

## Learning Objectives

1. Describe the process of forming a business;
2. Understand how to develop a business plan before starting up a business;
3. Distinguish the features of the major forms of business ownership;
4. Understand the four management functions; and
5. Value the importance of social responsibilities.

### Background



Sandy is the chairperson of the school Organic Farm Club. The club has been continuously achieving good harvest from its farm over the years.

Lately, the chairperson of the Business Education Club, Louise, approached Sandy and proposed the idea of starting up a short term business with Organic Farming Club during the Post-exam Activity Week selling organic products and plants in containers made of recycled materials. Sandy discussed the proposal with the club members and the idea was accepted by all.



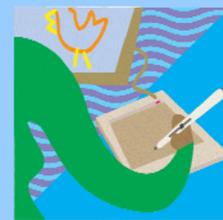
The students then held a meeting to discuss the formation and operation of the business in details. The following table summarizes what they have agreed in the meeting. *You will have to refer to the following information when completing the tasks in the rest of the unit.*

a. No. of investors	10	
b. Source of capital	Investment per investor: \$200 School subsidy: Each year \$ 1000 /club (→ Both the Business Club and Organic Farming Club will contribute \$500 to the business) → Total capital = \$3000	
c. Location and cost of the farm	School backyard allocated by school for growing organic vegetables. Hence, the land is free.	
d. Allocation of profits	50% will be donated to charity 50% will be distributed to shareholders	
e. Selling activities	Setting up a booth at school hall during the Post-exam Activity Week (July)	
f. Location for sale	<ul style="list-style-type: none"> <li>■ School hall, in which there will be other booths for games and exhibitions.</li> <li>■ Students and parents will be scheduled to the venue during the activity week.</li> <li>■ Students from other schools will be invited to join the event.</li> </ul>	
g. Products to be sold	<ol style="list-style-type: none"> <li>1. Organic food grown in the farm</li> <li>2. Small pots of flowers/ plants in reused or recycled materials (e.g. water bottles as containers.)</li> <li>3. Pre-packed organic foods they bought from suppliers at wholesale price, including cookies, drinks and other snacks, etc.</li> </ol>	
h. Division of Labour	CEO Financial Department Purchasing Department Marketing Department Production Department Sales Department	Supervising and organizing activities Book-keeping expenses and income Sourcing & purchasing organic foods for sale Setting up the booth, Promotional activities Taking care of the farm through the year round Selling activities in the booth

In order to work out their plan, the students approached the school principal, Mr. Chan, and proposed their idea of running a short term business to him. The principal basically agreed to let them set up a booth at school to run their short term business during the school Post-exam Activity Week. But he requested the students to submit a business plan for his final approval.

Do you know what a business plan is?

A business plan is a document that summarizes what a business plans to do and how it plans to do it including its goals and objectives, and financial plans and plans for hiring personnel and marketing the business.



It serves as a roadmap for entrepreneurs to start a new business or to expand an existing business.

### Class Discussion

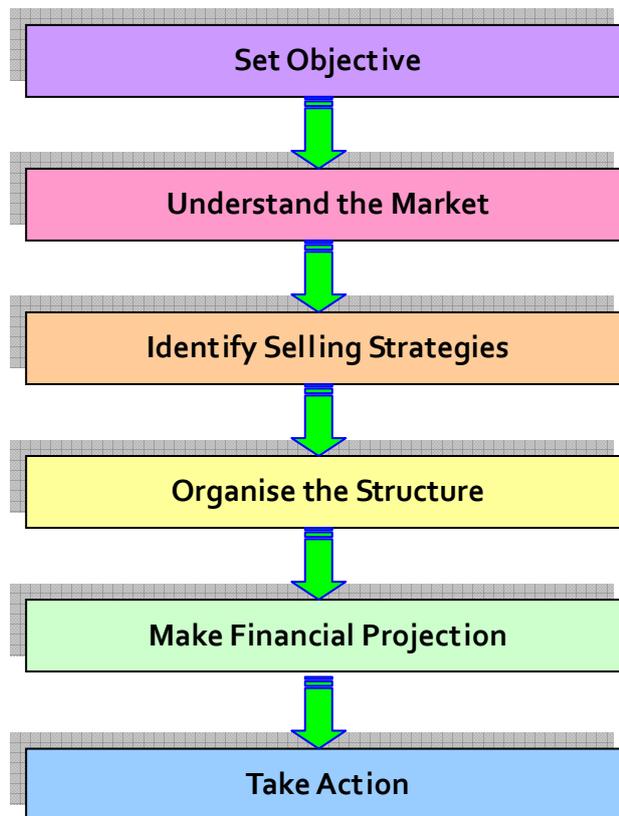
What are the reasons for developing a business plan before forming a business?



To prepare the business plan, the students asked their business teacher, Mrs. Wong, for advice. Below are the steps she asked the students to follow when drafting their business plan.



*Steps for developing a business plan –*



**Activity 1**

Form into groups of 4-5 students. Following Mrs. Wong's guidelines, help the students outline a business plan for presenting to the principal in order to get his approval to their business idea.

Step One – Set Objective



What is the purpose of starting a business?  
What do you want to achieve?

We start our business .....

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Apart from setting the objectives, most companies will also formulate a '*company mission*' to show what they intend to do for their customers so as to attract customers to purchase their products and services.

Examples of company mission:

Coca-Cola Company	Walt Disney	Giordano
 <p>'To refresh the World...in body, mind, and spirit.'</p>	 <p>'To make people happy!'</p>	<p>'To make people feel good and look great.'</p> 



**Internet Searching**

Try to find three sample mission statements of companies that you are familiar with. You may search them from the Internet or find them from the advertisement on TV, in newspapers or magazines. Write down the names of the companies and their mission statements in the space below.

Company	Mission Statement

Now, can you also create a mission statement for the students' organic farming business? Write your answer in the space provided.

Step Two – Understand the Market



*If you want to start a business, you must get as much information about the market condition as possible. And this information should be related to*

- i. customers ;*
- ii. products;*
- iii. market structure;*  
*and*
- iv. competition*

*For example, you should ask yourself the following questions...*

- + Who are the potential customers?*
- + What are their characteristics?*
- + Who are the direct competitors in the market?*
- + Are their products different from yours?*
- + How are they different?*



Case Study

Fred's father owns a shoe shop in Mongkok and he is planning to retire next year. He is asking Fred to take up the shop for him. However, Fred is a big fan of coffee and started thinking of opening a café some years ago. He is now thinking whether inheriting his dad's shoe business in Mongkok or starting a new café business in Shatin New Town Plaza, selling different favours of coffee and others snacks like cookies and cakes.



Now, can you help Fred analyse the market situation of running the shoe business in Mongkok and starting a new café business in Shatin? You should assess the level of competition of the businesses in these two areas by completing the table below.

	<i>Shoe Shop in Mongkok</i>	<i>Café in New Town Plaza in Shatin</i>
1. <i>Who are the potential customers?</i>		
2. <i>What are their characteristics?</i>		
3. <i>Who are the competitors in the market?</i>		
4. <i>How are their products different from others?</i>		
5. <i>Is the degree of competition high or low?</i>		
6. <i>Which business would you recommend Fred to take up?</i>		

Internet Searching

Tony is the Marketing Manager of the students' organic farming business. To analyze the market situation of their organic business, he visited their direct competitor, the nearest shop of the school selling organic products. The following table shows the information he collected about the competitor.

With reference to the given information, you should complete the table below by filling in the missing information about the students' organic farming business. With this information, the students can move on to the next step -- *identifying appropriate selling strategies* in the next exercise.

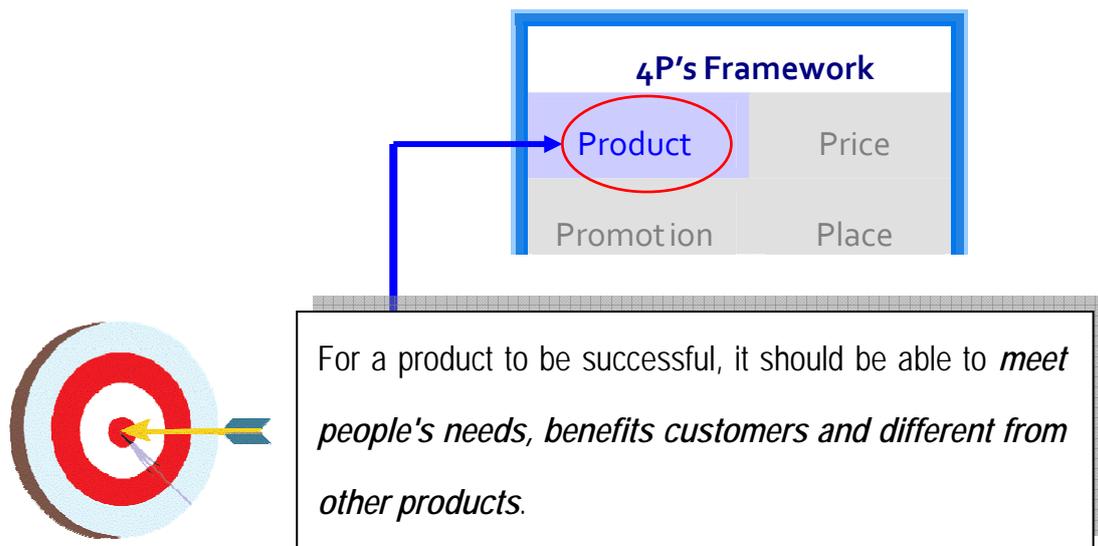
	Nearest shop selling organic products	School Organic Farming
a. Name of the business 	No definite answer	
b. Who are the potential customers? 	- People living in the district the school locates. ( <i>not direct competitors of the school organic farming business</i> )	-
c. What are the characteristics of the customers?	<ul style="list-style-type: none"> <li>- Health and environment concerned</li> <li>- Willing to pay a higher price for better health and environment</li> <li>- Regular consumption</li> </ul>	-
d. What products are sold?	- Wider range of organic products	
e. How is the business different from competitors? Do they enjoy any advantage in running the business?	<ul style="list-style-type: none"> <li>- Most of them are chain stores.</li> <li>- They own very large farms and enjoy the economies of scale. Hence, costs are lower and prices can be more competitive.</li> </ul>	-

### Step Three – Identify Selling Strategy

After knowing features of the potential customers and competitors, an entrepreneur should start drafting its own selling strategies in order to make his business stand out in the market and attract customers.

To help the students to develop their own selling strategies, the 4 P's Framework is introduced here. The 4 Ps are Product, Price, Promotion and Place.

#### Selling Strategy (1) – Product



For example, a good mobile phone should be multi-functional, light and small in size, but with big screen and at a reasonable price.



Group Discussion

For the following products, what are the major features/ benefits that most customers are looking for?

Products	Expected features or functions	Successful producer(s) for the product
 Net book Computer		
 Sports wear		
 Fast food		
 Organic products		

As the scale of school organic farming business is much smaller than other producers, the variety of products is more restricted. What will you suggest students should do in order to increase its products' competitiveness in the market?

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Selling Strategy (2) – Price



Pricing is an important decision to make. If it is set too high, no one will buy your product. If it is set too low that cannot recover the costs, you will lose money.

If your competitors sell a similar product at a lower price, customers will certainly go to the competitors. If you want to keep or attract these customers, you have to create additional value to it, such as packaging or after-sale services.

What factors should be considered when setting the price of a product?



What pricing strategy do you think the students should adopt? Should they *set the prices lower for a higher sale* or *higher for a larger profit margin*? Why? [Hint: Consider students' purchasing power]



### Selling Strategy (3) – Promotion



*Big Sale  
70% off  
Buy 1 Get 1 Free*

Promotional activities aim to inform potential customers about the establishment of new business/ products or enhance desirability of existing products.

When determining promotional activities, you should consider activities that will reach the largest number of people in your target market for the least amount of money.

In most cases, from what channel(s) can you get the information about a product?

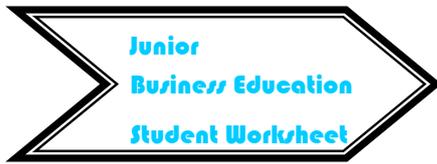
- i. \_\_\_\_\_
- ii. \_\_\_\_\_
- iii. \_\_\_\_\_
- iv. \_\_\_\_\_
- v. \_\_\_\_\_



To select an effective way to promote a product or service, some factors should be considered, including: *costs of different media, nature of the product/ service to be sold, the message to be conveyed, and market coverage of the products/ service.*

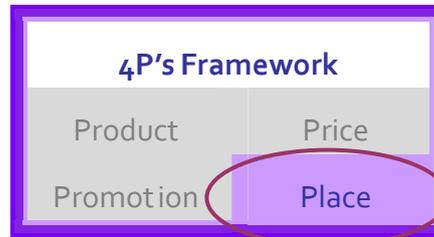
Below are some promotional activities arranged to promote different types of products. With reference to these examples, can you suggest the appropriate promotional activities for the students' organic farming business?

Products	Promotional Activities
 Private cars	
 Cameras	
 Leisure trips	
 Property	
 Small fast food restaurants	
Organic Farming Business at school	



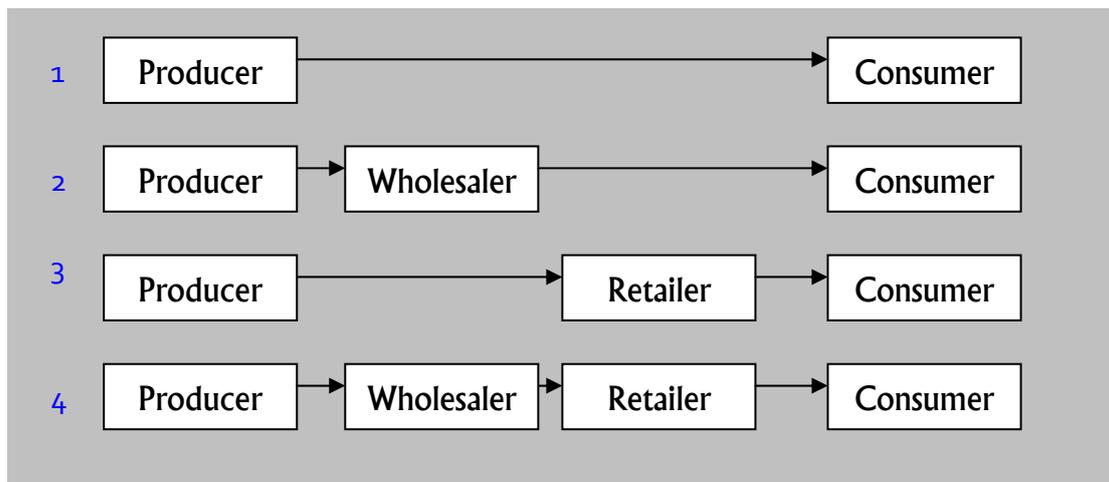
## Organic Farming at School

### Selling Strategy (4) – Place



- How should the products be delivered into the customers' hands? What is the best distribution channel?

Major types of distribution channels:



The intermediaries, (i.e. wholesalers and retailers) can help perform the following functions include:

- ✚ distribution of physical items,
- ✚ transmission of information,
- ✚ promotion,
- ✚ risk taking, and
- ✚ financing, etc.

Can you match the following examples with the FOUR distribution channels introduced on P.15?

Type 1 ●  
(Producer →  
Consumer)

● Newspapers



Type 2 ●  
(Producer →  
Wholesaler →  
Consumer)

● Bakeries, e.g.  
Yamasaki



Type 3 ●  
(Producer →  
Retailer →  
Consumer)

● Florists in Fa  
Hui



Type 4 ●  
(Producer →  
Wholesaler →  
Retailer →  
Consumer)

● Chain stores,  
e.g. Mannings



What is the best distribution channel for the students of the school organic farm to sell their products?

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What are the advantages of choosing the above channel?

1. \_\_\_\_\_

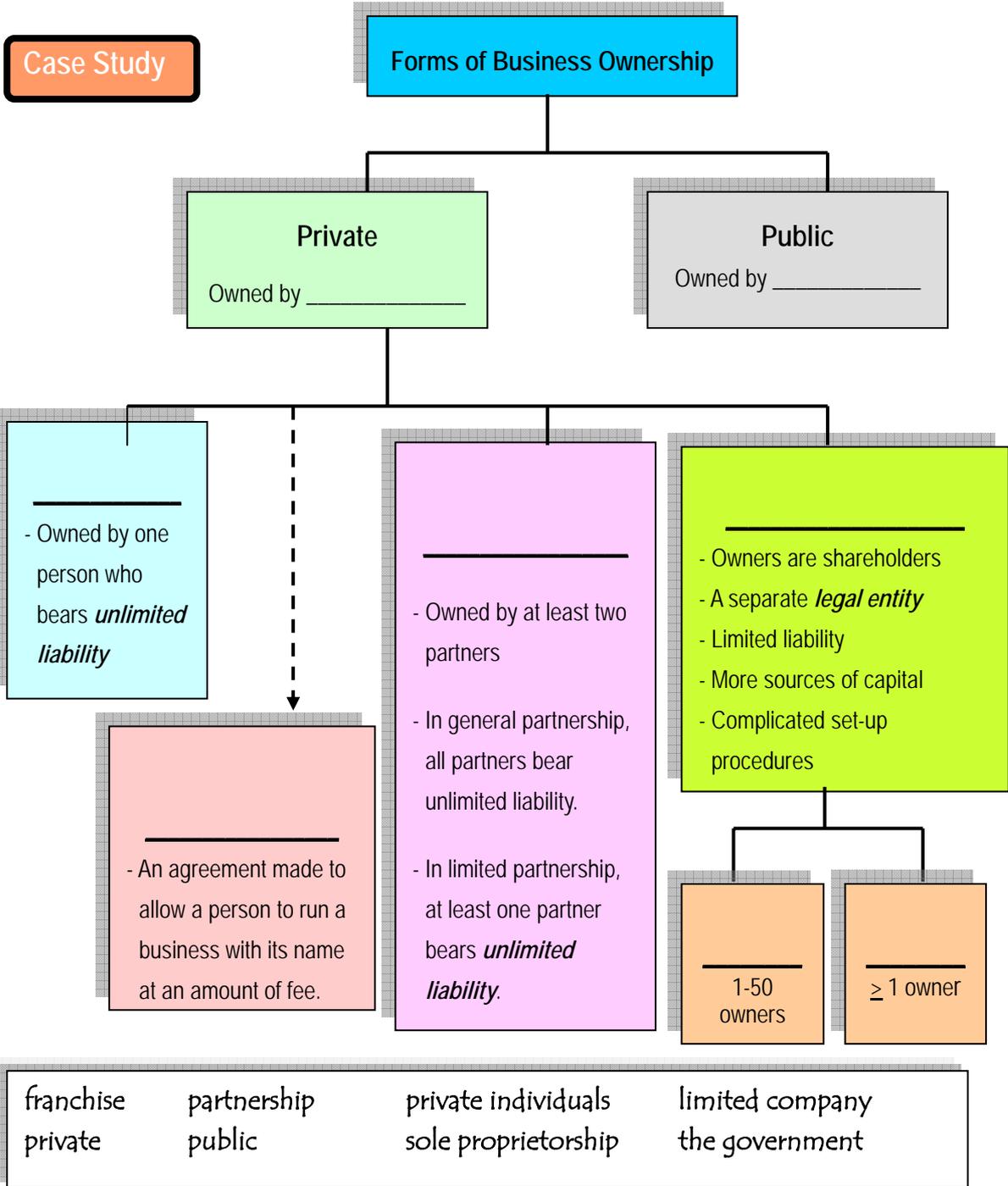
2. \_\_\_\_\_

3. \_\_\_\_\_

4. \_\_\_\_\_

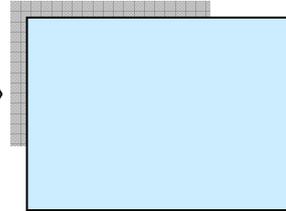
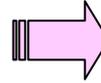
Step Four – Organise the Business

There are different forms of business. The chart below shows the classification of business according to their business ownerships.

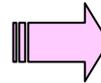


Read the cases below and select the most suitable form of business ownership in each of the following case.

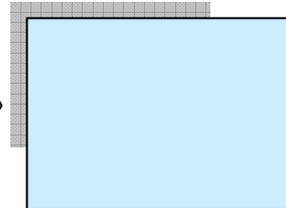
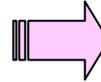
**Case 1 – Nail Art**  
 Jenny has been working in Beauty Nail for some years. As a very cheerful and creative person, Jenny has established a good network with her customers. Now she is planning to use her own saving to open her own firm called Jenny's Nails.



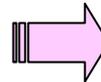
**Case 2 – Dentist**  
 Sam and Paul were schoolmates at University and they both studied Dentist. After graduation, they borrowed money from their families and opened a dental clinic together.



**Case 3 – Open Rice Restaurant**  
 Open Rice has a long history in Hong Kong with lots of chain restaurants opened in many districts of the territory. It sells mainly fast food at very reasonable prices. It can raise capital from the public through issuing shares.



**Case 4 – BG Fashion**  
 BG Fashion has expanded so fast in recent years. To raise capital for the fast expansion, new shareholders are invited to join the company. It is expected that if more capital is needed for further expansion, existing shareholders will have to contribute new capital to the company.



Group Discussion

Back to the student organic farming business, ten students will take part in opening up the school organic farming business. Each of them will contribute the same amount of money to start up the business, share all the workload and bear all gains or loss evenly among them. Discuss in groups of 4-5 students. Decide in what form of business ownership the business will be set up.



Sole Proprietorship



Partnership



Limited Company

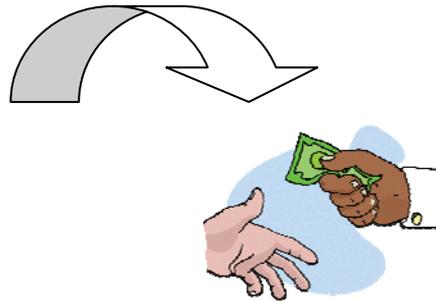
Can you explain why the form of business ownership is most suitable for running an organic farming business at school?



Apart from the above form of business ownership, the students can also consider operating their business through 'franchising'. Do you know what 'franchise' means?



Investor (franchisee) signs up a franchise agreement with a franchisor, normally a well-established company with chain stores.



Investor (franchisee) pays franchise fee to the franchisor (a well- established company) In return, the franchisor grants him/her the right to use its name, trademark or patent to run his business.  
Franchisor has to abide the regulations set by the franchiser to operate the business.

Many businesses in Hong Kong have franchise programme, do you know who they are?  
Give THREE examples.

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Which of the following are the advantages of running a business through franchise programme over sole proprietorship? Put a '✓' in the boxes in the front of the correct descriptions.

- More flexibility in operating a business
- Faster to set up
- More potential customers
- Greater variety of products for sale
- Lower set up costs
- Freedom in shop design
- More choices in shop location
- Cheaper and more secured source of supplies

Name a business in Hong Kong which has franchise programme.

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List at least THREE major terms in their franchise agreement.

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

Do you think the students should join the franchise programme or form its own business?

Explain your answer.

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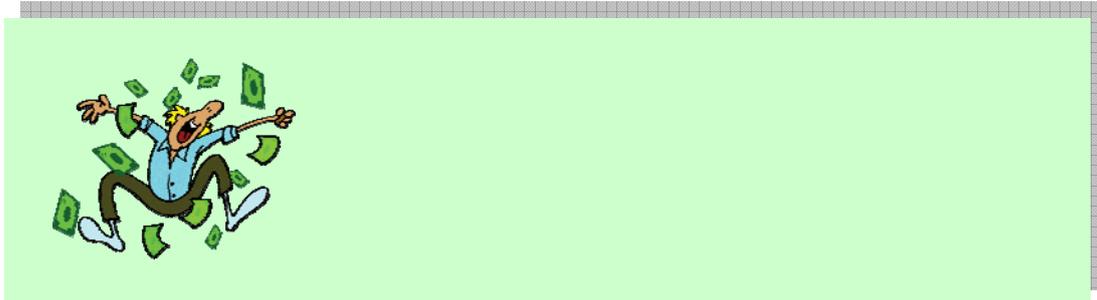
### Step Five – Make Financial Projection

All businesses need money to get started

For example, if a person wants to start up a fast food restaurant, he needs money to buy cooking utensils, equipments, furniture and food supplies; money for rent and decoration of the restaurant and money for staff salary and other operation costs such as water and electricity, etc.

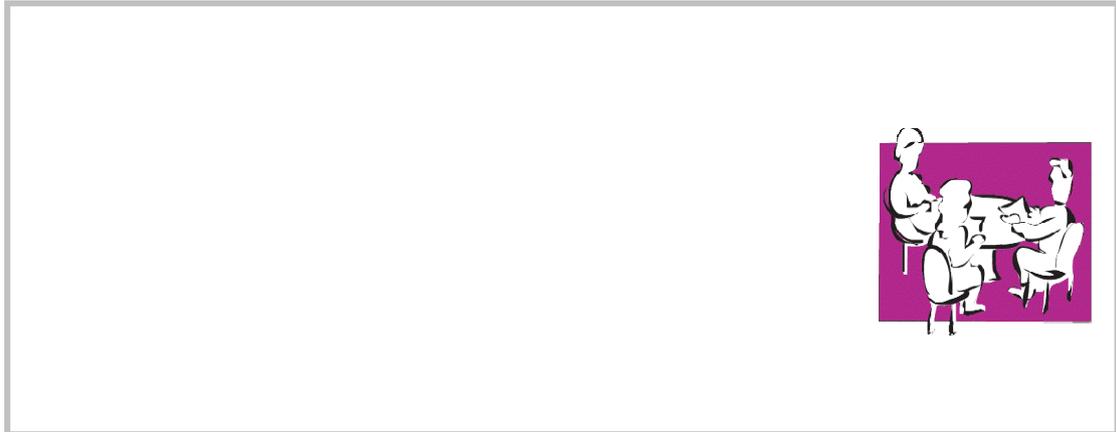


How do most people get the money they need to start their business?



Assuming the land is provided by the school, what are the major expenses that would be incurred in starting up an organic farming business in school?

After balancing all start-up costs and capital available, if the students found that there is still a lack of money, what should they do now?



If you do not have enough money to start up a business and intend to invite people to join your business, you have to provide sufficient information to help the potential investors to decide whether the business is worth investing.

A **clear budget** allows prospective investors to see if the business has the potential to succeed and make profits. It should provide information on:



- *Source of capital*
- *Projected income and expenses*
- *Repayment plan that outlines the amount of money to be borrowed and the schedule of repayments*

### Step Six – Take Action

Four management functions are **planning, organizing, leading and controlling**.

Planning

To define goals, establish strategies, develop plan and coordinate activities.

Organizing

To identify tasks and delegate roles.

Leading

To influence, direct and motivate subordinates to achieve goals.

Controlling

To monitor performance, compare it with standards and make corrections.

After raising enough capital to start up the organic farming business, the students (owners of the business) should work out a detailed work schedule to start up their business.



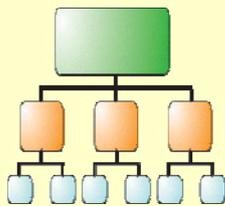
Louise, being the chairperson of the Business Education Club, was elected as the Chief Executive Officer of the organic farming business. He is trying to coordinate the works and make sure everything goes smoothly as scheduled. In the following exercise, you will see how Louise leads the people in running their school organic farming business. Try to identify what **management functions** he is performing in each of the scenes.

Role Play

Invite students to perform the following scenes and ask the class to guess what management functions (*i.e. planning; 2. organizing; 3. leading; 4 controlling*) are demonstrated in each of the scene. Write the correct number on the spaces provided. **Students are encouraged to enrich the scenes in order to make the answer more obvious to the audience.**

Scene 1

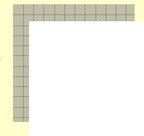
After brain storming, the students have come up with a list of work related to the smooth running of their organic farming business. Now Louise is trying to assign jobs to all members based on their own preference and the special talents they possess.



**Louise:** Charles, you are very good at accounting, may I ask you to draft budget for our business?

**Louise:** Felix, you always have very creative ideas. Can you design a poster to promote the opening ceremony of our business? I'd like to see your draft by the end of this week.

**Felix:** Umm...ok, no problem.



Scene 2

A week after assigning the design work to Felix, Louise called him to ask about the progress of work.

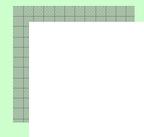
**Louise:** Hi, Felix, how's the poster going on?

**Felix:** Oh, I've finished the draft. Let me send it to you now.

**Louise:** Fine, thank you.

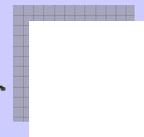
A few minutes later after reviewing the draft poster, Louise called Felix again.

**Louise:** Hi, Felix. I've received your work. It looks good to me except that the heading was a bit small and...

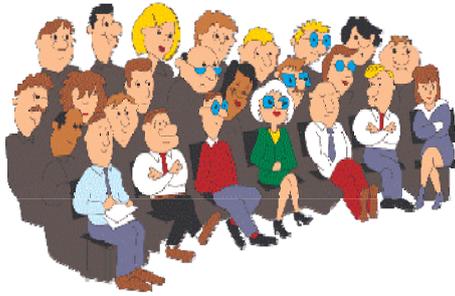


Scene 3

Louise had consolidated all business partners' views on the goals of business. Now he is trying to sort out the feasible strategies to run and promote the business and develop a timeline to complete all the tasks.



## Business ethics and social responsibility



The major objective of running a business is to make profits. However, the operation of a business will not only have direct impact on its owners (or shareholders) and customers, but also other people in the society, including its *employees, creditors, suppliers, competitors, the government and the general public*. The people who are affected by the operation of a business are called the stakeholders

### What are social responsibilities?

The obligations that an organization has to protect the welfare and interests of the society in which it operates.



### What are business ethics?

The moral principles or values of what a business should do and should not do.



A business should be socially responsible when making any business decision. *Apart from aiming at providing profits to its owners, it should also take the stakeholders' concerns into consideration and avoid doing harm to the society*. In return, this will enhance the goodwill and continued success of the business.

Case Study

A bus company noticed that many drivers intended to take vacation leave during the Lunar New Year. To ensure there would be enough drivers working over the Lunar New Year holiday, the bus company decided to launch a *'No-Leave Bonus Programme'*. For those who agreed to work at least 3 hours longer and take no leave during the first week of the year, they would earn 30% more.



At present, the drivers are working for 8 hours every day on average and many drivers already feel so exhausting. If a driver joins the programme, he/she will have to work 12 hours every day, excluding an hour for lunch or dinner.

To reduce operation costs, the bus company intends to use another cleaning services contractor which offers a lower price for the service but at the same time the cleaning services would be less frequent.

1. Who are the major stakeholders of the bus company?  
\_\_\_\_\_  
\_\_\_\_\_
2. Do you think the bus company's policy is socially responsible to the stakeholders? Why or why not?  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
3. What will you suggest the bus company do in order to improve its public image to the public?  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_



## Organic Farming at School

Referring to the case of students' organic farming business at school, answer the following questions.

1. Who are the stakeholders of the students' organic farming business?

- i. \_\_\_\_\_
- ii. \_\_\_\_\_
- iii. \_\_\_\_\_
- iv. \_\_\_\_\_
- v. \_\_\_\_\_

2. Do you think they are socially responsible? Why or why not?

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### Internet Searching

Find an example of a company which is socially responsible to their stakeholders. Give 3 examples of what the company is doing/ has done to explain your answer. Write your answers in the space below and report it to class in the next lesson.