GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

**BUSINESS STUDIES**

**GRADE 11**

**PAPER 2**

**TERM 3**

**CHAPTER 15**

# STARTING A BUSINESS VENTURE ON AN ACTION PLAN

**REVISED NOTES**

**2024**

## TABLE OF CONTENTS



**This chapter consists of 8 pages**

## CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES

**Learners must be able to:**

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

## TERMS AND DEFINITIONS

| TERMS | DEFINITIONS |
|---|---|
| Strategy | Plans created by the entrepreneur that is spelt out in the business plan and enforced in the action plan<br>a long-term plan of action to achieve a goal |
| Collateral | The asset that is pledged to the bank in case of a default in the repayment of a loan. |
| Interest | Money paid as a percentage for the use of borrowed money. |
| Operations | the different activities businesses use to achieve their goals in order to be successful |
| Productivity | the effectiveness of production in terms of the rate of output per unit of input |
| Cost- saving | the plans made by the business to cut on the cost/expenses of the business |
| Business growth | the expansion of the size of the business. |
| Risk | a credit provider will always consider how safe their investment will be by looking at factors that will endanger the recovery of the debt. |
| Mortgaged bond | A debt instrument issued for more than one year with the purpose of raising capital from borrowing. |
| Incentives | Cash or tax relief to encourage investment in economic sectors<br>It could also be a payment to workers to encourage productivity. |
| Venture capitalists | Financing is given for an ownership share in the business at its start-up. |

| | |
|---|---|
| Equity Capital | The total amount of money and assets invested in a business by the owner that comes from its sources. |
| Grants | Money given by the government or an NGO for a specific purpose e.g. funding small businesses. |
| Bank Overdraft | A customer withdraws more than the money that is available in the bank account. |
| Trade credit | Time, usually between one and three months a business before it has to settle the debt. |
| Angel funding | These are wealthy business people who want to invest in promising small businesses in return for a profit share in the business. |
| Microlenders | Businesses that offer small loans to people at high-interest rates without collateral. |

## 1 Aspects that must be considered when initiating a business

### 1.1 Strategy
- A strategy is a plan of action that must be carried out by an entrepreneur
- An action plan outlines the vision, mission, goals and objectives.
- The action plan must be used to develop the systems and processes for the business.
- Systems and processes should be in place for the business to achieve its goals.
- Businesses must ensure that strategies such as marketing/management/public relations are implemented and continuously reviewed.

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

### 1.3 Productivity
- The action plan includes budget and financial planning
- Budgets need to be assessed and amended
- Costs need to be decreased and output increased
- to ensure productivity - costs need to be decreased & output increased
- improvements need to be implemented constantly to improve profits
- Productivity is the effectiveness of production in terms of the rate of output per unit of input.
- Businesses must ensure that there is a high rate of productivity in all aspects of its operations.

### 1.4 Size of the business

- The success of a business depends on its management and staff.
- The bigger the businesses the more difficult to manage
- It is difficult to keep control of the quality of each of the employees, work and productivity levels.
- Businesses must decide on the most appropriate size for successful operations.

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

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

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

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

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

## 2 Factors that must be considered before start-up.

### 2.1 Culture of the Organisation

- Establish an organisational culture so that the staff is familiar with what is acceptable.
- Ensure that a code of conduct is in place and enforce it from the start
- The staff must know the dress code and the code of conduct of the business from the start.
- They must ensure that staff knows the culture of the business and that their
- behaviour does not damage the business image.
- Entrepreneurs must decide what the culture of their business will be before starting up.

### 2.2 Environmental changes

- Continue to network and research to avoid changes in the business environment which may upset the business operations.
- Consider the risk and success factors.
- Plan for risks and minimise the impact.
- The economy fluctuates up or down daily, resulting to businesses having to change some of their operations.
- New competitors enter the market and driving existing businesses out of the market.
- New technology force businesses change some of their original plans.

### 2.3 Customer service

- Make an effort to satisfy the needs of customers.
- Change the action plan accordingly to accommodate the needs of customers
- Establish a good relationship with customers.
- Identify their potential customers before start up.

### 2.4 Business Growth

- Managed and backed up growth by using a solid strategy.
- The success of a business is often dependent on its management and staff.
- Devise a suitable strategy to manage and control a larger group of employees.
- Keep control of the quality of each employee.
- Determine the size and the growth of the business before they start up their business.
- The size and growth of the business will determine the most appropriate form of ownership for the business.
- Many businesses want to grow too quickly, which can cause problems such as lack of infrastructure and funding.
- The long-term vision of the size of the business must also be reflected in the organogram of the business.

### 2.5 Cost saving

- Cut costs by controlling unnecessary expenditures.
- Businesses could do a joint advertising campaign with other businesses that sell complementary products to reduce the advertisement cost.
- Businesses could save on office costs by using recycled printer cartridges and buying good quality used equipment.
- Hire temporary employees or use independent contractors to save costs.
- Business could save costs by considering other aspects such as insurance, credit, online transactions, etc.

### 2.6 Risk and change

- Management and leadership teams must be flexible to adapt to changes in the market.
- The original action plan may need to be changed and amended several times.

- The introduction of new technology may influence a budget.

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

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

## 3 Acquiring funding

### 3.1 Reasons why businesses need funding.

**Businesses require funding to:**

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

### 3.2 Sources of funding

#### 3.2.1 Equity Capital

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

#### 3.2.2 Issuing of shares

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

#### 3.2.3 Debt Capital

- Many businesses need to borrow funds.
- The business plan will indicate how much debt capital is crucial for business funding.
- The business must show the ratio between equity capital and debt capital in its business plan.
- The solvency of the business is determined by the ratio of equity capital and debt capital.
- It is very important that businesses must be solvent at all times.
- The following sources of finance are available to the entrepreneur:

**Bank loan**

- The business can borrow money from the bank.
- The amount will be specified for a set period.
- Interest is payable on the loan.

- The period can be fixed for the time of the loan or variable in line with the current interest rate.

**Trade Credit**

- This is the time that a business has before it has to settle a debt.
- Suppliers usually allow a small business a period between buying materials and paying for them.
- Trade credit is an agreement between a supplier and the business.
- Businesses can sell or develop new products to be able to pay off their
- debt during the trade agreement period.

**Bank Overdraft**

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

### 3.2.3 Leasing and hire purchase

- Businesses can lease certain assets from suppliers.
- Assets such as machinery/vehicles/computer systems can be leased.
- A fixed amount of money is paid monthly for the use of the asset
- The lease agreement can be renewed when the asset is returned/replaces.
- In the contract the fixed amount of monthly premium must be specified.
- Businesses can use leasing because it is easier to find finance for a lease agreement than for the purchasing of an expensive asset.

### 3.2.4 Grants

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

### 3.2.5 Venture capital

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

### 3.2.6 Angel funding

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

## 4 Factors that influence the choice of funding

**Nature of finance**

- This depends on the owners if he/she wants to use their own or borrowed capital as well as short- or long-term loan.
- Some types of financing like shares and debentures are not available to certain forms of ownership like sole traders and partnerships.
- Sole traders and partnerships should make use of other forms of funding.

**Amount of capital needed**

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

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

**4.3 Risk**

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

**4.4 Cost of finance**

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

**4.5 Period of financing**

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

**4.6 Availability**

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

**4.7 Tax considerations**

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