New Venture Creation 3
Module 4: Implementing an action plan for business operations
MODULE 4: IMPLEMENTING AN ACTION PLAN FOR BUSINESS OPERATIONS

At the end of this module you will be able to:

- Design an action plan for a new venture.
- Set up business premises and operational systems
- Arrange business financial systems
- Identify the risks associated with the specific business
1. Design an action plan for a new venture

- At the end of this outcome you will be able to:
  - List, prioritise and explain reasons for priorities of actions to be taken to establish a business
  - Schedule time frames for prioritised actions
  - Determine deadlines for scheduled actions
1.1 List, prioritise and explain reasons for priorities of actions to be taken to establish a business

- Action plan
- Feasibility study
- Business plan
1.1.1 Action plan

• **What is an action plan?**
  – An action plan is a list of actions that need to be described, be sorted in order of priority, have time spans for their completion and which shows who should be doing what

• **An action plan should set out:**
  – Specific tasks that need to be undertaken to implement your business plan
  – Clear priorities
  – Timeframes (when each should start and finish)
  – Who will be responsible for what task
1.1.1 Action plan

- Do a feasibility study
- Prepare a business plan
- Arrange financing
- Open a bank account
- Set up business premises
- Set up operational systems
1.1.2 Feasibility study

- Business structure and type
- Market research
- Financial forecasts
- Break-even analysis
- Business location and premises
- Employing staff
- Taxation and insurance
- Business licences and codes of practice
1.1.3 The business plan

- **Executive summary**
  - Brief summary of the main points of the business plan
  - Completed last

- **Main body**
  - Contains all the main details of the business plan
1.1.3 The business plan

• The following are essential sections
  – The business and its products
  – SWOT analysis
  – Key success factors
  – Locality
  – Financial planning
  – Grants and assistance
  – Production planning
  – Market planning
  – License or regulation requirements
  – Personnel planning
1.2 Schedule time frames for prioritised actions

- **What is prioritising?**
  - Prioritising means deciding on the order in which actions should be carried

- **What is scheduling?**
  - Scheduling means giving a timeframe to an action
1.2.1 Prioritising

- Difficulty
- Assigning resources
- Availability of resources
- Dependence on other activities
- Effect on other activities
- External needs or dependencies
1.2.2 Scheduling

• Three steps are needed to schedule an activity:
  – Estimate how long the activity is going to take
  – Decide on a starting date
  – Work out when it will be finished
1.3 Determine deadlines for scheduled activities

- What is a deadline?
- When planning your business, you need to identify the following:
  - What is needed?
  - What activity depends on what other activity or activities?
  - How long each activity is going to take?
  - Alternatively – if you are working towards an opening date that has already been set – how much time you actually have?
  - What the deadlines are going to be for each activity?
Activity 1

• You have identified the following tasks that will need to be completed in order to have the grand opening of the business on 1 April next year (see page 113). You have also estimated how long each should take and have organised that some of your family and friends will help you with some of them.
<table>
<thead>
<tr>
<th>Task / Activity</th>
<th>Days needed</th>
<th>Resource</th>
<th>Start date</th>
<th>End date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arrange financing</td>
<td>10</td>
<td>Self</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Feasibility study</td>
<td>30</td>
<td>Dad &amp; self</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grand opening</td>
<td>1</td>
<td>Mom</td>
<td></td>
<td>1/4/08</td>
</tr>
<tr>
<td>Buy furniture and fittings</td>
<td>10</td>
<td>John &amp; self</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Open a bank account</td>
<td>3</td>
<td>Self</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advertise for staff</td>
<td>5</td>
<td>Mom</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interviews</td>
<td>10</td>
<td>Dad &amp; self</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Arrange catering</td>
<td>1</td>
<td>Mom</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepare a business plan</td>
<td>30</td>
<td>Dad &amp; self</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Set up business premises</td>
<td>15</td>
<td>John &amp; self</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Set up operational systems</td>
<td>10</td>
<td>Dad &amp; self</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Activity 1

a) Prioritise the tasks stating the reasons for deciding reasons which task needed to be done before others

b) Draw up a schedule showing when each task should begin and end in order to meet the grand opening deadline

* Assume you will be working on weekends and public holidays
+ Assume that no-one can do two things at a time but that there is no reason why someone has to wait around if they can start something earlier
# There is no right answer. The answer you get will depend on the assumptions you made when deciding.
Activity 2

• Repeat the activity above but this time assume you will start the very first activity on 9 April 2007 and will not be working on public holiday or weekends
2. SET UP BUSINESS PREMISES AND OPERATIONAL SYSTEMS

• At the end of this specific outcome you will be able to:
  • Determine suitable premises and location for a particular business venture
  • Compare options of leasing a premises, listing the advantages and disadvantages of each option
  • Put operating systems into place for a particular business venture
  • Establish a professional image for a particular business venture
  • Adhere to legal issues and safety regulations for the premises in terms of relevant legislation
  • Determine and organise office supplies, communications and other basic requirements according to the policy and procedure determined for a particular business
2.1 Set up business premises and operational systems

- What type of business will it be?
- How many people are you thinking of employing?
- Are there legal restrictions on what you will be doing at the location?
- Do you plan to expand quickly and will your premises be able to cope with the growth?
- Will you rely on passing trade or will people know where to contact you?
- Will customers need parking or loading areas?
- Will your business operate during normal working hours of – possibly – 24/7?
- How will your employees get to and from work?
2.1 Set up business premises and operational systems

- On what side of the street should you be?
- Is there competition for your business in the locality you are thinking of?
- Where is the nearest bank?
- How will your customers know you are there?
- Will you need a telephone line or will a cell phone do?
- What municipal services will your business need?
- Are you thinking of buying or renting?
- What can you afford?
2.1 Set up business premises and operational systems

Factors relevant to what type of premises you need

Factors important to deciding between choices of premises available

Factors important to where your premises need to be located
2.1 Set up business premises and operational systems

• Steps to decide on what premises to buy
  – **Step 1:** Have a good look around and see what other businesses similar to yours are doing
  – **Step 2:** Once you have more or less made a decision, look around for premises that may suit you
  – **Step 3:** Decide – on a scale of 1 to 10 – how **IMPORTANT** (1 = not really important at all and 10 = very, very important) each factor seems to be
  – **Step 4:** **SCORE** each locality against how well it meets your needs
2.1 Set up business premises and operational systems

- **Step 5**: Multiply the *IMPORTANCE* (Step 3) x the *SCORE* (Step 4) and add up the total score for each locality
- **Step 6**: Compare the total scores
- **Step 7**: And then (most important!) *don’t take the scores for granted!* They are just a guide and what you need to do is go through them a few times to see if you haven’t perhaps over or under scored something or given something else too much importance.
Activity 3

1. Choose three types of small business you might want to start – say selling fast food, dress making and a panel beater

2. Choose three premises/addresses in your town at random, say one in a residential suburb, one in the central business district and one between the main taxi rank and the nearest big business centre

3. Decide on how much each of he factors in the table below are important to each type of business, how much each locality scores for each type of business and which locality is best for which business) one is then most suitable (tip – you will need to make three photocopies of the table on page 119)
### 2.2 Compare options for leasing or buying a premises

<table>
<thead>
<tr>
<th></th>
<th>Buy</th>
<th>Lease</th>
</tr>
</thead>
</table>
| **Shared** | Your own, completely private property to do with as you like within the confines of zoning and other laws. | • Shop in a mall  
• Mini factory in an industrial park  
• Trading stand in a municipal informal traders facility  
• Office suite in a commercial building  
• Working from your parents’ home |
| **Standalone** | Your own, completely private property to do with as you like within the confines of zoning and other laws. | Premises owned by someone else in which you are free to do as you like within the confines of your lease agreement and of zoning and other laws. |
2.2 Compare options for leasing or buying a premises

- Factors to consider if buying
  - Are things likely to change? If so, leasing is probably preferable
  - Will buying or leasing offer any tax advantages?
  - Is part of your decision based on later selling the premises at a profit?
  - Remember that ownership ties you down to that location
2.2 Compare options for leasing or buying a premises

- **Factors to consider if buying**
  - Are things likely to change? If so, leasing is probably preferable
  - Will buying or leasing offer any tax advantages?
  - Is part of your decision based on later selling the premises at a profit?
  - Remember that ownership ties you down to that location
2.2 Compare options for leasing or buying a premises

- **Factors to consider if leasing**
  - How does the rent compare with others in the area?
  - Will you be leasing for a short while – a year or less - or longer than that?
  - What does the rent include and exclude? (see the 2nd “do” in the table below)
  - How will you renew the lease after the first term is over. Do you have the right options for yourself?
  - How will rent increases be calculated? A fixed increase per year or based on the inflation rate or some other way?
  - Will your landlord want a percentage of your sales, turnover or net profit as part of your lease?
  - Will you be allowed to make improvements to the building or fittings and if so who will pay for them?
2.2 Compare options for leasing or buying premises

- Will you have to remove them if you leave? Will the landlord compensate (pay) you for any improvements you leave behind? On what basis?
- Will you be allowed to sub-let spare space, with or without the landlord’s permission? How will you have to go about getting that permission? What if the landlord says “no”?
- What signs can you put up? remember the municipality might have some rules that need to be complied with as well?
- What is you find yourself needing more space in the same building? How will you present lease accommodate this?
- What rights do you have to parking bays, loading zones and particular places in the parking areas?
- Do you have the right to insist that no other business similar to yours will be allowed in the same centre?
2.3 Put operating systems into place for a particular business venture

- **Systems**
  - A system is a collection of activities that is needed to convert certain inputs into outputs

- **Policies**
  - Set the standard for thing to be done by

- **Procedures**
  - say how things must be done

- **Putting an operating system into place**
2.3.1 Systems

- Inputs
- Policies, procedures and processes
- Outputs
2.3.4 Putting an operating system into place

- Decide what must be done, why it must be done, who must do it, when it must be done and how it must be done
- Write everything down
- Get everyone to follow the instructions
- Get feedback and possibly revise the operating system
- Keep on checking that the system is being followed
Activity 4

• Go back to the procedure for keeping track of cool drink stocks. How many of the reasons ‘why you should have policies’ do you think apply?
Activity 5

• Think of something at home that is always causing friction and how setting up an operating system might prevent unpleasantness in future – like who takes out the garbage, for example
2.4 Establish a professional image for a particular business venture

• **Things to think about:**
  – Your street address
  – Mail address
  – Email
  – Telephones
  – Stationery and promotional materials
  – Payments methods
  – Contact methods
  – Delivering on your promises
Activity 6

• Think of a few businesses in your area and – without going into too much detail – score them on a scale of 1 to 10 as to how keen you would be to buy from them, do business with them, or recommend them to someone else.

• Then try to list in what way the score that you have given could be improved by attending better to any of the image points listed above.
2.5 Adhere to legal issues and safety regulations for the premises in terms of relevant legislation

• Legal issues
• Safety issues
### 2.5.1 Legal issues

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency and Exchanges Act, 1933</td>
<td>Companies Act, 1973</td>
<td>SA Income Tax Act</td>
<td>Insolvency Act</td>
</tr>
</tbody>
</table>
Activity 7

• Think of three business operating near you. Think about what they do and then make a list of all of the laws you think they will need to know about for them to keep out of trouble. Score each of the laws as ‘need to know about’, ‘need to know quite well’ or ‘need an expert to help’
2.5.2 Safety issues

- **Occupational Health and Safety Act**
  - Sets out the minimum rights and duties of employers and employees to maintain a healthy and safe working environment
Activity 8

• Think of a situation at home where someone has got hurt – say cut their hand on a knife while washing dishes. Think about why this happened and how it could have been prevented by applying the safety principles spoken about in the example of the sewing factory. Who should take what steps to ensure it doesn’t happen again?
Determine and organise office supplies, communications and other basic requirements

• Business office requirements
• Policy
2.6.1 Business office requirements

- Communications equipment
- Furniture and fittings
- Stationery
- Miscellaneous
2.6.2 Policy

- What may be bought
- Who is allowed to buy
- What procedures must be followed for buying
- Who is allowed access
- What circumstances apply
Activity 9

- Imagine you are starting up a new business. Decide what type of business it is going to be. Make a list of all of the things you think you will need in just the office on the day you open your doors (don’t worry about the actual things you need to make whatever you are going to make). Make a list of all of the things you think you are going to have to do and who you will assign the duties to. Think about how much time each will take and try to estimate how many people you will need
3. ARRANGE BUSINESS FINANCIAL SYSTEMS

• At the end of this you will:
  • Be able to identify the various bank systems and types of bank accounts for a small business
  • Know how to choose the most suitable bank system and bank account for specific venture
  • Know about establishing a code of conduct for the business, including ethical procedures, fair treatment for internal and external clients
  • Have learned how to investigate, establish and apply financial systems to eliminate fraud, ensure sufficient control of money, screening for debtors, eliminate bad debts, manage creditors, manage cash flow and budget.
3.1 Identify the various bank systems and types of bank accounts for a small business

- Banking systems
- Banking services
- Bank accounts
3.1.1 Banking services

- Security
- Making payments
- Borrowing
- Investment or savings
3.1.2 Bank accounts

- Cheque accounts
- Debit cards
- Internet transfers
- Cell phone banking
- Savings accounts
- Transmission accounts
- Fixed deposits
- Call accounts
- Credit card accounts
- Loan accounts
3.2 Choose the most suitable bank system and bank account for a specific venture

- Security
- Liquidity
- Convenience
- Credit
- Investment or savings
Activity 10

• Pick three small business you know about (they should be small enough for you to visit and someone in your group should know the owner well enough for you to be able to go as some personal questions). Make list of what types of bank accounts and services you think they are using. Then go and ask them. See how far you are right or wrong and where you are wrong, see if the owner is willing to tell you why he or she made a different choice.
3.3 Establish a code of conduct for business

- Ethics
- Why are ethics important in business?
- Fair treatment
- Developing a code of conduct
- Developing a code of ethics
- Codes of conduct
3.3.1 Ethics

- **What are ethics?**
  - Ethics is about doing the right thing
    - without having to be told
    - without there being a law that says you must
    - not because you are afraid of being caught out
  - because it is the right thing to do
3.3.2 Why are ethics important in business

- Why are ethics important in business?
- Have you heard of the following companies?
  - Enron
  - Lehmann brothers
  - WorldCom
  - Masterbond
3.3.2 Fair treatment

- Being trustful
- Keeping an open mind
- Meeting obligations
- Having clear documents
- Community involved
- Maintaining control
- Being respectful
Activity 11

• If you rated yourself on a scale of 1-10 for each on the items on the previous slide, how would you score on the treatment of others?
## Developing a code of conduct

<table>
<thead>
<tr>
<th>Dealing with clients</th>
<th>Maintaining confidentiality</th>
<th>Moonlighting or other employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Being reliable and prompt</td>
<td>ETHICS</td>
<td>Not accepting personal gifts from stakeholders</td>
</tr>
<tr>
<td>Avoiding racial or sexual discrimination</td>
<td>Avoiding conflict of interest</td>
<td>Complying with laws and regulations</td>
</tr>
<tr>
<td>Not using organization's property for personal use</td>
<td>Not discriminating against race or age or sexual orientation</td>
<td>Reporting illegal or questionable activities</td>
</tr>
</tbody>
</table>
Activity 12

- You are tired of being told by your educational institution what you should wear. Draw up a code of conduct that will ensure that people wear what you think they should wear. Include in it steps you will take if they don’t comply.
3.3.5 Developing a code of ethics

- What will be the purpose of your new code?
- Is your new document intended to guide people or to set out requirements?
- A code of ethics should be tailored to the needs and values of your organisation
- Many ethics codes have two components. First, a section that outlines ideals the organisation hopes to live up to. Second, a list of rules or principles which members of the organisation will be expected to adhere to
- Will your new ethics document include some sort of enforcement? If so, what kind?
- How will your new code be implemented? How will you tell people about it, both inside and outside of your organisation? How will you make sure that the values you set down in your code actually get taken into account in all your other policies and procedures
- How / when will your code be reviewed / revised?
3.3.5 Developing a code of ethics

1. Identify the desired codes of behaviour for your business
2. Think about what values lead to this and put them into your code of ethics
3. Select what values you want to encourage so that your can include them in your code of ethics
4. Compose your code of ethics
5. Talk to your employees, getting input from as many as possible
6. Announce and distribute the new code of ethics
7. Update the code at least once a year
Activity 13

• What ethical values do you think are important for the following types of business?
  – Small loans provider
  – Safety gear shop
  – An architects firm
  – Your municipality
3.3.6 Codes of conduct

- The process is the same as for the code of ethics
- Provides the substance to the code of ethics, by stating what is acceptable and what is not acceptable
Activity 14

• Using steps for creating a code of ethics, write down the steps needed for creating a code of conduct
Activity 15

• Pick one of the ethical values you identified for each of the business types in the previous group activity and draw up a code of conduct that would emphasise that value.
3.4 Investigate, establish and apply financial systems

- Eliminate fraud
- Ensure sufficient control of money
- Screening debtors
- Eliminate bad debts
- Managing credit and creditors
- Managing cash flow
- Budgeting
- Setting up financial systems
3.4.1 Eliminating fraud

- Keep duties separate
- Get your bank statements delivered to you personally
- Guard your cheques closely
- Sign every cheque personally
- Watch your incoming cash and cheques closely
- Make your bookkeeper take a holiday
- Have your books audited regularly
- Make sure you understand your books
3.4.2 Ensure sufficient control of money

- Don’t allow cash in the workplace
- Make workers responsible for cash issued to them
- Keep duties separate
- Close up the books every day before people leave work
- Be absolutely strict
Activity 16

• Create a check list that you can use on a daily and weekly basis to remind everyone in your financial office of what they should not be forgetting to eliminate fraud in your business.
3.4.3 Screening debtors

- Credit bureaux
- Personal references
- Asking for full relevant information
- SARS
3.4.4 Eliminate bad debts

• Choose the right customers
  – Obtain credit references on potential customers
  – Avoid doing business with companies with poor credit ratings
  – Ensure that the prospective customer knows your payment terms from the outset
3.4.4 Eliminate bad debts

- **Have a debt collection policy**
  - Send out accounts as early as possible;
  - 15 days later, telephone the customer. Thank them for their business and ask if they are satisfied…?
  - If no payment has been received after 31 days, send a reminder and call the customer to inform them that you are starting with collection efforts.
  - Telephone the customer every two or three days. BAD DEBTORS RELY ON CREDITORS BEING EMBARRASSED TO CALL!
  - If there is a payment problem, arrange a new settlement date by telephone. Confirm this date in writing and state clearly this is the last chance before you go to a debt collection agency, a lawyer or the small claims court
  - If the debt is still due after this, keep your word and take action.
3.4.4 Eliminate bad debts

- Rotate the debt collections staff
- Make use of payment plans
- Chase up repeat offenders
- Use a debt collection agency
Activity 17

• Draw up a list of questions you would ask someone if they were asking you to allow them to buy on credit. How would these questions change if the amount of credit being asked for was very big or just medium?
3.4.5 Managing credit and creditors

Consequences of not being able to pay your debts:

- SARS has a reputation for not tolerating unnecessary delays in tax payments. Paying VAT late, or making any mistakes in your VAT return, can end up being costly because SARS automatically charges you more for paying late.
- Hire-purchase companies can repossess the equipment;
- Your landlord could evict you at short notice. And even if not he or she could have the right to seize goods, without going to court.
- The municipality can sue you;
- The Municipality, TELKOM etc. can cut off your telephones, electricity, water or gas.
- The bank can demand repayment of an overdraft at any time. So before you make extensive use of an overdraft, ask about other kinds of finance such as bank loans, leasing, hire-purchase;
- Suppliers can refuse to continue supplying you.
3.4.5 Managing credit and creditors

- When entering into a credit agreement, consider the following:
  - Don’t put all your eggs in one basket
  - Involve your suppliers in your business
  - Don’t be afraid to ask for something in return for giving suppliers what they want
  - Check whether other suppliers would offer better terms
  - Have a policy on payment so sure your suppliers know what to expect
  - Allow for some give and take is the name, don’t be greedy!
  - Make an effort to let your suppliers understand the importance of having you as a customer, so they support you in the future
  - Pay promptly
3.4.5 Managing credit and creditors

• **When entering into a credit agreement, consider the following:**
  – If you need extra credit, show the suppliers what they get in return
  – Review your terms regularly
  – Make sure that your financial department is following **YOUR** policy and is not ‘doing their own thing’
  – Negotiate clear, written agreements at the beginning of a business relationship. Then stick to them
  – Keep creditors informed, to build up their trust in you. Otherwise small problems can escalate into large ones
  – Find out who the real decision-makers are at your bank as well as your suppliers
  – Build up a track record, so creditors trust you
  – Give advanced warning to creditors of any cash shortages
  – Keep informed about developments at your suppliers
3.4.5 Managing credit and creditors

• **Steps to take if you are in trouble**
  – Keep everyone informed, to avoid any panic at their end.
  – Remember that your supplier has rights to be paid and to charge interest on late payments.
  – Supply the bank with regular management accounts. Be proactive, rather than waiting to be asked for the information.
  – Be able to show that the cash shortage is only temporary.
  – Negotiate for extended credit with your suppliers.
  – Give reasons – not excuses! – if the problem is only temporary
  – Negotiate for part-payment of several creditors, rather than paying one and ignoring the rest
  – It might sound odd at this time but think about changing how you borrow, for example converting an overloaded overdraft into a long term loan;
  – And lastly, if you receive legal demands, immediately speak to your lawyer!
Activity 18

• Imagine you have a business and some big machine just broke. You have to replace it or stop doing business. It costs more than what you have available to spend and you also have to pay a number of bills. How would you solve this problem?
3.4.6 Managing cash flow

• What is cash?
  – Bank overdraft
  – Bank loans
  – Mortgaging your property
  – Credit cards
  – Buying on credit
  – Borrowing from friends and family
3.4.6 Managing cash flow

- **What is cash needed for?**

<table>
<thead>
<tr>
<th></th>
<th>Regular</th>
<th>Random</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Day to day, month to month or annually</strong></td>
<td>Salaries and wages, Rent, Bond payments</td>
<td>VAT, Materials, Bonuses</td>
</tr>
<tr>
<td><strong>Single Events</strong></td>
<td>n/a</td>
<td>Machinery, Loan repayments, Equipment</td>
</tr>
</tbody>
</table>
Activity 19

• Do just as said in the previous paragraph, sit down and make a list of everything you have spent money on in the last month and place it in the proper place in the table.
3.4.6 Managing cash flow

• What does cash come from?

<table>
<thead>
<tr>
<th></th>
<th>Regular</th>
<th>Random</th>
</tr>
</thead>
<tbody>
<tr>
<td>Day to day, month to month or annually</td>
<td>Rent Subscriptions</td>
<td>VAT Materials Bonuses</td>
</tr>
<tr>
<td>Single Events</td>
<td>n/a</td>
<td>Loans Selling property</td>
</tr>
</tbody>
</table>
Activity 20

• Do just the same as in the previous activity but with all the possible sources of income you can think of in the coming year.
3.4.6 Managing cash flow

- **Managing cash coming in**
  - Invoice customers as quickly as possible.
  - Take immediate action when a customer starts looking bad.
  - Reward customers for making early payment by offering a discount.
  - Charge interest on customers that are seriously late.
  - Screen customers before extending credit.
  - Accept credit cards for payment.
  - Issue monthly statements to remind customers of amounts owed.
3.4.6 Managing cash flow

- Payroll
- Purchasing
- Stock
- Insurance
Managing your cash flow

• Prepare a cash flow budget
• Compare your actual cash situation against your budgeted expenditure
• Early signs of cash flow problems
  – Cash balances are low compared to the same time last year
  – Stock is not moving
  – Your payments to creditors are being made later and later
  – Banks are requesting financial statements
  – Major purchases have to be postponed
  – You have become very cautious about spending money
Activity 21

• The table on the next slide shows a typical example for a 6 month cash flow plan for a small business

• Complete the table then do a similar table for your next six months
<table>
<thead>
<tr>
<th></th>
<th>Jan</th>
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<td>-R 267 870</td>
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<td>R 229 000</td>
<td>R 229 000</td>
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<tr>
<td><strong>Total available at end</strong></td>
<td>R ________</td>
<td>R ________</td>
<td>R ________</td>
<td>R ________</td>
<td>R ________</td>
<td>R ________</td>
</tr>
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</table>
Activity 22

• What do you think the owner of this business should change in the plan to avoid the problem in July?
3.4.7 Budgeting

• A good budget helps your in the following ways:
  – Manage your money effectively
  – Allocate appropriate resources to projects
  – Monitor performance
  – Plan for the future
  – Improve decision making
  – Meet your objectives
  – Increase staff motivation
  – Identify problems before they occur
3.4.8 Setting up financial systems

- **Decide:**
  - What must be done
  - Why it must be done
  - Who must do it
  - When it must be done
  - How it must be done

- **Write everything down**
- **Get everyone to follow instructions**
- **Get feedback and revise the operating system**
- **Check that the system is being followed**
4. IDENTIFY THE RISKS ASSOCIATED WITH THE SPECIFIC BUSINESS

• At the end of this outcome you will:
  • Know how to identify and evaluate risks associated with internal finances, safety and security, stock and other business assets
  • Be able to explain how to establish financial security systems, emergency procedures and reduce risks to ensure the safety of all people in the business and security of equipment
  • Be able to investigate insurance needs for a specific venture
  • Understand how to choose the most suitable insurance for a specific venture
4.1 Identify and evaluate risks

- Strategic risks
- Compliance risks
- Financial risks
- Operational risks
- Environmental risks
- Employee risks
- Political and economic risks
- Health and safety risks
Activity 23

• Read up in the Sunday papers about a big industry. Also choose a small business you know about. What type of risks do you think each will need to manage. Are there any differences and what makes you say so?
4.2 Establish financial security systems

- Financial security systems
- Stock people and other assets
- Security
- Safety and emergency procedures
- Setting up operating systems
4.2.3 Security

• **Avoiding crime**
  – Educate staff about crime reduction strategies
  – Install adequate lighting, security and alarm systems
  – Provide individual electronic alarms to alert others of an incident in progress
  – Have regular monitoring systems in place, such as stock takes
  – Keep accounts updated regularly so errors and crimes can be identified quickly
4.2.3 Security

- **Reducing theft**
  - Encourage staff to watch customers and have someone monitor display counters, particularly where there are small, high-priced items
  - Watch for thieves working in pairs
  - Provide good customer service
  - Make sure merchandise isn't left lying around
  - Maintain well-lit areas throughout the place of business
  - Consider installing closed-circuit television and/or one-way glass
  - Remove keys from show cases
  - Close the cash register between transactions
  - Keep aisles neat and tidy
  - Control the number of items taken into fitting rooms
  - Instruct staff how to report possible shop stealing
4.2.3 Security

• **Detection**
  – Signs of nervousness and eye movement as a thief looks for opportunities
  – Loose-fitting clothes, large shopping bags, newspapers, prams and umbrellas as they can hide stolen goods
  – People spending an unusually long time in the shop may be waiting for the right opportunity
  – Thieves switching tags to lower the price
  – Attempts to distract you from their hands as hands do the stealing
4.2.3 Security

- **Apprehending a thief**
  - Avoid directly or indirectly accusing a customer of stealing. If you are wrong, you could be open to litigation.
  - Develop a policy with a lawyer about dealing with suspected thieves, taking into account any legal consequences.
4.2.4 Safety and emergency procedures

- Prevention
- Emergency procedures
4.2.5 Setting up operating systems

• Decide
  – What must be done;
  – Why it must be done;
  – Who must do it;
  – When it must be done;
  – How it must be done.

• Write everything down.
• Follow the instructions.
• Get feedback and to revise
• Keep on checking that the system is being followed.
Activity 24

• Write a procedure for checking that all the fire equipment in your business is checked regularly. Particularly, set down what will happen if the procedure is not obeyed.
4.3 Choose the most suitable insurance for a specific venture

- What is insurance?
- When should you insure?
- Business insurance
- Home business insurance
- Liability and professional indemnity cover
- Protect people with insurance
- Deciding what insurance you need
- Getting insurance
4.3.1 What is insurance

- Two factors that need to be considered are:
  - What are the consequences of not being insured when the event happens (Severity – this is usually expressed as the cost of making good the damage)
  - What are the chances of it happening (Probability)
### 4.3.2 When should you insure

<table>
<thead>
<tr>
<th>SEVERITY</th>
<th>PROBABILITY</th>
<th>ACTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Low</td>
<td>Must definitely insure</td>
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<tr>
<td></td>
<td>Medium</td>
<td>Probably should</td>
</tr>
<tr>
<td></td>
<td>High</td>
<td>Look at other ways of dealing with the problem</td>
</tr>
<tr>
<td>Medium</td>
<td>Low</td>
<td>Not worth insuring</td>
</tr>
<tr>
<td>Low</td>
<td>Medium</td>
<td>Possibly not worth it</td>
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</table>
### 4.3.3 Business insurance

<table>
<thead>
<tr>
<th>Buildings and contents</th>
<th>Public liability</th>
<th>Product liability</th>
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<tbody>
<tr>
<td>Equipment,</td>
<td>Legal expenses</td>
<td>Industrial special risk</td>
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<tr>
<td>Goods being transported</td>
<td>Travel for any trips</td>
<td>Business income</td>
</tr>
<tr>
<td>Credit for unpaid debts</td>
<td>Health and life for the owner/manager</td>
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</tbody>
</table>
4.3.4 Reducing your risks and premiums

- Some means of reducing risks (and as a consequence, your insurance premiums) include:
  - Adding locks, video surveillance, alarms and security guards
  - Implementing and observing strict occupational health and safety standards
  - Preparing business contingency plans and providing copies to the insurance company
  - Having quality management systems to reduce the risks in your business
  - Agreeing to pay a larger excess for each claim
  - Not claiming for small incidents
4.3.5 Home business insurance

• Home insurance may well not cover the following:
  – Public liability for customers visiting your home
  – Replacement of business equipment
  – Replacement of stock damaged or lost
  – Damage or loss of goods being transported
4.3.6 Liability and professional indemnity cover

- Public liability insurance
- Product liability insurance
- Professional indemnity insurance
- Director’s and officer’s insurance
4.3.7 Protect people with insurance

• Small businesses might want to ensure against critical staff absenteeism
4.3.9 Getting insurance

• Directly from the insurance company
• Using a broker
Activity 25

• Think of three items that a business such as a manufacturer of clothing would need to use. Think of three things that could happen. Do you think the business should take out insurance for them? What will the consequences be if they don’t insure and the event actually happens? what should they do next time?