



LEARNER GUIDE

Skills Programme: New Venture Creation

Programme Code: SP-210401

NQF Level: 2 | Credits: 32





NEW VENTURE CREATION

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NQF Level	2
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Note to the learner.

This Learner Guide provides a comprehensive overview of the module. It is designed to improve the skills and knowledge of learners and thus enabling them to effectively and efficiently complete specific tasks.

Skills Programme Purpose

The purpose of the skills programme is to prepare candidates to operate small business.

Learners who acquire this skills programme will be able to:

Start, manage, grow, and sustain a small business.

Skills Rationale

Youth for Employment Services (YES), is a business-led NPO which works in partnership with government and labour to initiate policy in the creation of jobs for youth. One of the strategies adopted by YES is the Creation of New Ventures. These skills (learning) programme supports the New Ventures being created by young people, especially in rural areas. The programme will help the trainee to:

- ❖ Start, manage, grow, and sustain a small business.
- ❖ Know him/herself.
- ❖ Know his/her industry.
- ❖ Identify market opportunities.
- ❖ Create business innovation.
- ❖ Manage finances.
- ❖ Price goods and services
- ❖ Plan and set business goals.

Entry Requirements

Grade 9

Quality Assurance

QCTO will facilitate the assessment and quality assurance.

Work Opportunities and further learning.

Learners who intend to start a business and those who intend to improve, stabilise, and expand existing small businesses. Further learning can be pursued into NC: New Venture Creation, NQF Level 2.

Skills Development Provider Accreditation Requirements

- ❖ **Facilitator:** NQF Level 3 qualification in business studies.
- ❖ **Assessor:** NQF Level 3 qualification in business studies.
- ❖ Relevant and adequate learning material.
- ❖ Well-equipped classroom that is OHS compliant/ or on a digital platform (smart mobile phone and Zero-rated data). Learners can continue do their own learning.
independently. In addition, there is some facilitation done by facilitators on different modules.

Venue, Date and Time:

Consult your facilitator should there be any changes to the venue, date, and/or time.

Refer to your timetable.

Assessments

The only way to establish whether you are competent and have accomplished the learning outcomes is through continuous assessments. This assessment process involves interpreting evidence about your ability to perform certain tasks. You will be required to perform certain procedures and tasks during the training programmer and will be assessed on them to certify your competence.

This module includes assessments in the form of self-evaluations/activities and exercises. The exercises, activities and self-assessments will be done in pairs, groups or on your own. These exercises/activities or self-assessments (Learner workbook) must be handed to the facilitator. It will be added to your portfolio of evidence, which will be proof signed by your facilitator that you have successfully performed these tasks.

Listen carefully to the instructions of the facilitator and do the given activities in the time given to you.

Topic 1: Being an entrepreneur

Understanding what it means to be an entrepreneur.

An entrepreneur is an individual who takes the risk to start their own business based on an idea they have or a product they have created, while assuming most of the risks and reaping most of the rewards of the business.

An entrepreneur creates a new business, bearing most of the risks and enjoying most of the rewards. The process of setting up a business is known as entrepreneurship. Entrepreneurs are commonly seen as innovators — sources of new ideas, goods, services, and procedures.

Entrepreneurs play a key role in any economy, using skills and initiative to anticipate needs and bring new ideas to market. Successful entrepreneurship is rewarded with profits, recognition, and growth, while failure results in losses and lessons learned for the future.

Examples of South African Entrepreneurs

- **Elon Musk** : Born in Pretoria, South Africa.
- Co-founded PayPal, Tesla Motors, and founded SpaceX, Neural ink, and The Boring Company.
- Though he built most of his empire abroad, he is one of the most famous South African-born entrepreneurs.

Basetsana Kumalo – Media & Fashion

Former Miss South Africa turned entrepreneur.

Co-founded Tswelopele Productions (produces Top Billing) and expanded into fashion, publishing, and philanthropy

Patrice Motsepe – Mining & Investment

Founder of African Rainbow Minerals (ARM).

He became South Africa's first Black billionaire and has diversified into banking, telecommunications, and sports (owner of Mamelodi Sundown's Football Club).

How Entrepreneurship Works

Entrepreneurship is one of the resources economists categorize as integral to production, the other three being land/natural resources, labour, and capital. An entrepreneur combines the first three of these to manufacture goods or provide services. They typically create a business plan, hire labour, acquire resources and financing, and provide leadership and management for the business.

Entrepreneurs commonly face many obstacles when building their companies. The three that many of them cite as the most challenging are as follows:

- Overcoming bureaucracy
- Hiring talent
- Obtaining financing

Economists have never had a consistent definition of "entrepreneur" or "entrepreneurship" (the word "entrepreneur" comes from the French verb *entreprendre*, meaning "to undertake"). Though the concept of an entrepreneur existed and was known for centuries, the classical and neoclassical economists left entrepreneurs out of their formal models: They assumed that perfect information would be known to fully rational actors, leaving no room for risk-taking or discovery.

How Entrepreneurs Make Money

Entrepreneurs make money like any business: they seek to generate revenues that are greater than costs. Increasing revenues is the goal and that can be achieved through marketing, word-of-mouth, and networking. Keeping costs low is also critical as it results in higher profit margins. This can be achieved through efficient operations and eventually economies of scale.

How to Register and Run a Compliant Business in South Africa

Starting and running a business is not only about good ideas — it requires compliance with South African regulations to operate legally and professionally.

1. Registering with the CIPC

- All companies must be registered with the **Companies and Intellectual Property Commission (CIPC)**.
- Entrepreneurs can register online by submitting a company name, director details, and other required information.
- Each year, companies must file **annual returns** to remain in good standing. Failure to do so may result in deregistration.
- Depending on the business size, you may need to submit **Annual Financial Statements (AFS)** or a Financial Accountability Supplement to the CIPC.

2. Tax Compliance with SARS

- All businesses must register with the **South African Revenue Service (SARS)** for income tax.
- Sole proprietors are taxed as individuals on business profits, while companies pay a flat rate of 27%.
- Companies may also need to pay **provisional tax** and submit tax returns annually.
- Businesses with turnover above R1 million must register for **VAT**. Voluntary VAT registration is also possible for smaller businesses.
- Employers must register for **PAYE** and deduct employee taxes for payment to SARS.
- Larger companies must file their **AFS with SARS** alongside tax returns.

3. UIF and Compensation Fund

- Employers must register with the **Unemployment Insurance Fund (UIF)** so that employees are protected if they lose jobs or take maternity/illness leave.
- Employers and employees each contribute 1% of the employee's salary to UIF.
- Registration with the **Compensation Fund** is also required to cover employees in case of workplace injuries or occupational diseases.

4. Labour Law Compliance

- Employers must follow the **Basic Conditions of Employment Act (BCEA)** and **Labour Relations Act (LRA)**.
- This includes providing written contracts, paying at least the national minimum wage, ensuring safe working conditions, and following fair disciplinary and dismissal procedures.

5. Ongoing Compliance

- Businesses must keep financial records for at least five years.
- Tax, VAT, and UIF returns must be submitted on time.
- Industry-specific licenses or permits must be renewed where necessary.
- Good governance ensures trust with banks, investors, and clients.

Meeting Requirements for SARS, VAT, UIF, and Labour Law

In addition to registration, entrepreneurs must ensure they meet ongoing compliance obligations:

- **SARS** – Register for tax, submit returns, and pay income tax or company tax.
- **VAT** – Register if turnover exceeds R1 million, issue VAT-compliant invoices, and submit returns.
- **UIF** – Deduct and contribute 1% of employee salaries and pay these over monthly.
- **Labour law** – Provide contracts, pay minimum wages, and ensure fair treatment of employees.

Meeting these requirements ensures your business is both legally compliant and credible, helping you avoid fines and positioning your business for growth and funding opportunities

Business Types in South Africa

When an entrepreneur starts a business in South Africa, one of the most important choices is deciding on the form of ownership. The choice influences how the business is created, how many people are required to run it, how much risk the owners face, and how the profits are taxed.



Understanding these business types gives entrepreneurs the ability to plan better, avoid unnecessary risks, and select the most suitable structure for their goals.

1. Sole Proprietorship

A sole proprietorship, also known as a sole trader, is the simplest type of business. It is owned and managed by one individual, who takes all the decisions and all the risks. The business is not a separate legal entity, so the owner is personally liable for debts. Creditors can claim against the owner's personal property if the business fails.

From a tax point of view, the income of the business is added to the owner's personal income. Individuals in South Africa are taxed on a progressive scale, which means the more you earn,

the higher your tax rate becomes. Sole proprietors can, however, benefit from rebates and allowances that reduce their tax liability.

2. Partnership

A partnership is formed when two or more people agree to operate a business together. The relationship can be created through a written or oral partnership agreement. The partners share profits, decision-making, and responsibilities, but they also share the risks. Partnerships do not have a separate legal personality, and each partner is personally liable for the debts of the partnership.

Tax is not paid by the partnership itself. Instead, each partner declares their share of the profits on their personal income tax return and is taxed individually. Partnerships are relatively easy to form and can combine skills and capital, but disagreements and shared liability are common risks.

3. Co-operatives

A co-operative is a jointly owned business created by people who share a common need or goal. It is registered under the Co-operatives Act and must follow democratic principles. A minimum of five natural persons is required for a primary co-operative, while secondary and tertiary co-operatives are formed by groups of co-operatives.

Once registered, a co-operative becomes a separate legal entity with limited liability for its members. Members usually receive a share of surplus income in proportion to how much they use the co-operative's services, not according to the size of their investment. Co-operatives pay tax on retained income, and members pay tax on the share of surplus they receive.

4. Close Corporations (CCs)

Close corporations were popular among small businesses because they were simpler and cheaper to run than companies. A CC could have up to ten members, and each member had

a percentage “interest” in the business. A CC is a separate legal entity, meaning members generally enjoy limited liability, although personal liability may arise if a member acts recklessly.

Since 1 May 2011, no new CCs can be registered under South African law. However, existing CCs may continue to trade. For tax purposes, CCs are treated like companies and pay a flat rate of 27% on income.

5. Companies under the Companies Act, 2008

The Companies Act 71 of 2008 introduced new categories of companies. Companies are separate legal entities, which means shareholders’ liability is generally limited. They are incorporated by filing a Memorandum of Incorporation (MOI) and a Notice of Incorporation with the Companies and Intellectual Property Commission (CIPC)

1. Private Company (Pty Ltd)

A private company is owned by one or more shareholders and requires at least one director. Its shares cannot be freely offered to the public, and the transfer of shares is restricted. It is the most common form of company in South Africa. Private companies are taxed at 27%, and dividends declared are taxed at 20% in the hands of shareholders.

2. Personal Liability Company (Inc)

Professionals such as lawyers, accountants, and doctors mainly use a personal liability company. Its directors are personally liable for the company’s debts, even after they have left office. Despite this, the company is still a separate legal person. It is taxed like other companies at a flat rate of 27%.

3. Public Company (Ltd)

Public companies may offer shares to the public and may be listed on the Johannesburg Stock Exchange (JSE). At least three directors are required, and annual general meetings are

compulsory. Public companies must have audited financial statements. Like other companies, they pay 27% company tax and 20% dividends tax.

4. State-Owned Company (SOC Ltd)

These companies are owned by the government or a municipality. They operate commercially but are subject to public finance rules such as the Public Finance Management Act (PFMA). They are also taxed at 27%, unless exempted by special legislation.

5. Non-Profit Company (NPC)

An NPC is established for public benefit, cultural, or social purposes, and must have at least three incorporators. Profits and property may not be distributed to members. NPCs can apply for Public Benefit Organisation (PBO) status with SARS, which allows them to be exempt from certain taxes. Without this status, they are taxed like normal companies.

Business Type	Formation & People Required	Liability	Tax Treatment
Sole Proprietorship	Owned by 1 individual; no registration needed	Unlimited personal liability	Taxed as personal income at progressive rates
Partnership	Agreement between 2 or more people	Unlimited, shared by all partners	Partners taxed on their share at personal rates
Co-operative	Minimum 5 people (primary co-op)	Limited liability of members	Tax on retained income; members taxed on surplus
Close Corporation	1–10 members (no new CCs after 2011)	Limited liability (with exceptions)	27% flat company tax
Private Company (Pty)	At least 1 shareholder, 1 director	Limited liability of shareholders	27% company tax + 20% dividends tax

Personal Liability Co.	At least 1 shareholder, 1 director	Directors personally liable for debts	27% company tax
Public Company (Ltd)	At least 1 shareholder, 3 directors	Limited liability of shareholders	27% company tax + 20% dividends tax
State-Owned Company	Owned by government or municipality	Limited liability	27% company tax (unless exempted)
Non-Profit Company	At least 3 incorporators	Cannot distribute profits to members	Tax-exempt if PBO; otherwise 27% company tax

7 Characteristics of Entrepreneurs

While the prospect of becoming your own boss and raking in a fortune is alluring to entrepreneurial dreamers, the possible downside to hanging one's own shingle is vast. Income is not guaranteed, employer-sponsored benefits go by the wayside, and when your business loses money, your personal assets can take a hit, not just a corporation's bottom line. But adhering to a few tried and true principles can go a long way in diffusing risk. The following are a few characteristics required to be a successful entrepreneur.



1. Versatile

When starting out, it is essential to personally handle sales and other customer interactions whenever possible. Direct client contact is the clearest path to obtaining honest feedback about what the target market likes and what you could be doing better. If it is not always practical to be the sole customer interface, entrepreneurs should train employees to invite customer comments as a matter of course. Not only does this make customers feel empowered, but happier clients are more likely to recommend businesses to others.

Personally, answering phones is one of the most significant competitive edges home-based entrepreneurs hold over their larger competitors. In a time of high-tech backlash, where customers are frustrated with automated responses and touch-tone menus, hearing a human voice is one sure-fire way to entice new customers and make existing ones feel appreciated; an important fact, given that some 80% of all business is generated from repeat customers.

Paradoxically, while customers value high-touch telephone access, they also expect a highly polished website. Even if your business is not in a high-tech industry, entrepreneurs still must exploit internet technology to get their message across. A start-up garage-based business can have a superior website than an established \$100 million company. Just make sure a live human being is on the other end of the phone number listed.

2. Flexible

Few successful business owners find perfect formulas straight out of the gate. On the contrary: ideas must morph over time. Whether tweaking product design or altering food items on a menu, finding the perfect sweet spot takes trial and error.

Former Starbucks Chair and CEO Howard Schultz initially thought playing Italian opera music over store speakers would accentuate the Italian coffeehouse experience he was attempting to replicate. But customers saw things differently and did not seem to like arias with their espressos. As a result, Schultz jettisoned the opera and introduced comfortable chairs instead.

3. Money Savvy

Through the heart of any successful new business, a venture beats the lifeblood of steady cash flow, which is essential for purchasing inventory, paying rent, maintaining equipment, and promoting the business. The key to staying in the black is rigorous bookkeeping of income versus expenses. And since most new businesses do not make a profit within the first year, by setting money aside for this contingency, entrepreneurs can help mitigate the risk of falling short of funds. Related to this, it is essential to keep personal and business costs separate and never dip into business funds to cover the costs of daily living.

Of course, it is important to pay yourself a realistic salary that allows you to cover essentials, but not much more; especially where investors are involved. Of course, such sacrifices can strain relationships with loved ones who may need to adjust to lower standards of living and endure worry over risking family assets. For this reason, entrepreneurs should communicate these issues well ahead of time, and make sure significant loved ones are spiritually on board.

4. Resilient

Running your own business is extremely difficult, especially getting one started from nothing. It requires a lot of time, dedication, and failure. A successful entrepreneur must show resilience to all the difficulties on the road ahead. Whenever they meet with failure or rejection they must keep pushing forward.

Starting your business is a learning process and any learning process comes with a learning curve, which can be frustrating, especially when money is on the line. It is important never to give up through the difficult times if you want to succeed.

5. Focused

Similar to resilience, a successful entrepreneur must stay focused and eliminate the noise and doubts that come with running a business. Becoming side-tracked, not believing in your instincts and ideas, and losing sight of the end goal is a recipe for failure. A successful

entrepreneur must always remember why they started the business and remain on course to see it through.

6. Business Smart

Knowing how to manage money and understanding financial statements are critical for anyone running their own business. Knowing your revenues, your costs, and how to increase or decrease them, respectively, is important. Making sure you do not burn through cash will allow you to keep the business alive.

Implementing a sound business strategy, knowing your target market, your competitors, your strengths and weaknesses, will allow you to manoeuvre the difficult landscape of running your business.

7. Communicators

Successful communication is important in almost every facet of life, regardless of what you do. It is also of the utmost importance in running a business. From conveying your ideas and strategies to potential investors to sharing your business plan with your employees to negotiating contracts with suppliers all require successful communication.

Types of Entrepreneurs

Not every entrepreneur is the same and not all have the same goals. Here are a few types of entrepreneurs:

TYPES OF ENTREPRENEURS



BUILDER

Builders seek to create scalable businesses within a short time frame.



OPPORTUNITIST

Opportunistic entrepreneurs are optimistic individuals with the ability to pick out financial opportunities.



SPECIALIST

These individuals are analytical and risk averse.



These individuals are analytical and risk averse.

- **Builder**

Builders seek to create scalable businesses within a short time frame. Builders typically pass R5 million in revenue in the first two to four years and continue to build up until R100 million or beyond. These individuals seek to build out a strong infrastructure by hiring the best talent and seeking the best investors. They have temperamental personalities that are suited to the fast growth they desire but can make personal and business relationships difficult.⁷

- **Opportunist**

Opportunistic entrepreneurs are optimistic individuals with the ability to pick out financial opportunities, getting in at the right time, staying on board during the time of growth, and exiting when a business hits its peak.

These types of entrepreneurs are concerned with profits and the wealth they will build, so they are attracted to ideas where they can create residual or renewal income. Because they are looking to find well-timed opportunities, opportunistic entrepreneurs can be impulsive.

- **Innovator**

Innovators are those rare individuals that produce a great idea or product that no one has thought of before. Think of Thomas Edison, Steve Jobs, and Mark Zuckerberg. These individuals worked on what they loved and found business opportunities through that.

Rather than focusing on money, innovators care more about the impact that their products and services have on society. These individuals are not the best at running a business as they are idea-generating individuals, so often they leave the day-to-day operations to those more capable in that respect.

- **Specialist**

These individuals are analytical and risk averse. They have a strong skill set in a specific area obtained through education or apprenticeship. A specialist entrepreneur will build out their business through networking and referrals, resulting in slower growth than a builder entrepreneur.

4 Types of Entrepreneurships

As there are different types of entrepreneurs, there are also different types of businesses they create. Below are the main different types of entrepreneurships.



1. Small Business Entrepreneurship

Small business entrepreneurship is the idea of opening a business without turning it into a large conglomerate or opening many chains. A single-location restaurant, one grocery shop, or a retail shop to sell your handmade goods would all be an example of small business entrepreneurship.

These individuals usually invest their own money and succeed if their business turns a profit, which they live off of. They do not have outside investors and will only take a loan if it helps continue the business.

2. Scalable Start-up

These are companies that start with a unique idea; think Silicon Valley. The hopes are to innovate with a unique product or service and continue growing the company, continuously scaling up as time moves on. These types of companies often require investors and large amounts of capital to grow their idea and reach multiple markets.

3. Large Company

Large company entrepreneurship is a new business division created within an existing company. The existing company may be well placed to branch out into other sectors, or it may be well placed to become involved in new technology.

CEOs of these companies either foresee a new market for the company or individuals within the company generate ideas that they bring to senior management to start the process.

4. Social Entrepreneurship

The goal of social entrepreneurship is to create a benefit to society and humankind. They focus on helping communities or the environment through their products and services. They are not driven by profits but rather by helping the world around them.

Becoming an Entrepreneur

What are the steps to becoming an entrepreneur? There are many different paths you can take. For example, the owner of a delivery company would not take the exact same path as an interior decorator. But there are some similar steps all entrepreneurs should take.



1. Find Your Industry or niche.

The most important first step is to find your specific niche or profitable skill. Many people want to become entrepreneurs, but they do not know what industry to get involved with.

More often than not, your niche will be something you have worked in for years. If you have been a carpenter for a local construction company, home remodelling and restoration may be your area. If you have worked at a restaurant for many years, you most likely have an understanding of how to run a food service business. Your current experience is a great place to start looking for you are calling.

It will also help if you love your niche. To have years of success, you have to love what you do. Eventually, money may not be a big enough motivator to keep you working sixty to seventy hours a week to sustain a business. You will need more than money to keep you motivated; you will need a purpose.

2. Research Your Market

Entrepreneurs should research the available market, analysing the area for demand and need.

Maybe you want to open a Korean food truck in your hometown. Are other restaurants succeeding? Are there other, successful food trucks in your area? Do the local customers prefer a more-moderate place to eat, or are they interested in a high-end restaurant? Do they even like Korean food?

Finding the answers to questions similar to these, and more, will be essential to your long-term success.

3. Educate Yourself

There is a common myth in popular culture that successful, self-made entrepreneurs never graduate from college. The numbers, however, do not back this up. According to a team of

researchers from Duke, Akron, and Southern California, over 95% of entrepreneurs in high-growth industries have at least a bachelor's degree.

A. Education in Your Industry

The first type of education to consider is work-related experience or research related to your field of interest. If you are looking to open an auto shop, you will obviously need some education and certifications related to car repair. If you are thinking about being a self-employed electrician, you will need the latest education and training with wiring and circuitry. If you want to run a restaurant, training in food service will be useful.

B. Entrepreneurship Degree

Once you have your industry education down, many prospective entrepreneurs consider an entrepreneurial certificate or degree. Certificates are a great way to inexpensively learn foundational skills needed to launch a new career quickly while a bachelor's will provide a general studies foundation and entrepreneurial specific courses. Shorter courses in entrepreneurship can be completed quickly and are useful for jump starting a new venture successfully.

C. Education Related to Business and Finance

Every entrepreneur, from owners of roadside cafes to global start-ups, needs to be versed in management, finances, taxes, and other business-related topics. You do not necessarily need a master's degree in economics, but an educational foundation in business will certainly help. An entrepreneurship education could mean an actual entrepreneurship degree or a more general business education that will prepare you to meet the day-to-day challenges of an entrepreneur career.

4. Build Your Business Slowly

Building a business slowly is one of the wisest approaches for a new entrepreneur. Instead of rushing for quick profits or rapid expansion, taking steady steps allows you to build a strong foundation, reduce unnecessary risks, and learn valuable lessons at a manageable pace. By starting small, reinvesting your profits, and focusing on quality and customer relationships, you create a business that is stable and sustainable. Growing slowly also gives you time to test ideas, make improvements, and build loyalty with customers and partners. While it may take longer to reach your goals, patience and consistency often lead to long-term success.

Advantages of Becoming an entrepreneur

Entrepreneurship is not always an easy path, and it is not the road for everyone, but when walked right, it can be one of your most rewarding and beneficial career decisions.

If you are considering entrepreneurship, congratulations! You are looking down an exciting and rewarding path. But do know that it is not for the faint of heart.

For every benefit, there are some challenges. It comes with a lot of hard work and a need to commit to the journey. But, for people with an enterprising spirit and determined mindset, the rewards of entrepreneurship are hard to resist.



1. Rewarding career

For most successful entrepreneurs, it is all about mindset and paving their own way, navigating out of a corporate world that does not always align with their values.

While entrepreneur advantages abound, one of the biggest ones is simply the fact that you can work in a role (and a field) that matches your beliefs in a really gratifying way.

For example, if you are a proponent of social justice and diversity, you can work only with clients that agree with those beliefs. If you are passionate about the environment, you can set up your business to have a low carbon footprint.

What is great about entrepreneurship is that you do not have to wait for the perfect job that fits your morals and ethics: You can create it! That in itself is an inspiring concept.

2. Work-life autonomy.

Work-life balance and having the ability to set your own boundaries cannot be overstated as an essential part of working for yourself.

When you can control your workload, your job satisfaction automatically increases, keeping you more engaged in the business' day-to-day operations.

3. Leadership experience

The entrepreneurial process involves a lot of entrepreneurial growth. The leadership lessons you learn from running your own business stay with you forever, helpfully extending into multiple facets of your life.

Skills like effective communication, patience, time management, fiscal planning, budgeting, self-discipline, opportunity cost analysis, and more can only be learned essentially in “trial by fire.”

The lessons learned (and application of them) by running your company are invaluable, both professionally and personally.

4. Work from anywhere

Your career is a big part of who you are, so it should be rewarding and generally not dull. You have likely felt the drudgery of office life before, so you recognize that a sense of excitement and passion in your work is no small feat.

As an entrepreneur, you are not beholden to the daily drudgery of commuting, nor do you have to do the same things at the same times on a daily basis. You can even choose to work from places other than a boring office desk -- your home, a café, the park, or even on the road as you take a working vacation.

If you are considering entrepreneurship, likely you are already wired to have an appreciation of a faster pace and the unexpected. There is nothing worse than monotony in your work and owning your own company knocks the predictable right away, thanks to its inherently dynamic and progressive nature.

5. Company control

While there are certainly many unpredictable unknowns about the nature of entrepreneurship, the beauty and the irony is that you actually have a lot of control.

This is your business, so you get to make the key decisions, from who to hire and what clients to take to how to price your services (or goods,) what partnerships to pursue, and what your quarterly and yearly goals should be.

There is a lot of freedom in being able to set the tone and specifics around your work.

Rather than being some cog in a corporation's hierarchical wheel, your ideas get to take the stage and are effective. It is incredibly rewarding to see the very seeds you planted blossom into something successful.

6. Flexible schedule

Dolly Parton may have made the 9-to-5 sound bearable (and hummable) but let us face it: It is an age-old gripe for most of us.

Setting your own schedule enables you to bust out of the traditional trappings of a 9 a.m. start and working through to 5 p.m., so you can accommodate your personal life, family, needs of your clients, and even your mental health.

Perhaps you are most productive when working in two-hour chunks with a large break in between. Or maybe some days you do not need a full eight hours, and you have found that working to fill time is actually less productive. The flexibility of running your own business allows you to adjust as needed.

Focusing on results rather than watching the clock will increase happiness, work quality, and output. And, yes, there will be days when entrepreneurship will require long hours, putting you far past the 5 p.m. mark.

However, even when working long nights, you will be building something of your own rather than the monotony of filling a quota.

7. Building a beneficial network

"It's not what you know, it's who you know" is often quoted -- and for good reason. Entering the entrepreneurial world means expanding your professional network.

The connections you make can strengthen your brand by expanding the pool of potential clients and meeting people who will just personally help you out. There is no such thing as knowing too many good people.

8. Pride and satisfaction.

At the end of the day, it is important to take pride in your work and feel good about what you do, as that is what will keep you going. Feeling accomplished by seeing something you conceptualized and built come together is an amazing feeling.

Being able to give back to your community, local economy, your employees, your family, and beyond is such a special feeling.

Topic 2: Know yourself.

The meaning of “being yourself” in entrepreneurship.

So, what does “being yourself” mean as an organization? It means not pretending to be other than you are. It means not offering more than you can or something different than you feel comfortable with. It means not pretending to be more (or less) professional than you are.



- D. **Self-knowledge builds confidence.** Know who you are and make sure you are comfortable in your own skin. But do not overdo it. We all know people who act supremely sure of themselves, but they are usually trying to hide some deep insecurities or fears.

- **Self-awareness is one cornerstone of effective leadership.** Leadership is not about how big your role is, or how big you act. Self-aware leaders are able to see the larger picture, the context and purpose. They actively listen and do not put themselves ahead of others. They allow others to be the best they can be.
- **Being sure of who you are allows you to make sound business decisions.** When you are running a startup, having a better sense of who you are and what you want can help you push away things that are not really important, and urge you to go after the things that are really in your heart.
- **Knowing, accepting, and liking who you are encourages others to do the same.** Being authentic and genuine makes you attractive to your customers, respected by your team, and effective as a leader. Individuality is the hallmark of a successful and strong entrepreneur.
- **Understanding your wants and needs helps you say “no” when necessary.** Start-up businesses are very demanding. You will be expected to be present just about 24/7 while keeping everything else in your life managed. Knowing your limits – just how far you can stretch before you break – is an important skill.
- **Know all of you** – the good, the bad, and the ugly. No one, even the best of us, is all good. The good encompasses the parts of ourselves that are our natural gifts and treasures. The bad are those parts that need work. The ugly parts are generally hidden, especially from ourselves. Use the good, fix the bad, and learn to live with the ugly.
- **Knowing yourself allows you to maximize performance.** There is more to being successful than working hard. You have to be able to create a winning business plan, cultivate relationships, and build your brand. Work smart and focus on results in everything you do. This will reduce stress and increase satisfaction.

7 skills that any entrepreneur can apply to their journey.



1. A vision

Know exactly what you want. Have a clear idea of your end goal. Write it down, verbalise it, embrace it. This is how you know exactly where your steps will take you. Your vision is what defines the strategic goals of your company and what helps you create a business plan that will get you where you want to go.

2. Ask questions.

Question yourself, your plans, your strategy, your business plans, and your decisions. This is a critical skill that will ensure that you are constantly driving yourself to be better tomorrow than you are today. By challenging yourself at every turn you will refine your vision and ensure you are always on the right path.

3. Passion and energy

Nobody else is going to be enthusiastic about your business. Nobody else has the energy to take it where it has to go. It is entirely up to you. This may sound extreme, but without these two key qualities you will battle to take your business through the complexities that lie ahead and onwards into long-term success.

4. A work ethic

Like passion and energy, a work ethic is critical. This is your business and your vision, so you need to put in the hours. And there are a lot of hours.

If you are not prepared for the weekends, late nights, and unexpected holiday disruptions, then you may not be ready for the demands of being an entrepreneur.

5. Create an opportunity.

While you may be the vision, the passion, and the workhorse of your business, it is important to remember that your company can only go so far with only one person behind the wheel. Learn how to build a team and focus your energy on building something bigger than yourself. Your drive should not be just about building a successful business but creating opportunities for others.

6. Communication

Throughout your journey you will need to share your vision, ideals and business plans with your employees and your executives. They have to buy into what you are planning, to be fully engaged with the work that they do. This means you have to learn how to communicate clearly and create a transparent culture, so people feel part of something and committed to what it represents.

7. Sales

Ultimately, you want your business to grow, and this means mastering the art of selling. Regardless of your business proposition, it is likely you need customers to buy into your product or service. So, learn how to sell. A large part of this magic formula is made up of the passion, energy, and work ethic you have already mastered, the rest is all about relationships, communication and hooking the clients.

Why You Must Really Know Yourself Before Starting a Business

Very few people are superhuman, with all the skills, creativity, business acumen, knowledge, and personality to succeed alone at any business they tackle. For the rest of us, taking a realistic view of our individual limitations, and acting with them in mind, is the only way to succeed, for the following reasons:

1. Starting the right business requires knowing yourself.

If you know your strengths and what you enjoy, you are more likely to tackle a business problem that is best suited to your skills and interests and is less sensitive to your shortcomings. Too many people fail working on someone else's problem. You will not be happy in the wrong business.

2. Attracting the right team requires knowing what you do not know.

You need to surround yourself with the best people to complement your strengths and fill your gaps, so together you will be able to see the real opportunity, set the right objectives, and execute to success. Many entrepreneurs fail because they seek out the wrong team.

3. Building a business requires confidence in yourself.

As an entrepreneur, you will have no place and no one to hide behind. Knowledge of yourself is the key to confidence, and confidence builds leadership. Building a new business requires good leadership to develop the market, attract customers, motivate the team, and conquer the unknowns.

4. Being authentic and genuine gets the best from others.

To be effective as a leader and respected by your team, they must see that you like who you are. Customers and outside business partners also respond to this vibe, give you the respect, and trust you need to keep going. It is painful and ineffective to continually be someone you are not.

5. Make better business decisions by playing to your strengths.

Capitalize on your strengths and accept input from advisors and the team on decisions outside your range. Everyone will see you as a better listener and a stronger leader who is not autocratic and knows how to tackle the many unknowns of a new business.

6. Know when to say "no" without guilt.

Knowing your limits and not taking on tasks that you cannot deliver on or are not priorities, is the only way to survive in a modern business world that demands your attention 24 hours a day. Entrepreneurs who know themselves are not afraid to delegate and never use the "too busy" excuse.

7. You will not improve if you do not know what needs fixing.

Every entrepreneur and every business needs continuous improvement. Understanding yourself will help you set the right priorities for self-improvement, including working on your health, balancing family life, changing bad habits and joining business peer groups.

If these observations make no sense to you, it may not yet be the time for you to start down the path of an entrepreneurial lifestyle. Many people are happier to stick with the familiar, even if not satisfied and happy, rather than deal with the stress and likely failures of starting their own businesses.

Topic 3: Know your industry

Understanding Industry Analysis

Industry analysis is a market assessment tool used by businesses and analysts to understand the competitive dynamics of an industry. It helps them get a sense of what is happening in an industry, e.g., demand-supply statistics, degree of competition within the industry, state of competition of the industry with other emerging industries, future prospects of the industry taking into account technological changes, credit system within the industry, and the influence of external factors on the industry.

Industry analysis, for an entrepreneur or a company, is a method that helps to understand a company's position relative to other participants in the industry. It helps them to identify both the opportunities and threats coming their way and gives them a strong idea of the present and future scenario of the industry. The key to surviving in this ever-changing business environment is to understand the differences between yourself and your competitors in the industry and use it to your full advantage.



Types of industry analysis

There are three commonly used and important methods of performing industry analysis. The three methods are:

- Competitive Forces Model (Porter's 5 Forces)
- Broad Factors Analysis (PEST Analysis)
- SWOT Analysis

A. Competitive Forces Model (Porter's 5 Forces)

One of the most famous models ever developed for industry analysis, famously known as Porter's 5 Forces, was introduced by Michael Porter in his 1980 book "Competitive Strategy: Techniques for Analysing Industries and Competitors."

According to Porter, analysis of the five forces gives an accurate impression of the industry and makes analysis easier. In our Corporate & Business Strategy course, we cover these five forces and an additional force — power of complementary good/service providers.



1. Intensity of industry rivalry

The number of participants in the industry and their respective market shares are a direct representation of the competitiveness of the industry. These are directly affected by all the factors mentioned above. Lack of differentiation in products tends to add to the intensity of competition. High exit costs such as high fixed assets, government restrictions, labour unions, etc. also make the competitors fight the battle a little harder.

2. Threat of potential entrants

This indicates the ease with which new firms can enter the market of a particular industry. If it is easy to enter an industry, companies face the constant risk of new competitors. If the entry is difficult, whichever company enjoys little competitive advantage reaps the benefits for a longer period. Also, under difficult entry circumstances, companies face a constant set of competitors.

3. Bargaining power of suppliers

This refers to the bargaining power of suppliers. If the industry relies on a small number of suppliers, they enjoy a considerable amount of bargaining power. This can particularly affect small businesses because it directly influences the quality and the price of the final product.

4. Bargaining power of buyers

The complete opposite happens when the bargaining power lies with the customers. If consumers/buyers enjoy market power, they are in a position to negotiate lower prices, better quality, or additional services and discounts. This is the case in an industry with more competitors but with a single buyer constituting a large share of the industry's sales.

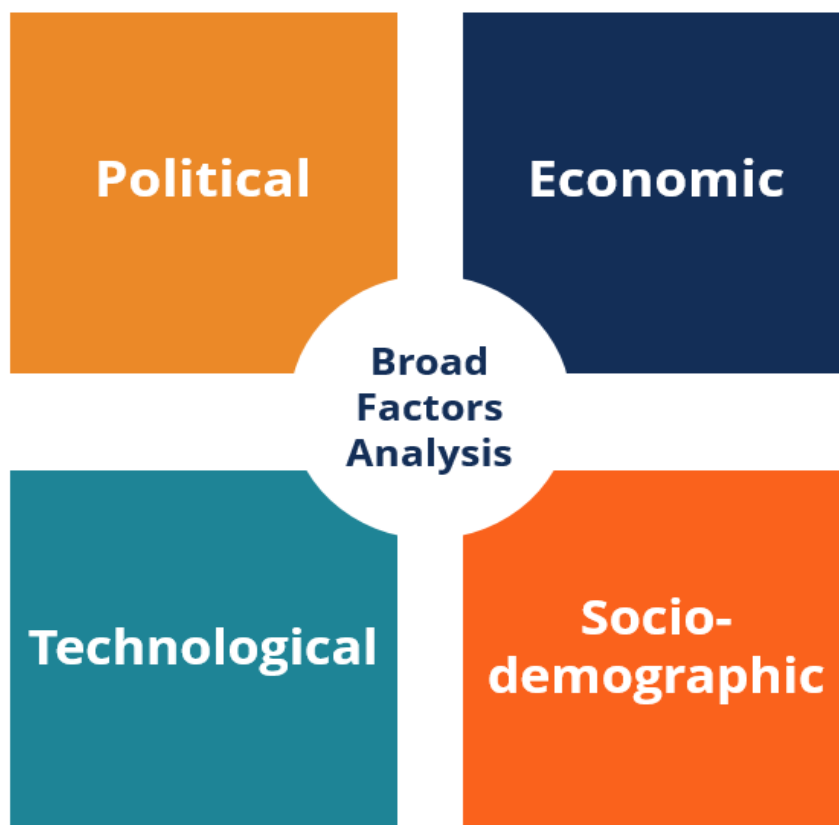
5. Threat of substitute goods/services

The industry is always competing with another industry producing a similar substitute product. Hence, all firms in an industry have potential competitors from other industries. This takes a toll on their profitability because they are unable to charge exorbitant prices. Substitutes can take

two forms – products with the same function/quality but lesser price, or products of the same price but of better quality or providing more utility.

B. Broad Factors Analysis (PEST Analysis)

Broad Factors Analysis also commonly called the PEST Analysis stands for Political, Economic, Social and Technological. PEST analysis is a useful framework for analysing the external environment.



The above image comes from a section of CFI's Corporate & Business Strategy Course.

To use PEST as a form of industry analysis, an analyst will analyse each of the 4 components of the model. These components include:

1. Political

Political factors that impact an industry include specific policies and regulations related to things like taxes, environmental regulation, tariffs, trade policies, labour laws, ease of doing business, and overall political stability.

2. Economic

The economic forces that have an impact include inflation, exchange rates (FX), interest rates, GDP growth rates, conditions in the capital markets (ability to access capital), etc.

3. Social

The social impact on an industry refers to trends among people and includes things such as population growth, demographics (age, gender, etc.), and trends in behaviour such as health, fashion, and social movements.

4. Technological

The technological aspect of PEST analysis incorporates factors such as advancements and developments that change the way a business operates and the ways in which people live their lives (e.g., the advent of the internet).

C. SWOT Analysis

SWOT Analysis stands for Strengths, Weaknesses, Opportunities, and Threats. It can be a great way of summarizing various industry forces and determining their implications for the business in question.



The above image comes from a section of CFI's Corporate & Business Strategy Course. Check it out to learn more about performing SWOT analysis.

1. Internal

Internal factors that already exist and have contributed to the current position and may continue to exist.

2. External

External factors are usually contingent events. Assess their importance based on the likelihood of them happening and their potential impact on the company. Also, consider whether

management has the intention and ability to take advantage of the opportunity/avoid the threat.

Importance of Industry Analysis

Industry analysis, as a form of market assessment, is crucial because it helps a business understand market conditions. It helps them forecast demand and supply and, consequently, financial returns from the business. It indicates the competitiveness of the industry and costs associated with entering and exiting the industry. It is especially important when planning a small business. Analysis helps to identify which stage an industry is currently in; whether it is still growing and there is scope to reap benefits or has reached its saturation point.

With an incredibly detailed study of the industry, entrepreneurs can get a stronghold on the operations of the industry and may discover untapped opportunities. It is also important to understand that industry analysis is somewhat subjective and does not always guarantee success. It may happen that incorrect interpretation of data leads entrepreneurs to a wrong path or into making wrong decisions. Hence, it becomes important to collect data carefully.

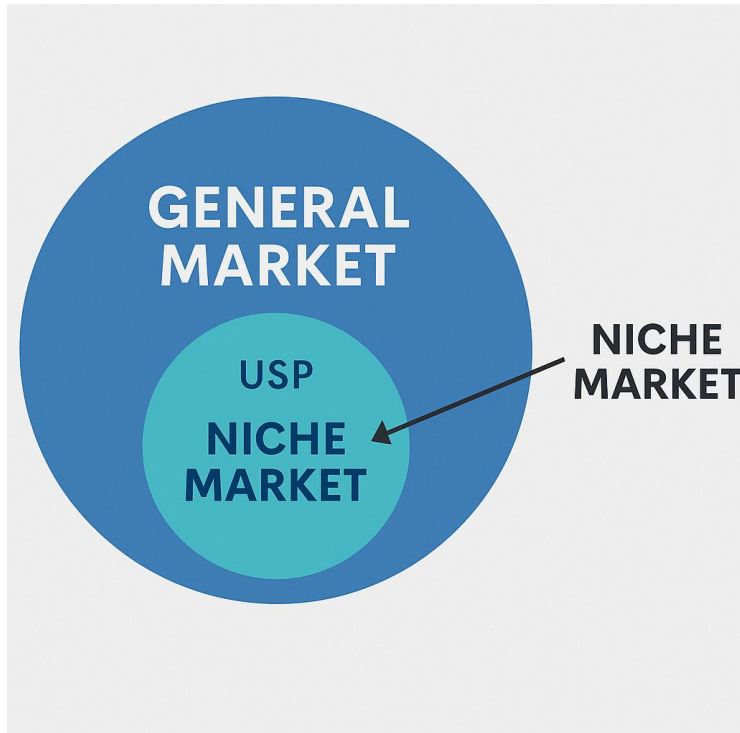
Understanding a business niche

A business niche is a specialized or focused area of a broader market that your business serves specifically. According to Charlene Walters, business and branding mentor and author of *Own Your Other*, finding a niche differentiates your business from the competition and allows you to excel in your sector.

A business niche is a specific gap or opportunity in the market that existing companies are not fully serving. It's a space where your unique selling proposition (USP) makes your product or service different or special — is valuable to a particular group of customers. These customers may have very specific needs that aren't being met, or they may represent an area of the market with big growth potential. By focusing on this selection group, your business can stand

out, build loyalty, and succeed without having to compete directly with bigger companies chasing the general market.

👉 In short: **A niche is about finding a smaller, more focused audience that really values what you do — because they're not getting it anywhere else.**



Why is finding a business niche important?

If you have ever heard the expression “jack of all trades, master of none,” you can see the importance of determining your specialization and differentiating yourself from the competition. Finding a niche is crucial for small business owners who want to create a steady revenue stream, establish a loyal audience, and create a more focused business.

The benefits of identifying a business niche include the following:

BENEFITS OF A NICHE



Establishes a loyal customer base



Minimizes competition



Reduces marketing costs



Demonstrates expertise



Can increase profit

- **A niche helps you establish a loyal customer base.** A solid market niche helps ensure that specific customers will want to buy from your business instead of the competition. A niche allows them to identify your product and brand and know that your offer suits their needs. Additionally, focusing on a smaller target audience lets you concentrate on the quality of your customer service and establish a long-lasting relationship.
- **It minimizes competition.** By entering a niche, you automatically differentiate yourself from companies seeking the mass market. You do not have to compete with big names and can instead focus on delivering an exceptional product and service.
- **It reduces marketing costs.** If you know your precise customer group, you can cut down on small business marketing, advertising, and promotional costs. You will run targeted ads and campaigns specific to your audience's needs instead of spending your resources on broader promotional efforts. Niche marketing also allows you to create a better rapport with your audience and build more personal relationships.

- **It demonstrates expertise.** By occupying a business niche, you can establish yourself as an expert and thought leader in the field rather than providing yet another generic service or product. Being an expert helps you stand out from the competition, attract relevant customers, and establish trust.
- **Catering to a niche can increase profit.** Matt Woodley, an online entrepreneur who founded MoverFocus.com, which caters to the international moving niche, says that creating a business in a niche market can lead to higher rates for products or services. The supply and demand ratio, especially for those pioneering a new industry sector, can be highly lucrative.

Niche market examples.

Every industry has several niche markets. If you think of a specific product that serves one of your unique needs, you can probably classify it as a niche business idea.

Air Jordans by Nike (Sneaker Culture)

- Niche: Basketball and sneaker collectors.

Nike carved out a niche in basketball performance shoes and sneaker fashion culture, creating one of the most famous product lines in history.

Cape Union Mart (Outdoor & Adventure Gear)

- Niche: Outdoor lifestyle and adventure clothing/equipment.

They became the go-to retailer for camping, hiking, and travel gear in South Africa, dominating this specific lifestyle segment.

Understanding niche strategies

In business, a niche strategy is about narrowing your focus to serve a specific group of customers rather than trying to please everyone in the broader market. It means identifying a gap — a place where customer needs are not being met — and tailoring your product or service to fill that space. Instead of competing with bigger players head-on, niche businesses carve out their own space where they can stan.

Below is a five-step niche strategy for entrepreneurs to follow:



- **Select your target audience.** To identify your niche, begin by selecting the general market. Woodley said a good approach is to focus on an area where you are knowledgeable and then identify subtopics.

- **Define an unmet or underserved need.** Analyse your target audience and identify gaps in the marketplace. Walters said your products or services should soothe a pain point your audience is currently experiencing. Choose a sector that also has anticipated growth.
- **Research your customer base.** According to Walters and Woodley (Business News Daily, 2023), entrepreneurs must research their target audience in depth to understand not only their needs and goals but also frustrations and expectations. Walters adds that audience involvement should begin as early as MVP development, while both experts caution that businesses should continuously revisit and reassess their customer base and competitive landscape.
- **Create your business plan.** Woodley advised creating a business plan in which you define precisely what you will provide and the need it will meet, describe your ideal customer, and decide on a pricing model. Fine-tune your business idea to reflect what you have learned about your target audience.
- **Market your business to your specific audience.** Just as your product or service fits a niche, your marketing efforts should also be focused. Woodley said that targeted ads, blog posts, and podcasts are invaluable tools for getting your message out to people likely to be interested in your niche business idea. For example, Woodley said that a targeted marketing strategy for a small business selling vegan baked goods would be to appear on a podcast or local radio show dedicated to healthy eating.

Identifying and Dominating a business niche market

Entrepreneurs should consider a few key consumer elements when trying to identify and dominate a niche market. Look for the following characteristics in your potential market audience:

- **Easily identifiable customers:** Potential customers who are easy to see are a hallmark of a great business niche. Jerry Rackley, director of marketing at Host Bridge Technology, said that it should be easy to identify who would do business with you

based on a set of reliable characteristics. “If you can’t put your ideal customers into an identifiable segment, your business plan is a no-go.”

- **Easily accessible customers:** For a business niche to be profitable, your potential customers must be accessible and accessing them must be affordable, Rackley said. Otherwise, your great idea will be dead in the water. “For example, I might develop an ideal solution for nomadic goat herders in Outer Mongolia, but I have no way of reaching them with information about my solution,” Rackley said. “Lack of accessibility is also a business plan no-go.”
- **An underserved or neglected market:** Many markets become oversaturated with small businesses or start-ups eager to get in on the action. Another way to find your niche is to search consumer ratings indexes and sites to find areas with poor customer service.”
- **A large potential market:** For your business to be profitable, your market and niche must be large enough that you can make money selling your products and services. “In addition to identifying and accessing potential customers, there has to be enough of them,” Rackley said. “The potential market for any business must have the size and mass to warrant the investment to enter that market.” He gave the example of “a great solution for any human who has ever walked on the surface of the moon.” While it might be easy to identify and even gain access to moonwalkers, currently, there just are not enough of them to qualify this as a great business niche. A small pool of potential customers means little or no growth potential, another critical characteristic of a profitable business niche.

Topic 4: Identifying Market opportunities

Identifying Market Opportunities for Business Growth

In today's business environment, sustaining growth and profitability is never a guarantee. Technological and scientific advances shorten life cycles of products and services, business models change, and new competitors appear from outside the industry. This constant instability makes it necessary to seek new business opportunities. In this article, we will outline 8 ways to identify market opportunities for business growth.

First, you need to define a framework to help search for opportunities. To do this, it is necessary to understand your company's business direction and to have knowledge of the resources, strengths, and capabilities of your company.

Once you have a good understanding of company goals and areas of expertise, the next step is to analyse the market, assessing consumer needs and how they are being met by companies today. In order to identify market opportunities, the business model as a whole must be evaluated by identifying consumers and companies and other factors such as brand value propositions, direct and indirect competitors, supply chains, existing regulations, and the general environment. Let us examine how to analyse these factors in detail below.

Eight Analysis Types to Identify Market Opportunities



1. Consumer segmentation

To understand your demand, you must identify consumer segments that share common characteristics. These characteristics can be "hard" variables such as age, gender, place of residence, educational level, occupation and level of income or "soft" variables such as lifestyle, attitude, values and purchasing motivations.

Hard variables can help estimate the number of potential customers a business can have. For example, a nappies/diapers producer should know how many children under 3 years live in a certain country as well as the birth rate. Soft variables can help identify motivations that lead to purchasing decisions including price, prestige, convenience, durability, and design.

2. Purchase situation analysis.

Purchase situations must also be examined to uncover expansion opportunities. Questions to ask when reviewing purchase analysis are:

- When do people buy our product or service?
- Is it when they need it?
- Where do people make the purchase?
- How do they pay?

Looking at distribution channels, payment methods and all other circumstances that involve purchasing decisions can teach you how consumers buy and how you can position your product appropriately. Offering new shopping alternatives may bring new customers. For example, vending machines offering snacks like yoghurt and individual juices have been introduced in the hallways of the subway of Santiago de Chile, promoting on-the-go consumption.

3. Direct competition analysis

In addition to analysing demand and purchasing situations, it is important to analyse supply. Knowing the existing players in the market where you are competing or going to compete is important when evaluating opportunities. Relevant questions in this case are:

- What are the products and brands of our industry that are growing more significantly and why?
- What is their value proposition?
- What competitive advantage do we have over them?

For example, SKY airline, competing in the Chilean market against a notably positioned brand such as LAN, found there was an opportunity to differentiate itself with a low-cost model, which until then had not existed in Chile. SKY lowered its costs, by eliminating complimentary food and beverages for all passengers during flights and in doing so lowered its ticket prices. This helped the company increase its share of carried passengers from 10% in 2008 up to 20% in 2017, according to Euromonitor International.

4. Indirect competition analysis

Opportunities can also be found by analysing substitute industries. For example, thanks to the decrease in airfares, airlines may look for opportunities in consumer segments currently supplied by other means of transport. Air carriers should research how many people travel on long-distance buses and trains, which routes are the most in-demand, how much travellers pay for their tickets, what the occupation rate of long-distance buses and trains is and what is necessary to persuade a current passenger of buses or trains to choose to travel by plane instead. This type of analysis helps establish competitive advantages against indirect competitors and provide insight on additional opportunities for growth.

5. Analysis of complementary products and services

Companies should monitor the performance of other companies' products, which are complementary to their own. For instance, a packaging company should monitor sales of products that it could potentially package, while a company producing coffee machines should gather insights on the evolution of different types of coffee sales. Trends in complementary markets should be taken into account when making investment decisions.

6. Analysis of other industries

In some cases, the objective of companies is not to continue operating within an industrial sector but to expand a certain business model or philosophy. For example, a British holding of companies, Easy Group, started maximising the occupancy rate of flights with the airline Easy Jet. Easy Group understood that it was preferable to sell a seat at a lower price than not selling it at all. Easy Jet opted for a rate management model that depended on the occupancy rate of flights and the time remaining until the day of the flight. With this business model, it managed to increase occupancy rates. Easy applied the same model to cinemas when it created Easy Cinema and then with buses for Easy Bus. In any case, to enter a new industry it is important to learn about competition first: market sizes, market shares, growth rates, unit prices, per capita sales, and brands positioning.

7. Foreign markets analysis

When a company operates in a mature or saturated market, exploring other countries may lead to additional opportunities. Markets in different countries grow at different paces for several reasons, including disparities in the level of economic development and local habits. Knowing the evolution of per capita consumption of a given product in a given country can serve as an indicator of the maturity of the product's life cycle. Having information on the size of the market and competitors in other countries will help to estimate the business potential.

In addition to product sales, you can also investigate what happens in more developed countries in terms of consumption habits. For example:

- What is the percentage of people who use the smartphone to pay for their purchases?
- What is the market share of private labels in a certain industry?

Answers to those questions in more developed countries can serve as indicators of the potential the indexes have in their own country. On the other hand, monitoring what happens in other countries may lead to new products or services present still absent in your current market.

8. Environment analysis

Market opportunities can also be identified by analysing changes in the environment with technological and scientific developments generating new business opportunities. For example, the growth of the Internet and smartphones' penetration has enabled the arrival of companies with new business models such as Airbnb and Uber. According to Euromonitor International, the share of mobile internet subscriptions to mobile telephone subscriptions in the world was 20% in 2011, reaching 53% in 2016. And while globally only 17% of households possessed a smartphone in 2011, this percentage reached 45% in 2016. Beyond mobile and the Internet, artificial intelligence, robotisation, internet of things, biotechnology and renewable energy sources also provide multiple business opportunities.

Changes in a country's regulatory framework can also create opportunities. Since June 2016, Chile requires companies to include labels on products high in calories, sodium, sugars, and saturated fats. This obligation may represent a growth opportunity for healthier products not affected by the new labels. Euromonitor International expects product sales in Chile will be impacted depending on the product type. Obtaining more market research on category and product sales in Chile may help identify categories that have growth opportunities for new products without labels.

Understanding Market Research

Market research is the process of collecting data about a market, service, or product. It is used to analyse the current situation and pave the way for a product launch or increased sales. The market research definition suggests that the study will shed light on the consumer's habits and needs, the economic shape of the industry and the competitors' state of affairs. Its main purpose is to discover a market opportunity for a certain business, and it seems that nowadays hardly any concept or rebranding idea can succeed without prior market research.



These numbers clearly reveal a shortage of information about the market. But the most important fact is that market research is essential not only for new products, but also for existing services and concepts. If the business wants to scale up sales or introduce a new feature, it requires knowledge on where the clients stand with respect to the current product

version and whether they are ready for changes. Market research is integral to both launching a new service or supporting and improving the ongoing one. But before plunging into it, it is important to define clear market research goals. They might be as follows:

- Identify the target audience.
- Recognize the peculiarities of local customers' buying habits.
- Explore competitors' marketing research opportunities and strategies.
- Shape the product or service's identity.
- Understand what clients like most/least about the existing product.
- Define the true unique selling proposition.
- Etc.

If you dig deeper into all of the abovementioned sample aims, you will see that it is all about potential or existing clients, and for good reason – they must determine your strategies and plans.

Ways to Identify Market Opportunities

To stand out from the competition, your company needs to develop skills to identify market opportunities that will help your business to grow. While there are numerous opportunities out there, not all are worth investing in. To avoid overwhelming your team with the wrong type of marketing venture, it is essential to take some time to assess your strategy and establish a framework for evaluating marketing opportunities.

Before developing this framework, you must first understand your company's vision and determine your team's capability to take on new ventures and expand its operations. Once you are aware of your organization's strengths and limitations, you are ready to search for the best marketing opportunities for you. The aim is to identify those opportunities that show promise and will positively impact your business's growth, but how do you go about this? Let us break it down into six simple steps.

6 Ways to Identify Market Opportunities



Conduct thorough market research



Check out international markets



Study your consumers



Check out your competitors



Leverage social evolutions



Use social media

1. Conduct thorough market research.

While not a ground-breaking idea, conducting market research is the simplest and most effective way to learn about your market and give direction to your advertising strategy. The process of market research is similar to that of any research project and involves five principal steps:

- Defining the opportunity(s)
- Developing a possible marketing research plan
- Data collection (qualitative and quantitative data)
- Analysis of accrued data and reporting
- Piloting the opportunity with the intent to scaling up

2. Check out international markets.

Business growth may also mean that you explore international markets. From business maturity to home-market saturation, there are a myriad of reasons why your company may be considering expanding into foreign markets. The advantages of going global include:

- New investment opportunities
- More revenue
- New talent acquisition
- Product diversification

Before deciding which countries, you would like to branch out into, you need to research their economy and your legal responsibilities.

When you take your business overseas, you may need to hire more staff. Getting the right kind of talent is a concern for any entrepreneur, but there are resources out there that can help. The countries you expand to, such as Singapore, will most likely have an employer of record, such as NH Global Partners, to assist you in managing your liabilities and other employment duties.

You may also need to contract a professional translation service provider to ensure smooth communications between your new business partners and customer base.

3. Study your consumers.

You should study your current customers to find out what other services or products from which they may benefit. This knowledge may inform which products or services you offer in the future. You may wish to expand to other services that your customers currently need or those that they will need in the future so that you can keep your customers, even as their lives change.

For instance, if your company manufactures and distributes baby food, you ought to find out what other products you can introduce that parents and carers of these infants will be interested in as their kids get older, such as snacks for children's lunchboxes.

You should strive to collect information such as client characteristics ranging from age, education status, and income to attitude and lifestyle. These variables influence customers' purchasing decisions, preferences, and power.

4. Check out your competitors.

Being up to speed on what your competitors are doing is just as essential as understanding your customers. You can learn a great deal from evaluating the successes and failures of other businesses on the market.

This is particularly useful if your company plans to diversify or launch a new product or service. Are there other company's out there offering a similar service? What is successful about it, and what could be improved? Take this knowledge and use it to ensure your business has a leg up.

5. Leverage social evolutions.

Although your customers may be very loyal to your brand, they will not think twice about moving to one of your competitors as their needs change. It is vital, therefore, to stay on top of how the consumers shift their purchasing patterns. This information will provide you with the strategies to evolve to meet your customer's needs.

You should be informed about general changes in society, new trends, and how they could impact your customers' needs. A great example of this is our new awareness of and concern about the environment. These days consumers want to know what businesses are doing to reduce their carbon footprint and are more likely to give their money to companies that take measures such as using recycled packaging. Keep up with these changes, and your business will grow.

6. Use social media.

We cannot overstate the value of social media for business marketing. Not only should you be using various social media platforms to advertise your products and services and target your ideal customer, but you can also mine it for invaluable information about said customer.

By following social media trends and discussions, you can see what the public really thinks about your services, as well as those of your competitors. You can also engage directly with your customers by running fun surveys and polls about new or existing products and get unedited opinions straight from the horse's mouth. This kind of input can help you refine your ideas. Briefly, this strategy is one of the best ways to identify market opportunities for your business growth.

Ways to Identify New Market Opportunities



1. Look for shifts in customer behaviour.

First, understand how your customers are using your product. Are they doing something different with it now than before? This is how makeup removing wipes and toilet paper

alternative wipes came about. By talking to their customers, companies realized that there were other ways people were using baby wipes.

Consumer goods and food companies use this strategy frequently to create new product lines. To find ideas, you can start by scanning the internet and social media pages for people talking about “hacks” for your product or creatively improvising to use your product in a new way.

2. Consider where waste exists.

Sustainability is now a core concern to most demographics, including your customers. Can you innovate to reduce waste in production, transportation, packaging, or at end-of-life? Can you make your (or someone else’s) product last longer? Can you make it modular so that broken or worn pieces can be easily replaced?

3. Investigate the pain points.

Understanding pain points is an obvious starting point for most businesses, but these gaps must be addressed because they can give your competitors a welcome edge.

Sometimes a pain point creates literal pain or added friction in a work process. Ask what causes potential injury or stoppage with the product or the workplace around it. For example, professional users began to adopt cordless tools at higher rates when they realized that they reduced job site injuries (no cords to trip over).

Another approach is to see where customers want to save time. Robots and automation show up where repetitive tasks can be reduced, freeing people to do other things. For instance, many people do not like or do not have time to mow their lawns, but they want to have cut grass—enter robot lawn mowers.

4. Track trends in your market.

Track general societal trends related to your industry and see if you can adapt a product line to take advantage of customer interest in that trend.

A recent example come from big changes in food packaging. Several years ago, food bloggers, especially in health food circles, started producing bowl meals. Grain bowls. Veggie bowls. All the ingredients put in one bowl for a meal. Soon it spread to restaurants, often healthy or Asian-themed. Then mainstream restaurants, even fast food like KFC, came out with their own versions.

Seeing the continued popularity, the trend finally moved into retail food with a number of brands coming out with frozen dinners in bowls. Now bowls are starting to move to other food products as well.

Take a larger trend in your market or an adjacent market and make it work for your customers with your product.

5. Get ideas from a related industry.

Instead of duplicating your competitors, look at what the most successful companies in a functionally related industry are doing, and see if you can apply similar approaches to your business.

6. Think bigger when it comes to your target consumer.

Take a comprehensive approach to product development and sales by targeting the entire customer base for your product or service, not just the obvious or traditional one.

How does your product meet the needs of your entire potential customer base, not just a certain type of company or one job title within a company (such as the purchaser versus the end user versus the decision-maker)?

Focus on the total benefit of your products to the company as a whole and not one particular customer group and communicate that to those involved in purchase decisions.

Take for example packaging machinery. Machinery producers may deal primarily with purchasing departments to sell new machinery. However, they could broaden their outreach efforts by targeting users and top executives:

Targeting engineers and production managers could provide supporting arguments on how new machinery could improve workflow and efficiency.

Targeting executives such as chief financial officers to promote the long-term cost savings of new machinery could help with approval of new machinery purchases.

7. Look for products or services that complement your existing business.

What are your customers doing that requires your product, and what do they do after they purchase your product? Are there things you can offer that make that entire process better for your customer?

For example, movie theatres added in-seat dining with restaurant-type meals because they understood that many customers went out to eat before going to the movies. Some parking garages added car washes or car detailing services since customers were already bringing their cars to the location.

How to Identify Market Opportunities for Business Growth

There is no dearth of market opportunities in the world that we live in. With the innovation in science and technology, the world is changing every day. A changing world opens up a wide range of opportunities. However, not every opportunity will be suitable for you. Identifying market opportunities that are in line with the company's vision and capability is crucial. You can identify market opportunities for business growth with these eight steps:



1. Consumer Segmentation

Consumer segmentation is dividing your customer base into groups that share the same characteristics. There are two bases of segmenting customers—hard variables and soft variables.

Hard variables mean specific facts about the customers, such as age, gender, marital status, education, etc. For example, a manufacturer selling premium baby products can expect urban parents from the upper and upper-middle class to be their customers.

Soft variables mean characteristics such as attitude, lifestyle, values, etc. For example, organic yoghurt manufacturers can expect consumers who want high protein food and live a healthy lifestyle.

Carry out consumer segmentation for your business. Find out exactly who your customers are. Then, figure out what additional products or services you can market to them. It will be easier for you to target your existing customers rather than going for entirely new customers' demographics.

2. Situation Analysis

A critical part of finding and choosing the perfect market opportunity is figuring out where your business stands. Situational analysis is used to determine the health of your enterprise. It is an effective tool to help you understand the strengths and weaknesses of your business. Ask yourself these questions:

- Is there anything missing from your product line?
- Can you enhance the current features of your products to introduce a new line of them?
- Where do people hear about you?
- Which platform do they use to buy your products?
- By doing this analysis, you can find out what is missing from your business.

3. Direct Competition Analysis

It is vital to analyse the supply side of things. Thoroughly knowing your competitors or potential competitors is a prerequisite for expansion. Find out the answers to these questions:

- What are the products that are not performing in the market? Why?
- Are there some gaps in supply that your products can fill?
- How can you expand your small business to fill such gaps?
- What competitive advantage do you have over your competitors or potential competitors?

For example, Indigo Airlines learned to differentiate itself from its competitors to expand. It cut costs and marketed itself as a low-cost, efficient airline for the commoner. Soon, it grew to have the highest market share in India.

4. Indirect Competition Analysis

Analysing substitute industries can provide you with new opportunities. For example, an airline can study long-distance trains and bus schedules. Find out which routes people take the most. How much do people pay for these routes? Then, prepare a strategy to compete with other modes of transportation. What would it take to encourage people who travel by train or bus to fly instead? This type of analysis can give you fresh insights and new perspectives on things. They can help you in producing creative growth opportunities. You can establish an effective competitive advantage against competitors from substitute industries.

5. International Market Research

The world is becoming smaller every day. Technology is making great strides every day. The trends of the international markets are sure to affect the domestic market. Markets go differently in different places. It all depends on the local economy, income levels, education levels, and habits.

Identify similar international markets as your country. The latest trend in those countries can travel to your domestic markets soon. Furthermore, think about expanding internationally. Do market research on countries that are similar to yours. Moreover, finding out other countries' happenings might lead you to new products and services that are missing in your market. For example, VR gaming seems to be the latest technological fad in the western world. Many companies sell immersive VR headsets that feel just like the real thing. The Indian VR market is still at a nascent stage, but the western trend may soon hit the domestic market. You can get a first-mover advantage now.

6. social media

Social media can be a great place to identify market opportunities. First, listen to what people are saying about your products and services. What do you think is missing from your catalogue? Scour through the comments and messages on social media. They will tell you the weaknesses of your products and where you can do better. You can grow your small business by listening to your customers or potential customers.

There is one more area where social media can help you out. It can help you carry out market research on your products and services. Find out the trends related to your industry on social media. For example, if you are an athleisure company, find out what the fashion influencers and people on social media are sporting these days. The latest trend can help you figure out growth opportunities.

7. Environmental Analysis

Analysing the scientific and technological advancements can lead to the identification of market opportunities. For example, smartphone penetration and high-speed internet facilitated the rise of cab services like Ola and Uber in the country. Furthermore, it also led to an increase in subscription of streaming services such as Netflix and Prime Video. In addition to the internet, advancements in biotechnology, Artificial Intelligence, Machine Learning, the Internet of Things (IoT), etc., can open new doors for your small business.

The environmental analysis also includes analysing a country's trade and economic policies. A change in them can create market opportunities for you. For example, suppose a country is banning products that contain high amounts of sugar, saturated fats, and sodium. If it bans them, then this creates a new market for healthier and affordable food options. Using a variety of analyses can help you find suitable market opportunities for your business.

8. Investigate Other Industries

We have talked about analysing direct and indirect competitors. However, businesses that operate outside your industries can help you grow. See which companies are leading the way in the country. Figure out what they are doing to stand out from their peers and replicate the same in your business. For example, you can find out what pioneers from other industries are doing to cope with the aftermath of the Coronavirus to take lessons from them.

Topic 5: Innovation

Understanding Business Innovation

Business innovation is when companies implement new processes, ideas, services, or products with the goal of boosting the bottom line. It could mean launching new and improved products or services (which can lead to higher revenue), making an existing process more efficient, or solving a current business problem (both of which cut down on costs and save time). A business focus on brainstorming, design thinking, or the establishment of an innovation lab can drive business innovations. The key element of innovation is that it drives revenue for the company.

What business innovation is not?

Innovation has become such a hot topic that its true meaning is often lost in the noise. While some use it as a catchall buzzword for simply using the latest technology or making change for change's sake, the definition of "innovation" is limited to changes to the core business of an organization that leads to growth.

The meaning of innovation in business

Innovation, as a concept, refers to the process that an individual or organization undertakes to conceptualize brand new products, processes, and ideas, or to approach existing products, processes, and ideas in new ways. In the world of business, there are many different types of innovation that a company might pursue.

What is Innovation?

Innovation, as a concept, refers to the process that an individual or organization undertakes to conceptualize brand new products, processes, and ideas, or to approach existing products, processes, and ideas in new ways.

In the world of business, there are many different types of innovation that a company might pursue. These are often tied directly to individual products, internal processes or workflows, or business models. Some companies even embrace all three in an effort to spearhead growth while adapting to the ever-changing market.

The importance of innovation for Business Success

We have all heard the phrase “adapt or die” and for businesses to achieve success in today’s modern world, this is a universal truth. Take, for example, the massive expansion in technological advancements in the past decade; because of this extreme growth, businesses have been forced to adapt and expand more than ever before.

Simply put, companies cannot afford to stay afloat if they do not embrace innovation and change. Here are three critical factors on the importance of innovation in business.



- **Innovation Helps Companies Grow**

As mentioned above, if you want to grow your business in order to become more successful and profitable, there are a few ways that you can go about achieving that goal.

Though it will be a slow path forward, you might choose to plod along your current path, growing incrementally as you perfect your existing products and business models. Instead, you might choose to grow your business by merging or acquiring others, which is faster, but also typically a much more expensive avenue for growth. Or you might choose to evolve by rethinking your product or business model—or both—from the ground up, which is a process that can lead to rapid expansion and allow you to scale your business very quickly.

This potential for growth is likely the reason that, in a recent survey conducted by The Boston Consulting Group, 79 percent of surveyed executives claimed innovation ranked among their top three business initiatives—the highest percentage since the survey began almost a decade ago. Furthermore, the BCG notes that organizations consistently earning high rankings in the annual “top 50 most innovative companies” all have a common focus on science, technology, and development. These companies continue to grow while staying one step ahead of the competition because they value the positive impact of innovation.

- **Innovation Keeps Organizations Relevant**

The world around us is constantly changing, and in order for your business to remain relevant and profitable, it will eventually need to adapt in order to meet these new realities.

Technology continually proves to be a driving factor in the need for change. To quantify the recent impact, look at the facts:

- 90 percent of the world’s data has been created in the last couple of years.
- More than 570 new websites are created every minute.
- 8 billion devices will be connected to the Internet by 2020.

These changes have led to a new age of innovation across business models and industries, allowing new businesses to enter the market and disrupt incumbents in serious ways. In fact, executives today believe 40 percent of Fortune 500 companies will be wiped out in the coming decade due to this level of digital disruption. Just as a start-up often innovates in order to break into an industry, established organizations need to innovate in order to fend off competition and remain relevant in this changing environment.

- **Innovation Helps Organizations Differentiate Themselves**

At the core, innovation is about doing something differently from everyone else operating in your space. If your organization is using innovation on its products, for example, then the goal is to develop or update the products until there is nothing else on the market like it. If your organization is using innovation on its processes, it is because doing so will save you time, money, or other resources, and give you a competitive advantage over other companies stuck in their systems. In either scenario, your organization is taking the time to try something new because sticking to the status quo simply is not working.

While the natural success that this brings can be reward enough for many companies, it would be a mistake to overlook another key advantage: innovation helps an organization differentiate itself and its products from the competition, which can be particularly powerful in an oversaturated industry or market.

While delivering value to your customers should always be a company's main focus, doing so in a way that is memorable and different from everyone else can become a standout element of your brand identity and business strategy, as well.

[Why is business innovation important?](#)

Innovation offers companies four main benefits:

1. Getting ahead of potential disruption

When done right, business innovation takes stock of where the market is going due to potential disruptors or changing consumer demands. Businesses use that information to make strategic changes and to entice internal employees to be entrepreneurial. Those changes can include building a product or service similar to what new start-ups are making, buying it from others in the industry, or partnering with the upstarts (known as the “buy, build, partner” model).

2. Increased efficiency

A lot of business innovation happens by making existing business processes less costly, less time-consuming to complete, and more sustainable. Those changes save time and make it easier for an organization to adapt to industry shifts with agility, which cushions against volatility and risk.

3. Talent attraction and retention

More than ever, employees—particularly millennials and Gen Z—want to work for mission-driven, fast-moving companies that they believe have a bright future.

4. Brand perception

Consumers are more willing to buy from companies they perceive to be innovative and socially conscious.

Types of business innovation

Business innovation can, but does not have to, involve the creation of a new product or service. There are many examples of innovation in business, including:

TYPES OF BUSINESS INNOVATION

Business innovation can, but doesn't have to, involve the creation of a new product or service. There are many examples of innovation in business, including:



Product innovation

Creating a completely new product that's adjacent to a business's core offering. Think of Dyson extending into hand dryers or Apple launching the smartphone.



Process innovation

Designing a new way to be more efficient in the core business. Examples of this include Amazon using robots in the warehouse, or Chase Bank implementing mobile check deposit.



Business model innovation

Introducing a new way of making or saving money, such as Zipcar launching car-sharing subscriptions, or Rent the Runway offering a subscription service for clothing rental.



Delivery innovation

Implementing a new way of interacting with customers. This happens when a company like Zappos puts customer service first, or Tesla makes it possible to buy cars online.

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Introducing a new way of making or saving money, such as Zipcar launching car-sharing subscriptions, or Rent the Runway offering a subscription service for clothing rental.

4. Delivery innovation

Implementing a new way of interacting with customers. This happens when a company like Zappos puts customer service first, or Tesla makes it possible to buy cars online.

Three models of business innovation

There is more than one way to innovate, and organisations of different ages and sizes will have different reasons for embarking on a process of business innovation. For some it may be a case of re-assessing the ways in which the business generates revenue, for others it may be necessary to move into a different industry altogether – or even to create a brand new one! Before embarking on any innovation cycle, it is important that organisations understand the various different business innovation models available to them.

1. Revenue model innovation

If increasing profits is the main driver for business innovation, many organisations may choose to change their revenue model as a first port-of-call. This can involve re-assessing the products or services offered or taking another look at the company's pricing strategy. Innovation does not have to be radical, sometimes changing even one element can yield significant results.

2. Business model innovation

This model of business innovation requires organisations to identify which of their processes, products or services could be improved to boost the company's profitability. Innovation in this case could refer to forming new partnerships, outsourcing specific tasks, or implementing new technologies.

3. Industry model innovation

Arguably the most radical model of business innovation, ambitious organisations can choose to change industry completely for the purposes of innovation – or even create a whole new

industry for themselves. Indeed, companies can win a new lease of life by following examples such as Virgin's move from aeroplanes to broadband.

How Does Business Innovation Work?

The Organisation for Economic Co-operation and Development (OECD) outlines four ways that business innovation can manifest: product innovation, process innovation, marketing innovation, and organizational innovation.

- **Process innovation** refers to new ways a business can deliver its product or service. This could include changes in techniques, equipment, or software.
- **Marketing innovation** has to do with the way the product or service appears to customers. It includes new packaging or ad campaigns, but it also includes any price changes.
- **Organizational innovation** refers to big picture changes that a business can undertake to improve performance. This could be an internal change to business practices or an external change to business relations with other entities.

Topic 6: Financial and Cash flow management

Understanding cashflow in financial management

Cash flow is a measure of how much cash a business brought in or spent in total over a period of time. Cash flow is typically broken down into cash flow from operating activities, investing activities, and financing activities on the statement of cash flows, a common financial statement.

Understanding cash flow analysis

There are three cash flow types that companies should track and analyse to determine the liquidity and solvency of the business: cash flow from operating activities, cash flow from investing activities and cash flow from financing activities. All three are included on a company's cash flow statement.

In conducting a cash flow analysis, businesses correlate line items in those three cash flow categories to see where money is coming in, and where it is going out. From this, they can draw conclusions about the current state of the business.

Depending on the type of cash flow, bringing in money in is not necessarily a good thing. And spending money it is not necessarily a bad thing.

Key Takeaways

- Cash flow analysis helps you understand how much cash a business generated or used during a specific accounting period.
- Understanding cash sources and where your cash is going is essential for maintaining a financially sustainable business.
- A business may be profitable and still experience negative cash flow or lose money and experience positive cash flow.

- Complementary measurements, such as free cash flow and unlevered free cash flow, offer unique insights into a company's financial health.

Cash Flow Analysis Explained

Cash flow is a measure of how much cash a business brought in or spent in total over a period of time. Cash flow is typically broken down into cash flow from operating activities, investing activities, and financing activities on the statement of cash flows, a common financial statement.

While it is also important to look at business profitability on the income statement, cash flow analysis offers critical information on the financial health of a company. It tells you if cash inflows are coming from sales, loans, or investors, and similar information about outflows. Most businesses can sustain a temporary period of negative cash flows but cannot sustain negative cash flows long-term.

Newer businesses may experience negative cash flow from operations due to high spending on growth. That is okay if investors and lenders are willing to keep supporting the business. But eventually, cash flow from operations must turn positive to keep the business open as a going concern.

Cash flow analysis helps you understand if a business's healthy bank account balance is from sales, debt, or other financing. This type of analysis may uncover unexpected problems, or it may show a healthy operating cash flow. But you do not know either way until you review your cash flow statements or perform a cash flow analysis.

In addition to looking at the standard cash flow statement and details, it is often also useful to calculate different versions of cash flow to give you additional insights. For example, free cash flow excludes non-cash expenses and interest payments and adds in changes in working capital, which gives you a clearer view of operating cash flows. Unlevered free cash flow shows

you cash flow before financial obligations while levered free cash flow explains cash flow after taking into account all bills and obligations.

Depending on the size of your company, your financial situation, and your financial goals, reviewing and tracking various forms of cash flow may be extremely helpful in financial planning and preparing for future quarters, years, and even a potential downturn in sales or economic conditions.

Why Is Cash Flow Analysis Important?

A cash flow analysis determines a company's working capital — the amount of money available to run business operations and complete transactions. That is calculated as current assets (cash or near-cash assets, like notes receivable) minus current liabilities (liabilities due during the upcoming accounting period).

Cash flow analysis helps you understand if your business is able to pay its bills and generate enough cash to continue operating indefinitely. Long-term negative cash flow situations can indicate a potential bankruptcy while continual positive cash flow is often a sign of good things to come.

CASH FLOW ANALYSIS BASICS

Cash flow analysis first requires that a company generate cash statements about operating cash flow, investing cash flow and financing cash flow.

OPERATING ACTIVITIES

Cash from operating activities represents cash received from customers less the amount spent on operating expenses. In this bucket are annual, recurring expenses such as salaries, utilities, supplies and rent.



INVESTING ACTIVITIES

Investing activities reflect funds spent on fixed assets and financial instruments. These are long-term, or capital investments, and include property, assets in a plant or the purchase of stock or securities of another company.

FINANCING ACTIVITIES

Financing cash flow is funding that comes from a company's owners, investors and creditors. It is classified as debt, equity and dividend transactions on the cash flow statement



How Do You Perform Cash Flow Analysis?

To perform a cash flow analysis, you must first prepare operating, investing, and financing cash flow statements. Generally, the finance team uses the company's accounting software to generate these statements. Alternately, there are a number of free templates available.

Preparing a Cash Flow Statement

Let us first look at preparing the operating cash flow statement. The line items that are factored into the company's net income and are included on the company's operating cash flow statement include but are not limited to:

- Cash received from sales of goods or services.
- The purchase of inventory or supplies
- Employees' wages and cash bonuses
- Payments to contractors
- Utility bills, rent or lease payments.
- Interest paid on loans and other long-term debt and interest received on loans.
- Fines or cash settlements from lawsuits

How to calculate cash flow

One of the most important aspects of managing cash flow is understanding how to calculate it. There are three main formulas that can help you calculate cash flow: free cash flow formula, operating cash flow formula, and cash flow forecast. Each formula serves a different purpose.

- **Free cash flow** refers to the resources available for distribution among all the stakeholders in the company. It shows you how much capital you have to reinvest in the business – such as purchasing new equipment, expanding your store, or investing in a new product for your company.
- The **operating cash flow** formula provides an at-a-glance view of the day-to-day cash flow within your business.
- The **cash flow forecast** provides a future look at your cash flow in the coming month, quarter, or year.

All three of these formulas are essential to knowing how much money is flowing in and out of your business at any given time:

- $\text{Net income} + \text{Depreciation} \div \text{Amortization} - \text{Change in working capital} - \text{Capital expenditure} = \textbf{Free cash flow}$
- $\text{Depreciation} + \text{Operating income} - \text{Taxes} + \text{Change in working capital} = \textbf{Operating cash flow}$
- $\text{Beginning cash} + \text{Projected inflows} - \text{Projected outflows} = \text{Ending cash} = \textbf{Cash flow forecast}$

Preparing a cash flow statement

Cash flow statements are indicative of your company's health. They show that you have a healthy business capable of continuing operation at any given time.

You can find a lot of extensive breakdowns on cash flow statements. Here are some basic terms and elements of a cash flow statement you will need to know in order to create and read yours.

PREPARING A CASH FLOW STATEMENT (OPERATING ACTIVITIES)	
	Cash received from sales
	Purchase of inventory/supplies
	Employees' wages & cash bonuses
	Contractor payments
	Utilities, rent & leases
	Loan interest paid & received
	Fines or settlements

- **Cash from operating activities:** This is how much money is flowing into your business. If this number is lower than net income or it is a negative number, this could be a problem.
- **Cash from investing activities:** This should be a negative number. This includes money your business has used to invest in itself and its products. Buying supplies or further developing your product are two examples of this kind of activity.
- **Cash from financing activities:** This area demonstrates how much money your company is spending to pay off certain obligations. This can include things like dividends.
- **Net change in cash:** This is how much cash your company gains or loses based on the investing and financing activities.
- **Net cash:** Net cash can be highlighted as beginning and ending balance. The ending balance is determined by applying the net change in cash to the beginning balance. The ending balance shows how much cash you have on hand.

How do you get positive cash flow?

Sales are obviously the best way for a business to gain cash flow. If you are not generating sales, you are not really a business. Of course, saving money in operational expenses helps, too. It is important to have detailed budgets and to curb unnecessary spending.

What should you do if you have a cash flow deficit?

In the event of a cash flow deficit, these are some of your options:

- Apply for a loan from a banking institution or individual.
- Apply for a line of credit from a bank.
- Speed up the collection process.
- Finance the purchase of equipment through leasing or loans.
- Liquidate assets.
- Delay payments to vendors.

Sometimes you may have a surplus of cash. That money can affect future opportunities, so you do not want it to sit around. Accountants recommend that you make the surplus work for you. You can do this by making short-term investments and using the money to pay off debts faster. That way, the money will benefit you through generated interest or shorter loan terms.

Always consult with a professional accountant before making major financial decisions that could impact the future of your business.

Ways to manage cash flow.

The most important aspect of managing cash flow is to constantly monitor it. You need to know how much money your company is taking in as well as how much of that money you have on hand to use. If you have an accurate idea of your company's cash flow, you can follow these simple tips to increase cash flow and manage your business.



1. Do not wait to send invoices.

Again, a key reason cash flow matters is that it distinguishes between invoices you have sent and invoices that have actually been paid. That R10,000 invoice means little if you do not yet have that money on hand to cover your expenses. That is why you should not hesitate to send invoices.

You may want to shift from a monthly invoicing model to one in which you send invoices every time you complete a certain amount of work. For example, if your small business is an advertising agency, send your invoice not on Nov. 30, but whenever you complete a present number of campaigns, ad spends or other initiatives that month.

2. Adjust your inventory as needed.

Check your inventory to identify items that are not selling well. These products harm your cash flow, as the cash you have spent to obtain them is not converting to sales and thus revenue. You can address this cash flow concern by selling these less frequently purchased items for discounted prices and not buying additional stock after you deplete what you currently have. Similarly, you can always invest more into stocking items that do sell well.

3. Lease your equipment instead of buying it.

Even though it is usually cheaper over the long term, buying new equipment and updating outdated equipment can be costly in the short term (not to mention time-consuming). Leasing your equipment instead can lessen your short-term financial burden. You will not have to upgrade or try to sell outdated equipment that you have purchased, and equipment leases often qualify for tax credits that lower your tax burden. As such, you will have less cash leaving your bank in large lump sums and maintain a more regular cash flow.

4. Borrow money before you need it.

The best time to solve a cash flow problem is before it happens. If your business is running smoothly or is in the beginning stages of production, now is the time to borrow money. By

opening a business line of credit when your numbers are good, you can avoid the risk of rejection later. This will also provide you with resources to fall back on should you experience any growing pains associated with starting a business. Arora said that a business line of credit can be a lifeline for small businesses, particularly those impacted by seasonality.

“Whatever amount you think you will need, ask for double; you might not get it, but it’s better to have reserves to draw from when times get tough,” he said. “If you can get a small business loan at 10% or less, your cost of capital will be so much lower than if you put purchases on credit cards that carry rates of 19% or more.”

For businesses that have already been consumed with high-interest credit card debt, Arora recommends refinancing. For example, if you made several purchases on credit cards that come at interest rates of 20% or more, consider getting a business line of credit, which might be available for as low as 6% or 7% interest.

If you have yet to open any credit cards and are struggling for a loan, Singer suggests getting a small business credit card with an interest-free grace period to support your short-term financing needs. He said that credit cards can highlight opportunities to save and that many even come with innovative reporting options that illustrate spending trends to help business owners optimize their cash flow.

5. Reevaluate your business operations.

Continually review your cost structure to find efficiency gaps and implementations that can be modified to increase savings. Arora suggests identifying parts of the operation that can be outsourced to freelancers and third-party providers. This will allow you to get the job done without providing salary and benefits. He also suggests that businesses scale back part-time staff during slow periods.

“Certain areas of business operations can be re-evaluated and updated for efficiency,” he said. “[These include] shipping costs, use of middlemen, extra employees, allotted overtime, marketing returns, overdue invoices, rented equipment payments, stocking up on materials when tariffs are low and potentially asking vendors for a break.”

As the economy changes, your business strategies will change, too. Always look for ways to improve your product and invest in smarter solutions.

6. Restructure your payments and collections.

Depending on whom you are working with, you may be able to put off some payments to your vendors until your business is financially healthy. Do your best to maintain a healthy relationship and avoid late fees.

Restructure your payments to your vendors to create a more balanced income for your business. By doing this, you can turn your vendors into lenders. If you are unable to restructure payment dates, consider restructuring payment costs. You can do this by meeting with new vendors that can potentially provide inventory and supplies at a better cost. Arora said that even if you are not looking to replace your current vendors, you can use the information from competitors as leverage to get better pricing.

You can also benefit from restructuring how your employees are paid. Although it is a minor detail, how often your business runs payroll can provide some cost savings. Shvarts said that switching to a less frequent pay schedule can save on the administrative costs of collecting, verifying and tabulating payroll information. Implementing direct deposit can help stabilize your payroll withdrawals as well. If you already have a payroll system in place, be sure to assess any fees associated with changing the frequency.

Choosing the best debt collection process can make a big difference as well. It is important that you are prompt on your collections and take aggressive follow-up action on past-due

accounts receivable when necessary. Set up a continual collections process of reminding accounts receivable when and how much they owe you. Invoices that slip through the cracks can add up.

7. Monitor where your money is going.

Taking on debt is not always a bad thing. Sometimes borrowing money can be a temporary fix until your business is healthy enough to make it on its own. However, anytime you take on debt, you should carefully monitor and evaluate the extent of your cash flow.

“While taking on debt can be key to coasting through hard times, a business should still calculate how much debt they can take on as to not be overleveraged,” Shvarts said. “The debt will be paid back either through investing in growth or once an invoice is paid by the client, but those both require factoring in time, interest, ROI and more.”

Strategically borrowing money can be a viable option, as long as you have a repayment plan in place. You should monitor your other expenses and make changes where needed. You may have to shift from a long-term investment mindset, such as buying equipment, to a short-term survival mindset, such as leasing equipment.

Alongside examining your debt and expenses, you should monitor your savings. Although balancing growth capital and working capital can be difficult when working with thin profit margins, Shvarts said it is important to maintain a rainy-day reserve. If you do not have a business savings account, it may be time to re-evaluate your profit structure.

“Keep reserves of extra cash, not just for hard times, but for when a growth opportunity comes along or financial flexibility is needed,” Shvarts said. “Growing a business greatly strains cash flow, [since] you have to invest and bring on expenses before the higher revenue kicks in. By all means, grow, expand, turn your small business into a big business, but still save some money

for an unexpected market dip while you are in the process of expanding.” [Related: Leverage software and technology by utilizing the best accounting software for small businesses.]

8. Take advantage of technology.

As a business owner, you should take advantage of technological advances and artificial intelligence-enabled solutions, like new apps and software updates. These can streamline your business processes and increase efficiency. Although technology can help with any sector of your business, Shvarts specifically recommends using it to create budgets and project cash flow.

“When you can see all accounts payable and accounts receivable, plus the other financial intricacies of your business, in one spreadsheet, you can budget and easily project future cash flow,” he said. “Depending on which software you choose, your information will be secure in the cloud, so you won’t risk misplacing or damaging paper documents.”

The right technology and the right business strategies can make a big difference for your company. They allow you to spend less time worrying about cash flow and more time running your business. If you do not feel confident in overseeing your cash inflow and outflow, you can always hire a CPA or bookkeeper to do it for you. Regardless of who manages your cash flow, it needs to be done.

“The point of running a business is to make sure your revenues exceed your expenses and to generate a profit,” Arora said. “Managing cash flow is critically important to running a profitable business [for the] long term.”

9. Consider loan options.

Sometimes, all a company needs is a quick cash injection. Look at what line of credit, business loan and other financing options are out there. Invoice factoring and invoice financing are also great ways to get advanced payment on outstanding invoices. It can help your company get

the money it deserves earlier than a client is willing to pay. Remember, you should be taking on debt only if it is advantageous for your company.

The difference between cash flow and profitability

Cash flow is different from profitability. A profitable business can still be unable to pay its bills. Similarly, just because a business is meeting all of its financial obligations does not mean it is profitable.

Profit is a basic small business accounting term, which really only exists on paper. Measuring profit is a particular way of looking at a business. It does not tell you a whole lot about how the business is getting by day-to-day.

How to calculate profit

The first step to calculating profit is to take your total revenue and then subtract the cost of goods sold. The difference is your gross profit.

Revenue – Cost of Goods Sold = Gross Profit

For example, if you sold R100,000 in rocking chairs and the chairs themselves cost you R50,000 wholesale, your gross profit would be R50,000.

Revenue: R100,000

Cost of Goods Sold -R50,000

Gross Profit: R50,000

Of course, you would probably have other expenses beyond buying the chairs. For example, you would need a place to store the chairs, and you might want to run some ads to get more sales. These expenses are called operating expenses, and they get subtracted from your gross profit.

Operating expenses include most costs that do not directly connect to what you sell—things like rent, equipment, payroll, and marketing.

The second step is to subtract operating expenses from gross profit. The difference is net profit.

Gross Profit – Operating Expenses = Net Profit

Revenue: R100,000

Cost of Goods Sold: -R50,000

Gross Profit: R50,000

Operating Expenses: -R35,000

Net Profit: R15,000

If your net profit is a positive number, you made money. If it is a negative number, you lost money. This report as a whole is called the income statement, or profit and loss (P&L).

The “problem” with profit

In relation to small business cash flow management, the problem with income statements is that they do not show your whole business. A few essential pieces of information are missing.

1. Debt repayment

If you have any business loans or other start-up capital to repay, it will not show up here. Only the interest on those loans is included on a P&L, even though debt repayments can eat up a lot of cash.

2. Equipment payments

Similarly, if you make a significant equipment purchase, the entire cost will not show up in this section. Instead, that cost will get spread out over the lifetime of the equipment. If you spend

R100,000 on a canning line and you think it will last you 10 years, your income statement will show an expense of R10,000/year for 10 years, even if you had to pay all of it upfront.

3. Taxes

Note that your net profit is not taxed at this point, which means it will shrink even more. Even if all of your profit is available in cash, you will not be able to run out and spend it all in one place.

4. Cash received

Finally, many businesses use accrual accounting, which records revenue even if you have not received the money yet. On paper, you might have R200,000 in sales, but if no one has paid you yet, you are still going to have a hard time paying your bills.

Topic 7: Basic business financial statements

Understanding Financial Statements

Financial statements are written records that convey the business activities and the financial performance of a company. Financial statements are often audited by government agencies, accountants, firms, etc. to ensure accuracy and for tax, financing, or investing purposes.

Financial statements include the:

- Balance sheet
- Income statement
- Cash flow statement.
- Financial statements are written records that convey the business activities and the financial performance of a company.
- The balance sheet provides an overview of assets, liabilities, and stockholders' equity as a snapshot in time.
- The income statement primarily focuses on a company's revenues and expenses during a particular period. Once expenses are subtracted from revenues, the statement produces a company's profit figure called net income.
- The cash flow statement (CFS) measures how well a company generates cash to pay its debt obligations, fund its operating expenses, and fund investments.

Investors and financial analysts rely on financial data to analyse the performance of a company and make predictions about the future direction of the company's stock price. One of the most important resources of dependable and audited financial data is the annual report, which contains the firm's financial statements. The financial statements are used by investors, market analysts, and creditors to evaluate a company's financial health and earnings potential. The three major financial statement reports are the balance sheet, income statement, and statement of cash flows.

Balance Sheet

The balance sheet provides an overview of a company's assets, liabilities, and stockholders' equity as a snapshot in time. The date at the top of the balance sheet tells you when the snapshot was taken, which is generally the end of the reporting period. Below is a breakdown of the items in a balance sheet.

Assets

- Cash and cash equivalents are liquid assets, which may include Treasury bills and certificates of deposit.
- Accounts receivables are the amount of money owed to the company by its customers for the sale of its product and service.
- Inventory

Liabilities

- Debt including long-term debt.
- Wages payable
- Dividends payable

Shareholders' Equity

- Shareholders' equity is a company's total assets minus its total liabilities. Shareholders' equity represents the amount of money that would be returned to shareholders if all of the assets were liquidated and all of the company's debt was paid off.
- Retained earnings are part of shareholders' equity and are the amount of net earnings that were not paid to shareholders as dividends.

Income Statement

Unlike the balance sheet, the income statement covers a range of time, which is a year for annual financial statements and a quarter for quarterly financial statements. The income statement provides an overview of revenues, expenses, net income, and earnings per share.

Revenue

Operating revenue is the revenue earned by selling a company's products or services. The operating revenue for an auto manufacturer would be realized through the production and sale of autos. Operating revenue is generated from the core business activities of a company.

Non-operating revenue is the income earned from non-core business activities. These revenues fall outside the primary function of the business. Some non-operating revenue examples include:

- Interest earned on cash in the bank.
- Rental income from a property
- Income from strategic partnerships like royalty payment receipts
- Income from an advertisement display located on the company's property.
- Other income is the revenue earned from other activities. Other income could include gains from the sale of long-term assets such as land, vehicles, or a subsidiary.

Expenses

Primary expenses are incurred during the process of earning revenue from the primary activity of the business. Expenses include the cost of goods sold (COGS), selling, general and administrative expenses.

Cash Flow Statement

The cash flow statement (CFS) measures how well a company generates cash to pay its debt obligations, fund its operating expenses, and fund investments. The cash flow statement complements the balance sheet and income statement.

The CFS allows investors to understand how a company's operations are running, where its money is coming from, and how money is being spent. The CFS also provides insight as to whether a company is on a solid financial footing.

There is no formula, per se, for calculating a cash flow statement. Instead, it contains three sections that report cash flow for the various activities for which a company uses its cash. Those three components of the CFS are listed below.

Operating Activities

The operating activities on the CFS include any sources and uses of cash from running the business and selling its products or services. Cash from operations includes any changes made in cash, accounts receivable, depreciation, inventory, and accounts payable. These transactions also include wages, income tax payments, interest payments, rent, and cash receipts from the sale of a product or service.

Investing Activities

Investing activities include any sources and uses of cash from a company's investments into the long-term future of the company. A purchase or sale of an asset, loans made to vendors or received from customers, or any payments related to a merger or acquisition is included in this category.

Also, purchases of fixed assets such as property, plant, and equipment (PPE) are included in this section. In short, changes in equipment, assets, or investments relate to cash from investing.

WHAT GOES ON AN INCOME STATEMENT?

An income statement, also called a profit and loss statement, lists a business's revenues, expenses, and overall profit or loss for a specific period of time.



Sales

Revenue generated from the sale of goods and services

Cost of Goods Sold

Including labour and material costs



Gross Profit

The cost of goods sold subtracted from sales

General and Administrative Expenses

Includes rent, utilities, salary, etc.

Earnings Before Tax

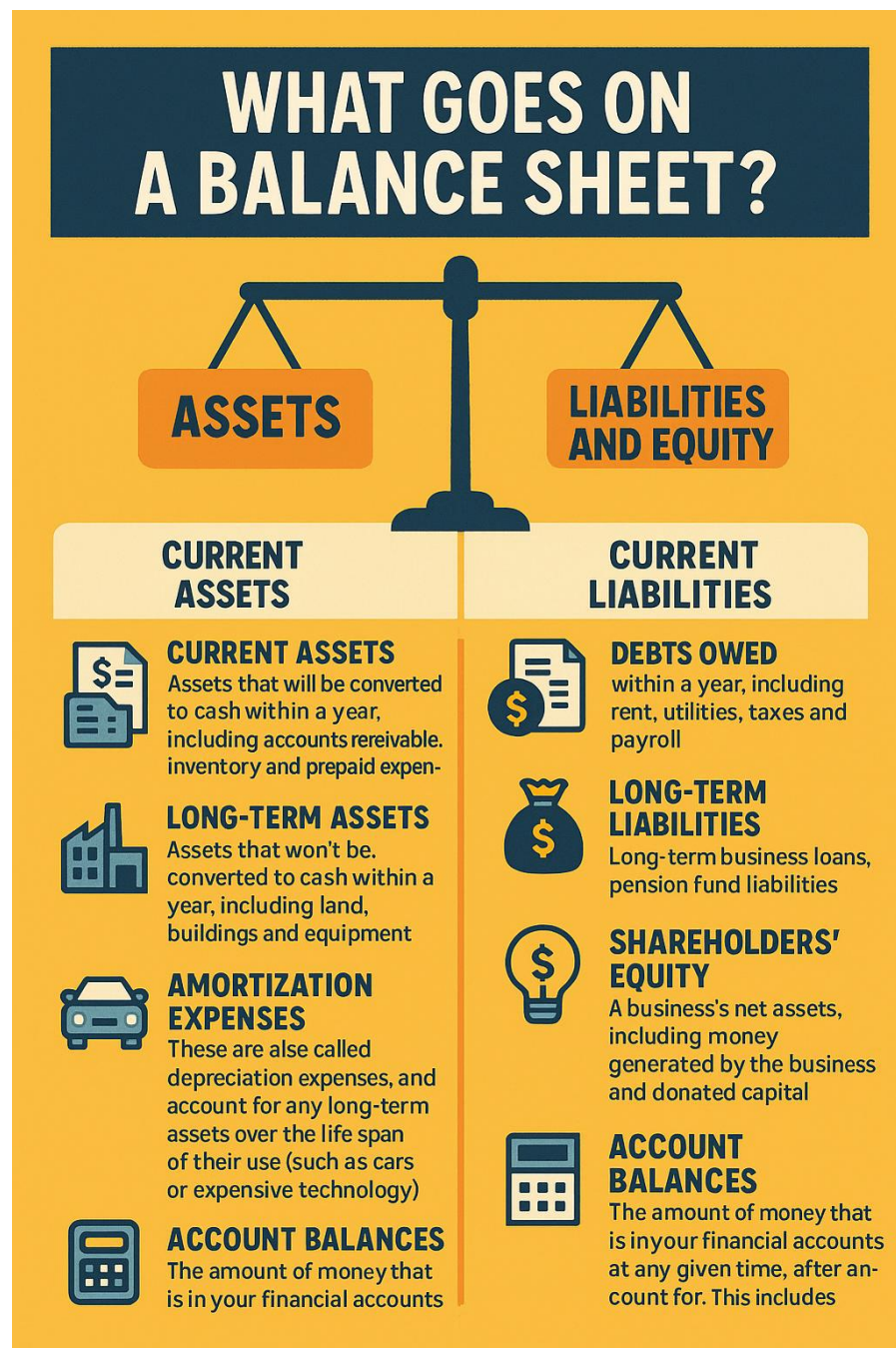
Your business's pre-tax income



Net Income

The total revenue minus total expenses, which gives the profit or loss

The end goal of the income statement is to show a business's net income for a specific reporting period. If the net income is a positive number, the business reports a profit.



How Do You Prepare a Balance Sheet from an Income Statement?

A business's financial statements are all interconnected, and they report some of the same information, but for different purposes. Because some of your financial statements draw from data reported on other statements, there is a particular order you should follow when preparing them, which is why we have prepared the following financial statement example:

- Income Statement
- Balance Sheet
- Cash Flow Statement

To prepare a balance sheet, you need to calculate net income. Net income is the final calculation included on the income statement, showing how much profit or loss the business generated during the reporting period. Once you have prepared your income statement, you can use the net income figure to start creating your balance sheet.

Using a balance sheet template will streamline the next step of the process, so that you do not have to manually insert all of the fields yourself. This is a vital step towards understanding the core strength of a company, and to assess the business performance.

On the balance sheet, net income appears in the retained earnings line item. Net income affects how much equity a business reports on the balance sheet.

The Relationship Between Income Statement and Balance Sheet

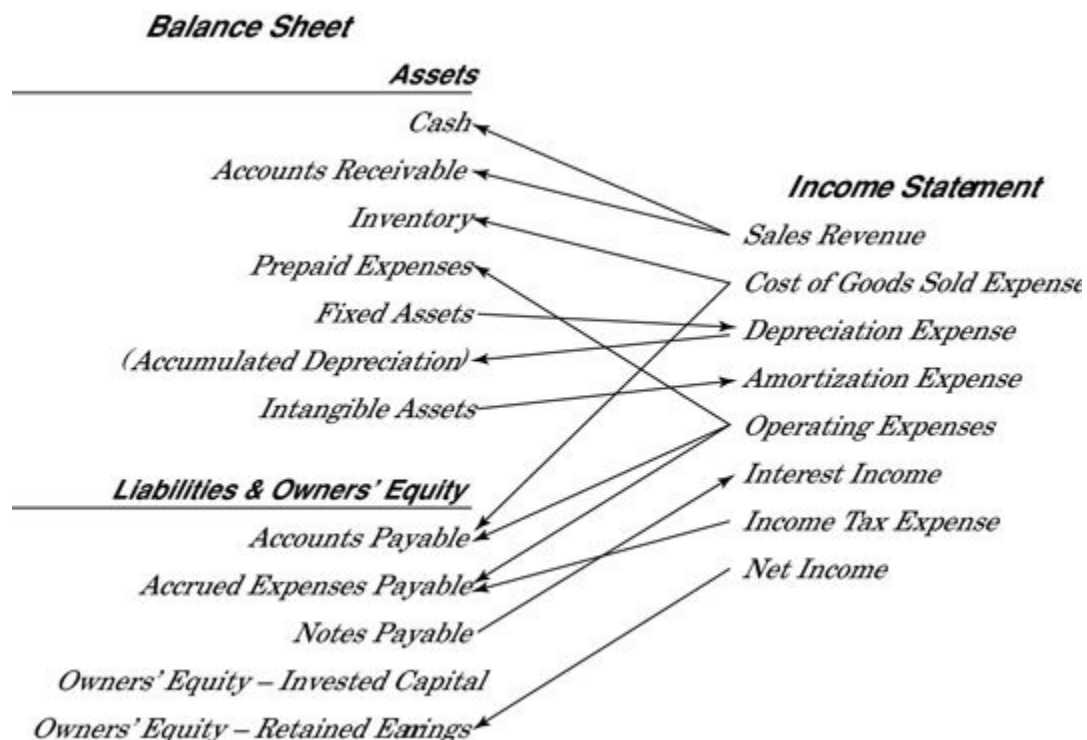
In double-entry bookkeeping, the income statement and balance sheet are closely related. Double-entry bookkeeping involves making two separate entries for every business transaction recorded. One of these entries appears on the income statement and the other appears on the balance sheet.

To have a more thorough look at how double-entry bookkeeping works, head to FreshBooks for a gallery of income statement templates.

Every time a sale or expense is recorded, affecting the income statement, the assets or liabilities are affected on the balance sheet. When a business records a sale, its assets will increase, or its liabilities will decrease. When a business records an expense, its assets will decrease, or its liabilities will increase.

In this way, the income statement and balance sheet are closely related. Balance sheets will show a more thorough overview of the security and investment health of a business; however, they are both indispensable financial statements.

Dummies.com put together this helpful illustration demonstrating just how closely the two reports tie together:



The Difference Between an Income Statement and Balance Sheet

The income statement and balance sheet report different financial accounting information about your business. The key differences between the two reports include:

- **Line Items Reported:** The income statement reports revenue, expenses and profit or loss, while the balance sheet reports assets, liabilities, and shareholder equity.

- **Timing:** The income statement reports on financial performance for a specific time range, often a month, quarter, or year. The balance sheet reports on financial activity for one specific date.
- **Metrics:** The line items on the income statement are compared to the sales figure to find your company's gross margin, operating income, and net income, as percentages. The line items on the balance sheet can be used to understand the liquidity of your business. Recording financial business activities in this section helps keep track of the strength of the company.

Topic 8: Pricing of goods and services

What is pricing of goods?

Pricing is a process of fixing the value that a manufacturer will receive in the exchange of services and goods. Pricing method is exercised to adjust the cost of the producer's offerings suitable to both the manufacturer and the customer.

What is product pricing?

Product pricing is the process of determining the quantitative value of a product based on both internal and external factors. Product pricing has a direct impact on the overall success of your business – from cash flow to profit margins to customer demand.

What Are Price Controls?

The term "price controls" refers to the legal minimum or maximum prices set for specified goods. Price controls are normally mandated by the government in the free market. They are usually implemented as a means of direct economic intervention to manage the affordability of certain goods and services, including rent, gasoline, and food. Although it may make certain goods and services more affordable, price controls can often lead to disruptions in the market, losses for producers, and a noticeable change in quality.

- Price controls are government-mandated minimum or maximum prices set for specific goods and services.
- Price controls are put in place to manage the affordability of goods and services on the market.
- Minimums are called price floors while maximums are called price ceilings.
- These controls are only effective on an extremely short-term basis.
- Over the long term, price controls can lead to problems such as shortages, rationing, inferior product quality, and illegal markets.

How should I price my products?

There are a lot of articles and advice about product pricing. It is easy to fall into a black hole if it is your first time pricing a product. Fortunately, there is a simple way to price products so that you sell profitably.

Pricing touches everything from your business finances to your product's positioning in the market with considerations like whether it is timeless, bespoke, or a short-lived trending product. It also factors into how you make a profit selling on online selling sites. It is a key strategic decision you need to make for your business, and it can be just as much an art as it is a science.

But it is not a decision you only get to make once.

If you are trying to find the retail price of your product, there is a relatively quick and straightforward way to set a starting price. Remember, just because it is the price you use to launch does not mean it is the price you will use forever.

To set your first price, add up all of the costs involved in bringing your product to market, set your profit margin on top of those expenses, and there you have it. This strategy is called cost-plus pricing, and it is one of the simplest ways to price your product.

HOW TO PRICE YOUR PRODUCT

There are three straightforward steps to calculating a sustainable price for your product.



**ADD UP YOUR
VARIABLE COSTS
(PER PRODUCT)**



**ADD A
PROFIT MARGIN**



**DON'T FORGET
ABOUT FIXED COSTS**



**DON'T FORGET
ABOUT FIXED
COSTS**

1. Add up your variable costs (per product)

Primarily, you need to understand all of the costs involved in getting each product out the door. If you order products, you will have a straightforward answer as to how much each unit costs you, which is your cost of goods sold.

If you make your products, you will need to dig a bit deeper and look at a bundle of your raw materials, labour costs, and overhead costs. How much does that bundle cost, and how many products can you create from it? That will give you a rough estimate of your cost of goods sold per item.

However, you should not forget the time you spend on your business is valuable, too. To price your time, set an hourly rate you want to earn from your business, and then divide that by how many products you can make in that time. To set a sustainable price, make sure to incorporate the cost of your time as a variable product cost.

Here is a sample list of costs you might incur on each product.

Cost of goods sold	R3.25
Production time	R2.00
Packaging	R1.78
Promotional materials	R0.75
Shipping	R4.50
Affiliate commissions	R2.00
Total per-product cost	R14.28

In this example, your total per-product cost is R14.28.

Wondering what kind of promotional materials, you might need for your products? One of the most common ones in an ecommerce context is marketing materials or additional gifts to level up your ecommerce packaging and unboxing experience.

2. Add a profit margin.

Once you have a total number for your variable costs per product sold, it is time to build profit into your price.

Let us say you want to earn a 20% profit margin on your products on top of your variable costs. When you are choosing this percentage, it is important to remember two things:

You have not included your fixed costs yet, so you will have costs to cover beyond just your variable costs.

You need to consider the overall market and make sure that your price range still falls within the overall “acceptable” price for your market. If you are two times the price of all of your competitors, you might find sales become challenging depending on your product category.

Once you are ready to calculate a price, take your total variable costs and divide them by 1 minus your desired profit margin, expressed as a decimal. For a 20% profit margin, which is 0.2, so you would divide your variable costs by 0.8.

In this case, which gives you a base price of R17.85 for your product, which you can round up to R18.

Target price = (Variable cost per product) / (1 - your desired profit margin as a decimal)

3. Do not forget about fixed costs.

Variable costs are not your only costs.

Fixed costs are the expenses that you would pay no matter what, and that stays the same whether you sell 10 products or 1,000 products. They are an important part of running your business, and the goal is that they are covered by your product sales as well.

When you are picking a per-unit price, it can be tricky to figure out how your fixed costs fit in. A simple way to approach this is to take the information about variable costs you have already gathered and set them up in this break-even calculator spreadsheet. To edit the spreadsheet, go to File > Make a copy to save a duplicate that is only accessible by you.

It is built to look at your fixed costs and your variable costs in one place, and to see how many units you would need to sell of a single product to break even at your chosen price. These calculations can help you make an informed decision about the balance between covering your fixed costs and setting a manageable and competitive price.

Find out everything you need to know about performing a break-even analysis, including what to watch out for and how to interpret and adjust based on your numbers.

How to Price Your Product in 5 Steps

Setting prices that allow your business to sustain itself is essential to continued success and growth as a company. Thankfully, it is quite feasible to create a practical pricing model. Here is how to do it:

HOW TO PRICE YOUR PRODUCT IN 5 STEPS



1. STUDY THE MARKET



2. ASSESS YOUR COSTS



3. DECIDE HOW TO SELL



4. CHOOSE YOUR PRICE LEVEL



5. MONITOR PROGRESS



5. MONITOR PROGRESS

- 1. Study the market.** If you are bringing a new product into an existing market, you need to research price points for similar products. Customers will have an inherent sense of fair product pricing within your sector, and you need to meet their expectations. If you plan to vary drastically from your competitors' prices, there should be a clear reason for doing so. In the world of easy online searches, always assume that the general public is aware of how much your competitors charge.
- 2. Assess your costs.** On an ongoing basis, a business must cover both fixed costs and variable costs that go into making their product. Fixed costs include things like real estate leases, insurance payments, and annual taxes that some businesses owe to states regardless of income. Variable costs depend on the amount of products you manufacture; they include raw materials and labour costs (employee wages plus benefits). There may

also be costs from the product development process that you need to pay down. These all combine to form your total cost.

3. **Decide how your product will be sold.** If you plan to sell your product yourself via an online store or your own shop, you will be going direct to the consumer. If you sell your product to a retail store, the store will add cost to cover their own bottom line—a model known as cost-plus pricing. If your product is in stores, those retailers will not want you undercutting them by offering lower prices online. A simple way to address this is to either mark up the price of the product on your own website (so that it matches the in-store retail price). Alternatively, you can opt to only sell in either retail stores or direct-to-customer. Many retailers will not allow you to do both.
4. **Decide whether you are aiming for the high-end, middle, or low-end consumer.** Different prices connote different messages about your product or service. A higher price may imply that your product has a higher value, but it may repel savvy bargain hunters or potential customers with limited incomes. Lower prices may (fairly or unfairly) imply lower quality, but a low product price can often lead to a high sales volume. Meanwhile, a middle-of-the-road price suggests a standard-issue, reliable product. This can work for certain types of goods (like groceries) and services (like auto repair). On the other hand, a mid-tier pricing structure lacks both the high profit margins of the luxury market and the massive volume of the bargain market.
5. **Monitor progress over time.** Most small business owners need time to assess the true market value of their goods or services. To succeed overall, you will need to monitor sales and see if the dollar amount you have assigned to your product comports with the dollar amount the public is willing to pay. If it is hard to keep up with demand, you may have reason to raise your prices. If sales are low, you may have to offer a sale price (or slash the normal retail price) in order to establish a customer base. The most successful businesses respond ably to market trends. Pay attention to your customers; if you can continually address their needs while maintaining the necessary cash flow, you can count on a long, prosperous lifespan for your product.

Topic 9: Marketing

What Is Marketing?

Marketing refers to activities a company undertakes to promote the buying or selling of a product or service. Marketing includes advertising, selling, and delivering products to consumers or other businesses. Some marketing is done by affiliates on behalf of a company.

Professionals who work in a corporation's marketing and promotion departments seek to get the attention of key potential audiences through advertising. Promotions are targeted to certain audiences and may involve celebrity endorsements, catchy phrases or slogans, memorable packaging or graphic designs and overall media exposure.

- Marketing refers to all activities a company does to promote and sell products or services to consumers.
- Marketing makes use of the "marketing mix," also known as the four Ps—product, price, place, and promotion.
- At its core, marketing seeks to take a product or service, identify its ideal customers, and draw the customers' attention to the product or service available.

Understanding Marketing

Marketing as a discipline involves all the actions a company undertakes to draw in customers and maintain relationships with them. Networking with potential or past clients is part of the work too, and may include writing thank you emails, playing golf with prospective clients, returning calls and emails quickly, and meeting with clients for coffee or a meal.

At its most basic level, marketing seeks to match a company's products and services to customers who want access to those products. Matching products to customers ultimately ensures profitability.

Product

Product refers to an item or items the business plans to offer to customers. The product should seek to fulfil an absence in the market or fulfil consumer demand for a greater amount of a product already available. Before they can prepare an appropriate campaign, marketers need to understand what product is being sold, how it stands out from its competitors, whether the product can also be paired with a secondary product or product line, and whether there are substitute products in the market.

Price

Price refers to how much the company will sell the product for. When establishing a price, companies must consider the unit cost price, marketing costs, and distribution expenses. Companies must also consider the price of competing products in the marketplace and whether their proposed price point is sufficient to represent a reasonable alternative for consumers.

Place

Place refers to the distribution of the product. Key considerations include whether the company will sell the product through a physical storefront, online, or through both distribution channels. When it is sold in a storefront, what kind of physical product placement does it get? When it is sold online, what kind of digital product placement does it get?

Promotion

Promotion, the fourth P, is the integrated marketing communications campaign. Promotion includes a variety of activities such as advertising, selling, sales promotions, public relations, direct marketing, sponsorship, and guerrilla marketing.

Promotions vary depending on what stage of the product life cycle the product is in. Marketers understand that consumers associate a product's price and distribution with its quality, and they take this into account when devising the overall marketing strategy.

What Are the Goals of Marketing?

An important goal of marketing is propelling a company's growth. This can be seen through attracting and retaining new customers.

Companies may apply a number of different marketing strategies to achieve these goals. For instance, matching products with customers' needs could involve personalization, prediction, and essentially knowing the right problem to solve.

Another strategy is creating value through the customer experience. This is demonstrated through efforts to elevate customer satisfaction and remove any difficulties with the product or service.

Types Of Marketing Plans And Strategies

The strategies are defined by whether the focus is on new or existing products and new or existing markets.

1. Market Penetration Strategy

When a firm focuses on selling its current products to existing customers, it is pursuing a market penetration strategy. The marketing activities that will dominate in this type of marketing plan are those that emphasize increasing the loyalty of existing customers so that they are not vulnerable to loss to competitors, attracting competitors' customers, increasing the frequency of product use, and converting nonusers into users.

Increasing awareness through marketing communications and increasing availability through expanded distribution are common marketing activities in this type of plan. Identifying new use occasions and new uses for a product may increase usage frequency or convert current nonusers into users. For example, the advertising campaign for orange juice that has the tagline "It's not just for breakfast anymore" was an effort to expand usage. Price promotions

might be used to encourage competitors' customers to try the firm's product if there is reason to believe that such a trial will result in repeat purchases. Loyalty programs can be amazingly effective in retaining existing customers. This strategy reduces risk by relying on what the firm already knows well—its existing products and existing customers. It is also a strategy where investments in marketing should pay back more quickly because the firm is building on an existing foundation of customer relationships and product knowledge.

2. Market Development Strategy

The efforts to expand sales by selling current products in new markets are referred to as a market development strategy. Such efforts may involve entering new geographic markets, such as international markets. Creating product awareness and developing distribution channels are key marketing activities. Some product modification may be required to better match the needs of the local market. For example, as fast food restaurants have moved into international markets, they have often changed their menus to better match the food preferences of customers in local markets. Expanding into a new market with an existing product carries some risk because the new market is not well known to the firm and the firm and its products are not well known in the market. The return on marketing investments in such a strategy is likely to be longer than for a market penetration strategy because of the time required to build awareness, distribution, and product trial.

3. Product Development Strategy

Creating new products to sell to existing customers, a product development strategy, is a common marketing strategy among firms that can leverage their relationships with existing customers. For example, American Express has been able to leverage its relationships with its credit card customers to also sell travel-related services. Similarly, cable television companies have expanded their offerings into Internet and telephone services. Research and development activities play a dominant role in this strategy. The time required to develop and test new products may be long, but once a product is developed, creating awareness, interest, and availability should be relatively rapid because the firm already has a relationship with

customers. A product development strategy is also riskier than a market penetration strategy because the necessary product may not be possible to develop, at least at a cost acceptable to customers, or the product developed does not match the needs of customers.

4. Diversification Strategy

A diversification strategy involves taking new products into new markets. This is really the creation of a completely new business. This is the riskiest of strategies and the strategy likely to require the most patience in waiting for a return on investment.

Types of Marketing

Where your marketing campaigns live depends entirely on where your customers spend their time. It is up to you to conduct market research that determines which types of marketing -- and which mix of tools within each type -- is best for building your brand. Here are several types of marketing that are relevant today, some of which have stood the test of time:



- **Internet marketing:** Inspired by an Excedrin product campaign that took place online, the very idea of having a presence on the internet for business reasons is a type of marketing in and of itself.
- **Search engine optimization:** Abbreviated "SEO," this is the process of optimizing content on a website so that it appears in search engine results. Marketers use it to attract people who perform searches that imply they are interested in learning about a particular industry.
- **Blog marketing:** Blogs are no longer exclusive to the individual writer. Brands now publish blogs to write about their industry and nurture the interest of potential customers who browse the internet for information.
- **Social media marketing:** Businesses can use Facebook, Instagram, Twitter, LinkedIn, and similar social networks to create impressions on their audience over time.
- **Print marketing:** As newspapers and magazines get better at understanding who subscribes to their print material, businesses continue to sponsor articles, photography, and similar content in the publications their customers are reading.
- **Search engine marketing:** This type of marketing is a bit different than SEO, which is described above. Businesses can now pay a search engine to place links on pages of its index that get high exposure to their audience. (It is a concept called "pay-per-click" -- I will show you an example of this in the next section).
- **Video marketing:** While there were once just commercials, marketers now put money into creating and publishing all kinds of videos that entertain and educate their core customers.

Topic 10: Customer Service

Understanding Customer Service

Customer service is the direct one-on-one interaction between a consumer making a purchase and a representative of the company that is selling it. Most retailers see this direct interaction as a critical factor in ensuring buyer satisfaction and encouraging repeat business.

Even today, when much of customer care is handled by automated self-service systems, the option to speak to a human being is seen as necessary to most businesses. It is a key aspect of servant-leadership.

- Customer service is the interaction between the buyer of a product and the company that sells it.
- Good customer service is critical to business success, ensuring brand loyalty one customer at a time.
- Recent innovations have focused on automating customer service systems, but the human element is, in some cases, indispensable.

Behind the scenes at most companies are people who never meet or greet the people who buy their products. The customer service representatives are the ones who have direct contact with the buyers. The buyers' perceptions of the company and the product are shaped in part by their experience in dealing with that person.

For this reason, many companies work hard to increase their customer satisfaction levels.

Key Components of Good Customer Service

Successful small business owners understand the need for good customer service instinctively. Larger businesses study the subject in-depth, and they have some basic conclusions about the key components:

- Timely attention to issues raised by customers is critical. Requiring a customer to wait in line or sit on hold sours an interaction before it begins.
- Customer service should be a single-step process for the consumer. If a customer calls a helpline, the representative should whenever possibly follow the problem through to its resolution.
- If a customer must be transferred to another department, the original representative should follow up with the customer to ensure that the problem was solved.

Characteristics of Good Customer Service

Customer service is the act of taking care of the customer's needs by providing and delivering professional, helpful, high-quality service and assistance before, during, and after the customer's requirements are met.



Customer service is meeting the needs and desires of any customer. Some characteristics of good customer service include:

- **Promptness:** Promises for delivery of products must be on time. Delays and cancellations of products should be avoided.

- **Politeness:** Politeness is almost a lost art. Saying 'hello,' 'good afternoon,' 'sir,' and 'thank you very much' are a part of good customer service. For any business, using good manners is appropriate whether the customer makes a purchase or not.
- **Professionalism:** All customers should be treated professionally, which means the use of competence or skill expected of the professional. Professionalism shows the customer they are cared for.
- **Personalization:** Using the customer's name is amazingly effective in producing loyalty. Customers like the idea that whom they do business with knows them on a personal level.

Customer Services Employer Responsibilities

Poor management can doom any customer service operation. A couple of important tips for managers:

- Make sure your customer service representatives are fully informed and have the latest information and the company's products and policies.
- Periodically assess the customer service experience you are providing to ensure that it is an asset to the company.
- Consider conducting regular surveys to give customers the chance to provide feedback about the service they receive and suggest areas for improvement.

Principles of good customer service

There are four key principles of good customer service: It is personalized, competent, convenient, and initiative taking. These factors have the biggest influence on the customer experience.

PRINCIPLES OF GOOD CUSTOMER SERVICE



Personalized



Competent



Convenient



Proactive

- **Personalized:** Good customer service always starts with a human touch. Personalized interactions greatly improve customer service and let customers know that your company cares about them and their problems. Instead of thinking of service as a cost, consider it an opportunity to earn your customer's business all over again.
- **Competent:** Consumers have identified competency as the element that plays the biggest role in a good customer experience. To be competent, a customer support professional must have a strong knowledge of the company and its products, as well as the power to fix the customer's problems. The more knowledge they have, the more competent they become.
- **Convenient:** Customers want to be able to contact a customer service representative through whichever channel is the most convenient for them. Offer support through the channels of communication your customers rely on most and make it easy for customers to figure out how to contact you.
- **Initiative-taking:** Customers want companies to be initiative-taking in reaching out to them. If one of your products is backordered or your website is going to experience

downtime, proactively reach out to your customers and explain the problem. They may not be happy about the situation, but they will be thankful that you kept them in the loop.

How to deliver excellent customer service

Whether you are building a support team from scratch or you already consider yourself a pro, we have identified tips from our latest CX Trends Report to help you drive better customer service.

1. Make agent training a priority.

Companies with high-performing customer support teams understand the need for more training, more empathy, and more investment to reduce churn and empower their people. Consider developing a tiered training plan that starts with basic technical skills, including product knowledge, and then advances agent knowledge at regular intervals.

In fact, high-performing companies are nearly 10 times more likely to strongly agree that their agents are of the highest calibre and over 6 times more likely to have plans to greatly extend education and training opportunities.

2. Automate repetitive tasks.

Identify and automate the most repetitive tasks to free up agents' time and improve performance. For example, high performers are nearly 3 times more likely to use AI-powered chatbots to help with agent workflows and it is paying off. 63 percent of business leaders believe chatbots are driving large cost savings.

61 percent of companies also expect the majority of customer service interactions to be automated in the future.
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3. Personalize every experience.

Give agents access to valuable customer information—beyond just the customer’s name—that they can use to improve experiences. In fact, 72 percent of customers expect agents to have access to all relevant information.

90 percent of customers will also spend more with companies that personalize the customer service they offer them. And 92 percent will spend more with companies that ensure they will not need to repeat information.

4. Evaluate existing customer service channels.

93 percent of customers will spend more with companies that offer their preferred option to reach customer service. Ensure that you have satisfaction metrics linked to each and every channel. Actively track and benchmark performance across channels to check for continuous improvement.

5. Focus on business impact.

Create opportunities for agents to drive profits through upselling and cross-selling, informed by a deep understanding of the customer’s immediate needs. Establish a separate profit and loss statement that captures revenue generated by agents so the link between customer service and business growth is more tangible.

High performers are 7.6 times more likely to strongly agree that they view customer service primarily as a revenue driver and are 6.2 times more likely to strongly agree that customer service funding has kept pace with company growth.

6. Integrate systems.

Integrate customer service and CRM platforms to monitor changes in customers and their lifetime value. Sharing data between these platforms can lead to the discovery of personalized, relevant solutions to customer issues that otherwise would not be considered.

7. Keep leadership in the loop.

Ensure the core team provides regular updates to leadership so they are aware of evolving customer service plans and metrics. Create opportunities for customer service insights to play a greater role in larger company policy and strategy. Leaders of businesses with the highest customer satisfaction scores understand the inherent value of their customer service teams. Not only are they more likely to prioritize funding of customer service initiatives, but they are also more likely to keep a close eye on the business impact and make necessary changes along the way.

Companies that are leading in customer service have buy-in from top to bottom. Instead of a siloed customer service team, leadership takes an active role in monitoring performance and impact. And in many cases, compensation of senior executives is directly tied to customer satisfaction.

High performers are over 9 times more likely to report that senior leaders view customer service metrics on a daily basis and nearly 8 times more likely to strongly agree that senior leaders immerse themselves in customer service.

Key customer service skills

Customer service skills or characteristics represent the qualities and abilities a customer service representative needs to deliver good customer service. Customer service managers tend to hire for technical skill sets. Technical skills are important, but soft skills matter, too. Here are the top customer service skills your customer service representatives need:

KEY CUSTOMER SERVICE SKILLS



ABILITY TO MIRROR LANGUAGE AND TONE

Matching the customer's speech and style



ACTIVE LISTENING

Listening carefully and trying to understand



CLEAR COMMUNICATION

Being transparent, simple, and clear



INTERPERSONAL SKILLS

Building rapport and relationships with others



COMFORT MULTITASKING

Toggling and working on multiple tasks



ATTENTION TO DETAIL

Observing thoroughly and accurately



ATTENTIVENESS

Responding to customers in a timely manner



COLLABORATION SKILLS

Working together to find solutions

- **Ability to mirror a customer's language and tone.**

Mirroring another person's language and tone can help you connect with them.

Now, if a customer is angry on a call, you do not want to copy their frustration. Instead, remember that "calm is contagious." Be firm and work to bring the intensity down a notch.

Customers respond well to getting help from someone who is clearly level-headed.

On live chat, responses are often short, quick, and incomplete. This makes it harder for you and the customer to understand each other's tone. Choose your words carefully and err on the side of caution and clarity. Try to avoid puns or regional turns of phrase.

Instead, use a gentle, informative tone. Patience is your best friend when helping a frustrated customer.

- **Active listening**

When customers complain and are frustrated, they might not be able to take in what you say. So, scrambling to a solution is not always the best approach.

The ability to display empathy first is crucial. Remember, both you and the customer want to reach a resolution, not just a solution.

Customers who are stressed need to feel heard. Explain that you understand the reason for their call. This little bit of empathy will go a long way toward improving a difficult customer experience.

- **Clear communication**

Nobody likes to wait on hold, especially if they do not know how long it will be until they can talk to someone.

When customers call or start a live chat, set their expectations about hold times. This can help them feel like their issues matter to you.

- **Interpersonal skills**

The best customer service templates do more than give agents pre-written text to copy and paste. They are the starting point for high-quality, personalized answers so agents can build real, human connections with customers.

Start with a template, then adjust it before replying to customers. This makes your answers feel more personal to customers.

It is OK to use your own voice and approach—just make sure you reflect the company’s brand and philosophy. For example, maybe you can make your own email signature unique.

- **Comfort multitasking**

Live chat agents are expected to handle more than one chat at a time. This is a skill in itself. Great multitaskers do not lose sight of the bigger picture as they are bombarded by questions.

Be careful not to handle too many chats, or else your customers will be waiting too long between responses. You can always put a chat on a brief hold if you need more time to find an answer. But just like with phone support, set expectations first. For example, ask if you may put them on a brief hold to conduct more research.

- **Attention to detail.**

Sometimes it is harder for customers to express themselves in writing. Do not read too quickly and jump to conclusions. It takes a lot of training and practice to understand how different customers communicate. But it is key to success in customer service.

For example, someone who works in sales might come off as assertive or aggressive. Or an engineer might want more technical details about how their problem was solved.

Being able to read cues like this can give a customer care representative a better idea of how to tailor their customer service approach.

- **Attentiveness**

Always respond to a customer's social post when they need help. You may not be able to answer right away. But it is still important to make quick initial contact with that customer and let them know when you will respond. Providing speedy responses means being adept in addressing a customer's problem with a precise and polite tone.

The exception to "always respond" is when agents are confronted with an obvious attempt to pick a fight on public channels. These comments are often directed at the company itself. It can be tempting to engage with the person if you feel strongly about the issue at hand. But a company cannot afford to have an agent, or any employee, make mistakes on social media. So, always proceed with caution when responding publicly.

- **Collaboration skills**

Answering a customer's question often involves working with other teams or departments. Is answering a social media post a job for customer support, or for marketing? Sometimes it is hard to tell.

If your marketing team manages your social media, make sure they connect with the customer service team for help with any incoming support requests. Remember, everyone is responsible for good customer service so agents will need to have strong collaboration skills.

Examples of good customer service

We have all heard the stories of companies going beyond to provide their customers with incredible support. Morton's steakhouse met a man at the airport with a steak because he asked for one in a tweet. Nordstrom's accepted a set of returned tires even though Nordstrom does not actually sell tires. But good customer service is ultimately about the scalable ways a company meets customer needs every day.

1. Providing fast first-response times

76 percent of customers say they expect to engage with someone immediately when contacting a company.

2. Meeting customers where they are.

Customers want to connect with you on the same channels they use to talk to friends and family—so being able to help a customer on their preferred support channel is one of the best ways to create an excellent customer service experience. Channel preference can vary based on the issue type and customer need. In fact, 73 percent of customers also want the ability to start a conversation on one channel and pick it back up on another.

3. Helping customers help themselves.

89 percent of customers will spend more with companies that allow them to find answers online without having to contact anyone, such as via a knowledge base.

4. Being proactively helpful

Reactive support used to be the standard: you wait for a customer to contact your business with an inquiry or issue. Initiative-taking service, however, is now a crucial type of customer service—it means anticipating your customers' issues and addressing them before your customers do.

Topic 11: SMART goals

What are SMART Goals?

Goals are part of every aspect of business/life and provide a sense of direction, motivation, a clear focus, and clarify importance. By setting goals, you are providing yourself with a target to aim for. A SMART goal is used to help guide goal setting. SMART is an acronym that stands for Specific, Measurable, Achievable, Realistic, and Timely. Therefore, a SMART goal incorporates all of these criteria to help focus your efforts and increase the chances of achieving your goal.



SMART goals are:

- **Specific:** Well, defined, clear, and unambiguous
- **Measurable:** With specific criteria that measure your progress toward the accomplishment of the goal
- **Achievable:** Attainable and possible to achieve
- **Realistic:** Within reach, realistic, and relevant to your life purpose
- **Timely:** With a clearly defined timeline, including a starting date and a target date. The purpose is to create urgency.

Specific SMART Goals

Goals that are specific have a significantly greater chance of being accomplished. To make a goal specific, the five “W” questions must be considered:

- Who: Who is involved in this goal?
- What: What do I want to accomplish?
- Where: Where is this goal to be achieved?
- When: When do I want to achieve this goal?
- Why: Why do I want to achieve this goal?

For example, a general goal would be “I want to get in shape.” A more specific goal would be “I want to obtain a gym membership at my local community centre and work out four days a week to be healthier.”

Measurable SMART Goals

A SMART goal must have criteria for measuring progress. If there are no criteria, you will not be able to determine your progress and if you are on track to reach your goal. To make a goal measurable, ask yourself:

- How many/much?
- How do I know if I have reached my goal?
- What is my indicator of progress?

For example, building on the specific goal above: I want to obtain a gym membership at my local community centre and work out four days a week to be healthier.

Achievable SMART Goals

A SMART goal must be achievable and attainable. This will help you figure out ways you can realize that goal and work towards it. The achievability of the goal should be stretched to make you feel challenged but defined well enough that you can actually achieve it. Ask yourself:

Realistic SMART Goals

A SMART goal must be realistic in that the goal can be realistically achieved given the available resources and time. A SMART goal is likely realistic if you believe that it can be accomplished.

Ask yourself:

- Is the goal realistic and within reach?
- Is the goal reachable, given the time and resources?
- Are you able to commit to achieving the goal?

Timely SMART Goals

A SMART goal must be time-bound in that it has a start and finish date. If the goal is not time-constrained, there will be no sense of urgency and, therefore, less motivation to achieve the goal. Ask yourself:

- Does my goal have a deadline?
- By when do you want to achieve your goal?

For example, building on the goal above: On August 1, I will obtain a gym membership at my local community centre. In order to be healthier, I will work out four days a week. Every week, I will aim to lose one pound of body fat. By the end of August, I will have realized my goal if I lose four pounds of fat over the course of the month.

The Importance of SMART Goal Setting

Often, individuals or businesses will set themselves up for failure by setting general and unrealistic goals such as “I want to be the best at X.” This goal is vague, with no sense of direction.

SMART goals set you up for success by making goals specific, measurable, achievable, realistic, and timely. The SMART method helps push you further, gives you a sense of direction, and helps you organize and reach your goals.

Topic 12: Business planning

What Is a Business Plan?

A business plan is a document that defines in detail a company's objectives and how it plans to achieve its goals. A business plan lays out a written roadmap for the firm from marketing, financial, and operational standpoints. Both start-ups and established companies use business plans.

A business plan is an important document aimed at a company's external and internal audiences. For instance, a business plan is used to attract investment before a company has established a proven history. It can also help to secure lending from financial institutions.

- A business plan is a document describing a company's core business activities and how it plans to achieve its goals.
- Start-up companies use business plans to get off the ground and attract outside investors.
- A business plan can also be used as an internal guide to keep an executive team focused on and working toward short- and long-term objectives.
- Businesses may create a lengthier traditional business plan or a shorter lean start-up business plan.
- Good business plans should include an executive summary and sections on products and services, marketing strategy and analysis, financial planning, and a budget.

Understanding Business Plans

A business plan is a fundamental document that any new business should have in place prior to beginning operations. Indeed, banks and venture capital firms often require a viable business plan before considering whether they will provide capital to new businesses.

Operating without a business plan usually is not a good idea. In fact, very few companies are able to last exceptionally long without one. There are benefits to creating (and sticking to) a good business plan. These include being able to think through ideas before investing too much money in them and working through potential obstacles to success.

A good business plan should outline all the projected costs and possible pitfalls of each decision a company makes. Business plans, even among competitors in the same industry, are rarely identical.

However, they can have the same basic elements, such as an executive summary of the business and detailed descriptions of its operations, products and services, and financial projections. A plan also states how the business intends to achieve its goals.

The plan should include an overview, and, if possible, details of the industry of which the business will be a part. It should explain how the business will distinguish itself from its competitors.

Elements of a Business Plan

The length of a business plan varies greatly from business to business. Consider fitting the basic information into a 15- to 25-page document. Then, other crucial elements that take up a lot of space—such as applications for patents—can be referenced in the main document and included as appendices.

ELEMENTS OF A BUSINESS PLAN



EXECUTIVE SUMMARY

Overview of the company, mission statement, and operations



PRODUCTS AND SERVICES

Description of the offerings provided to customers



MARKET ANALYSIS

Research on the industry, market, and competitors



MARKETING STRATEGY

Plan for promoting and selling to the customer base



FINANCIAL PLANNING

Company's financial projections and funding needs



BUDGET

Estimates of expenses across all company activities

As mentioned above, no two business plans are the same. Nonetheless, they tend to have the same elements. Below are some of the common and key parts of a business plan.

- **Executive summary:** This section outlines the company and includes the mission statement along with any information about the company's leadership, employees, operations, and location.
- **Products and services:** Here, the company can outline the products and services it will offer, and may also include pricing, product lifespan, and benefits to the consumer. Other factors that may go into this section include production and manufacturing processes, any patents the company may have, as well as proprietary technology. Information about research and development (R&D) can also be included here.
- **Market analysis:** A firm needs a good handle on its industry as well as its target market. This section of the plan will detail a company's competition and how the company fits in the industry, along with its relative strengths and weaknesses. It will also describe the

expected consumer demand for a company's products or services and how easy or difficult it may be to grab market share from incumbents.

- **Marketing strategy:** This section describes how the company will attract and keep its customer base and how it intends to reach the consumer. A clear distribution channel must be outlined. The section also spells out advertising and marketing campaign plans and the types of media those campaigns will use.
- **Financial planning:** This section should include a company's financial planning and projections. Financial statements, balance sheets, and other financial information may be included for established businesses. New businesses will include targets and estimates for the first few years plus a description of potential investors.
- **Budget:** Every company needs to have a budget in place. This section should include costs related to staffing, development, manufacturing, marketing, and any other expenses related to the business.

How Does Business Planning Work?

Every new business needs a business plan—a blueprint of how you will develop your new business, backed by research, which demonstrates how the business idea is viable. If your new business idea requires investment capital, you will have a better chance of obtaining debt or equity financing from financial institutions, angel investors, or venture capitalists if you have a solid business plan to back up your ideas.

- **Post-Start-up Business Planning**

The business plan is not a set-it-and-forget-it is planning exercise. It should be a living document that is updated throughout the life cycle of your business.

Once the business has officially started, business planning will shift to setting and meeting goals and targets. Business planning is most effective when it is done on a consistent schedule that revisits existing goals and projects throughout the year, perhaps even monthly. In addition

to reviewing short-term goals throughout the year, it is also important to establish a clear vision and lay the path for your long-term success.

- **Sales Forecasting**

The sales forecast is a key section of the business plan that needs to be constantly tracked and updated. The sales forecast is an estimate of the sales of goods and services your business is likely to achieve over the forecasted period, along with the estimated profit from those sales. The forecast should take into account trends in your industry, the general economy, and the projected needs of your primary customers.

- **Cash Flow Analysis**

Another crucial component of business planning is cash flow analysis. Avoiding extended cash flow shortages is vital for businesses, and many business failures can be blamed on cash flow problems.

Your business may have a large, lucrative order on the books, but if it cannot be invoiced until the job is completed, then you may run into cash flow problems. That scenario can get even worse if you have to hire staff, purchase inventory, and make other expenditures in the meantime to complete the project.

Performing regular cash flow projections is an important part of business planning. If managed properly, cash flow shortages can be covered by additional financing or equity investment.

- **Business Contingency Planning**

In addition to business planning for profit and growth, your business should have a contingency plan. Contingency business planning (also known as business continuity planning or disaster planning) is the type of business planning that deals with crises and worst-case scenarios. A business contingency plan helps businesses deal with sudden emergencies, unexpected events, and new information that could disrupt your business.

The goals of a contingency plan are to:

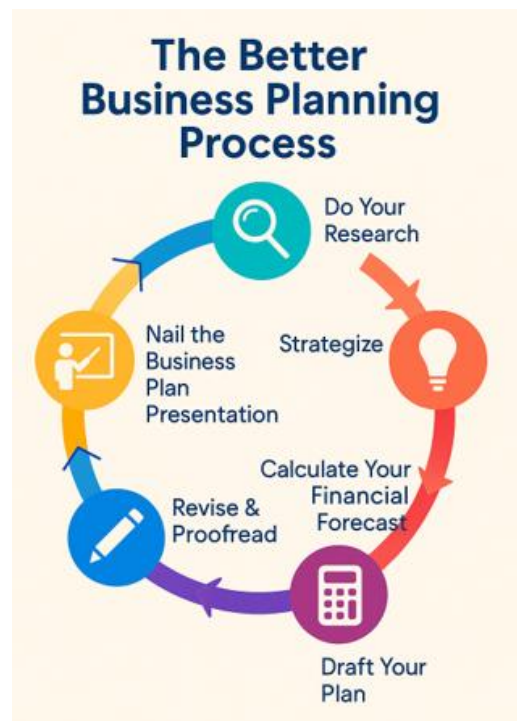
- Provide for the safety and security of yourself, your employees, and your customers in the event of a fire, flood, robbery, data breach, illness, or some other disaster.
- Ensure that your business can resume operations after an emergency as quickly as possible.

Business Succession Planning

If your business is a family enterprise or you have specific plans for who you want to take over in the event of your retirement or illness, then you should have a plan in place to hand over control of the business. The issues of management, ownership, and taxes can cause a great deal of discord within families unless a succession plan is in place that clearly outlines the process.

The Better Business Planning Process

The business plan process includes 6 steps as follows:



If you would like to complete your business plan, download Growth ink's Ultimate Business Plan Template and complete your business plan and financial model in hours quickly and easily.

1. Do Your Research

Conduct detailed research into the industry, target market, existing customer base, competitors, and costs of the business begins the process. You may ask yourself the following questions:

- What are your business goals?
- What is the current state of your business?
- What are the current industry trends?
- What is your competition doing?

There are a variety of resources needed, ranging from databases and articles to direct interviews with other entrepreneurs, potential customers, or industry experts. The information gathered during this process should be documented and organized carefully, including the source as there is a need to cite sources within your business plan.

You may also want to complete a SWOT Analysis for your own business to identify your strengths, weaknesses, opportunities, and potential risks as this will help you develop your strategies to highlight your competitive advantage.

2. Strategize

Now, you will use the research to determine the best strategy for your business. You may choose to develop new strategies or refine existing strategies that have demonstrated success in the industry. Pulling the best practices of the industry provides a foundation, but then you should expand on the different activities that focus on your competitive advantage.

This step of the planning process may include formulating a vision for the company's future, which can be done by conducting intensive customer interviews and understanding their motivations for purchasing goods and services of interest. Dig deeper into decisions on an

appropriate marketing plan, operational processes to execute your plan, and human resources required for the first five years of the company's life.

3. Calculate Your Financial Forecast

All of the activities you choose for your strategy come at some cost and, hopefully, lead to some revenues. Sketch out the financial situation by looking at whether you can expect revenues to cover all costs and leave room for profit overall.

Begin to insert your financial assumptions and start-up costs into a financial model which can produce a first-year cash flow statement for you, giving you the best sense of the cash you will need on hand to fund your early operations.

A full set of financial statements provides the details about the company's operations and performance, including its expenses and profits by accounting period (quarterly or year-to-date). Financial statements also provide a snapshot of the company's current financial position, including its assets and liabilities.

This is one of the most valued aspects of any business plan as it provides a straightforward summary of what a company does with its money, or how it grows from initial investment to become profitable.

4. Draft Your Plan

With financials more or less settled and a strategy decided, it is time to draft through the narrative of each component of your business plan. With the background work you have completed, the drafting itself should be a relatively painless process.

If you have trouble writing convincing prose, this is a time to seek the help of an experienced business plan writer who can put together the plan from this point.

5. Revise & Proofread

Revisit the entire plan to look for any ideas or wording that may be confusing, redundant, or irrelevant to the points you are making within the plan. You may want to work with other management team members in your business who are familiar with the company's operations or marketing plan in order to fine-tune the plan.

Finally, proofread thoroughly for spelling, grammar, and formatting, enlisting the help of others to act as additional sets of eyes. You may begin to experience burnout from working on the plan for so long and have a need to set it aside for a bit to look at it again with fresh eyes.

6. Nail the Business Plan Presentation

The presentation of the business plan should succinctly highlight the key points outlined above and include additional material that would be helpful to potential investors such as financial information, resumes of key employees, or samples of marketing materials. It can also be beneficial to provide a report on past sales or financial performance and what the business has done to bring it back into positive territory.

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