Section 1.1.1

The role of businesses

Businesses exist to create value. They do this by taking in inputs and using them to create outputs that are worth more than the inputs employed. Businesses that create value will thrive and prosper. Customers will demand their goods and services and the business will receive payment that allows them to continue to operate and invest for the future.

Some businesses actually 'destroy' value, because the value of their output is below the value of the inputs they use. That is, they cannot sell their output at a price that covers the cost of their inputs. As you can imagine, this situation cannot last very long before the business goes out…of business. Businesses that do not efficiently use inputs to satisfy their customers will not endure; this is the self-correcting mechanism that makes capitalism such a powerful economic force. Inefficient organisations are forced to shut down, freeing up resources to be used by better-run organisations.

This is not to say that businesses are unambiguous forces for good; they are not. Businesses have the potential to help society as well as to harm it. Throughout this course we will study the potential negative impacts of businesses, and how these are managed by society and governments.

Operating alongside businesses are non-profit and governmentally owned organisations that might seem to be less constrained by market forces, including the obligation to add value. This is somewhat of an illusion, however. In Subtopic 1.2, Types of Organisations, we will learn about these organisations and how they too must somehow perform and add value in order to survive in the long term.

Resources used by businesses (inputs)

The resources used by businesses can be described as belonging to one of three categories: physical, financial, and human.

Physical resources include the raw materials and semi-finished goods that a business may purchase in order to begin production. Raw materials include things like agricultural products, lumber, minerals, metals, and crude oil. Semi-finished, or intermediate, goods have already been produced or processed in some way, but are not yet ready for sale to customers. They may include inputs, like steel, that has been made from iron and can be used to make other products. Electronic components are another type of intermediate good that are purchased by companies to be integrated into finished products like phones and automobiles. Physical resources also include capital goods such as equipment and machines that will be used to produce other goods.

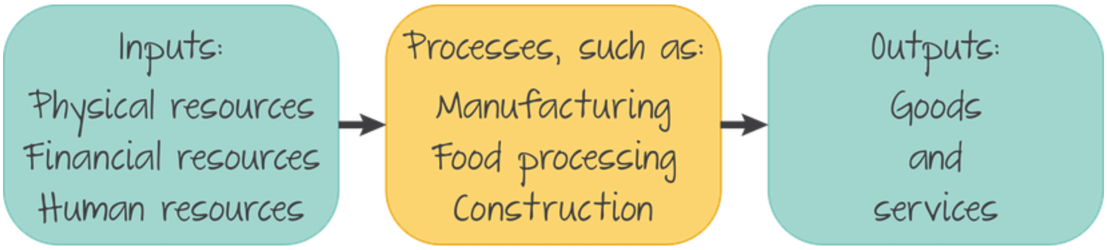

Figure 2. Business involves using resources to create goods and services.

Financial resources are the funds needed to set up and invest in a business and keep it running on a daily basis. Medium or long term financing may be used to purchase the business's locale, like a factory, shop, or office space, as well as the capital equipment that is used there, like machinery, desks and computers. Short-term financing is used to pay for inputs that will soon be used and sold by the business, such as inventory at a retail shop, as well as for such ongoing expenses like utility bills and salaries.

Human resources are the people needed to run the business. They include managers and employees, as well as a more abstract element, called 'enterprise'. Enterprise is set by entrepreneurs who take risks to establish businesses and drive them forward.

Business outputs: goods and services

Business outputs can be broken down into two categories: goods and services. **Goods** are physical, meaning they have physical characteristics and can be measured, that is why we call them tangible. Examples include things like cupcakes, petrol, telephones and houses. **Services** are intangible, meaning they cannot be touched or described by physical properties, but they nonetheless have value. Services include things like education, health care, and music concerts. In some cases the distinction between goods and services is difficult to make. For example, when you go to a restaurant you consume food, which is physical, but much of what you pay for is the service involved in putting the finished dish in front of you. When a plumber comes to your house, the expertise and diagnosis he provides is a service, but he also may replace your sink, which involves selling you a good.

Some businesses produce **consumer goods and services** that are purchased directly by individuals and families. Alternatively, businesses can produce goods that are purchased by other businesses. With the advent of the internet and online commerce, new terminology has arisen that has since spread to the rest of the economy: **B2C** (business to consumer) refers to businesses selling to consumers, whereas **B2B** (business to business) refers to businesses selling to other businesses.

Definition

Goods are physical products that are 'tangible', meaning they can be touched. Goods include items like computers, TVs, clothing, furniture, vehicles and industrial equipment.

Services are intangible products that cannot be touched. When you purchase a service you usually go home better off but empty-handed. Services include a wide array of things like hairdressing, tutoring, accounting and car repair.

The main business functions and their roles

The activities that take place inside most businesses can be divided into four main functions: human resources, finance and accounts, marketing, and operations. After this introductory topic, the four topics in this textbook will each be devoted to one of these functions. Each one of the functions and its respective role is described below.

Human Resources (Topic 2) Human resources, or HR, is the function that makes sure the business employs the correct number of appropriately skilled employees in order to produce its products or deliver its services. HR is further responsible for ensuring that employees are properly compensated. HR must recruit employees, induct them (familiarise them with the business), train them, and in some cases, terminate their employment. The HR department is also involved in guaranteeing that a company’s treatment of employees complies with all the laws of the jurisdictions where the business operates. With the growth of the 'knowledge economy', where the collective skills of employees may represent a large portion of a company's value, the HR function has become more central and strategic than it has sometimes been in the past.

Finance and accounts (Topic 3) This function can go by several different labels: Accounting Department, Finance Department, Bookkeeping (in small businesses), among others. Regardless of what these departments are called, they all share the common aim of making sure that the business has sufficient funds necessary to carry out its business activity – to make the product or to deliver the service. Related to this core aim are several related activities, including maintaining accurate accounts (records) of business activity, forecasting financing requirements and paying creditors in a timely fashion. Finance and Accounts typically assists the business in determining pricing strategies to ensure that the business is profitable. They may also evaluate the potential profitability of investment projects.

Marketing (Topic 4) Often when students think of Marketing they first think of advertising. However, advertising is only one part of promotion, which itself is only one part of the Marketing process. The Marketing function involves selling the right product, at the right price, at the right time, to the right customers. Then, the business must consider how to promote its product or service, which can involve many different approaches, one of which may be advertising. Marketing also involves determining the wants and needs of different segments (groups of customers) in the market.

Operations (Topic 5) Activities related to Operations, or Production, can go by a variety of different labels according to the nature of the business. Nevertheless, all businesses have a core business activity (making a product, constructing houses, selling clothes, growing crops, etc.), and

Operations refers to how this core activity is carried out. Operations must plan how goods and services are to be produced and make sure that the correct quantity is produced. The people in charge of Operations make sure that products are produced and services are delivered at the lowest cost possible given the standards of quality expected by customers. The Production department thus routinely looks for ways to make the core business activity more efficient.

In some fashion, every business must have all of these functions. However, how they are organised varies according to the size of the business and the type of the business. In very small businesses, all four of the activities may be planned and carried out by the entrepreneur, sole trader, or owner of the business. As businesses grow, these functions become more complicated, and the businesses typically create separate departments each headed by highly trained specialised managers (the Chief Financial Officer, the Chief Operating Officer, the Head of Marketing, and the Head of Human Resources, for example).

These four functions must work together and are mutually dependent. In the highly competitive business world of today, Marketing considerations drive many business decisions. The Marketing department, after determining that changes should be made in a product, must then consult with:

- Operations to determine whether and at what cost changes in production can be made,
- Finance and accounts to determine how much finance will be required to implement the changes, and

- HR to determine if new or differently skilled workers will be required and how they can be recruited or trained.

Economic sectors and business

Economic activity has traditionally been categorised into three sectors. The sectors each describe a particular type of work that takes place in order to create value. In this section, we will learn about each of the sectors and how business activity relates to these sectors. Some businesses operate in a single sector, while others operate in two or more. We will also discuss how the relative importance of the economic sectors has evolved and continues to evolve in different parts of the world.

Primary, secondary, tertiary and quaternary sectors

In addition to the original three sectors, some observers have added a fourth sector in the last decade or so. The sectors we will study are as follows:

- Primary Sector
- Secondary Sector
- Tertiary Sector
- Quaternary Sector

Primary Sector refers to the extraction or production of raw materials and includes agriculture, fishing, forestry, mining, and drilling – the taking of raw materials from the earth. For most of human history, virtually everyone was involved in the primary sector, mostly agriculture. In the last two hundred and fifty years, many people have left the primary sector to work in other sectors.

Secondary sector refers to manufacturing and processing, where raw materials are converted into products for sale. Construction is also included in the secondary sector. Secondary sector businesses can sell directly to consumers or to other businesses. The biggest manufacturing companies in the world include carmakers, electronics manufacturers, food processing companies, chemical and pharmaceutical companies, and corporations in the aeronautics and defence industries.

Tertiary sector refers to any business that sells a service. The tertiary sector includes retail stores, as well as education, healthcare, travel and transportation, and accounting and legal services, to name a few. Many but not all companies in the tertiary sector are small. Large employers operating in the tertiary sector include giant retailers like Walmart, fast food companies like McDonald's, and banks.

Quaternary sector is a relatively new concept: the service sector that focuses on knowledge. As a service activity, the quaternary sector is arguably really part of the tertiary sector. However, in the last fifty years, computer use has grown explosively and, with it, so too has the bulk flow of information. Businesses have emerged that specialise in collecting, repackaging, and selling or providing information. The quaternary sector also includes businesses that provide web-based services and many new kinds of media (or traditionally named media that have transformed themselves with new IT technologies). Few statistics are available regarding the quaternary sector, in part because observers do not agree on exactly which activities it includes. In most cases, it is considered a subset of the tertiary sector. Our discussions in this section will therefore focus on the primary, secondary, and tertiary sectors.

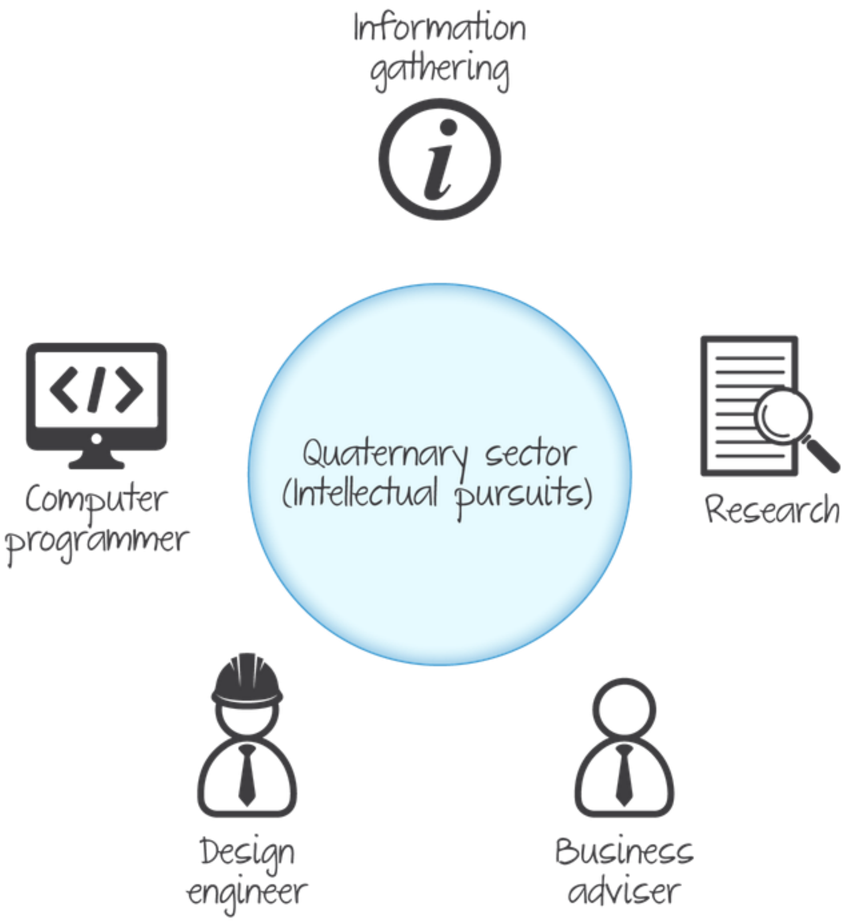

Figure 4. Activities in the quaternary sector.

Definition

The **primary sector** involves extracting raw material from the earth. It includes activities such as agriculture, fishing, forestry, and mining for minerals, metals, and oil.

The **secondary sector** involves transforming raw materials into finished or semi-finished products. It includes construction, processing and manufacturing.

The **tertiary sector** involves the delivery of services such as education, health care, travel and tourism, entertainment and home and car repair services.

The **quaternary sector** includes services related to the development and use of data and information. It is a new term and is usually considered as a subset of the tertiary sector.

The nature of business activity in each sector

By the time consumers buy finished products, these products have in all likelihood passed through the primary, secondary, and tertiary sectors. The steps involved in producing finished goods are together called the chain of production, or the value chain. The chain of production for producing a chair would, for example, include harvesting the timber (primary sector), turning the wood into the chair (secondary sector) and selling the chair in a shop (tertiary sector).

Many businesses limit their activities to a single sector. For example, a furniture store that buys finished chairs and sells them to the public is participating exclusively in the tertiary sector. In contrast, a furniture maker that owns his own retail shop is participating in both the secondary and tertiary sectors. Companies whose activities span two or more sectors are often described as **integrated** companies.

In some industries, large integrated companies are involved in all three sectors. This is the case in the oil industry, where the large integrated oil companies, also called 'majors', dominate. These big oil companies explore and drill for oil (primary sector), refine it into useable products (secondary sector), and sell it in their own retail petrol stations (tertiary sector). The majors coexist with smaller companies, called 'independents', that limit their activity to exploration and drilling. Independents then sell the oil on for refining to other companies, limiting their participation in the chain of production to the primary sector. At the same time, large retailers, like

Tesco in the UK, distribute petrol, and are thereby engaged in the tertiary sector of the oil industry, without being involved in production and refining.

In some industries, integration is not the dominant model, and companies tend to focus on a single sector. This is the case in the automobile industry. The big car manufacturers buy raw materials, and sometimes even finished components that have already been made by other companies. They assemble these parts into finished vehicles. Automobiles are then sold by independent car dealers operating in the tertiary sector. Thus many big car companies operate almost exclusively in the secondary sector. This model is so entrenched, that when Elon Musk declared that he would sell his Tesla cars exclusively through his own company-owned dealerships, independent car dealers actually brought him to court in several American states!

In still other industries, the economic models chosen differ from one company to the next. In the textile industry, for example, many of the big players, like Gap and H&M, design and sell clothes (tertiary sector), but leave their manufacture to third parties. Inditex, the owner of the Zara and Massimo Dutti brands, on the other hand, actually manufacturers many (but not all) of its own clothes. Luxury companies also manufacture many of their own products, in order to maintain high quality standards.

It is important to understand that companies move in and out of the different sectors over time, in accordance with changes in the market and their own business strategy. Apple is a company that has moved in and out of the secondary and tertiary sectors. When Apple began in the 1970s, they produced their own computers, but Apple has since outsourced their production to other companies working in the secondary sector. On the other hand, the first Apple store was not opened until 2001. Prior to that, Apple’s products were sold primarily through third-party retailers present in the tertiary sector. Click here to see Steve Jobs introducing the first Apple store.

The impact of sectoral change on business activity

Companies decisions regarding their participation in different sectors are closely linked to changes in growth and development in different countries throughout the world. It all started with the agricultural revolution in the Middle East, which allowed civilisations to develop, thereby enabling a portion of the population to focus on activities other than producing food. Making pottery and tools and constructing shelter are secondary sector activities. Change accelerated with the industrial revolution, usually described as beginning in England in the 18th century, before spreading to Europe and the Americas. The industrial revolution accelerated the growth of the secondary sector. As more and more people left the countryside to work in factories, they also began to consume more manufactured goods.

The secondary sector dominated in western economies until sometime around the middle of the 20th century, when growing affluence and the demand for services resulted in the growth of the tertiary sector. Individuals in developed economies demand not only goods, but services like restaurants, theatre shows and exotic travel. They may need an accountant to prepare their taxes, property insurance to protect their assets, and a lawyer to write their last will and testament. Eventually the tertiary sector actually surpassed the secondary sector in terms of employment and the value of output. This process is called 'deindustrialisation'. Today the service sector represents 78% of output in the US, 72% in Japan, and a surprising 69% in Germany, a country reputed for the strength of its industry. Even in China, a developing country known as the world's factory, the service sector now represents over 50% of output as of 2015. (World Bank data for 2014 and 2015 according to availability)

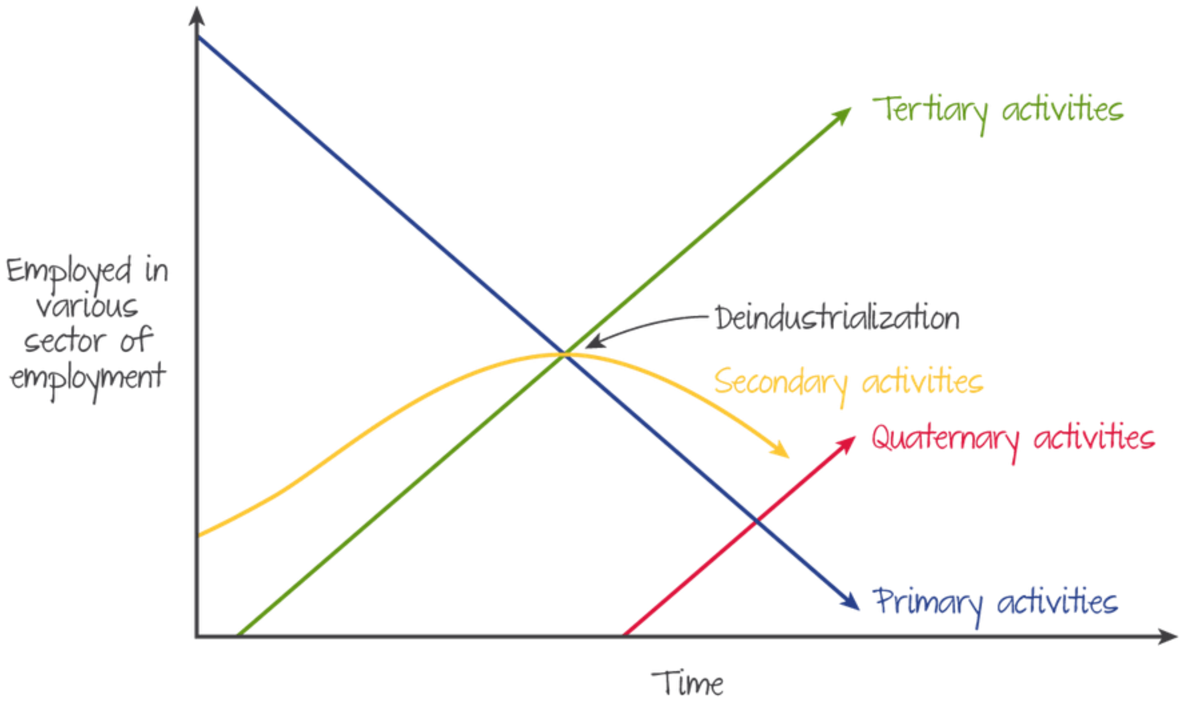

Figure 10. This graph provides a schematic, simplified overview of how the economic sectors evolve through time.

Not all countries worldwide have transitioned away from the primary sector. In a handful of underdeveloped countries in Africa, for example, agriculture still represents over 40% of production (World Bank). Other countries, like Kuwait and Libya and to a lesser extent Saudi Arabia and Iraq, remain heavily dependent upon petrol production. See here.

Worldwide, over the past twenty years, the tertiary sector continues to expand at the expense of the other two sectors, as shown in **Figure 11**.

Figure 11. Share of Worldwide GDP by sector (approximated using World Bank data).

Entrepreneurship and intrapreneurship

Entrepreneurs

Without entrepreneurs there would be no business. Entrepreneurs are the individuals who create and build businesses from the bottom up. Some businesses remain small, and others grow to become multinational corporations. In the beginning, though, they were all started by an entrepreneur. Entrepreneurs can come from any walk of life and be any age; what they share is determination, resilience, and a willingness to take risks in order to get a business off the ground.

Anita Roddick began selling beauty products in 1976 in order to support her family. She chose to use natural products that had not been tested on animals and were sold in refillable containers. Her sustainable business model struck a chord with consumers and The Body Shop became a great success. The company that began with a single shop in Brighton grew to include thousands of stores operating worldwide. In 2006, the business was sold to L'Oréal for over £600 million. Roddick continued to participate in the management of the business until her death in 2007.

If you do things well, do them better. Be daring, be first, be different, be just.
- Anita Roddick

Malamine Koné is the creator of Airness, a sportswear brand. A former boxer whose career plans in the police were ruined by a car accident, he began producing football gear in 1999. The company now has annual sales in the hundreds of millions of dollars. Airness has been the official sponsor of several French football teams as well as the national team of Mali. This article goes into more detail about Malamine Koné and his company Airness.

I was regarded as a crazy person when I began. Crazy to attack a market monopolised by multinationals like Adidas, Nike, or Puma. But I had certain things to prove to myself...
- Malamine Koné

Elon Musk can be described as a 'serial entrepreneur' because he has created several businesses throughout his career. His most successful businesses include PayPal, which he sold, in order to go on to create Tesla Motors (electric cars), Solar City (solar panels for homes) and SpaceX (rocketry and space exploration). Musk is known as not only a successful entrepreneur but as a true visionary whose latest project is nothing less than establishing a human colony on Mars.

Failure is an option here. If things are not failing, you are not innovating enough.
- Elon Musk

Definition

Entrepreneurship is the process of setting up a new business. **Entrepreneurs** are the individuals with the talent, perseverance and appetite for risk that lead them to create new organisations.

The stories of these three very different entrepreneurs reveal the different aspects of entrepreneurship and what it takes to get an organisation off the ground. They can be summarised in the following table.

Table 1. Characteristics of entrepreneurs.

Characteristics	
Risk takers	Above all, entrepreneurs are willing to take on the risk of starting a new organisation. They may have had to give up secure jobs and put up personal funds in order to get started.
Self-motivated	Starting up a new business takes discipline. Many entrepreneurs begin their companies alone. Working long hours without a boss and an existing structure requires a strong will and commitment to purpose.

Table 1. Characteristics of entrepreneurs.

Characteristics	
Confident	All start-ups face obstacles that require confidence and optimism to overcome.
Innovative	Most businesses begin with an idea for a new good or service that will serve unmet demand in the marketplace. Even opening a new coffee shop requires developing an offering that is different from those already in the neighbourhood.

Intrapreneurs

In the last decade or two, many well-established companies have begun to experiment with ways to cultivate the energy of entrepreneurship inside their organisations. Creative individuals who are encouraged to take risks and innovate within large corporations are called intrapreneurs. Cultivating intrapreneurship can lead to continued innovation in large corporations, thereby allowing them to remain market leaders and fend off younger, more nimble competitors.

Intrapreneurship can also have advantages for the employees involved. By retaining their status as employees, they can maintain their salaries and job security while benefiting from the resources large corporations can contribute to the development of their ideas. Nonetheless, the relationship between corporations and intrapreneurs can be tricky; if employees are not rewarded for their innovations, they may choose to leave to develop their ideas on their own.

Steve Jobs has been credited with describing intrapreneurship as "...*a group of people going, in essence, back to the garage, but in a large company*

Definition

Intrapreneurship is the activity of entrepreneurship when it takes place within an established organisation. **Intrapreneurs** are encouraged by their employers to take risks to develop new products, processes, and services while retaining their status as employees.

Starting a business

Reasons for starting up a business or enterprise

Some of the many reasons for setting up a business were described by the entrepreneurs in the previous section.

Earning a living. Some individuals set up a business simply to earn a living for themselves or their families. There may not be salaried employment available to them, so they take the initiative to create and run a business to earn their own livelihood.

Prospect for financial reward. In some sectors, remuneration earned by employees is limited. Talented individuals may decide to set up their own business because it gives them a higher earning potential. This is often the case for qualified tradespeople like electricians, plumbers, and hairdressers. It can also be the case for highly trained professionals like accountants and lawyers.

Control. Some employees feel like they have no control over their work or their future career prospects within a large organisation. They may set up a business in order to run an organisation as they see fit.

Work-life balance. Closely related to control over one's working life may be a desire to improve the balance between working life and family life. Some people may choose to work on their own to be able to set their own hours in order to accommodate the needs of their family. New technologies that improve the feasibility of working from home have accelerated this trend.

New technology or business idea. Developing a new business idea is perhaps the stereotypical reason for starting a new business, even though the garage innovator does not represent the majority of start-ups.

Unfilled market niche. Still other entrepreneurs may see an unfilled market niche. This is not so much a new product or service, but a demand that is not being fulfilled. For example, a town centre that does not have a car repair shop may be seen as an opportunity by a talented mechanic who is willing to take the risk of setting up a new business.

Few entrepreneurs set up a new company for only one of these reasons. There is usually a combination of factors that lead individuals to want to make a go of it.

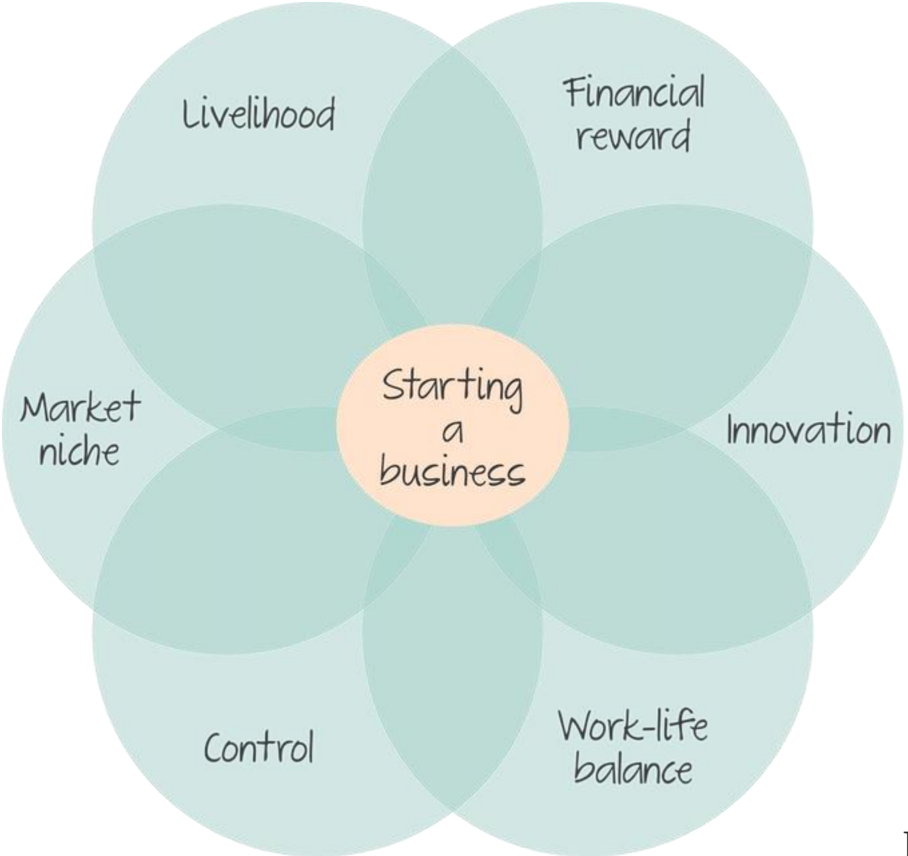

Figure 1. Reasons for starting up a business.

Steps in starting up a business

Entrepreneurs choose to set up their businesses for different reasons, but they will all follow a similar process in order to get up and running.

1. **Refine the idea.** The entrepreneur may have a business idea that they would like to pursue, but will need to consider whether the idea is workable. In some cases, it may be the technology itself that is untried. In other cases, it will be necessary to evaluate whether there will be customers willing to buy the product or service. Many individuals will continue to work as employees while they develop their

dreams into a viable enterprise in their spare time.

2. **Prepare a business plan.** A business plan is a roadmap that lays out how the business will get started. We will study the elements of a business plan later in this section.
3. **Decide on a legal structure.** The legal structure of the business will determine its ownership, and has important repercussions in terms of taxes, liability, and finances. We will study the different forms of organisational structure in Subtopic 1.2. Although many entrepreneurs will start their companies alone as sole traders, others will start their businesses with partners who share ownership of the company.
4. Register the business and take care of **administrative tasks.** In almost all countries, businesses must be registered with the government. If you were to set up a business in the UK, for example, this site provides information on the steps necessary to satisfy regulations related to business creation. In general, the steps involve: formally registering the company, preparing statutes that describe how it is to be run, filing with the tax authorities, and applying for any necessary licences. In many countries, a licence is required for many

economic activities from cutting hair to providing financial advice.

5. **Find a locale.** With improvements in technology and the development of the service economy, many entrepreneurs are able to begin their businesses at home. Others might make use of start-up 'incubators' that are popping up, often sponsored by governments, which provide low-cost office space to new businesses. Many of these facilities encourage interactions among young businesses, and may provide basic services, like help with administration.
6. **Hire employees if necessary.** Many entrepreneurs work alone, at least in the beginning. Others will need to hire staff to get started.
7. Most entrepreneurs contribute their personal savings to get their business off the ground, but many will need additional sources of funds. **Finding needed financing** is an important step in starting a business. We will learn more about financing in Topic 3, Finance and accounts.

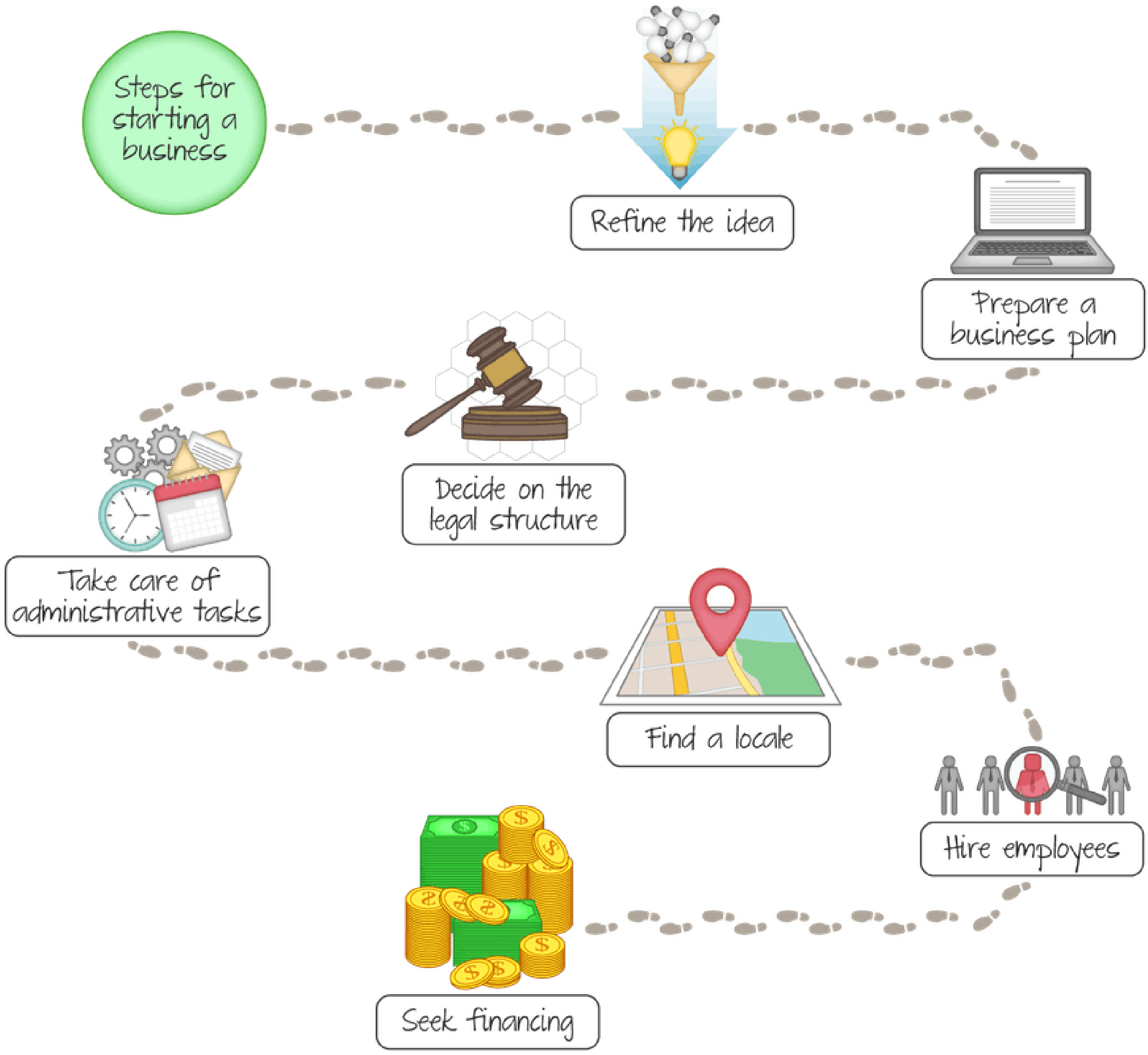

Figure 2. The steps in starting a business.

Problems that a new business may face

According to the US Small Business Administration (SBA), only about 50% of new businesses started in the United States are still around five years later. Although a portion of these businesses may close voluntarily, many are forced to close. Perhaps the most common problem young businesses face is a **lack of funds**. Entrepreneurs usually have the wherewithal to estimate the amount of funds needed to finance capital equipment needed in the new business. On the other hand, many underestimate the working capital needed to finance day-to-day operations. We will study this problem more thoroughly in Subtopic 3.7.

Young businesses may also underestimate the difficulty of breaking into existing markets with **strong competitors.** Consumers may be loyal to established brands. Existing competitors may have the means to lower prices temporarily in order to keep out new entrants. Succeeding as a new business requires offering something better, sometimes much better, in order to convince customers to switch. We will study brands and predatory pricing in the topic on marketing.

Recruiting qualified personnel may also be difficult. Potential employees may prefer larger, more established employers who may be able to provide higher salaries and more job security. To compensate for this difficulty, start-ups may offer new employees an ownership interest in the firm to compensate for low salaries. These ownership shares can become valuable if the firm is successful.

Finally, **lack of management skills** can be a problem for new entrepreneurs. Many entrepreneurs have excellent skills in their chosen line of business, but may lack experience in managing the range of problems that can be encountered by a new company. A desire for control and a lack of funds may prevent new entrepreneurs from seeking help and skills as soon as they need it. They may make expensive mistakes before they realise that they cannot do everything themselves.

The elements of a business plan

Preparation of a detailed business plan can help minimise the difficulties described in the previous section. A business plan can help the entrepreneur prepare for, and ideally prevent, many of the problems experienced by start-ups. The plan can also be used as a basis for negotiations with banks or suppliers who may be reluctant to deal with a new business. The components of a business plan will differ from one business to the next, but the basic elements can be described as follows.

- Business idea.
- Who will be your customers? Are there competitors?
- Type of ownership – organising the business.
- How are you going to produce the product? What investments are needed?
- How are you going to finance the equipment and other start-up costs?
- Do you need to hire employees? What sort of skills and education are required?

It is not a coincidence that the basic elements of the business plan correspond with the four business functions.

What is your product or service?
The first question to be answered is what will be the product or service sold by the company. This is a good place to describe what is unique about the product or service proposed, and why there is a potential market.

Marketing: Who will your customers be?
This section describes whom you would like to target in terms of customers. Will you be selling to consumers or to other businesses? If you are selling to consumers, what demographic group are you aiming to sell to; children, teenagers, young adults, adults, or seniors? Are you aiming to

sell in your town, or nationwide, or even worldwide? Closely related to the identification of customers is an evaluation of potential competitors. Are there competitors in the market that already offer similar products and services? Market research should be carried out to investigate all these issues; we will learn how to carry out market research in Subtopic 4.4.

Production: How are you going to produce the product? What investments are needed?

The production method you plan to use relates to how the product will actually be made. Will it be made by hand or using expensive equipment? The investments needed to start or maintain a business are called 'capital investments'. The term investment implies that an asset will be used by the business for at least a year. In starting up a website design company, the only asset required might be a computer. To open a bakery the investment will likely be a bit more expensive, and include all the kitchen equipment and furnishings needed to set up the shop. Some entrepreneurs may choose to purchase a locale to set up the business; most will probably rent their space in the early years. In general, it is easier to start a business in a sector that requires little capital investment. This lowers the overall start-up costs of a new venture.

Finance: How are you going to finance the equipment, and other start-up costs?

The amount of financing needed to start a business depends upon two factors: the capital investment described above, and secondly, the need for something called working capital. Working capital is the amount of funds needed to run the business's day-to-day operations and includes the cost of inventory and supplies, for example. The need to finance working capital is often underestimated by start-ups, and is often a cause of business failures. In Subtopic 3.7, Cash flow, we will learn how to prepare cash flow forecasts. The proper use of this tool can prevent cash flow difficulties by allowing the business to determine its financing needs.

Once the amount of financing needed is estimated, the entrepreneur can determine how to gather the necessary funds. Most entrepreneurs start their businesses by investing their own funds, but this is not usually sufficient. Many entrepreneurs will need additional financing, from a bank loan, for example. We learn about sources of funds in Subtopic 3.1, Sources of finance.

Human resources: Can you do it alone?

New entrepreneurs must ask themselves whether they have the time and the ability to manage all aspects of a new business. If not, they will need help, either from a partner, employees, or by getting outside help. Some aspects of the business might be better managed by experts outside the company; this might be the case for accounting and website design, for example.

Answering all these questions will actually help the entrepreneur to plan more, organise better, and be prepared for obstacles that might come along during the creation and the early days of running a business.

Definition

A **business plan** is usually a written document that describes all the aspects of a new enterprise in terms of the product or business idea, marketing, finance, operations, and human resources.