow of money in the business is critical to running the business. You can anticipate shortfalls and take corrective action, or re-invest surpluses into the business or short term investment accounts.

Key components of the cash flow:

- total monthly cash inflows from sales, selling assets, capital injections such as loans or borrowings, interest revenue;
- total monthly cash outflows to pay bills and expenses to run the business;
- net cash flow which is what is left after the outflows are taken from the inflows;
- an opening balance of cash for each month (which would be the closing balance for the previous month);
- a closing balance for each month after expenditure is taken from income; and
- GST must be recorded as required by the nature of the business and sale.

How do you prepare a cash flow? The following are some suggested steps:

- determine the assumptions to be used – these may be based on industry figures and ratios, past performance of the business, market research and so on. Assumptions are likely to relate to pricing and price increases, sales growth estimates, interest rates for loans, general cost increases, salary and wages;
- estimate revenue from sales – this may have to be based on market research, or previous business activities, and trends, and identify when sales revenue will come into the business. This may be immediately, but if the business offers credit terms, this will influence when anticipated sales figures come in. Over time, if a business offers credit, a trend will be noticed regarding debtors that will help to refine the timing of expected receipt of payments, and this can then be used as one of the assumptions in the future. In preparing the estimated sales revenue, consideration should be made of the impacts of both internal (production levels, advertising) and external factors on sales (economic factors, demand levels);
- capture all other cash inflows such as GST rebates, tax refunds, insurance payments, government grants, cash from asset sales, royalties/franchise fees; and
- note all estimated expenses such as payments to: suppliers, utility and services companies, rates, loan repayments, wages, salaries, staff on-costs, communication charges, insurance, drawings, purchase of new equipment, rent, lease, licence renewals, fees and charges for testing and certification, consumables (average expenditure for office etc.)

Insert figures for both cash inflows and outflows in the spreadsheet for each month.

To create the cash flow forecast there will be an opening balance to which cash inflows for that month would be added, cash outflows are then deducted to produce the cash balance at the end of each month, this then is the opening balance for the next month.

You can work out the net cash flow by taking the total outflows from the total inflows. This figure is a reasonable indicator of the cash health of the business. It is recommended that in terms of calculating GST payments that advice is sought from a professional.

When planning changes such as having a marketing campaign that may be anticipated to generate more sales, or you drop prices; or the costs of production or service delivery has to increase, new estimated figures can be trialled in the cash flow scenario to see what effect this will have on the cash flow.

### Cash Flow Forecasting

Cash flow forecasts can be done annually and then broken into monthly amounts, using other financial information such as fixed costs and when the payments for them are due. The cash flow can use the same template as the cash flow statement. Table 9.15 provides an example of a cash flow forecast:

- total monthly inflow (sales, sales of assets, capital injection from loans or owner funds, interest revenue and any other sources of funds);
- total monthly outflow (loan payments, supplies, telecommunications, utilities, wages etc);
- the opening balance of cash available at the beginning of the month;
- the closing balance after cash outflows for the month, that is then the balance for the next month;
- GST needs to be included in some cash outflows in purchases; and
- calculate the difference between inflow GST and outflow GST as this then forms GST payments.

To prepare a cash flow forecast for your business use Table 6 in the financial appendix to the business plan.

Table 9.15 - Cash flow forecast

CASH INFLOW (Trading)													
Cash sales													
Credit sales payments													
Other income (specify)													
CAPITAL INJECTION													
Bank loans													
Other income													
Sale of assets													
<b>A. TOTAL INFLOWS (receipts)</b>													
CASH OUTFLOW													
Accounting fees													
Advertising													
Bank charges													
Cleaning													
Commission and bonuses													
Credit card fees													
Discounts allowed													
Freight													
Fees and licences													
Electricity/gas													
Employee wages													
Insurances													
Legal expenses													
Leasing/hire purchase payments													
Loan repayments (principal)													
Loan repayments (interest)													
Motor vehicle expenses													
Marketing													
Owner's drawings or dividends													
PAYG installment													

PAYG Withholding													
Printing and postage													
Purchase of fixed assets													
Raw materials													
Rent/lease of property													
Repairs and maintenance													
Security													
Staff amenities													
Stationery and office supplies													
Subscriptions													
Superannuation													
Telephone/fax													
Training													
Travel													
Tax (income)													
Wages													
Other													
Cost of sales from sales mix													
GST Liability													
Bulk purchases													
Purchase of plant and equipment													
<b>B. TOTAL OUTFLOW (Business expenses)</b>													
Net Cashflow (A - B)													
Opening Balance													
Closing Balance													
Other information													

### Activity Twenty

Describe how to prepare a cash flow forecast:

Using Table 9.15, insert some of these figures, using the following assumptions:

- Cash sales of \$10,000 per month
- Credit payment sales estimated at \$2,500
- Electricity works out at \$600 per quarter
- Communications bundle (Phone, fax, internet) \$75 per month
- Details to enter: Other income \$250
- Accounting fees \$200 per quarter
- Advertising \$270 per month
- Cleaning \$250
- Insurance \$300 per month
- Motor vehicle expenses \$600 per month
- Rent \$1,200 per month
- Printing and postage \$150 per month
- Cost of sales from sales mix \$2,000
- GST liability \$1,000
- Owner's drawings \$ 3,000 per month
- Opening balance \$7,000

## 9.10 FINANCIAL RATIOS TO INDICATE THE FINANCIAL STATUS OF A BUSINESS

Financial ratios can tell you a lot about the financial status of a business and are used by banks and investors. Business operators can also use them to undertake a financial analysis of the business. Ratios can be compared:

- over time to show trends in the business;
- with competitors' ratios where available to see how the business performs in relation to them;
- with industry benchmarks to see how the business performs in comparison to industry;
- with the business' budgeted results to see if they are on track; and
- to understand the impact of negative events or economic conditions.

Ratios help to determine whether the business' financial objectives and goals are being reached. Banks and investors use financial ratios to assess the financial condition of a business. Financial ratios show whether a business is under performing and can also be used to see how changes in one area such as pricing or sales volume affects other areas of the business. They can be used to monitor profitability, staff turnover and customer satisfaction too.

As there are so many different ratios, it is recommended that a business operator speaks with an accountant or business financial advisor regarding the most useful ratios for them to use to regularly track the financial status of the business.

Table 9.16 drawn from [www.business.qld.gov.au](http://www.business.qld.gov.au) summarises the different ratios and their purpose.

Table 9.16 - Financial ratios

Ratio	Indicator Of	Method
Gross profit margin	% of gross profit on sales	$(\text{Gross profit} \times 100) \div \text{sales}$
Net profit margin	% of net profit on sales	$(\text{Net profit before tax} \times 100) \div \text{sales}$
Material to sales	% of sales dollars spent on materials	$(\text{Direct materials} \times 100) \div \text{sales}$
Labour to sales	% of sales dollars spent on labour	$(\text{Direct labour} \times 100) \div \text{sales}$
Overhead expenses to sales	% of sales dollars spent on overhead expenses	$(\text{Overhead expense} \times 100) \div \text{sales}$
Stock turnover	Number of times stock turns over	$\text{Cost of goods sold} \div (0.5 \times \text{opening} + \text{closing stock})$
Debtors turnover	Average time to collect debts	$(\text{Debtors} \times \text{days in period}) \div \text{credit sales}$
Working capital	Liquidity of business	$\text{Current assets} \div \text{current liabilities}$
Liquidity (also known as quick assets ratio)	Solvency of business	$\text{Current assets (minus stock)} \div \text{current liabilities}$

### Profitability Ratios

Ratios that can be used to assess profitability are the gross profit margin and net profit margin.

The gross profit margin is the percentage of sales dollars left after subtracting the cost of goods sold from the total sales figure. For example if the cost of goods \$200,000 and sales total value \$900,000,  $\$200,000 \times 100$  divided by  $\$900,000 = 22.2\%$ . This means that for every dollar made, the business makes 22.2% gross profit.

The net profit margin is what is left after deducting the direct overhead expenses from the gross profit. This is the percentage of the sales dollar left after all costs except tax is taken out, e.g. if your net profit was \$400,000 before tax  $\times 100$  divided by sales  $\$700,000 = 57.1\%$ . This means that for every \$1 of sales, the business makes a profit of 57.1%

Cash Flow Liquidity (Also know as working capital ratio or current ratio)

Working out a cash flow liquidity ratio means a business operator can assess the level of working capital in the business and how solvent the business is.

The 'working capital ratio' or 'current ratio' is used and shows how much money is available to meet creditors' demands. This is worked out by taking current assets and dividing this figure by current liabilities. If assets are worth \$600,000 and liabilities are \$250,000, liquidity ratio is  $\$600,000 \div \$250,000 = 2.4$ . The higher this ratio, the stronger the financial position of the business. If the ratio is 2, this means there are twice as many assets to cover the liabilities. A ratio under 1 can be indicative that the business is in financial trouble.

### Quick Assets or Liquidity Ratio

The quick assets ratio or 'liquidity ratio' shows business solvency to meet immediate financial commitments. For example if a business had \$200,000 stock, other current assets of \$500,000 and current liabilities of \$65,000, the stock is taken from the current assets and then divided by the liabilities. Only current assets should be used that can quickly be converted to cash.  $\$500,000 - \$200,000 \div \$65,000 = 4.61$

The ratio should be 1:1 or higher. If you have most of your current assets with debtors and there is a tendency for late payment, the ratio will need to be higher.

### Return on Investment

This ratio helps to determine how successful investment in the business is. The higher the ratio, the better the return on the investment. To work out the ratio take the net profit before tax and divide by total assets. If a business has net profits of \$140,000 before tax and \$90,000 assets after subtracting liabilities.  $\$140,000 \div \$90,000 = 1.5$

To work out owner's return on investment take the net profit, divide by owner's equity and multiply by 100. If a business owner had invested \$20,000 in the business and the net profit was \$15,000 the return on investment would be  $\$15,000 \div \$20,000 \times 100 = 75$

### Stock Turnover and Sales

This is a good way to determine whether the business holds too much stock or there are issues with production or marketing affecting the capacity to turnover or sell stock. It compares sales to stocks held, so to work this ratio out take the cost of goods sold and divide by the average stock holding, which will need to be worked out first. To work out stock holding you add opening and closing stock and divide by 2.

High stock turnover is good, contributing to a better return on investment in the business. This ratio can also indicate how well new products are selling, or how effective a marketing campaign has been.

If there was opening stock worth \$30,000 and closing stock worth \$12,000, the stock holding is  $\$30,000 + \$12,000 \div 2 = \$21,000$ . If the cost of goods sold is \$44,000, then the stock turnover to sales ratio is:  $\$44,000 \div \$21,000 = 2.09$ .

### Material to Sales Ratio

This ratio shows the percentage of every sale that is spent on cost of materials. To work this out take the cost of direct materials  $\times 100$  and divide the answer by sales. For example if a business has material costs of \$75,000 and sales of \$160,000.  $(\$75,000 \times 100) \div \$160,000 = 46.87\%$ .

This means 46.87% of each dollar of the \$160,000 sales is spent on materials.

### Labour to Sales Ratio

This ratio shows how much of the sales dollar is spent on direct labour and is worked out by taking the cost of direct labour  $\times 100$  and dividing the answer by the sales. If a business that had labour costs of \$90,000 and sales of \$250,000, the formula would be worked out as  $(\$90,000 \times 100) \div \$250,000 = 36\%$ .

This means that 36% of each dollar from the \$250,000 sales is spent on labour.

#### Overhead Expense to Sales Ratio

This ratio shows the percentage of every sales dollar that is spent on overheads. To work out the ratio you take the total cost of overheads x 100 and divide by sales. If a business had overheads of \$25,000 and sales of \$275,000 the formula would be worked out as  $(\$25,000 \times 100) \div \$275,000 = 9.09\%$

This means that 9.09% of every sales dollar is spent on overheads.

#### Activity Twenty-One

Work out the following ratios for a business:

Gross profit margin: For a business where the COGS is \$120,000 and the total sales is \$800,000.

What does the Gross profit margin mean?

Cash flow liquidity: For a business current assets are \$800,000 and current liabilities are \$450,000.

What does cash flow liquidity mean?

Return on investment: For a business where the owner invested \$15,000 and the net profit was \$9,000. What does return on investment mean?

Overhead expense to sales ratio: For a business with overheads of \$35,000 and sales of \$200,000.

What does the overhead expense to sales ratio mean?

## 9.11 FINANCIAL ANALYSIS AND FINANCIAL MANAGEMENT

Financial management includes planning and forecasting financial status based on the financial objectives and goals of the business. A good financial manager will regularly review the actual performance against forecasts. To analyse your business' financial status, you would use the various tools that are mentioned in the previous sections. The tools will help you to manage the business and inform business decisions. For example decisions about: expanding or reducing business activity, how best to manage a downturn or recover from an impact to the business or market, modifying the marketing strategy, making price changes, purchasing plant and equipment or undertaking research and development for new products and services.

Key areas to consider in financial analysis include looking at trends in cash flow, whether positive or negative; current sales levels and volumes of the different products or services as a drop in sales could cause cash flow problems; level and turnover of stock each month to ensure that you are not carrying too much stock that will be costing money; debtor and creditor delays which affect cash flow; profit levels and whether they are being achieved, and the overall financial status of the business.

The sections below are looking at the different financial tools and how analysis of them can give you a pretty good idea about the financial position of the business.

#### The Profit and Loss Report

This report can be called the income statement and represents a period of time.

Purpose - it shows how profitable a business is at a specific time.

How often prepared - business operators tend to prepare them quarterly and at the end of the financial year.

Useful for - showing potential investors how financially robust the business is; lets current investors see what return they are getting on their investment and also shows the business operator the areas of the business that are working well, or struggling.

Analysis - in analysing the profit and loss statement, a business operator should also consider other factors that may be influencing business financial performance such as economic conditions, and also look at industry trends. This allows the operator to identify whether corrective or mitigation action should be taken. For example, if interest rates

were increased consumer confidence and spending on luxury items may drop. The action taken by the business may include reviewing pricing and reducing business costs. However, if sales dropped and there was no apparent external factor, the business operator would need to consider corrective action that may include reducing pricing, internal investigation into the sales process or develop new marketing strategies.

You should also look at the total sales figure and whether it has increased or decreased since the previous report. Falling revenue figures may signal serious problems, if they are not seasonal fluctuations.

Expenditure in the profit and loss covers the cost of materials to produce goods and operating costs such as overheads and labour. If material costs or overheads are significantly rising this may require closer consideration of cost savings, such as new suppliers, and improving efficiencies. However, inflation must be taken into account as increases are inevitable. It is often hard to reduce operating costs and not desirable to reduce labour costs, unless there is investment in machinery, equipment or reduction in production that means less people are required. Of course this may also reduce overall profit. The main signal is if the costs suddenly increase, rather than just gradually over time.

You should look at gross and net profit and gross profit margin. Gross profit allows the business operator to see the effects of pricing, sales volumes and cost of goods on overall performance. Gross profit, as discussed earlier, is the amount of profit you make on each sale, usually expressed as a percentage of sales. The net profit shows how effectively the operating costs of the business are being managed. If this declines, the business operator may need to review costs.

A profit and loss budget can be prepared that estimates revenues and costs for a specified future period. To prepare a profit and loss budget for the future, expenses are listed and sales revenue calculated required to reach the profit goals. The profit and loss budget can use the same template as the profit and loss statement, but be forward looking.

#### Activity Twenty-Two

If sales are dropping over a period of three months, and it is not characteristic of a seasonal variation, what corrective action might a business operator take?

Why should the business operator look closely at the gross and net profit changes over time in the profit and loss statement?

#### The Balance Sheet (Assets and Liabilities)

Purpose - the balance sheet shows the business operator the financial status of the business as a whole at a specific point in time. The balance sheet allows the business owner to see that funds would be left after paying all debts and liabilities. The balance sheet can also show the net worth of the business at a given time.

How often prepared - at least once a year, but some businesses prepare them half yearly.

Useful for - the balance sheet shows the business operator the financial status of the business as a whole. The balance sheet allows the business owner to see that funds would be left after paying all debts and liabilities.

Analysis - the balance sheet information can be used to create ratios for financial analysis, previously outlined in section 8.10. Examples of ratios are the current ratio and quick ratio to assess the level of working capital and solvency of the business.

The intention of a well run business is to increase the funds remaining. If this number falls between preparing balance sheets, reference may need to be made to the profit and loss statement to see where and to what degree issues and declines are occurring. It is advisable in the first couple of years of operating a new business to regularly consult an accountant or business financial advisor about changes noticed.

#### Activity Twenty-Three

What ratios use the balance sheet information?

What would you do if the net asset/funds remaining is declining over time?

## Cash Flow Statement and Cash Flow Forecasting

### The Cash Flow Statement

Purpose - shows the flowing of cash into and out of a business and helps the business operator to manage the business' finances and ensure sufficient funds are available to pay bills. Business sustainability is reliant on having adequate funds coming into the business to cover the costs of funds going out.

How often prepared - businesses vary as to how often forecasts are prepared and revised. They can be monthly, quarterly, half-yearly or annually.

Useful for - the cash flow forecast can be monitored as the month/s progress to check how well the business is on track with the forecasted income and expenditure.

Analysis - the net cash balance is the main figure to watch at the bottom of the statement. Increases indicate healthy cash flow, decrease suggest potential difficulties. If too low, this may mean that the business will become a debtor or may rely more on credit facilities and overdrafts to pay bills.

Cash flow comes from core operations such as sales, finance and investment, shares, bonds and money owed to the business and depreciation of assets. Minor changes will occur in the cash flow that cause an increase or decrease in the net cash balance each month. The cash flow is based on current and known or anticipated business performance, which helps to plan and budget for different expenses in the business for future months. This is not to say that you can completely control the cash flow, as there will be external factors that are unpredictable that will affect the business. What you are looking for is more dramatic changes, particularly those that turn into a trend.

Compare your cash flow with similar businesses to determine whether in keeping with industry, you are under or over spending.

The cash flow can be compared to financial goals and forecast amounts and provides information for financial ratios to examine the overall financial health of the business.

If the business is recovering from a negative impact, the cash flow can be used to see where it might be possible to free up cash. Maintaining cash flow is crucial in economic downturns or after an event that causes a serious financial impact on a business.

Monitoring cash flow and tracking cash flow against forecast cash flow will help the business operator to see how well the business is performing against planned targets. Forecast amounts may need to be adjusted. Payments must be matched with invoices and receipts. Addressing negative cash flow may mean that the business operator will have to consider ways to minimise costs and free up cash. Should this occur, the following steps are suggested:

- consult with an accountant or financial advisor;
- assess the business performance;
- identify appropriate courses of action to address pressing financial issues;
- assess and seek to make appropriate changes to debtor and creditor numbers and timeframes for payment;
- monitor stock levels to ensure that too much cash is not invested in stock;
- follow-up overdue accounts and improve management of debtors;
- put in place improved credit policies;
- negotiate longer payment terms with suppliers;
- increase income through reviewing pricing;
- increase customers and improve customer service;
- reduce overheads; and
- review bank accountants and loans.

Annual profit forecast will show the expected income, expenditure and profit of a business over the year, providing information on likely profit and assuming/predicting a particular level of trading. It is important to note that the profit forecast doesn't equal the business' cash position as it would include things like depreciation, unpaid creditors, invoices raised but not paid and does not include loan payments. The annual profit forecast should be checked against the cash flow forecast to ensure adequate funds to meet debts.

#### Activity Twenty-Four

A business recently experienced a fire at its premise and lost some stock and had to close for a couple of weeks for repairs. On looking at the cash flow for the month, the operator notes sales are down (to be expected) but this trend continues for the next couple of months.

What are the longer term implications for the business if the operator does not attend to this change quickly?

How can a business operator use the cash flow to manage the business?

#### Driving Profits

One of the main reasons for being in business is to make a profit. Remaining in business and growing a business rely on you to make a profit, even if it is just to continue trading. It is therefore useful to understand what drives and affects profit. This section looks briefly at profit drivers. The trading records and profit and loss statements can help to identify the profit drivers of a business. Profit drivers can be financial (our concern in this section) and non-financial:

<p>Financial:</p> <ul style="list-style-type: none"><li>• price;</li><li>• fixed costs;</li><li>• variable costs;</li><li>• sales volume;</li><li>• costs of debt; and</li><li>• inventory.</li></ul>	<p>Non-Financial:</p> <ul style="list-style-type: none"><li>• productivity;</li><li>• client satisfaction;</li><li>• quality of the product/service;</li><li>• training of employees;</li><li>• employee satisfaction (morale);</li><li>• business culture and values;</li><li>• market share; and</li><li>• employee safety</li></ul>
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Financial profit drivers can be the average number of sales per month; the average sales per client or the percentage of clients who are repeat business. The most common areas that can affect profit levels include: increasing sales and reducing costs of sales and overhead expenses.

#### Financial Management and Taxation

A business's financial plan and management activities, including record keeping, helps the business operator to comply with taxation laws and obligations. It is important that you consult an accountant and/or the Taxation Department to find out the taxation obligations so that the relevant systems and payment schedules can be set up. This section will not go into great detail about taxation obligations and how to comply with them, but refers the reader to the Australian Taxation Office websites. Readers in other countries should refer to their own country's Taxation Department.

Taxation rulings change all the time and therefore you must ensure that they are up to date with what is required in terms of records, reporting, permitted claims and payment obligations. You must also ensure that evidence to support taxation obligations/claims is retained.

Obligations in Australia can include:

- GST (if your business has a turnover over \$75 000 – check the link in the Taxation Office in the reference section at the end of the Chapter. This includes a link to a useful document entitled 'GST for Small Business');
- Superannuation (if the business employs staff – the employee/contractor tool will help with this and employer obligation checklist noted in the reference section may be of use);
- Pay as you go (PAYG) (links to the Taxation Office in the reference section at the end of the Chapter will assist with this and your scheduling);
- Fringe Benefits Tax (FBT) (links to the Taxation Office in the reference section at the end of the Chapter will assist with this and your scheduling);
- Termination payments and other obligations when a worker leaves (refer to the Taxation Office link in the reference section at the end of the Chapter); and
- Taxation and reporting activity statements, which is how a business provides information to the Taxation Department on income and tax (links to the Taxation Office in the reference section at the end of the chapter will assist with this)
- **Records regarding asset purchases relating to claims for depreciation (business owners and operators should regularly check for updates and changes on allowable claims)**

## Small Business Tax Concessions

The Australian Government regularly reviews its taxation structures and concession arrangements. Currently some small businesses may be eligible to concessions, that include:

- Capital Gains Tax (CGT);
- Income Tax;
- Goods and Services Tax (GST);
- Pay as You Go (PAYG) instalments; and
- Fringe Benefits Tax (FBT).

Concessions may be to have a choice to account for GST on a cash basis; simplified trading stock rules; simpler depreciation rules and immediate deductions for some prepaid business expenses.

Eligibility requires the business to be:

- an individual, partnership, company or trust;
- the person claiming is running the business;
- the aggregated turnover is less than \$2 million;
- the business operator should seek advice from an accountant or the Taxation Department; and
- taxation and reporting activity statements

Payments and reporting on business activity is a requirement of the Australian Taxation Office (ATO). This may include reporting on GST, Luxury Car Tax, Wine Equalisation Tax (WET), PAYG withholding and instalments, FBT instalments and Deferred Company instalments. The ATO sends activity statements to business operators. They must then be completed and returned within a set timeframe. It is possible to register so that lodgement of the activity statement can be made online using the business portal.

**As noted elsewhere in this book, it is the responsibility of the business owner and operator to keep up to date with the taxation obligations applicable to their business structure and operation.**

## 9.12 FINANCIAL RECORD KEEPING

At the heart of financial management and reporting is good record keeping. Refer back to chapter 3 regarding the legal requirements for financial record keeping such as for tax, GST, employees, debtors, superannuation, fringe benefits, fuel tax credits and business payments.

A common weakness in small business is that business operators are not fully aware of their business' financial status, being caught up in actually running the business. Maintaining up-to-date financial records and regularly reviewing them is a must. If something happens that affects the business' bottom line and market, and the business operator has no idea of the business' financial position, it is very difficult to make the right decisions to help get the business back on track or to survive the crisis.

As previously noted financial records can be used for a number of purposes:

- monitoring the performance of the business against the business' goals and objectives;
- attracting investment or seeking finance;
- ensuring compliance with tax laws;
- informing risk assessment and mitigation planning; and
- planning recovery or managing the business during a business or economic crisis.

In keeping financial records the fundamental information a business operator will want to know is:

- how money has been used – to buy a good or service, pay a debt or loan repayment etc.;
- where the money came from – sales, investment, interest, asset sale, debtor etc.;
- what the amount of money was;
- the date when the transaction occurred;
- what working capital the business has to enable forward planning as well as ensuring that the operator stays in business; and
- the business' assets and liabilities so that the business operator knows if the business is solvent.

Financial records keep track of this information, recording income and expenditure, and assets and liabilities. Records can be maintained manually or electronically. Manual account keeping involves the keeping of daily records in different types of books for cash, credit, debtors and purchases for example. This information is then transferred to a journal to record chronologically all the debits and credits.

Electronic accounts can be as simple as using an Excel spreadsheet, or may involve using one of the more complex account-keeping software programs. Some businesses may have software that is developed specifically for their

business. Electronic records can be kept off-site in a 'cloud' system, which is a virtual operating system. The benefit of a 'cloud' system is that it can be accessed and updated from anywhere where you have internet connection. However it is important that the business operator considers the risks and security of off-site electronic storage, **such as** the 'cloud' **service**.

Many businesses employ a book keeper or business advisor to help with the financial management of the business. Whatever system is in place, records must be kept up to date. The respective advantages of electronic and manual systems are presented below.

### Electronic System

The advantages of electronic records are:

- comprehensively records business transactions, stock and asset details;
- efficient;
- allows the generation of orders, invoices, financial statements, employee pay records, inventory and debtor reports;
- can provide immediate record of a sale when an invoice is raised;
- automatically tallies linked financial records;
- provides reports and has the capacity to alter forecasts and run scenarios quickly;
- can calculate tax, with automatic updating capabilities in some software maintains currency with latest tax rates, laws and rulings;
- supports administrative efficiency of the business in some software by having integrated administrative functions such as invoicing clients, sending orders to suppliers, and sending Business Activity Statements (BAS) to the Australian Taxation Office, (and in other countries software is likely to be tailored to meet tax requirements of that country); and
- can be more secure and provides facility for back-ups to be held off site; however to ensure this system works, the business operator must back-up daily.

In Australia, when choosing software it is worthwhile speaking with an accountant and also checking with the Australian Taxation Office that proposed software to be used is compliant with Australian Taxation laws.

If an electronic system is used, a business operator must be able to provide hard copies of records if required by the Tax Office or company regulator such as the Australian Securities and Investment Commission (ASIC) in Australia. Check the references at the end of this chapter.

For risk management purposes, it is useful to have a back-up manual system for a business, in case of failure of the electronic system. As a further risk strategy, copies of accounts should also be kept off-site. This is where the 'cloud' system of storage is useful.

### Manual System

The advantages of a manual system for records are:

- cheaper to set up;
- easier to use than learning the functionality of a software program;
- corrections are easier than software, which may have complex audit trails;
- errors are manual rather than data corruption; and
- duplication has to be done manually, so potentially less likely to occur than electronically.

The manual system of records involves the use of various books to record transactions such as the Sales Book, Sales Credit book, Cash Book, Bank Book, Petty Cash Book and Purchase Book. Records are kept of invoices and receipts and deposit to the bank, and cheques may be paid out of the account to creditors. Records of these activities are kept in journals or daybooks.

In single entry book keeping the record of transactions occurs only once and records are only of income and expenditure. The income and expenditure journals are tallied at the end of each month. This type of book keeping is common for small businesses. A very simple example is at Table 9.17.

Table 9.17 - Simple single entry book keeping record

Date	Description	Reference	Income	Expense	Balance
01.01.2013	Balance brought forward				\$2,150
3.01.2013	Necklaces & necklace and earring set	Order 274		\$700	\$1,450
3.01.2013	Rings and bracelets	Order 275		\$500	\$950
3.01.2013	Market sales	Cash book # 23	\$350		\$1,300

4.01.2013	Phone/internet	Direct debit		\$35	\$1,265
11.01.2013	Market sales	Cash book # 24	\$400		\$1,665
12.01.2013	Bank fees	Direct debit		\$4.50	\$1,660.50

Date	Description	Reference	Income	Expense	Balance
14.01.2013	Drawings			\$600	\$1,060.50
18.01.2013	Market Sales	Cash Book #25	\$480		\$1,540.50
<b>TOTALS</b>			<b>\$1,230</b>	<b>\$1,839.50</b>	
29.01.2013	Balance brought forward				\$1,540.50

Most small businesses use the single entry for book keeping.

In double entry book keeping the recording of transactions occurs twice, using debits and credits. The sum of the debits recorded should be the same as the sum of the credits. Everything recorded is both a credit and a debit. If you pay a debt, you draw on funds and your funds decrease, but so does the money you owe, when the debt is paid. The cash account is credited and the creditor's (person you owe) is debited. The amount of money debited is the same as the amount of money that is credited. This system tends to be used by medium and large businesses, as it is more complex than single entry. Double entry can include more information in the assets and liabilities of a business, expenses and revenues and inventory, as well as depreciation, and bad debt.

#### Activity Twenty-Five

What are the advantages of electronic book keeping?

If you are recording all your income and expenditure, assets and liabilities, what kind of book keeping system are you using?

Various abbreviations are used in book keeping. The following is a list:

Abb.	Description	Abb.	Description
A/C	Account	A/P	Accounts Payable
A/R	Accounts Receivable	Acc	Account
B/D	Brought Down	B/F	Brought Forward
B/S	Balance Sheet	C/D	Carried Down
C/F	Carried Forward	CR	Credit Record
CST	Central Sale Tax	DE DR	Direct Record
Depr	Depreciation	EAT	Earnings After Tax
EBDTA	Earnings before depreciation, taxes & amortisation	EBITDA	Earnings before interest, taxes, depreciation & amortisation
EBT	Earnings Before Tax	G/L	General Ledger (or NL - Nominal Ledger)
GST	Goods and Services Tax	P & L	Profit and Loss (or I/S - Income Statement)
P/R	Payroll	PAT	Profit After Tax
PBT	Profit Before Tax	PP&E	Property, Plant & Equipment
TB	Trial Balance	TDS	Tax Deducted at Source

#### Keeping Records

Whether using a manual or electronic method to keep records, there are a number of 'good practices' that should be observed:

- keep all paperwork sorted and stored (receipts, invoices, payments, including online payments in hard copy and an electronic folder) in separate 12 month groups;
- keep all original documents and date any correspondence;

- on a daily basis, or at the minimum, weekly, record all transaction dates and payments (if this is not done automatically in software);
  - save online financial transactions in electronic folders and make hard copies to be filed;
  - back-up each day, taking a copy off-site from your business (this may be an electronic off-site system);
  - record income and expense statements from bank and credit card accounts and keep copies;
- 
- reconcile accounts on a monthly basis; and
  - request all statements and bills are sent monthly to help with monthly reconciliation.

Maintaining financial records of the business daily, weekly and monthly are then used to create statements such as the profit and loss statement, balance sheet and to check against the cash flow forecast. There are two main approaches to keeping accounts:

- cash accounting records transaction when they occur
- accrual based accounting records transactions that are occurring as well as future transactions.

This does not record when the payment is made, but enables the business operator to see credit commitments and record regular payments such as rent and wages.

Whatever system you use, it should comply with all legal requirements for a business' financial records. In Australia, check with the Australian Taxation Office that the proposed electronic package complies with Australian financial taxation records requirements. Refer to Chapters 4 and 5.

### Setting Up Records

In setting up business financial records, the business operator should consider the types of reporting that will have to occur to manage the business, and if in Australia, to comply with taxation or the Australian Securities and Investment Corporation's (ASIC) requirements if a company. Check in the reference section of this chapter for ASIC's roadmap to financial reporting.

The following basic records must be kept:

- a cash book or use of a financial accounting program recording cash receipts and payments;
- bank account details including cheque books, deposits books and bank statements;
- employment records that may include- hours of work, overtime, remuneration or other benefits, leave, superannuation benefits, termination of employment, type of employment, personal details of workers, employee personal contact and employment details, employee accreditation and licenses, resumes and performance reviews;
- training records relevant to specific occupations and to comply with occupational health and safety laws;
- sales records including invoice and receipt, cash register tapes where relevant, credit card documentation, credit notes for returned goods and goods used by business owner personally;
- proof of purchase including cheque butts, petty cash receipts, credit card statement, invoices; and
- copies of leases and agreements.

At the end of the financial year a business should have the following records:

- details of stock on hand for the beginning and end of the financial year;
- list of debtors and creditors for the year;
- capital gains details including records of asset purchase dates and agreements, sale/disposal of asset record, details of commission paid, legal expenses, improvements to asset;
- depreciation table showing original purchase agreement or tax invoice, depreciation schedule;
- cost of transport to business and installation (if applicable);
- expense records;
- staff and wages including employment contracts, tax deducted, fringe benefits, superannuation, sick pay and holiday pay;
- stock records, accounts receivable, accounts payable;
- agreements for sales and purchase contracts, loans, rental, lease, franchise, sale and lease back, trading agreements with suppliers; and
- contracts with telecommunications, business name registration certificate.

### Capital Gains Records and Sale of Assets

As stated in Chapter 4, a range of records must be kept by law and these records must be kept for a specified length of time by law. For example personal financial records must be kept for five years and company records, most employee records and all records of fringe benefits and capital gains must be kept for seven years.

You must also keep a record of assets for depreciation, and also if you sell an asset.

It is recommended that the business operator speaks with an accountant regarding the records required for the business and how they should be kept. This information can be summarised for future reference and to help anyone who has the responsibility of maintaining the records. Table 9.18 is an example.

Table 9.18 - Financial records summary

Record	Purpose	How Record is Kept (manual, electronic, specific software, copied, scanned, filed)	When Updated

#### Activity Twenty-Six

List at least five financial records you must keep and explain why:

- 1.
- 2.
- 3.
- 4.
- 5.

### 9.13 MANAGING DOWNTURNS IN BUSINESS

Many factors can cause a downturn in business, however a vigilant business operator would be monitoring cash flow, sales levels and revenue, operating costs and the general financial status of the business on a very regular basis so that changes can be picked up quickly (positive or negative) and appropriate actions taken.

If a downturn is experienced, you may need to:

- monitor stock levels to assess whether there is too much cash tied up in stock and its storage and insurance;
- manage accounts, which is primarily about managing debtors to ensure that cash flow remains healthy. If a business experiences some cash flow problems, then particularly with suppliers, the business may be able to negotiate longer payment terms from suppliers;
- investigate ways to increase income may include: reducing overheads, such as reducing power and water costs, minimising wastage. (Whenever a business operator is going to make financial changes, the impact on cash flow must be considered.);
- consider pricing and potential changes to move products/services that have retained demand and test options by looking at the effect on cash flow; and
- manage changes in cash flow in the short term to achieve a long term gain. For example, an advertising campaign may be quite expensive and cause lower cash flow, but the outcome may be a greatly improved cash flow.

#### Activity Twenty-Seven

Outline three steps you would take if your business was suffering a down-turn, or recovering from an external event that has negatively impacted on the business. Explain why:

- 1.
- 2.
- 3.

## 9.14 PAYMENT AND CREDIT POLICY

A business may offer credit terms for payments. The business may also give customers or clients an invoice or bill after supplying the product or service. This is the same as offering credit because you have already supplied the customer.

The benefit of providing credit is that it can be easier for customers and may encourage more purchases, however, providing credit will reduce the business' cash flow, the business' profit margin and can result in large debts to the business. For these reasons, offering credit carries risks which the business operator should consider. There is a strong link between credit and sales figures, as well as cash inflows.

Businesses will vary in the credit arrangements and terms they provide and the business operator must work out what is best for their business. When preparing cash flow forecasts and other financial forecast or statement documents it is suggested that the business estimates up to 60% of credit will run overdue. It would be better to overestimate the time taken than to underestimate.

### Managing Debtors

Things to bear in mind when considering offering credit include: business financial status, cash flow forecasts, economic conditions at the time, what other businesses appear to offer, industry standards and the risk the business operator is willing to take with debtors. Customers, whether they are an individual or a business, are debtors and must be managed carefully to maintain your cash flow. This means a business must put in place a debtor management process that includes:

- collecting debts on time;
- setting credit limits and payment terms;
- having comprehensive credit application forms and credit checks;
- developing and implementing a policy about default;
- considering arranging debtor finance; and
- taxation laws in Australia, as mentioned in Chapter 3, require that a business keeps debtor records.

### Credit Policy

In developing the credit policy the business operator should:

- determine credit limits and terms;
- develop conditions and arrangements for early payment or penalties for overdue bills;
- determine the deposit amount required;
- state which types of credit cards are allowed;
- provide information on the credit check procedure and recording; and
- advise what personal customer information is recorded, how it will be stored, accessed and used.

If it is a business customer, the business operator should:

- identify how long the business has been in business;
- how long the business has been at their present location;
- find out about the credit rating the business has with other vendors and reporting agencies;
- gather information about the principles of the company; and
- find out the volume and regularity of sales.

The invoicing, receipting and production of credit statements for credit customers is very important, and these records must be kept by the business. The records help you when following up late payments, preparing cash flows and to check details for customers. Invoices must have an invoice number, date, customer or identifying code, clear description of the product/service provided, including listing individual items if this applies, the purchase order, job or order number, dollar amount owed, payment terms and due date.

The decision to allow a customer credit (business or individual) should be based on a positive credit check result. The steps a business should take in the first instance is to:

- get customers to sign a form confirming that they have understood credit terms and conditions and agree to abide by them;
- check customer identification;
- document and confirm customer contact details; and
- gain customer approval to conduct a credit check if required.

If the customer is another business, the business operator would:

- collect details of the credit applicant business' directors, partners or owners;
- request 3 trade credit references;
- obtain a signed form by the credit applicant business confirming that they have understood credit terms and conditions and agree to abide by them;
- in some situations a deed of indemnity or guarantee for corporate clients can be used, but legal and financial advice should be sought on this;
- consider how long the business has been in business;
- request signed guarantees; and
- it may be useful to request that a business authorises more than one person in the company to use credit on behalf of the company.

Once the credit application is completed and checked, you should provide a written response to the applicant approving/declining the credit, unless additional information is required. Information to be confirmed includes the amount of credit, credit terms, guarantors including the guarantor forms, penalty and default terms and any other stipulations or conditions. All information gathered should be stored in a secure way and is subject to the Privacy Act. Debtor information must be kept by Australian taxation laws. You can use the electronic record of debtors to have alerts for debtors and payments due. Regular checks should be made on the impact of debtors and creditors on cash flow.

#### Activity Twenty-Eight

What are the positives and negatives of providing credit?

A business is considering giving customers the opportunity for credit. They have developed a form to record the customer's name, address, contact phone and email, amount of credit and when payment is due? What have they omitted to do and how would this make it difficult to manage debtors?

## 9.15 BENCHMARKING YOUR BUSINESS

One way to be able to find out whether a business is operating at a level that is comparative to others in the same industry is to benchmark the business with other similar businesses. Benchmarking uses ratios of financial performance and these can be compared, as can the standard operational costs. This enables a business operator to identify whether areas like costs and profit margins are in line with the industry's general level. If they are not, this may mean that the business is operating inefficiently, or is paying higher rates for raw materials for example. To find out more about benchmarking a business, visit the website noted in the reference section of this chapter or speak to your accountant.

## 9.16 BUSINESS EXPERTISE

Financial management requires the business operator to have certain skills and knowledge. In some instances, financial issues or decisions will require specialist skills and knowledge. Effectively managing a business' finances can be the difference between success and failure, just staying in business or really doing well. It is recommended that you consult with specialist expertise when necessary. Expertise could include:

- Accountant;
- Financial advisor;
- Business banking advisor;
- Solicitor;
- Australian Taxation Department;
- Financial analyst;
- Business coach; and
- Bookkeeper.

## DISCUSSION

For class groups, or for those studying by distance to discuss with a group of friends or colleagues, discuss the financial considerations and planning that the owners of 'The Great Outdoors Living' company should have undertaken to prepare for taking up a possible job opportunity.

George and Cary run 'The Great Outdoors Living', which specialises in building and fitting outdoor living areas. They offer both standard 'kits' and also custom-designed areas. Recently business has been slow and their financial situation is weak, although debt is manageable. They have leases on two utilities, own cement mixers, tile, concrete and glass cutting equipment and other various tools of the trade. They have tendered for a large resort estate that will provide consistent work for the next 12 months. It will mean they have to take on a couple of extra staff. It is likely that they will win the tender.

### 9.17 FINANCIAL ACTION PLAN

Table 9.19 outlines the key financial actions for the business and can be used when developing your own business financial plan.

Table 9.19 - Financial action plan

Financial Management - Item/Action		By When	By Whom	Cost	When to be reviewed	Completed
PREPARATION	Pricing & sales projections documented					
	Profit and loss prepared					
	Cash flow forecast prepared					
	Financial records set up					
ONGOING	Weekly review of cash flow					
	Monthly review of financial status against targets					
	Monthly review of profit and loss					
	Account reconciliation					
	Preparation for end of financial year					
	Preparation of monthly tax statements					

### 9.18 GLOSSARY OF FINANCIAL TERMS

Financial management involves understanding specific terminology or 'jargon'. Common terms are listed below drawn from [www.business.gov.au](http://www.business.gov.au) website<sup>1</sup>.

Table 9.20 - Financial terms glossary

Term	Definition
Accounts Payable	A record of all short-term (less than 12 months) invoices, bills and other liabilities yet to be paid. Examples of accounts payable include invoices for goods or services, bills for utilities and tax payments due.
Accounts Receivable	A record of all short-term (less than 12 months) expected payments, from customers that have already received the goods/services but are yet to pay. These types of customers are called debtors and are generally invoiced by a business.
Accounts Receivable Financing	Refer to Factoring.
Accrual Accounting	An accounting system that records transactions at the time they occur, whether the payment is made now or in the future.
Amortisation	The process of expensing for intangible assets such as goodwill and intellectual property over a period of time. See also Depreciation.
Assets	Are things you own. These can be cash or something that can be converted into cash such as property, vehicles, equipment and inventory.

<sup>1</sup> Financial Terms from [www.business.gov.au/BusinessTopics/Business-Finances/Pages/Glossary.aspx](http://www.business.gov.au/BusinessTopics/Business-Finances/Pages/Glossary.aspx) - accessed 23.01.2013

Term	Definition
Audit	A physical check performed by an auditor or tax official on a business' financial records to check that everything is accounted for correctly.
Bad Debts	Money owed to you that is unlikely to be paid to you in the foreseeable future.
Balance Sheet	A snapshot of a business as of a particular date. It lists all of a business' assets and liabilities and works out the net assets.
Balloon Payment	A final lump sum payment due on a loan agreement. Loans with a larger final 'balloon payment' have lower regular repayments over the term of the loan.
Bank Reconciliation	A cross-check that ensures the amounts recorded in the cashbook match the relevant bank statements.
Bankrupt	An individual is bankrupt when they cannot pay their debts and aren't able to reach an agreement with their creditors.
Bankruptcy	A process where an individual is legally declared bankrupt and their assets and financial affairs are administered by an appointed trustee.
Benchmark	A set of conditions against which a product or business is measured.
Bill of Sale	A legal document used in the purchase of property or other assets that details what was purchased, where the purchase took place, and for how much.
Bookkeeping	The process of recording the financial transactions of a business.
Boot Strapping	Where a business funds growth purely through personal finances and revenue from the business.
Bottom Line	Refer to Net Profit
Break-Even Point	The exact point when a business' income equals a business' expenses.
Budget	A listing of planned revenue and expenditure for a given period.
Capital	Wealth in the form of money or property owned by a business.
Capital Cost	A one-off substantial purchase of physical items such as plant, equipment, building or land.
Capital Gain	Is the amount gained when an asset is sold above its original purchase price.
Capital Growth	An increase in the value of an asset.
Cash	Includes all money that is available on demand including bank notes and coins, petty cash, certain cheques, and money in savings or debit accounts.
Cash Accounting	An accounting system that records transactions at the time money is actually received or paid.
Cash Book	A daily record of all cash, credit or cheque transactions received or paid out by a business.
Cash Flow	The measure of actual cash flowing in and out of a business.
Cash Incoming	Money that is flowing into the business.
Cash Outgoing	Money that is flowing out of the business.
Chart of Accounts	A index of the accounts a business will use to classify transactions. Each account represents a type of transaction such as Asset, Liability, Owner's equity, Income, and Expense.
Chattel Mortgage	Is similar to a hire-purchase agreement although the business owns the asset from the start. Chattel mortgages require regular ongoing payments and typically provide the option of reducing the payments through the use of a final 'balloon' payment.
Collateral	Refer to Security
Commercial Bill	Also known as a Bill of Exchange, is a form of commercial loan that can be offered on an interest only basis, or reducing basis. Commercial bills typically require some sort of security and suit short-term funding needs such as inventory.
Contingent Liability	A liability that only needs to be paid if a particular event or circumstance occurs.
Cost of Goods Sold	The total direct costs of producing a good or delivering a service.
Credit	A lending term used when a customer purchases a good or service with an agreement to pay at a later date (e.g. an account with a supplier, a store credit card or a bank credit card).

Term	Definition
Creditor	A person or business that allows you to purchase a good or service with an agreement to pay at a later date. A creditor is also anyone who you owe money to, such as a lender or supplier.
Credit Limit	A dollar amount that cannot be exceeded on a credit card or the maximum lending amount offered for a loan.
Credit Rating	A ranking applied to a person or business based on their credit history that represents their ability to repay a debt
Credit History	A report detailing an individual's or business' past credit arrangements. A credit history is often sought by a lender when assessing a loan application.
Current Asset	An asset in cash or that can be converted into cash within the next 12 months.
Current Liability	A liability that is due for payment in the next 12 months.
Debit	In double-entry book keeping a debit is an entry made on the left hand side of a journal or ledger representing an asset or expense.
Debt	Any amount that is owed including bills, loan repayments and income tax.
DebtConsolidation	The process of combining several loans or other debts into one for the purposes of obtaining a lower interest rate or reducing fees.
Debt Finance	Money provided by an external lender, such as a bank or building society.
Debtor	A person or business that owes you money.
Debtor's Finance	Refer to Factoring
Default	A failure to pay a loan or other debt obligation.
Depreciation	The process of expensing an asset over a period of time. An asset is depreciated to spread the cost of the asset over its useful life.
Disbursements	Money that is paid out by a business.
Discount	A reduction applied to a full priced good or service. See also Markdown.
Double-EntryBookkeeping	Is a bookkeeping method that records each transaction in two accounts, both as a debit and a credit.
Drawings	Personal expenses paid for from a business account.
Encumbered	An encumbered asset is one that is currently being used as security or collateral for a loan.
Equity	The value of ownership interest in the business, calculated by deducting liabilities from assets. See also Owner's Equity.
Equity Finance	Is money provided to a business in exchange for part ownership of the business. This can be money invested by the business owners, friends, family, or investors like business angels and venture capitalists.
Excise Duty	An indirect tax levied on certain types of goods produced or manufactured in Australia including petrol, alcohol, tobacco and coal.
Facility	A predetermined arrangement such as an account offered by a financial institution to a business (e.g. a bank account, a short-term loan or overdraft).
Factoring	Also known as debtors finance and accounts receivable finance, is when a factor company buys a business' outstanding invoices at a discount. The factor company then chases up the debtors. Factoring is a way to get quick access to cash, but can be quite expensive compared to traditional financing options.
Finance	Money used to fund a business or high value purchase.
Financial Year	A twelve month period typically from 1 July to 30 June.
Financial Statement	A summary of a business' financial position for a given period. Financial statements can include a profit & loss, balance sheet and cash flow statement.
Fixed Asset	A physical asset used in the running of a business.
Fixed Cost	A cost that cannot be directly attributed to the production of a good or service.
Fixed Interest Rate	When the interest rate of a loan remains the same for the term of the loan or an agreed timeframe.
Float	Is when a private company offers shares in the company to the public for the first time. See Initial Public Offering.

Term	Definition
Forecast	A prediction of future financial transactions. Forecasts are often used to help plan a more accurate budget.
Fringe Benefit	Nonmonetary benefits such as company cars and mobile phones, included as part of a salary package.
Fully Drawn Advance	Is a long term loan with the option to fix the interest rate for a period. These loans are usually secured and can be used to fund a new business or equipment.
Goodwill	An intangible asset that represents the value of a business' reputation.
Gross Income	The total money earned by a business before expenses are deducted.
Gross Profit	Also known as net sales, the difference between sales and the direct cost of making the sales.
Guarantor	A person who promises to pay a loan in the event the borrower cannot meet the repayments. The guarantor is legally responsible for the debt.
Hire-Purchase	A type of finance contract where a good is purchased through an initial deposit and then rented while the good is paid off in instalments plus interest charges. Once the good is fully paid the ownership of the good transfers to the purchaser. See also Rent to buy.
Initial Public Offering (IPO)	When a company first offers shares on the stock market to sell them to the general public. Also known as floating on the stock market.
Insolvent	A business or company is insolvent when they cannot pay their debts as and when they fall due.
Intangible Assets	Non-physical assets with no fixed value, such as goodwill and intellectual property rights.
Interest	The cost of borrowing money on a loan or earned on an interest-bearing account.
Interest Rate	A percentage used to calculate the cost of borrowing money or the amount you will earn. Rates vary from product to product and generally the higher the risk of the loan, the higher the interest rate. Rates may be fixed or variable.
Inventory	An itemised list of goods or materials a business is holding for sale.
Investment	An asset purchased for the purpose of earning money such as shares or property.
Invoice	A document provided to a customer to request payment for a good/service received.
Invoice Finance	Is finance offered based on the strength of a business' accounts receivable. This form of financing is similar to factoring,
Liability	A financial obligation or amount owed.
Line of Credit	An agreement allowing a borrower the ability to withdraw money from an account up to an approved limit.
Liquidate	To quickly sell all the assets of a company quickly and convert them into cash.
Liquidation	The process of winding up an insolvent company. An appointed administrator will do this by ceasing business operations, selling assets, and paying creditors and shareholders.
Liquidity	How quickly assets can be converted into cash.
Loan	A finance agreement where a business borrows money from a lender and pays it back in instalments (plus interest) within a specified period of time.
Loan to Value Ratio (LVR)	Your loan amount shown as a percentage of the market value of the property or asset that will be purchased. The ratio helps a lender work out if the loan amount can be recouped in the event a loan goes into default.
Margin	The difference between the selling price of a good or service and the profit. Margin is generally worked out as a gross margin percentage which shows the proportion of profit for each sales dollar. See also Mark up.
Margin Call	When the value of a property or asset falls below a certain LVR. For higher risk loans such as margin loans, the lender will request further payment to bring the LVR back to the agreed percentage. See also Loan to Value Ratio (LVR).
Mark Down	A discount applied to a product during a promotion/sale for the purposes of attracting sales or for shifting surplus/discontinued products. See also Discount.

Term	Definition
Mark Up	The amount added to the cost price of goods, to help determine a selling price. Essentially it is the difference between the cost of the good/service and the selling price, but it does not take into account what proportion of the amount is profit. See also Margin.
Maturity Date	When a loan's term ends and all outstanding principal and interest payments are due.
Net Assets	Also known as net worth, owner's equity or shareholder's equity, is the total assets minus total liabilities.
Net Income	The total money earned by a business after tax and other deductions are taken out.
Net Profit	Also known as your bottom line, is the total gross profit minus all business expenses.
Net Worth	Refer to Net Assets.
Overdraft Facility	A finance arrangement where a lender allows a business to withdraw more than the balance of an account.
Overdrawn Account	A credit account that has exceeded its credit limit or a bank account that has had more than the remaining balance withdrawn.
Overheads	The fixed costs associated with operating a business such as rent, marketing, utilities and administrative costs. See also Fixed Costs.
Owner's Equity	Refer to Net Assets.
Petty Cash	Cash for the purposes of small miscellaneous purchases such as postage.
Plant & Equipment	A group of fixed assets used in the operation of a business such as furniture, machinery, fit-out, vehicles, computers and tools.
Principal	The original amount borrowed on a loan or the remainder of the original borrowed amount that is still owing (excluding the interest portion of the amount).
Profit	The total revenue a business earns minus the total expenses. See also Revenue.
Profit & Loss Statement	Also known as an income statement, is a financial statement listing sales and expenses and is used to work out the gross and net profit of a business.
Profit Margin	Refer to Margin.
Projection	Refer to Forecast
Receipt	A document provided to a customer to confirm payment and to confirm a good/service has been received.
Record Keeping	The process of keeping or recording information that explain certain business transactions. Record keeping is a requirement under tax law.
Refinance	When a new loan is taken out to pay off an existing one. Refinancing is often done to extend the original loan over a longer period of time, reduce fees or interest rates, switch banks, or move from a fixed to variable loan.
Rent to Buy	Is a type of finance arrangement where a good is purchased through an initial deposit and then 'leased' while the good is paid off. Once the good is fully paid the purchaser has the option (but no obligation) to buy the good or continue leasing. See also Hire Purchase.
Re-possess	The process of a bank or other lender taking ownership of property/assets for the purpose of paying off a loan in default.
Return on Investment (ROI)	A calculation that works out how efficient a business is at generating profit from the original equity provided by the owners/shareholders.
Revenue	Also known as turnover, the amount earned before expenses, tax and other deductions are taken out.
Scam	A deliberate and targeted deception designed to obtain money or information unlawfully.
Security	Also known as Collateral, is property or assets that a lender can take possession of, in the event that a loan cannot be repaid.
Shareholder's Equity	Refer to Net Assets.
Stock	The actual goods or materials a business currently has on hand.
Stocktaking	A regular process involving a physical count of merchandise and supplies actually held by a business, completed to verify stock records and accounts.

Term	Definition
Superannuation	Money set aside for retirement, that must be paid into a complying superannuation fund.
Tax Invoice	An invoice required for the supply of goods or services over a certain price. A valid tax invoice is required when claiming GST credits. See also Invoice.
Turnover	Refer to Revenue.
Variable Interest Rate	When the interest rate of a loan changes with market conditions for the duration of the loan.
Variable Cost	A cost that changes depending on the number of goods produced or the demand for the products/service.
Venture Capital	Capital invested in a start-up business that is thought to have excellent growth prospects but does not have access to capital markets because it is a private company.
Working Capital	The cash available to a business for day to day expenses.

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## 10. MANAGING TEAMS

### INTRODUCTION

Many small businesses are sole traders and never employ staff; however if you are considering expanding, end up with more work than you can manage, or have to be away from your business for an extended time, you may decide to take on staff. This may be just for a short time and a casual arrangement, or be permanent. The nature of the terms of employment will vary depending upon the type of employment, as will the financial and legal obligations you have as a business, to the staff you employ.

The area of human resource management concerns not only employing staff, the legal obligations to staff, record keeping and training, but also how to manage staff to get the best out of their work efforts for the business, and to support professional work development. Human resource management therefore also includes managing relationships. Whether you have staff or work as a partnership, there are aspects of human resource management that are relevant to you.

Chapter 3 of this book looked at the legal aspects of human resources concerned with record keeping, taxation and work, health and safety. This chapter explores the broader areas of human resource management beginning with looking at business structure and how to identify and document the roles and responsibilities of staff (a position description). This leads into discussing recruitment and retaining staff; including creating the advertisement, interviewing and engaging staff; and induction and training. Sections also include a brief recap on employee record keeping and legal obligations and work, health and safety, with a more detailed look at managing staff. This final area includes Code of Conduct, management styles, mentoring and performance management, communication, conflict management and staff dismissal.

### 10.1 BUSINESS ORGANISATIONAL STRUCTURE

Business structure in this discussion does not relate to whether the business is a partnership, company, trust, or sole trader, it is looking at your organisational structure in terms of staff. It is about the allocation of roles and responsibilities to make the best use of skills, experience and special expertise to achieve the best business performance for the business.

A number of factors determine organisational structure:

- legal structure of the business - for example a sole operator has no organisational structure, but if the person takes on staff, it is more likely to be because of an increasing work load, whereas a company that is growing may be looking at engaging employees with specific skills for example in administration, sales, or technical or production staff to support growth or diversification;
- type of business and the market it serves, which particularly influences the expertise, sales and customer service skills a business may require, as well as distribution and marketing;
- business objectives and goals, which means that specific skills or roles are required by the business to be able to deliver the objectives and goals;
- risk management, which will determine whether the business operator wants staff to be multi- skilled and able to back-fill positions, as well as critical skills/roles required to run the business following a crisis. This may also include having flexibility within the organisational structure that allows staff to multi-skill and take on multiple roles or to share roles;
- customer service needs that may dictate a desired level of staff and particular skills to service these needs
- efficient and safe work flow, applying standards and codes of practice where necessary, which may require staff who hold particular tickets and certificates, or an organisational structure that enables efficient operation whilst maintaining a high standard of staff work safety;
- inter-unit cooperation, which means the organisational structure is clearly understood by staff and has defined routes of communication that support good communication between areas of the business such as sales to stores, or manufacturing areas to sales and purchasing;
- record keeping, which will be influenced by the type of employment arrangements you have as well as legal obligations;
- optimising staff skills and expertise and providing opportunities for staff development in professional, technical or level of responsibility. This area is not just about employing appropriately skilled staff, but also about how to develop staff capabilities and provide career paths, including opportunities for training and advancement;
- financial implications of the organisational structure and staffing levels, which means that when considering engaging staff or changing employment arrangements, the business operator should prepare a cash flow forecast to see how this affects the business' bottom line;
- information management, which relates to who has access to what information and how easily it can be accessed to support informed and efficient decision-making, whilst protecting sensitive and personal information;

- lines of responsibility and decision-making, which means staff know to whom they should speak regarding issues, approvals and decisions; and for those in positions of authority, there is a clear understanding of the parameters of that authority within the organisational structure;
- legal and governance requirements, which will differ depending upon the type of business structure, but must support the legal and governance requirements of the organisation; and
- position titles, roles and responsibilities are clearly defined so that staff understand what position they hold, what they are required to do and their level of responsibility.

The type of structure put in place may be very simple for a very small business, where everything can be decided by one person; however for more complex business environments and larger businesses, the structure will reflect the size and complexity of business operations.

The structure may be quite flat, which means workers are able to make decisions and have direct contact with the manager/director. Others may be hierarchical or based on delegation and decision-making powers. These structures are more likely to be found in a larger business and involve a 'chain of command'.

Different structures have advantages and disadvantages, for example some may provide very clear lines of accountability and responsibility, where others may not and rely on workers or units having responsibility within their own work area for decisions. A structure based on specialisation of work areas can mean greater risk of communication break-down between and across the organisation. Other structures such as organisation by product/service type may mean there is duplication of some business area activities or greater risk of lack of coordination across the business. Some structures appear to have a greater risk of conflict with management, if operating almost independently. This may be more likely where structure is organised by a product or geographic location. If the structure is too complex it may lead to dysfunction across the whole business and the saying 'the left hand doesn't know what the right hand is doing' becomes true.

Types of structures include:

- bureaucratic that may have formalised reporting and very specific and delineated roles and responsibilities for staff
- divisional for businesses that may produce a range of goods and services in differing divisions or departments, such as a manufacturing department, sales department, service department - however these different units/departments will share common areas such as staff, administration, and there is likely to be an overarching management structure. Divisional structure can also be based on different markets
- functional, which takes each function within a business, such as accounting, administration, human resources, marketing, and sales and organises the business by these functions
- geographic, based on areas the business services, which is more likely for larger businesses; however there are still over-arching management structures for the whole business
- matrix structure often used in businesses that undertake projects, such as engineering firms and consulting firms and specialist, where staff from across the organisation form work teams so that a customer or client is serviced by all the functional and skill areas
- team structure similar to a matrix, where staff work in teams on projects, but there are central areas that service the teams. Teams may be product based, function based or geographically based.

## 10.2 STAFF RESOURCES

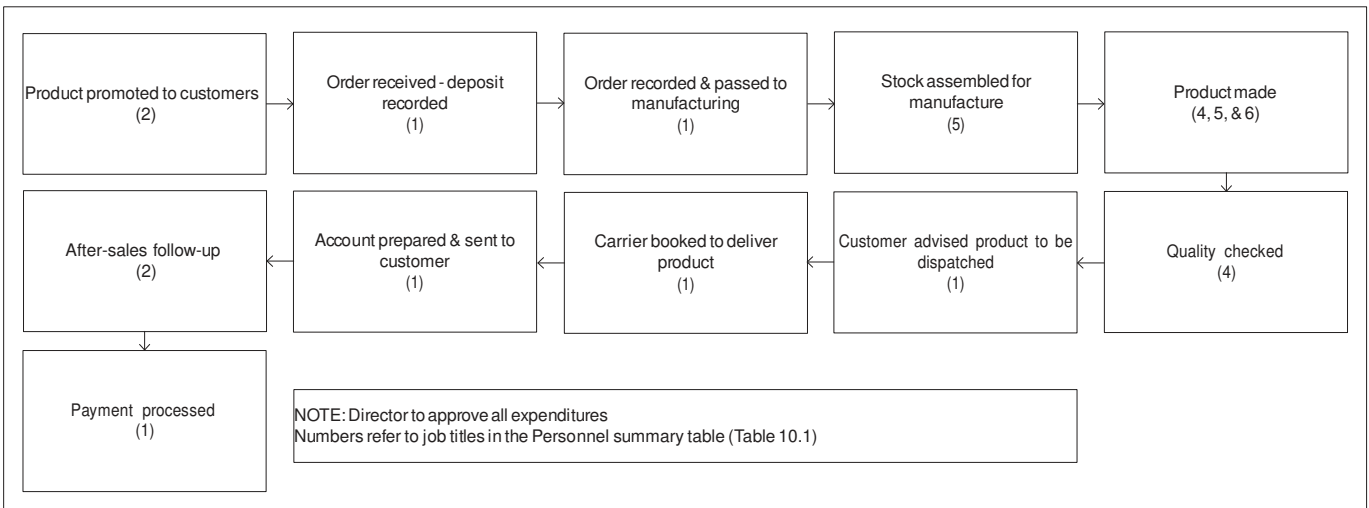
If a business already has staff, there may be times when restructuring or broadening staff roles and responsibilities may be required. It is good practice to review the staff roles and skills, as part of human resource management to ensure that both staff and the business benefit.

Staff resource requirements are based on the needs of the business to operate. To begin to plan an organisational structure, list the job title, staff skills and expertise required, qualifications and licences required (if this applies), likely employment type and staff role in the business, such as in Table 10.1. It is useful to sketch out the workflow for the business so that there is an understanding about the communication lines that must exist to keep everyone informed and support efficient work processes, such as in Figure 10.1. Assembling staff information will help in developing the organisational structure. This can be done on the computer or simply using sticky post-it notes and diagrams!

Table 10.1 - Personnel summary

Job Title	Name	Skill or Strength	Qualification/Li- cense	Employment Arrangements	Role in Business
Administration (1)	Jill S	Reception, accounting, records management	Certificate IV Business Administration MYOB accounting	Permanent	Reception, accounts, records, product distribution, correspondence
Marketing and Sales (2)	Dave S	Sales, customer service Graphic design		Permanent	Sales and marketing planning; and execution and customer servicing
Director (3)	Jarra P	Business Management Design	Masters in Business Management Bachelor of Engineering	Permanent	Owens the company and directs all operations, approves expenditures
Manufacturing Supervisor (4)	Hal S	Manufacturing timber products Supervision	Qualified Carpenter Quality Assurance	Permanent	Supervises manufacturing, WHS, quality control
Production and Stock Management (5)	Sara T	Design and construction of timber products	Qualified Carpenter	Permanent	Manufactures product, maintains stock levels and fills out orders for administration to process, maintenance of machinery
Production Assistant (6)	Peter A		Apprenticeship 2 <sup>nd</sup> Year	Apprentice	Assists with manufacture and maintenance

Figure 10.1 - Simplistic workflow diagram



**Activity One**

Sketch an organisational structure for a plumbing partnership with two partners and a staff member to do administration.

Sketch an organisational structure for a business that manufactures boutique, gluten-free savouries, cakes and biscuits. The business employs staff for the following functions: manufacturing, marketing, accounts, administration and human resources, transport and distribution. There are managers in the main function areas. The business operates as a company.

**10.3 RECRUITING STAFF**

Critical to the success of the business is having employees with the right skills, experience and attitude. Hiring staff is a big step to take as it adds a considerable cost and some risk to the business. This is where hiring family or friends might not be a good idea, because such people may not be suited to the business. Following recruitment of such people may result in difficulties for management, particularly if the person engaged is found to be unsuitable.

Table 10.2 lists the factors that should be considered and outlined to inform staff recruitment. This Table can be used to assist in developing your own staff recruitment.

Table 10.2- Staff recruitment preparation checklist

Tasks	Note details that will inform position description & advertisement
Assess your staff needs - what skills/qualifications, experience and competencies are required? Think particularly about what qualities are valuable in staff?	
Assess most appropriate type of employment at this stage - temporary, trainee/apprentice, contractor, permanent part-time, casual part-time or full-time and if you already have staff, consider if someone could be trained up.	
List the different obligations there are with each type of staff engagement as this affects both cost to the business and how you manage that particular staff arrangement.	
Assess the skills, competencies and experience required (this may include a staff assessment to find out if someone could be trained up or whether there is a gap in the business)	
Describe the role/s and responsibilities required	
Assess the potential costs for the business and identify the impact on the business (you will need to know the wage you will pay, on costs etc. and produce a cash flow forecast to see how this will affect the business)	
Check and note details and contacts for government employment schemes that may assist you find and fund workers such as programs for apprentices and trainees, migrant workers on visas, and mature aged workers.	
Identify and note industrial relations requirements regarding working conditions, awards, entitlements that will apply to the position	
Note down the tax obligations for the employment arrangements likely to be considered.	
Identify and note down any legislation that applies, including equal employment and anti-discrimination	
Consider and cost in time and money, how you might find staff - this can include advertisements in papers and on websites, through employment agencies and professional recruitment agencies, or word of mouth.	How: Cost:

Once you have researched the areas in the table, the task of developing a role description and advertisement can begin.

#### Activity Two

A small business operator wishes to recruit someone who will answer the phone, send invoices, book appointments and maintain the business' financial records. Use Table 10.2 above to record information that can be used to recruit staff.

#### Recruiting Apprentices and Trainees

Recruiting a trainee or apprentice is one way to engage new staff. A business interested in engaging an apprentice or trainee should contact the relevant government organisation responsible for apprentices and trainees in their state or country. Apprentices/trainees can be with the business for the specified period of the training and then move or, or once qualified, the business may wish to keep them on permanently. Employing an apprentice or trainee does not mean cheap labour and requires the business operator or manager to be prepared to give time to supervise and assess the employee, and for the business to have the capacity to accommodate the employee's absence to go to off-site training. Refer to the references at the end of the Chapter to link to sites that will assist with this option.

## 10.4 DESIGNING POSITION DESCRIPTIONS

A job description will identify the role and responsibilities of the person to be engaged, the type of employment and pay rate. If a staff member is being replaced there may already be a role description. This should be reviewed, in consultation with the supervisor.

A job description must include all the information that a potential applicant will need to make a decision about whether to apply. This information must comply with the law in terms of not being discriminatory or misleading. Table 61 sets out the key areas to be included in a job description. This Table can be used to develop the job descriptions for specific roles for your business.

Table 10.3 - Information for role descriptions

Position Description Item	Details or Information to be included in role description
Job Title	
Organisational overview – what the business does, vision and mission, key markets, industry sector	
Organisational structure and area or section where this job is located	
The person to whom this position reports	
Description of the role, key responsibilities and main tasks performed by this position	
The type of employment	
Likely cultural considerations (male/female roles, hierarchy and authority, individual versus group)	
Required qualifications/tickets/certification	
Desired qualifications	
Level of experience	
Desirable skills, knowledge and experience	
Personal attributes	

### Activity Three

A small business manufacturer that makes funky backpacks, kits and sports bags for children is looking for a marketer. The business employs 10 people - an administration officer and book keeper, 5 machinists, a designer, a manufacturing supervisor, a packer and contract delivery distributor. The manufacturer wants to develop an e-store. The vision for the business is to eventually move to larger premises and be a majority online store. As the director of the company, the business owner oversees the whole business. The marketer will report to him and liaise with the manufacturing supervisor. The key role will be to expand the market to develop a strong segment associated with sporting and recreation clubs, schools and tourism outlets that can sell some of the funky bags that promote a destination or experience. This will require the marketer to liaise with key attractions and tourist townships to negotiate supply opportunities. The marketer will also develop the website and e-shop presence, catalogue etc. The position will be full time.

Use Table 10.3 to complete information about the role description. Some information is provided here, but other information, such as qualifications, skills, personal attributes and experience you need to identify.

Before advertising the job, it may be worth reviewing the curriculum vitae of previous job applicants (if there have been previous recruitment activities), in case there is someone who is suitable.

To promote the job opportunity, some businesses use a word-of-mouth or a networking approach first. This means they ask businesses about whether they know of anyone looking for employment in the role the business has available. The businesses may be in their supply chain, and other business colleagues. Social events, seminars or meetings are places where a business may also make inquiries.

An online job site may be used, or social networking sites such as LinkedIn and Facebook. A business may also: advertise in Trade journals and local newspapers; place the opportunity in the job section on the business' website; or engage a recruitment agency. If the proposed employment opportunity is for an apprentice or trainee, then the business can approach a Group Training organisation for assistance.

There may be government programs that will assist with providing employees. Businesses using such programs should ensure that the reason for using the service is not just to receive funding support or other assistance. The business needs to embrace the principles of the program, for example for youth, mature workers or people with a disability. This may require a business to modify physical layout at the business to suit employees with a disability for example provide specialised tools to enable access to equipment and support job performance such as equipment to provide visual or physical impairment assistance.

To determine the appropriate pay, the business operator should go to the Fairwork Ombudsmen site noted in the reference section of this chapter. This is for Australia, however each country will have an organisation that provides similar information. On this site there are tools to help calculate wages and other entitlements.

## 10.5 ADVERTISING THE VACANCY

The decision about where a job is advertised will be influenced by cost factors, most likely employee targets, and the type of job. Casual jobs may be put on local notice boards or in the window of the business premise, but permanent jobs for higher skills are more likely to be advertised in a more formal sense, in a newspaper, job website or with a recruitment agency.

In developing the advertisement, it should be remembered that the job advertisement needs to stand out from other advertisements, to attract potential applicants to reading it, and should represent the business in a positive way. It is useful to look at other similar jobs and job categories to get an idea of the 'competition' for the staff you are targeting. The design should be easy to read, look professional, and cover key information about the business, contacts and vacancy.

The advertisement should clearly set out the following:

- the name of the business, physical location and key contact details for the position;
- position title;
- proposed date for commencement;
- pay range;
- recruitment process including how to apply and what documents are required (CV, application form, portfolio), and closing date for applications;
- instructions on how to apply;
- summary of role and key responsibilities;
- required skills, experience and knowledge;
- selection criteria; and
- benefits/opportunity for successful applicant.

Make sure that the wording fulfils legal requirements in terms of abiding by laws that govern anti- discrimination and equal opportunity. Ensure correct pay rates and conditions are provided.

If the business already employs staff, the position may be promoted to current staff first, before being advertised generally.

### Activity Four

Write a job advertisement for a person to work as a supervisor for a team of sales staff in a retail business. Make up the details such as date, check appropriate pay range, outline how they should apply, provide a summary of the role and responsibilities and make up three selection criteria for this role that represent the critical skills, capabilities and performance you wish to see in this employee.

## 10.6 PROCESSING APPLICATIONS AND INTERVIEWING APPLICANTS

As applications are received, they should be checked to ensure that the applicants have followed application directions and included all relevant documents. Those who have not should be kept separate, given that these applicants had not followed directions. This may be indicative of a person who does not attend to detail, or is casual about following procedures. However, you may need to consider them if there are no suitable applicants from the preferred selection.

Record all applications – the name of applicant, and date application received. This can be done in a simple excel spreadsheet. The spreadsheet can also include key selection criteria, required qualifications, level of experience, personal attributes for each applicant and acts as a summary. Table 10.4 is an example of the kind of table that can be constructed and then used in evaluating applications. Alternatively, an evaluation template can be created and the evaluation of each applicant recorded individually.

It is important to remember that applications contain personal information and as such the applications and any subsequent record and evaluation documentation should be kept according to the requirements of privacy laws.

Table 10.4 - Applications register

Information	Applicant 1	Applicant 2	Applicant 3
Position			
Applicant Name			
Applicant Address			
Date application received			
Required skills applicant possesses			
Required qualification held			
Selection criteria score/ comment			
Selection criteria score/ comment			
Selection criteria score/ comment			
Suitable/unsuitable - comment			

More or less criteria may be used.

### Evaluating Job Applications

Evaluation begins by recording initial assessment of key criteria, and qualifications and experience against the role description. As noted in the section above, this may be recorded in a spreadsheet Table or on an individual evaluation sheet. It is best to have more than one person evaluate applications. However, a small business may not have this option.

Eliminate from consideration applicants that do not have:

- required qualification;
- required skills;
- level/length of experience desired;
- are over-qualified (these may be considered later, if there are no other suitable applicants); and
- have missing documentation.

Proceed to reading the selection criteria responses, if addressing criteria was part of the application process. Identify whether the applicant has fulfilled the criteria. This may be by a qualitative comment or a score such as 3 = fulfils criteria; 2 = generally fulfils criteria; 1 = limited fulfilment of criteria and 0= does not fulfil criteria.

Business operators must take care that in evaluating applications they are mindful of legislation requirements regarding anti-discrimination and equal opportunity. If applicants are from overseas, or newly arrived in the country, the business may need to check whether they will be able to work in Australia.

Create a short-list of applicants. Do not select too many, which can result in interview fatigue for the interviewer/s. A maximum of 6 or less is ideal. Develop an interview schedule, making sure there is time between each interview to consolidate views on the one that has been completed.

Send unsuccessful applicants a thank you email or letter for their application, and advise them they are unsuccessful. Call successful applicants and invite them for an interview. Provide the interview date, day, time and location, how

long it will take, who will be conducting the interview, and advise of any documentation that must be brought to the interview. You may also need to advise them of any specific test or presentation that may be required. In some instances this interview may be conducted by phone or conference call, perhaps using technology such as Skype. These details should be confirmed in writing by letter or email to the applicant. It is important to ensure that you request the applicant acknowledges receipt of the interview information

### Interviewing Job Candidates

Interviewing applicants provides an opportunity to check skills, knowledge, experience and personal attributes and for the potential employer or delegated interviewer to get a feel for whether the person will be comfortable with the culture of the business.

The interviewer should prepare some questions regarding the key skills, knowledge, qualifications and experience to be demonstrated through the response to the selection criteria. The questions will expand on the information provided, or seek practical examples that demonstrate skills and knowledge. All candidates would have the same questions and if there is a panel of interviewers, the panel can agree who asks which questions.

In some instances a presentation or scenario will be provided to which the applicant prepares a response or demonstration; in others the applicant may be required to perform a practical task such as typing or operating machinery.

There should be someone to meet and greet the applicant. It is important to alert other workers to the fact that an interview is in progress.

To get the best out of applicants ensure that the environment is friendly, but formal, and that the interview can proceed without interruption. The interviewer should introduce themselves and other members of the panel (if used). The interviewer should then explain how the interview will be conducted and provide an overview of the business and the job. Finally, the interviewer should ask the applicant if they have any questions at this stage.

### Interview Process

The interview may begin with the applicant presenting, or providing general comment about each of the selection criteria, or the interviewer/s may start the questions. Questions should be open-ended for each criterion. This means there is an opportunity for the applicant to provide adequate information to inform the selection process. Encourage the applicant to talk and don't interrupt them, unless time is running out. Encourage and prompt if the applicant seems nervous. Make sure to ask the applicant if they have any questions at the end of the interview. Applicants should be advised of what the next steps will be and approximately when they will hear the outcome of the interview. Do not forget to thank them for coming.

It is important to take notes during the interview. Comments may record scores, note where the applicant shows particular strengths or weaknesses in relation to the selection criteria and about whether they meet the required/desired skills and experience the business is seeking. Before the next interview, review the notes and add extra comments. If there is a panel, this is the time to quickly consolidate views on the applicant.

To make the final selection, all material from the interview should be reviewed, including any tests, for each candidate, as well as the interview comments. Arrangements should be made to contact the referees of preferred candidates.

Feedback to unsuccessful candidates should be prepared. This should cover where the applicant met criteria and where they did not, and therefore being the reason they were not selected. In some instances it may be that the unsuccessful applicant may be considered suitable for some other role in the future. The applicant can be advised that their CV will be kept on file for future reference. All comments must comply with legislation.

Contact the successful candidate, after reviewing feedback from referees. This should be followed by a formal offer of employment. This may be a contract, but should at the least involve a written invitation that states the terms and conditions of employment. The successful applicant should be required to confirm acceptance of the job offer in writing.

Sometimes the type of business requires a person to have a police check or medical certificate. If these are still to be received, the offer of employment can be made, subject to these items being satisfactory.

### Activity Five

Outline how an interview can be conducted, explaining the steps and how this will help to determine the best candidate.

## 10.7 STAFF INDUCTION AND TRAINING

Reference to induction programs has occurred in chapter 4 relating to risk management and ensuring new staff are properly informed and advised. This section looks at induction in more detail.

Many business operators are not aware of how important induction into the business and its operation and processes is to ensuring that the new employee fits into the organisation. Induction programs also enable current staff to be aware of a new person and can help to make the new staff member feel welcome and able to ease into duties because people are aware that they are new.

Induction programs can also be used when staff have been away for a while, such as for long service leave, maternity leave or prolonged sickness. During the absence the organisation may have changed, new procedures and policies may have been put in place, or there may also have been organisational restructuring. The induction program helps those returning to work to integrate back into the organisation and quickly become productive in the changed work environment.

The program may involve formal training sessions, combined with information that is given for the new staff member to read. They may also involve practical training sessions on equipment and procedures.

During the training session or after reading material provided to them, new staff should be encouraged to ask questions or discuss any areas about which they are not clear. If English is not the first language of the employee, it is suggested an interpreter is available to ensure that the new staff member fully understands the information provided.

Some businesses create a DVD or CD, or use a range of internet e-learning tools for induction to provide general training to staff. Parts of induction training are likely to be mandatory, such as the area dealing with work health and safety. Should induction involve a special needs staff member, the onus is on the business to ensure that the induction training is suitably adjusted to meet the needs of the staff member. It is also good practice to arrange for all new staff members to have access to support from a 'buddy' or 'mentor' system for a month.

A staff induction plan should include providing information sessions or reference material covering the following areas:

- outline of the induction training and schedule of when information sessions held, required completion time for performance of test tasks and/or for any training tasks (online or written);
- overview of the business and the industry in which it operates;
- organisational chart;
- work philosophy, business mission and goals;
- glossary, acronyms and jargon generally used by the business in day-to-day operations;
- dress code and Code of Conduct;
- facilities and amenities for staff;
- workflow diagram where this would help inductee to understand activities and relationship;
- policies and procedures: hours of work, holidays, absenteeism and lateness, sickness and absences, pay procedures, parental leave, conflict and dispute resolution, work health and safety;
- customer service standards and answering telephones;
- records management and procedures; and
- copies of key documents:
  - Code of Conduct;
  - Business Plan;
  - phone lists;
  - fire evacuation plan;
  - equipment operational manuals where relevant;
  - security procedures;
  - marketing material used by the business;
  - premise site map; and
  - policies.

Day one of induction could cover:

- introduction to rest of staff/work team;
- tour of the premise including kitchen/eating area, rest rooms, first aid, their work area, locker rooms, toilet and first aid facilities, security areas, parking, security procedures, fire escape and assembly points, smoking rules and areas where smokers can go, stationery, notice boards and store rooms;
- provision of a general information pack that includes:
  - Code of Conduct and form to sign and submit to management indicating it has been read;
  - business plan;

- operations manual;
- copies of relevant policies;
- organisational chart;
- phone lists;
- fire evacuation plan;
- security plan and procedures; and
- marketing and promotional material about the business.
- brief talk or requirement to read and answer questions on:
  - overview of the organisation;
  - general work ethos, culture of the business;
  - dress code and behaviour code;
  - use of staff amenities;
  - leave and other conditions for employment;
  - overview of general work responsibility and outlining of performance expectations;
  - work flow and reporting requirements; and
  - overview of any regular meetings held within the work unit or across other areas
- summary of key markets/customers if relevant
- provision of uniform, safety gear (where this is required), locker if provided
- delivery of specific work health and safety training, particularly where procedures and equipment operation will be involved, cash security procedures, use of fire equipment
- opportunity to ask questions
- completion of a staff information sheet with personal contact details, next of kin, health conditions etc.
- provision of initial work tasks to perform.

Day Two of induction could cover:

- discussion about Code of Conduct and receipt of signed form to say the new employee has read;
- the Code of Conduct, which is to be filed in the employee's personnel file;
- review of first work tasks;
- fire drills, evacuation procedures;
- safety responsibilities of all staff;
- security and confidentiality and adherence to Privacy Laws;
- practice relating to use of machinery and equipment and performing safety checks, if this applies; and
- information session with other work colleagues and supervisor regarding current work, any issues relating to this work, mentor or team buddy as first 'go to' for information.

#### Activity Six

List at least 10 things that should be covered in an induction program:

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.
- 8.
- 9.
- 10.

## 10.8 RECORD KEEPING AND LEGAL OBLIGATIONS

This topic was covered to some degree in Chapter 4 and as was noted in that Chapter, there is an obligation for a business owner to set up and maintain up-to-date records for employees. These obligations stem from employment and taxation legislation and must be kept in a secure manner to comply with privacy laws.

The business owner also has specific obligations to the employee in regards to leave, superannuation, work cover, and work conditions. Each state may be different in Australia, and other countries will have their own legislation to cover workers. In developing a business plan it is important to ensure that the human resource policies, systems and procedures will enable a business to comply with the laws relating to these areas.

In Australia there are tools that can be used to work out pay and entitlements on the Fairwork Ombudsmen site noted in the reference section of this chapter. The Australian Taxation Office (ATO) provides information on the taxation obligations from employers.

Required records may cover:

- holidays and other leave;
- entitlements;
- tax forms and tax file number;
- work, health and safety;
- bank account details and payroll;
- setting up superannuation;
- work hours and break times;
- probationary arrangements;
- security passes;
- performance assessment; and
- training.

### Employer Tax Obligations

There are two taxes that are most likely to be relevant for employers – Pay As You Go (PAYG) and payroll tax. For greater detail on taxation matters for Australia, visit the Australian Taxation Office (ATO) link in the reference section of this chapter.

In Australia PAYG is the system used to retain funds from employees' payments to pay to the tax office to cover their income tax, any Higher Education Loan Program (HELP) repayments and Medicare levy. The amounts must be reported and sent to the ATO. The following must be done:

- register for PAYG withholding;
- determine worker status;
- determine amount to withhold;
- complete report and pay amount withheld to the ATO;
- payment summaries to be give to employees; and
- annual report lodged with the ATO at the end of each year.

### Payroll Tax

Payroll tax in Queensland is paid by employers that pay \$1.1 million or more in taxable wages. Payroll tax is paid to the Queensland Government. In other States and other countries there will be different taxation systems in place. An employer should check what taxation laws apply in their own country. If the business is in Queensland, the business must register for payroll tax within 7 days after the end of the month in which either the business pays \$21 153 a week in taxable wages, or becomes a member of a group that pays more than this. Registration is through the Office of State Revenue.

### Pay and Entitlements

As noted earlier, the business operator must ensure that employees are paid the correct wage and other entitlements and that appropriate records of wages are maintained. Records can be electronic or paper. Records include:

- employer's name;
- business' Australian Business Number if they have one;
- employee's name;
- date of payment;
- pay period beginning and end date;
- gross and net amount of pay; and
- details of loadings, monetary allowances, incentive payments, penalty rates and any other different

entitlement payments included.

#### Allowing Time Off, Leave and Leave Records

With the exception of casual staff, employees are entitled to leave. This varies in different countries, but in Australia an employee is entitled to 4 weeks annual leave for each 12 months or 5 weeks for shift workers in a 12 month period. Employees are also entitled to sick leave (both full time and part time employees) up to 10 days paid leave each year. Employees are entitled to parental leave and currently in Australia the Australian Government offers Paid Parental leave scheme, following the birth or adoption of a child. This is separate to other types of leave.

To check leave entitlements check the Fair Work Ombudsman website noted in the reference section of this Chapter.

#### Superannuation

If you are employing staff, you must make superannuation contributions to the employees' eligible account. This is a retirement savings program to provide an income in the future when an employee retires. The money is invested through the superannuation fund and accrues interest. This is known as the Superannuation Guarantee(SG) and is part of Australia's retirement income system. Other countries will have different arrangements and business operators must find out what their obligations are in relation to superannuation and other payment entitlements for employees.

Under the SG law introduced from the 1 July 1992, employers must make a minimum contribution of 9.5 per cent of an employee's ordinary time earnings i.e. not overtime. This is for employees between 18 and 69 and paid before tax for full-time, part-time, casual or contractor, when this is the principle form of employment. If under 18 the employee must work at least 30 hours a week to be entitled to the SG contribution. If a temporary resident is employed the SG must be paid for them. The SG is not compulsory for a sole trader or partner in a partnership, however sole traders and partners may make their own arrangements regarding superannuation.

When an employee commences employment the employer must make a contribution into the fund designated by the employee. This must occur by the 28 day at the end of each quarter. If this is not done, an employer may have to pay the Superannuation Guarantee Charge (SGC) to the ATO. This is an extra cost to the business and the SGC cannot be claimed as a tax deduction. It is suggested that setting up a payroll system will assist in ensuring SG payments go on time.

#### Activity Seven

A small business operator runs a retail outlet and is going to be employing a permanent staff member to work in the shop. Undertake research to find out the taxation, leave, pay and entitlements that would be due to this employee and set them out below.

## 10.9 WORK, HEALTH AND SAFETY

This obligation was previously discussed in chapter 3 in relation to legal obligations. Additional information is provided in this section relating to activities that you should undertake to fulfil your work health and safety obligations.

At the national level in Australia there is commitment to improve work health and safety across Australia. Each State has its own provisions and legislation. However, for this reason, Worksafe Australia has developed the Work Health and Safety Strategy 2012-2022 to ensure that work health and safety is a collaborative activity across Commonwealth and state and territory governments, unions and allied industry organisations.

If you employ staff you are obliged to make sure that the workplace is a safe and a healthy environment. You must assess the risks in the work place, identify who is at risk and to what extent, and determine what control measure can be applied to remove or reduce the risk. A useful list for workplace safety checks is in the reference section of this Chapter. This would usually lead to the development of a work health and safety risk management policy and set of procedures for employees to follow. The policy and procedures would then be included in the work health and safety part of the staff induction program. You must also develop a process to monitor and review the effectiveness of the controls and risks, and update these as necessary.

It is suggested that you set aside time on a quarterly basis to review workplace risks, review the work health and safety records to inform corrective or ongoing promotional activities to support work health and safety in your workplace.

As noted in Chapter 4, records must be kept of 'notifiable incidents' and there are specific forms that should be used. Contact your work health and safety provider in your state for information and to obtain correct recording material. Generally it is good practice to keep basic records of any incidents and accidents, as well as absenteeism due to sickness or accident. Records are very useful when the business is reviewing the effectiveness of the work health and safety policies and procedures, which should be done annually, and after any significant incident.

Should an accident occur at work, the business operator must complete an 'incident report form'. A record of the form should be retained by the business and if required, a report sent to Safe Work Australia. An example for Queensland is in the link under Work Health and Safety in the reference section at the end of this chapter. Check your state's requirements.

## Work Environment and Developing a Safe Workplace Ethic

### Work Environment

The onus is on you to ensure that the work environment is a safe and healthy. As noted above and previously in Chapter 3, this includes assessing work place hazards and risks and putting in place strategies to minimise or remove the risk/hazard.

Apart from identifying work place hazards, it is important to look at the work place environment and safety practices associated with the use of equipment and materials. Checking the following areas in terms of health and safety will help the business operator create the best environment:

- work space – is it adequate and well set out?;
- electrical items and fitting – are they safe and regularly checked?;
- noise levels – does it comply with standards and if not, is safety equipment worn?;
- seating and furniture – are they ergonomically ideal?;
- computer position and typing – is this ergonomically arranged?;
- lighting – does it comply with standards?;
- temperature – does it comply with standards and if not, what measures are in place to protect workers?;
- air quality – does it comply with standards?;
- floor surfaces – are there slip and trip hazards and what is in place to reduce this risk, do floors in special work areas comply with any standards required?;
- storage cupboards, filing cabinets and drawers – are they neat and tidy, labelled if containing chemicals, easy to access etc. ?;
- walkways and access ways – do these comply for space, are safe and clear?;
- telephones and headsets- are these kept clean and for those who spend time on the phone, are headsets available to wear?;
- first aid equipment – is a comprehensive first aid box maintained and regularly checked?; and
- fire safety equipment – is fire safety equipment installed, functional and regularly checked?

Equipment should be checked and properly maintained. This means setting up a maintenance schedule and report system. Everyone who is likely to use the equipment should receive training in correct use. When purchasing new equipment, if there are required safety standards that it should meet, make sure that the equipment meets this standard. All equipment should have regular inspections to look for wear and tear and damage.

The premises should have smoke alarms and fire extinguishers, and exits and entrances should be secure. Staff should be trained in the use of fire equipment and in safe entrance and exit of the building, and if used, staff alarms on counters.

Ideally a workplace should have one, preferably two (for back-up in holiday times) people who have first aid qualifications. Persons with this training are the designated First Aid Officer. All staff should know who the First Aid officer is.

Many work places have staff undertaking repetitive tasks, lifting and moving items, or working at a computer for a long time. Creating a healthy work place is about ensuring that the positioning of staff in relation to the work area is appropriate so that unnatural movements and stretching or positioning occurs. It is also important to encourage staff to take regular breaks and undertake simple stretching and other exercises to reduce fatigue and muscle damage risk. The arrangement of seating, keyboards and other operating mechanisms for equipment should also be checked for ease of use without strain. An ergonomic specialist could be engaged to assess work areas and placement of equipment and staff. If the business cannot afford this service, the references at the end of this chapter may be useful.

You should be aware of any medical and health problems that staff have, if possible. The onus is on staff members to provide this information and the First Aid officer/s should be made aware of such conditions.

## Fostering the Right Culture

Whilst having a safe work environment can be addressed by looking at these elements, generating a safe work place culture is about encouraging staff to be responsible to maintaining the health and safety of their work space. This can be achieved through: work health and safety training; developing a work health and safety policy; regular discussion at staff meetings to maintain health and safety 'on the agenda'; encouraging staff to raise issue and concerns and proactively resolve these issues; ensuring management commitment and role model of safe work practices; ensuring compliance with regulations and use of safety equipment; and fostering mutual respect, caring and support for work colleagues.

Encourage staff to remind one another about safety issues, wearing of safety protective gear and reporting incidents, even minor ones.

## Work, Health and Safety Training

Work, health and safety training must be included in the induction training for new staff. The training provides an opportunity to check employee competency with equipment, handling of dangerous materials and adherence to safety procedures. Work, health and safety induction should cover:

- work, health and safety legislation;
- hazards and risks in the workplace (this will identify the hazards and risks and the procedures and practices to manage or protect employees);
- safe work practices (general overview);
- application of specific codes of practice (if these apply) and practical application trials;
- the business' work health and safety policy and procedures, including demonstrations and practices;
- use of equipment, machinery and vehicles (which may include industry training on the operation of some equipment resulting in a special licence or 'ticket');
- use and storage of special personal protective equipment (if applicable);
- security of and cash handling safety procedures (if applicable);
- emergency procedures including emergency exits, evacuation and assembly points, fire alarms, and location, and the use of fire fighting equipment (Note: some fire services provide fire safety and emergency response training to organisations; owner occupiers can refer to the fire safety reference at the end of the chapter regarding fires safety for their premise);
- first aid officer contact details and location of first aid equipment;
- travel safety policy; and
- relevant safety policies and procedures that apply if working on different sites or from home.

Legislation, industry codes of practice and safety regulations are regularly reviewed and updated by governments, so the onus is on the business operator to ensure that the business and its practices comply. If you have developed your own codes of practice, these should be regularly reviewed.

### Activity Eight (a)

List at least five areas of work, health and safety that should be covered in induction training:

- 1.
- 2.
- 3.
- 4.
- 5.

#### Activity Eight (b)

List at least five activities that a business operator should undertake to create a safe work environment:

- 1.
- 2.
- 3.
- 4.
- 5.

#### Activity Eight (c)

List the possible work hazards and work health and safety strategy there may be for a business that provides spray varnishing and painting services.

Hazards:.

Strategy:

#### Workers' Compensation Insurance

In Australia arrangements for workers' compensation varies across the States. Safe Work Australia, an Australian Government Statutory body, has put in place the National Workers' Compensation Action Plan 2010-2013 to ensure that arrangements across the States provide: worker compensation equality for employees and employers; certainty in implementation of the legislation; clear and consistent processes and guidance provided to employees and employers.

An example of a state's arrangement is in Queensland, workers' compensation insurance arrangements are managed through WorkCover Queensland. Employers in Queensland are required to insure employees against work accidents through WorkCover in order to comply with section 48 of the Workers' Compensation and Rehabilitation Act 2003, the employer pays the premium. Workers' compensation pays for the benefits received if an employee is injured at work or suffers a work-related illness. Check the arrangements for your state.

### 10.10 MANAGING STAFF

Managing staff is not just about control, it is about being able to maximise the effort of the human resources in the business to the benefit of both the business and the staff. If you do not effectively manage staff, whether they are casual, part-time or full-time, you will see the effect of poor staff management in the business' bottom line. Failing to effectively manage staff can lead to poor productivity, theft and damage to business property, constant staff turnover and disputes. Managing these issues costs time and money.

So what is involved in managing staff effectively? Staff management includes such areas as:

- staff welfare at work through work, health and safety (covered earlier);
- using a business Code of Conduct;
- performance management, mentoring and career planning;
- communication;
- conflict management and staff dismissal;
- regular staff meetings to keep staff informed and involved in business matters, including consulting staff and encouraging contribution to problem-solving;
- negotiating work tasks or deliverables when issues occur that interfere with achieving daily or weekly goals or key performance indicators;
- providing training opportunities; and

- ensuring time to deal with staff issues, particularly if one-on-one counselling or discussion are required. The approach and effectiveness of managing staff is linked to your management style. Management styles vary and a person may use different styles to suit different personalities of employees and in response to different situations or challenges. Your personality, experience and skills will influence the management style tendencies you may use.

Settling on the best style to suit your personality and the personality range of employees is often quite hard, particularly if you have tendencies to be autocratic, critical and demanding.

Of course it is not just about management style, but also about management skills. A good manager will:

- be a good listener;
- communicate well;
- give recognition to employees who perform well;
- never be discriminatory or disrespectful;
- be flexible in style to suit staff and situation;
- be able to motivate staff; and
- empower staff to be responsible for their role and contribution to the business.

There are many articles and books about this topic that describe different management styles ranging from a very open and democratic style to an autocratic one. A selection of styles is outlined below.

The democratic style – the manager is consultative and encourages discussion, prior to making decision. This type of manager allows supervisors to manage their own areas, with minimal interference. Consultation is a key feature of this approach. This approach encourages teams to feel valued and can result in high morale and strong commitment. The limitations of the style are that consultation can be time-consuming, reducing productivity. This approach may also be described as ‘participatory management’, because staff are involved in decision-making and problem solving.

The bureaucratic approach - a bureaucratic manager sets out rules and procedures. Managers and supervisors are generally keen to ensure that team members follow them. There is a defined chain of command. This approach can create an environment of risk aversion if staff propose or use processes and ideas that do not conform the standard rules and procedures. The approach can support high standards and attention to detail, but discourages independence, creative thinking and innovation. Barriers may exist to overcoming problems because there is reluctance to adopt new procedures. Lack of trust and openness between management and workers can lead to resentment, poor productivity, absenteeism and high staff turnover.

The autocratic style is about the manager or director having total authority and control over decision-making and activities. This high level of control extends throughout the business. Team performance and the workplace is closely monitored to ensure tasks are completed on schedule and as required. Whilst the style may achieve consistent quality and fulfilment of business goals, it does not allow for flexibility, build trust, encourage use of ingenuity, nor is there concern about individual employee growth and development in the business. Some industries and individuals are more suited to an autocratic style, but for employees who have initiative and like to solve problems and come up with ideas, it is frustrating and constraining. A lesser form of this style is known by some as the ‘directive’ approach, which tends to be less authoritative, but still highly controlling of staff and their activity.

The laissez-faire approach- this type of manager, supervisor or director has faith in their employees and work systems. The laissez-faire method requires a more distant managerial approach, leaving workers to complete tasks and deliver outcomes without much interference. Decision-making is generally delegated to occurring as close as possible to where the decision will be implemented. This approach empowers employees and fosters feeling of fulfilment and value amongst workers. It can encourage innovation and creativity. However its success is dependent upon staff being responsible and committed to their work. Good relationship between management and employees can help to reduce the risk. This approach may mean that problems are missed or not addressed until they are serious.

Cultural diversity can pose challenges to management. The important principle is to remember to treat people with respect, empathy and consideration. It is useful to research cultural diversity issues and how to manage them. Different cultures have different expectations of the ‘boss’ ‘worker’ relationship, ways of communicating, may have gender specific rules, and may require consideration in terms of leave for particular cultural/religious practices. In dealing with different cultures, familiarise yourself with appropriate ways to communicate and manage cultural diversity.

This includes being aware that some cultures do not readily speak up, do not look directly at a superior’s face when being spoken to, cannot perform certain tasks, may be required to wear particular items of clothing, and may not be motivated if competitiveness across teams or staff is a key mechanism to drive staff to perform. Check the link in the reference section of this chapter for ideas.

#### ActivityNine

Describe the management style that you feel is the best to achieve business goals, as well as retaining high performing and committed staff.

## Staff Code of Conduct

The Code of Conduct for staff is a key tool for managing staff and dealing with staff issues. This document sets out the rules, values, principles and ethical guidelines for conducting business and to guide the behaviour and actions of staff.

Every business that employs staff, even on a part-time or casual basis, should have a Code of Conduct. It is important that it is written in plain English and is easy to understand, with examples to illustrate what is meant. It is also important that a record is kept that every employee has read the Code of Conduct and accepts that it applies to them.

Content matter in a Code of Conduct would include:

- the version, date last reviewed and when it is due to be reviewed again;
- the ethical principles that guide workplace behaviour;
- respect for persons and property;
- values such as honesty, unbiased and unprejudiced work place;
- accountability and what this means to employees;
- compliance with work health and safety rules and procedures;
- compliance with job role and responsibility;
- appropriate use of business consumables, equipment and information technology;
- business policies, procedures and operations guidelines or manuals;
- rights of individuals;
- conflict of interest
- cultural diversity and procedures to be followed if there are issues;
- unconscionable behaviour - theft, fraud, etc;
- disciplinary action and handling complaints and grievances; and
- staff dismissal.

All staff should read the Code of Conduct, and preferably have had some input into it. The aim is that in all activity and interactions in the workplace with colleagues, members of the public, and customers/clients, staff apply the Code of Conduct.

The following will help to embed the Code of Conduct in employees' daily activities and interactions in the business:

- include in the Code of Conduct induction the package;
- provide training and update/reminder sessions in groups or one-on-one;
- online training questions and answer exercises;
- make available on the business' own intranet (if they have one);
- leave a copy in the staff room;
- refer to the document in staff meetings, particularly when someone raises an issue with which the Code of Conduct deals; alternatively staff meetings may involve discussion of one topic a month from the Code of Conduct;
- include staff in reviewing and updating the Code of Conduct; and
- include the Code of Conduct guidelines in other training, where dealing with applicable topics such as for sale and customer service, codes of practice associated with industry regulations (electricity, crane operation), and handling sensitive information for example.

### Activity Ten

What do you consider are the top five areas that should be in a Code of Conduct and explain why this is the case?

- 1.
- 2.
- 3.
- 4.
- 5.

## Performance Management, Career Planning and Mentoring

Once staff are employed, you or other staff in the business will be responsible for managing employees. This is both to achieve the best performance from the staff to the benefit of the business, as well as to support staff work-related development and improvement. Investing time and interest in staff, and funding for training of staff can result in higher performing and more committed staff who will stay with the business. Table 63 shows an example performance review form.

### Performance Review and Career Planning

Performance review is one of the key strategies to manage staff and should be a two-way communication process. Performance review is one of the tools for managing staff, the purpose of which is:

- to keep the business operator in touch with the staff;
- provide an opportunity to comment on and develop strategies to capitalise on excellent performance or address poor performance;
- enable adjustments and changes to staff roles and key performance indicators that support changing business goals and objectives;
- enable the setting of agreed and clear performance measures;
- provide a one-on-one opportunity for discussion of an individual staff member's issues;
- provide an opportunity to discuss and work out strategies to address career aspirations and concerns;
- help to identify skill gaps and training needs and negotiating how these will be addressed; and
- help to keep staff motivated and accountable.

### Steps to Conducting a Staff Performance Appraisal

You, the supervisor or manager should:

- review the business goals and objectives, taking account of any proposed changes or challenges and develop a summary of these for use in the performance appraisal;
- review staff member's current roles, responsibilities and key performance indicators (KPI) in relation to business objectives and goals for the future and note changes that will be the subject of discussion in the performance appraisal;
- review staff member's own work schedule or daily plan of activities in terms of their time management;
- review any documentation associated with work health and safety, conflict, complaints from customers or colleagues etc that may be required to be discussed;
- develop a schedule for staff performance appraisal and advise staff of the schedule;
- develop a staff performance appraisal form (see Table 10.5 for an example) and invite staff to complete it according to their current role, responsibilities, main tasks, projects, KPIs, and to note self-assessment comments against these areas;
- conduct the performance appraisal;
- record relevant details of appraisal and any agreed actions;
- ensure both parties sign the performance appraisal;
- record the date of the next appraisal; and
- keep a copy of the performance review in the employee's personnel file.

#### Activity Eleven

A small business operator is about to have a performance review with a staff member who is extremely competent in the workshop, but has a tendency to be late. This impacts on production schedules for the day and is costing the business money due to late order fulfilment penalties. The staff member has no other problem areas and would actually be good as a second supervisor in the manufacturing unit.

Write down what steps and agreed actions you might negotiate in a performance review.

Table 10.5 - Performance review form (example)

Staff Member Name				Reviewer's Name				
Date of Review				Date of Review				
Staff Position				Reviewer's Position				
Area for review	Details pertaining to current situation	KPI's or n/a	Self assessment comment - including areas to be raised	Review comment - including areas to be raised	Amended role/ tasks	Amended KPI's	Training needs	Agreed actions or n/a
Role Description								
Key Responsibilities								
Contribution to Business Objectives and Goals								
Main Tasks								
Project Responsibilities								
Career Aspirations								
Training								
Staff signature				Reviewer signature				
Date				Date				
Date of next review								

## Key Performance Indicators (KPI)

Often supervisors and managers have difficulty identifying suitable key performance indicators for staff. The bottom line is that the performance measure should support the achievement of the business' goals and objectives. A KPI can relate to volume of production, quality standards, level of customer service, timeliness, cost-effectiveness, completion of projects, absenteeism levels, tardiness, be associated with desired behavioural changes or personal presentation, include adhering to policies and codes of practice, concern achievement of a specific financial or sales outcome. KPI's should be achievable and measurable.

### Activity Twelve

Write down KPI's for a salesperson employed to market computer security services to businesses.

Write down KPI's for a member of staff who manufactures canvas awnings.

## Processes to Support Positive Performance Management

Staff will have completed their own performance review form first. When the supervisor/manager/business operator holds the review, the following can improve the value and outcome of the appraisal:

- open the meeting positively;
- ask staff member to go through their self-appraisal and ask if they have any concerns or issues that are a priority;
- provide positive comments first wherever possible;
- respond to each area commented on by the staff member;
- raise issues and discuss solutions, seeking the solution where possible from the staff member;
- go through any changes to role, responsibilities and KPI's in the future;
- negotiate agreed future tasks, roles, KPI's and where relevant, potential incentives or bonuses;
- document any resolutions to issues;
- discuss staff member's career desires and identified skill or training needs;
- develop an agreed course of action to address these;
- don't rush through the discussion; and
- both parties should sign the performance review document.

Following the performance review, both parties keep copies of the signed documents and action agreed items such as training opportunities or specific strategies, changes to behaviour or procedures, as soon as possible.

## Mentoring

One way to provide support is to offer mentoring. Mentoring helps to monitor an employee's progress in developing skills, capabilities and experience, and can support achieving better performance and career goals. Other staff may be able to be the mentors. There are also formal mentoring programs and some industry associations offer mentoring services.

Mentoring can have very positive results including helping to retain staff, helping new staff to settle into performing well, improvement in overall staff performance and productivity as their skills and competencies improve, and result in greater job satisfaction. Mentoring also supports staff keen to move to higher positions and so enhances career paths. A mentor selected from current staff is also given the opportunity to practice good management and supervisory skills in this role.

Mentoring can occur informally where experienced or skilled staff are encouraged to support and coach other staff, or it can be a formal arrangement, where mentors are nominated (internal to the business or externally) and regular meetings occur that focus on specific areas, including skills, career planning and sharing of knowledge. There is also the possibility to engage an on-line mentor.

Whichever approach is chosen, the personality and capabilities of the person chosen as the mentor are important. Ideally they should be a person who is supportive, positive, understands the industry and the roles and responsibilities of the staff member and has the kind of qualities as a person that means they can communicate and inspire. They need good listening skills, should be practical and experienced themselves, can be an advisor, critic and consultant, and are trustworthy and maintain confidentiality.

The mentor, apart from providing guidance and sharing experience and information, should also be able to help the staff member set goals for themselves and monitor their progress. If the arrangement is formal, each meeting should

be documented and agreed actions recorded. Using an external mentor may require the business operator to develop a role outline for the mentor, and set of criteria the mentor must meet in terms of experience and knowledge.

### Training

Enhancing staff skills, knowledge and capabilities can contribute very positively to the bottom line of the business, despite being an initial investment in time and money. Appropriately skilled staff are essential to the business achieving its goals and objectives. In business financial planning, the business operator should factor in funds for training, materials and equipment (where required), possible travel and accommodation and course fee, as well as 'down-time' if necessary. Providing training can contribute to ensuring an appropriately skilled staff member. Training can help to retain good staff by providing attractive employment prospects in terms of career advancement and skill diversification.

Some training is obligatory, such as work health and safety training, including equipment use and safety checks. There may also be an industry code requirement for training for the industry sector in which the business operates.

Other training that is desirable and which every business should undertake includes induction training; delivering Code of Conduct refreshers, and training associated with business disaster management and business continuity; and cultural awareness training.

If a business employs trainees and apprentices, there will be an on-the-job training component with business operator/manager or supervisor to sign-off for competency. Many small business owners who take on apprentices/trainees forget to factor in this type of training and the time for assessment. The business operator should work with the Group Training Organisation through which they employ the apprentice/trainee to schedule training and assessment.

Whilst offering training opportunities is important, and is linked to performance appraisal and management, it is useful to encourage staff to aspire to obtain training to improve skills and competencies. Staff should be encouraged to seek out training themselves and then to raise with management training opportunities that will improve their performance for the business.

You can look at opportunities for staff to undertake 'acting roles' to enhance and broaden skills. You may also be able to develop in-house training for areas such as following policies and procedures that you have developed in the Chapter 8.

Larger businesses may have a training policy. A small business is less likely to have developed a policy. However, it is good practice to assess staff skills, knowledge and capabilities each time the business plan is updated. This is in terms of having the human resources to deliver the business goals and objectives, and as a way to provide professional development opportunities.

### Setting Up Training Programs

The following steps may guide the business operator in setting up their own training program:

- assess staff training needs (through performance appraisals and in relation to changes/improvements/innovation in business procedures and goals;
- identify training providers or in-house training capabilities;
- develop a training program in consultation with staff;
- consider training options (in-house, on-line, off-site, on-the-job) , which should be costed in terms of paying for trainers, down-time and associated supervision to accredit performance, and the desired outcome; and
- promote the training program that is developed and ensure that staff are able to access the opportunities (i.e. can have time away from work, have a back-up staff member to continue tasks while they are away).

### Recognition of Prior Learning

Training can be for work-specific tasks and procedures or involve accredited training. If training involves accredited training, it is important to source programs of learning from accredited training providers that can deliver accredited training.

This may also involve 'recognition of prior learning' (RPL) to contribute to completing an accredited course. RPL can enable staff with considerable experience or associated qualifications from previous learning to be assessed against the competencies for the accreditation they are pursuing. A registered training organisation can assess the skills and knowledge. This widens the opportunity for a staff member to gain a qualification, supports succession planning for key positions and recognises and rewards staff experience and competencies demonstrated in the workplace.

Assessment requires that evidence of competency is produced by the employee for the assessor to measure against industry standards. This can be done by citing previous qualifications, observing the employee working or samples of work and documentation about internal /external courses (whether accredited or not). There is a cost, often to the employee, to conduct an RPL.

## Communication in Staff Management

Good communication is critical in a business, between management and staff, supervisor and worker, across the business between departments and units, and for businesses operating in different location, across different geographic locations.

### Key Elements Of A Good Communication Strategy For Staff

- ensuring that information is provided in a clear and timely fashion to staff;
- supporting two-way communication with staff;
- providing an opportunity for staff in-put to decision making and problem-solving;
- encouraging staff to be participative, provide feedback and contribute to achieving the business' objectives and goals;
- using a variety of forms of communication suited to achieving the intent of the communication and the message, such as e-newsletters, notices, bulletin boards, emails, staff meetings, monthly reports and summaries, recognition for good performance, notification of change, surveys and one-on-one interviews;
- monitoring to ensure that communication is successful;
- having open and transparent communication; and
- establishing trust and honesty as basic principles.

### STAFF MEETINGS

Staff meetings are held in order to:

- update staff on business progress;
- ensure that staff are familiar with other areas' performance, needs and achievements;
- deal with issues or discuss/plan changes in business operations;
- collectively plan and assign tasks and responsibilities;
- review policies and procedures; and
- deal with an incident.

The meetings may be fairly informal and on an as-needs basis, or are organised on a regular schedule. Whatever the approach, you not want to waste valuable time in meaningless meetings and discussion. For this reason staff meetings should be used as a tool, not only to communicate business matters, but also as a way to manage and motivate staff, where possible. Of course this is difficult if the subject matter to be dealt with is negative, such as business performance difficulties, conflict, down-sizing or changes to the business that may impact on employees' roles, responsibilities and pay. However, staff meetings that disseminate and discuss such items are better than staff guessing information or the spread of 'Chinese whispers' that can occur in work places.

The following list identifies the key elements that should be used to ensure that staff meetings achieve the purpose they are run:

- have a clear agenda and purpose, even for regular meetings;
- staff member running the meeting (which may be rotated amongst the staff) must manage time and keep to the time slots allotted for topics if possible, and where not possible, seek staff follow-up comment on items being discussed so that the agenda can be covered;
- ensure that discussion is facilitated and managed;
- record of meeting discussions are kept, where relevant;
- encourage all staff to have a say;
- document outcomes/decisions; and
- follow-up notices, emails to confirm outcomes from the meeting.

#### Activity Thirteen

A small business employs three staff members, one for manufacturing, one for administration and processing orders, and one for distribution of a product. There have been a number of orders that have been late. List what forms of communication would be best adopted to deal with the issue and explain why the chosen method of communication is the best approach.

## Managing Teams

Managing a team is about helping people to work effectively together, yet supporting individual capabilities and responsibilities whilst achieving a specific business goal or objective. The following are some ideas on how to effectively manage teams. You need to:

- select team members based on the tasks to be done and skills sets and experience;
- outline to team members the goals and objectives to be achieved and expectations of each individuals performance in the team and what skills and expertise are required;
- create a work and task plan for the team, in consultation with the team, which can be used at team meetings to review progress and identify priorities;
- encourage the team to meet regularly;
- establish good communication between you and the team and amongst team members;
- draw on individual skills and capabilities;
- encourage team members to help each other;
- give recognition, both to the team and to individuals within the team;
- be aware of team members who may not be performing and develop strategies to address the issue (refer to performance management); and
- regularly meet with the team to discuss progress on work and issues or concerns about the program of work

Communication and interpersonal relationship management are critical to maintaining high performing teams.

## Managing Daily Work Performance - Including Task and Job Sheets

Apart from the role description and tasks outlined within a position description, there are systems and procedures developed to guide staff in how to perform their role and tasks. However it is also helpful to provide tools and encourage staff to develop their own work schedules and practices to ensure that their day-to-day activity is organised and productive. Stress in the workplace is often caused when staff feel overloaded with work. Sometimes this is actually the case and requires a re-assessment of staff resources against work load by the manager or supervisor. In instances where it is not genuine overloading, it may be because the business operator and/or staff have not developed task prioritisation and time management strategies.

It is suggested that each day should have a general plan or list concerning what must be done that day. There will also be things that must be done weekly, fortnightly, monthly and quarterly. Some examples are financial activities, marketing activities, maintenance of equipment, maintenance of up-to-date legal documentation. This may be one of the work flow procedures that you put in place to support your business operations discussed in Chapter 7.

Most workplaces have a routine of activities and procedures, and this is the foundation for the daily plan of activities for staff and the business operator. Maintaining a diary or task list is a good habit to develop. Tasks should be prioritised and tasks that are not urgent or critical should be fitted in later in the day. If staff are employed, it is likely that tasks will be delegated. If this is the case, you need to have a system in place that enables you to monitor the progress of task completion.

Sometimes things go wrong and challenge the capacity of staff to fulfil the day's tasks, week's sales goals, levels of production. Occurrences such as delays in supplies, equipment break-down, failure of utilities, lots staff absence due to sickness, weather impacts are some examples. If this occurs, it is better to work with employees to develop solutions and adjust goals or performance outcomes to suit the circumstance. Of course this may result in adjustments in financial areas of the business being required.

It is important to schedule breaks in the day. These usually end up being morning and afternoon tea and lunch. If shifts are run, there are requirements to allocate time for dinner and other breaks during night shifts.

## Creating Good Team Work Environments

There are a number of tools and strategies that can assist both you and your staff to manage time and be productive:

1. Set aside time each day to plan at the beginning of the day and at the end of the day to review the day's work.
2. Develop mechanisms to reduce distractions, including when necessary advise others that you must not be disturbed.
3. Use the business objectives and goals as a continuous yardstick to remind you and staff of what is to be achieved.
4. Do not procrastinate about tasks that must be done.
5. Develop work patterns for mundane tasks that are required to be done. If relevant to your business, take half an hour at the beginning of each day/shift to go over with staff what must be done for the day and any issues or challenges that may need to be accommodated or addressed.
6. Use computer programs such as Outlook provide mechanisms to set up tasks and timeframes, including reminders for both your own tasks and those delegated.

7. Use project planning software that sets out key and sub actions to run projects, providing a Gantt chart or similar visual recording mechanism of what is to be done by when.
8. You can use white boards in key work areas as another way to remind staff of the schedule of priority tasks and dates of completion.
9. As part of the work procedures, when orders are received, job sheets can be completed and passed to staff member/s to carry out the job. This information should include what is to be done and by when, and may request the completion of a list of actions that is then signed by the staff members as completed.
10. Encourage staff to develop daily work schedules.

## Conflict Resolution and Staff Dismissal

### Conflict Resolution

Effective conflict management amongst staff and also between staff and management is critical to ensuring that the productivity and future of the business is secure. Conflict creates interruption to business because time and sometimes hard cash is spent in dealing with conflict. Conflict impacts on productivity and may cause poor workforce performance and absenteeism, ultimately affecting the business' bottom line.

You may have limited experience of handling conflict, or be reluctant to manage it, perhaps even turning a 'blind eye' when disputes occur, unless they become seriously disruptive. Over the long term this is not a good strategy, and can lead to serious escalation of disputation.

A good manager will observe staff inter-action and staff-management interactions and therefore will become aware of potential or emerging conflict before it becomes serious. A good manager may also investigate procedures or have sought training on managing disputes and difficult people. Larger work places may actually employ a human resource staff member with specialist skills in this area. Key skills for managing conflict include:

- good listening skills;
- effective communicator;
- ability to see other points of view;
- capacity to build trust;
- ability to be objective and deal with facts and handle emotive situations;
- ability to negotiate and mediate;
- awareness of the impact of stress and illness, including mental illness, on behaviour and attitude that help in identifying some of the underlying causes of conflict;
- sensitivity to the personal emotions, needs and issues of the individuals concerned; and
- ability to maintain confidentiality.

### Why Do Conflicts Occur?

Staff conflict may arise in situations where a manager has an overbearing and autocratic style or where there is poor communication of expectation of the employee tasks. Conflict can also arise when personalities clash or a staff member's poor work ethics or behaviour negatively affects the performance and responsibilities of others. Issues that may be at the centre of a dispute include:

- incompetency and lack of appropriate skills
- inadequate information
- misunderstanding
- discrimination and harassment
- cultural conflicts
- age/competency conflict (i.e. younger person with qualifications supervising an older person with no formal qualifications)
- personality style
- a breached agreement
- conflicting interests and standards or values
- work health and safety breach
- mental illness
- stress and pressure to perform when a business is generally under pressure or threat
- scarce resources
- organisational structural problems
- inadequate management skills
- actions of corruption, fraud, theft, bullying.

## Conflict Resolution Procedures

Managing conflict and dispute resolution procedures should be included in the business' Code of Conduct so that all employees are aware of the process that should be followed. Best practice dispute resolution includes:

- attending to disputes as soon as possible;
- incorporating dispute resolution procedures in employment contracts where possible, including reference to an independent party to resolve disputes if necessary;
- maintaining respect, equality and fairness to all parties; and
- having a process that is transparent and well documented.

A dispute can be resolved by negotiation (parties resolve themselves), mediation (objective external party brought in to assist negotiations) or be resolved formally through arbitration or an adjudicated outcome (court or arbitrator hears evidence and results in a formal and binding resolution for both parties).

Cultural diversity in a workplace can be a source of conflict. It is useful for you and your staff, if you employ staff, to undertake cultural diversity awareness and training. This is particularly relevant if there are a number of employees of different cultures. The Code of Conduct may need to include specific references to the types of cultural differences and conflicts that could occur and how these will be managed.

## Steps to Resolution

1. employee raises issue with direct supervisor and discusses issue;
2. manager or supervisor investigates and identifies what the dispute is about, ensuring that the perspective of each party is known;
3. issue is documented;
4. discussion and negotiation of a resolution if possible, ensuring that fundamental principles of equal opportunity and anti-discrimination are applied in all dealings with disputees;
5. if resolution is not reached the matter is escalated to senior management;
6. if resolved, negotiated and agreed actions are documented;
7. if the issue isn't resolved through discussion at a higher level, a mediator may be engaged;
8. more serious disputes may require referring the matter to somewhere like the Fair Work Commission (if in Australia); and
9. once a resolution is being implemented, the manager or supervisor should then monitor the situation to ensure full resolution occurs.

### Activity Fourteen

ROLE PLAY in your class, or with a group of friends if you are studying online, role play how this situation may be resolved. You need three people.

A small business employs two staff members to prepare and bake different types of savoury catering snacks for parties and events. One staff member has worked for the business for 15 years. The second staff member is a qualified pastry cook and chef and previously worked in a high-end restaurant. The younger and highly qualified staff member is constantly arguing with the older staff member about kitchen hygiene, work, health and safety and quality control. This is beginning to affect productivity and resulting in endless complaints from both parties about the other, to the business owner.

Role play what action the business owner could follow to try to resolve this issue.

## Staff Dismissal

Any dismissal must not breach the National Employment Standards. You should familiarise themselves with these standards as staff dismissal is a sensitive area and can result in unfortunate consequences for the business if it is not carried out fairly and professionally. This is an area that should be covered in the Code of Conduct and all employees should be familiar with the likely reasons for dismissal and what procedures will be followed prior to dismissal. You should familiarise yourself with the law and conditions that must be met when terminating an employee. Check the reference section at the end of the chapter for a link to guidance on staff dismissal.

Dismissal may be due to retrenchment or redundancy, or poor performance, failure to perform adequately in the probationary period, dangerous or unlawful behaviour, or refusing to follow reasonable instructions.

If dismissal is due to failure to perform adequately or some other employee act that triggers dismissal procedures, employees are entitled to a warning and the opportunity to rectify the act or behaviour. This warning can be given verbally, or in writing. It is best to have a record of the warning and also of any meetings to discuss the issue with the employee.

Required notice for dismissal varies depending upon how long the employee has worked for the business, and some businesses choose to do 'payment in lieu of notice'. Instant dismissal can occur for serious misconduct, theft, fraud, assault, or being intoxicated.

Whatever the reason for termination, the employer must ensure that all entitlements are paid under state and federal law and the award or agreement. It is important to check details of entitlements so that all eligible payments are calculated and paid correctly. Industrial relations may adjust some payments and entitlements from time to time. Check whether the business size determines whether redundancy pay must be made.

For guidance to small businesses, refer to the reference section at the end of this chapter which provides a link to guidelines for small business and employee dismissal.

### What Is Unfair Dismissal?

Unfair dismissal would occur if the business operator gives no warning or reason for terminating the employment, the employer gets rid of a person and immediately fills the vacancy with someone who will fulfil the same tasks as the dismissed employee was doing.

In Australia, employees currently (as at 2013) have 21 days from dismissal to lodge an unfair dismissal claim.

An unlawful dismissal in Australia is when employees are dismissed on grounds that are discriminatory, if there is a failure to give proper notice or when 15 or more employees are dismissed without the business advising Centrelink. In other countries there will be different laws and requirements that apply.

### Finalising A Dismissal

To finalise arrangements for an employee's dismissal, the employer should:

- write a reference or statement of employment for the employee;
- ensure that employee leaving has time to provide handover information to other staff;
- advise the employee of the timing and requirement by which all handover, return of equipment etc must have occurred;
- set up an exit interview;
- calculate all final payments (In Australia, employers should contact the Australian Taxation Office);
- pay the last superannuation payment;
- advise WorkSafe if there is a current work injury insurance claim;
- obtain post leaving contact details in case there are other issues or documents that need to be forwarded;
- cancel computer codes, passwords and access for the employee;
- provide signed receipts for equipment and keys returned by dismissed employee; and
- record any details that will be required for the business' taxation return in relation to areas such as fringe benefits and PAYG.

#### Activity Fifteen

A small business owner has a retail outlet for imported ethnic jewellery and other accessories. They also have a market stall at an up-market location. A staff member runs the market stall. For some time the business owner has suspected that the staff member is stealing from the business, either funds from the till, or product. Finally, when searching for other outlets he found a business that was selling the same product which he had custom made by a specific overseas manufacturer. When he contacted the business, they advised that they were supplied by an importing business. When he investigated the name, he discovered it was a registered company run by his employee.

Outline what you think his course of action should be and why.

### Getting The Most Out Of Your Staff

The following checklist in Table 10.5 may help you when developing staff management procedures and also in the day-to-day interaction with staff. Look at the checklist and ask yourself 'Do I...?'

Table 10.5 - Staff Management Checklist

Area	Tick if addressed
Consider their needs as people when dealing with staff - giving tasks and responsibilities, making changes - examples being: respect, privacy, safety, security, welfare, career aspirations, work-life balance, health	
Ensure they are well informed about their roles and responsibilities and work routines for the day	
Provide clear key performance indicators	
Ensure staff are properly trained to conduct the tasks given to them and have access to training to further develop skills, knowledge and competencies	
Provide a safe and healthy work environment	
Provide adequate resources to perform their roles	
Have support procedures to enable staff issues to be addressed impartially, objectively and professionally	
Demonstrate respect for and value of staff as individuals and employees of the business	
Uphold principles of anti-discrimination and equal opportunity in all dealings with staff	

Some of these areas are the responsibility of the manager or supervisor, and in a very small business, this is likely to be you, the business owner/operator. Others relate to physical environment and providing the right tools and equipment to do the job. Others are about having procedures in place guide staff performance and behaviour, as well as establishing effective communication channels to ensure staff understand their roles, responsibilities and required work tasks for each day.

Most of these elements have been covered in part throughout this chapter, but if staff issues arise the checklist is a useful way of keeping your staff management procedures and approaches on track to create a productive and happy workforce in your business.

## 10.11 FUTURE STAFF TO SUPPORT GROWTH OR DIVERSIFICATION

It is useful for a new business to consider likely future needs for staff and to determine what triggers must occur to put on staff. The aim is that the business can plan to have adequate finances to cover employing someone. Table 10.6 could be used when planning future business growth.

Table 10.6 - Future labour and skill needs summaryT

Business area of future expansion/ change	Role/responsibility and required skills, qualifications and experience	Trigger points for employment e.g. production level, demand growth, customer numbers to service etc.	Employment arrangements - permanent, contractor, casual	Likely target date to employ staff and associated cost

### Activity Sixteen

Brenton has started a business providing garden blitz and simple garden make-overs that involve a number of options for types of make-over that has enabled him to set up supplier agreements. He has a small team of people comprising landscape designer, handyman, tree surgeon, nurseryman and general labourer who has tickets to drive small earth movers and diggers, as well as ability to cut and lay paving, assemble the various items that can be set up in the garden (gazebo, seats, decorative water features). As they work quickly and must coordinate what they do, they need to be able to develop efficient systems and ways of working together. They are meeting as a team.

Outline the key elements of developing a good team and then some ideas on how they could structure their day-to-day activities.

## 10.12 BUSINESS EXPERTISE

Taking on employees may help a business to grow or diversify and build capacity to meet increased demand for its product or service, but it also involves risk if the business operator has poor people management skills and is unaware of the legal and ethical obligations to staff. It is recommended that the business operator draws on specialist expertise where possible. This may include:

- recruitment specialist;
- training in conflict management;
- information from a tax advisor;
- work, health and safety specialist; and
- industrial relations advisor.

### DISCUSSION

For class groups or for those studying by distance, to discuss with a group of friends or colleagues.

What aspects of staff management apply to the following:

- employee who constantly tells rather seedy and sometimes racial jokes
- a small business employing a number of school leavers as part timers and casuals who has a problem with workers being late and inappropriately dressed for work
- a staff member who is keen to progress in the business and has the potential to be an asset to the business
- a staff member whose second language is English, who has made a couple of errors

## 10.13 REFERENCES

NOTE: THE INTERNET HAS VAST VOLUMES OF INFORMATION. CONSIDER THE RELIABILITY AND TRUSTWORTHINESS OF THE INFORMATION YOU ACCESS. TRY TO USE TRUSTED SITES AND SOURCES.

Trainees and Apprenticeships in Australia: [www.apprenticeshipsinfo.qld.gov.au/business/employ-apprentice/five-steps.html](http://www.apprenticeshipsinfo.qld.gov.au/business/employ-apprentice/five-steps.html)

Wages and Employment:

Information about wages and employment conditions regarding Queensland private sector employers and employees are available from Fair Work Australia on 13 13 94 (National Infoline), 1300 799 675 (National Helpline) [www.fairwork.gov.au/pay/finding-the-right-pay/pages/default.aspx](http://www.fairwork.gov.au/pay/finding-the-right-pay/pages/default.aspx)

Fair Work Ombudsmen:

[www.fairwork.gov.au/resources/best-practice-guides/pages/effective-dispute-resolution.aspx/w](http://www.fairwork.gov.au/resources/best-practice-guides/pages/effective-dispute-resolution.aspx/w)  
<https://www.fairwork.gov.au/how-we-will-help/templates-and-guides/best-practice-guides>  
[www.fairwork.gov.au/BestPracticeGuides/10-Effective-dispute-resolution.pdf](http://www.fairwork.gov.au/BestPracticeGuides/10-Effective-dispute-resolution.pdf)

Fair Dismissal Code:

[www.fairwork.gov.au/Templatesformschecklists/Small-Business-Fair-Dismissal-Code-2011.pdf](http://www.fairwork.gov.au/Templatesformschecklists/Small-Business-Fair-Dismissal-Code-2011.pdf)  
<https://www.fairwork.gov.au/small-business-showcase/small-business-checklist>

Leave:

[www.fairwork.gov.au/leave/annual-leave/pages/default.aspx](http://www.fairwork.gov.au/leave/annual-leave/pages/default.aspx) [www.justice.qld.gov.au](http://www.justice.qld.gov.au)

Best Practice Workplace Privacy Guidelines: [www.fairwork.gov.au/BestPracticeGuides/08-Workplace-privacy.pdf](http://www.fairwork.gov.au/BestPracticeGuides/08-Workplace-privacy.pdf)

Australian Taxation Office:

[www.ato.gov.au/businesses/content.aspx?doc=/content/31962.htm&page=1#P73\\_4\\_796](http://www.ato.gov.au/businesses/content.aspx?doc=/content/31962.htm&page=1#P73_4_796)

<https://www.ato.gov.au/>

[www.osr.qld.gov.au/payroll-tax/toolkit/new-payroll-clients/index.shtml](http://www.osr.qld.gov.au/payroll-tax/toolkit/new-payroll-clients/index.shtml)

<https://budget.qld.gov.au/payroll-tax/>

[https://find.search.qld.gov.au/s/search.html?form=simple&num\\_ranks=10&tiers=off&collection=qld-gov&profile=treasury&query=TOOLKIT&button=](https://find.search.qld.gov.au/s/search.html?form=simple&num_ranks=10&tiers=off&collection=qld-gov&profile=treasury&query=TOOLKIT&button=)

Work, Health and Safety:

[www.deir.qld.gov.au/workplace/law/whslaws/legislation/index.htm](http://www.deir.qld.gov.au/workplace/law/whslaws/legislation/index.htm) SWA

<http://www.safeworkaustralia.gov.au/sites/>

How to Manage Work, Health and Safety:

[www.safeworkaustralia.gov.au/sites/SWA/about/Publications/Documents/633/How to Manage Work Health and Safety Risks.pdf](http://www.safeworkaustralia.gov.au/sites/SWA/about/Publications/Documents/633/How_to_Manage_Work_Health_and_Safety_Risks.pdf)

Checklist for Safety:

[www.deir.qld.gov.au/workplace/resources/pdfs/sb\\_auto\\_checklist.pdf](http://www.deir.qld.gov.au/workplace/resources/pdfs/sb_auto_checklist.pdf)

<http://www.deir.qld.gov.au/workplace>

[www.commerce.wa.gov.au/worksafe/PDF/Hazard identification priority area checklist.pdf](http://www.commerce.wa.gov.au/worksafe/PDF/Hazard_identification_priority_area_checklist.pdf)

<https://www.commerce.wa.gov.au/>

Small Business Safety Checklist for Workplaces:

[www.workcover.nsw.gov.au/formspublications/publications/Documents/small business safety checking out your workplace checklist 1284.pdf](http://www.workcover.nsw.gov.au/formspublications/publications/Documents/small_business_safety_checking_out_your_workplace_checklist_1284.pdf)

[www.commerce.wa.gov.au/worksafe/PDF/Hazard identification/priority area check list1.pdf](http://www.commerce.wa.gov.au/worksafe/PDF/Hazard_identification/priority_area_checklist1.pdf)

<https://www.commerce.wa.gov.au/search/site/Hazards>

Cultural Diversity:

[www.amf.net.au/library/uploads/files/MCD\\_Training\\_Program\\_Resource\\_Manual.pdf](http://www.amf.net.au/library/uploads/files/MCD_Training_Program_Resource_Manual.pdf)

Codes of Practice: [www.accc.gov.au/business/industry-codes](http://www.accc.gov.au/business/industry-codes)

[www.safeworkaustralia.gov.au/sites/swa/model-whs-laws/model-cop/a-z-cop/pages/a-z](http://www.safeworkaustralia.gov.au/sites/swa/model-whs-laws/model-cop/a-z-cop/pages/a-z)

<https://www.commerce.wa.gov.au/search/site/WHS%2520Laws>

Fire Safety:

[www.fire.qld.gov.au/buildingsafety/legislation.asp](http://www.fire.qld.gov.au/buildingsafety/legislation.asp)

<https://www.legislation.qld.gov.au/view/html/inforce/current/sl-2008-0160>

<http://firesafetyaustralia.com.au/Faqsqld.aspx>

Employee Dismissal:

Contact the Fair Work Commission website or call 13 13 94 to check the notice period or what to pay in lieu of notice, as these vary.

Guidance sheets for fair dismissal for small business are available at:

[www.foi.deewr.gov.au/system/files/doc/other](http://www.foi.deewr.gov.au/system/files/doc/other)

[a\\_simple\\_fair\\_dismissal\\_system\\_for\\_small\\_business.pdf](http://www.foi.deewr.gov.au/system/files/doc/other_a_simple_fair_dismissal_system_for_small_business.pdf)

<https://www.fwc.gov.au/about-us/legislation-regulations/small-business-fair-dismissal-code>

[www.deewr.gov.au/fair-work-fact-sheets](http://www.deewr.gov.au/fair-work-fact-sheets)

Managing Cultural Awareness

[www.amf.net.au/library/uploads/files/MCD\\_Training\\_Program\\_Resource\\_Manual.pdf](http://www.amf.net.au/library/uploads/files/MCD_Training_Program_Resource_Manual.pdf)

## 11. SUCCESSION PLANNING AND BUSINESS EXIT STRATEGIES

### INTRODUCTION

At some point you may want to stop running your business, or you may be forced to stop running your business. This may be due to circumstances such as ill health, an accident or personal issues requiring attention. It may be a matter of choice in order to move on to something else or to capitalise on the success and profit of the business.

Each business will involve a unique set of circumstances that lead to the owner wanting to stop owning and/or running the business. Depending upon the reasons, there are different ways that can be chosen to exit a business. Separation from the business may be through closure and selling of all assets, or selling the business outright as a going concern. It may involve merging with another business, or through succession that may lead to whole or partial separation by the current owner from the business. This section looks particularly at succession planning, closing a business and selling a business.

#### 11.1 SUCCESSION PLANNING (WHOLE OR PARTIAL SEPARATION FROM THE BUSINESS)

Succession planning is about preparing to hand over or pass on the business. This may be to family or to employees that you know and trust, or a partner who can run the business. This arrangement may be temporary, while you are on holiday for example or extended leave due to illness. Alternatively it may be permanent, including if you die. Succession planning therefore can be about partial or permanent exit from the business, as well as to cover extended absences. It is a way to ensure that the business can continue operating until the business operator/owner returns, or to ensure the business continues to operate effectively with new owners.

A succession plan will help to protect your return on investment in your business, assist the transfer of ownership and limit the impact on the business and its operations so that it can continue operating.

In planning for succession, the business operator should consider:

- the succession choice - for example a family member, buy-out by management employee/s, buy-sell agreement with a partner;
- whether the business operator will continue to be involved in some way;
- the required skills, knowledge and expertise of the likely successor/s to successfully carry on the business;
- legal and financial issues and obligations;
- how ownership will be transferred;
- ownership arrangements and structure of the business;
- financial considerations, including the tax implications, for example if the business;
- operator will receive a dividend from the business, the cost of buy-out, or perhaps the need to set up a trust;
- areas of potential issues or conflict;
- options/approaches to manage, reduce or eliminate issues/conflict during succession and afterwards; and
- the choice of professional expertise to assist with successor arrangements.

#### Succession Plan

The succession plan should be part of the business plan and should cover likely timing to implement the plan and operational, financial and legal issues. As previously noted it should also include the temporary arrangements if you are going to be absent from the business for a significant amount of time. The Table below outlines a few areas to be included.

Table 11.1 - Succession Plan topic areas to be covered

Area/Item		Tick if included
OPERATIONS	Year succession plan to be activated	
	Total exit date and process planned	
	Partial exit arrangements in place	
	Successor/s to own and manage arrangement in place	
	Successor/s to only own arrangement in place	
	Successor/s require training and training plan is in place	
	Succession risks identified and mitigation or management strategies are set out	
	Business structure post-succession set up	
	Employee work arrangements are confirmed and formalised where necessary	
	All plant and equipment service schedules including last maintenance and safety check due before intended succession	
	List of key suppliers and details of arrangements recorded	
	Date identified to advise key suppliers of succession plan activation	
	Date identified to advise key suppliers of succession plan activation	
	Intellectual property issues identified and managed	
	Privacy policy set out and included as part of the plan	
FINANCE	Business sale to arranged	
	Arrangements in place to 'gift' business	
	The market value of the business has been identified and noted	
	Future share of the business noted (for partial succession arrangements)	
	Tax implication for current owner identified and noted, based on succession arrangement	
	Tax implications for successors identified and noted, based on succession arrangement	
	Insurance policies identified and noted (for business and for current owner for death, disability)	
	Dollar value required to exit business noted	
	Business financial records system outlined	
LEGAL	Current structure used	
	Change of structure noted, including changes to roles, responsibilities and legal and tax obligations	
	Consultation with legal expertise arranged to finalise succession arrangements	
	Transfer of registrations, licence or permits noted and date nominated for this to occur	
	Contracts for contractors or to supply noted and date by which these are to be discussed with successor	
PERSONNEL	Successor identified	
	Date by which a successor to be identified (if not done above)	
	Process for training and transfer outlined	
	Final handover date	
	Arrangements for short period of time to provide support after initial succession (where possible - most likely 6 months)	
	Date staff to be advised of succession plan	

### Family Successor

If choosing a family successor, it is important to think about what is best for the business and for the chosen family member. Be sure that they are interested in taking over the business and also have the required skills, expertise and time. There could be conflict with other members of the family that has to be managed. This may be either because they are not beneficiaries or because there are multiple successors to be responsible for the business and they disagree on how it should be run and its future. An organisation that may be helpful in relation to this is Family Business Australia.

Refer to the reference section at the end of this chapter. This organisation regularly runs training and information sessions in all states. Factors that need to be considered if passing to family members include whether:

- transfer of ownership as well as management of the business will be made to family member/s;
- ownership is equally shared amongst family successors;
- there is a need to change the business structure;
- the roles and responsibilities of family successors is clearly defined and agreed by them;
- there are any successors that will not be active in the business;
- the business operator will continue to participate in the business in some way;
- the business is to be sold or gifted;
- there are tax implications for the business operator and successors;
- a trust should be set up;
- the price you are selling (if you are selling to the family successor) is adequate and is the true market value; and
- you want to receive a dividend or lump sum from the business after you exit.

### Management Buy-Out

If choosing a management buy-out, this means the business will be sold to people who are already familiar with the business, its customers and suppliers. This is beneficial to the continuing operation of the business as these relationships already exist. This means there is some certainty for the new owners and employees (if there are any) about the business continuing. Business ownership change often means that there is a drop in regular customers and of course, supplier relationships have to be re-established. Employees, although anxious new management may make staff changes, are at least familiar with the people concerned. Confidential information can also be retained in the business, where are in a normal sale situation, some of this may have had to be shared with potential buyers.

In order for management buy-out to be successful, a business operator may need to train those taking over. There may be disputes over the price and level of working capital that must be left in the business. Of course in some instances management may wish to buy the business to save their own jobs, but not necessarily have the motivation or skills to run the business. When organising this type of business exit strategy, the business operator should engage professional expertise to arrange the buy-out.

### Partnership Buy/Sell Arrangement

For partnerships, a buy-sell arrangement can be put in place, or the business can be 'gifted'. The arrangement may have been included in the partnership agreement. All partnerships should consider this as it is a risk management strategy to cover each partner's interest and future, in the event of a/other partner's death, disablement or retirement. This is a formal binding contract that determines when the owners can sell their interest, who can buy that interest, how much it is worth and where funding will come from to buy the owner's interest.

Transferring ownership requires the business operator to consider:

- ownership and management arrangements;
- the structure of the business for example the roles and responsibilities of partners and whether there is active or non-active ownership arrangement to be put in place for the partner exiting and also other partners;
- training and/or assistance given to partners; and
- whether transference is gifted or sold.

#### Activity One

What is 'succession planning, why should it be done and list ten things that should be taken into consideration when writing a succession plan.

## 11.2 CLOSING A BUSINESS

Closing a business may be a personal choice to exit, but can also be because the business is struggling. If the decision is made to close the business, the way you approach it should be planned, just as much as with succession planning. Closing a business involves selling business assets, paying debts, fulfilling obligations to staff, (if you employ people) and meeting all other legal obligations.

If the business is healthy when you close it, planning the closure can help maximise the funds you have left over. If the business is struggling, a key objective of the plan would be to pay out all debts and fulfil all obligations. Any funds remaining are then a bonus. If the business has failed you might be officially closed through a declaration of bankruptcy (for sole traders), or insolvency (if a company). The process for closing the business then becomes formalised. Of course it is better to go for expert advice before the business' financial situation gets that bad. This is why monitoring the business' financial performance is so important. Seeking expert help may mean it may be possible to avoid bankruptcy/insolvency.

The decision to close can be an emotionally conflicting time for the business operator and staff, and having a plan can help to focus on what needs to be done. Counselling services can provide objective emotional support to staff and the business operator, if required.

What is involved in a closure plan? The table below can be used as a checklist to prepare a closure plan. You can set out what you are doing in relation to relevant items.

Table 11.2-Business closure checklist

	Area/Item	Tick if included
PREPARATION	Identify the target date to close down the business	
	Check expiration dates for licences, permits, termination dates for leases and hire contracts and renewal dates for insurances to inform the closure plan	
	Review all contracts for termination terms and conditions and commence necessary actions to terminate contracts	
	Prepare a list of assets, stock and all liabilities to assist with planning	
	Identify debtors and put in place a plan to collect outstanding payments	
	Notify the taxation office of your intention	
	Advise suppliers, main customers and contractors of intention to close	
OPERATIONS	Sale of assets, stock and equipment	
	Cleaning of premises	
	Notice on premise and sent to suppliers and customers that business has closed 'as of ...'	
	Arrange to cut off utilities and services	
	Complete any outstanding orders for product/services or arrange alternative suppliers to do so and advise customers	
FINANCE	Lodgement of final returns	
	All financial records updated and stored off-site to be available for required amount of time after closing	
	Tax obligations paid	
	Cancel GST registration	
	If you have an ABN, advise the taxation office within 28 days of closure, but all activity statements and documents associated with tax must have been lodged	
	Capital gains investigated and appropriate actions underway regarding any obligation	
	Employee obligations fulfilled for taxation	
	Employee obligations fulfilled for superannuation	
	Settle outstanding debts with suppliers, contractors etc.	
	Close bank accounts	

Area/Item		Tick if included
LEGAL	Cancel business name	
	Cancel Australian Business Number after all tax paperwork has been sent in	
	Cancel business registration	
	Cancel permits/licences	
	Finalise lease agreements	
	Finalise hire purchase agreements	
	Cancel Workers' Compensation policy	
	If a professional, maintain a run-off policy cover after the business has closed	
	If a company de-register the company	
	Sale of premise (if you own the premise and wish to sell)	
	Arrangement to re-lease premise	
	If you are dissolving a partnership agreement, the agreement should have the terms and conditions for this to take place	
	Cancel all business related insurance other than the 'run-off policy'	
	Destroy any personal information of staff and/or customers, unless required to keep any by the Taxation Office	
PERSONNEL	Notify staff of intention to close	
	Advise of final payment arrangements (may include pay in lieu of notice)	
	Check with Taxation Office about obligations and prepare all necessary paperwork	
	Prepare and forward all termination documents to staff	

### Activity Two

List three things you must do to prepare your business for closure and note the main areas in a business that must be addressed when closing a business:

- 1.
- 2.
- 3.

The plan must cover the actions required addressing legal obligations, employee entitlements (pay-outs, long service leave for example), disposal of stock and equipment, cancellation of registration and licences, vacating premises (whether rented or owned), cancellation of insurance and arrangement for 'run-off' insurance, which is professional indemnity insurance for any future claims. The Table below provides a checklist for business closure that can help you to develop your plan.

The time taken to close the business will depend upon the structure of the business. As highlighted in Chapter 4, different business structures have different complexities and obligations. A business advisor, accountant and solicitor can assist with developing the closure plan. Check the Fair Work Ombudsmen site noted in the reference section of this chapter regarding responsibilities to employees.

### Employee Obligations

Check with the Australian Taxation Office about Pay as You Go arrangements for the employees and whether there is a need to withhold payments for the employee. A payment summary must be forwarded to employees. The employee's Tax File Number declaration (NAT3092) must be retained for the current and next financial year. Superannuation due must be calculated and paid by the next quarterly cut-off date. Employees must be provided with details of superannuation contributions. Payment summaries must also include details of any reportable fringe benefits. It may be that the employee is due a lump sum payment or transitional termination payment. These details must also be included on the PAYG payment summary.

## 11.3 SELLING A BUSINESS

The decision to sell the business, whether triggered by ill health, a desire to move on or to capitalise on a good business, has one key element – getting the best possible price for the business. This means that the optimum time to sell your business is when things are going well and the business financials are healthy.

If you plan to sell your business as a way of exit, then you should make sure you have plenty of time to plan and organise the sale. In the unfortunate event of being forced to sell, you do not have the same luxury of time.

Either way, knowing and understanding what needs to be done is advantageous to you. To sell the business, you may wish to engage a business broker. This can save time and ensure that potential buyers are screened as brokers are able to check prospective buyers' financial situation and past record, have strong negotiation skills, have access to a list of potential buyers, will promote your business opportunity in areas where buyers look for opportunities, have experience and are independent. Of course business brokers take a percentage of the sale price. Some people feel that they have lost control of the selling process, perhaps to the point of feeling pressured by the broker to accept a price lower than they want.

If a business broker is to be engaged, check their reputation by asking other businesses and asking for references. Ask if they have run a business, and find out whether they specialise in certain areas.

Engaging a lawyer to help with the legal aspects of selling a business is suggested to help you with the process, if you are looking at selling the business yourself. You would also need to work with your accountant.

What is an attractive business? An attractive business for purchase would be one that:

- shows a profit all year;
- has a good reputation for high quality products/services;
- has a strong customer base;
- has clean and tidy premises, if premises are held;
- demonstrates good relationship with staff, if staff are employed;
- has a target market presence;
- offers a point of difference from competitors;
- has all records well organised and up to date;
- operates with contracts rather than verbal agreements;
- has a current business plan, risk management strategy and recovery plan in place;
- maintains equipment and safety checks; and
- has a good work, health and safety record.

### If You Are Selling The Business

Before you start any activity to sell the business, advise employees, possibly trusted long standing clients, your suppliers and distributors and manufacturers if this applies. Some business operators test the market by putting advertisements about a business opportunity, but do not include the business name, just the type of business, to test the market interest. It can be useful to look at other business advertisements to check how others promote opportunities.

### Preparing A Business Sale Package

To help with the sale, it is useful to have a business summary package. This provides all the key information that an intending buyer may want to know. Additional, more detailed and confidential information can be provided when the buyer has been qualified as a strong prospect.

Contents of this pack:

- overview of the business, including business name, location, map, key contacts, length of time in operation, business structure, why it is successful, key achievements since current operator has been running the business. Include photos and maps;
- overview of the industry sector and how it operates, highlighting opportunities for growth and diversification (without too much detail). Include a copy of some current Trade Journals;
- outline of the business opportunity, promoting strengths;
- summary of staff - roles and responsibilities and stressing key strengths, experience, qualification/certification where necessary and specialist capabilities;
- overview of products/services, with photos or DVD promotional tool. Ensure benefits are highlighted together with features and copies of testimonials from clients/customers;
- sale price and terms, including what is included in the sale;
- summarise assets, including goodwill and provide photos; and
- general financial information of business status (detailed examination of records not required at this stage).

## Managing Buyers

Buyers fall into a number of categories. Financial buyers will look at the business' cash flow and may already have other businesses and have money to invest and will be looking at a return on the investment. A strong and financially healthy business is what they are looking for and probably a business where there is management capability remaining in the business. A strategic buyer wants to acquire businesses, often already run a similar business or a business within the same industry and are keen on a business with a sound history and future that will compliment what business interests they already have. They may be willing to pay a higher price. Family, friends, partners or employees may also express an interest in buying the business. The chances are these buyers already know a lot about the business. They may have less capital to purchase the business, but have a vested interest. Of course partnerships may already have a buy-out strategy in place.

Once you have a buyer it is important that the business owner assesses them thoroughly and sorts out who is genuine, who has good prospects and who is likely to be a time-waster. Most important is whether or not they are likely to have the money or access to the money to purchase the business. Of course this is where a business broker is helpful.

Too much detail about the business should not be provided in the first instance. A general sale figure is useful as this gets rid of those who definitely don't have the money. Ask about how funds will be sourced for the purchase, the purchaser's experience, whether they intend to run the business

Once a buyer is identified and there is a formalised intention to purchase (letter of intent), the buyer will be conducting their own due diligence on the business. This will involve looking at different areas of the business such as legal (notices served, breaches any legal proceedings), financial (include debts), taxation (outstanding liabilities), and assets.

## Agreement To Purchase

The draft contract will need to identify the purchase price, the assets to be purchased including detailing those that are not owned, the liabilities that will be taken over and the date and time when the business will be officially handed over. It will also indicate if the business is being sold as a going concern or being wound up and starting fresh. It is likely that a prospective buyer will require an escape clause relating to finance, record inspections and the ability to gain the necessary licences or permits. There will need to be provision for the seller, should the purchaser be unable to gain the funds for purchase. The contract may include when the buyer has control over the recording of cash sales and banking, perhaps for a trial period. If the arrangement is for a buyer to be purchasing a partnership or part of a company, it is important that the limitations of the sale are known.

## Obligations and Follow-Up After Sale

If selling the business yourself, it is important that you fulfil all your legal obligations. If you don't there can be expensive legal consequences. Legal areas include business name and registration (will it be transferred?), licences and permits (can they be transferred?), sale or keeping of intellectual property, notification to the tax office and completion of all required forms, notification to the Australian Securities and Investment Commission (if you are a company), local council licences to be cancelled, all employee obligations are met, Workers Compensation policy has been cancelled.

Once you hand over the business you may have agreed to provide some support for a specified period of time. You can also arranged to introduce the new owner to suppliers and key customers.

The following providers of services must be notified of the sale: utilities providers, bank, post office, local security company (if they patrol the area where you are located) and industry associations of the change of ownership. Provide all keys, alarm codes, safe codes and passwords to the new owners who can then arrange for them to be changed.

Table 11.3 is a checklist for preparing the business for sale. Check in the reference section at the end of the chapter for other checklists that can be used.

Table 11.3 - Checklist to prepare and sell a business

Area/Item	Tick if included
Check and ensure all financial records are up to date	
Check and ensure all permits, licences, contracts and agreements are filed and current, with a schedule for renewals available	
Review and ensure all taxation obligations are fulfilled and up-to-date	
Prepare financial summaries of the business in consultation with accountant	
Prepare a list of suppliers and brief summary of supply arrangements (refer to contracts if they are held)	
Prepare a list of main customers and brief summary of supply arrangements (refer to contract to supply if they are held)	
Ensure customer records lists are up to date	

Area/Item	Tick if included
Examine costs and see if savings can be made to help increase profits	
Assess staff and offer training to raise skill and efficiency levels (if you employ staff)	
Assess production processes and discuss with staff areas where efficiencies can be improved	
Document quality control processes if not already done	
Assess and if necessary raise the profile of the business in the target market	
Assess business against competitors, improve business performance	
Strengthen and expand customer base if possible	
Clean, tidy up and organise premises and surrounds	
Stocktake and summarise current stock	
Ensure equipment has up to date maintenance records and safety checks	
Maintain assets in good order	
Consider leases, hire purchase agreements and the required changes should the business sell	
Eliminate verbal contract if possible and put in place written ones	
Update business, marketing and recovery plans	
Settle any outstanding legal/warranty claims	
Investigate and engage a business broker (if this is desired)	
Decision made about what is for sale (tangible assets, Intellectual Property, the premises - if you own them)	

Some areas you need to think about:

- value of the business, with the aim of getting the maximum value for business owner from the sale, but realistic in terms of business worth;
- potential purchasers;
- expertise or assistance such as from a business broker to arrange the sale;
- when to sell;
- what is included in the sale;
- desired date for settlement;
- level of assistance provided to new owners and for how long;
- sale arrangements such as payment terms, taxation;
- whether this will be a clean cash deal, or some funds will be left with the business;
- sale process from letter of intent to signed sale documents;
- promotion methods to let buyers know the business is for sale e.g. business broker, real estate agents, newspaper advertising, Trade publications, business networks such as suppliers and distributors. Real estate agents and business brokers can handle the whole sale process and can screen and assess potential buyers. This also allows the sale to not be widely known, therefore lessening any reduction in customers and business activity because the business is for sale; and
- approach to selling the business that protects both buyer and seller, for example:
  - using professionals for advice such as accountant and lawyer;
  - identifying business strengths and prospects to be used in negotiations;
  - complete, well kept business records available for inspection;
  - checking prospect's backgrounds and reputation in case the prospect has a poor business ownership and management record;
  - financing arrangements are clearly stated;
  - transfer of leases, hire purchase agreements on assets are cleared; and
  - obtaining taxation advice from a professional on the tax implications of the arrangements.

If you did not want to sell the business, but need extra funds or want to step away from running the business, you may consider such options as selling assets, refinancing, or being merged with another business.

### Activity Three

List three things that make a business attractive to sell. Pick three things you can do to prepare your business for sale provide a list of five things to include in a business sale pack.:

- 1.
- 2.
- 3.

Pick three things you can do to prepare your business for sale:

- 1.
- 2.
- 3.

List of five things to include in a business sale pack:

- 1.
- 2.
- 3.
- 4.
- 5.

### Insolvency and Bankruptcy

This is not covered in great detail, but it is important that a business owner is aware of the risks and obligations associated with this unfortunate state of business and personal affairs.

A business is insolvent if it cannot pay its debts. The way it is managed and affects you personally depends upon whether you operate as an individual or company. Ideally a business operator who regularly assesses financial performance, as recommended in Chapter 7, should seek help if a financial problem emerges. At this point the business operator should seek legal and financial assistance. It is important to remember that if you become bankrupt or go into receivership, then suppliers and customers suffer. This is a threat that could occur to your business, by others, so it is worth considering how to manage and avoid it, as well as recognise it as a risk to your business. Try not to have so much money owing to your business by a single entity, that their closure would ruin you.

Sole traders and partnerships can be declared bankrupt. Under the Bankruptcy Act 1966 there are a number of avenues to deal with extreme and outstanding debt. They include setting up debt agreements, a personal insolvency agreement and voluntary bankruptcy. Declaring bankruptcy has ramifications into the future and affects your personal credit rating and capacity to seek finance and travel overseas, or to undertake certain jobs. It is not a decision that should be taken lightly and should be the last course of action.

If a company becomes insolvent they may go into 'liquidation' which is a formal and organised way to wind up the company. Operation and sales are stopped, company assets are sold to pay creditors and if there are any funds remaining, the company shareholders may receive them. Liquidation can be through a court liquidation, creditors' voluntary liquidation or members' voluntary liquidation.

The reference section at the end of this Chapter provides links to sites that have information on this topic.

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**DISCUSSION** For class groups or for those studying by distance, discuss with a group of friends or colleagues: What should you monitor in your business to reduce the risk of becoming insolvent and what steps can you take to avoid declaring insolvency/bankruptcy?

#### Activity Four

Based on the situation for each of the three businesses noted below, identify what exit strategy might apply and note at least one item that must be taken care of under the headings of operations, legal, financial and personnel.

Business A - this business is a mobile car detailing business involving a father and son. The father wants to retire. The business has been in operation for 20 years. The son would like to carry on running the business and the father has no desire to have any further interest.

Business B - this is a partnership between three people who undertake crash repairs and custom paint jobs. One partner would like to leave the business and retire, but as a founding partner, would like to be able to draw a small amount from the business for the next three years. The premises are rented and were fitted out by the current partnership.

Business C is a small company that employs twelve people, including a Manager. The owner of the company, who is the current Director of the Company wants to retire. The current Manager would like to buy the business as a going concern. The Premises are rented, but all the assets and equipment are owned by the company.

Recommended Strategy:

Operations:

Legal:

Finance:

Personnel:

## 11.4 REFERENCES

NOTE: THE INTERNET HAS VAST VOLUMES OF INFORMATION. CONSIDER THE RELIABILITY AND TRUSTWORTHINESS OF THE INFORMATION YOU ACCESS. TRY TO USE TRUSTED SITES AND SOURCES.

Family Business:

[www.fambiz.org.au/index.php](http://www.fambiz.org.au/index.php)

<https://www.fambiz.org.au/>

Checklists for Exiting a Business: [www.cpaaustralia.com.au/documents/guide-to-exiting-your-business.pdf](http://www.cpaaustralia.com.au/documents/guide-to-exiting-your-business.pdf) [www.ato.gov.au/content/downloads/BUS00125583n72029\\_11\\_10.pdf](http://www.ato.gov.au/content/downloads/BUS00125583n72029_11_10.pdf)

[www.cpaaustralia.com.au](http://www.cpaaustralia.com.au)

[www.ato.gov.au/businesses/content.aspx?menuid=0&doc=/content/00125583.htm&page=14&H14](http://www.ato.gov.au/businesses/content.aspx?menuid=0&doc=/content/00125583.htm&page=14&H14)

Closing a Business - Managing Employees: [www.fairwork.gov.au/termination/notice-periods/pages/default.aspx](http://www.fairwork.gov.au/termination/notice-periods/pages/default.aspx)

[www.ato.gov.au/businesses/content.aspx?menuid=44237&doc=/content/00125583.htm&page=9&H9](http://www.ato.gov.au/businesses/content.aspx?menuid=44237&doc=/content/00125583.htm&page=9&H9)

[www.ato.gov.au/businesses/content.aspx?menuid=0&doc=/content/69776.htm&page=10&H10](http://www.ato.gov.au/businesses/content.aspx?menuid=0&doc=/content/69776.htm&page=10&H10)

De-registration of a Company:

[www.asic.gov.au/asic/ASIC.NSF/byHeadline/Closing%20down%20your%20company](http://www.asic.gov.au/asic/ASIC.NSF/byHeadline/Closing%20down%20your%20company)

Bankruptcy and Insolvency:

[www.accc.gov.au/content/item.phtml?itemId=799403&nodeId=0134880ef4891ea1bd969fc8a2dcf534&fn=Dealing%20with%20debt.pdf](http://www.accc.gov.au/content/item.phtml?itemId=799403&nodeId=0134880ef4891ea1bd969fc8a2dcf534&fn=Dealing%20with%20debt.pdf)

<https://www.accc.gov.au/>

[www.asic.gov.au/asic/asic.nsf/byheadline/Resources+Insolvency+information+sheets?openDocument](http://www.asic.gov.au/asic/asic.nsf/byheadline/Resources+Insolvency+information+sheets?openDocument)

## 12. BUSINESS PLAN REVIEW AND FUTURE PLANNING FOR THE BUSINESS

A business plan is a living document that requires to be reviewed at least once a year, but more often if a business is in an industry sector that is seasonal or volatile. The business plan should also be re-assessed if the business experiences downturns, is subject to external shocks like a disaster or sudden changes in the business environment, including changes in legislation.

When reviewing the business plan, you need to consider what you want to do in the future, for example whether to grow the business, diversify, or perhaps even franchise the business. For future growth the business must have a solid foundation, which is why you should make sure you have the time and systems in place to work on your business as well as in it.

Following a year of operation you should have mastered the art of effectively monitoring your business' performance and adapting activities and operations as you go along. Qualities that are increasingly identified as valuable for running a successful business include:

- flexibility and adaptability - to respond to changes in your business and market environment;
- entrepreneurship - to come up with new ideas and ways to achieve things that will sharpen your competitive edge;
- innovative- to design and use new products and approaches to deliver the business product/services;
- collaborative - working effectively with your supply chain and business experts;
- meticulous - particularly in legal matters, work health and safety;
- quality conscious - in all elements of the business; and
- a good communicator and relationship manager - this is at the heart of your business success.

This section concludes the text book by looking very briefly at the process of monitoring and reviewing the business plan and looking to the future.

### 12.1 MONITORING AND REVIEWING THE BUSINESS

#### Internal Monitoring

As you run your business, and as noted in earlier chapters, you should get into the habit of constantly monitoring activities on a weekly, monthly, quarterly and half yearly basis. This will enable you to take corrective action if there is a downturn or be proactive if there is increased demand/cash flow etc. Examples of areas that should be monitored include:

- finance - weekly monthly, quarterly and at the end of the financial year - records include cash flow, profit and loss, balance sheet, performance ratios like stock movement;
- sales - weekly, monthly, quarterly and at the end of the financial year - volume and value, market share;
- stock - turnover and value;
- staff performance - to achieve business goals, individual work goals and key performance indicators through performance appraisals;
- production - volume, quality control, loss and damage;
- work health and safety - accidents, breaches, regular audits;
- market position and image - check online reviews, customer feedback, complaints;
- systems and procedures - inefficiencies can cost you money, so it is good practice to regularly review and update your processes and systems, including consulting staff about better ways to undertake tasks or overcome issues that have affected productivity; and
- supply chain members and performance - weak links in the supply chain can seriously impact on your business.

#### TrendAnalysis

One way to monitor a business for changes is through trend analysis. This is about selecting data that you record, keeping records over time and analysing the records to identify changes. Monitoring your business in this way will help the business operator to keep track of how the business is performing and be able to predict, to some degree, where the business will be in the future. Constant monitoring means that if a downward trend is noticed, this is a signal to investigate further to find out why and to correct business operations, sales and marketing, or financial practices.

A business should have key performance indicators, or KPIs. These may include sales figures, turnover of stock, cost of goods, overheads, cash flow and net profit. These areas are what should be monitored for trends. For example a business operator can identify what products/services are good sellers or provide the best margin, the most effective payment terms, the ratios of changing leads into customers.

To set up a trend analysis, first identify the KPIs that are important and the data that tracks them. Determine how data will be collected, how often and when and how it will be analysed, including what would be considered a significant 'change' and therefore a point where business decisions may need to be made.

An example may be 10% increase or decrease in sales over a set time. Knowing a trend has changed is one thing, but more importantly the business operator may need to investigate why the change has occurred, by looking in more detail at related parts of business operations.

If the business employs staff, staff will need to understand what records must be kept and the purpose and be encouraged to provide input into identifying causes and solutions in the trend analysis. Trend analysis should take place regularly, at least once a quarter. Trend analysis relies on good business records being maintained.

As a risk management strategy, business records should be stored off-site and in a range of formats (electronic and key hard copy spreadsheets), including critical information that may be needed following a shock to the business, for example after a natural disaster. This means you can quickly assess your business and be realistic about your recovery plan.

Another way to measure business performance is through benchmarking. Benchmarking allows the business to compare with the averages of other similar businesses in the same sector. Benchmarking has been mentioned in a number of chapters in this manual, for example for pricing, costings and financial management.

### External Monitoring

External monitoring means keeping up to date with what is happening in your industry through industry associations, attending trade shows and exhibitions, reading government reports and studies relating to economic and population trends and changes, monitoring government regulatory changes and currency fluctuations, and talking with other operators. A few examples where changes are likely are licences and permits, wages, tax obligations or operating hours.

### Business Plan Review Schedule

At the beginning of your business plan, you should commit to a schedule of review. If you employ staff, identify who else will be involved in the review. This may include an accountant or business advisor. Each new business plan should record the date it was reviewed and the version.

## 12.2 PLANNING FOR THE FUTURE

'Planning' is the magic word. In reviewing your business plan and making decisions for the future, you will need to plan the execution of those decisions, whether it is to exit the business, grow the business, diversify, or franchise the business.

If you have developed good business management habits, you will have sound records and information upon which you can base your choices and you will have established a network of expertise and business colleagues upon which you can draw.

### DISCUSSION

For class groups or for those studying by distance, discuss with a group of friends or colleagues:

What are the ten most important things you have learned about running a successful business and why do you think they are the most important?

## 12.3 BUSINESS EXPERTISE

There is a wealth of sources of expertise, but most useful when considering future options are:

- accountant;
- your bank; and
- business mentor or coach.

## 12.4 REFERENCES

NOTE: THE INTERNET HAS VAST VOLUMES OF INFORMATION. CONSIDER THE RELIABILITY AND TRUSTWORTHINESS OF THE INFORMATION YOU ACCESS. TRY TO USE TRUSTED SITES AND SOURCES.

Checklist for growing your business:

[www.business.gov.au/Documents/GrowingyourbusinessChecklist.pdf](http://www.business.gov.au/Documents/GrowingyourbusinessChecklist.pdf)

Franchising:

[www.business.gov.au/BusinessTopics/Franchising/Pages/default.aspx](http://www.business.gov.au/BusinessTopics/Franchising/Pages/default.aspx)

<https://www.business.gov.au/search?q=Franchising+business+topics>

[www.franchise.org.au/what-is-franchising-.html](http://www.franchise.org.au/what-is-franchising-.html)

Innovating:

[www.business.gov.au/BusinessTopics/Innovation/Pages/default.aspx](http://www.business.gov.au/BusinessTopics/Innovation/Pages/default.aspx)

<https://www.business.gov.au/search?q=innovation+>