

GRADE 9

BUSINESS STUDIES

UNIT 5

MY SMALL BUSINESS PROJECT (1)



COURSE BOOK 5

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GRADE 9

BUSINESS STUDIES

UNIT 5

MY SMALL BUSINESS PROJECT (1)

In this unit you will learn about;

TOPIC 1: BEING AN ENTREPRENEUR

TOPIC 2: THE BUSINESS PLAN

TOPIC 3: FINANCING A SMALL BUSINESS

TOPIC 4: COSTING AND PRICING

Acknowledgements

We acknowledge the contributions of all Primary Teachers who in one way or another helped to develop this course.

Our profound gratitude goes to the former Principal, Mr Demas Tongogo for leading FODE team towards this great achievement. Special thanks to the staff of MAL and Business Studies Department of FODE who played an active role in coordinating writing workshops, outsourcing lesson writing and editing processes.

We also acknowledge the professional guidance provided by Curriculum and Development Assessment Division throughout the processes of writing and, the services given by member of the Primary Section and Academic Committees.

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DIANA TEIT AKIS

PRINCIPAL

Compiled by: Doris Payok

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SECRETARY'S MESSAGE

Achieving a better future by individual students and their families, communities or the nation as a whole, depends on the kind of curriculum and the way it is delivered.

This course is part and parcel of the new reformed curriculum. The learning outcomes are student – centred and allow them to be demonstrated, assessed or measured.

It maintains the rationale, goals, aims and principles of the national curriculum and identifies the knowledge, skills, attitudes and values that students should achieve.

This is a provision by Flexible, Open and Distance Education as an alternative pathway of formal education.

The course promotes Papua New Guinea values and beliefs which are found in our Constitution, Government policies and reports. It is developed in line with the National Education Plan (2005 -2014) and addresses an increase in the number of school leavers which has been coupled with a lack of access to secondary and higher educational institutions.

Flexible, Open and Distance Education curriculum is guided by the Department of Education's Mission which is fivefold:

- To facilitate and promote the integral development of every individual
- To develop and encourage an education system which satisfies the requirements of Papua New Guinea and its people
- To establish, preserve and improve standards of education throughout Papua New Guinea
- To make the benefits of such education available as widely as possible to all of the people
- To make the education accessible to the poor and physically, mentally and socially handicapped as well as to those who are educationally disadvantaged.

The college is enhanced to provide alternative and comparable pathways for students and adults to complete their education through a one system, many pathways and same outcomes.

It is our vision that Papua New Guineans harness all appropriate and affordable technologies to pursue this program.

I commend all those teachers, curriculum writers and instructional designers who have contributed so much in developing this course.



DR. UKE KOMBRA PhD
Secretary for Education

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UNIT 5: INTRODUCTION



This is the fifth unit in the Grade 9 Business Studies Course. This Unit will study part 1 of 'My Small Business Project. Part 2 will be covered in Unit 6. Part 1 in this Unit aims to give you the skills and knowledge to make a living for yourself in the community. That is, ways in which you can earn an income to sustain your livelihood.

Furthermore, the unit teaches you how to make use of your skills with the available resources in your community. You are able to get into income earning activities and contribute by providing for your community's demand for goods and services. One way or the other you are helping to develop Papua New Guinea.

The Unit 5 Course Book, Part 1 has four Topics. These Topics are;

Topic 1: Being an Entrepreneur (*pronounced as on-tra-pre-new-ar*)

There are five Lessons in this Topic. It teaches you how to become an entrepreneur. It teaches you the knowledge and the skills you should acquire to become a successful entrepreneur.

Topic 2: The Business Plan

There are four Lessons in this Topic. It teaches you how to plan your business. It also teaches you the importance of having a business plan.

Topic 3: Financing a Small Business

There are two Lessons in this Topic. It teaches you how to access funds to help you start your entrepreneur business. It also teaches you where to get these funds.





Topic 4: Costing and Pricing

There are three Lessons in this Topic. It teaches you how to cost and price your goods and services. It also teaches you how to keep a record of all the money coming into and going out of the business using a cash flow record.

STUDY GUIDE

- Step 1:** Start with Topic 1, study Lesson 1 and do the Lesson Activities as you go along. When you have completed Lesson 1, do Practice Exercise 1.
- Step 2:** When you have completed Lesson 1 Activities and Practice Exercise 1, turn to the end of Topic 1 and the Unit Book to correct your answers. The answers for your Practice Exercises are at the end of the Topic while the answers for your Lesson Activities are at the end of the Unit Book.
- Step 3:** If you make any mistake, go back to the lesson and revise well and try to understand why you gave an incorrect answer.
- Step 4:** When you have completed steps 1-3, tick the box for Lesson 1 on the contents' page (page 3) like this,
- Topic 1: Being and Entrepreneur
- Lesson 1: Who is an Entrepreneur?
- Step 5:** Go to Lesson 2 and repeat the same process until you complete all the Lessons in Topic 1
- Step 6:** After completing the Lessons and Practice Exercises in each Topic, then complete each Topic Test in the Assessment Book 5.
- Step 7:** After you have studied the whole Unit, do also the Unit Examination in the Assessment Book 5.
- Step 8:** Check through your Assessment Book 5 when you are satisfied, then send it to your provincial centers for marking. The provincial centers will advise you on how to apply for your external examinations.

Icons

			
Introduction	Target of the Lesson	Lesson Activity Practice Exercise	Summary

Assessment

You will do four Topic Tests and a Unit Examination.

Your assessment book will be marked by your distance teacher. The marks you score will count towards your final mark and grade.

If your score is less than 50% in any assignment, you must repeat that assignment. If you continue to score less than 50% in your assignment three consecutive times, then, your enrollment will be cancelled, and you need to re-enroll if you wish to continue this Course.

Study Schedule

Here is a Study Schedule. It will guide you on a weekly basis. The Study Schedule will help you to complete your Course Book and its Assessment.

WEEKS	TOPIC/ LESSON NUMBER	ASSESSMENT	COMMENTS
1-3	Topic 1 Lessons 1-5	Topic 1 Test	
4- 6	Topic 2 Lessons 6-9	Topic 2 Test	
7- 8	Topic 3 Lessons 10-11	Topic 3 Test	
9-10	Topic 4 Lessons 12-14	Topic 4 Test and Unit Examination	
10	Submit your Assignment 4 to your Provincial Centre for marking.		

As you complete each Lesson, tick the box on the contents' page. Each Lesson must be completed within 40 minutes. This helps you show what you have done and what you still have to do in each Topic.

All the Best

TOPIC 1

BEING AN ENTREPRENEUR

In this topic, you will learn about;

- **Who an Entrepreneur is**
- **Ethical Business Practice**
- **Challenges of Entrepreneurship**
- **Tourism as a Business**
- **Promoting Tourism**

TOPIC 1: INTRODUCTION



Welcome to Topic 1: 'Being an Entrepreneur'. In this Topic, you will learn about who entrepreneurs are and how to become an entrepreneur. You will also learn about the challenges and the advantages and disadvantages of getting into an entrepreneurial business.

This Topic contains five Lessons.

Lesson 1: Who is an entrepreneur?

This Lesson defines who an entrepreneur is and ways of you getting into an entrepreneurial business.

Lesson 2: Ethical Business Practice

This Lesson identifies and discusses ethical business practices. It also identifies the importance of ethics in business or enterprises.

Lesson 3: Challenges of an Entrepreneurship

This Lesson will cover challenges of an entrepreneurship. It will also discuss the advantages of being a small business.

Lesson 4: Tourism as a Business

This Lesson will cover tourism as a business. It will identify the ways in which you can get into business through tourism.

Lesson 5: Promoting Tourism

This Lesson will cover promotion of tourism. It will discuss the importance of tourism and its advantages and disadvantages. It will also discuss how tourism can be made known to the outside world.

Lesson 1: Who is an Entrepreneur?



Introduction:

Welcome to Lesson 1 of Unit 9.5, 'My Small Business Project' (1). Lesson 1 is also the first lesson for this Unit. In the previous Unit, you learnt about Business Communication. In this Lesson, you will learn about who entrepreneurs are and what they do.



Your Aims:

- Define who an entrepreneur is and discuss his or her roles
 - Identify the reasons of being an entrepreneur
 - Identify the small entrepreneurial activities in Papua New Guinea
 - Identify the characteristics of a successful entrepreneur
 - Identify good management skills of an entrepreneur
-

Who is an Entrepreneur?

People get into business with the aim of making profit. Who is an entrepreneur in business?

Before we can find out what the word entrepreneur means, let us find out where the term or word entrepreneur came from.



The term entrepreneur is derived or came from the French word, 'entreprendre,' which means, 'to undertake' or take into someone's own hands. An entrepreneur is involved in the enterprise business.

Enterprise refers to undertaking or going into a business activity or project to earn profit.



Can you now be able to tell me who an entrepreneur is?

An Entrepreneur (pronounced as on-tra-pri-new-ar) refers to someone who is innovative, creative, can organise, manage and take risks in a business while aiming to make profit.

Enterprising is one of the four factors of production that involves satisfying the needs and wants of people at the same time earning an income. The income earned from enterprising is called profit. The other factors of production are land, labour and capital. For now, you will study enterprise.

Roles of entrepreneurs

Entrepreneurs play a number of important roles in an economy. What are these roles?

1. Filling in the market gaps

Entrepreneurs though small may contribute one way or the other greatly to the business world and the economy as a whole. Market gap refers to a situation where

the demands of customers are not met at a particular point in time. So, entrepreneurs provide goods and services that people need and want to have but are not presently met by operating businesses. Entrepreneurs are the ones who discover the consumer's demand for a particular good or service. They produce these goods and services to meet that particular demand. For example, travel agencies like Leisure Travel aid or help Air Niugini by making travel arrangements for people who want a fast service. These travel agencies do not own aeroplanes but due to the increasing number of people travelling by Air Niugini, the travel agencies come in between to make travelling arrangements easier for Air Niugini. Otherwise, there will be too many people in Air Niugini offices queuing or standing in line to be served. This will cause a lot of frustrations among customers and they will opt or decide to go for other airline services like Trave Air I (Mangi lo Ples) or Airlines PNG.

2. Create job and employment

When entrepreneurs get into business they help to create employment opportunities for people who will be able to work and earn an income. Thus, they are able to improve their standard of living. This means, they can now buy things they need or want.

3. Pay tax to the government

The entrepreneurs' income from profit helps the economy to grow by paying tax to the government just like other businesses. The tax paid to the government is one of the ways the government raises its revenue or income to provide goods and services to its people like roads, bridges, wharves, health and education. These goods and services are accessed or used freely.

4. Create competition

Entrepreneurs also encourage competition. They come up with creative ideas on new products and services to compete with other existing businesses for the purpose of introducing better or cheaper products at the same time making reasonable profit.

So, all in all, the main aim of an entrepreneur is to be innovative by trying out new ideas and taking risks if there is money to be made. Innovative refers to making something new and creative. Risks refer to the chances of things going wrong.



Activity 1.1: Complete activities given below.

1. Define the following words.

- (a) Enterprise _____
(b) Entrepreneur _____

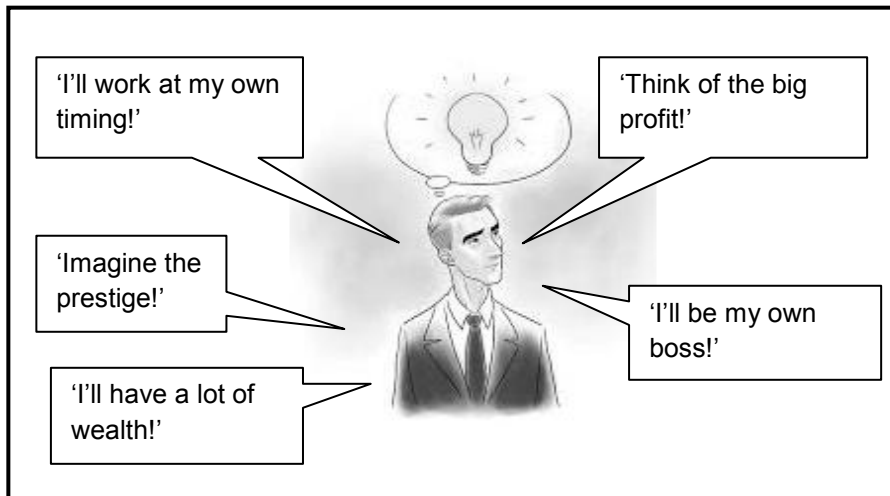
2. Name the income earned by the following.

- (a) Entrepreneur _____
(b) Workers _____
-

Reasons of being an Entrepreneur

There are several reasons why people want to get into business or enterprising.

Look at the picture below to see what goes on in the mind of an entrepreneur.



The diagram above shows what an entrepreneur thinks of when intending or planning to get into business.
Source: Internet- 2014.

Here are the following reasons for becoming an entrepreneur, or you can also say being self-employed.

1. Increase personal wealth

As mentioned earlier, the income of an entrepreneur or a self-employed person is called the profit. The Profit refers to the excess earnings over expenses from running a business. The profit can increase one's personal wealth. A self-employed person can use the profit to buy equipment and materials for the business activity. These things will be used to expand the business. As the business expands and profits increase, so does the personal wealth of the business owner.

2. Being your own boss

Some people always want to be their own bosses. They want to do things their own way. Doing it their own way means freedom from the control of other people. Going into business by oneself is one way of becoming self-reliant. People who choose to be self-reliant through business often manage themselves. They do not rely on other people to control them. People with a strong desire to be their own bosses are highly confident in their abilities to take care of themselves. All they want in life is more control. Many successful business people who are independent are also highly self-disciplined.

3. Be independent

Independent in business refers to the business being operated by the owner himself or herself. Independence and being your own boss are related. These two concepts deal with the idea of control. An independent person wants to take full control of his or her business as well as his or her life. People who are independent are highly self-disciplined. They have set goals to achieve in their lives.

In business, an independent person makes a personal choice to take risks. They enjoy the profits earned from business activities they themselves operate. Likewise, if a loss is made, he or she suffers the loss. The effect of the business activities, big or small, is felt entirely by the independent person.

4. Make your own decision

To control, being independent and being your own boss comes with decision-making. Decision making is crucial or important in your personal lives as well as in any organisation whether it is big or small, public or private. People make decisions every day. People who are highly independent have to make decisions on their own. They can also make these decisions quickly without wasting any time. For example, a decision can be made instantly if a business opportunity arises.

Small business persons make a lot of decisions every day. Some decisions are rational, while others are based on intuition. Rational means being reasonable and sensible. Intuition is a decision based on one's instincts or strong feeling for something.

A rational decision is one that is made based on some logical process. Usually rational decisions take some time to think through by considering the advantages and disadvantages.

Independent people who are their own bosses tend to make decisions based on intuition. Some of the intuitive decisions made may be good whilst others maybe bad. Good decisions bring positive rewards such as higher profit. Bad decisions however, lead to negative results. But independent minded people are prepared for such outcomes with the decisions they make daily. Independent people are not answerable to others. They take full responsibility of their decisions. For example, if they make a bad decision for their business, then they will not be fired. This is because there is no other boss except themselves. This is what attracts people to get involved in self-employed business activities . Nearly all people who have a need for independence in business operate sole proprietary type businesses.

5. Making use of skills

There are many people today who possess special skills. Most of these skills are learnt at school while a few people learn certain skills by observing other people. For example, carpentry, mechanical and welding skills or trades that people learn while attending technical colleges. These are special skills that people can use in life. They apply these trade skills through employment. However, not everyone enjoys working for others.



A WELDER

Source: Internet-2014

People are attracted to self-employment in order to fully utilise and practise special skills they possess. People who put to use special skills in business achieve greater satisfaction in their business. They are able to earn an income from their activities. They have total freedom to practice these skills the way they want to and without any control from outside.

6. To create employment for relatives, friends and community members

People also get into business with the intention of helping their relatives, friends and community members. Not only are they interested in profit making but to help others earn income to improve their standard of living.



Activity 1.2: Complete activities given below.

1. Define the following words.

(a) Independent _____

(b) Rational _____

(c) Intuition _____

2. Fill in the table by listing and explaining the reasons for being an entrepreneur. Your explanation must be brief and straight to the point like the example given in the table.

Reasons for being an entrepreneur	Explanation
Example: Increase wealth	To make money and expand the business.

What are some of the Entrepreneurial Activities in Papua New Guinea?

In Papua New Guinea, many people are now engaged in small business activities purposely to meet the growing demands of the people at the same time earn an income.

Some examples of the many small entrepreneurial activities in Papua New Guinea are;

- Fast cooked food and Kai Bars
- Trade Stores
- Poultry
- Fruit and vegetable farming
- Tailoring Business
- Taxi and PMV Services
- Auto Mechanic
- Plumbing and Construction Services
- Guest house
- Fish farming
- Piggery
- Second hand clothes retailing
- Horticulture
- Floriculture

Now, turn to the next page to see the entrepreneurial activities that people in Papua New Guinea can be involved in.



The above picture shows some entrepreneurial activities in Papua New Guinea.
Source: Internet-2014.

What are the Characteristics of a Successful Entrepreneur?

There are seven important characteristics which entrepreneurs possess. They include;

Characteristics	Explanation
Independence	Entrepreneurs enjoy the freedom to operate and make independent decisions.
Confidence	Entrepreneurs have confidence in their own ability to become successful.
Discipline	Entrepreneurs are highly organised in their approach. They persist in what they set out to do and learn from their mistakes.
Drive	Entrepreneurs are motivated by their own interests and aspirations. They are also good at goal setting.
Initiative	Entrepreneurs think creatively to solve problems. They are flexible and consider different alternatives before selecting the logical solutions to a problem.
Leadership	Entrepreneurs are able to motivate others to produce results. They can influence others. They also achieve cooperation and teamwork and lead as role models.
Risk taking	Entrepreneurs promptly respond to challenges. They are prepared to accept any failure if it happens. However, they never stop looking out for new opportunities.



Activity 1.3: Complete activity given below.

List at least seven (7) characteristics of a successful entrepreneur.

1. _____
2. _____
3. _____
4. _____
5. _____
6. _____
7. _____

What are the Good Management Skills of an Entrepreneur?

There are four areas an entrepreneur needs to develop to become a strong manager.

1. *Planning Skills*: This involves establishing goals and ways of achieving them in business.

2. *Organising Skills*: This involves arranging people and work to accomplish objectives.

3. *Leading Skills*: This involves encouraging the human factor to perform.

4. *Controlling Skills*: This involves ensuring that performance conforms to the plan. Conform means to work according to given instructions.

An entrepreneur may have all these four skills however, most will have to engage or find some people with these skills to enable the business to operate.

Summary:



You have come to the end of Lesson 1. In this Lesson, you learnt that;

- Entrepreneur refers to someone who is innovative, creative, can organise, can manage and takes risks in a business while aiming to make profit.
- Enterprising is one of the four factors of production that involves satisfying the needs and wants of people at the same time earning an income.
- The roles of the entrepreneur are;
 - Filling in the market gap
 - Creating competition
 - Creating job and employment for oneself
 - Making use of skills
- The reasons of being an entrepreneur are;
 - Increase personal wealth
 - Make your own decisions
 - Be your own boss
 - Make use of skills
 - Be independent
 - Create employment for friends, family and relatives
- The characteristics of a successful entrepreneur are;
 - Independence
 - Drive
 - Risk taking
 - Confidence
 - Initiative
 - Discipline
 - Leadership

NOW DO PRACTICE EXERCISE 1 ON THE NEXT PAGE



Practice Exercise 1

1. List the four (4) important roles of an entrepreneur.

- (a) _____ (c) _____
 (b) _____ (d) _____

2. Name some entrepreneurial business activities that you can see in and around where you live.

3. The table below shows the entrepreneurial qualities on the right column and the definitions on the left column. However, the description does not match the qualities. You are to connect the entrepreneurial quality with the right description by drawing an arrow towards it. The first one has been done for you.

Entrepreneurial quality	Descriptions
Independence	The ability to set a good example to their workers in a professional manner and guide others in what they should do.
Confidence	Having the freedom to operate and make personal independent decisions.
Discipline	Do things before being asked or forced to by events.
Drive	They are moderate risk takers and promptly respond to challenges and accept failure when it happens and does not stop looking out for new opportunities.
Initiative	Having to do things that meet or beat the current standards of excellence and improve on the past performance. Or strive to do things better at a faster rate and cheaper price compared to the past.
Leadership	Have a strong belief in oneself and their own ability to become successful regardless of challenges that may face.
Risk taking	An entrepreneur who has the ability to work for long hours with restless nights starting from morning to noon.

CHECK YOUR WORK. ANSWERS ARE AT THE END OF TOPIC 1

Lesson 2: Ethical Business Practices



Introduction:

Welcome to Lesson 2. In the previous Lesson, you learnt about who an entrepreneur is. In this Lesson, you will learn about ethical business practices and their importance in business.



Your Aims:

- Define ethical business practices and their importance to the businesses and the customers
 - Identify good ethical business practices leading to business success
 - Discuss the business code of ethics.
-

Ethical Business Practices and their importance to the Businesses and their Customers

Before you get too excited and get straight into business, like an entrepreneur business which you have learnt in the previous Lesson, you must take note of an important aspect or part of operating a business. That important aspect or part of the business is the ethical practices of the business.

Let us define what ethical business practice is. But before that let us find out what the word ethical means?



The word ethical comes from the word ethics. So what is ethics? Ethics refers to the study of moral standards and how they affect conduct. Moral refers to issues of right and wrong and how an individual person should behave. Conduct simply refers to behaving in a particular manner. So ethics looks at the right and the wrong behaviour or actions of people and businesses and the causes and the effects of these behaviours or actions on others.

Now, how can you define ethical business practice?

Ethical business practices are the actions performed and attitudes held by a business and its employees that are considered professionally and morally responsible.

Therefore, businesses must ensure that their actions are in the best interest of those around them which include the workers and their customers.

Importance of ethical business practices

The importance of ethical business practices is to promote the goals of the company without sacrificing the common goods of its employees, customers and even competitors. This often includes programmes to ensure employees are treated fairly for instance, hiring and promotion of workers, treating customers fairly and being honest with regards to programmes to increase sales.

Let us take a look at an example of the treatment to employees especially the female population working for a business. All female workers have their right to maternity leave. Maternity leave refers to the period of time a pregnant woman stays away from work during pregnancy or around the time of childbirth. The normal ethical business practice for businesses is that females who are pregnant take maternity leave which is six weeks before birth and 6 weeks after birth. During that time whilst they are on

leave, they are entitled to still receive their normal wage or salary in full. If a business terminates a woman who falls pregnant whilst working, then this shows that they are simply unethical. They are in favour of money than thinking of the common good of their employees. They may be taken to court for that.



Activity 2.1: Complete activities given below.

1. Define

(a) Ethics _____

(b) Ethical Business Practice _____

2. State the importance of ethical business practices.

Good Ethical Business Practices Leading to Business Success

Businesses will surely succeed in the long run if they develop good ethical business practices.

Let us look at some of the ethical business practices that businesses must carry out in their everyday business dealings.

1. Honesty

Honesty refers to being truthful. This means whatever your business dealings are you must be true to what you do. For example, a business that earns over K10 000 in a year is supposed to pay tax to the government. Though your business earns more than this amount, you may prepare your financial report as earning less thus you are exempted or required to pay tax. This means that you have cheated. Eventually the law will catch up with you.

Also, when making advertisements about the goods you sell, do not give false information. This will lead to negative comments made about your business and in the long run lead to its failure.

2. Trust

Trust refers to confidence in and reliance on good qualities, especially fairness, truth, honour or ability. Ensure your business always provides the best goods and services to your customers. When they have problems with the goods purchased from you have it repaired on time. Responding quickly to their queries encourages them to keep coming back to your business. Your regular customers can also help to bring in more customers by informing them of the quality of goods and services you provide.

3. Solve customer problems or needs

When your customers encounter problems, you need to follow up. For example, if your business deals with car repair and customers bring in their cars to repair, ensure that they are informed on the progress of their vehicles. If there are parts they cannot afford, you can help by giving discounts. In the long run, more people will want what your business provides whether it is goods or services your business offers.

4. Charge customers fairly for goods or services

When you charge your customers the real prices of the goods and services, they will buy more of them. Since customers always compare prices before they buy, they will know they have been cheated if you charge them hefty or high prices. Businesses must not only think of making fast money but put customers first since they are the ones spending money in the first place.

5. Repay debts as agreed to

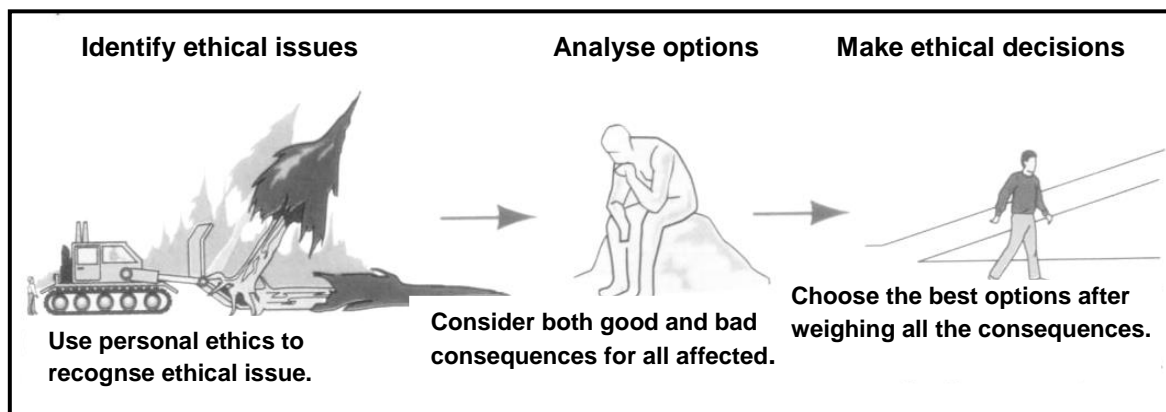
Businesses must make payments to their suppliers on time. Prolonged or extending the date of payment will lead to the suppliers losing trust in the business. This means other suppliers will not want to do business with you.

When dealing with comments from other people it is always wise to think and act ethically. This means an entrepreneur must identify the issues, analyse options and make ethical decisions.

Guidelines for ethical decision making

To identify the elements of a problem, an entrepreneur must use these questions to help him/her solve ethical problems.

- Is the problem a case of different options, a conflict of interest or a question of right and fairness?
- Or is it a personal problem, a company problem, an industry problem or a cultural problem?
- Who is affected?
- Are there other ways of solving the problem?
- Does the suggested solution support the image that the business wishes to have with its employees, customers, competitors and even the general public?



The above diagram shows how to make ethical decisions.
Source: Internet-2014.



Activity 2.2: Complete activities given below.

1. List some of the ethical business practices that lead to business success.

- (a) _____
- (b) _____
- (c) _____
- (d) _____
- (e) _____

2. Why should customers and the general public be thoughtful of when making ethical decisions?

What is the Business Code of Ethics?

A business as you can see is not only about making money. It is about how the business conducts itself or carries out its activities so that it prospers meaningfully and successfully. Whatever business activities that it carries out must take into consideration its partners, employees, customers and other competitors.



So how do businesses take care of their conduct or behaviour and make profit at the same time ?

The business is able to take care of its conduct or behaviour and make profit at the same time make profit through what is called 'The Business Code of Ethics'. In fact, the progress of the business depends on its Code of Ethics.

As you have seen earlier on if people are not treated well, then the business will lose potential customers whom they are supposed to make money from.

Business Code of Ethics sounds difficult. What is it?



Business Code of Ethics refers to a written set of guidelines by an organisation for its workers and management to help them conduct their actions in accordance with the primary values and ethical standards of the business.

Primary values and ethical standards refer to the common reasoning of what is right and wrong to do in the business. Businesses have these guidelines or rules that its employees must abide by for the business to be transparent in its business dealings. Transparent refers to something done clearly. Workers and management must work together so they know the plans of the business and how to effectively carry out these plans. In the Business Code of Ethics, there are set penalties that are imposed or carried out. If they go against these set guidelines or rules for example, if an employee steals money from the business he or she may be terminated on the spot without any warning letters given.

In the Business Code of Ethics, businesses must have the 'Statement of the Core Values' of the business. What is a Statement of the Core Values? A Statement of the Core Values refer to a written statement about the main existence of the business. In the business's Statement of Core Values, the following areas state the importance of the business.

1. Company Vision

Company vision refers to the business's goals that it aims to achieve in the future.

2. Principles

Principles refer to the company or the business's laws or rules on how it will operate dealing with its business partners, employees and customers.

3. Values

Values look at the importance of the business to the people.

4. Mission

Mission refers to what the business will do in the meantime to reach its ultimate or desired goals.

As the company or business grows over the years and becomes successful, it must be able to show this Statement of Core Values which make the Business Code of ethics even clearer.

Let us take a look at a large organisation like PNG Customs. PNG Customs is a business arm of the government that generates or makes money for the country. These are its vision, mission and values.

Customs Vision

Spirited and committed to be a regional leader in securing our international borders to enhance the security and socioeconomic development of Papua New Guinea. Socio-economic refers to how wealth is to be distributed to people to improve their living standards. For example, the government provides schools and hospitals for its people to access or get to be educated or treated for their illnesses. Also, they aim to protect our country from illegal items coming into our country which are likely to destroy our people and resources.

Customs Mission

Protect Papua New Guinea's borders, communities and industries; enhance facilitation of international trade and travel; and protect and collect revenue for the government. Facilitate refers to making it easier for something to happen. So in this case, they help the government collect tax and other income concerning things coming from outside of Papua New Guinea. Their mission is also to stop illegal items from entering our country.

Customs Values

1. Commitment

We are committed to maintaining the Customs long standing tradition of protecting the community and contributing to the development and prosperity of Papua New Guinea.

2. Professionalism

We develop our human resource to be professionally trained and embrace international best practices. Embrace refers to taking hold of something. So customs workers are to give their best to serving their country without fear or favour. They must not be involved in any corrupt act like accepting bribes from foreigners.

3. Service

We will render high standards to the Government, community, local industry and external stakeholders, whilst being mindful of the need to reduce impediments to trade and investment. Render refers to providing something for others to enjoy whilst impediments refer to things that disturb the progress of something.

4. Integrity

We maintain high Christian principles and are honest, transparent and accountable in our actions and decisions we make, for a fair and equitable outcome for the Government, community, local industries and investors. Corrupt practices must not be entertained at all times .



The signpost above shows that Business Code of Ethics is like a sign post that guides businesses as to which is the right and the Wrong Way.

Source: Internet-2015



Activity 2.3: Complete activities given below.

1. Define the following words.

- (a) Transparent _____
- (b) Socio-economic _____
- (c) Facilitate _____

2. Explain the Statement of the Core Values.

Summary:



You have come to the end of Lesson 2. In this Lesson, you learnt that;

- The word ethical comes from the word ethics.
 - Ethics refers to the study of moral standards and how they affect conduct.
 - Moral refers to issues of right and wrong and how an individual person should behave.
 - Conduct refers to behaving in a particular manner.
 - Ethics looks at the right and the wrong behaviour or actions of people and the causes and the effects of these behaviours or actions on others and businesses.
 - The ethical business practice refers to actions performed and attitudes held by a business and its employees that are considered professionally and morally responsible.
 - There are good business ethical practices that businesses can follow in order to succeed. They are;
 1. Trust
 2. Honesty
 3. Solve customers' problems and needs
 4. Charge customers fairly for goods or services
 5. Replace faulty items bought
 - Business Code of Ethics refer to a written set of guidelines by an organisation for its workers and management to help them conduct their actions in accordance with the primary values and ethical standards of the business.
 - Primary values and ethical standards refer to the common reasoning of what is right and wrong to do in the business.
 - In the Business's Code of Ethics, it must have the Statement of the Core Values of the business.
 - The following are found in the Statement of Core Values. Vision, Principles, Mission and Values.
-

NOW DO PRACTICE EXERCISE ON THE NEXT PAGE

**Practice Exercise 2**

1. Fill in the table by listing down five unethical things you would do in business if you were the manager.

(a)
(b)
(c)
(d)
(e)

2. Fill in the table by stating the Statement of Core Value of business and explain what they are.

Statement of Core Value	Explanation

CHECK YOUR WORK. ANSWERS ARE AT THE END OF TOPIC

Lesson 3: Challenges of Entrepreneurship



Introduction:

Welcome to Lesson 3. In the previous Lesson, you learnt about the importance of ethics in business. In this Lesson, you will learn about the challenges faced by entrepreneurs.



Your Aims:

- Define challenges
 - Identify the challenges of entrepreneurship
 - Identify the disadvantages of being small
-

What is a Challenge?

Many business organisations, whether big or small are often faced with a lot of challenges. In small businesses, the entrepreneur is often faced with both internal and external challenges. These challenges are known as entrepreneurial challenges.

I have forgotten who an entrepreneur is.



An entrepreneur is someone who is innovative, creative, can organise, can manage and takes risks while aiming to make a profit.

Before you can go onto finding out what entrepreneurial challenges are, let us define the word challenge. A challenge refers to competing in a match, contest or competition.

So people entering the field of business as entrepreneurs more or less are getting into a challenge in the money making world. They will have to have the knowledge and the skills to be the best among many other entrepreneurs.

You know that entrepreneurs are aimed at making profits. Becoming an entrepreneur means you also must have very good plans to attract customers to your business in order to become successful compared to other entrepreneurs.

As you proceed on, you will look at what these challenges are.



Activity 3.1: Complete activities given below.

1. Define challenge.

2. Why is entrepreneurship a challenge?

Challenges of Entrepreneurship

To become a successful entrepreneur is not that easy. As mentioned earlier, there are many challenges that an entrepreneur will encounter or come across since there are already many entrepreneurs out there operating or others just like you who are starting.



Here, are some of the challenges that entrepreneurs experience.

1. Identify the Business Activity

With the talents or skills you have, you need to team up with others who have similar talents and skills in order to have your business idea become a reality. They will help you identify the right business activity that will suit your talents and skills and also help you plan for it.

2. Conduct Market Research

After identifying the business activity, the entrepreneur has to identify the market by conducting a market research and carry out a market survey to find out the level of demand for the particular product. Finding a market gap is a big challenge because it requires the entrepreneur to spend a lot of time and money to carry out the market research. It involves four methods – observation, using questionnaires, practical consultation and knowing through reading. These four methods can help an entrepreneur identify the right market gaps in a systematic way. However, if the entrepreneur does not identify the right market, then he is trapped in a wrong market and this can lead to the failure of his/her business. On the other hand, identifying the right market gaps will lead the entrepreneurs to making more profit, become successful and gain a lot of satisfaction as well. It can also increase self-esteem and self-confidence of the entrepreneurs.

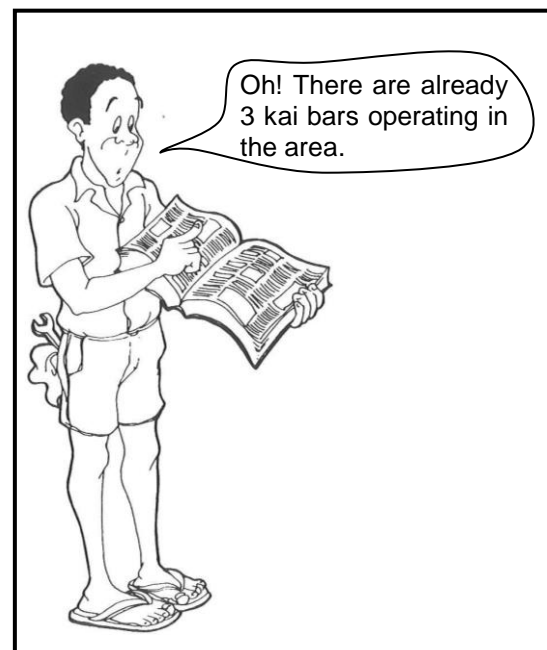
3. Identify competitors

A firm needs to know the number of competitors it will face. It should have a plan to encourage customers to buy from it instead of its competitors. The yellow pages in the telephone directory may provide information on these.

A business may plan to gain a certain share of the market within the first two to three years of starting up. This could be the result of taking the business away from its competitors as well as market growth.

4. Deciding where to locate your business

This approach is very important and is very challenging because it will determine the success of the business outcome.



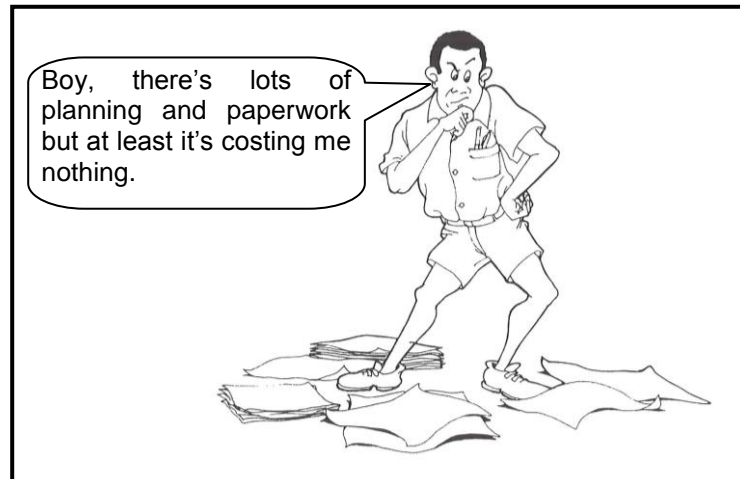
Source: Liklik Bisnis

The entrepreneur needs to find a suitable location where his or her potential customers can have access to goods and service he or she will be trading or selling.

The location has to be in an area where the competition is not that tough. It is very important for the entrepreneur to know the type of competition he or she will face because he or she needs to have a competitive plan to encourage his/her customers to buy from him/her instead of other business competitors. For example, if Kilagi wishes to open a Kai bar at Taurama in Port Moresby he really has to consider the number of Kai bars that are operating there and then come up with an idea as to how he will attract the customers to his Kai bar.

5. Detailed Planning

Once the entrepreneur is satisfied after careful research that they are likely to be successful, a detailed plan must be drawn up. This will describe how the business will be set up and managed.



Source: Liklik Bisnis

6. Developing personal relationship with customers

Once you are already settled and business is now functioning or operating as expected, you must look at developing your customer relationship. It is very important at the start to attract your customers. Therefore, you must focus on your customers and listen to their needs.

7. Keeping up with innovation

One of the biggest challenges facing entrepreneurs today is new technology. Entrepreneurs must keep up to date with technology that will move their business with time and the demand for the product of their business, whether its goods or services they are providing. Innovation refers to the act or process of inventing or introducing new things.

8. Taking on too much

One of the biggest problems of entrepreneurs is that they cannot say 'no'. The company over confidentially or thinks it can do more than it can, when it gets past the startup phase. These causes the entrepreneurs to fail because they just cannot keep up with all the promises at the same time.

9. Creating a great culture

The entrepreneur must be able to show his or her customers that he or she is knowledgeable and skilful. Those who partner in this entrepreneur business must also be knowledgeable people. This will attract customers.

10. Keeping up with the government's regulations

You must always keep up with the government regulations like paying taxes. Avoiding laws set for you by the government will cost you a lot in the long run which slows the growth of your business.

11. Establish credibility

Credibility refers to being trustworthy. When you provide the best for your customers, you will gain their trust. This is because they know that no matter what the situation is, you will be able to provide the kind of goods or services they need or want according to their demands and on time. For example, you can transport their goods and also offer them discounts if they are your regular customers.

12. Balancing sales and marketing

When marketing your products which include advertising or promoting, you should be able to sell those goods as well. Otherwise, a lot of time and money might be used just trying to market your products, thus you will not be able to earn profit. You should be able to sell the products you advertise and promote in your marketing plan.

13. Managing the cash flow

You must make sure that there is some money put aside in case the budget planned falls short by some amount.

14. Staying focused

What your business is aimed at doing must be the centre of its concentration. For instance, if your business involves freighting or transporting then focus on this rather than selling fuel.

15. Thinking simple

Once your business is in progress, do things the simple way and see the results before going onto the more technical part of the business. For example, if you are running a Kai bar shop, you aim to provide food when paid for at the counter, but you may later on include service delivery on time for people who place their orders early.

16. Getting funds

You need to show the plan of your business and the business report like the cash flow statement and profit and loss statement in order for time the financial institutions like banks and other funding agencies to allow you to take out a loan from them.

17. Standing out

With the rapid or fast development in technology, it is better for you to make your business stand out. This means, if you want people around Papua New Guinea or other parts of the world to know about your products, then you need to advertise in many ways possible. For example, through the Internet services like Facebook, Twitter and Yahoo. When people enquire about your business, give them as much information as possible about your business. The information you give must be true.

So these are some of the challenges that entrepreneurs are likely to face when they get into entrepreneurship.

Now, turn to the next page to do activity 3.2.



Activity 3.2: Complete activity given below.

Fill in the table by listing the seventeen (17) challenges that entrepreneurs face.

1.	8.	15.
2.	9.	16.
3.	10.	17.
4.	11.	
5.	12.	
6.	13.	
7.	14.	

Disadvantages of being small

Apart from the usual challenges of an entrepreneur as mentioned above, there are quite a number of disadvantages, you as the entrepreneur may face.

1. You will not get a monthly regular salary

This means that how much you make will depend on how good the business is.

2. You risk losing everything you have worked for

Risk is the chance of something going wrong. This means, if the business breaks down, then you are likely to lose everything.

3. Accept failure in order to be successful

Failing is sometimes good for an entrepreneur, as long as they learn from the experience.

4. Inexperience

You will have to learn a whole lot of new skills. You can fast track this by attending business courses and consulting a mentor or a good business advisor.

5. A change in lifestyle

You will be working long hours at the start of the business operation. As your business develops and you become more organised, your lifestyle may improve.

6. Cannot hold people liable

Liable is being responsible. This means you are largely responsible for every decision you make in your business be it good or bad. Bad decisions can cost you a lot of money.

7. Perform many tasks at one time

You will learn to be a 'Jack of all trade' which means that you will perform many tasks at the same time. For example, you can be a store manager and accountant and a carpenter at the same time.

8. Difficulty in obtaining capital

Owners usually face greater difficulties in obtaining capital for starting a small business. Firstly, the owner's available assets only are not enough when small businesses are set up. Secondly, once they are set up they lack sufficient assets to provide the security that the financial institutions like the banks require for them to get bank loans. Security is the things that the bank will possess in the event that the owner fails to complete paying of the loan. These are items like, car, house, boat and land.

**Activity 3.3: Complete activity given below.**

Fill in the table by listing and explaining the eight (8) disadvantages of being an entrepreneur.

Disadvantages	Explanations

Summary:



You have come to the end of Lesson 3. In this Lesson you learnt that;

- A challenge is a match, contest or competition.
- Those who are getting into entrepreneurship should know that they are getting into a challenge in the business world.
- They must have the knowledge and the skills in order to succeed in the business world.
- The entrepreneurs' aim is to make a profit at the same time maintain their customers who will in the long run help the business to become successful.
- There are many challenges that entrepreneurs will experience when going into business.
 1. Identify the business activity
 2. Conduct market research
 3. Identify the competitors
 4. Decide where to locate your business
 5. Detailed planning
 6. Develop a personal relationship with customers
 7. Keep up with innovation
 8. Take on too much
 9. Create a great culture
 10. Keep up with government regulations
 11. Establish credibility
 12. Balance Sales and marketing
 13. Manage cash flow
 14. Stay focused
 15. Think simple
 16. Get funds
 17. Stand out
- There are also disadvantages that the entrepreneurs must be aware of when they are getting into entrepreneurship.
 1. You will not get a monthly regular salary
 2. You risk losing everything you have worked for
 3. Accept failure in order to be successful
 4. Inexperience
 5. A change in lifestyle
 6. Cannot hold people liable
 7. Perform many tasks at one time
 8. Difficulty in obtaining capital

NOW DO PRACTICE EXERCISE 3 ON THE NEXT PAGE



Practice Exercise 3

1. Define the following words.

(a) Credibility _____

(b) Innovation _____

(c) Liable _____

(d) Security _____

2. What is meant by 'Jack of all Trade'?

3. List some advantages of being an entrepreneur.

CHECK YOUR WORK. ANSWERS ARE AT THE END OF TOPIC 1

Lesson 4: Tourism as a Business



Introduction:

Welcome to Lesson 4. In the previous Lesson, you learnt about challenges of being an entrepreneur. In this Lesson, you will learn about tourism and how tourism can be seen as a business opportunity.

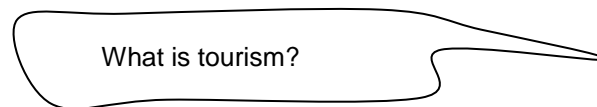


Your Aims:

- Define tourism
 - Discuss how tourism business can contribute to the economy of the country
 - Identify tourism activities in Papua New Guinea
 - Identify hospitality services required by the tourists
 - Identify and discuss advantages and disadvantages of tourism
-

What is Tourism?

Many countries are now tapping or getting into tourism as an opportunity to increase wealth for their country. The business of tourism has grown rapidly over the years and is recognised as an industry. It has become an industry because people have been able to earn income in many ways.



Now, before you go into looking at tourism, let us look at where the word tourism comes from. The word tourism is derived from the word tourist. A tourist is a traveller who visits places away from home for pleasure. The traveller travels from one place within the country or to another country for enjoyment purposes. So what is tourism? Tourism is the activity of travelling for pleasure.

Tourism is seen as a business because where the tourist travels to, is where he or she will spend money. Thus, the country where the tourists travel to, can make money by providing the goods and services that should satisfy the needs and wants of the tourists during the period of time they are there.



Activity 4.1: Complete activities given below.

1. Who is a tourist?

2. What is tourism?

How Tourism can contribute to the Economy of the Country

The tourism industry is an income earning opportunity for economies of countries around the world. What is an economy? An economy is the production and consumption of goods and services of a country. So this means that whatever

benefits tourism brings into a country in one way, everyone can benefit especially in terms of income or money.



How can tourism be seen as an economic activity?

Tourism can be seen as an economic activity when the government at the national level and people at the local or smaller level reap benefits. How does that happen?

This happens when tourists who travel to these countries enjoy themselves or get pleasure out of what they see and experience. These countries may have beautiful environment that the tourists who go there don't have in their country. Tourist do not just go freely and enjoy what is there, they will have to pay for these tourism services.

Let us look at the ways in which the government and its people will benefit:

1. Generates income for the government

When tourists are going to a particular country, the government of that country will benefit by the fact that these tourists will exchange their money for the particular country's currency they are visiting. This means that this particular country's foreign currency will increase. With more foreign currency, this country can afford to buy goods from other countries. For example, if more tourists come from Australia into our country PNG, PNG will have more Australian dollars thus it can import or buy more goods from Australia with its Australian Dollars. Likewise with all other countries.

2. Create employment

People will get into businesses that will try to satisfy the needs and wants of the tourists. When doing this, they create employment for themselves and for others. The tourists pay to stay in the hotels and pay for goods and other services like taxi or hire car and tour guides. For example, if a group of Australians are visiting the famous Kokoda Track in the Oro Province, they will first of all change their Australian Dollar into our Papua New Guinea currency, The Kina. When they arrive in PNG they will have to pay for the taxi fares and hotels for accommodation, food and porters and guards who will take care of them during their walk along the Kokoda Track.

3. Creates income earning opportunity

People are able to earn income when they provide the goods and services that will satisfy the needs and wants of the tourists as mentioned in point two above. When people are able to earn an income, they can pay for the goods and services they do not usually have.

With more income in their hands, they can venture or go into other business activities like a trade store, a bakery or tailoring.

4. Improve living standard

With more money in people's hands, they can access or easily get better goods and services which eventually will improve their living standards.



Activity 4.2: Complete activities given below.

1. Define economy

2. List how tourism can contribute to the economy of a country.

- (a) _____ (b) _____
 (c) _____ (d) _____

Tourism Activities in Papua New Guinea

There are many tourism activities that are in store for tourists when they come to Papua New Guinea.

Here are some of the activities that tourists can be part of to enjoy their touring in PNG.



TOURISM ACTIVITIES IN PNG

			
Trekking & Hiking	Diving	Surfing	
			
Fishing	Cruising	Bird watching	Kayaking
			
Snorkelling	Tour	Cultural events	

Source: Internet-2014



Activity 4.3: Complete activity given below.

List the activities that a tourist can enjoy whilst being here in PNG.

- | | |
|----------|-----------|
| 1. _____ | 6. _____ |
| 2. _____ | 7. _____ |
| 3. _____ | 8. _____ |
| 4. _____ | 9. _____ |
| 5. _____ | 10. _____ |

Hospitality Services required by Tourists

Tourists are like guests to the countries they are touring or visiting. Therefore, they must be treated like guests. They spend money to be provided the best tourism services so their requirements are taken care of. Countries must have hospitality services to meet the needs and wants of the tourists. What is hospitality? Hospitality is the relationship between the guests and the hosts. Hospitality includes entertainment of guests, visitors or strangers. There are many hospitality service providers that tourists can enquire and make their bookings. Examples of hospitality services are hotels, motels, lodges, guesthouses, resorts, restaurants, cafés, bars and catering companies. Some examples of hospitality providers in Papua New Guinea are; The Grand Papuan Hotel, The Weigh in Motel and The Shady Rest Hotel in Port Moresby, Kaivuna Resort in East New Britain Province and The Paradise Hotel in Eastern Highlands Province and Madang Resort in the Madang Province.

Tourists coming to PNG must arrange for the tourism and hospitality providers to take care of their needs and wants. They can contact the Tourism Promotion Authority to find out more about these service providers in Papua New Guinea.

Advantages and Disadvantages of Tourism

There are advantages and disadvantages that those who are part and partial of the tourism industry must be aware of. This includes the tourists and the tourism and hospitality providers.

Advantages

There are many benefits the country can get from tourism. The following are the main benefits.

1. Generate revenue or income for the country

As mentioned earlier, tourism helps to generate or create income for the country when tourists come into a country and spend money.

2. Creation of employment

Tourism provides employment. Most customers for many hotels and guest houses in the country are tourists. The hotels and guest houses make money from tourists to continue their operations. In doing so, tourism provides benefits of employing people to work in the hotels as cooks, dish washers, waitresses, bartenders, managers, cleaners, and so forth. Furthermore, they also provide employment for local tour guides or rangers when they tour rural areas and sleep in village bungalows.

3. Creates income earning opportunities

When people get into the business of trying to satisfy needs and wants of the tourists, they create an income for themselves and for others. Thus, when people are employed, they earn an income in which they are able to buy things they need and want.

4. Improve standard of living

When people are able to earn an income they buy more goods and better services which eventually will improve their standard of living.

5. Preserving our local culture

One of the main attractions to tourists is your culture. Culture refers to your way of life. Part of your culture that tourists are mainly interested in are; marriage and death ceremonies, singsings and dancing, cooking local dishes like mumu or aigir, building houses, and so forth. While you exhibit or showcase these culture at their right times, you are also maintaining and passing on your cultures to your children who in the future will carry on these cultures.

Disadvantages

It is normal that before tourists travel, they have to do a bit of research on their destinations. They seek information on the country through many sources, through the internet websites, tourist magazines, or even ask their friends who have been to these countries. The following are some of the common problems that tourist are likely to encounter when they are in Papua New Guinea.

1. Law and order problems

The law and order situation in the country is one of the factors that can stop tourists from entering the country. The government of Papua New Guinea must do its best to reduce the rate of law and order problems like rape, murder, tribal wars, petty crimes like pick-pocketing or bag snatching, and other criminal activities in the country. If the country has a serious law and order problem, then the number of tourists coming into the country will surely decrease.

2. Lack of infrastructure and poor services

Infrastructure refers to roads, bridges, hotels, airports, wharves, lodges, and so forth. You must have good infrastructure and good services in order to promote our country as a tourist destination. Again the Government must look into maintaining and providing better infrastructure. There should be current and existing good roads and air network linking all provinces where tourist sites are located. For example, if tourists are here to climb our highest mountain in the Simbu Province, then you must have a good road network from Kundiawa town to the foot of Mt Wilhelm. Other basic services such as communication and medical services should be at a reasonable price and not expensive. The tourism industry which provides lodging services like lodges, hotels, bungalows and others must charge fair prices. Such factors discussed above can keep tourists away from our country if our Government and business houses are ignorant about these vital infrastructure.

3. Bad attitude

We may say that tourists come to visit our country but in the process, they meet people as well. If people have attitude problems like being unfriendly, then they will find it difficult to communicate as well as feel unsafe to move around. A few people's attitude problem gives tourists a bad impression of our country.


Activity 4.4: Complete activity given below.

List the advantages and disadvantages of tourism.

Advantages	Disadvantages

Summary:


You have come to the end of Lesson 4. In this Lesson, you learnt that;

- A tourist is a traveller who visits places away or within the country and away from home.
- Tourism refers to the activity of travelling for pleasure.
- The tourism industry is an income earning opportunity for economies of countries around the world.
- The economy refers to the production and consumption of goods and services of a country. So this means, that whatever benefits tourism brings into a country in one way or the other, everyone should benefit especially in terms of income or money.
- The advantages of tourism are;
 1. Generate income (revenue)
 2. Provide employment
 3. Income earning opportunities
 4. Improve standard of living
 5. Empower your local culture
- Barriers to tourism in the country can be;
 1. Law and order problems
 2. Lack of infrastructure and proper services
 3. Bad attitudes towards tourists

NOW DO PRACTICE EXERCISE 4 ON THE NEXT PAGE



Practice Exercise 4

1. Name some attractive sites where you live and explain why they can be tourists' sites.

2. List some attitude problems that can discourage or stop tourists from coming to PNG.

3. What are some ways you can help tourism grow in your local area? Explain in three (3) sentences.

4. Explain what is done by tourists in each of these tourism activities.

Activities	What is done
1. Trekking & hiking	
2. Diving	
3. Surfing	
4. Fishing	
5. Cruising	
6. Bird watching	
7. Kayaking	
8. Snorkeling	
9. Tour	
10. Cultural events	

CHECK YOUR WORK. ANSWERS ARE AT THE END OF TOPIC 1

Lesson 5: Tourism Promotion



Introduction:

Welcome to Lesson 5. In the previous Lesson, you learnt about tourism as a business opportunity. In this Lesson, you will learn about tourism promotion. That is how tourism can be made known to people outside of Papua New Guinea as well as those within.



Your Aims:

- Define tourism promotion
 - Identify Tourism Promotion Authority
 - Identify the key players in the tourism industry
 - Identify the various tourist destinations in Papua New Guinea
-

What is Tourism Promotion?

As you have learnt in the previous Lesson tourism is one way in which the government of a country can generate or earn income for its economy. Let us recap what tourism is. Tourism refers to the activity of travelling for pleasure. Tourism creates an opportunity for people to get into business.



So what is tourism promotion? And what is its importance in the tourism industry?

Tourism promotion refers to publicising destinations to tourists so that they visit, spend money and go away happy.

Tourism promotion is important because tourists want to gain maximum satisfaction of pleasure for spending their money and time to go to those destinations or locations. They are well informed and know what to do.



Activity 5.1: Complete activities given below.

1. Explain tourism promotion

2. Why is tourism promotion important?

Tourism Promotion Authority

There are organisations in countries that help support and develop tourism. In Papua New Guinea, you have what is called the Papua New Guinea Tourism Promotion Authority.

Can you tell me what the Tourism Promotion Authority does?



The Papua New Guinea Tourism Promotion Authority (PNGTPA) is a statutory or government organisation funded by the Government of Papua New Guinea and established under the Papua New Guinea Tourism Promotion Act 1993.

Here, is a description of what PNGTPA does.

Roles or Functions of the Papua New Guinea Tourism Promotion Authority

The PNGTPA's primary function is to increase the economic benefits of tourism in PNG through;

- the provision of tourism policy advice and its implementation, and the promotion of PNG as a desired tourist destination. Implementation refers to action suggestions that have been made for the business to benefit.
- encouraging the provision, development and expansion of tourism infrastructure, facilities and products.
- assisting, guiding and facilitating new investment by local and international tourism entrepreneurs. Facilitate is to make something easy to do.
- increasing awareness, encouraging, assisting and promoting high levels of services, education and management within the tourism industry.
- monitoring and reporting the activities of tourism as well as the effects of international tourism on PNG.

Tourism has become a growing and important part of the PNG economy injecting an estimated 1 billion Kina into the economy and supporting an estimated 15,000 full time jobs. Tourism is particularly important as a source of income for communities in rural areas. Sustainable development of tourism offers a viable or strong economic future beyond the life of extractive industries such as mining and forestry.

Not all tourism operators have the funds and resources to successfully run a marketing campaign for themselves. Therefore, the Tourism Promotion Authority exists to ensure that the whole industry is represented fairly. The PNG Tourism Promotion Authority also ensures that Papua New Guinea is better equipped to host our international travellers and visitors.

The Papua New Guinea government has targeted tourism as a priority area for the economic development of the country and for the creation of both rural and urban employment opportunities.

Now, turn to the next page to do activity 5.2.



Activity 5.2: Complete activities given below.

1. When was the PNG Tourism Promotion Authority made a statutory organisation and recognised by the law? _____

2. How important is the PNG Tourism Promotion Authority?

Key Players in the Tourism Industry

The growth of the tourism sector has increased very quickly in the last few years as the overall economy has grown and the Government has shown more commitment towards the development and marketing of the sector concerning tourism in Papua New Guinea.

This increased support for tourism from the Government. An increase in demand from tourists has in turn created additional airline competition and additional international and domestic investment in accommodation, tours, restaurants and other product components. For example, more and new hotels built like The Grand Papuan Hotel in Port Moresby. Another example is Air Niugini issues VIP cards for those who frequently fly using its air services. These are some developments that help boost the tourism industry.

International tourism is a very competitive industry. For Papua New Guinea to be able to compete, and to provide enough visitors to sustain and grow the tourism industry in the country, it needs an organisation to effectively and consistently develop products, plan and effectively evaluate these developments and market and promote our unique tourism products, and that is the whole reason why PNGTPA was formed.



So, who really are the key players in the tourism industry?

The Papua New Guinea Tourism Promotion Authority sits under the Ministry of Tourism, Art and Culture together with its sister agencies such as, The National Cultural Commission and The National Museum and Art Gallery. All three agencies report to the Minister of Tourism, Arts and Culture.

PNGTPA is governed by the Papua New Guinea Tourism Promotion Authority Board which includes the Chairman of the Parliamentary Committee on Tourism, a deputy head of the Department of Finance and Treasury, the CEO of PNGTPA and seven other members that represent the interests of the tourism sector including hoteliers, tour operators, the airlines, the banks and the financial institutions, tourist attractions, and the niche tourism sector associations. Niche refers to a smaller part of the bigger part. For example, The Hiri Moale Festival Committee in the Nations Capital.

The PNG Tourism Promotion Authority ensures that Papua New Guinea gets a fair share of the tourist dollars on offer. In doing so, it creates partnerships with the private sector members (hoteliers, the airlines and tour operators) and the international trade partners (wholesalers, travel agents, tour operators, airlines) to promote our tourism products in our major markets.

It also ensures that Papua New Guinea is better equipped to host our international travellers and visitors. In doing so it carries out The National Tourism Master Plan 2007-2017 by looking at issues such as Investment Incentives and Product Development, Institutions and Industry Partnerships, Transport and infrastructure and Human Resource Development. For example, higher institutions like colleges must offer Tourism and Hospitality courses. This will enable Papua New Guineans to learn skills on how to take care of the needs of the international visitors. They can get into tourism and hospitality businesses.



Activity 5.3: Complete activity given below.

List the key players in the tourism industry.

Tourist Destinations in Papua New Guinea

Papua New Guinea is in the South Pacific and lies directly north of Australia. There are many tourist destinations that our country can offer to the international travellers. Most of what the tourists would like to see and enjoy are natural and unique.

Let us take a look at some of the tourist destinations in Papua New Guinea and what they can offer to the international travellers.

1. Port Moresby

The capital city of Papua New Guinea has interesting Zoological gardens, the Parliament building, the museum and the general Melanesian atmosphere.

2. Goroka

An attractive highlands town with pleasant climate and the annual Goroka Show. It is the centre of the country's coffee industry. Tourists will be fascinated by the mud man of Asaro.

3. Madang

Madang is the capital city of Madang Province. A beautiful city with breathtaking flights of bats and breath taking diving. It is renowned or famous for its icon, The Kalibobo Lighthouse.

4. Rabaul

The capital city of East New Britain is at the foot of an active volcano. The waters of Rabaul have beautiful corals and fish and are good for snorkelling and diving. There are war relics and sites like the Japanese Tunnel to visit.



The Kalibobo Lighthouse
Source: Internet-2014.

RABAUL TOWN



5. Vanimo

It borders the country of Indonesia by land.

Tourists can cross over by walking across with the required documents. There are high waves at Lido village which is an ideal or excellent sport for surfing.

Other specific destinations are;

6. Kokoda Track

It is located in the thick jungles of Oro Province. It is an ancient trail that was used by the locals to guide the Australian soldiers during World War II in 1942.

7. Tufi Fjords

Also located in Oro province is the Tufi Fjord. What is a fjord? A fjord is a long, narrow, deep inlet of the sea between high cliffs. This beautiful landscape is mind blowing. There are bungalows that tourists can stay in and enjoy themselves whilst being there.



A tourist snorkeling in the sea
Source: Internet – 2014.

8. Louisiade Archipelago

This area is located in Milne Bay Province with its capital, Alotau. There are many beautiful islands which have waters of world class standard for diving and yachting.

9. Trobriand Islands

Also located in the Milne Bay Province is the Trobriand Island known as the 'Island of Love'. It has wonderful and lovely people. It also has scenic or very beautiful beaches and waters.

10. Autonomous Region of Bougainville

The ever-green island of Bougainville is truly an undiscovered paradise as some say.

Bougainville has an interesting history, in particular World War II and the things it has left behind. Japanese, Americans, Australians and New Zealand forces spent time serving in Bougainville during World War II. The relics left behind are scattered all over the island from the east coast to the west, from north to south and on some of the islands surrounding Bougainville.



The above picture shows part of the Autonomous region of Bougainville Island.
Source: Internet-2014

Yamamoto Crash site in Buin is the most famous relic of WWII. Little Tokyo at Tonolei is another interesting site. Buin, Torokina, Nissan, Buka and Sohano Islands have visible relics of the big war.

There are many more sights that can be visited by tourists. The organisation responsible to make known the potential tourist destination in PNG is the Tourism Promotion Authority as you have learnt earlier.

The map below shows where tourist destinations sites of Papua New Guinea are.

MAP OF PAPUA NEW GUINEA SHOWING TOURISTS DESTINATIONS



Summary:



You have come to the end of lesson 5. In this Lesson, you learnt that;

- Tourism creates an opportunity for people to get into business to earn an income.
 - Tourism promotion refers to publicising destinations to tourists so that they visit, spend money and go away happy.
 - The tourism promotion is important because tourists want to gain maximum satisfaction from spending their money and time to go to those destinations or locations. They are well informed and know what to do.
 - The Tourism Promotion Authority is funded by the government to enhance the development, marketing and sustainability of PNG tourism in partnership with the tourism industry, the government and the community
 - The PNG Tourism Promotion Authority ensures that Papua New Guinea gets a fair share of the tourist dollars on offer.
 - The variety of tourist destinations in Papua New Guinea have played major roles in attracting tourists
 - There are many potential tourist destinations that the government can work with the people especially in the rural areas to bring in more tourists, and at the same time increase the wealth of the rural people.
-

NOW DO PRACTICE EXERCISE 5 ON THE NEXT PAGE



Practice Exercise 5

1. Which two countries closer to Papua New Guinea have a lot of their people visiting PNG as tourists?

- (a) _____
 (b) _____

2. List and explain five ways in which people in the rural areas can make money from tourists touring or visiting their villages.

(a)
(b)
(c)
(d)
(e)

3. Name the provinces and the capital cities of these major tourist destinations in PNG. Refer to page 44 to help you.

Tourist Destination	Province	Capital
(a) Kokoda Track		
(b) Bulldog Track		
(c) Kalibobo Lighthouse		
(d) Beaver Falls or Tari Gap		
(e) Mt Wilhelm		

CHECK YOUR WORK. ANSWERS ARE AT THE END OF TOPIC 1

ANSWERS TO

TOPIC 1

PRACTICE EXERCISES

Answers to Practice Exercise 1- 5

Practice Exercise 1

1. (a) *Filling in the market gap* (c) *Creating competition*
 (b) *Creating jobs and employment* (d) *Paying taxes to the government*
2. *Sample Answers; Poultry, Piggery, Floriculture, Fish Farming, Vegetable Farming.*
- 3.

<i>Entrepreneurial quality</i>	<i>Descriptions</i>
<i>Independence</i>	<i>The ability to set a good example to the workers in a professional manner and guide them in what they should do.</i>
<i>Confidence</i>	<i>Having the freedom to operate and make personal independent decisions.</i>
<i>Discipline</i>	<i>Does things before being asked or forced to by events.</i>
<i>Drive</i>	<i>They are moderate risk takers and promptly respond to challenges and accept failure when it comes and does not stop looking out for new opportunities.</i>
<i>Initiative</i>	<i>Having to do things that meet or beat the current standards of excellence and improve on the past performance. Or strive to do things better at a faster rate and cheaper price compared to the past.</i>
<i>Leadership</i>	<i>Have a strong belief in oneself and your own ability to become successful regardless of challenges that may be faced.</i>
<i>Risk taking</i>	<i>An entrepreneur who has the ability to work for long hours with restless nights starting from morning to noon.</i>

Practice Exercise 2

1. (Accept relevant answers)

<i>(a) Come in at own time.</i>
<i>(b) Give contracts to friends without the knowledge of the board of management.</i>
<i>(c) Use vehicles for personal use and not work related.</i>
<i>(d) Have unnecessary breaks during working hours.</i>
<i>(e) Use phones for other purposes than work related issues.</i>

2.

Statement of Core Value	Explanation
<i>(a) Company Vision</i>	<i>Company vision refers to the business's goals that it aims to achieve in the future.</i>
<i>(b) Principles</i>	<i>Principles refer to the company's or the business's laws or rules on how it will operate dealing with its business partners, employees and customers</i>
<i>(c) Values</i>	<i>Values look at the importance of the business than the people.</i>
<i>(d) Mission</i>	<i>Mission refers to what the business will do in the meantime to reach its ultimate or desired goals.</i>

Practice Exercise 3

1.
 - (i) *Credibility refers to being trustworthy.*
 - (ii) *Innovation refers to the act or process of inventing or introducing new things.*
 - (iii) *Liability refers to being responsible for something.*
 - (iv) *Security refers to things that the bank will possess in the event that the owner fails to complete paying off the loan.*
2. *Jack of all trade means you should be able to perform many tasks.*
3. *Advantages of being an entrepreneur is that, you will be your own boss, most profit earned will be yours, you can decide which is the best action to take since you are your own boss. You can do things at your own timing since you have the control over the business.*

Practice Exercise 4

1. *Sample Answer.*

(a) *Port Moresby: Natures Park at Gerehu and 14 mile. Tourists can visit these areas to see the flora or flowers and fauna or animals of PNG. They can also enjoy the slides and buy a souvenir from the gift shops to take back to their country.*

(b) *Kokopo Relics and the Tunnel in East New Britain Province*

(c) *Kuk Tea Plantation in the Jiwaka Province*

(d) *Lido beach for surfing in the Sandaun Province*

2. - *Being hostile and racists to tourists.*

- *Not helpful in giving assistance when asked.*

-*The habit of disposing of rubbish and betelnut spittle everywhere which makes the place dirty as well as unhealthy. It becomes an eyesore, giving a bad impression about PNG.*

-*Vandalism. It refers people destroying public properties.*

3. *Accept relevant answers.*

You can help by being helpful to the tourists, build guest houses where they can stay and enjoy, maintain peace and good order in the community.

4.

Activities	What is done
1. <i>Trekking & Hiking</i>	<i>These involve walking along and sightseeing places in the jungle and forests.</i>
2. <i>Diving</i>	<i>Diving and taking pictures of the marine life.</i>
3. <i>Surfing</i>	<i>This involves riding the high-waves along the coastal villages.</i>
4. <i>Fishing</i>	<i>This involves fishing whether in the river or sea.</i>
5. <i>Cruising</i>	<i>Sightseeing on cruise ships/boats.</i>
6. <i>Bird watching</i>	<i>Watching birds.</i>
7. <i>Kayaking</i>	<i>Paddling kayaks or canoes out at sea.</i>
8. <i>Snorkeling</i>	<i>This involves diving and discovering what the marine life is like.</i>
9. <i>Tour</i>	<i>Tour guides will take you to see the nature or experience village settings and lifestyles. You can also sight see places by helicopter tour.</i>
10. <i>Cultural events</i>	<i>These involve the display or showcase of people's culture. Like dances, songs and other ceremonial activities.</i>

Practice Exercise 5

1. (a) Australia
 (b) New Zealand
2. *Accept relevant answers.*

<i>(a) Sell arts and crafts</i>
<i>(b) Set up guests houses and bungalows</i>
<i>(d) Sell fruits and vegetables</i>
<i>(e) Become tour guides</i>
<i>(f) Display war relics and photograph of the relics.</i>

3.

<i>Tourist Destinations</i>	<i>Province</i>	<i>Capital</i>
<i>(a) Kokoda Track</i>	<i>Oro</i>	<i>Popondetta</i>
<i>(b) Bulldog Track</i>	<i>Morobe</i>	<i>Lae</i>
<i>(c) Kalibobo Light House</i>	<i>Madang</i>	<i>Madang</i>
<i>(d) Beaver Falls or Tari Gap</i>	<i>Hela</i>	<i>Tari</i>
<i>(e) Mt Wilhelm</i>	<i>Chimbu/Simbu</i>	<i>Kundiawa</i>

REVISE TOPIC 1 AND DO TOPIC 1 TEST IN YOUR ASSESSMENT BOOK 5
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TOPIC 2

THE BUSINESS PLAN

In this topic, you will learn about;

- **The Business Idea**
- **The Market Research**
- **Resources for the Business Idea**
- **Marketing Strategy**

TOPIC 2: THE BUSINESS PLAN



Welcome to Topic 2, 'The Business Plan'. In this Topic, you will learn about a business plan. You will learn the methods or ways to plan for a successful business as well as the importance of having a business plan.

This Topic contains four Lessons.

Lesson 6: The Business Idea

This Lesson defines and discusses business ideas and states the importance of having a business idea before actually starting up a real one.

Lesson 7: The Market Research

This Lesson defines and discusses market research. It also identifies the importance of doing a market research.

Lesson 8: Resources for the Business Idea

This Lesson will discuss the resources for business ideas. It also identifies the resources that businesses need before they can get into operating their business.

Lesson 9: Marketing Strategies

This Lesson defines and identifies marketing strategies that a business must have. It also discusses the importance of marketing strategies.

Lesson 6: The Business Idea



Introduction:

Welcome to Lesson 6 of Topic 2; 'The Business Plan', of this Unit. Lesson 6 is the first Lesson for this topic. In the previous Topic, you learnt about getting into business using your skills at the same time taking risks. In this Lesson, you will learn about business ideas. That is how you can think up a business idea, plan it and start the operation.



Your Aims:

- Discuss the business idea and state the importance of planning in a business
 - Identify potential challenges of a person intending to set up a business
 - Identify a person's first approach in setting up a business and stating its importance
 - Identify factors that determine the type of business to go into
 - Identify possible business ideas
-

The Business Idea and the Importance of Planning in a Business

Before any person can get into a business, they must have a plan. But, before the plan, ideas should have already been developed.

So, does this mean that the business idea is not the same as a business plan?



Let us define these two sets of words to understand the difference.

A business idea refers to a business activity that somebody has thought of or is able to imagine. A business plan on the other hand refers to a formal or written statement of a set of business goals, the reasons they believe attainable and how to reach these goals.

So by now, you are aware that business ideas are just thoughts and when they are put onto paper, the idea becomes a plan for the real thing to eventuate or take place. There are many small businesses today which have started as an idea in the entrepreneur's mind. Ideas can range from introducing a totally new product, to supplying an existing product in a different way. It may also involve a service type business idea as well.

A successful business always starts with a compelling business idea. What is a compelling business idea? A compelling business idea refers to a business idea that a person feels attracted to or strongly about to get into. It's the first milestone or challenging step in the process of starting a successful business.

A business idea becomes successful if it has the following characteristics.

Turn to the next page to read more on the promising business ideas.

The characteristics of a promising business idea are;

1. Fulfills customer s' need

This means, customers' needs that have not been met for quite some time by operating businesses will now be met by your business.

2. Innovative

This means, you are creative in the design of the products you make, compared to those already on the market.

3. Unique

Unique refers to being the only one of a kind. This means you make your product very different and special compared to those already on the market. For example, the bread you produce from your bakery may be the softest and tastiest. Many people demand it though the price maybe high.

4. Clear focus

The goals of the business should be easy to reach.

5. Profitable in the long term

You know that the business idea will be able to earn a steady profit in the long run or in the future.

Importance of Planning in a Business

Planning is an important factor for a business to succeed. Businesses that fail to plan end up failing at the end. In Papua New Guinea, many small businesses fail due to lack of planning. They may have good business ideas but the business may be unsuccessful in practice.

As mentioned earlier, a business plan is like a road map that guides you to reach your destination. It involves the entrepreneur to put down on paper details of what the business intends to do, who will do it, when and how the business will conduct its activities. The following shows the importance or benefits that can be attained if a business has a plan.

1. An opportunity to test out a new idea to see if it holds real promise of success	9. An honest assessment of your company's strengths and weaknesses
2. A clear statement of your business mission and vision	10. A roadmap and timetable for achieving your goals and objectives
3. A set of values that can help you steer your business through times of trouble	11. A description of the products and services you offer
4. A blueprint or hard copy you can use to focus your energy and keep your company on track	12. An explanation of your marketing strategies
5. Benchmarks or level you can use to track your performance and make corrections in between the operation	13. An analysis of your revenues, costs and services you offer
6. A cleared eye analysis of your industry, including opportunities and threats	14. A description of your business model or how you plan to make money and stay in business

7. A portrait of your potential customers and their buying behaviours	15. An action plan that anticipates or expects problems it will likely to come across
8. A rundown of your major competitors and your strategies for facing them	16. A handbook for new employees describing who you are and what your company is about
17. A resume you can use to introduce your business to suppliers, vendors, lenders and others.	



Activity 6.1: Complete activity given below.

Define

(a) Business Idea _____

(b) Business Plan _____

Potential Challenges of the Person intending to set up a Business

Getting into business is challenging, therefore those intending to get into business must be prepared to meet these challenges. Though, some of these challenges may be beyond what the person anticipated, he or she must still face these challenges. Anticipate refers to expecting something.



What are the potential challenges that a person intending to set up a business will most likely face?

Below are the potential challenges that a person intending to set up business may face.

1. Finance

If you are starting up a business, make sure you have the required amount of money to start off the business. Since most businesses start off small they will have little capital or money. Since they are only starting, acquiring a loan from the bank will be difficult.

2. Bureaucracy and regulations

Bureaucracy (pronounced biu-ro-cra-si) refers to the administration of the government. There are organisations that the government gives power to, to administer its work in business. Such organisations are The Investment Promotion Authority (IPA) and The Internal Revenue Commission (IRC). So you must register your business before it operates. When you register your business, this means your business is now legal, therefore, you must follow the regulations or laws that require you as a business person to do business in Papua New Guinea. Otherwise, you will be operating your business illegally. Illegal refers to something not done according to the law. If you are dealing with very small vendoring businesses such as marketing food crops or other items, then you have to pay a small amount of fees to the city authority through the fees collectors.

3. Tax

It is a requirement by law that businesses pay tax to the government. Tax is paid to the Internal Revenue Commission (IRC).

4. Banks

Banks allow people to take out loans to start-up businesses, however, a small business person like you may have to go through a long process to convince the banks to give you a loan. For example, you are required to give a business plan and show evidence of assets. These assets will be taken from you in the event that you do not pay up your loan.

5. Sourcing materials or products

You must be able to have suppliers for the types of business you are operating. For example, you are planning to sell shoes made from crocodiles' skins. If there are no market for crocodile skins where you are operating, then it becomes a major problem. Your shoe design may be the best but you will not start at all. This causes frustration and you give up getting into business.

6. Finding clients or customers and developing your market

After your good business idea is in place with your plan, you will now have to find means and ways of attracting your customers. Otherwise, the business will progress at a very slow pace which will eventually discourage you and may lead to non-existence of the business.

7. Finding qualified employees

At the same time, you must find people with the right skills to help you manage and run the business. Otherwise, you cannot perform the entire task yourself since there are certain things that you do not know how to do.

Being aware of these challenges will help you prepare better when going into business. Seeking professional advice can provide some possible solutions to challenges before they arise.



Activity 6.2: Complete activity given below.

List the potential challenges that those intending to start a business may face.

1. _____
 2. _____
 3. _____
 4. _____
 5. _____
 6. _____
 7. _____
-

What is the First Approach to Setting up a Business and the Importance of Setting Up?

There are three main approaches to setting up a business. This will depend largely on the business plan that has already been drawn up.

1. Market research

Research the market in order to discover the customers' needs. This means, a person intending to get into business has to ask questions to find out about the type of business he or she is getting into from people whether through the questionnaire or the interview. You will learn more about this in your next Lesson.

2. Method of selling the product or service

Find the best ways of selling the product or service that has already been decided upon. For example, advertising through newspapers, the radio, the television or internet or emails. Or doing promotions and discounts. You will learn more about this in Lesson 9.

3. Location

Finding the best location to set up your kind of business is very important. Whether your business will be operating at your house or in a rented room in town, your business should be accessible or within reach of your customers.

It is important to set up your business because this will help you to carry out the kind of activity that you want in the first place. Businesses fail because people fail to plan. They get into business without knowing the right customer demands, where and how to market or sell the products and how much money to start with.



Activity 6.3: Complete activities given below.

1. List the three main approaches to setting up a business after you develop the business plan.

(a) _____ (c) _____

(b) _____

2. Explain the importance of setting up a business.

Factors Determining What Business to get into

The main factors that determine a person getting into the type of business he or she wants is the fact that he or she has the skills and the background knowledge and the exposure to the business. The business becomes successful when this person also has the qualities of a successful entrepreneur. For example, a network engineer can start his own consultancy business dealing with computers and networks. Since he has the drive or desire to start this business, this shows he is a risk taker and is motivational.

Possible Business Ideas

There are many business ideas that people can think of to get into a business. From a simple business activity of selling betelnut and vegetables, piggery, poultry, fish farming to bigger and complex business activities such as a trade store, retailing and wholesaling, distributing, building and construction and consultancy. Complex is another word for difficult.



Activity 6.4: Complete activities given below.

1. What is the main factor that gives people business ideas?

2. List and explain some business ideas that you can get into at present?

Summary:



You have come to the end of Lesson 6. In this Lesson, you learnt that;

- A business idea refers to a business activity that somebody has thought of or is able to imagine.
 - A business plan refers to a formal or written statement of a set of business goals, the reasons they are believed to be attainable and plans for reaching these goals.
 - A person gets into business because he or she feels a strong desire to get into this business type whether producing goods or services.
 - The characteristics of a favourable business idea are: fulfills a customer's needs; is innovative, is unique, has a clear focus, and is profitable in the long term.
 - A business plan is very important because it will help the business to get started as planned for and eventually become successful.
 - There are a number of challenges that people getting into business will surely face. Challenges such as obtaining finance and meeting government rules and regulations.
 - In order for the business to be successful you need to set it up in the first place.
 - People get into business due to the fact that they have the knowledge and the skills
-

NOW DO PRACTICE EXERCISE 6 ON THE NEXT PAGE



Practice Exercise 6

1. Define the following words.

(a) Bureaucracy _____

(b) Unique _____

(c) Illegal _____

(d) Complex _____

2. What do these initials stand for?

(a) IPA _____

(b) IRC _____

3. Explain what a compelling business idea is.

4. List the importance of a business having a business plan.

5. List and explain the characteristics of a promising business idea.

Characteristics	Explanation

CHECK YOUR WORK. ANSWERS ARE AT THE END OF TOPIC 2

Lesson 7: The Market Research



Introduction:

Welcome to Lesson 7. In the previous Lesson, you learnt about business ideas. In this Lesson, you will learn about market research and its importance in business as well as the procedures involved in carrying out market research.



Your Aims:

- Define market research and discuss its importance
 - Identify factors to be considered in a market research
 - Identify market research procedures
-

Market Research and Its Importance

Market research plays a very important part in business plans. As you have learnt in Lesson 6, businesses must be set up before the actual buying and selling takes place. In setting up the business to meet the goals planned, you see that market research is one important aspect or part of it. The other two important aspects or parts to consider also when setting up are:

- the method of selling the products and
- the location of the business.



I've seen the word market research in Lesson 6 but what is market research?

A market research refers to the process of collecting valuable information to help you find out if there is a market for your proposed product or service.

To propose means to put something or an idea forward in a formal way.

So market research helps those intending to go into business find important information about the products their business will market. Market refers to the exchange between sellers or suppliers and buyers that demand for particular goods or services.

In market research, information is collected in a systematic way meaning that processes or steps are followed when trying to collect information. Information collected involves data. Data refers to factual information of facts and figures obtained from experiments or surveys. These factual information is used to make calculations or conclusions. In the market research, there are many questions asked for example, how many of these particular products do you consume? How many times do you consume them? Where do you buy the products from? and What sort of improvement do you think should be done to the product? These information are then used by the business to take the next course of action or next step for the business to start.

So market research allows businesses to make decisions that will encourage them to be more responsive to customers' needs and increase profits.

Market research needs to be an integral or ongoing part of your business' development.

Importance of Market Research

The importance of Market Research are;

1. Provides a wealth of information

There is a lot of information that market research can provide for those going into business. The business will be able to know;

- Their competitors

They are able to know the number of businesses that are selling the type of goods or services that they are trying to venture into. Venture refers to a business enterprise that involves risks but could lead to profit. If you have forgotten what an enterprise means, you can turn to Lesson 1.

- The economic shift experienced by the country

They are able to know whether the economy is growing or declining. If the government is encouraging more development, this means there will be an increase in employment leading to more money in people's hands which means they are able to spend. So those intending to do business can start their operation.

The opposite happens if the Government discourages development. This means less people working leading to little or less money in their hands. This leads to a decrease in spending. Thus, businesses will not operate well in such situation.

- The demographics

Demographics is the human population of an area or country. A business will be able to know the population of the area they are doing business in. That is the total number of males and females and their age groups. The type of goods and services the business is trying to provide must meet the demands and satisfy them.

- Latest market trend

This looks at how businesses are selling their products and how consumers are buying these products. Businesses can use internet services like the Facebook to advertise and sell to their customers. Those getting into business must be competitive in selling their goods or lose their potential customers.

- Customers spending trait

This looks at what the customers like to spend their money on. That is the customer's demand for style, taste and quality of products. Those going into business should be able to meet these demands. Otherwise, they will waste important resources like time and money.

2. Convinces financial institutions for assistance

Market Research will convince financial partners and institutions to give out loans to the business to assist them get the necessary resources. This is because the Market Research shows evidence that the business will surely earn an income and be able to repay its loan.

While it's common for businesses to hire market research companies to conduct Market Research for them, it is possible for small business owners to do their own. They will not have the funds to hire researchers.

**Activity 7.1: Complete activities given below.**

1. Define

(a) Market research _____

(b) Market _____

(c) Propose _____

(d) Data _____

(e) Demographic _____

2. State the two main important reasons of a market research.

(a) _____

(b) _____

Factors to be considered in a Market Research

There are several factors to consider when marketing a new product.

Let us look at these factors.

1. Understanding the competition

You must make your business as competitive as possible. Conduct plenty of research on the product and how it will compete with the existing business. Find out how they are marketing their products by reading their company's website, brochures, prints, online advertisement and other marketing materials.

2. Getting in front of the right customer

Focus your marketing efforts on customers that are most likely to buy your products. Consider the reasons why the customers would need or want your product and make it part of your marketing messages. It is much easier to target the right customer who has a need and desire for your product than trying to create a market for a product. Overall, target the right customers in the first place.

3. A Unique Selling Proposition

Unique selling Proposition refers to the best way to sell products offered by sellers to consumers. When sellers do that, customers demand their products regardless of the prices charged. This is because they are served best. Proposition refers to an idea, offer or plan put forward for consideration or discussion.

4. Test before you start

The view of the product you are selling and the buyers' views are not the same. You must conduct a test on the product you are selling. Select a group of people who are likely your target audience and get their view. The target audience refers to the people you are aiming to sell your products to. For example, ask them questions about the package of the product. If they disagree, then use the information collected to concentrate on your marketing efforts on how the product works best for you. You could also modify the products to correct the problem before you sell it. Modify means to make a small change to something.

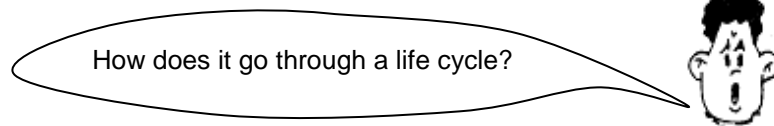
5. Public relations and media involvement

Make your products known through the media. That is through the newspaper, television and radio. If the public knows about the product, then advertising will not be a problem. For instance, someone who is happy with your product will tell their

friends and their friends will do the same. Thus, many people will know about your product and this eventually will lead to more sales and more profit for your business.

6. The Products Growth

The products that you will be marketing goes through a life cycle.



This is how a product goes through a life cycle.

Firstly, the product is developed. This means that it is designed, created and tested on the customers. Secondly, once the target customers get to like it, then it is introduced or is sold. Thirdly, the product grows. This means that customers are demanding more of this product. So you produce more of it to meet the growing demand. It then matures. At this time, customers feel there is a need for a change to the product. Finally, the demand for the product declines. This means, customers demand less of the product. Thus, you go through the whole process again to attract your customers to buy your product with new improved features.

So these are the factors to consider when going into a market research.



Activity 7.2: Complete activities given below.

1. Define

(a) Target audience _____

(b) Proposition _____

(c) Modify _____

2. Explain the Unique Selling Proposition

Market Research Procedures

As mentioned earlier, market research involves procedures or steps. Following these steps allows you to market your product easily as you have planned for in the first place.

1. Defining and Identifying the Problem or Need

The starting phase or part of the research is always the reason or problem for which research is to be conducted. This includes collecting of relevant, initial or first information and how this information will affect the decision making process. It also includes defining problems after discussions with the decision makers of the business. Once the problem is defined and the need of research is discussed, this makes the rest of the research process to be done in an efficient or organised manner.

2. Determining who will do the research

Once the initial or first stage of the reasons or problems and the need of research is done, it is important to determine who will do the research and what will be the

approaches to resolve these problems. This involves giving a guide to the experts as to how best to collate the information collected from the research and how to correctly analyse or report it. For example, sample case studies can be used to guide the experts or researchers collect information focusing on the problem and not to go out of it. To collate means to bring together pieces of information and compare them in detail. For instance, if you are going to bake scones and sell, check all the other businesses that are involved in baking and selling scones. Find out why the scones you bake will be higher in demand compared to theirs.

3. Picking out the appropriate methodology

Methodology refers to the study of methods of research. A specific methodology is required by the research professionals after identifying the specific needs and exploring the case studies. That is the researchers will try to find the best way possible to give out information as well as the best way possible to receive the feedback. It may include combining specific ways to collect information like the telephone and web or email survey, one-on-one interviews or secondary research. These methodologies act as a blueprint for research processes.

The following basic steps given below are often used when researching:

- Methods for collecting and preparing quantitative information
- Determining the need of this information
- Scaling and measuring procedures
- Designing sample Questionnaires
- Formulating case studies and sample processes
- Planning information analysis or reporting

4. Collecting Data Process

This process includes field work and desk work for collecting all relevant data and information. Field work includes interviewing the personnel by interacting with them face to face by visiting them in homes or offices or arranging group meetings at any preferred place. Desk work includes contacting personnel or individuals over telephone or via series of emails or web meetings. Via means to through. Web meeting is when you meet with those you are collecting information through the use of computers. They are not in the same room with you. They are at different locations but you can see and hear each other through the computer. This will take more time compared to the field work. Involving experiences and trained executive for this helps in reducing data collection errors or mistakes.

5. Data preparation, tabulation and analysis of results

After the data is collected, it is edited, corrected if required and validated. Validate refers to confirm something for truthfulness. This process is the most important process in the research as the results trustworthiness are generated on the basis of data preparation. So it is required for a business to verify the authenticity of the collected data and edit or correct it, if needed. Authenticity refers to the truthfulness of something presented. The final data is then divided according to the trustworthiness business needs and presented into tabular form to make it easy to read.

The entire process should be properly recorded with respect to meet business standards so that it can be referred back to in the future for decision making processes or to change any specific processes. This document record contains the overall design of the project showing all the processes with the help of tables, graphs and figures to bring out its clarity.

Market Research definitely plays a vital or important role in exploring the business. The market research processes, if conducted in an efficient or organised manner could help predict and correctly work out the customer's needs, resulting in changing the business plan and its operations as well.



Activity 7.3: Complete activities given below.

1. Define

(a) Methodology _____

(b) Via _____

(c) Validate _____

(d) Authenticity _____

2. List the five (5) processes taken to do market research.

(a)	(d)
(b)	(e)
(c)	

Summary:



You have come to the end of Lesson 7. In this Lesson you learnt that;

- A market research is the process of collecting valuable information to help you find out if there is a market for your proposed product or service.
- The Market Research allows businesses to make decisions that will make them more responsive to customers' needs and increase profits.
- Market research is important for the following reasons;
 - (i) Provides a wealth of information
 - (ii) Convinces financial institutions for assistance
- It provides a wealth of information to the business about;
 - Their competitors
 - The economic shift experienced by the country
 - The demographics
 - Latest market trend
 - Customers spending trait
- The factors to consider in market research are;
 - (i) Understanding the competition
 - (ii) Getting in front of the right customer
 - (iii) A Unique Selling Proposition
 - (iv) Public relations and media involvement

- There are marketing procedures that must be followed;
 - (i) Defining or identifying the problem or need
 - (ii) Determining who will do the research
 - (iii) Picking out the appropriate methodology
 - (iv) Collecting data process
 - (v) Data preparation, tabulation and analysis of
-

NOW DO PRACTICE EXERCISE 7 ON THE NEXT PAGE

**Practice Exercise 7**

1. Fill in the table by listing and explaining the importance of market research.

Importance	Explanation

2. What could be one main reason why people intending to do business cannot hire expert researchers?

3. Explain why market research follows set steps and procedures.

CHECK YOUR ANSWERS AT THE END OF TOPIC 2

Lesson 8: Resources for the Business Idea



Introduction:

Welcome to Lesson 8. In the previous Lesson, you learnt about market research and how businesses can carry out market research. In this Lesson, you will learn about resources for the business idea. You will learn about the things or materials you need in order to start your business right away.



Your Aims:

- Define resources and discuss its importance
 - Identify the different resources needed for the business idea
 - Identify factors to be considered when planning which resources to use
 - Explain the importance of cash flow and budget in the planning for the business
-

Resource and its importance in Business

Anyone can start a business. But to start a business that succeeds and continues to grow is not so easy. Most businesses fail in the first year of operation. If you are going to start a business and become successful, there are five resources you must have before you open your door for business. As you proceed on you will find out what these five resources are. Let us define resource.

A resource refers to somebody or something that is a source of help or information. So resources in business are made up of people and materials such as money, vehicles, machineries, buildings, land and people that one way or the other helps the business to start.

The Importance of resources in business

The importance of resources in business is that it helps the business start on time as planned. With the right information from the right people and also correct and required materials, the business has a reason to succeed in the long run.



Activity 8.1: Complete activities given below.

1. Define what resources are.

2. List examples of resources, businesses must have.

3. State the importance of resources in businesses.

The Resources needed for the Business Idea

As mentioned earlier, in order for the business to succeed, it needs to have the required resources.

Here, are about eight resources that a person intending to get into business should have.



1. Finance

Finance refers to money that the business needs to start off with. This is sometimes called the start-up capital. Funds are required to buy the necessary resources like material to make goods to sell and others like vehicles and machines. Also to maintain the day-to-day operations of the business. For example, paying for power and water bills.

2. Buildings and facilities

Buildings and facilities refer to the structure or place where the business will operate. For example, shopfront, workshop, wash bay, showroom, kitchen, storage space, bathroom, manufacturing facilities or refrigeration.

3. Equipment

Equipment refers to the tools, clothing or other items needed for a particular activity or purpose. For example, tools like hammer and saw, cash register, office furniture, ladder or work benches.

4. Machinery

Machinery refers to machines that are used to do work. For example, plant machinery, concrete mixer, wood-chipper, manufacturing or production machinery.



The above diagram shows a woodchip. It is used to shred wood to pieces.

Source: Internet-2014.

5. Information Technology

Information technology refers to the use of computers to communicate with others. For example, computer hardware and software, specialist programmes like 'Mind Your Own Business' or 'Pronto', databases or telecommunications.

6. Stock, raw materials and supplies

These refer to the materials that are needed to produce things. For example, shop inventories, manufacturing materials, stationery, building supplies or fuel.

7. Human resources

This refers to the knowledge and skills required from people. For example, employees and contractors.

8. Vehicles

This refers to the way in which goods will be transported on land. For example, a delivery truck, a trailer, a car for visiting clients, a van or a tractor.



The diagram above shows a delivery truck.

Source: Internet-2014.

With a clear list of the resources that you will need to operate your business, you can begin to think about how much it will cost and the scope of managing the relevant factors efficiently or smoothly.



Activity 8.2: Complete activity given below.

Fill in the table by listing and giving examples of resources that a person intending to do business must have.

Resources	Explanation

Factors to Consider when Planning for the Resources

Once you have a clear understanding of what resources you need to start and operate your business with, you can begin to work out how much of each resource you require. It is important that you acquire your resources in the right quantity so that you can meet your requirements, whilst also avoid wasting any resources. Inefficiency refers to something that is not organised well, therefore is not flowing smoothly.

The following are factors to consider when planning for the resources of the business.

1. *The amount of resources required*

The right amount of materials must be obtained. Questions to be asked would be; Based on the projected activity level, what is the minimum or lowest amount of resources that the business needs to become operational? The Project refers to a task or planned programme of work that requires a lot of time, effort and planning to complete. So starting a business is like a project.

2. *The need for extra resources*

You may want to get extra resources, in case there is a great demand for your product. Questions to ask would be; Do we need excess or extra supply of resources to cover for unexpected activity levels or events? For example, instead of making a loan of K200 000 from the Agriculture Bank, you decide to take an additional K100 000 which leads to a total loan of K300 000.

3. *Buying materials in bulk*

Most goods when bought in bulk are usually given discounts by the suppliers. Many existing businesses save costs as much as possible by buying in bulk. Bulk refers to

a large quantity. So businesses take the opportunity to buy in bulk. An example of questions asked by persons intending to do business would be; Can I save money by buying in bulk?

4. Finance

Finance as you have seen earlier refers to money. Money is the main factor that gets the business started. Business persons should be able to know where to source or get money from to start the business. An example of questions asked by persons intending to do business would be; Do I have access to the finance required to acquire essential resources?

5. Business forecast

Business must always forecast. To forecast means to predict or work out something that is likely to happen. So business persons can work out what is likely to happen in the future and prepare for it. An example of questions asked by persons intending to do business would be; What will be the resource requirements of the business in the next month, next year and the next five years?



Activity 8.3: Complete activities given below.

1. Define

- (a) Inefficient. _____
 (b) Project. _____
 (c) Bulk. _____
 (d) Finance. _____
 (e) Forecast. _____

2. List the factors to consider when planning for the resources of the business.

- (a) _____ (d) _____
 (b) _____ (e) _____
 (c) _____

3. State the important factors that must be considered when planning for the resources of the business.

Importance of Cash Flow and Budget in the Planning of Business Idea

As you have learnt earlier in the Lesson, finance or money is the lifeline of the business. The business may have a very good plan and all other factors that will contribute to its success, however, it will not eventuate or get started unless there is money.

Therefore, it is very important that businesses should be able to plan for the money that will be used. Thus, it must prepare a cash flow and a budget so that it knows what to do with the money it has.



What then is cash flow and budget?

Cash flow refers to the report of the movement of money coming in and going out of the business. Budget refers to an estimate of income and expenditure for a set period of time.

Let us go through the importance of a cash flow and budget when planning for a business.

Importance of a cash flow

With the cash flow, there are two reports, The Cash Flow Statement and The Cash Flow Projection. We will look at the Cash Flow Projection since it deals with businesses that are planning to get into business. Cash Flow Projection refers to the plan that shows how cash is expected to flow into and out of a business. The word *expected* as used in the meaning indicates that the cash flow will take place in the near future.

Having a Cash Flow Projection in a business is important as it is a way of letting you know whether the expenditure is too high or when you might want to arrange short term investments to deal with a cash flow surplus. Surplus refers to excess or an extra amount.

The importance of budget

Having a budget is important as well. It helps control how best money is to be spent, increases your income and avoids unpleasant surprises that your business may encounter.

When you are planning to get into business, ensure that the required resources are acquired thus the business will progress as expected.



Activity 8.4: Complete activities given below.

1. Define

(a) Cash Flow. _____

(b) Budget. _____

2. Explain Cash Flow Projection.

Summary:



You have come to the end of Lesson 8. In this Lesson, you learnt that;

- A resource refers to somebody or something that is a source of help or information.
- The importance of resources in business is that they help the business start on time as planned.
- The following are the resources needed for the business idea;
 - (i) Finance
 - (ii) Buildings and facilities
 - (iii) Equipment
 - (iv) Machinery
 - (v) Information Technology
 - (vi) Stock, raw materials and supplies
 - (vii) Human resources
 - (viii) Vehicles
- There are about five factors that must be considered when planning for the resources for the business idea.
 - (i) The amount of resources required
 - (ii) The need for extra sources
 - (iii) Buying materials in bulk
 - (iv) Finance
 - (v) Business forecast
- Finance or money as the lifeline of the business.
- Though the business may have a very good plan and all other factors that will contribute to the success of the business, it will not eventuate or get started unless there is money.
- Cash flow refers to the report of the movement of money coming in and going out of a business.
- Budget refers to an estimate of income and expenditure for a set period of time.
- Cash Flow projection refers to the plan that shows how cash is expected to flow in and out of your business.
- The importance of The Cash Flow Projection is to let you know Whether your expenditure is too high or when you might want to arrange short term investments to deal with a cash flow surplus.
- The importance of budget is, it helps to control how best money is to be spent, to grow your income and avoid unpleasant surprises that a business may encounter.

NOW DO THE PRACTICE 8 EXERCISES ON THE NEXT PAGE



Practice Exercise 8

1. List and explain factors to consider when planning for the resources of the businesses.

Factors to consider when planning for the resources	Explanation

2. Explain the importance of the following

(a) The Cash Flow.

(b) The Budget.

3. Explain the phrase 'money is the lifeline' of the business.

4. Look around the community or area you are living in and list down the number of small businesses that are no longer in operation. State the reasons why they are no longer operating. Ask the owner of the small business, maybe a canteen or tuck shop, taxi business why the business is no longer operating.

NOW CHECK YOUR WORK. ANSWERS AT THE END OF TOPIC 2

Lesson 9: Marketing Strategy



Introduction:

Welcome to Lesson 9. Lesson 9 is the last Lesson, for this Topic. In the previous Lesson, you learnt about resources that businesses need in order to start. In this Lesson, you will learn about marketing strategies. You will learn about ways to make your business known to your target customers as well as the general public.



Your Aims:

- Define marketing strategy and the importance of a marketing plan
 - Identify the marketing strategies for a product
-

Marketing Strategy and the Importance of a Marketing Plan

A marketing strategy is very important for all businesses whether they are just starting or are already in business. What, then is marketing strategy?



Before we can define marketing strategy lets define the words marketing and strategy separately.

Marketing refers to the business activity of presenting products or services in such a way as to make them desirable. Strategy on the other end refers to a carefully devised plan of action to achieve a goal. So a marketing strategy refers to the process that can allow an organisation to concentrate its resources on the best opportunities with the goals of increasing sales and achieving a sustainable competitive advantage.

When a business has marketing strategies, it can provide products whether goods or services that are better than those which its competitors offer. At the same time, it can cut costs and save a lot of money for the business. Sustainable refers to being able to be maintained.

Importance of a marketing plan

There is a slight difference between a marketing plan and a marketing strategy.

What then is a marketing plan?



A marketing plan is a business document written for the purpose of describing the current market position of a business and its marketing strategy for the period covered by the marketing plan.

So a marketing plan helps you know how you are going to achieve your business marketing goals.

The importance of a marketing plan is that it clearly shows which steps will be undertaken to achieve the business marketing objectives or goals.

In marketing you must always identify the strategies first, before planning them.



Activity 9.1: Complete activities given below.

1. Define

(a) Marketing. _____

(b) Strategy. _____

(c) Sustainable. _____

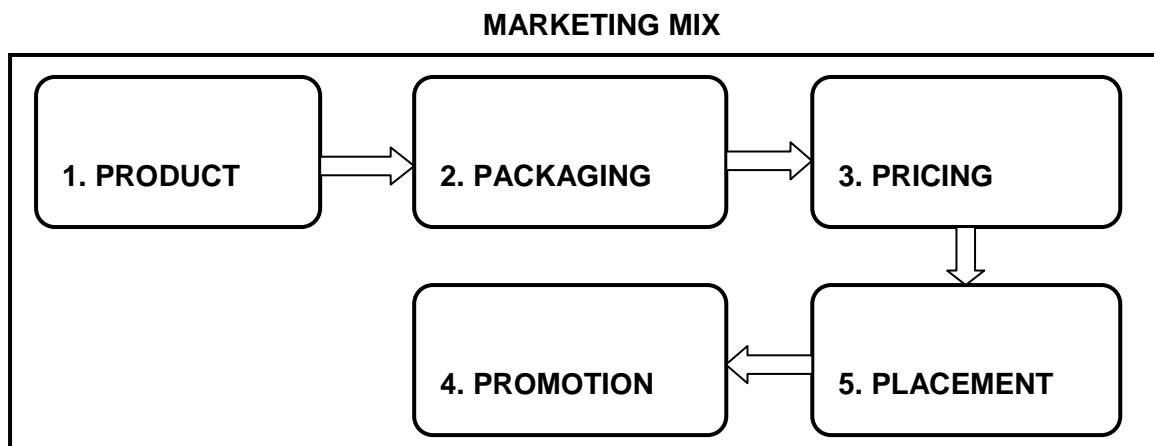
(d) Marketing strategy. _____

(e) Marketing plan. _____

2. State the importance of a marketing plan.

Marketing Strategies for a Product

There are five main marketing strategies that a business person must take note of. They are referred to as Marketing Mix or the 5 P's. What really is the marketing Mix? Marketing mix refers to a set of controllable, tactical marketing tools that a company uses to produce a desired response from its target market. Tactical refers to a method used or a course of action followed in order to achieve an immediate or short-term goal.



Let us go through each one of these 5 P's that make up the marketing strategies for a product.

1. Product

A product refers to the goods and or services offered by a company to its customers. A product looks at the variety, quality, design and features of products that the business will be producing and selling.

2. Packaging

Packing refers to the object or set of objects wrapped, boxed or tied in a bundle for transporting or mailing. Packaging takes into account the materials used to wrap the product and the design or the printed information on the package or the brand name.

3. Pricing

Pricing refers to the amount of money paid by customers to purchase the product. It involves the price list, the discount, the allowance, the period payment and the credit term. Term refers to the period of time.

4. Placement

Placement refers to the activities that make the product available to consumers. These involve channels, coverage, assortments or collections, locations, inventories or stocks, transportation and logistics. Logistics refer to the planning and control of the flow of goods and materials through an organisation or a manufacturing process.

5. Promotion

Promotion refers to the activities that communicate the product's features and benefits and persuades customers to purchase the product. It involves advertising, personal selling, sales promotion and public relations.

There are two types of advertising.

(a) *Persuasive*: Persuasive advertisement refers to advertisements that persuade or convince someone to do something. This type of advertisement is designed to specially persuade the public to buy a particular product.

(b) *Informative*: Informative advertisements refer to the advertisements that tell the public what is available. This type of advertisement gives information about something. For example, position vacancies or public notices.

If businesses put the following five (5 P's) into the goods or services they are producing, they will have the competitive advantage. This means that they can beat their competitors.



Activity 9.2: Complete activities given below.

1. Define

(a) Logistics. _____

(b) Marketing Mix. _____

2. List the 5 P's in the marketing strategies.

(a) _____ (d) _____

(b) _____ (e) _____

(c) _____

Summary:



You have come to the end of Lesson 9. In this Lesson, you learnt that;

- Marketing refers to the business activity presenting the products or services in such a way as to make them desirable.
 - Strategy on the other end refers to a carefully devised plan of action to achieve a goal.
 - Marketing strategy refers to the process that can allow an organisation to concentrate its resources on the best opportunities with the goals of increasing sales and achieving a sustainable competitive advantage.
 - A marketing plan is a business document written for the purpose of describing the current market position of a business and its marketing strategy for the period covered by the marketing plan.
 - The importance of a marketing plan is, it clearly shows what steps will be undertaken to achieve the business marketing objectives or goals.
 - The 5 P's of the marketing strategies are; Product, Packaging, Pricing, Placement and Promotion.
-

NOW DO PRACTICE EXERCISE 9 ON THE NEXT PAGE



Practice Exercise 9

1. Explain the difference between a marketing strategy and a marketing plan.

2. Which should be done first? A marketing strategy or a marketing plan? Explain your answer.

3. Fill in the table by listing and explaining the 5 P's in a marketing strategy of business.

The 5 P's	Explanation

4. Choose the correct words given below in bold to fill in the correct blank spaces.
resources, pricing, competitors, marketing strategies, promotion, 5 P's, packaging, marketing plan, placement, products

All businesses regardless of their sizes should have _____ .
 These strategies will help market their _____ against their _____. They
 must also have a _____ to know how to achieve their set goals.
 The _____ of the marketing strategies are _____, _____,
 _____, _____ and _____.

5. Explain the two types of advertising.

CHECK YOUR WORK. ANSWERS ARE AT THE END OF TOPIC 2

ANSWERS TO

TOPIC 2

PRACTICE EXERCISES

PRACTICE EXERCISE 6 – 9

Practice Exercise 6

1. (a) *Bureaucracy refers to the administration of the government.*
 (b) *Unique refers to being the only one of a kind.*
 (c) *Illegal means doing something against the law.*
 (d) *Complex means difficult.*
2. (a) *The Investment Promotion Authority*
 (b) *The Internal Revenue Commission*
3. *A compelling business idea refers to a business idea that a person feels attracted to or strongly about to get into.*
- 4.

<i>1. An opportunity to test out a new idea to see if it holds real promise of success</i>	<i>10. A roadmap and timetable for achieving your goals and objectives</i>
<i>2. A clear statement of your business mission and vision</i>	<i>11. A description of the products and services you offer</i>
<i>3. A set of values that can help you steer your business through times of trouble</i>	<i>12. An explanation of your marketing strategies</i>
<i>4. A blueprint or hard copy you can use to focus your energy and keep your company on track</i>	<i>13. An analysis of your revenues, costs and services you offer</i>
<i>5. A benchmark or a level you can use to track your performance and make corrections in between the operation</i>	<i>14. A description of your business model or how you plan to make money and stay in business</i>
<i>6. A cleared eye analysis of your industry, including opportunities and threats</i>	<i>15. An action plan that anticipates or expects problems it will likely to come across</i>
<i>7. A portrait of your potential customers and their buying behaviours</i>	<i>16. A handbook for new employees describing who you are and what your company is about</i>
<i>8. A rundown of your major competitors and your strategies for facing them</i>	<i>17. A resume you can use to introduce your business to suppliers, vendors, lenders and others.</i>
<i>9. An honest assessment of your company's strengths and weaknesses</i>	

5.

Characteristics	Explanation
<i>1. Fulfills a customer's need</i>	<i>If the current businesses are not meeting the demands of the customers, you can fill in that market gap.</i>
<i>2. Innovative</i>	<i>You are very creative in the product you make and sell or the service you are providing.</i>
<i>3. Unique</i>	<i>The product you make will be very different and quite special to all the others on the market.</i>

<i>4. Clear focus</i>	<i>The business idea is easy to put into action and can be reached.</i>
<i>5. Profitable in the long term</i>	<i>Your business idea will surely earn big profit in the long run.</i>

Practice Exercise 7

1.

Importance	Explanation
<i>Provides information about their competitors</i>	<i>They can know what their competitors are selling so they have to come up with the bestselling techniques and goods to attract more customers over to them.</i>
<i>Provide information about the economic shifts experienced by the country</i>	<i>The business can start operating if the government encourages more development, however, it cannot get into business if the government discourages development in the country</i>
<i>Provides information on the demographics</i>	<i>The research information provides information on the total number of people in an area so that the business can meet the demand of these people.</i>
<i>Provides information on the latest market trend</i>	<i>The business will know how goods are marketed or made known to its customers. This will enable it to beat its competitors.</i>
<i>Provides information on customers spending trait</i>	<i>The business must meet the demand of the buyers especially their taste for products or it end up losing these customers to other sellers.</i>

2. *The main reason is that the business is small and does not have the capital or money to hire research experts.*

3. *Market research follows steps because this will help businesses collect detailed and very good information about their products and their competitors thus get into business without any problems when the business starts.*

Practice Exercise 8

1. Answers:

Factors to consider when planning for the resources	Explanation
<i>(i) The amount of resources required</i>	<i>The right amount of resources must be obtained. Otherwise the business will lose money.</i>
<i>(ii) The need for extra sources</i>	<i>Extra resources must be obtained in case there is an increase in the demand of the goods the business is producing.</i>
<i>(iii) Buying materials in bulk</i>	<i>The business can save costs by buying in bulk. This is because the suppliers encourage discounts when the products are bought in bulk.</i>
<i>(iv) Finance</i>	<i>The business should be able to know where to obtain its capital. They should be able to pay back the loan with a lower rate of interest.</i>
<i>(v) Business forecast</i>	<i>The business should be able to plan for the business and prepare for unexpected things that are likely to happen in the future.</i>

2. (a) *The importance of The Cash Flow Projection is letting you know whether the expenditures are too high or when you might want to arrange short term investments to deal with a cash flow surplus.*

(b) *The importance of a budget is, it helps you control how best money is spent, increase your income and avoid unpleasant surprises that the business may encounter.*

3. *This means that the business will not start unless there is money. Money is needed to carry out the necessary plans of the business like the market research and putting into effect the marketing strategies, buying materials and paying for wages.*

4. *(Students answer)*

- | | |
|--|---------------------------------------|
| <i>- Bad management Practice</i> | <i>- Excessive spending</i> |
| <i>- Wantoks run down the business</i> | <i>- New competitive business</i> |
| <i>- Low economic activity</i> | <i>- Locations no longer suitable</i> |

Practice Exercise 9

1. *The marketing strategy states that what the business is supposed to do with the products whilst the marketing plan is a written plan of how these strategies will be put into action.*

2. *The marketing strategy should be done first since it tells the business what exactly to do about the product.*

3.

The 5 P's	Explanation
<i>Product</i>	<i>The good and service offered by a company to its customers.</i>
<i>Packaging</i>	<i>The object or set of objects wrapped, boxed or tied in a bundle for transporting or mailing.</i>
<i>Pricing</i>	<i>The amount of money paid by customers to purchase the product.</i>
<i>Placement</i>	<i>The activities that make the product available to consumers.</i>
<i>Promotion</i>	<i>The activities that communicate the product's features and benefits and persuade customers to purchase the product.</i>

4. All businesses, regardless of their sizes should have **marketing strategies**. These strategies will help market their **products** against their **competitors**. They must also have a **marketing plan** to know how to go about achieving their set goals. The **5 P's** of the marketing strategies are **product, packaging, pricing, placement** and **promotion**.

5. *Persuasive advertising tries to convince consumers to buy products that they do not intend to buy in the first place, whilst informative advertising gives factual information to consumers of important information that it wants its customers to know about.*

<p>REVISE TOPIC 2 AND DO TOPIC 2 TEST IN YOUR ASSESSMENT BOOK 5</p>
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TOPIC 3

FINANCING A SMALL BUSINESS

In this topic, you will learn about;

- **Sources of Finance for Small Business**
- **Obtaining Loans**

TOPIC 3: FINANCING SMALL BUSINESS



Welcome to Topic 3: 'Financing a Small Business'. In this Topic, you will learn about where people get their finance to start their small businesses. You will also learn about the different types of loans offered by financial institutions.

This topic consists of two Lessons.

Lesson 10: Sources of Finance for Small Business

This Lesson defines finance and identifies the sources or financial institutions where people can obtain money from to start their business. It also explains the advantages and disadvantages of getting loans.

Lesson 11: Obtaining loans

This Lesson identifies types of loans and how to obtain them.

Lesson 10: Sources of Finance for Small Businesses



Introduction:

Welcome to Lesson 10. It is the first Lesson for this Topic. In fact, there are only two Lessons in this topic. In the previous Topic, you learnt about planning a business. In this Lesson, you will learn about sources of finance that people intending to operate small businesses can obtain. You will further learn about the different sources and the advantages and disadvantages of obtaining these finances.



Your Aims:

- Define finance for a small business
 - Identify different sources of finance within the community
 - Discuss the advantages and disadvantages of borrowing within the community
-

What is Finance for Small Business?

A business cannot survive without money. You studied in the previous Topic that money is the lifeline to a business. Money is required to set up the business and cover its normal running expenses. It is also needed to pay for the possible expansion of the business in the future. Money that is required to finance the setup of a business is sometimes known as the seed capital. Finance refers to the capital or the money used to start a business project.

Sources of Finance

It is important that a business person knows the source or where the finance can be obtained from apart from its own contributions. Most firms need extra money in addition to what is already in the business.



I know of the word finance but where do small businesses get their finance from?

Here are some of the sources or ways in which small businesses can get their finance or money from.

1. Owner's funds or contribution

When setting up a business, the most important source of fund will come from the owner. Small businesses will find it difficult to borrow large sums of money in the early stages of operation. However, they are most likely to obtain bank loans easily if they contribute a larger share of their money to get the business started.

2. Borrowing from friends, family and other community members

This is also one of the easier means of obtaining money to start the business. Since friends, family members and the community know the person intending to start the business, they will give their money in return for its payment later.

3. Partnership business

When the owner and their partners put their capital together, it makes it easier for the business to find the necessary materials to start.

4. Bank loans

This refers to the money borrowed from the banks. Commercial banks like the Bank of South Pacific, ANZ and Westpac provide loans for businesses as well as the general public. Business loans given out are known as investment loans. Money can also be borrowed from the Agriculture Bank or Microfinance Bank.

Investment loans refer to money borrowed from the bank that are used in the business to make more money.



Activity 10.1: Complete activities given below.

1. Define finance.

2. List the four sources of finance for small businesses.

- (a) _____
 (b) _____
 (c) _____
 (d) _____

3. Explain the following

(a) Seed Capital.

(b) Investment loan.

Advantages and Disadvantages of Borrowing

There are positive and negative effects of borrowing that small businesses must be aware of. What is borrowing? Borrowing refers to taking something like money and using it for a while before repaying it with interest or extra money on top of what has been borrowed.

1. Advantages

The positive or good side of the small business borrowing is that you are able to start the business easily with the money available on the spot to purchase necessary materials for the business to start on time. Since friends, family and the community members know the person very well, they will be willing to assist him or her.

2. Disadvantages

The negative or bad side of borrowing is that the small business owner will have to repay the loan and on time as he or she has agreed. If the owner does not repay his or her friends, family and the community members, this will cause disagreements. If the owner has borrowed from the bank, he or she must have what is called a loan security to back up the repayment, if they are unable to complete repaying the loan.



What is a loan security?

A loan security refers to an asset or something of value the business will surrender to the bank if it is not able to pay its loan. For example, a vehicle.



Activity 10.2: Complete activities given below.

1. Define borrowing.

2. What are the advantages and disadvantages of borrowing?

(a) _____

(b) _____

3. Explain what a loan security is and give two examples.

What is a Microfinance Scheme?

Microfinance schemes are not like commercial banks that make extra money through their high lending rates. Though it lends money, it aims to make accessible or make available loans for people who are considered as very low income earners in the society. That is especially those in the rural areas and others who do not have any income earning opportunities at all. Its lending rates are very low. This is to help these groups of people gain access to loans and improve their living standard. They can get into business or afford needed items. In the long run it helps improve the economy of Papua New Guinea. What then is a microfinance scheme? A microfinance scheme is an organisation that provides financial assistance at a very low lending rate to very low income earners or those without income earning opportunities in the society.

Microfinance Scheme Services

The two main services that the microfinance schemes provide are;

1. Loans

To access or get a loan, a minimal fee of 5% of the amount borrowed will be charged. Those who are intending to make a loan whether for personal reasons or for business will be given according to the amount that is saved in their account with the scheme. The amount to be loaned is based on the ratio of 1:1, meaning if you have saved K500 then you are eligible or allowed to make a loan of K500. The interest rate is very minimal and depends on the type of loan taken.

2. Business Advice

Those who wish to start a business by taking out a loan will be advised on what is best to do with the money. This will help them achieve their business plan and at the same time offset or payoff their debt.

Types of Loans

There are six main types of loans that the microfinance schemes like PNG Microfinance Limited provide to its customers. There is a standard interest charged at a flat rate of 36% regardless of the amount borrowed except for Small to Medium Enterprise (SME) loan which is 24%, oil palm loan no charges, and fast track loan at a term deposit rate plus 25% diminishing per annum. Diminishing refers to the reduction in value of something.

1. *Micro Loan*

This loan is offered to entrepreneurs (pronounced as on-tr-pri-niu-a) or business minded people to start a business. The money needed to pay for the day-to-day running expenses like wages and water and electricity bills is called the working capital.

2. *Small to Medium Enterprise (SME) Loan*

This loan is offered to entrepreneurs or business minded people to get into small or medium sized businesses like the trade store or PMV services.

3. *Fast Track Loan*

This loan is offered to those who have term deposits or have savings with the scheme. Members can make personal loans to satisfy their needs. For example, buy a TV set or sewing machine and even pay for school fees.

4. *Wanbel Loan*

This loan is offered to women who want to start up a business especially as a group. These women groups must have a loan security or assets like land or a house to repay their loan in the event their business is unsuccessful. The financial institutions will claim these assets and sell them to repay their outstanding loan.

5. *Woklain Dinau Loan*

This is offered to wage earners who cannot afford some of their urgent needs since their wages cannot afford. For example, school fees or medical bills.

6. *Oil Palm Loan*

This loan is offered to oil palm farmers who need the working capital for chemicals and seedlings to replant their oil palm blocks.



Activity 10.3: Complete activities given below.

1. Define accessible.

2. What is a microfinance scheme?

3. List the two main services provided by microfinance schemes

(a) _____

(b) _____

Summary:



You have come to the end of Lesson 10. In this Lesson, you learnt that:

- Finance refers to the capital or the money used to start a business.
 - There are about four sources of finance; Owner's funds or contribution, borrowing from friends, family and other community members, partnership business, and bank loans.
 - A microfinance scheme is an organisation that provides financial assistance at a very low lending rate to very low income earners or those without income earning opportunities at all in the society.
 - The microfinance scheme provides two services; Loan and business advice.
 - There are six types of loans offered by the microfinance schemes like The PNG Microfinance Limited. They are Micro loan, Small to Medium Enterprise (SME) Loan, Fast Track Loan, Wanbel Loan, Woklain Dinau Loan And Oil Palm Loan.
-

NOW DO PRACTICE EXERCISE 10 ON THE NEXT PAGE



Practice Exercise 10

1. Explain the importance of finance in a small business.

2. Name three commercial banks in PNG that small business owners can get loan from.

(a) _____

(b) _____

(c) _____

3. Explain why it is easy for small business owners to get finance from their friends, family and community members?

4. State the importance of microfinance schemes.

5. Fill in the table by writing down the types of loans offered by the microfinance schemes like The PNG Microfinance Limited and its purposes. The first one has been done as an example for you.

Type of Loan	Purpose
1. Micro loan	For members who are business minded to borrow and start up a new small business.
2.	
3.	
4.	
5.	
6.	

CHECK YOUR WORK. ANSWERS ARE AT THE END OF TOPIC 3

Lesson 11: Obtaining Loans



Introduction:

Welcome to Lesson 11. This is the Last Lesson for this Topic. In the previous Lesson, you learnt about how small businesses finance their business. In this lesson, you will learn about what loans are, their purposes and the types of loans. You will also learn about the advantages and disadvantages of loans.



Your Aims:

- Define loans
 - Explain the purpose of obtaining mini business loan
 - Identify the types of mini business loans
 - Identify requirements of obtaining a mini business loan
 - Identify the advantages and disadvantages of borrowing money
-

What is a Loan?

People can borrow money from commercial banks and other financial institutions to start a business. A loan is important because it enables people to get the necessary finance or money. This finance will be used to purchase needed items as they cannot afford to pay for them in the first place to get the business started. Loan refers to an amount of money given to somebody on the condition that it will be paid back with interest.



I know about commercial banks. What are financial institutions?

Financial institutions are companies that provide finance or money to businesses and individuals to buy assets. They are not like the commercial banks that allow withdrawals and savings from its customers. Finance companies help businesses and individuals to buy assets through leasing and hire purchase. Assets such as the trucks, the PMV's, the earth moving equipment like the bulldozer, the computers, the boats and the outboard motors.

Here below, are the explanations to the words leasing and hire purchase.

Leasing refers to legal or contracts by law showing somebody the right to possess another's property for a specific time in return for payment. Hire purchase refers to a financial arrangement that enables somebody to take possession of an item while making regular payments on it, with legal or by law ownership transferred only after it is paid.

Purpose of Obtaining a Mini Business Loan

Many aspiring or good business minded people in the country face difficulty starting their business. They simply do not have enough money to start up and continue their

business. Because of the lack of finance, many good business ideas cannot start up. Financial institutions lend money to businesses that need extra money. Thus, the government has provided avenues or ways such as the finance companies like the microfinance schemes to help people wishing to do business. One such loan is the mini business loan. What is a mini business loan?

A mini business loan refers to money made available for people to borrow to start up small businesses.



Activity 11.1: Complete activities given below.

1. Define loan.

2. Explain the following

(a) Lease.

(b) Hire Purchase.

3. (a) What are financial institutions?

(b) What is a mini business loan?

Types of Mini Business Loan

With the help of the Government, many people are now able to go into business by obtaining mini business loans. You have learnt in the previous Lesson that the microfinance schemes like the PNG Microfinance Limited provides loans to help people who are not able to get loans from commercial banks.

Let us recap the six main types of loans that are available. They are;

- | | |
|--|-----------------------|
| 1. Micro Loan | 4. Wanbel Loan |
| 2. SME (Small to Medium Enterprise) Loan | 5. Woklain Dinau Loan |
| 3. Fast Track Loan | 6. Oil Palm Loan |

From the six (6) types of loans available, three of them are suitable for small business purposes.

1. The Micro Loan

This type of loan is intended for entrepreneurs who need some working capital for

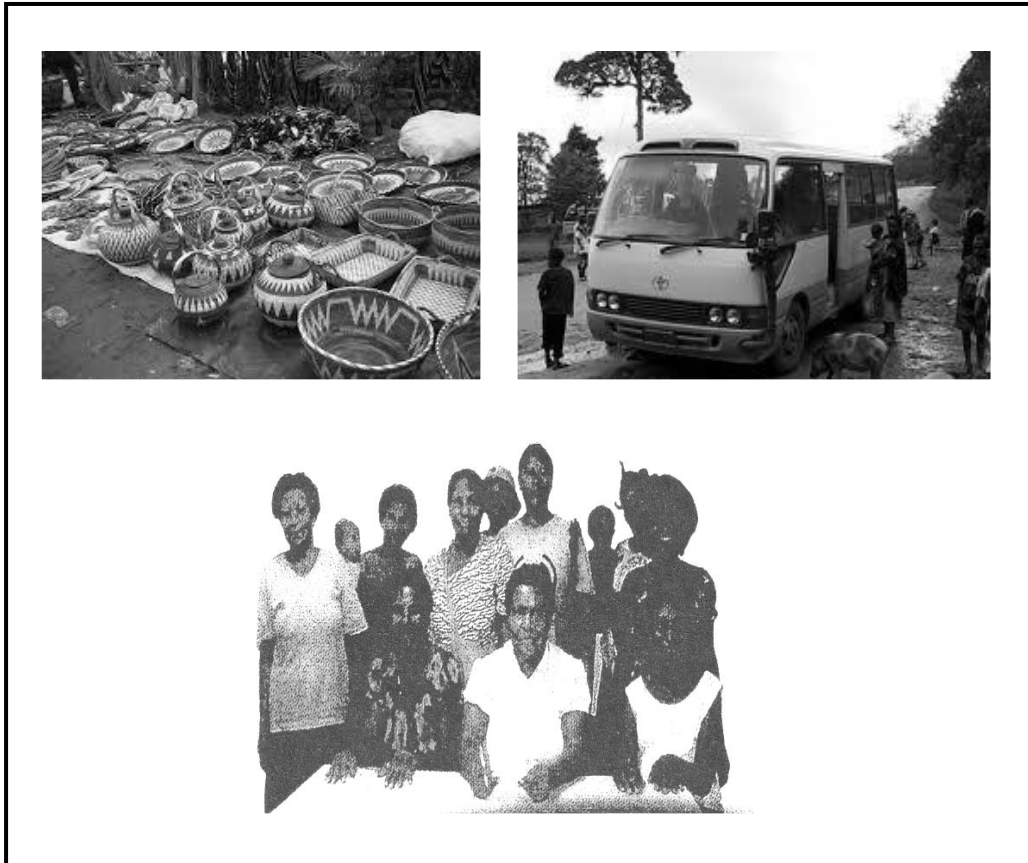
their businesses. The working capital refers to the money needed to pay for the day-to-day running expenses of a business like wages and water and electricity bills.

2. Small to Medium Enterprise (SME) Loan

This type of loan is ideal or suitable for small to medium enterprises or businesses that need funds for working the capital or fixed assets acquisitions. Fixed assets acquisitions refer to things of value that small businesses must have before starting like the land or the building.

3. Wanbel Loan

This loan is intended or made available for groups of women who want to start up business. They must have a loan security or asset like the land or the house put up, if the business fails and the loan is not repaid. The assets can be used to pay off the outstanding loans.



The picture above shows the individuals and groups who have obtained loans from Microfinance to help them start up their small business projects.

Source: Internet-2014.



Activity 11.2: Complete activities given below.

1. List the six (6) types of loans provided by The PNG Micro finance Limited.

- | | |
|-----------|-----------|
| (a) _____ | (d) _____ |
| (b) _____ | (e) _____ |
| (c) _____ | (f) _____ |

2. List the three (3) mini loan types provided by The PNG Microfinance Limited for small businesses.

- (a) _____
 (b) _____
 (c) _____

3. Explain the following words

(a) Entrepreneur.

(b) Working capital.

Requirements of Obtaining a Mini Business Loan

Before obtaining a business loan, the person intending to do business must know the requirements. He or she must be able to convince possible lenders that they are able to repay the sum of money they are borrowing. A lender refers to someone who gives his or her money for borrowing. It is therefore, necessary for a business to make detailed preparations before requesting a loan. In most cases, lenders will be banks or finance companies. They may also be the supplier of goods who will check if a business is credit worthy before allowing it to purchase goods on credit terms. The Microfinance schemes require their customers to give the following information to takeout the business loans.

1. Purpose of the loan

This refers to the nature or the type of business the borrower is trying to get into. For example, the tuck shop, the tyre service repair or the PMV or taxi services.

2. The Amount of money required

This refers to the size of the loan. The money offered for borrowing will be the required amount to start the business.

3. Security

This refers to the assets or things of value of the business that will be given up to the lender if the small business is unable to repay all its loan. Such things like the house, the land, the vehicle and the white goods like the fridge, the stove and washing machine. The lender will be able to turn these assets into cash. This means that the microfinance scheme will be able to sell these assets to get back its money. The small business that is borrowing must have cash collateral of up to 20% of the loan required in equity in the passbook account that earns interest with the microfinance scheme.



The word collateral sounds difficult. What does it mean?

Collateral means the property or the goods used as a security against a loan and forfeited or given up if the loan is not repaid.



4. Ability to repay

This refers to small businesses being able to earn enough income to repay the loan. An existing small business trying to make a loan will be asked to present its account books. It will have to show its cash flow statement. A cash flow statement refers to a record book giving details of the expected inflow and outflow of income.

5. *Background of the borrower*

The lenders will want to know the borrowers previous work and business experience. The person establishing or starting the small business must have a background or experience suitable to the kind of business he or she is trying to enter.

Advantages and Disadvantages of Borrowing Money

You have studied in the last Lesson that all borrowing have their advantages and disadvantages.

Advantages

The positive of small businesses borrowing is that they are able to start the business easily with the money available to purchase the necessary materials.

Disadvantages

The negative of borrowing is that the small business owner will have to repay the loan himself or herself. The owner has to put up his or her item of value like the house, the land, the vehicle and the white goods like the fridge, the stove and the washing machine as security. The security refers to the items of value that the owner will use in the event they do not repay their loans. The person intending or wanting to do small business has to provide the correct information to secure or be able to get the loan as expected.



Activity 11.3: Complete activities given below.

1. Explain the following words

(a) Lenders

(b) Collateral

2. What are the advantages of borrowing?

3. What are the disadvantages of borrowing?

Summary:



What:

You have come to the end of Lesson 11. In this Lesson, you learnt

- A loan refers to an amount of money given to somebody on the condition that it will be paid back.
 - The financial institutions are companies that provide finance or money to the businesses and individuals to buy assets.
 - The Finance companies help businesses and individuals to buy assets through leasing and hire purchase.
 - The three types of mini loans provided by the microfinance schemes like PNG Microfinance Limited are;
 - micro loans
 - (SME) Small to Medium Enterprise loans and
 - wanbel loans
 - The main requirements to get mini business loans for a small business are;
 1. The purpose of the loan
 2. The amount of money required
 3. The security
 4. The ability to repay and
 5. The background of the borrowers
 - The advantage of the small business borrowing is that it is able to start the businesses easily with the money available to purchase necessary materials.
 - The negative of borrowing is that the small business owner will have to repay the loan himself or herself.
-

NOW DO PRACTICE EXERCISE 11 ON THE NEXT PAGE



Practice Exercise 11

1. Explain the following words.

(a) Asset. _____

(b) Avenue. _____

(c) Secure. _____

(d) Legal. _____

(e) Fixed loan acquisition.

(f) Cash flow statement.

2. State the reasons for getting a loan.

3. Explain how mini loans can help small businesses.

4. Fill in the table with the correct information on the requirements for a mini business loan. List and explain the five (5) requirements of taking out a mini business loan. The first one has been done as an example for you.

Requirement	Explanation
(a) Purpose of the loan	The reason for trying to set up the business
(b)	
(c)	
(d)	
(e)	

5. List and explain in your own words the three main types of mini loans offered for small businesses by the microfinance schemes like the PNG Microfinance Limited.

(a) _____

(b) _____

(c) _____

CHECK YOUR WORK. ANSWERS ARE AT THE END OF TOPIC 3

ANSWERS TO

TOPIC 3

PRACTICE EXERCISES

PRACTICE EXERCISES 10 -11 ANSWERS

Practice Exercise 10

1. *Finance or money is needed by the small business to purchase or buy the materials it needs to start the business.*

2. (a) *Bank South Pacific*

(b) *ANZ Bank*

(c) *Westpac Bank*

3. *It is easy for the small business to get finance from or borrow from friends, family and community members because he/ she knows these people very well. So, it will be easy for him or her to talk to them and ask for the amount needed to start the business.*

4. *The importance of the microfinance schemes is to make it easy for people earning low income or those without any form of income to improve their living standard.*

5.

Type of Loan	Purpose
(a) <i>Micro loan</i>	<i>For members who are business minded to borrow and start up a new small business.</i>
(b) <i>Small to Medium Enterprise loan (SME)</i>	<i>For member who are business minded to borrow and start business whether small one or medium size business.</i>
(c) <i>Fast track loan</i>	<i>To help the members of the scheme to save money, withdraw money and also make loans if need arises.</i>
(d) <i>Wanbel loan</i>	<i>To help women start up their business.</i>
(e) <i>Woklain Dinau loan</i>	<i>To help wage earners buy things of need their income cannot afford.</i>
(f) <i>Oil Palm loan</i>	<i>To help those with oil pal blocks to get loan to buy chemicals or buy seedlings to replant.</i>

Practice Exercise 11

1. (a) *Asset refers to something of value owned by the business.*
 - (b) *Avenue refers to ways of going into business.*
 - (c) *Secure refers to being able to get something such as money as expected.*
 - (d) *Fixed loan acquisition refers to things of value the small business must have before starting like land or building.*
 - (e) *Cash Flow Statement refers to a record giving details of expected future income and expenses of the business.*
 - (f) *Legal refers to something done in line with the law.*
2. *The reason for getting a loan is to enable people to have access to finance or money to get something they see as a need or to start up business.*
 3. *Mini loans can help small businesses by helping them to access or gain small loans or small amount of money enough to start their small businesses.*
 - 4.

Requirement	Explanation
<i>(a) Purpose of the loan</i>	<i>Why the business person is trying to start that type of business.</i>
<i>(b) Amount of money required</i>	<i>The size or the amount of money borrowed must match the size of the business.</i>
<i>(c) Security</i>	<i>Things of value owned by the business that will be given to the lender if the loan is not completely repaid.</i>
<i>(d) Ability to repay</i>	<i>The small business should be able to repay the loan by showing its account or record books.</i>
<i>(e) Background of the borrower</i>	<i>The information concerning the small business person. What type of job they have or what type of business they were previously were operating or running.</i>

5. (a) *Micro Loan. This loan is given to entrepreneurs or business minded people who need working capital for their businesses.*
 - (b) *Small to Medium Enterprise (SME) Loan. This loan is given to entrepreneurs or business minded people ranging from small to medium size business.*
 - (c) *Wanbel Loan. This loan is given to especially women to assist them get into business.*
-

**REVISE TOPIC 3 AND DO TOPIC 3 TEST
IN YOUR ASSIGNMENT BOOK 5**

TOPIC 4

COSTING AND PRICING

In this topic, you will learn about;

- **Costing**
- **Pricing**
- **Cash Flow Budget**

TOPIC 4: COSTING AND PRICING



Welcome to Topic 4: 'Costing and Pricing'. In this Topic, you will learn about how to do costing and pricing of goods and services for your business. You will also learn the formulas of calculating costs and prices as well as their importance.

This Topic contains three Lessons.

Lesson 12: Costing

This Lesson defines and identifies costing. It also explains the types of costs and the formula used to calculate the costs.

Lesson 13: Pricing

This Lesson defines and explains pricing. It states the importance of pricing.

Lesson 14: Cash Flow Budget

This Lesson defines and explains cash flow. It also explains the importance of cash flow and how this record should be entered and kept.

Lesson 12: Costing



Introduction:

Welcome to Lesson 12. It is the first Lesson for this Topic 4. This Topic is the last topic for this unit. In the previous Topic, you learnt how people obtain finance to operate small businesses. In this Lesson, you will learn about costing and its importance in business. You will further learn about the different costing techniques.



Your Aims:

- Define costing
 - Identify the categories of costing
 - Identify costing techniques
 - Discuss average mark-up on the costs
 - Calculate direct and indirect costs
-

What is a Cost?

Costing and pricing are part of business calculations. You will study pricing in the next Lesson. Business calculations occur in any business almost any time when a business is in operation. Therefore, you should at least have the basic knowledge and skills of calculations.



What then is costing?

Costing refers to calculating the cost of producing something or providing certain services.

It is extremely important to be able to calculate costs accurately. Accurately refers to giving a correct or truthful representation of something. If business people know what their costs are, they will be able to;

- set prices that will cover all the costs and provide a profit as well.
- find out which items are most costly in running the business and look for possible ways to reduce costs.

Here below, shows the reasons for different types of business doing costing.

1. For firms or businesses that produce goods

Because it needs to be able to calculate all its costs, before pricing its products.

2. For a service business

Because it must know what its total costs are before setting a price or fee for its particular service. For some firms or businesses, estimating the costs in advance of carrying out a particular project is a very important part of their operations. For example, construction firms win contracts to construct premises or build roads by 'tendering' for jobs. Tendering refers to offering to complete a job for a certain price. This price will be based on what the firm estimates its total costs to be, plus an

additional amount for profit. Detailed costing calculations will be worked out before the firm reaches a tender figure.



So where does the business gets its information to help them calculate costs?

The information required for costing will come from the accounting records of the business. Detailed records will need to be kept of such things as wages paid, hours worked, invoices received for goods purchased and invoices sent out for goods sold.



Activity 12.1: Complete activities given below.

1. Define

- (a) Costing. _____
 (b) Accurately. _____
 (c) Tendering. _____

2. What are the benefits of businesses knowing their costs?

- (a) _____
 (b) _____

Categories of Costing

There are two main categories of costing and they are;

1. Direct Costs and 2. Indirect Costs

Let us go through these two categories of costing and learn how they are used to help calculate the costing for the goods or services for businesses. With accurate costing, businesses will be able to set correct selling prices which will be affordable for the consumers.

1. Direct Costs

Direct costs refer to costs that affect the production of goods and services directly. These are costs that the business has to pay for, according to how much is being produced daily, weekly or monthly.

It is similar to variable costs. Variable costs refer to the costs that change according to the amount of goods and services produced by the business.

What makes up the direct costs or the variable costs?

(a) *Material Costs.* These are costs of raw materials and parts that are put into a product.

(b) *Labour Costs.* These are costs of wages paid to workers for the time spent making a product. Labour costs will also include other costs such as meals paid to workers, transportation, and perhaps accommodation.

2. Indirect Costs

Indirect costs refer to the costs that do not affect the production of goods and services directly. These are costs that do not change regardless of the amount of

goods or services produced. It is similar to fixed costs. Fixed costs refer to the costs that do not change regardless of the amount of goods and services produced.

What makes up the indirect costs or fixed costs?

1. *Overhead costs.* Overhead costs refer to the everyday expenses of the business. Overhead costs look at;

- electricity, water, petrol
- office expenses (stationery, postage and telephone)
- salaries paid to administrative staff and anyone not directly involved in making the product
- maintenance of machinery and equipment. This refers to the cost of repairing and servicing equipment and purchasing of spare parts.

2. *Capital costs.* These refer to the use of buildings, machines and equipment.

These are the categories of costing. We will look at calculating costs towards the end of the Lesson.



Activity 12.2: Complete activity given below.

Define

1. Direct costs. _____
2. Variable costs. _____
3. Indirect costs. _____
4. Fixed costs. _____

Costing Techniques

What are costing techniques? Costing techniques refer to the way the management of the business controls the costs. So what are the types of costing techniques that the management uses to control costs?

There are about four (4) techniques of costing. Let us go through each one of them.

1. Marginal Costing

Marginal costing refers to costs which involve only the expenditure to produce goods like materials, labour, direct expenses and variable overheads or expenses that change all the time in line with production. Fixed overheads are excluded in cases where production varies because it may give misleading results. This technique is useful in manufacturing industries that produce at different levels of output.

2. Direct Costing

Direct costing refers to costs which involve all direct costs charged for operations, processes or products.

3. Absorption or Full Costing

Absorption or full costing refers to costs which involve charging an item all costs from direct to indirect costs.

4. Uniform Costing

Uniform costing refers to costs which involve a standard rule and method of cost accounting. Cost Accounting refers to the recording of all costs acquired by a business. Businesses can use cost accounting to improve its operations by cutting down on unnecessary costs.

These costing techniques are mainly carried out by the management of the business.



Activity 12.3: Complete activity given below.

Explain costing techniques.

Average Mark-up on Costs

Before businesses can sell their goods or services, they must work out the cost of producing these goods or services. In this way, they can make profit. In order to earn profit, they have to set the average mark-up on the cost of producing an item.



What is mark-up?

Mark-up refers to the difference between the cost of a good or service and its selling price.



For example, the cost of producing an icy pole may be 35 toea. To sell at a retail price, the final selling price has to include the extra amount for profit. This extra amount is the mark-up. The mark-up is normally given in a percentage. The final selling price for the icy poles may be 40 toea. That is 40 toea - 35 toea = 5 toea mark-up. The mark-up is set by the Government through the organisation like the Independent Consumer and Competition Commission or ICC.

The cost of an item is made up of the direct and indirect costs. You can go back to the start of this lesson to recap the direct and indirect costs.

How to calculate the mark-up

As mentioned already, the mark-up is usually expressed as a percentage of the cost price and added to the cost to reach a selling price.

The formula used to calculate the selling price is;

$$\text{SELLING PRICE} = \text{COST PRICE} + \text{MARK-UP}$$

Then, how is mark-up calculated to get a selling price?



Look below to see how the selling price is calculated using the mark-up.

Cost price + Mark-up = Selling Price

If the cost price of a packet of laundry powder is K1.00 and the mark-up is 25%. What would the mark-up amount be? And what would the selling price be? Follow these steps;

1. Cost Price + 25% = Selling Price
2. $K1.00 + (25/100 \times K1.00) = \text{Selling Price}$
3. $K1.00 + (0.25 \times K1.00) = \text{Selling Price}$
4. $K1.00 + 0.25 \text{ or } 25 \text{ toea} = \text{Selling Price}$
5. $K1.25 = \text{Selling Price}$

The mark-up is 25 toea and the Selling Price is K1.25

NOTE: The mark-up is set by the ICCC (Independent Consumer and Competition Commission)



Activity 12.4: Complete activities given below.

1. What is the formula for calculating the selling price? _____
2. State the importance of the mark-up in calculating selling price.

3. Calculate the following;

(i) Work out the mark-up of a packet of snax biscuit if its cost is 50 toea and the mark-up percent of 15%.

(ii) Work out the selling price of the packet of snax biscuit in exercise (i).

Calculating the Direct and the Indirect Costs

You have already calculated the mark-up which has helped you to work out the selling price as well. So, you can now see that the cost price should be worked out first.

Let us get started with calculating the direct and the indirect costs. You will look at an example of a small business that makes icy poles and sells them at the local market. To find out the cost of producing one ice block, you should work out the direct and the indirect costs first as mentioned.

Look below to see how the calculations are done.

DIRECT COSTS**Material Costs**

To calculate the unit cost, add the costs of all materials that are used to produce one ice block. These costs must also include any wastage. In order to find the unit cost total material or raw material, costs must be divided by the total number of units produced.

Let us say his business makes 100 ice block each day to sell at the local market. It costs a total of K25 to produce 100 ice blocks each time.

$$\begin{aligned} \text{Unit Cost} &= \text{Cost of Materials} \div \text{Total} \\ &\quad \text{units produced} \\ &= \frac{\text{K}25}{100} = \mathbf{25 \text{ toea}} \end{aligned}$$

The material cost of making one ice block is therefore 25 toea.

Labour Costs**Step 1: Calculate the direct cost.**

These are the workers directly involved in making the ice blocks. In the ice block example, one worker is employed.

One (1) worker is paid K25 per fortnight. Therefore the total direct labour cost is **K25**

Step 2: Calculate the yearly wage for direct labour.

Multiply the fortnightly wage bill by 26 fortnights to give the yearly wage bill.

$$\text{K}25 \times 26 = \mathbf{\text{K}650}$$

Step 3: Calculate the total number of hours worked during the year.

Let us say the worker works 4 hours each day for 10 days every fortnight. There are 52 weeks in a year.

Formula: Number of weeks worked during the year × the number of hours worked during each week × the number of workers employed.

$$52 \times 20 \times 1 = \mathbf{1040 \text{ hours}}$$
 of direct labour

Step 4: Calculate the hourly direct labour cost

$$\frac{\text{Total yearly wage bill}}{\text{Total hours worked in a year}}$$

$$\frac{\text{K}650}{1040} = 0.63 \text{ toea per hour}$$

On a per minute basis:

$$\frac{0.63 \text{ toea}}{60 \text{ minutes}} = \mathbf{2 \text{ toea per minute}}$$

Step 5: Estimate the time normally taken to make one ice block.

Labour time × number of workers

$$2 \text{ minutes} \times 1 = \mathbf{2 \text{ minutes}}$$

Therefore, it takes 2 minutes to make 1 ice block or 1 hour to make 30 ice blocks. (60 minutes ÷ 2 minutes)

Steps 6: Calculate the direct labour costs of making 1 ice block.

Direct labour costs = ?

Total number of minutes × wage rate per minute

$$= 2 \text{ minutes} \times 2 \text{ toea per minute} \\ = \mathbf{4 \text{ toea per ice block}}$$

INDIRECT COSTS**Overhead costs**

To find out the overhead cost of making one ice block, it is necessary to;

1. Calculate the total overhead cost of the business
2. Divide this figure by the total number of ice blocks produced

Usually, records of past years give a good estimate of what the current overhead expenses will be. Sometimes because of inflation, it is necessary to increase the previous year's price.

These costs are estimated on a fortnightly basis. You do not expect any major changes to the following levels of spending.

Direct Costs	Material costs 25 toea
	Labour costs 4 toea
Indirect costs	Overhead costs 3 toea
Total unit cost	<u>32 toea</u>

If the business sells one ice block for 32 toea, then it will be able to recover both direct and indirect costs. In order to

<table style="width: 100%;"> <tr> <td>Fuel and Electricity</td> <td style="text-align: right;">K10</td> </tr> <tr> <td>Owner's wage</td> <td style="text-align: right;">K10</td> </tr> <tr> <td>Selling costs</td> <td style="text-align: right; border-bottom: 1px solid black;">K 5</td> </tr> <tr> <td>Total</td> <td style="text-align: right; border-bottom: 1px solid black;">K25</td> </tr> </table> <p>Plus 15% (CPI) of K25 = $(15/100 \times K25 = K3.75) + K25 = K28.75$ per fortnight.</p> <p>We will now look for unit overhead costs. Overhead cost per unit = ?</p> <table style="width: 100%;"> <tr> <td style="width: 50%;">Total overhead costs</td> <td style="text-align: right; border-bottom: 1px solid black;">K28.75</td> </tr> <tr> <td>Number of ice blocks</td> <td style="text-align: right;">= 1000 (100 × 10 days)</td> </tr> </table> <p style="text-align: right;">= 3 toea</p> <p><i>Total cost per ice block</i> Now it is possible to calculate the total cost of making one ice block. Simply add up the various direct and indirect costs:</p>	Fuel and Electricity	K10	Owner's wage	K10	Selling costs	K 5	Total	K25	Total overhead costs	K28.75	Number of ice blocks	= 1000 (100 × 10 days)	<p>make a profit, the entrepreneur will add a mark-up of say, 15%. If this percentage represents the profit, then what would the selling price be?</p> <table style="width: 100%;"> <tr> <td style="border-bottom: 1px solid black;"><u>Direct Costs</u></td> <td style="width: 50%;"></td> <td>Material costs</td> <td style="text-align: right;">25 toea</td> </tr> <tr> <td></td> <td></td> <td>Labour costs</td> <td style="text-align: right;">4 toea</td> </tr> <tr> <td style="border-bottom: 1px solid black;"><u>Indirect costs</u></td> <td></td> <td>Overhead costs</td> <td style="text-align: right; border-bottom: 1px solid black;">3 toea</td> </tr> <tr> <td>Total unit cost</td> <td></td> <td></td> <td style="text-align: right; border-bottom: 3px double black;">32 toea</td> </tr> </table> <p>Add 15% mark-up $(15%) \times 32$ toea $15/100 \times 32 = 0.048$ round to 5 toea</p> <table style="width: 100%;"> <tr> <td style="width: 80%;">Selling price per ice block <i>(32t + 5t = 37t)</i></td> <td style="text-align: right; border-bottom: 3px double black;">37 toea</td> </tr> </table>	<u>Direct Costs</u>		Material costs	25 toea			Labour costs	4 toea	<u>Indirect costs</u>		Overhead costs	3 toea	Total unit cost			32 toea	Selling price per ice block <i>(32t + 5t = 37t)</i>	37 toea
Fuel and Electricity	K10																														
Owner's wage	K10																														
Selling costs	K 5																														
Total	K25																														
Total overhead costs	K28.75																														
Number of ice blocks	= 1000 (100 × 10 days)																														
<u>Direct Costs</u>		Material costs	25 toea																												
		Labour costs	4 toea																												
<u>Indirect costs</u>		Overhead costs	3 toea																												
Total unit cost			32 toea																												
Selling price per ice block <i>(32t + 5t = 37t)</i>	37 toea																														

Summary:



You have come to the end of Lesson 12. In this Lesson, you learnt that;

- Costing refers to calculating the cost of producing something or providing a certain service.
 Costing plays an important part in these types of businesses;
 1. For a firm or business that produces goods.
 2. For a service business.
- The two costing categories are; direct costs and indirect costs
- The four costing techniques are; marginal costing, direct costing, absorption or full costing and uniform costing.
- Mark-up refers to the difference between the cost of a good or service and its selling price.
- Formula for calculating the mark-up;
 Selling Price = Cost Price + Mark-Up

NOW DO PRACTICE EXERCISE 12 ON THE NEXT PAGE



Practice Exercise 12

1. Where do businesses get their information to help them calculate costs?

2. Fill in the table by listing the categories of costing and the examples of costs that come under them.

Categories	Examples of costs

3. Read the information given and answer the given questions.

Material costs:	Kasty spends K80 to make 2 scrappers. It takes him a day to sell 2 scrappers
Labour costs:	Kasty pays himself K30 each fortnight. He works 5 hours each day for 10 days fortnightly.
Overhead costs based on last year's figure:	Fuel and electricity K15, Owners wage K30, Selling costs K10 and CPI of 10%.
Estimated time taken to make one scrapper:	5 hours
Mark-up:	10%

Note: For this exercise, do not work out the minutes cost of the item. Use the hourly rate.

(a) Calculate the Direct Cost	(b) Calculate the Indirect Cost	(c) Calculate the Selling Price

CHECK YOUR WORK. ANSWERS ARE AT THE END OF TOPIC 4

Lesson 13: Pricing



Introduction:

Welcome to Lesson 13. In the previous Lesson, you learnt about costing. In this Lesson, you will learn about pricing and how the price of goods and services are calculated.



Your Aims:

- Define pricing
 - Identify pricing techniques
 - Discuss the factors to be considered when pricing
 - Calculate the prices using given information
-

What is Pricing?

Pricing is one important element of marketing for businesses. The other elements of marketing are product, packaging, promotion and placement.



So what is pricing?

Pricing refers to the amount, usually of money that is offered or asked for when something is bought or sold.



Costing is very important for a business to help it set its prices. If business people do not know what their costs are, they will not know how much profit is earned. A business person who is uncertain about costs often thinks that the costs are less than they really are. The price set for the goods and the services must cover the cost taken to produce these goods or services.

Once a firm or business knows what its business costs are, it is in a good position to set its prices. It can then compete with other firms and make profit. In order for the business to set the best price, it must know the techniques of pricing. This will be covered in the Lesson as you proceed on.



Activity 13.1: Complete activities given below.

1. What is pricing?

2. Why is pricing important?

Pricing Techniques

In order for businesses to set the right price, they must apply these pricing techniques. Pricing techniques provide directions on how to set prices for your products.

1. Cost based pricing method

Cost based pricing method refers to pricing of products that include the costs of raw materials and costs of operating the business. For example, the raw materials used to produce a packet of snax biscuit is 50 toea and the other costs of producing it like water and power bills costs 20 toea. The owner then has to take note of the mark-up so that the business makes a profit.

For instance the mark-up is 15%.

Then the selling price would be $50t + 20t = 70t$.

15% of $70t = (15/100 \times 0.70 = 0.15 \times 0.70 = 0.11$ or 11t)

So the selling price would be $70t + 11t = 81\text{toea}$.

2. Demand based pricing method

Demand based pricing method refers to the pricing of products where the price is based on the customers demand or need for the product. For example, your business sold a particular brand of shoes for K50. The customers feel that the quality of the shoes is worth more than the K50. When people want more of this product, you then slowly increase the price to K60 or K70. Likewise, you may sell a product for K50 at start, then decrease the price when the people demand less of it. You might reduce the price to K30.

3. Competition based pricing method

Competition based pricing refers to the pricing method set on goods that are homogenous and the market for these products is highly competitive. What are homogenous products? Homogenous products are products that are the same in nature or characteristics. For example, Besta Tinned fish and Ocean Blue Tinned fish have different brand names but they are both tinned fish. Snax biscuit and Arrow biscuit are both different brands of biscuits but they are biscuits.

So those selling these products must be able to sell at the right price that most people will be able to afford. For example, if store A is selling a big Ocean Blue tinned fish for K4.30 and store B also in the same location is selling the same tinned fish for K5.00, obviously store A will have more customers than store B. Store A will be able to earn more profit than store B.

4. Affordability based pricing method

Affordability based pricing method refers to the pricing of products set on especially essential commodities which meet the basic needs of all groups of people. The idea is to set prices in such a way that all groups of the population are in a position to buy and consume the products. For example, the basic goods consumed by most people in Papua New Guinea are rice, tinned fish, sugar and tea. These goods must be sold at the best price possible where everyone, regardless of those with less or more income can afford. In that way, you are able to make more money at the same time earn more profit. For example, 1kilogram of rice should range between the price of K4.60 to K5.00. If you charge more than that, then you expect to lose customers.

Now, turn to the next page to do activity 13.2.



Activity 13.2: Complete activity given below.

Fill in the table by listing and explaining what the techniques of pricing are.

Pricing Techniques	Explanation

Factors to consider when Pricing

There are about seven factors that businesses must take into consideration when pricing their goods or services.

Below are the seven factors that businesses must know about when pricing their goods and services.



1. Determine the divisions of the market

This looks at the different groups of consumers. There are consumers that have specific needs. For example, you may have noticed that half your consumers are vegetarians. Thus, you have to sell vegetarian products at the right price. Vegetarian refers to people who eat only vegetables.

2. Assess the product availability and near substitutes

This looks at the prices that are offered for the goods and the services. For example, you may be selling a bag that has unique features at a lower price because you want to sell it out quickly and your assumption is that you make fast money. However, this may not be so, customers may think that the lower price means the quality of the goods is poor. They may not buy the bag as you have planned for, in the first place. Therefore, businesses must check the prices of the same or similar goods and set theirs in line with other businesses. For instance, if JC enterprise is selling their school bags for K35, you can sell yours for K35 or even K36, if it has extra features compared to theirs. In this way, you do not miss out on earning profit. Substitute refers to something like a good that can be replaced by another good. For example, rice can be substituted or replaced by bread or kaukau.

3. Survey the market for competitive and similar products

This looks at the ways in which businesses will have to sell their products against their competitors. They need to find new ways of selling their goods or services to attract customers for example, selling through the internet and charging the right prices. Businesses can gain consumers over their competitors by looking at the price range. For example, if consumers find your products favourable, then you need to increase your prices since they will continue to buy from you. If your products have

better features, then sell at the same price like the others. If however, you see that your product has similar features to the others, then lower your price.

4. *Examine advertisement*

This looks at advertising what the business has for its customers. In order for the business to make known its products quickly, it needs to spend on advertising. Paid advertisements are thought out carefully and presented in such a way that they entice people to buy what's on offer by the business. For example, pay someone extra money for work to be done. Surely, good advertisement will bring in big profit for the business as the business progresses. Entice refers to make a person do something by offering something desirable.

5. *Calculate costs and understand how pricing interacts with the offering*

This looks at reducing the cost that deals with advertising. Businesses that have regular consumers or clients are sometimes used indirectly to advertise. For instance, their regular customers inform others of the latest product that the business has on the market. The others then pass the information on. Thus, this is already helping to cut the cost of advertising. So a business must set prices that will help them earn more in profit.

6. *Test different price points if possible*

This looks at businesses setting new prices for their goods when it is necessary. Higher prices yield or earn higher revenue. However, middle or moderate prices in the long term gain trust of customers and greater revenue will be obtained overtime. So businesses must adjust their prices in order to earn a steady revenue and profit as the business progresses on.

7. *Monitor the market and your competition continually to reassess pricing*

This looks at businesses monitoring the market of their products and challenges they face with their competitors. Their prices must be monitored so that they are competitive in the business environment.



Activity 13.3: Complete activity given below.

List the seven (7) factors to consider when pricing.

1. _____
2. _____
3. _____
4. _____
5. _____
6. _____
7. _____

Calculating the Prices

Here, you will look at how to calculate the selling prices.



What is the formula used to calculate prices?

You will look at the formulas as you proceed on. For now, let us look at the information that can be collected to help price items. You will look at the prices that

retailers set for their goods. Before retailers can calculate prices for their goods, they must have the following information.

1. The cost of goods being sold
2. Other costs in the business
3. Mark-up required

This information will be obtained from invoices, receipts and salary records. It is important to keep good accounting records for a number of reasons. One of the reasons is to enable retailers to work out their costs so that they can properly price their goods.

From this information, the business has to first of all calculate its mark-up then work out the selling price. You have studied mark-up in Lesson 12. You learnt that mark-up of certain goods as well as services are set by the Government through its organisation called The Independent Consumer and Competition Commission or ICC.

How to calculate the mark-up

Step: 1

Work out *what percentage the running costs* are of the total cost of goods. The formula used to calculate the percentage is;

$$\frac{\text{Running costs of the business} \times 100}{\text{Total Cost of Goods}}$$

For example, this information is taken from John's business records.

Total cost of goods	K 50 000
Running costs of the business	K 10 000

$$\text{Therefore; } \frac{10\,000}{50\,000} \times 100\%$$

You now know that this firm's running costs equals 20% of the price paid for goods. Therefore, the mark-up on the cost price of these goods must be 20% in order to cover the firm's costs.

Running costs refer to the costs that keep the business going. This includes wages, rent and electricity.

The total costs of goods refer to the total sum of money which a retailer has to pay for goods. This includes transport costs or freight costs.

What about the profit for the owner? Let us say that the owner would like a profit which equals ten percent of the total cost of goods. This means that the total mark-up on goods sold must be 20% + 10% = 30%. You must therefore, include the owner's profit in the formula. The owner decides on the amount of the profit themselves.

Now, turn to the next page to see step two that shows the formula for calculating the owner's profit.

Step: 2

The retailer should use this formula to calculate the selling price of goods. Let us consider one example of how to calculate a retailer's mark-up;

$$\frac{\text{Running costs} + \text{owner's profit} \times 100}{\text{Total cost of goods}}$$

	K
Cost price of goods	195 000
Freight	4 000
Insurance	1 000
Total costs of goods	<u>200 000</u>

Running costs of the business:	K
Wages	10 000
Rent	5 000
Electricity and water	3 000
Interest on loan	4 000
Repairs and maintenance	6 000
Depreciation	4 000
Administration costs	6 000
Shrinkage	2 000
Total	<u>40 000</u>

Profit required by owner: K10 000. As mentioned earlier, the owner comes up with their own figure for profit.

$$\frac{\text{Running Costs} + \text{owner's profit} \times 100}{\text{Total cost of goods}}$$

$$\frac{40\,000 + 10\,000 \times 100}{200\,000} = \frac{50\,000 \times 100}{200\,000} = 25\%$$

So the percentage general business cost is 25%. The owner must add 25% to the cost of goods purchased. They must do this in order to pay for the costs of running the business, and make themselves a reasonable profit.

Now, let us imagine that the retailer in the above example buys a carton of small tinned Dianna Tuna which contains 50 tins. The cost is K50.00 plus K5.00 for the freight and insurance. How much will he sell each tin for?

You will go to Step Three to find out how to calculate the selling price.

Step: 3

The formula to calculate the selling price is;

$$\text{Selling Price} = \text{Cost Price} + \text{Mark-Up}$$

$$\text{Total cost price} \quad \text{K50.00} + \text{K5.00} = \text{K55.00}$$

$$\text{Plus 25\% mark-up} \quad \text{K55.00} \times 25/100 = \text{K55.00} \times 0.25 = \text{K13.75}$$

$$\begin{aligned} \text{Selling Price of each Tin} &= \text{Cost Price} + \text{Mark-up} \div \text{Number of tins.} \\ &= (\text{K55} + \text{K13.75}) \div 50 = \text{K68.75} \div 50 = \text{K1.38} \end{aligned}$$

So the price of a small tin of Dianna Tuna is K1.38. This is how the price is calculated set by retailers.

In practice, a retailer will not add the same mark-up to the cost of all goods being sold. The owner may not add 25 percent to the cost of all goods. A lower mark-up will be added to the cost of some goods, for example rice and tinned fish. And a higher mark-up on some goods like the TV set and white goods like the fridge, the washing machine and the stove.

But the retailer will try to have an average mark-up on all the goods that will cover the costs and provide a profit as well.



Activity 13.4: Complete activity given below.

Explain why the retailers charge certain goods a lower mark-up and other goods higher-mark-up?

Summary:



You have come to the end of Lesson 13. In this Lesson, you learnt that;

- Pricing refers to the amount, of money that is offered or asked for when something is bought or sold.
- Costing is very important for a business to help it to set its prices. If the business people do not know what their costs are, they will not know whether they are making a profit or a loss.
- The four pricing techniques or methods are;
 1. Cost based pricing 3. Competition based pricing
 2. Demand based pricing 4. Affordability based pricing
- There are factors that businesses must know about when pricing their goods.
- Running costs refer to the costs that keep the business going. These include the wages, the rent and the electricity.
- The total costs of goods refer to the total sum of money which a retailer has to pay for goods. These include the transport costs or freight costs.
- The Mark-up set on goods may be higher or lower depending on the needs of the population for those goods and services.
- The business must be honest when setting its selling prices.

NOW DO PRACTICE EXERCISE 13 ON THE NEXT PAGE



Practice Exercise 13

1. Calculate the selling price of each good.

Food item	Cost price (K)	(%)	Mark-up (K)	Selling Price (K)
Food A	20	10	2	<u>22</u>
Food B	40	30	_____	_____
Food C	80	40	_____	_____
Food D	30	25	_____	_____
Food E	40	15	_____	_____

2. Use the following information to answer the following questions.

Jackson Hulamari has a wholesale business which he aims for a profit of K25 000 at the end of the year. His total costs of goods sum up to K100 000 and the running cost of K50 000.

(a) Work out the mark-up the business should set.

(b) Work out the selling price of a packet of twisties in a bulk of 40 packets. The cost of the box of twisties is K35. The freight and insurance into store for this item is K3.

CHECK YOUR WORK. ANSWERS ARE AT THE END OF TOPIC 4

Lesson 14: Cash Flow



Introduction:

Welcome to Lesson 14. It is the last Lesson for this Unit. In this Unit, you will learn about the cash flow and its importance. You will also learn about the different parts of the cash flow and the problems of keeping the cash flow.



Your Aims:

- Define the cash flow and its importance
 - Identify and discuss each section of a cash flow statement
 - Identify the cash flow problems and suggest the solutions
-

The Cash Flow and its Importance

The Cash flow is an important aspect or part of the business. The cash flow of the business is recorded in the cash flow statement.



What is cash flow?

Cash flow refers to the money that is moving in or flowing out of a business at a particular time.



The record of the cash flow helps the business to make decisions such as buying more or less of an item. As mentioned above, the movement of money in and out of the business is recorded in the cash flow statement. A cash flow statement refers to a record that shows the amount of income coming into and going out of the business.

Cash flows are made up of the cash inflows and cash outflows. The cash inflows refer to money coming in to the business. Cash is earned mainly through the sales of goods or services. The cash outflows refer to the money going out of the business through paying for costs such as raw materials, transport, labour and power bills. The difference between the cash inflows and cash outflows is called net cash flows.

The importance of the cash flow is that it keeps the business operating even if the business is making a loss. The saying that 'Cash is King' means that when there is cash, the business is able to operate, otherwise all the plan is a waste without money.

With the help of the cash flow statement, the business can use this record to work out the timing and the amount of money to spend, and can tell what the future cash flow will be like so it can easily budget. The cash flow statement answers the main questions of, 'Where did the money come from?' and 'Where did it go?'

**Activity 14.1: Complete activities given below.**

1. Define

(a) A Cash Flow.

(b) A Cash Flow Statement.

2. State the importance of the cash flow.

Sections of a Cash Flow Statement

The cash flow statement as mentioned earlier, helps the business make appropriate or correct decisions to budget its money. It is also important when the business wants to borrow extra money from financial institutions to expand its operation. Financial institutions refer to organisations that lend money. For example, banks like BSP and ANZ, other financial institutions like Fincorp, Credit Corporation and Kina Finance and Savings and loans societies like the Teachers Savings and Loans Society and the Police Savings and Loans Society. The Cash Flow Statement will convince the financial institutions to lend money since they are able to see the flow of the money now and in the future. The financial institutions will be assured that the money lent can be repaid on time.

There are three main sections of information that are presented in the cash flow statement.



What are these three sections of information that are found in the cash flow statement?

1. Operational Activities

Operating activities refer to the activities that the business is doing. That is the sales of goods and services.

2. Investing Activities

Investing activities refer to the activities that the business wants to be involved with others to earn more money. For example, lending of money to earn interest overtime or sale of common stock or items like rice and tinned fish, if it is a small retail trade store.

3. Financing Activities

Financing activities refer to the activities that the business makes money from. For example, borrowing to be paid interest overtime or the sale of common stock or items like rice or tinned fish, if it is a small retail trade store.

Turn to the next page to see what a Cash Flow Statement looks like.

Look below to see the cash flow statement that businesses must prepare as part of their financial report.

CASH FLOW STATEMENT

	Jan (K)	Feb (K)	March (K)	April (K)	May (K)	June (K)
Cash balance at start of month	3000	4300	2160	4820	3000	5410
Total Sales	10 000	10 000	10 000	10 000	10 000	10 000
Cash Sales	8000	8000	8000	8000	9600	10 400
Cash from credit sales	2000	2000	2000	2000	2400	2600
		2000	2000	2000	2000	2400
Other receipts					3750	
Total cash receipts	8000	10 000	10 000	10 000	15 350	12 800
Cash payments						
Cash purchases	1500	1500	1500	1820	2120	2440
Cash paid for credit purchases	3000	3000	3000	3640	4240	4880
		3000	3000	3000	3640	4240
Wages	1850	1850	1850	1850	1850	1850
Drawings	1500	1500	1500	1500	1500	1500
Loan repayments	250	250	250	250	250	250
Other payments	1600	1800	4600	2100	800	1200
Total cash payments	6700	9900	12 700	10 520	10 160	11 480
Cash balance at the end of the month	4300	4400	1700	1180	6370	7690

Having this report will greatly help the business to obtain assistance from those whom they are interested in doing business with especially the banks.



Activity 14.2: Complete activities given below.

1. Name and explain the three (3) main sections of a cash flow statement.

Sections	Explanations
(a)	
(b)	
(c)	

2. What are financial institutions?

3. List the examples of financial institutions. _____

The Cash Flow Problems and Solutions

A good cash flow keeps a business alive, whilst a poor cash flow can sink it. In fact, poor cash flow is a big reason why one in every four businesses does not make it past their first year and why more than half do not survive past the fifth.

Now, continue reading to find out about the cash flow problems that most businesses come across and their solutions as well.



1. *Disorganised books*

A business person getting into business normally spends much of his or her time trying to set up the business. Before they get carried away with the set up, they must maintain the bookkeeping. What is bookkeeping? Bookkeeping refers to the process by which the financial transactions of a business are recorded. A business person must always maintain his or her bookkeeping. You will learn more about bookkeeping in detail in Grade 10.

If the business person is spending too much time worrying about how to set up the business, he will certainly overlook other important information that need to be maintained and controlled, for instance, invoices and credit from customers.

The solution for disorganised books for most businesses is for them to get their books in order, using the accounting system of bookkeeping and to make a point of keeping it up to date. Once their books are in order, they are able to know how much their customers owe them. They themselves or their accountants are able to generate useful reports like aged debtors and creditors so that they can easily understand their cash flow. Debtors refer to people whom you owe money and creditors refer to people who owe you money.

2. *Bad debts*

Bad debts refer to the amounts owed by customers that cannot be recovered. They can slow the progress of new business and can easily occur, if no proper credit control system is put in place at the start. A credit control system refers to the process a business has in place to collect money owed by its customers.

The solution for bad debts is for businesses to conduct credit checks on their customers before offering them credit. If a business discovers a customer with poor credit record, however wants to continue doing business with them, then the business must ask for a deposit up front or part payments be made straight to the account of the business.

3. *Out of agreement credit terms or time*

Out of agreement credit terms refer to a disagreement caused by customers and suppliers of the business. For example, your customer has 30 days to pay you for the goods and services you supplied them, however, suppliers you deal with want you to pay up your credits within 14 days. This, already will cause cash flow problems.

The solution for out of agreement credit terms in this situation would be to renegotiate (pronounced as ri-neg-o-shi-ate) terms with the customers and/or suppliers. However, if this is not possible, then the business should have written agreements in place already. Renegotiate refers to an agreement for something for the good of both parties. There are five ways that both parties can renegotiate on.

1. *Factoring*

What is factoring? Factoring refers to an agreement where the financial institutions will lend businesses cash to be repaid in a short period of time. This is called an overdraft. What is an overdraft? An overdraft refers to the amount that an account

holder owes a bank because he or she has withdrawn from the account more than what is in his or her account. For example, you owe your suppliers K3000 and cannot pay within 14 days. You will sign an agreement with the bank that your business account is maintained and they will lend K3000 to the suppliers. You will later on pay the amount of K3000 to the bank when your customers pay you up for the goods taken on credit.

2. Early settlement discounts

The business could offer early settlement discounts to its customers as financial incentives. An incentive refers to something that encourages or motivates somebody to do something.

This is around a 2-3% reduction in the total invoice value. An invoice is a written record of goods and services provided and the amount charged for them, sent to a customer or employer as a request for payment.

3. Profit problems

A lack of profit will eventually lead to lack of cash. The amount of time it takes a business to run out of cash depends on a number of factors, but no business can sustain losses continuously. For example, it is possible for a business to survive for a while if it has extra cash, possibly from previous profits or from bank loans. However, if a business consistently makes losses, then the extra cash reserves will eventually deplete and the business will fail. Deplete means to use up.

The solution for the profit problem is to uncover or find the cause of the losses and address or solve them as soon as possible. To increase profit would be to increase prices, increase sales or gain better control over the expenditure.

4. Lack of Cash flow forecasting

Lack of cash flow leads to the businesses making wrong decisions like buying more or less goods at a particular period of time. Most businesses starting do not really take into account the importance of cash flow. They worry about selling the goods or the services and earning more profit.

The solution for lack of cash flow forecasting is to have an accountant create a cash flow forecast for the business. Forecast refers to suggestion of what should be done. This will help the business person know which months they can expect to see a cash deficit and which months they can expect a surplus. They are able to get a good idea of how much cash their business is going to require over the next year or so to survive.

They can gain a lot of insight into their business by comparing figures to what they have planned for. If they find a mismatch between two amounts, they can easily correct this problem. For example, if the business person is spending twice the amount on electricity, then he or she can look at the most efficient way to save energy. If their telephone bill is much higher than they thought, it was then they could look at the best possible way.

5. Growing too quickly

Most people want to grow their business, but sometimes growing too quickly can cause cash flow issues that can harm the business. For example, you were given a big contract by your client to do over a 12 months period and you immediately got 4 men to help you. However, you find it hard to pay them wages when the pay day arrives. The solution to growing too quickly would be to get access to credit or be allowed to borrow from banks by signing an agreement for an overdraft or a short-term loan from the bank. What is an overdraft? Overdraft refers to the amount that an account holder owes a bank because he or she has withdrawn from the account more than what is in his or her account. You will only repay the interest to the bank.

New businesses face these kinds of problems, therefore they need to know about these problems and their solutions.



Activity 14.3: Complete activities given below.

1. Define the following words.

- (a) Bookkeeping. _____
 (b) Debtors. _____
 (c) Creditors. _____
 (d) Credit. _____
 (e) Control system. _____
 (f) Overdraft. _____

2. Fill in the table by listing and explaining the six cash flow problems and their solutions.

Problems	Solutions

Summary:



You have come to the end of Lesson 14. In this Lesson, you learnt that;

- Cash flow refers to the money that is moving in or flowing out of a business in a month.
- A cash flow statement refers to a record that shows the amount of income coming into and going out of the business.
- Cash flows are made up of the cash inflows and cash outflows.
- The cash inflows refer to money coming in.
- Cash comes mainly through the sales of goods or services.
- The cash outflows refer to the money going out of the business through paying for costs such as the raw materials, transport, labour and power bills.
- The difference between the cash inflow and cash outflow is called the net cash flow.
- There are three sections to the cash flow;
 1. Operating Activities
 2. Investing Activities
 3. Financing Activities

- The cash flow problems a business person must be aware of are:
 1. Disorganised books
 2. Bad debts
 3. Out of agreement credit terms or time
 4. Profit problems
 5. Lack of Cash flow forecasting
 6. Growing too quickly
-

NOW DO PRACTICE EXERCISE 14 ON THE NEXT PAGE



Practice Exercise 14

1. Define the following words.

(a) Factoring. _____

(b) Invoice. _____

(c) Deplete. _____

(d) Renegotiate. _____

2. Fill in the table by listing the cash inflow activities and cash outflow activities.

Cash Inflow Activities	Cash Outflow Activities

3. Fill in the table with the correct missing words. The words are given below.

Cash flow, business, accountant, receipts, decisions, invoices, bookkeeping, decisions, owe, bad debt, owed, owe.

_____ is very important for all business that are starting. If they do not have this, there are number of problems that they are likely to face. They need an _____ who can help them. Their records of _____ and _____ must be recorded through the _____ system.

The Cash flow will help them make proper _____ on how best to do _____. They are able to know who _____ them money and who they _____ money to. Monies that are _____ to the business and not paid for a quite some time are known as _____.

CHECK YOUR WORK. ANSWERS ARE AT THE END OF TOPIC 4

ANSWERS TO

TOPIC 4

PRACTICE EXERCISES

PRACTICE EXERCISE 12 - 14 ANSWERS

Practice Exercise 12

1. From its business reports like cash book, cash flow and Profit and Loss Statement.

2.

Categories	Examples of costs
1. Direct Costs	Material costs, Labour costs,
2. Indirect Costs	Overhead costs and capital costs

3.

- (a) Marginal costing (c) Absorption or full costing
 (b) Direct costing (d) uniform costing

4. (a)

(i) Direct Costs

Material costs: Unit Cost = Cost of Material ÷ Total units produced
 = K80 ÷ 2 = **K40**

Labour Costs: 1. Direct labour cost is **K30** since there is only one worker

2. Yearly wage rate = K30 × 26 fortnight = **K780**

3. Total number of hours worked in a year = 52 × (25 hours a week × 1) = **1300 hours**

4. Hourly direct labour cost = K780 ÷ 1300 = **0.60 toea**

5. Estimate of time taken to make one scrapper

Labour time × number of workers = 5 hours × 1 = **5 hours**

6. Direct labour costs = total number of hours × wage rate per hour
 = 5 × 0.60 toea = **K3.00**

(ii) Indirect Costs

Overhead costs

Fuel and electricity	K15
Owners wage	K30
Selling costs	K10
	<u>K55</u>

(iii) Selling Price

Plus 10% (CPI) of K55 = K5.50 SO K55 + K5.50 = **K60.50**

Overhead costs per unit = Total overhead costs ÷ Number of scrappers
 = K60.50 ÷ 20 (2 scrappers × 10 working days)
 = **K3.03**

Total costs per scrapper:

Direct Costs	Material costs	K40.00
	Labour Costs	K 2.50
Indirect cost	Overhead cost	<u>K 3.00</u>
Total unit cost		<u>K45.50</u>

Add 10% markup; 10/100 × 45.50 = **K4.55**

Selling price = K45.50 + 4.55 = K 50.05

Practice Exercise 13

1. (a)

$$\frac{50\,000 + 25\,000}{100\,000} \times 100 = \frac{75\,000}{100\,000} \times 100 = \frac{75}{1} = \mathbf{75\%}$$

(b) *Selling Price = Cost Price + Mark-Up*

$$\text{Cost Price} = K35 + 3 = K38$$

$$\text{Mark-Up} = K38 \times 75\% = K38 \times 0.75 = 0.285 \text{ or } \mathbf{29 \text{ toea}}$$

$$\begin{aligned} \text{Selling Price of each Tin} &= \text{Cost Price} + \text{Mark-up} \div \text{Number of packets} \\ &= (K38 + 29 \text{ toea}) \div 40 \rightarrow K38.29 \div 40 = 0.957 \text{ OR } \mathbf{96 \text{ toea}} \text{ for a packet or twisties} \end{aligned}$$

Practice Exercise 14

1. (a) *Factoring* refers to an agreement where financial institutions will lend a business short term cash that is secured against the value of the invoices the business has issued.

(b) *Invoice* is a written record of goods and services provided and the amount charged for them, sent to a customer or employer as a request for payment.

(c) *Deplete* refers to use up.

(d) *Renegotiate* refers to agreeing all over again for something good for both parties.

2.

Cash Inflow Activities	Cash Outflow Activities
sales of goods or services	Through paying for costs such as raw materials, transport, labour and power bills.

3. **Cash flow** is very important for all business that are starting. If they do not have this, there are number of problems that they are likely to face. They need an **accountant** who can help them. Their records of **receipts** and **invoices** must be recorded through the **bookkeeping** system.

Cash flow will help them make proper **decisions** on how best to do **business**. They are able to know who **owes** them money and who they **owe** money to. Monies that are **owed** to the business and not paid for quite some time are known as **bad debts**.

REVISE TOPIC 4 AND DO TOPIC 4 TEST IN YOUR ASSIGNMENT BOOK 6

ANSWERS TO

LESSON ACTIVITIES

Lesson 1-14 Activity Answers

Lesson 1

Activity 1.1

1. (a) *Enterprise refers to undertaking or going into a business activity or project to earn a profit.*
- (b). *Entrepreneur refers to someone who is innovative, creative, can organise, can manage and takes risks in a business while aiming to make a profit.*
2. (a) *Profit*
- (b) *Wages and Salaries*

Activity 1.2

1. (a) *Independent in business refers to the business being operated by the owner himself or herself*
- (b) *Rational refers to being reasonable and sensible.*
- (c) *Intuition refers to making decisions based on one's instincts or strong feeling for something.*
- 2.

Reasons for being an entrepreneur	Explanation (Sample Answers)
<i>Example; Increase wealth</i>	<i>To make money and expand the business.</i>
<i>Being your own boss</i>	<i>You give orders to others to do work.</i>
<i>Being independent</i>	<i>You work on your own. You don't need someone giving you advice since you can do that yourself.</i>
<i>Make your own decision</i>	<i>Since you are your own boss, you can make decisions that suit you and that is in the best interest of the business.</i>
<i>Making use of your skills</i>	<i>Whatever skills you have, you can put them into practice and make money out of them.</i>
<i>To create employment for relatives, friends and community members</i>	<i>Entrepreneurs when creating businesses also think of those around them, apart from the main aim of making money. They involve those closer to them creating income earning opportunities, thus help improve their standard of living.</i>

Activity 1.3

1. *Independence*
2. *Confidence*
3. *Discipline*
4. *Drive*
5. *Initiative*
6. *Leadership*
7. *Risk taking*

Lesson 2

Activity 2.1

1. (a) *Ethics refer to the study of moral standards and how they affect conduct.*
(b) *Ethical business practice refers to actions performed and attitudes held by a business and its employees that are considered professionally and morally responsible.*
2. *The importance of ethical business practices is to promote the goals of the company without sacrificing the common good of its employees, customers and even competitors.*

Activity 2.2

1. (a) *Honesty*
(b) *Trust*
(c) *Solve customers' problems or needs*
(d) *Charge customers fairly for goods or services*
(e) *Repay debts as agreed to*
2. *Because they are the ones who will consume or use the goods and services businesses will provide. They will decide whether or not they want to spend their money at those particular businesses. So a business must take care of its needs or else lose its potential customers.*

Activity 2.3

1. (a) *Transparent refers to something done clearly and ethically.*
(b) *Socio-economic refers to how wealth is to be distributed to people to improve their living standards.*
(c) *Facilitate means to make something easier to happen.*
2. *Statement of the Core Values refer to the written statement about the main existence of the business.*

Lesson 3

Activity 3.1

1. *Challenge means to compete in a match, contest or competition.*
2. *Entrepreneurship is a challenge because those who are intending or thinking of getting into business will come across a number of things that they have to comply with or follow. They must also have the knowledge and the skills to be able to carry on with the operation of the business while competing with many other similar businesses.*

Activity 3.2

1. Identify the Business Activity	7. Keeping up with innovation	13. Managing cash flow
2. Conduct the Market Research	8. Taking on too much	14. Staying focused
3. Identify the competitors	9. Creating a great culture	15. Thinking simple
4. Deciding where to locate your business.	10. Keeping up with the government regulation	16. Getting funds
5. Detailed Planning	11. Establish credibility	17. Standing out
6. Developing Personal Relationship with customers	12. Balancing Sales and marketing	

Activity 3.3

Disadvantages	Explanations
1. You will not get a monthly regular salary	Income of business depends on how much the business sells.
2. You risk losing everything you have worked for	If the business breaks down, you will be responsible for all the losses
3. Accept failure in order to be successful.	You must accept the fact that somewhere along the line, you will fail but you must use that as an experience.
4. Inexperience	Since you are new to the business, you will not have experience some of the things the business will come across.
5. A change in lifestyle	You will have to work long hours in order to get your business to where you expect it to be, before it can improve your lifestyle.
6. Cannot hold people liable	There is no one to blame, you will be solely responsible.
7. Perform many tasks at one time	You must be prepared to perform many tasks. So this means, you must know some skills to perform many tasks at one time.
8. Difficulty in obtaining capital	Since the business is small, it will be

	<p><i>difficult for financial institutions to allow you to borrow, unless there is an up to date business report like the cash flow statement and the profit and loss statement.</i></p>
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Lesson 4

Activity 4.1

1. *A tourist is a traveller who visits places away from home for pleasure.*
2. *Tourism refers to the activity of travelling for pleasure.*

Activity 4.2

1. *The economy refers to the production and consumption of goods and services of a country.*
2. *(a) Generates income for the government (b) Creates employment
(c) Creates an income earning opportunity (d) Improves living standards*

Activity 4.3

- | | |
|---|--|
| <ol style="list-style-type: none"> 1. <i>Trekking & Hiking</i> 2. <i>Diving</i> 3. <i>Surfing</i> 4. <i>Fishing</i> 5. <i>Cruising</i> | <ol style="list-style-type: none"> 6. <i>Bird watching</i> 7. <i>Kayaking</i> 8. <i>Snorkelling</i> 9. <i>Tour</i> 10. <i>Cultural events</i> |
|---|--|

Activity 4.4

Advantages	Disadvantages
<i>1. Generates income for the government</i>	<i>1. Law and order problems</i>
<i>2. Creates employment</i>	<i>2. Lack of infrastructure and poor services</i>
<i>3. Creates income earning opportunity</i>	<i>3. Bad attitude</i>
<i>4. Improves the living standards</i>	

Activity 5

Activity 5.1

1. *Tourism promotion refers to publishing destinations for tourists so that they visit, spend money and go away happy.*
2. *It is important because the tourists have to be well informed about the destinations they are planning to visit.*

Activity 5.2

1. *1993 under the Tourism Promotion Act.*
2. *The PNG Tourism Promotion Authority makes it possible by advertising and marketing areas with potential tourist destinations to the world. They negotiate with the government and the business industry responsible for tourism and industry, to bring tourists into these areas, thus the local people are able to get into business opportunities providing the needs and the wants of the tourists.*

Activity 5.3

1. *The government through the Ministry of Arts, Culture and Tourism, and the Deputy of the Department of Finance and Treasury.*
2. *Representatives of the hoteliers, tour operators, the airlines, banks and financial institutions, tourist attractions, and the niche tourism sector associations.*

Lesson 6

Activity 6.1

1. A *business idea* refers to a business activity that somebody has thought up or that somebody might be able to imagine.
2. A *business plan* refers to a formal or written statement of a set of business goals, the reasons they are believed attainable and the plans for reaching these goals.

Activity 6.2

1. Finance	5. Sourcing materials or products
2. Bureaucracy and regulations	6. Finding clients or customers and developing your market
3. Taxes	7. Finding qualified employees
4. Banks	

Activity 6.3

1.

(a) Market research	(c) Location
(b) Method of selling the product or service	

2. It is important to set up, because you will have the necessary information to get into business. You will not worry later on and waste money and time looking for the right type of goods to sell, the method of selling or where to conduct your business from.

Activity 6.4

1. The exposure to skills and the background knowledge of the business.
2. (Sample Answers)
 - Fast cooked food and Kai Bars
 - Poultry
 - Tailoring Business
 - Trade Stores
 - Fruits and vegetable farming
 - Taxi and PMV Services

Lesson 7

Activity 7.1

1. (a) *A market research refers to the process of collecting valuable information to help you find out, if there is a market for your proposed product or service.*
 (b) *A market refers to the exchange between sellers or suppliers and buyers for the demand for particular goods or services.*
 (c) *Propose means to put something forward such as an idea in a formal way.*
 (d) *Data refers to factual information, often in the form of facts or figures obtained from experiments or surveys to make calculations or conclusions.*
 (e) *Demographics refer to the human population of an area or country.*
2. (a) *Provide wealth of information*
 (b) *Convinces financial institutions for assistance*

Activity 7.2

1. (a) *The target audience refers to the people you are aiming to sell your products to.*
 (b) *Proposition refers to an idea, offer or plan put forward for consideration or discussion.*
 (c) *Modify refers to make a small change to something.*
2. *Unique Selling Proposition is to give the best-selling service to your customers that they pay, for whatever price you charge.*

Activity 7.3

1. (a) *Methodology refers to the study of methods of research.*
 (b) *Via means to go through.*
 (c). *Validate refers to confirming something for truthfulness.*
 (d) *Authenticity refers to the truthfulness of something that is presented.*
- 2.

<i>(a) Defining or identifying the problem or need</i>	<i>(3) Picking out the appropriate methodology</i>
<i>(b) Determining who will do the research</i>	<i>(4) Collecting Data Process</i>
<i>(5) Data preparation, tabulation and analysis of the results</i>	

Lesson 8

Activity 8.1

1. A resource is somebody or something that is a source of help or information.
2. Money, vehicles, machinery and buildings, land and people.
3. The importance of the resources in businesses is that it helps the business start on time as planned.

Activity 8.2

Resources	Examples
1. Finance	Money or start-up capital
2. Buildings and facilities	Shop front, workshop, wash bay, showroom, kitchen, storage space, bathroom, manufacturing facilities or refrigeration.
3. Equipment	Tools like hammer and saw, cash register, office furniture, ladder or work benches.
4. Machinery	Plant machinery, concrete mixer, wood-chipper, and manufacturing or production machinery.
5. Information Technology	Computer hardware and software, specialist programmes like 'Mind Your Own Business' or 'Pronto', databases or telecommunications.
6. Stock, raw materials and supplies	Shop inventory, manufacturing materials, stationery, building supplies or fuel.
7. Human resources	Employees and contractors.
8. Vehicles	Delivery truck, trailer, car for visiting clients, van or tractor.

Activity 8.3

1. (a) Inefficiency refers to something not organised well, therefore not operating effectively
 - (b) Project refers to a task or planned programme of work that requires a large amount of time, effort and planning to complete
 - (c) Bulk refers to a large size/quantity
 - (d) Finance refers to money
 - (e) Forecast means to predict or work out something that is likely to happen.
- 2.
- (a) The amount of resources required (d) Finance
 (b) The need for extra resources (e) Business forecast
 (c) Buying materials in bulk
3. So that you can meet your requirements, whilst also avoid wasting, inefficiency and additional costs.

Activity 8.4

1. (a) Cash flow refers to the report of the movement of money coming in and going out of a business.
 - (b) Budget refers to an estimate of income and expenditure for a set period of time.
2. Cash Flow Projection involves the business estimating what its future flow of the cash would be like by looking at the type of business activity, it will be involved in.

Lesson 9

Activity 9.1

1. (a) *Marketing refers to the business activity of presenting products or services in such a way as to make them desirable.*

(b) *Strategy refers to a carefully devised plan of action to achieve a goal.*

(c) *Sustainable refers to being able to be maintained.*

(d) *Marketing strategy refers to the process that can allow an organisation to concentrate its resources on the best opportunities with the goals of increasing sales and achieving a sustainable competitive advantage.*

(e) *A marketing plan is a business document written for the purpose of describing the current market position of a business and its marketing strategy for the period covered by the marketing plan.*

2. *The importance of a marketing plan is, it clearly shows which steps will be undertaken to achieve the business marketing objectives or goals.*

Activity 9.2

1. (a) *Logistics refers to the planning and control of the flow of goods and materials through an organisation or manufacturing process.*

(b) *Marketing mix refers to a set of controllable, tactical marketing tools that a company uses to produce a desired response from its target market.*

2.

(a) *Product*

(b) *Packaging*

(c) *Pricing*

(d) *Placement*

(e) *Promotion*

Lesson 10

Activity 10.1

1. *Finance refers to the capital or money used to start a business.*
2. (a) *Owner's funds or contribution*
(b) *Borrowing from friends, family and other community members*
(c) *Partnership business*
(d) *Bank loans*
3. (a) *Seed capital refers to the money required to finance the setting up of a business.*
(b) *Investment loans refer to money borrowed from banks that are used in the business to make more money.*

Activity 10.2

1. *Borrowing refers to taking something like money and using it for a while before returning it with interest or extra money on top of what has been borrowed.*
2. (a) *Advantage of borrowing is that it is able to start the business easily with the money available on the spot to purchase necessary materials for the business to start on time.*
(b) *Disadvantage of borrowing is that the small business owner will have to repay the loan and on time as he or she has agreed.*
3. *The negative or bad side of borrowing is that the small business owner will have to repay the loan, and on time as he or she has agreed.*

Activity 10.3

1. *Accessible to make available something.*
2. *A microfinance scheme is an organisation that provides financial assistance at a very low lending rate to very low income earners, or those without income earning opportunities in the society.*
3. (a) *Loans*
(b) *Business Advice*

Lesson 11

Activity 11.1

1. A *loan* refers to an amount of money given to somebody on the condition that it will be paid back with interest.
2. (a) *Leasing* refers to legal or by law contract showing somebody the right to possess another's property for a specific time in return for payment.
(b) *Hire purchase* refers to a financial arrangement that enables somebody to take possession of an item, while making regular payments on it, with legal or by law ownership transferred, only after it is paid.
3. (a) *Financial institutions* can lend money to businesses that need extra money. But they are not like banks, they do not allow savings or withdrawals.
(b) A *mini business loan* involves money made available for people to borrow to start up small businesses.

Activity 11.2

1. (a) *Micro Loan* (d) *Wanbel Loan*
(b) *SME (Small to Medium Enterprise) Loan* (e) *Woklain Dinau Loan*
(c) *Fast Track Loan* (f) *Oil Palm Loan*
2. (a) *Micro Loan*
(b) *Small to Medium Enterprise (SME) Loan*
(c) *Wanbel Loan*
3. (a) *Entrepreneurs* refer to people who get into business taking risks.
(b) *Working capital*.
Working capital refers to money needed to pay for the day- to- day running expenses of a business like wages and water and electricity bills.

Activity 11.3

1. (a) A *lender* refers to someone who gives his or her money for borrowing.
(b) *Collateral* means the property or goods used as a security against a loan and forfeited, or given up if the loan is not repaid.
2. The positive or good side of the small business borrowing is that it is able to start the business easily with the money available on the spot, to purchase necessary materials for the business to start on time.
3. The negative or bad side of borrowing is that the small business owner will have to repay the loan and on time, as he or she has agreed.

Lesson 12

Activity 12.1

1. (a) *Costing refers to calculating the cost of producing something or providing a certain service.*
 (b) *Accurately refers to giving a correct or truthful representation of something.*
 (c) *Tendering refers to offering to complete a job for a certain price.*
2. (a) *For a firm or a business that produces goods.*
 (b) *For a service business.*

Activity 12.2

1. *Direct costs refer to costs that affect the production of goods and services directly.*
2. *Variable costs refer to the costs that changes according to the amount of goods and services produced by the business.*
3. *Indirect costs refer to costs that do not affect the production of goods and services directly.*
4. *Fixed costs refer to the costs that do not change regardless of the amount of goods and services produced.*

Activity 12.3

Costing techniques refer to ways management controls costs.

Activity 12.4

1. *SELLING PRICE= COST PRICE + MARK-UP*
2. *It helps the business to calculate its profit.*
- 3.

$MU = 50t \times 25\%$ $MU = 50t \times (25/100)$ $MU = 50t \times 0.25$	$SP = CP - MU$ $SP = 50t + (25\% \text{ of } 50t)$ $SP = 50t + (0.25 \times 50t)$ $MU = 0.125 \text{ or } 13t$ $SP = 63t$
--	---

Lesson 13

Activity 13.1

1. Pricing refers to the amount, usually of money that is offered or asked for when something is bought or sold.
2. Pricing is important because businesses have to make money since they have spent some amount of money in the first place.

Activity 13.2

<i>Pricing Techniques</i>	<i>Explanation</i>
<i>1. Cost based pricing method</i>	<i>Prices are set looking at the cost of the raw materials and the cost of operating the business.</i>
<i>2. Demand based pricing method</i>	<i>Prices are set looking at the demand of the goods and services.</i>
<i>3. Competition based pricing method</i>	<i>Prices are set looking at the other businesses that are selling similar goods and services.</i>
<i>4. Affordability based pricing method</i>	<i>Prices are set based on the types of goods or services. That is the prices set must be affordable since these goods or services make up the basic needs and wants of the general population.</i>

Activity 13.3

1. Determine the divisions of the market
2. Assess the product availability and near substitutes
3. Survey the market for competitive and similar products
4. Examine market pricing and the economies
5. Calculate the internal costs structure and understand how pricing interacts with the offering
6. Test different price points, if possible
7. Monitor the market and your competition continually to reassess pricing

Activity 13.4

Certain goods have lower mark-up because they are goods that are necessities that people must consume daily, for example rice and tinned fish. That is why they are made affordable as much as possible for people.

Other goods have higher mark-up because they may have health issues for example cigarette and alcohol. Others are expensive items like fridges, stoves and washing machines.

Lesson 14

Activity 14.1

- (a) *Cash flow refers to the money that is moving in or flowing out of a business in a month.*
(b) *A cash flow statement refers to a record that shows the amount of income coming into and going out of the business.*
- The importance of cash flow is it keeps the business operating even if the business is making a loss.*

Activity 14.2

1.

Sections	Explanations
<i>(a) Operating Activities</i>	<i>This looks at the activities of the business.</i>
<i>(b) Investing Activities</i>	<i>This looks at the activities that the business wants to be involved with to earn more money.</i>
<i>(c) Financing Activities</i>	<i>This looks at the money the business has to spend in order to make more money for the business.</i>

- Financial institutions are organisations that lend money to people to borrow which is paid back with interest overtime.*
- Banks like BSP, Wespac and ANZ, others like Fincorp, Credit Corporation, Moniplus, Easi Loan, Normans Finance and Handy Finance.*

Activity 14.3

- (a) *Bookkeeping is the process by which the financial transactions of a business are recorded. A business person must always maintain his or her bookkeeping.*
(b) *Debtors refer to people whom you owe money to, and creditors refer to people who owe you money.*
(c) *Creditors refer to people who owe you money.*
(d) *A credit control system refers to the process a business has in place, to collect money owed by its customers.*
(e) *Overdraft refers to the amount that an account holder owes a bank, because he or she has withdrawn from the account more than what is in his or her account.*

2.

Problems	Solutions
<i>(a) Disorganised books</i>	<i>The business person must get this or her books in order using the accounting system of bookkeeping and to make a point of keeping it up to date.</i>
<i>(b) Bad debts</i>	<i>A business person should conduct credit checks on his or her customers before offering them credit.</i>
<i>(c) Out of agreement credit terms</i>	<i>A business person should renegotiate terms or time with the customers and/or suppliers.</i>
<i>(d) Profit problems</i>	<i>The business person should uncover or find the cause of losses and address or solve them as soon as possible. To increase the profit would be to increase prices, increase sales or gain better control over the expenditure</i>
<i>(e) Lack of Cash flow forecasting</i>	<i>The business person should get an accountant to create a cash flow forecast for the business.</i>

<i>(f) Growing too quickly or time</i>	<i>The business person should get access to credit or be allowed to borrow from the banks by signing an agreement for an overdraft or short-term loan from the bank.</i>
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**REVISE TOPIC 4 AND DO TOPIC 4 TEST
IN YOUR ASSESSMENT BOOK 5**

UNIT 5 (1)

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FODE PROVINCIAL CENTRES CONTACTS

PC NO.	FODE PROVINCIAL CENTRE	ADDRESS	PHONE/FAX	CUG PHONES	CONTACT PERSON		CUG PHONE
1	DARU	P. O. Box 68, Daru	6459033	72228146	The Coordinator	Senior Clerk	72229047
2	KEREMA	P. O. Box 86, Kerema	6481303	72228124	The Coordinator	Senior Clerk	72229049
3	CENTRAL	C/- FODE HQ	3419228	72228110	The Coordinator	Senior Clerk	72229050
4	ALOTAU	P. O. Box 822, Alotau	6411343 / 6419195	72228130	The Coordinator	Senior Clerk	72229051
5	POPONDETTA	P. O. Box 71, Popondetta	6297160 / 6297678	72228138	The Coordinator	Senior Clerk	72229052
6	MENDI	P. O. Box 237, Mendi	5491264 / 72895095	72228142	The Coordinator	Senior Clerk	72229053
7	GOROKA	P. O. Box 990, Goroka	5322085 / 5322321	72228116	The Coordinator	Senior Clerk	72229054
8	KUNDIAWA	P. O. Box 95, Kundiawa	5351612	72228144	The Coordinator	Senior Clerk	72229056
9	MT HAGEN	P. O. Box 418, Mt. Hagen	5421194 / 5423332	72228148	The Coordinator	Senior Clerk	72229057
10	VANIMO	P. O. Box 38, Vanimo	4571175 / 4571438	72228140	The Coordinator	Senior Clerk	72229060
11	WEWAK	P. O. Box 583, Wewak	4562231 / 4561114	72228122	The Coordinator	Senior Clerk	72229062
12	MADANG	P. O. Box 2071, Madang	4222418	72228126	The Coordinator	Senior Clerk	72229063
13	LAE	P. O. Box 4969, Lae	4725508 / 4721162	72228132	The Coordinator	Senior Clerk	72229064
14	KIMBE	P. O. Box 328, Kimbe	9835110	72228150	The Coordinator	Senior Clerk	72229065
15	RABAU	P. O. Box 83, Kokopo	9400314	72228118	The Coordinator	Senior Clerk	72229067
16	KAVIENG	P. O. Box 284, Kavieng	9842183	72228136	The Coordinator	Senior Clerk	72229069
17	BUKA	P. O. Box 154, Buka	9739838	72228108	The Coordinator	Senior Clerk	72229073
18	MANUS	P. O. Box 41, Lorengau	9709251	72228128	The Coordinator	Senior Clerk	72229080
19	NCD	C/- FODE HQ	3230299 Ext 26	72228134	The Coordinator	Senior Clerk	72229081
20	WABAG	P. O. Box 259, Wabag	5471114	72228120	The Coordinator	Senior Clerk	72229082
21	HELA	P. O. Box 63, Tari	73197115	72228141	The Coordinator	Senior Clerk	72229083
22	JIWAKA	c/- FODE Hagen		72228143	The Coordinator	Senior Clerk	72229085

SUBJECT AND GRADE TO STUDY

GRADE LEVELS	SUBJECTS/COURSES
Grades 7 and 8	1. English
	2. Mathematics
	3. Personal Development
	4. Social Science
	5. Science
	6. Making a Living
Grades 9 and 10	1. English
	2. Mathematics
	3. Personal Development
	4. Science
	5. Social Science
	6. Business Studies
	7. Design and Technology- Computing
Grades 11 and 12	1. English – Applied English/Language & Literature
	2. Mathematics - Mathematics A / Mathematics B
	3. Science – Biology/Chemistry/Physics
	4. Social Science – History/Geography/Economics
	5. Personal Development
	6. Business Studies
	7. Information & Communication Technology

REMEMBER:

- For Grades 7 and 8, you are required to do all six (6) courses.
- For Grades 9 and 10, you must study English, Mathematics, Science, Personal Development, Social Science and Commerce. Design and Technology-Computing is optional.
- For Grades 11 and 12, you are required to complete seven (7) out of thirteen (13) courses to be certified.

Your Provincial Coordinator or Supervisor will give you more information regarding each subject.

GRADES 11 & 12 COURSE PROGRAMMES

No	Science	Humanities	Business
1	Applied English	Language & Literature	Language & Literature/Applied English
2	Mathematics A/B	Mathematics A/B	Mathematics A/B
3	Personal Development	Personal Development	Personal Development
4	Biology	Biology/Physics/Chemistry	Biology/Physics/Chemistry
5	Chemistry/ Physics	Geography	Economics/Geography/History
6	Geography/History/Economics	History / Economics	Business Studies
7	ICT	ICT	ICT

Notes: You must seek advice from your Provincial Coordinator regarding the recommended courses in each stream. Options should be discussed carefully before choosing the stream when enrolling into Grade 11. FODE will certify for the successful completion of seven subjects in Grade 12.

CERTIFICATE IN MATRICULATION STUDIES

No	Compulsory Courses	Optional Courses
1	English 1	Science Stream: Biology, Chemistry, Physics
2	English 2	Social Science Stream: Geography, Intro to Economics and Asia and the Modern World
3	Mathematics 1	
4	Mathematics 2	
5	History of Science & Technology	

REMEMBER:

You must successfully complete 8 courses: 5 compulsory and 3 optional.