**LEARNER GUIDE**

**NEW VENTURE CREATION**

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| **Module #** | **SP-210401** |
| **NQF Level** | **L02** |
| **Notional hours** | **320** |
| **Credit(s)** | **Cr32** |
| **Development Quality Partner** | **QCTO** |

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**Purpose:**

The purpose of the skills programme is to prepare candidates to operate small business. Learners who acquire this skills programme will be able to:

Start, manage, grow and sustain a small business.

**Topic elements to be covered include:**

* Topic 1: Being an entrepreneur.
* Topic 2: Know yourself.
* Topic 3: Know your industry
* Topic 4: Identifying Market opportunities
* Topic 5: Innovation
* Topic 6: Customer Service
* Topic 7: Financial and Cash flow management
* Topic 8: Basic business financial statements
* Topic 9: Pricing of goods and services
* Topic 10: Marketing
* Topic 11: SMART goals
* Topic 12: Business planning

**Entry Requirements:**

• Grade 9

**Equipment needed:**

Learning material, Learner workbook, Pen, Ruler

**PLEASE NOTE**:

THE USE OF PENCILS OR TIPPEX IS NOT ALLOWED.

IF YOU USE A PENCIL THE VALIDITY OF YOUR WORK COULD BE QUESTIONABLE, AND THIS COULD LEAD TO FRAUD.

**Provider Accreditation Requirements**

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

**Venue, Date and Time:**

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

Refer to your timetable.

**Assessments:**

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

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

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

Hi! My name is Pule,

When you see my sign, you must do an activity/exercise or conduct an experiment

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| SESSION 1BEING AN ENTREPRENEUR |

**What does it mean to be an entrepreneur? It's more than being a business owner; it's a perspective and a lifestyle.**

* Being an entrepreneur is more than being a business owner; it’s a perspective and a lifestyle.
* Make sure you have a solid idea that you’re passionate about pursuing.
* Look to examples of successful entrepreneurs and testimonials for inspiration.
* **This article is for aspiring entrepreneurs and business owners.**

The road to entrepreneurship is often a treacherous one filled with unexpected detours, roadblocks and dead ends. There are lots of sleepless nights, plans that don’t work out, funding that doesn’t come through and customers that never materialize. It can be so challenging to launch a business that it may make you wonder why anyone willingly sets out on such a path.

Despite those hardships, every year thousands of people embark on an entrepreneurial journey, determined to bring their vision to fruition and fill a need they see in society. They open brick-and-mortar businesses, launch tech startups, or [turn an idea into a new product](https://www.businessnewsdaily.com/8773-turn-your-idea-into-a-product.html) or service. With the right motivation, inspiration and game plan, you can be a successful entrepreneur, too.

**What entrepreneurs do**

An entrepreneur identifies a need that no existing business addresses and determines a solution for that need. Entrepreneurial activity includes developing and [starting a new business](https://www.businessnewsdaily.com/4686-how-to-start-a-business.html) and implementing a [business marketing plan](https://www.businessnewsdaily.com/4-creating-effective-business-marketing-plan.html), often with the end goal of selling the company to turn a profit.

An entrepreneur who regularly launches new businesses, sells them and then starts new companies is a serial entrepreneur. Whether a [business owner should be considered an entrepreneur](https://www.businessnewsdaily.com/8327-business-owner-versus-entrepreneur.html) often depends on whether they created the business, and other legalities. That said, any founder of a successful household-name business began as an entrepreneur.

If you want to become an entrepreneur yourself but you worry you don’t have the money for it, finances don’t have to stop you from [achieving your career goals](https://www.businessnewsdaily.com/10584-achieve-career-goals.html). Many entrepreneurs [seek financing options](https://www.businessnewsdaily.com/1733-small-business-financing-options-.html)that bypass traditional banks, like [funding from angel investors](https://www.businessnewsdaily.com/9078-angel-investor-funding-reasons.html) that provide entrepreneurs with capital to [cover startup costs](https://www.businessnewsdaily.com/15767-startup-business-costs.html) (or, later, expansion costs). If you can demonstrate a high growth potential for your business, you can also turn to a venture capitalist, who offers capital in exchange for receiving equity in your company.

**Examples of successful entrepreneurs**

Many people whose names no one knew decades ago exemplify entrepreneurial success today. Here are just a few examples:

* **Steve Jobs:**The late tech leader started Apple in a garage and grew it into the dominant company it is today. Jobs even faltered partway through his career, leaving Apple for more than a decade before returning to the company and taking it to new heights
* **Elon Musk:** He founded SpaceX and has since become known for putting the billions of dollars his company has earned him toward some benevolent projects, including providing clean water to Flint, Michigan, and donating FDA-approved ventilators to hospitals fighting COVID-19.
* **Bill Gates:**The Microsoft co-founder has often been listed as the world’s wealthiest individual and has become an internationally renowned leader on pandemics and how to handle them. The Bill & Melinda Gates Foundation, shared with his former wife, focuses on combating poverty, inequity and disease globally.
* **Jeff Bezos:**The founder and creator of Amazon.com originally started the enterprise as an online book retailer. The internet marketplace has since become one of the most valued companies in the world, selling nearly every product imaginable.
* **Mark Zuckerberg:** As a college student, he helped shape the future of social media by co-founding the social networking platform Facebook. Initially launched for only select college campuses, the service quickly expanded to the broader public. Its success turned Zuckerberg into one of the youngest self-made billionaires in America.
* **Sara Blakely:**She took $5,000 and turned it into a $1 billion company with an invention known today as Spanx. The idea was born out of Blakely’s frustration with the pantyhose she had to wear for prior jobs. She had no fashion experience but researched everything from patents to fabrics.

**Key takeaway:** Many of the biggest businesses had humble beginnings and evolved into highly successful enterprises over time. Don’t be afraid to change your initial idea to fit shifts in your market.

**The motivations of successful entrepreneurs**

What motivates entrepreneurs to venture forth when so many others would run in the opposite direction? Though each person’s inspiration is nuanced and unique, many entrepreneurs are spurred by one or more of the following motivators:

* **Autonomy:**Entrepreneurs are people who want to be their own bosses, set their own goals, control their own progress and run their businesses how they see fit. They recognize that their businesses’ success or failure rests with them, but they don’t view this responsibility as a burden. Instead, it’s a marker of their freedom.
* **Purpose:**Many entrepreneurs have a clear vision of what they want to accomplish and will work tirelessly to make that happen. They genuinely believe they have a product or service that fills a void and are compelled by a single-minded commitment to keep pushing ahead. They hate stagnation and would rather fail while moving forward than languish in inactivity.
* **Flexibility:**Not everyone fits into the rigidity of traditional corporate culture. Entrepreneurs are often looking to free themselves from these constraints, find a [better work-life balance](https://www.businessnewsdaily.com/5244-improve-work-life-balance-today.html), or work at times and in ways that may be unconventional. This doesn’t mean they’re working fewer hours – often, especially in the early stages of [growing a business](https://www.businessnewsdaily.com/7690-rapid-business-growth-tips.html), they work longer and harder – but, rather, they’re working in a way that is instinctual for them.
* **Financial success:**Most entrepreneurs realize they aren’t going to be overnight billionaires, but that doesn’t mean they aren’t interested in the potential to make a ton of money from a hugely successful business over which they have full control. Some want to establish a financial safety net for themselves and their families, while others are looking to make a huge profit by creating the next big thing.
* **Legacy:**Entrepreneurs are often guided by a desire to create something that outlasts them. Others want to develop a brand that has longevity and becomes an institution. Some want to pass on a source of income and security to their heirs. There are also entrepreneurs who hope to make a lasting impression on the world and leave behind an innovation that improves people’s lives in some tangible way.

**Advice from successful entrepreneurs**

If you’re contemplating whether to become an entrepreneur, first identify which of the above motivators serve as your guiding forces. Then, consider if you have the specific character traits and attributes that will enable you to thrive as an entrepreneur.

To help you determine if you’ve got what it takes, here’s what 25 company founders and business leaders told us about what they think makes a truly successful entrepreneur:

1. “Entrepreneurship is at the core of the American dream. It’s about **blazing new trails**, about believing in yourself, your mission and inspiring others to join you in the journey. What sets [entrepreneurs] apart is the will, courage and sometimes recklessness to actually do it.” – *Derek Hutson, managing partner at Morgan Creek Strategies*
2. “Entrepreneurship is a **pursuit of a solution**, a single relentless focus on solving a problem or doing something drastically different from the way it is done today. [It’s] aiming to do something better than it’s ever been done before and constantly chasing improvement.” – *Blake Hutchison, CEO of Flippa*
3. “Entrepreneurship is … the **constant hunger for making things better**and the idea that you are never satisfied with how things are.” – *Debbie Roxarzade, founder and CEO of Rachel’s Kitchen*
4. “At its core, [entrepreneurship] is a mindset – a way of thinking and acting. It is about **imagining new ways to solve problems and create value**. Fundamentally, entrepreneurship is about … the ability to recognize [and] methodically analyze [an] opportunity and, ultimately, to capture [its] value.” – *Bruce Bachenheimer, clinical professor of management and executive director of the Entrepreneurship Lab at Pace University*
5. “The most successful entrepreneurs are the ones who **possess grit**. Grit is made up of persistence, passion and resilience. It’s the passion to achieve long-term goals, the courage to try again in the face of rejection, and the will to do something better than it has been done before. The most successful entrepreneurs tend to be gritty ones … They do not give up until they exceed their goals. When the going gets tough and they get knocked down, gritty entrepreneurs bounce right back up and try again.” – *Deborah Sweeney, vice president and general manager of Deluxe Corp.*
6. “**The ability to listen**, whether it be to the opinions of customers or employees, is also integral to success. While … you must have the confidence to make your own choices, it is still incredibly important not to become detached from the people whose needs you are trying to meet.” – *Tirath Kamdar, general manager of luxury at eBay*
7. “Being an entrepreneur is like heading into uncharted territory. It’s rarely obvious what to do next, and you have to rely on yourself a lot when you run into problems. There are many days when you feel like things will never work out and you’re operating at a loss for endless months. You have to be able to stomach the roller coaster of emotions that comes with **striking out on your own**.” – *Amanda Austin, founder and president of Little Shop of Miniatures*
8. “To be a successful entrepreneur, you must have a **passion for learning**– from customers, employees and even competitors.” – *James Bedal, president and CEO of Bare Metal Standard*
9. “Entrepreneurship is, fundamentally, the art and science of building profitable systems to help people in ways that other systems do not. The core competency of the entrepreneur is not business acumen or marketing ability but rather empathy – **the ability to understand the feelings and needs of others**.” – *Logan Allec, CPA and owner of Money Done Right*
10. “Being a successful entrepreneur also means **being a good leader**. Leadership is the ability to bring people to a place where they want to follow you, not feel like they are forced to follow you. This takes investing in your team personally. They must know you’re not only going to hold them accountable and drive them to be better, but [you will] also look out for them when they are struggling. It’s not transactional; it’s a relationship.” – *Steve Schwab, founder and CEO of Casago*
11. “Entrepreneurship is the ability to recognize the bigger picture, find where there’s an opportunity to make someone’s life better, design hypotheses around these opportunities and **continually test your assumptions**. It’s experimentation: Some experiments will work; many others will fail. It is not big exits, huge net worth or living a life of glamour. It’s hard work and persistence to leave the world a better place once your time here is done.” – *Konrad Billetz, founding partner at Outliant*
12. “A key skill an entrepreneur must possess is **self-awareness**. An entrepreneur must know who they are and what they need. Self-awareness is the first step for an entrepreneur to build their team.” – *Krystal Nelson, founder of I-Impakt Consulting*

**Tip:** Family and friends are a [key lifeline for entrepreneurs](https://www.businessnewsdaily.com/9617-friends-family-business-support.html). Make sure you have a stable support system before embarking on a business venture.

1. “[Entrepreneurs] have to **be people-oriented**. Your business will die without a good team to back you up. Study management techniques, learn from great leaders, [and] review where you’re succeeding and failing so you can help others improve. An entrepreneur has to be able to build a team who cares about its work, and to do that, you have to care about how you create your team.” – *Jonathan Barnett, president and CEO of Oxi Fresh Carpet Cleaning*
2. “To be a successful entrepreneur, you **need perseverance**. Most successful businesspeople or entrepreneurs have never given up on their idea. When challenges arise, they have found innovative ways of overcoming them. You must be able to adapt to changing economic conditions, and innovate and embrace technological advances to keep your customers engaged. These things take determination and a strong focus on the end goal.” – *Stacey Kehoe, founder and director of communications at Brandlective Communications*
3. “Entrepreneurship is the mindset that allows you to **see opportunity everywhere**. It could be a business idea, but it could also be seeing the possibilities in the people who can help you grow that business. This ability to see many options in every situation is critically important; there will be unending challenges that will test your hustle.” – *Preeti Sriratana, co-founder of Sweeten*
4. “Entrepreneurs and business owners definitely need to **get used to taking risks**. … You have to get comfortable being uncomfortable. Trying to grow a company or execute on an idea is difficult. It’s not always going to be roses and unicorns. At some point, you’re going to run into issues, lose customers and have financial constraints. It’s at this point you need to get back on the horse and take another risk, whether it’s in the form of a new product, new marketing campaign or a new customer recruitment strategy.” – *Matthew Ross, co-founder and chief operating officer of Slumber Yard*
5. “Successful entrepreneurs look past [the] ‘quick buck’ and instead **look at the bigger picture**to ensure that each action made is going toward the overall goal of the business or concept, whether or not that means getting something in return at that moment.” – *Allen Dikker, CEO of Galk Consulting*
6. “Being an entrepreneur is **ingrained in one’s identity**. [It] is the culmination of a certain set of characteristics: determination, creativity, the capacity to risk, leadership and enthusiasm.” – *Eric Lupton, president of Life Saver Pool Fence Systems*
7. “Entrepreneurship is an unavoidable life calling pursued by those who are fortunate enough to take chances. [They are] optimistic enough to believe in themselves, aware enough to see problems around them, stubborn enough to keep going, and bold enough to act again and again. Entrepreneurship is not something you do because you have an idea. It’s about **having the creativity to question, the strength to believe and the courage to move**.” – *Jordan Fliegel, managing director at Techstars*
8. “You may need to also **be a bit of a contrarian.**Sometimes it takes a person who thinks differently than the herd to start something new and defy the odds.” – *Akshay Khanna, founder and CEO of CareClinic*
9. “Entrepreneurship is seeing an opportunity and gathering the resources to **turn a possibility into a reality**. It represents the freedom to envision something new and to make it happen. It includes risk, but it also includes the reward of creating a legacy.” – *Maia Haag, co-founder and president of I See Me! Personalized Books and Gifts*
10. “An entrepreneur must be able to accept failure. Everyone thinks they can accept failure until they come face to face with failing at a major thing they have put their everything into. To be a successful entrepreneur, you have to be someone who is able to **risk failure at the deepest personal levels**.” – *Steven Benson, founder and CEO of Badger Maps*
11. “[Entrepreneurs] must be able to pivot. If something isn’t working, keeping at it won’t make you successful. But changing your approach, changing your business model, changing your plans to make it work is **the power of the pivot**. You’re adaptable regardless of what’s thrown at you.” – *Michael Maher, chief idea officer of Cartology*
12. “Entrepreneurship is about **always moving forward**: never stopping, never allowing self-doubt or fear to take over and believing wholeheartedly that even a wrong decision is better than no decision.” – *Adam Sherwin, founder of Viakix*
13. “Entrepreneurs are the **dreamers and the visionaries**. Without them, the world stagnates and progress stops. Society needs entrepreneurs the same way the body needs air.” – *Cynthia Kirkeby, founder of Seasonally Fresh*

**How to become an entrepreneur**

There’s no single path to becoming a successful entrepreneur. A lot of it can come down to having the right skills, mindset and ideas at the right time to resonate with the public. However, there are a few things you can do to increase your chances of starting a thriving business.

* **Find the right idea.** Entrepreneurship isn’t just about finding a profitable idea; it’s about finding one you’re passionate about pursuing. Almost any industry has room for new entrepreneurs, and identifying the subject you care about most can motivate you to stay on course.
* **Develop a plan for your business.** It’s not enough to say you want to start a business; you also need a solid plan for how to do so. A [business plan](https://www.businessnewsdaily.com/4471-business-plan-components.html) can help solidify the financial goals you’d like to reach. It can also tell you how to reach them while enticing [potential investors](https://www.businessnewsdaily.com/10921-pitching-potential-investors.html) to fund your venture.
* **Determine your clientele.** Not many businesses become successful without serving customers or clients. Most ventures won’t appeal to every member of the public equally, but you can gauge interest in your idea before opening your doors. The demographics of the people most interested in your business can help you make other decisions, like your store location and ad buys.
* **Sell your idea.** Even if your product or service has garnered interest among friends, family or online forums, that’s a small sample size. You need to get a sense of what the public thinks. Marketing your idea in the right places and highlighting what sets it apart from competitors can help draw people to your business.
* **Meet others in your field.** There are most likely people in your industry whose expertise in certain areas can benefit your fledgling business. Proper networking can connect you to people from whom you can draw valuable knowledge or gain monetary support.

**The value of entrepreneurship**

Being a successful entrepreneur isn’t an easy path. It can often take far more hard work, ingenuity and perseverance than the typical 9-to-5 job and yet still not pan out in the long run. However, succeeding as an entrepreneur can be one of the most rewarding experiences, because you’re doing so on your own terms and affecting society at the same time. For many, those rewards are invaluable. There’s never a guarantee that an idea will succeed, but you’ll still see many people starting their own businesses anyway. After all, failure is just as uncertain.

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| SESSION 2KNOW YOURSELF |

**Introduction**

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

**1. Starting the right business requires knowing yourself.**

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

**2. Attracting the right team requires knowing what you don't know.**

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

**3. Building a business requires confidence in yourself.**

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

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

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

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

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

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

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

**7. You won't improve if you don't know what needs fixing.**

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

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

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| SESSION 3KNOW YOUR INDUSTRY |

**Industry Analysis: Know Your Industry Before You Start Your Business**

Industry analysis is part of good management. That’s not just for the business planning, but rather for business survival, beginning to end. Most of the people who successfully start their own business have already had relevant business experience before they start, most often as employees.

But in this article, I focus on how to consolidate and formalize that industry knowledge into [a formal business plan](https://articles.bplans.com/how-to-write-a-business-plan/).

Although all business owners need to know their industry, the documented details and explanations are mainly for when you’re writing a business plan you need to show to outsiders, [like bank lenders or investors](https://www.liveplan.com/blog/what-investors-want-to-learn-from-your-business-plan/?__hstc=246577179.4cc73ecb6aa660847466977624980e75.1672939035875.1672939035875.1672939035875.1&__hssc=246577179.1.1672939035876&__hsfp=2911786793). You’ll need to do some industry analysis so you’re able to explain the general state of your industry, its growth potential, and how [your business model](https://articles.bplans.com/what-is-a-business-model-business-models-explained/) fits into the landscape.

And if [your business plan](https://articles.bplans.com/the-different-types-of-business-plans/) is more of an internal strategic roadmap, you should still be very sure—whether you have to prove it to others or not—that you know [your market,](https://articles.bplans.com/target-marketing/) even if you don’t do a formal industry analysis. Whether you’re a service business, manufacturer, retailer, or something else, you want to know your industry inside and out.

**What to cover in your industry analysis**

Whether you write it all out in a formal business plan or not, when you’re doing your industry analysis, you’re looking at the following:

* Industry participants
* Distribution patterns
* Competition and buying patterns

Everything in your industry that happens outside of your business will affect your company. The more you know about your industry, the more advantage and protection you will have.

**A complete business plan discusses:**

* General industry economics
* Participants
* Distribution patterns
* Factors in the competition
* And whatever else describes the nature of your business to outsiders

**A note on finding industry information**

The internet has had an enormous impact on the state of business information. Finding information isn’t really the problem anymore, after the information explosion and the huge growth in the internet beginning in the 1990s and continuing in the 21st century.

Even 10 or 15 years ago, dealing with information was more a problem of sorting through it all than of finding raw data. That generality is truer every day. There are websites for business analysis, financial statistics, demographics, trade associations, and just about everything you’ll need for a complete business plan.

**Industry participants**

You should know who else sells in your market. You can’t easily describe a type of business without describing the nature of the participants. There is a huge difference, for example, between an industry like broadband television services, in which there are only a few huge companies in any one country, and one like dry cleaning, in which there are tens of thousands of smaller participants.

This can make a big difference to a business and a business plan. The restaurant industry, for example, is what we call “pulverized,” meaning that it, like the dry cleaning industry, is made up of many small participants. The fast-food business, on the other hand, is composed of a few national brands participating in thousands of branded outlets, many of them [franchised](https://articles.bplans.com/what-is-a-franchise/).

Economists talk of consolidation in an industry as a time when many small participants tend to disappear and a few large players emerge. In accounting, for example, there are a few large international firms whose names are well-known, and tens of thousands of smaller firms. The automobile business is composed of a few national brands participating in thousands of branded dealerships, and in computer manufacturing, for example, there are a few large international firms whose names are well-known, and thousands of smaller firms.

**Distribution patterns**

Products and services can follow many paths between suppliers and users.

**Explain how distribution works in your industry:**

* Is this an industry in which retailers are supported by regional distributors, as is the case for computer products, magazines, or auto parts?
* Does your industry depend on direct sales to large industrial customers?
* Do manufacturers support their own direct sales forces, or do they work with product representatives?

Some products are almost always sold through retail stores to consumers, and sometimes these are distributed by distribution companies that buy from manufacturers. In other cases, the products are sold directly from manufacturers to stores. Some products are sold directly from the manufacturer to the final consumer through mail campaigns, national advertising, or other promotional means.

In many product categories, there are several alternatives, and distribution choices are strategic.

Amazon made direct delivery a huge competitive advantage, especially in its earlier years. Doordash and competitors chose to be intermediaries between restaurants and customers, and several businesses offer prepackaged meal ingredients delivered with instructions for finishing the preparations in the consumers’ kitchens. Now major grocery chains offer grocery delivery. Red Box made a strategy of DVDs in kiosks. An entire industry of food delivery options gives consumers choices like restaurant meals or fresh meals ingredients being delivered. Many products are distributed through direct business-to-business (B2B) sales and in long-term contracts such as the ones between car manufacturers and their suppliers of parts, materials, and components. In some industries, companies use representatives, agents, or commissioned salespeople.

Technology can change the patterns of distribution in an industry or product category. The internet, for example, changed options for software distribution, books, music, and other products. Cable communication first, and more recently streaming, changed the options for distributing video products and video games. Some kinds of specialty items sell best with late-night infomercials on television, but others end up working on the web instead of television.

Distribution patterns may not be as critical to most service companies, because distribution is normally about physical distribution of specific physical products such as a restaurant, graphic artist, professional services practice, or architect.

For a few services, the distribution may still be relevant. A phone service, cable provider, or an internet provider might describe distribution related to physical infrastructure. Some publishers may prefer to treat their business as a service, rather than a manufacturing company, and in that case distribution may also be relevant.

**Competition and buying patterns**

It is essential to understand the nature of competition in your market. This is still in the general area of describing the industry or type of business.

**Explain the general nature of competition in this business, and how the customers seem to choose one provider over another:**

* What are the keys to success?
* What buying factors make the most difference—is it price? Product features? Service? Support? Training? Software? Delivery dates?
* Are brand names important?

In the computer business, for example, competition might depend on reputation and trends in one part of the market, and on channels of distribution and advertising in another. In many business-to-business industries, the nature of competition depends on direct selling, because channels are impractical.

Price is vital in products competing with each other on retail shelves, but delivery and reliability might be much more important for materials used by manufacturers in volume, for which a shortage can affect an entire production line.

In the restaurant business, for example, competition might depend on reputation and trends in one part of the market, and on location and parking in another.

In many professional service practices, the nature of competition depends on word of mouth, because advertising is not completely accepted. Is there price competition between accountants, doctors, and lawyers? How powerful are the insurance decisions in medicine, like in or out of network? How do people choose travel agencies or florists for weddings? Why does someone hire one landscape architect over another? Why choose Starbucks, a national brand, over the local coffee house? All of this is the nature of competition.

The key to your specific industry analysis is a collection of decisions and educated guesses you’ll probably have to make for yourself. There are few pat answers. Maybe it’s easy parking, a great location, great reviews on Amazon or Yelp, or recommendations on social media. You can’t necessarily look this up. It’s the kind of educated guessing that makes some businesses more successful than others.

**Main competitors**

Do a very complete analysis of your main competitors. Make a list, determining who your main competitors are. What are the strengths and weaknesses of each?

**Consider your competitors’:**

* Products
* Pricing
* Reputation
* Management
* Financial position
* Channels of distribution
* Brand awareness
* Business development
* Technology, or other factors that you feel are important
* In what segments of the market do they operate? What seems to be their strategy? How much do they impact your products, and what threats and opportunities do they represent?

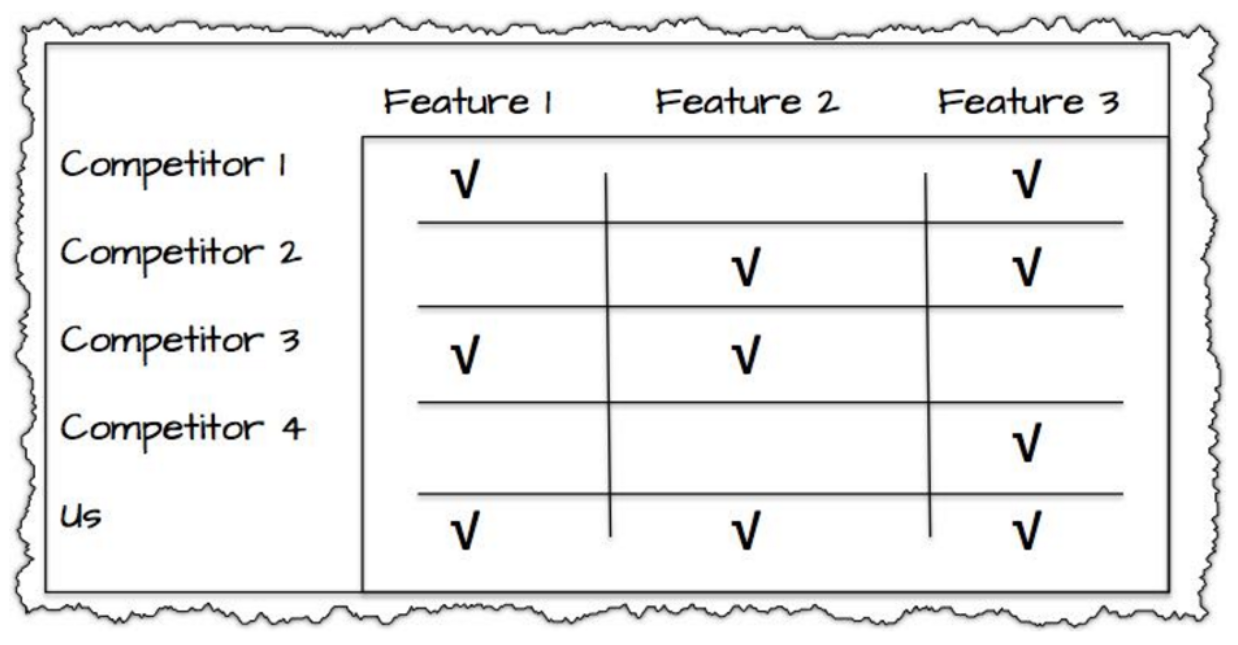
**Finding competitive information**

Competitive research starts with a good web search. Look up competitors’ websites and social media, then search for mentions, reviews, announcements, and even vacancies and job search information. An amazing array of competitive information is posted in plain sight, where anybody can find it.

**Competitive matrix**

A lot of businesses organize competitive analysis into a competitive matrix. The standard competitive matrix shows how different competitors stack up according to significant factors.

For more on that take the basic idea from this illustration:



Some people also use a [SWOT](https://articles.bplans.com/how-to-perform-swot-analysis/) analysis to think about competition in terms of opportunities and threats, the “OT” of SWOT. Opportunities and threats are generally taken as externals, which would include competition, so it’s valuable to run a SWOT analysis on your business to help figure this out.

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| SESSION 4IDENTIFYING MARKET OPPORTUNITIES |

**Ways to Identify Market Opportunities for Business Growth**

**1. Consumer segmentation**

Divide consumer audiences based on traits they share. This will help you target the right people in the most effective way.

Consumer segments can be broken down by demographic and geographic variables like age, gender, place of residence, education, occupation and household income. Behavioural variables, such as lifestyle, attitude, values ​​and purchasing motivations can help you tailor your marketing efforts.

Demographic variables estimate your number of potential customers. For example, a diaper producer will know how many children under three live in a certain country. Behavioural variables pinpoint purchase decision motivations including price, convenience, durability, design and sustainability.

Demographic segments are constantly evolving. Today, Generation X and millennials are driving the labour force globally. If your business strategy involves targeting specific age groups, for example, it’s critical to tailor your tactics to their different needs.

**How do brands use consumer segmentation to reach new audiences?**

Aguas Danone, a bottled water company in Argentina, was looking for new product ideas to recover lost sales. The company identified two drivers behind non-alcoholic drinks consumption: health and flavour. While bottled water was perceived as healthy, it didn’t offer good taste. Soft drinks and juices tasted good but were perceived as highly caloric. This generated the idea to launch flavoured bottled waters Ser with great success.

Bolivian dairy brand Delizia launched a Tradición line of limited-edition ice cream flavours that celebrate traditional cuisine. Nostalgia and local traditions motivate Bolivians, which formulated the idea to create a new line of products to target these consumers.

Organisations that use consumer segmentation to tailor their narratives, marketing and products will sell more effectively.

**2. Purchase situation analysis**

The buying decision-making process is anything but straightforward. A multitude of factors can impact what, when and where consumers buy. You have to understand your customer’s buying patterns so you can alter your offerings to influence those decisions. Some questions to ask are:

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

Look at distribution channels and payment methods, among others, to uncover your customer’s buying patterns. This will help you position your product towards their interests.

Let’s dig into the retail sector as an example. Today, consumers expect speed and convenience. Retailers that understood these new preferences adjusted their business models to attract more customers. With quick commerce, brands started providing delivery in minutes and capitalised on consumers’ impulse purchases to reap the rewards.

Gopuff, the instant grocery startup, used this trend to grow significantly. The company operates in 900 cities across the US, expanding into the UK in 2021 and France in 2022.

Fintech players are also appealing to consumers who are strapped for cash. With rising inflation costs, alternative payment options like buy now, pay later are bringing in new revenue streams. Younger consumers have been the primary source of growth so far, but interest from older consumers has been increasing.

Buying patterns can tell you a lot about your customers. Use this information to meet them where they are.

**3. Direct competitor analysis**

Direct competitors offer similar products or services. For example, Coca-Cola and Pepsi or Netflix and Hulu.

Do comprehensive research on where your business stands in the marketplace. And know what other key players are doing to build a powerful competitive edge. Then, find out how they size up against your business.

Critical questions you must ask are:

* Which brands are growing and why?
* What is their unique value proposition?
* How are they marketing their offerings?
* What competitive advantage do we have over them?

Take IKEA for example. In 2022, they entered a new market, opening their first store in Chile. But before they decided to expand, IKEA did extensive research. Most likely looking at competitors like Sodimac who already had 74 outlets in the country.

This type of analysis can make or break success.

**4. Indirect competitor analysis**

Indirect competitors target a similar audience but sell different products that satisfy the same needs. For example, Coca-Cola and Tropicana or Netflix and Marvel comics.

Analysing what companies are doing in substitute industries or categories can help improve your offerings and reach new audiences.

Let’s look at airlines for example. Air carriers may look for opportunities in consumer segments currently supplied by other means of transport. Effective questions to ask are:

* How many people travel long-distance on buses and trains?
* What are the most in-demand routes?
* How much do travellers pay for their tickets?
* What is the occupancy rate of long-distance buses and trains?
* How can we persuade a current bus or train passenger to travel by plane instead?

Similarly, producers of chocolate spreads should research sales of jams and honey to have a better notion of their competitive position within the whole sweet spreads market.

This type of analysis helps establish competitive advantages against indirect competitors and can help businesses tap into a wider customer audience.

**5. Complementary product and service analysis**

You should monitor the performance of products and services that are complementary to your business.

For example, sweet spreads and butter brands should analyse market trends in bread and savoury biscuits. And tomato sauce companies should capture data on the pasta market.

By performing this kind of research, you’ll be able to:

* Understand how your customers use your product in conjunction with others
* Detect new needs, opportunities and threats
* Develop new offerings or redesign your products
* Sell more effectively

Let’s say a company producing alternative fresh ground coffee pods is looking to grow. It’s important to get sales data on pod coffee machines like Nespresso and Dolce Gusto to estimate their own market potential.

Trends in complementary markets should be considered when making investment decisions. Use this information to guide your product innovation strategy and gain more market share.

**6. Diversification analysis**

To diversify or not to diversify, that is the question.

If your company has reached a high level of maturity in your current market, doing a diversification analysis will help you understand how and where to grow.  But you must have the right skills, resources or business models to successfully expand into new categories.

Begin by analysing any sectors that could benefit from your offering. Then, understand that industry’s growth potential and the competition. Look at the market sizes, shares, growth rates, unit prices, per capita sales and brand positioning. And ask these important questions before making the decision.

* Do you have the capacity and tools to diversify?
* Do you have applicable resources in other industries and could gain economies of scale?
* Will diversifying dilute your brand reputation? Should you use a new brand in the new industry?
* Do the potential financial benefits outweigh the risks?

Take British investment firm easyGroup for example. The firm uses a diversification strategy for long-term business growth, extending the “easy” business model. easyGroup first created easyJet, a low-cost air carrier. But has now extended its business model across various other industries like FMCG, entertainment, e-commerce and technology. And in some cases, even created competition for easyJet by developing easyBus and easyCar. This gives consumers various options to travel while bringing in new revenue streams.

Diversification is a high-risk business development strategy. But when it’s done successfully, it brings in more customers, income security and consistent demand.

**7. Foreign market analysis**

If your company operates in a mature or saturated market, exploring other countries could help you achieve your financial goals.

Markets in different countries grow at different paces due to disparities in economic development and local habits. Knowing the evolution of per capita consumption of a given product in each country can serve as an indicator of the maturity of the product's life cycle. Understanding the size of the market and its competitors will help estimate the business potential.

You should also investigate consumption habits in more developed countries. For example:

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

These questions can help indicate the potential of your product or service in your own country. On the other hand, it may lead to innovation in your current market.

**8. Environmental analysis**

Don’t forget to analyse external factors that could impact your business. This includes economic situations, geopolitical events, changes in regulations, technological and scientific developments and environmental factors like climate change. Paying attention to these elements will help you assess market attractiveness and create winning strategies.

Take robotics and automation for example. These technologies are disrupting markets while becoming more affordable and widely used. Companies like Google, Microsoft and Nike invested in these uncharted areas with innovative business models. But it’s not just these big brands looking into this opportunity. In fact, 42% of businesses globally said they plan to invest in robotics and automation in 2022.

Scientific developments may bring new competitors. In 2020, Singapore became the first country to allow sales of cell-cultured meat. The likelihood of further markets joining suit has intensified since then, as has the activity of major meat companies in the space. Cell-cultured meat is likely to be a significant part of future diets.

Changes in a country's regulatory framework can impact your business too. But those that stay ahead of these threats, can turn them into effective new ways of working. For example, Latin American governments started requiring companies to include black labels on product packaging when it has high amounts of calories, sodium, sugar and saturated fats. While this may be a headache for some food and beverage brands, players that use it as an opportunity to invest in healthier alternatives could reap the rewards.

In times of high inflation, monitoring the market can help you redefine your pricing strategy. For example, price increases of sunflower oil were much higher than increases in prices of other types of edible oils in 2022. This forces companies that use sunflower oil to make a choice – either switch to an alternative oil or increase the price of their product to strengthen profit margins.

Doing this type of analysis should be ongoing. Situational factors change every day. But this research will help you stay resilient amidst volatility.

Next steps

Using a variety of analyses will help your business gain a holistic view of opportunities and create long-term strategic business plans.

Once you identify an opportunity, quickly develop a value proposition, plan the commercialisation chain and estimate costs, revenues, cash flows and financing needs.

**Remember:** not all market opportunities identified will succeed. That’s why successful companies invest in different types of research and analysis before moving into a new market and making changes to a product.

To minimise the costs of failed opportunities, test your new product, service or business model in controlled areas. But, there are some risks to pilot testing because it alerts the competition about your strategy. Remember, the risk must outweigh the cost of failing on a global scale.

Now, are you ready to spot your next market opportunity? We’ve got you covered. Our global team of analysts can provide insights to guide your business strategy

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| SESSION 5INNOVATION |

**Innovation**

Innovation is one of the most important topics concerning the long-term competitiveness of companies. But what is innovation exactly? Why is [innovation management](https://innolytics.net/innovation-management/) so important for organizations? And what different types of innovation are there? In this article, you will get an easy-to-understand introduction to a complex topic.

The word “innovation” is derived from the Latin verb innovare, which means to renew. In essence, the word has retained its meaning up until today. Innovation means to improve or to replace something, for example, a process, a product, or a service. In the context of companies, however, the term needs a definition. In the complex context of business, a definition is needed.

*Innovation is a process by which a domain, a product, or a service is renewed and brought up to date by applying new processes, introducing new techniques, or establishing successful ideas to create new value.*

The creation of value is a defining characteristic of innovation.

Why is innovation so important?

Organizations have several options to increase their competitiveness: they can strive for price leadership or develop a strategy of differentiation. In both cases, innovation is essential.

* Companies that choose price leadership must secure their long-term competitiveness by developing innovative, highly efficient processes. Process optimization and continuous improvement in terms of costs are important for them.
* Companies that strive for a differentiation strategy need innovation to develop unique distinguishing features to their competitors.
* Many start-ups launch their activities by developing an innovative product or service.

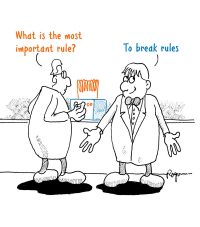
Continuous innovation is, therefore, crucial for all companies. The main difference is in the focus of the innovation strategy, which varies considerably from company to company.

Innovation requires a higher degree of [creativity](https://innolytics.net/barriers-to-creativity-and-innovation/) than the operative business and a clear [innovation strategy](https://innolytics.net/innovation-strategy/), especially in the phase of the so called “[fuzzy front end of innovation](https://innolytics.net/fuzzy-front-end-of-innovation/)“.

* Concepts like [lean innovation](https://innolytics.net/lean-innovation/) and the establishment of community-based [innovation networks](https://innolytics.net/innovation-network/) become increasingly relevant.
* Companies are using modern [idea management software](https://innolytics.net/idea-management-software/) and [innovation management software](https://innolytics.net/innovation-management-software/) to manage innovation efficiently.

The Right Mindset for Innovation

Innovation requires more creativity and more willingness to take risks than the implementation of typical projects. To successfully realize innovation projects, a different mindset is needed. We have created four cartoons, which you are welcome to include in presentations or on your website with reference (backlink) to this page.

[](https://innolytics.net/wp-content/uploads/2020/03/break-rules-what-is-innovation.jpg)

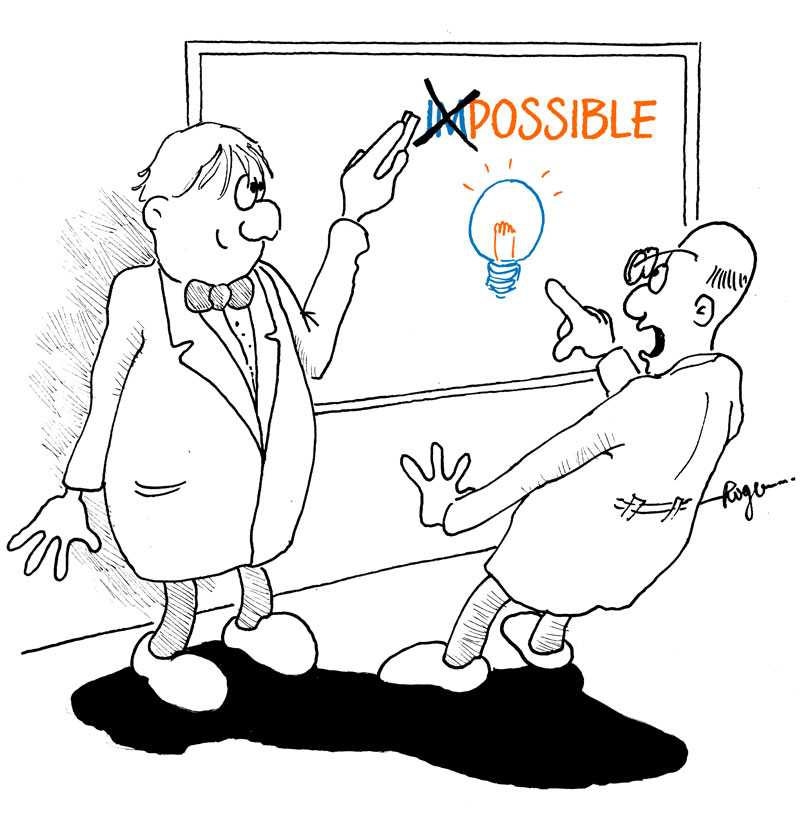
Break the rules!

With traditional approaches and conventional methods, you will often not get anywhere in the field of innovation. Challenge the status quo consistently! And explore new paths off the beaten track.

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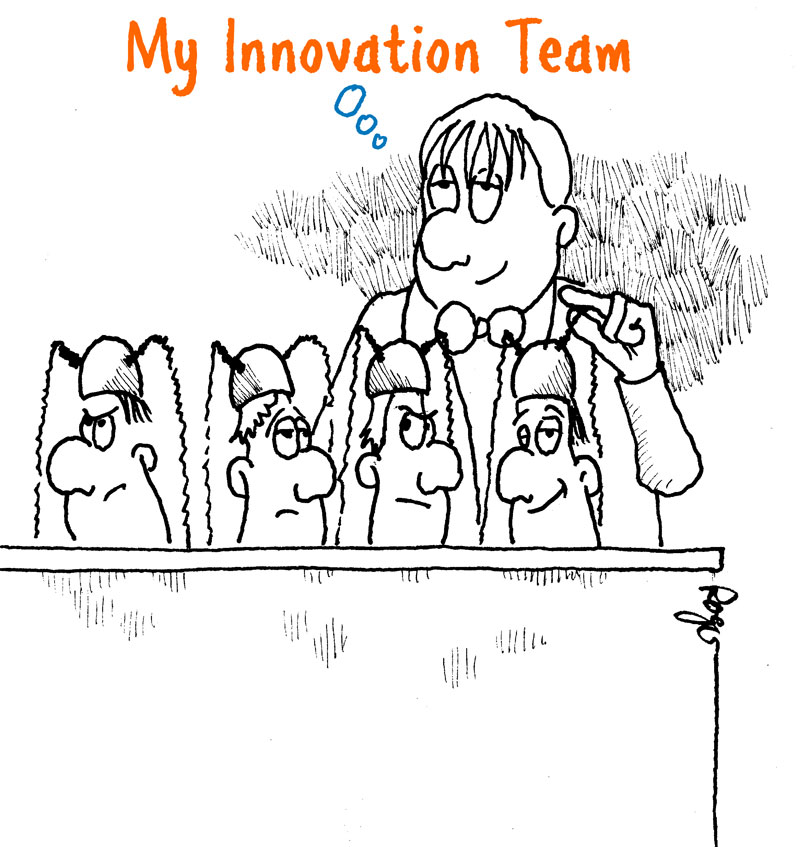
Collect ideas everywhere!

Innovation projects constantly need new ideas: To overcome obstacles, to change concepts, and to optimize strategies.

[](https://innolytics.net/wp-content/uploads/2020/03/impossible-what-is-innovation.jpg)

Believe in the impossible!

Imagine how your innovation will look like in reality. And believe that you will be able to overcome all obstacles on the way to realization.

[](https://innolytics.net/wp-content/uploads/2020/03/my-innovation-team-what-is-innovation.jpg)

Put together an innovation team of individuals with different perspectives and thinking styles!

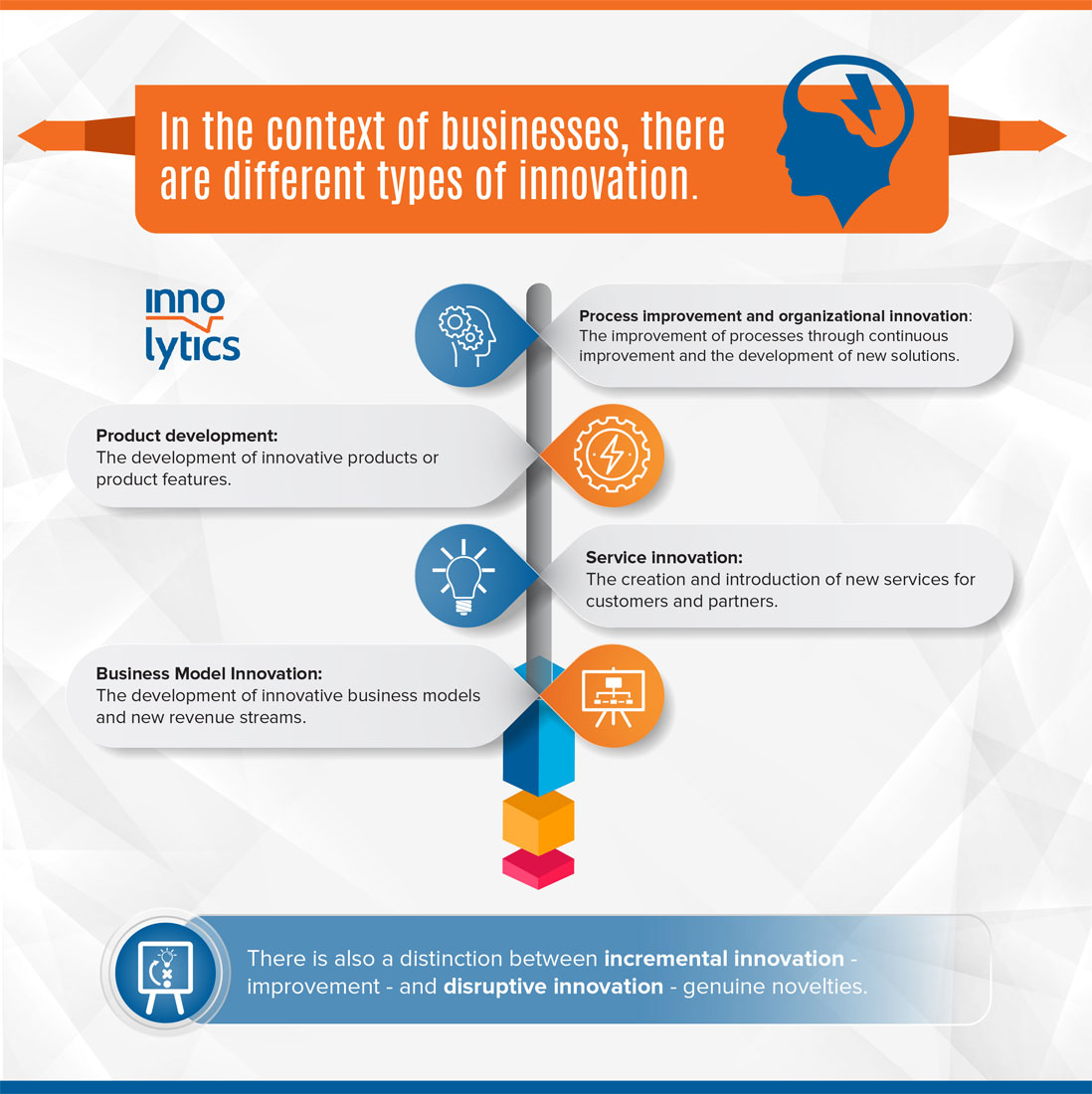
Innovation needs the diversity of various competencies and diverse ways of thinking.

The Different Types of Innovation

In the context of businesses, there are different types of innovation.

* [Process improvement](https://innolytics.net/key-success-factors-for-process-improvement/) and [organizational innovation](https://innolytics.net/organizational-innovation-examples/): The improvement of processes through [continuous improvement](https://innolytics.net/continuous-improvement-process/) and the development of new solutions.
* [Product development](https://innolytics.net/product-development/): The development of innovative products or product features.
* [Service innovation](https://innolytics.net/serviceinnovation/): The creation and introduction of new services for customers and partners.
* [Business Model Innovation](https://innolytics.net/business-model-innovation/): The development of innovative business models and new revenue streams.

[Digitalization](https://innolytics.net/what-is-digitalization/) and [digital transformation](https://innolytics.net/what-is-digital-transformation/) also require companies to rethink and develop new approaches.

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Many Companies Focus on Incremental Innovation

There are different degrees of innovation. The mere improvement – for example, of processes or products – is called [incremental innovation](https://innolytics.net/incremental-innovation/). Major innovations that lead to substantial changes are called [disruptive innovation](https://innolytics.net/disruptive-innovation/) or [radical innovation](https://innolytics.net/radical-innovation/).

* Incremental innovations are, for example, the optimization of existing processes and procedures or a product line extension.
* Disruptive Innovations are, for example, major innovations such as iTunes and Google Android. These are often referred to as “digital disruption”: Innovations that change the logic of existing markets.

The Difference Between Incremental and Disruptive Innovation

For many companies, innovation means taking existing products and changing details: The color, the form, the functionalities, the size, etc.

* This form of incremental innovation ensures the competitiveness of companies in existing markets.
* In future markets, incremental innovation is often no longer sufficient. Companies must radically reinvent products and services.

To ensure their long-term [innovation capability](https://innolytics.net/innovation-capability/), companies worldwide have established an [idea management](https://innolytics.net/idea-management/) and [innovation management](https://innolytics.net/innovation-management/) system that provides a structured approach: From the development of an [innovation strategy](https://innolytics.net/innovation-strategy/) to setting up an [innovation roadmap](https://innolytics.net/innovation-roadmap/) and successfully implementing innovation.

Managing Incremental and Disruptive Innovation

For companies, setting up an innovation management is important in order to keep pace with changing customer needs.

[Incremental innovation](https://innolytics.net/incremental-innovation/) provides competitive advantages in terms of production costs, functionalities, or equipment.

* Conventional innovation management often does not go beyond incremental innovation: products are improved, but not reinvented.
* With methodologies like the Stage-Gate Model for the innovation of process and product development, however, companies quickly reach their boundaries, – especially in supersaturated markets.

Particularly in times of digital change, in which new customer needs emerge, companies must be able to develop more far-reaching forms of innovation and bring them to market successfully.

Disruptive Innovation Needs Different Approaches

Companies that want to drive [disruptive innovation](https://innolytics.net/disruptive-innovation/) forward need to take a different approach and pursue a revolutionary path in addition to traditional methods.

* More and more businesses realize that different approaches are critical to long-term growth.
* Innovation has to be more radical in the future.
* This requires rethinking. New management techniques are being sought. More courage and willingness to take risks are necessary.

The result of such management approaches are new products and services for tomorrow’s markets. Business models that are still impossible to imagine today will emerge. Small teams that can act flexibly develop innovative concepts faster to market maturity.

Methods for Managing Innovation

The methods of [innovation management](https://innolytics.net/innovation-management/) are as diverse as the types of innovation:

* [Innovation processes](https://innolytics.net/innovation-process/), with which developments are steered by a clearly defined procedure through different stages and levels.
* [Open innovation](https://innolytics.net/open-innovation/) and [Customer co-creation](https://innolytics.net/customer-co-creation/): methods that integrate customers directly into the development process.
* [Innovation labs](https://innolytics.net/innovation-lab/): Business units in which employees work on the development of innovations outside the daily business
* [Innovation challenges](https://innolytics.net/innovation-challenge/): Competitions in which employees are asked to contribute solutions to overcome a company’s challenges.

**Top of Form**

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| SESSION 6CUSTOMER SERVICE |

**Customer service**

Customer service is the support you offer your customers from the moment they first contact your business to the months and years afterward. Providing good customer service means being a reliable partner to your customers—it goes beyond helping them troubleshoot, use, and make informed decisions about your product.

The customer service journey is different for everyone. Some buyers may quickly make their purchase and move on, while others may return with a customer complaint or question. Either way, the [objective of customer service](https://www.zendesk.com/blog/important-customer-service-objectives/) is to make the most of every interaction and develop long-term relationships with your customers.

There are many [types of customer service](https://www.zendesk.com/blog/types-of-customer-service/), and keeping the quality consistent can mean the difference between a buyer returning repeatedly or leaving for good. Need a little more clarification? Let’s break it down.

In this article, we’re going to discuss:

**Why is customer service important?**

Whether you’re a well-established firm or just starting to scale and grow, a successful customer service team can help attract new business, boost retention, and increase sales among your existing customer base.

So while Joan Jett may not care about a bad reputation, business owners and leaders should—good customer service plays an increasingly critical role in a company’s success.

It’s a high-stakes game: 61 percent of consumers would now defect to a competitor after just one bad experience, according to the [Zendesk Customer Experience Trends Report 2022](https://www.zendesk.com/customer-experience-trends/). (That’s a 22-percent jump from the previous year.) Make it two negative experiences, and 76 percent of customers are out the door.

73% of business leaders report a direct link between their customer service and business performance.

**Benefits of great customer service**

Customer service is the foundation on which you build a home for your buyers. Great customer service boosts business, reduces churn, and enhances the customer experience. Our CX Trends Report revealed that high-quality service:

* **Drives business performance:**73 percent of business leaders report adirect link between their customer service and business performance.
* **Stimulates business growth:**64 percent of leaders say good customer service has a positive impacton their company’s growth.
* **Improves customer retention:**60 percent say it keeps customers coming back.
* **Increases sales:**47 percent report an increase in their ability to cross-sell.

**How to deliver excellent customer service**

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

1. **Make agent training a priority**

Companies with high-performing customer support teams understand the need for more training, empathy, and emphasis on empowering their employees. Consider developing a tiered training plan that starts with basic technical skills and product knowledge, then gradually advances to more complicated topics.

Our CX Trends Report found that high-performing businesses are nearly 10 times more likely to strongly agree that their agents are of the highest caliber and roughly six times more likely to have plans to greatly extend education and training opportunities.

1. **Automate repetitive tasks**

AI is becoming increasingly reliable and popular. In a world where AI can create art and predict your next favorite TV show, your customer service team might not want to spend their time performing repetitive tasks. Identify and [automate the most tedious tasks](https://www.zendesk.com/service/ticketing-system/automated-customer-support/) to free up agents’ time and improve performance.

For example, our CX Trends Report shows that high performers are nearly three times more likely to use AI-powered chatbots to help with agent workflows.

1. **Personalize every experience**

Talking to a customer service representative should fall somewhere on the spectrum between talking to your Google Home and catching up with an old friend. That means: personalized enough to not be robotic but formal enough to be efficient.

Arm your agents with the customer information they need to make the experience friendly, helpful, and fast. Customers will notice. In our CX Trends Report, 90 percent of respondents said they’re more willing to spend money with companies that personalize their customer experience.

1. **Evaluate existing customer service channels**

According to our Trends Report, 93 percent of consumers will spend more with companies that offer their preferred option to reach customer service, whether that’s chat, email, or phone. Make sure you have satisfaction metrics linked to every channel, and actively track and benchmark performance on each of them.

1. **Focus on business impact**

Create opportunities for agents to drive profits through [upselling](https://www.zendesk.com/blog/upsell-tips/) and cross-selling, informed by a deep understanding of the customer’s immediate needs. Establish a system in which your support team can seamlessly hand customers off to the sales team to continue the conversation. Track these opportunities so everyone involved can see the impact of customer service on ongoing customer engagements.

High performers are already doing this: Our report found that top-performing companies are 7.6 times more likely to strongly agree that customer service is a revenue driver.

1. **Integrate systems**

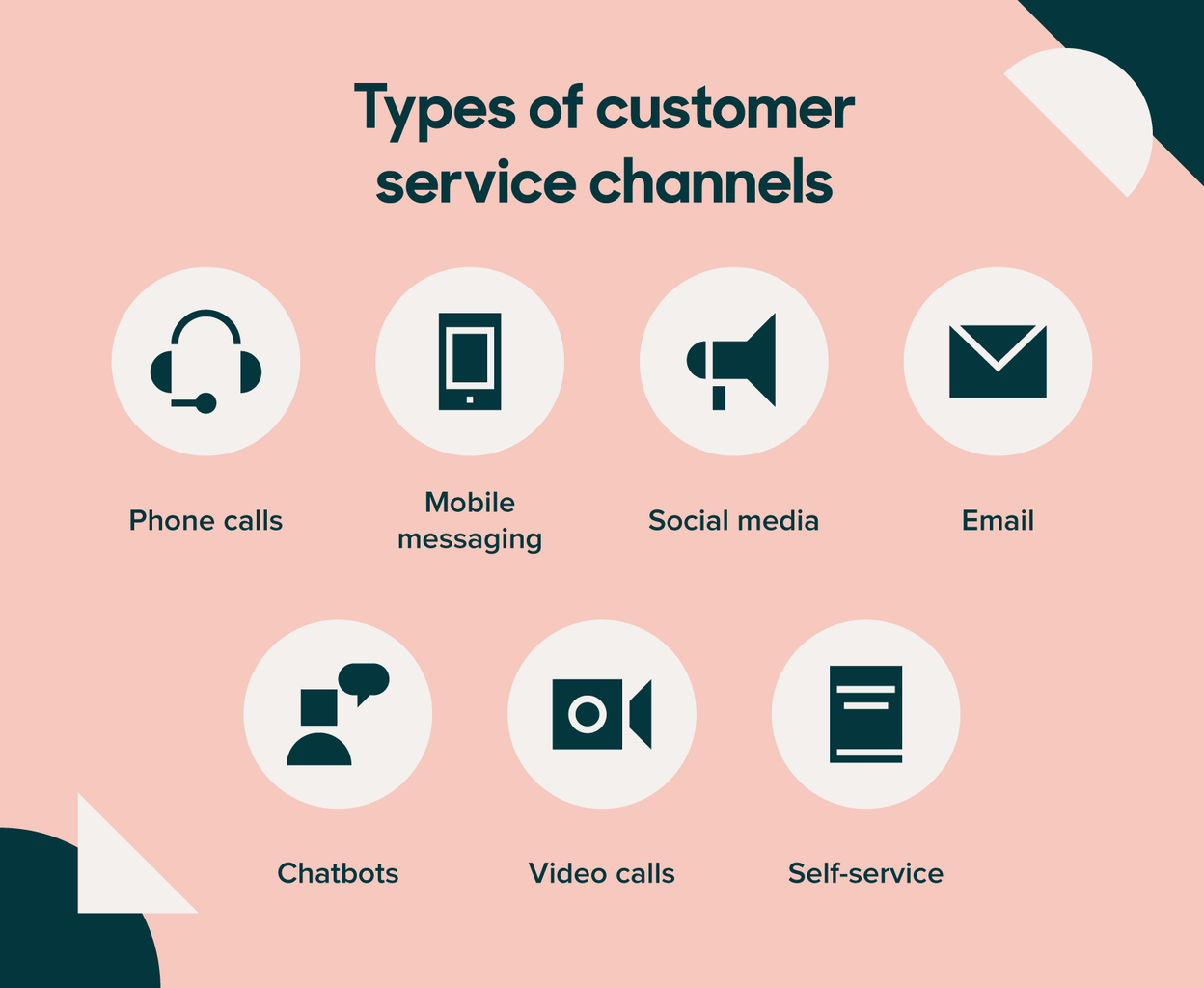
Integrate customer service and CRM platforms to monitor changes in customers and their lifetime value. Sharing data between these systems can lead to the discovery of personalized, relevant solutions to customer issues that otherwise wouldn’t be considered.

1. **Keep leadership in the loop**

Companies with exceptional customer service have buy-in from top to bottom. Leadership takes an active role in monitoring performance and impact. In many cases, the compensation of senior executives is directly tied to customer satisfaction.

High performers are over nine times more likely to report that senior leaders view customer service metrics daily and nearly eight times more likely to strongly agree that senior leaders immerse themselves in customer service.

**Types of customer service channels**



An [omnichannel customer service](https://www.zendesk.com/blog/omnichannel-really-means/) approach enables you to meet your buyers where they are and provide connected, consistent communications across channels.

A few of the most popular customer service channels include:

* Phone calls
* Mobile messaging
* Social media
* Email
* Chatbots
* Video
* Self-service

Self-service includes resources like [knowledge bases](https://www.zendesk.com/blog/knowledge-base/) and community forums that allow customers to find answers to their own questions.

No matter which channels you use, it’s important to deliver comprehensive support and create a seamless communication journey for your customers.

**How to structure your customer service department**

Learn more about the key steps for structuring your customer service team with this free guide.

**12 key customer service traits**

Customer service skills are the qualities and abilities a customer service representative needs to deliver good customer service. They include a mixture of technical and soft skills.

**1. Empathy**

A little empathy goes a long way. If a customer is upset, being defensive in return can add fuel to the fire. Instead, let them know that you understand where they’re coming from and will do whatever you can to help. The same goes for customers who are sad, confused, or even happy. Empathy breeds connection.

**Example:**A customer is angry about a recent price increase. Instead of just telling them, “Well there’s nothing I can do,” show empathy by saying, “I understand that price increases can be upsetting.” Then inform them why the price increased, explaining that price hikes often add value to the product.

**2. Active listening**

Active listening can help you better understand what your customer feels, wants, and needs. To practice active listening, pay close attention to what the customer is saying, and take note of their body language and tone. Wait until they’re done speaking to come up with your response.

**Example:**A customer calls to complain about a product they purchased that isn’t living up to their expectations. By carefully listening to their comments, you’re able to determine that they meant to purchase a different offering, and you help them make an exchange.

**3. Transparency**

When customers reach out for support, the last thing they want to do is wait on hold for an hour. So if your customer service team is busy, make sure customers know how long they can expect to wait. You may also consider implementing a callback system, where an agent will call or message a customer when they become available, so the customer doesn’t need to wait on hold.

**Example:**You deploy an AI chatbot that tells customers how many people are ahead of them in the queue and how long they will likely wait for help.

**4. Interpersonal skills**

When your job revolves around dealing with the public, you need to make sure you can, well, deal with the public. Interpersonal skills—like good communication, positivity, flexibility, and responsibility—create a winning relationship between yourself and the customer. They establish trust and improve customer communication.

**Example:** When you hop onto a phone call with an aggravated customer, you’re able to clearly and calmly explain how to resolve their issue. Pro tip: humor also helps.

**5. Ability to multitask**

Live chat agents are expected to handle more than one conversation at a time and to listen to each customer while simultaneously finding them an answer. This is a skill in itself. Great multitaskers feel comfortable interacting with multiple people at once and don’t lose sight of the bigger picture as they’re bombarded by questions.

**Example:**You’re chatting with two customers—one has a question and the other has a complaint. You manage both conversations without getting overwhelmed or distracted, enabling you to answer the customer’s question quickly while easing the other’s worries.

**6. Well-tempered**

Sometimes, it’s hard for customers to [express themselves in writing](https://www.psychologytoday.com/us/blog/threat-management/201311/dont-type-me-email-and-emotions). Other times, customers are terse because they’re frustrated. Customer service agents should be well-tempered enough to remain calm and pleasant in any interaction, even when they perceive a customer is being slight with them.

**Example:**A customer is making rude comments via your internal messaging system. You don’t take this personally, and you’re able to stay positive during the interaction.

**7. Attentiveness**

Even if you can’t address a customer’s needs right away, you can still make them feel seen and heard by acknowledging their request and telling them you’ll assist them when you can. This could mean emailing them back and saying you’ll respond more thoroughly later, or replying to an angry customer on social media and asking for more information via DM.

**Example:**You work for a travel booking agency and get a [customer complaint](https://www.zendesk.com/blog/customer-complaints-10-tips-manage-better/) on Twitter from someone who arrived at a hotel to find their room double-booked. You respond immediately asking for more information via private message so you can resolve the issue.

**8. Collaboration skills**

Answering a customer’s question often involves working with other teams or departments. Is responding to negative social media comments the job of customer support or marketing? Sometimes it’s hard to tell.

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

**Example:**When a customer service inquiry comes in over Instagram DM, your marketing team knows exactly who to ask about next steps. A [customer service solution like Zendesk](https://www.zendesk.com/service/) enables teams to collaborate with one another and help customers faster.

**9. Emotional intelligence**

Emotional intelligence is the ability to perceive and control your emotions. That can mean recognizing when you’re about to get angry, sad, scared, flustered, or any other big emotion, and cope accordingly. Strong emotional intelligence is a critical skill for customer service agents because it can help them stay level-headed on the job and maintain their emotional wellness.

**Example:**You see several complicated requests come in at once, and you recognize that your heart is beating faster and you’re starting to feel overwhelmed. So, you spend a couple of minutes practicing deep breathing to calm down before tackling the tasks in front of you.

**10. Creativity**

Try as you may to prepare for everything, inevitably a customer will have a specific need or question that you haven’t heard before. Sometimes, there might not even be an exact answer or solution for it. In these circumstances, creative thinking is key. Your agents must be able to think on the fly and discern what the customer truly needs, then come up with a unique solution that meets those needs.

**Example:**A customer asks a question that you don’t know how to answer because it hasn’t come up before. Instead of panicking, you take a moment to think of a solution that fits company guidelines. You’re able to respond quickly and effectively, resulting in a positive customer experience.

**11. Customer-first mindset**

The customer isn’t necessarily right or wrong, but their perception of events is crucial in shaping their experience. A [customer-first mindset](https://www.zendesk.com/blog/customer-first/) helps your agents prioritize the customer experience and tailor their service to meet each customer’s individual needs, even in cases when they don’t agree. This mindset also allows agents to offer [proactive service](https://www.zendesk.com/blog/proactive-customer-service/) by focusing on the customer and their needs, which can change the customer’s perception of events from bad to good.

**Example:**When an angry customer reaches out about an incorrect order, you anticipate that they’ll want a replacement and check your inventory so you can send it straight away.

**12. Digital literacy**

In our CX Trends Report, 60 percent of respondents said they have higher customer service standards now than ever before. And for companies looking to deliver great omnichannel experiences, digital literacy will help your agents navigate customer interactions across channels. Train your employees on how to provide good service—no matter which channel they’re on—and how to use your online knowledge base to search for information. You can also automate content using a platform like Zendesk, which makes finding the right article that much easier.

**Example:**You need to explore your company’s internal knowledge base to get an answer for a customer. Because of your digital literacy, you know exactly how to log on and find what you need, leading to a fast resolution.

**4 examples of good customer service**

We’ve all heard the stories of companies going above and beyond to provide their customers with incredible support—a Morton’s employee once met a man at the airport with a steak because he asked for one in a tweet. But you don’t need to create your own Morton’s moment to delight customers.

Here are a few everyday examples of good customer service.

**1. Providing fast first-response times**

No pressure, but 76 percent of customers say they expect to engage with someone immediately when contacting a company. The more you can decrease first-response time, the more you can improve the customer experience.

Even if you can’t resolve an issue right away, make sure you connect with customers as soon as possible to give them a timeline.

**Example:**Udacity implemented a chat feature that allows customers to get answers quickly via self-service, which helped the company reduce its first-response time and increase customer satisfaction.

**2. Meeting customers where they are**

Customers want to connect with businesses on the same channels they use to talk to friends and family. So, being able to help a customer on their preferred support channel is one of the best ways to create an excellent customer service experience.

Channel preference can vary based on the issue type and customer need. Our CX Trends Report showed that 73 percent of customers want the ability to start a conversation on one channel and pick it back up on another. This is why omnichannel customer service is so important.

**Example:**WATCHA implemented an omnichannel customer service experience that enables its support agents to communicate with customers on their favorite channels and continue those conversations across channels.

**3. Helping customers help themselves**

Customers don’t always want to speak to someone, especially if their inquiry is straightforward. Our report revealed that 83 percent of customers will spend more with companies that allow them to find answers online without contacting anyone.

**Example:**Spartan Race used chatbots and other self-service automations to empower customers to solve problems and find answers independently. The organization saw a 46-percent increase in self-service and a 40-percent increase in help center views—plus, a 90-percent CSAT score—as a result. Enabling customers to be self-sufficient allowed agents to spend more time on complex problems, increasing both customer satisfaction and engagement.

**4. Being proactive**

Reactive support used to be the standard: You wait for a customer to reach out with a question or issue and then respond accordingly. But now, companies must also provide proactive support—this is all about anticipating customer issues and addressing them before your customers are aware of them or need to contact you for help.

**Example:**In Good Taste uses data to get a comprehensive view of all the different tickets that may come in so they can figure out what to focus on next and fix problems before they arise.

|  |
| --- |
| SESSION 7FINANCIAL AND CASH FLOW MANAGEMENT |

**Cash Flow**

The term cash flow refers to the net amount of cash and cash equivalents being transferred in and out of a company. Cash received represents inflows, while money spent represents outflows.

A company’s ability to create value for [shareholders](https://www.investopedia.com/terms/s/shareholder.asp) is fundamentally determined by its ability to generate positive cash flows or, more specifically, to maximize long-term [free cash flow](https://www.investopedia.com/terms/f/freecashflow.asp) (FCF). FCF is the cash generated by a company from its normal business operations after subtracting any money spent on [capital expenditures](https://www.investopedia.com/terms/c/capitalexpenditure.asp) (CapEx).

KEY TAKEAWAYS

* Cash flow is the movement of money in and out of a company.
* Cash received signifies inflows, and cash spent signifies outflows.
* The cash flow statement is a financial statement that reports on a company's sources and usage of cash over some time.1
* A company's cash flow is typically categorized as cash flows from operations, investing, and financing.1
* There are several methods used to analyze a company's cash flow, including the debt service coverage ratio, free cash flow, and unlevered cash flow.

**Understanding Cash Flow**

Cash flow is the amount of cash that comes in and goes out of a company. Businesses take in money from sales as [revenues](https://www.investopedia.com/terms/r/revenue.asp) and spend money on expenses. They may also receive income from interest, investments, [royalties](https://www.investopedia.com/terms/r/royalty.asp), and licensing agreements and sell products on credit, expecting to actually receive the cash owed at a late date.

Assessing the amounts, timing, and uncertainty of cash flows, along with where they originate and where they go, is one of the most important objectives of financial reporting. It is essential for assessing a company’s [liquidity](https://www.investopedia.com/terms/l/liquidity.asp), flexibility, and overall financial performance.

Positive cash flow indicates that a [company's liquid assets](https://www.investopedia.com/terms/a/asset-liabilitymanagement.asp) are increasing, enabling it to cover obligations, reinvest in its business, return money to shareholders, pay expenses, and provide a buffer against future financial challenges. Companies with strong financial flexibility can take advantage of profitable investments. They also fare better in downturns, by avoiding the costs of [financial distress](https://www.investopedia.com/terms/f/financial_distress.asp).

Cash flows can be analyzed using the [cash flow statement](https://www.investopedia.com/terms/c/cashflowstatement.asp), a standard financial statement that reports on a company's sources and usage of cash over a specified time period. Corporate management, analysts, and investors are able to use it to determine how well a company can earn cash to pay its debts and manage its operating expenses. The cash flow statement is one of the most important financial statements issued by a company, along with the balance sheet and income statement.1

Cash flow can be negative when outflows are higher than a company's inflows.

**Special Considerations**

As noted above, there are three critical parts of a company's financial statements:1

* The [balance sheet](https://www.investopedia.com/terms/b/balancesheet.asp), which gives a one-time snapshot of a company's assets and liabilities
* The [income statement](https://www.investopedia.com/terms/i/incomestatement.asp), which indicates the business's profitability during a certain period
* The cash flow statement, which acts as a corporate checkbook that reconciles the other two statements. It records the company's cash [transactions](https://www.investopedia.com/terms/t/transaction.asp) (the inflows and outflows) during the given period. It shows whether all of the revenues booked on the income statement have been collected.

But the cash flow does not necessarily show all the company's expenses. That's because not all expenses the company accrues are paid right away. Although the company may incur [liabilities](https://www.investopedia.com/terms/l/liability.asp), any payments toward these liabilities are not recorded as a cash outflow until the transaction occurs.

The first item to note on the cash flow statement is the bottom line item. This is likely to be recorded as the net increase/decrease in [cash and cash equivalents](https://www.investopedia.com/terms/c/cashandcashequivalents.asp) (CCE). The bottom line reports the overall change in the company's cash and its equivalents (the assets that can be immediately converted into cash) over the last period.

If you check under [current assets](https://www.investopedia.com/terms/c/currentassets.asp) on the balance sheet, that's where you'll find CCE. If you take the difference between the current CCE and that of the previous year or the previous quarter, you should have the same number as the number at the bottom of the statement of cash flows.1

**Types of Cash Flow**

Cash Flows From Operations (CFO)

Cash flow from operations (CFO), or [operating cash flow](https://www.investopedia.com/terms/c/cash-flow-from-operating-activities.asp), describes money flows involved directly with the production and sale of goods from ordinary operations. CFO indicates whether or not a company has enough funds coming in to pay its bills or [operating expenses](https://www.investopedia.com/terms/o/operating_expense.asp). In other words, there must be more operating cash inflows than cash outflows for a company to be financially viable in the long term.

Operating cash flow is calculated by taking cash received from sales and subtracting operating expenses that were paid in cash for the period. Operating cash flow is recorded on a company's cash flow statement, which is reported both on a quarterly and annual basis. Operating cash flow indicates whether a company can generate enough cash flow to maintain and expand operations, but it can also indicate when a company may need external [financing](https://www.investopedia.com/terms/f/financing.asp) for capital expansion.

Note that CFO is useful in segregating sales from cash received. If, for example, a company generated a large sale from a client, it would boost revenue and earnings. However, the additional revenue doesn't necessarily improve cash flow if there is difficulty collecting the payment from the customer.2

Cash Flows From Investing (CFI)

Cash flow from investing (CFI) or [investing cash flow](https://www.investopedia.com/terms/c/cashflowfinvestingactivities.asp) reports how much cash has been generated or spent from various investment-related activities in a specific period. Investing activities include purchases of speculative [assets](https://www.investopedia.com/terms/a/asset.asp), investments in securities, or the sale of securities or assets.

Negative cash flow from investing activities might be due to significant amounts of cash being invested in the long-term health of the company, such as [research and development](https://www.investopedia.com/terms/r/randd.asp) (R&D), and is not always a warning sign.1

Cash Flows From Financing (CFF)

Cash flows from financing (CFF), or [financing cash flow](https://www.investopedia.com/terms/c/cashflowfromfinancing.asp), shows the net flows of cash that are used to fund the company and its capital. Financing activities include transactions involving issuing debt, equity, and paying dividends. Cash flow from financing activities provide investors with insight into a company’s financial strength and how well a company's [capital structure](https://www.investopedia.com/terms/c/capitalstructure.asp) is managed.1

**Cash Flow vs. Profit**

Contrary to what you may think, cash flow isn't the same as profit. It isn't uncommon to have these two terms confused because they seem very similar. Remember that cash flow is the money that goes in and out of a business.

Profit, on the other hand, is specifically used to measure a company's financial success or how much money it makes overall. This is the amount of money that is left after a company pays off all its obligations. Profit is whatever is left after subtracting a company's expenses from its revenues.1

**How to Analyze Cash Flows**

Using the cash flow statement in conjunction with other financial statements can help analysts and investors arrive at various metrics and ratios used to make informed decisions and recommendations.

Debt Service Coverage Ratio (DSCR)

Even profitable companies can fail if their operating activities do not generate enough cash to stay liquid. This can happen if profits are tied up in outstanding [accounts receivable](https://www.investopedia.com/terms/a/accountsreceivable.asp) (AR) and overstocked inventory, or if a company spends too much on capital expenditures (CapEx).

Investors and creditors, therefore, want to know if the company has enough CCE to settle short-term liabilities. To see if a company can meet its current liabilities with the cash it generates from operations, analysts look at the [debt service coverage ratio](https://www.investopedia.com/terms/d/dscr.asp) (DSCR).

*Debt Service Coverage Ratio = Net Operating Income / Short-Term Debt Obligations (or Debt Service)*

But liquidity only tells us so much. A company might have lots of cash because it is mortgaging its future growth potential by selling off its long-term assets or taking on unsustainable levels of debt.3

Free Cash Flow (FCF)

Analysts look at free cash flow (FCF) to understand the true profitability of a business. FCF is a really useful measure of financial performance and tells a better story than [net income](https://www.investopedia.com/terms/n/netincome.asp) because it shows what money the company has left over to expand the business or return to shareholders, after paying [dividends](https://www.investopedia.com/terms/d/dividend.asp), buying back stock, or paying off debt.2

*Free Cash Flow = Operating Cash Flow - CapitalEx*

Unlevered Free Cash Flow (UFCF)

Use [unlevered free cash flow](https://www.investopedia.com/terms/u/unlevered-free-cash-flow-ufcf.asp) (UFCF) for a measure of the gross FCF generated by a firm. This is a company's cash flow excluding interest payments, and it shows how much cash is available to the firm before taking financial obligations into account. The [difference between levered and unlevered](https://www.investopedia.com/ask/answers/111714/whats-difference-between-levered-and-unlevered-free-cash-flow.asp) FCF shows if the business is overextended or operating with a healthy amount of debt.2

**Example of Cash Flow**

Below is a reproduction of Walmart's cash flow statement for the [fiscal year](https://www.investopedia.com/terms/f/fiscalyear.asp) ending on Jan. 31, 2019. All amounts are in millions of U.S. dollars.4

| **Walmart Statement of Cash Flows (2019)** | |
| --- | --- |
| **Cash flows from operating activities:** |  |
| Consolidated net income | 7,179 |
| (Income) loss from discontinued operations, net of income taxes | — |
| Income from continuing operations | 7,179 |
| Adjustments to reconcile consolidated net income to net cash provided by operating activities: |  |
| Unrealized (gains) and losses | 3,516 |
| (Gains) and losses for disposal of business operations | 4,850 |
| Depreciation and amortization | 10,678 |
| Deferred income taxes | (499) |
| Other operating activities | 1,734 |
| Changes in certain assets and liabilities: |  |
| Receivables, net | (368) |
| Inventories | (1,311) |
| Accounts payable | 1,831 |
| Accrued liabilities | 183 |
| Accrued income taxes | (40) |
| Net cash provided by operating activities | 27,753 |
|  |  |
| **Cash flows from investing activities:** |  |
| Payments for property and equipment | (10,344) |
| Proceeds from the disposal of property and equipment | 519 |
| Proceeds from the disposal of certain operations | 876 |
| Payments for business acquisitions, net of cash acquired | (14,656) |
| Other investing activities | (431) |
| Net cash used in investing activities | (24,036) |
|  |  |
| **Cash flows from financing activities:** |  |
| Net change in short-term borrowings | (53) |
| Proceeds from issuance of long-term debt | 15,872 |
| Payments of long-term debt | (3,784) |
| Dividends paid | (6,102) |
| Purchase of company stock | (7,410) |
| Dividends paid to noncontrolling interest | (431) |
| Other financing activities | (629) |
| Net cash used in financing activities | (2,537) |
|  |  |
| Effect of exchange rates on cash and cash equivalents | (438) |
|  |  |
| Net increase (decrease) in cash and cash equivalents | 742 |
| Cash and cash equivalents at beginning of year | 7,014 |
| Cash and cash equivalents at end of year | 7,756 |

The final line in the cash flow statement, "cash and cash equivalents at end of year," is the same as "cash and cash equivalents," the first line under current assets in the balance sheet. The first number in the cash flow statement, "consolidated net income," is the same as the bottom line, "income from continuing operations" on the income statement.

Because the cash flow statement only counts liquid assets in the form of CCE, it makes adjustments to operating income in order to arrive at the net change in cash. [Depreciation](https://www.investopedia.com/terms/d/depreciation.asp) and [amortization](https://www.investopedia.com/terms/a/amortization.asp) expense appear on the income statement in order to give a realistic picture of the decreasing value of assets over their useful life. Operating cash flows, however, only consider transactions that impact cash, so these adjustments are reversed.

The net change in assets not in cash, such as AR and inventories, are also eliminated from operating income. For example, $368 million in [net receivables](https://www.investopedia.com/terms/n/netreceivables.asp) are deducted from operating income. From that, we can infer that there was a $368 million increase in receivables over the prior year.

This increase would have shown up in operating income as additional revenue, but the cash wasn't received yet by year-end. Thus, the increase in receivables needed to be reversed out to show the net cash impact of sales during the year. The same elimination occurs for current liabilities in order to arrive at the cash flow from operating activities figure.

Investments in [property, plant, and equipment](https://www.investopedia.com/terms/p/ppe.asp) (PP&E) and acquisitions of other businesses are accounted for in the cash flow from the investing activities section. Proceeds from issuing long-term debt, debt repayments, and dividends paid out are accounted for in the cash flow from financing activities section.

The main takeaway is that Walmart's cash flow was positive (an increase of $742 million). That indicates that it has retained cash in the business and added to its reserves in order to handle short-term liabilities and fluctuations in the future.

How Are Cash Flows Different Than Revenues?

Revenues refer to the income earned from selling goods and services. If an item is sold on credit or via a subscription payment plan, money may not yet be received from those sales and are booked as accounts receivable. But these do not represent actual cash flows into the company at the time. Cash flows also track outflows as well as inflows and categorize them with regard to the source or use.

What Are the 3 Categories of Cash Flows?

The three types of cash flows are operating cash flows, cash flows from investments, and cash flows from financing.

Operating cash flows are generated from the normal operations of a business, including money taken in from sales and money spent on [cost of goods sold](https://www.investopedia.com/terms/c/cogs.asp) (COGS), along with other operational expenses such as overhead and salaries.

Cash flows from investments include money spent on purchasing [securities](https://www.investopedia.com/terms/s/security.asp) to be held as investments such as stocks or bonds in other companies or in Treasuries. Inflows are generated by interest and dividends paid on these holdings.

Cash flows from financing are the costs of raising capital, such as shares or bonds that a company issues or any loans it takes out.

What Is Free Cash Flow and Why Is It Important?

Free cash flow is the cash left over after a company pays for its operating expenses and CapEx. It is the money that remains after paying for items like payroll, rent, and taxes. Companies are free to use FCF as they please.

Knowing how to calculate FCF and analyze it helps a company with its [cash management](https://www.investopedia.com/terms/c/cash-management.asp) and will provide investors with insight into a company's financials, helping them make better investment decisions.

FCF is an important measurement since it shows how efficient a company is at generating cash.

Do Companies Need to Report a Cash Flow Statement?

The cash flow statement complements the balance sheet and income statement and is a mandatory part of a public company's financial reporting requirements since 1987.5

Why Is the Price-to-Cash Flows Ratio Used?

The [price-to-cash flow](https://www.investopedia.com/terms/p/price-to-cash-flowratio.asp) (P/CF) ratio is a stock multiple that measures the value of a stock’s price relative to its operating cash flow per share. This ratio uses operating cash flow, which adds back non-cash expenses such as depreciation and amortization to net income.

P/CF is especially useful for valuing stocks that have positive cash flow but are not profitable because of large [non-cash charges](https://www.investopedia.com/terms/n/noncashcharge.asp).

**The Bottom Line**

Cash flow refers to money that goes in and out. Having a positive cash flow means there's more money coming in while a negative cash flow indicates a higher degree of spending. The latter isn't necessarily a bad thing because it may mean that you're investing your money in growth. But if your spending becomes excessive, you won't have enough for a rainy day and you won't be able to pay your suppliers or lenders. Whether you're running a business or a household, it's important to keep on top of your cash flow.

**SESSION 8**

**BASIC BUSINESS FINANCIAL STATEMENTS**

Financial Statements

Financial statements are written records that convey the business activities and the financial performance of a company. Financial statements are often audited by government agencies, accountants, firms, etc. to ensure accuracy and for tax, financing, or investing purposes. For-profit primary financial statements include the balance sheet, income statement, statement of cash flow, and statement of changes in equity. Nonprofit entities use a similar but different set of financial statements.

KEY TAKEAWAYS

1. Financial statements are written records that convey the business activities and the financial performance of an entity.
2. The balance sheet provides an overview of assets, liabilities, and shareholders' equity as a snapshot in time.
3. The income statement primarily focuses on a company’s revenues and expenses during a particular period. Once expenses are subtracted from revenues, the statement produces a company's profit figure called net income.
4. The cash flow statement (CFS) measures how well a company generates cash to pay its debt obligations, fund its operating expenses, and fund investments.
5. The statement of changes in equity records how profits are retained within a company for future growth or distributed to external parties.

**Financial Statements**

**Understanding Financial Statements**

Investors and financial analysts rely on financial data to analyze the performance of a company and make predictions about the future direction of the company's stock price. One of the most important resources of reliable and audited financial data is the [annual report](https://www.investopedia.com/articles/basics/10/efficiently-read-annual-report.asp), which contains the firm's financial statements.

The [financial statements](https://www.investopedia.com/ask/answers/06/compiledandcertifiedfinancialstatements.asp) are used by investors, market analysts, and creditors to evaluate a company's financial health and earnings potential. The three major financial statement reports are the balance sheet, income statement, and statement of cash flows.

Not all financial statements are created equally. The rules used by U.S. companies is called Generally Accepted Accounting Principles, while the rules often used by international companies is International Financial Reporting Standards (IFRS). In addition, U.S. government agencies use a different set of financial reporting rules.

**Balance Sheet**

The [balance sheet](https://www.investopedia.com/terms/b/balancesheet.asp) provides an [overview](https://www.investopedia.com/ask/answers/032615/why-do-shareholders-need-financial-statements.asp) of a company's assets, liabilities, and shareholders' equity as a snapshot in time. The date at the top of the balance sheet tells you when the snapshot was taken, which is generally the end of the reporting period. Below is a breakdown of the items in a balance sheet.

Assets

* [Cash and cash equivalents](https://www.investopedia.com/terms/c/cashandcashequivalents.asp) are liquid assets, which may include Treasury bills and certificates of deposit.
* [Accounts receivables](https://www.investopedia.com/terms/a/accountsreceivable.asp) are the amount of money owed to the company by its customers for the sale of its product and service.
* Inventory is the goods a company on hand it intends to sell as a course of business. Inventory may include finished goods, work in progress that are not yet finished, or raw materials on hand that have yet to be worked.
* Prepaid expenses are costs that have been paid in advance of when they are due. These expenses are recorded as an asset because the value of them has not yet been recognized; should the benefit not be recognized, the company would theoretically be due a refund.
* Property, plant, and equipment are capital assets owned by a company for its long-term benefit. This includes buildings used for manufacturing for heavy machinery used for processing raw materials.
* Investments are assets held for speculative future growth. These aren't used in operations; they are simply held for capital appreciation.
* Trademarks, patents, goodwill, and other intangible assets can't be physically be touched but have future economic (and often long-term benefits) for the company.

Liabilities

* Accounts payable are the bills due as part of the normal course of operations of a business. This includes the utility bills, rent invoices, and obligations to buy raw materials.
* Wages payable are payments due to staff for time worked.
* Notes payable are recorded debt instruments that record official debt agreements including the payment schedule and amount.
* [Dividends](https://www.investopedia.com/terms/d/dividend.asp) payable are dividends that have been declared to be awarded to shareholders but have not yet been paid.
* Long-term debt can include a variety of obligations including sinking bond funds, mortgages, or other loans that are due in their entirety in longer than one year. Note that the short-term portion of this debt is recorded as a current liability.

Shareholders' Equity

* Shareholders' equity is a company's total assets minus its total liabilities. [Shareholders' equity](https://www.investopedia.com/terms/s/shareholdersequity.asp) (also known as [stockholders' equity](https://www.investopedia.com/terms/s/stockholdersequity.asp)) represents the amount of money that would be returned to shareholders if all of the assets were liquidated and all of the company's debt was paid off.
* [Retained earnings](https://www.investopedia.com/terms/r/retainedearnings.asp) are part of shareholders' equity and are the amount of net earnings that were not paid to shareholders as dividends.

Example of a Balance Sheet

Below is a portion of ExxonMobil Corporation's [(XOM)](https://www.investopedia.com/markets/quote?tvwidgetsymbol=xom) balance sheet for fiscal-year 2021, reported as of Dec. 31, 2021.

1. **Total assets** were $338.9 billion.
2. **Total liabilities**were $163.2 billion.
3. **Total equity** was $175.7 billion.
4. **Total liabilities and equity**were $338.9 billion, which equals the **total assets** for the period.1

**Income Statement**

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

Revenue

Operating revenue is the revenue earned by selling a company's products or services. The [operating revenue](https://www.investopedia.com/terms/o/operating-revenue.asp) for an auto manufacturer would be realized through the production and sale of autos. Operating revenue is generated from the core business activities of a company.

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

* Interest earned on cash in the bank
* Rental income from a property
* Income from strategic partnerships like royalty payment receipts
* Income from an advertisement display located on the company's property

Other income is the revenue earned from other activities. Other income could include gains from the sale of long-term assets such as land, vehicles, or a subsidiary.

Expenses

Primary expenses are incurred during the process of earning revenue from the primary activity of the business. Expenses include the [cost of goods sold](https://www.investopedia.com/terms/c/cogs.asp) (COGS), selling, general and administrative expenses (SG&A), depreciation or amortization, and research and development (R&D).

Typical expenses include employee wages, sales commissions, and utilities such as electricity and transportation.

Expenses that are linked to secondary activities include interest paid on loans or debt. Losses from the sale of an asset are also recorded as expenses.

The main purpose of the income statement is to convey details of profitability and the financial results of business activities; however, it can be very effective in showing whether sales or revenue is increasing when compared over multiple periods.

Investors can also see how well a company's management is controlling expenses to determine whether a company's efforts in reducing the cost of sales might boost profits over time.

Example of an Income Statement

Below is a portion of ExxonMobil Corporation's income statement for fiscal-year 2021, reported as of Dec. 31, 2021.

* **Total revenue**was $276.7 billion.
* **Total costs** were $254.4 billion.
* **Net income**or profit was $23 billion.2

**Cash Flow Statement**

The cash flow statement (CFS) measures how well a company generates cash to pay its debt obligations, fund its operating expenses, and fund investments. The cash flow statement complements the balance sheet and [income statement](https://www.investopedia.com/terms/i/incomestatement.asp).

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

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

Operating Activities

The [operating activities](https://www.investopedia.com/terms/c/cash-flow-from-operating-activities.asp) on the CFS include any sources and uses of cash from running the business and selling its products or services. Cash from operations includes any changes made in cash accounts receivable, depreciation, inventory, and [accounts payable](https://www.investopedia.com/terms/a/accountspayable.asp). These transactions also include wages, income tax payments, interest payments, rent, and cash receipts from the sale of a product or service.

Investing Activities

[Investing activities](https://www.investopedia.com/terms/c/cashflowfinvestingactivities.asp) include any sources and uses of cash from a company's investments in the long-term future of the company. A purchase or sale of an asset, loans made to vendors or received from customers, or any payments related to a merger or acquisition is included in this category.

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

Financing Activities

Cash from [financing activities](https://www.investopedia.com/terms/c/cashflowfromfinancing.asp) includes the sources of cash from investors or banks, as well as the uses of cash paid to shareholders. Financing activities include debt issuance, equity issuance, stock repurchases, loans, dividends paid, and repayments of debt.

The cash flow statement reconciles the income statement with the balance sheet in three major business activities.

Example of a Cash Flow Statement

Below is a portion of ExxonMobil Corporation's cash flow statement for fiscal-year 2021, reported as of Dec. 31, 2021. We can see the three areas of the cash flow statement and their results.

* **Operating activities**generated a positive cash flow of $48 billion.
* **Investing activities** generated negative cash flow or cash outflows of -$10.2 billion for the period. Additions to property, plant, and equipment made up the majority of cash outflows, which means the company invested in new fixed assets.
* **Financing activities** generated negative cash flow or cash outflows of -$35.4 billion for the period. Reductions in short-term debt and dividends paid out made up the majority of the cash outflows.3

**Statement of Changes in Shareholder Equity**

The statement of changes in equity tracks total equity over time. This information ties back to a balance sheet for a same period; the ending balance on the change of equity statement is equal to the total equity reported on the balance sheet.

The formula for changes to shareholder equity will vary from company to company; in general, there are a couple of components:

* Beginning equity: this is the equity at the end of the last period that simply rolls to the start of the next period.
* (+) Net income: this is the amount of income the company earned in a given period. The proceeds from operations are automatically recognized as equity in the company, and this income is rolled into retained earnings at year-end.
* (-) Dividends: this is the amount of money that is paid out to shareholders from profits. Instead of keeping all of a company's profits, the company may choose to give some profits away to investors.
* (+/-) Other [comprehensive income](https://www.investopedia.com/terms/c/comprehensiveincome.asp): this is the period-over-period change in other comprehensive income. Depending on transactions, this figure may be an addition or subtraction from equity.

In ExxonMobil's statement of changes in equity, the company also records activity for acquisitions, dispositions, amortization of stock-based awards, and other financial activity. This information is useful to analyze to determine how much money is being retained by the company for future growth as opposed to being distributed externally.

**Statement of Comprehensive Income**

An often less utilized financial statement, a statement of comprehensive income summarizes standard net income while also incorporating changes in other comprehensive income (OCI). Other comprehensive income includes all [unrealized gains](https://www.investopedia.com/terms/u/unrealizedgain.asp) and losses that are not reported on the income statement. This financial statement shows a company's total change income, even gains and losses that have yet to be recorded in accordance to accounting rules.

Examples of transactions that are reporting on the statement of comprehensive income include:

* Net income (from the statement of income).
* Unrealized gains or losses from debt securities
* Unrealized gains or losses from derivative instruments
* Unrealized translation adjustments due to foreign currency
* Unrealized gains or losses from retirement programs

In the example below, ExxonMobil has over $2 billion of net unrecognized income. Instead of reporting just $23.5 billion of net income, ExxonMobil reports nearly $26 billion of total income when considering other comprehensive income.

**Nonprofit Financial Statements**

[Nonprofit organizations](https://www.investopedia.com/terms/n/non-profitorganization.asp) record financial transactions across a similar set of financial statements. However, due to the differences between a for-profit entity and a purely philanthropic entity, there are differences in the financial statements used. The standard set of financial statements used for a nonprofit entity includes:

* **Statement of Financial Position:** this is the equivalent of a for-profit entity's balance sheet. The largest difference is nonprofit entities do not have equity positions; any residual balances after all assets have been liquidated and liabilities have been satisfied is called 'net assets'.
* **Statement of Activities:** this is the equivalent of a for-profit entity's statement of income. This report tracks the changes in operation over time including the reporting of donations, grants, event revenue, and expenses to make everything happen.
* **Statement of Functional Expenses:** this is specific to non-profit entities. The statement of functional expenses reports expenses by entity function (often broken into administrative, program, or fundraising expenses). This information is distributed to the public to explain what proportions of company-wide expenses are related directly to the mission.
* **Statement of Cash Flow:** this is the equivalent of a for-profit entity's statement of cash flow. Though the accounts listed may vary due to the different nature of a nonprofit organization, the statement is still divided into operating, investing, and financing activities.

*The purpose of an external auditor is to assess whether an entity's financial statement have been prepared in accordance with prevailing accounting rules and whether there are any material misstatements impacting the validity of results.*

**Limitations of Financial Statements**

Although financial statements provide a wealth of information on a company, they do have limitations. The statements are open to interpretation, and as a result, investors often draw vastly different conclusions about a company's financial performance.

For example, some investors might want [stock repurchases](https://www.investopedia.com/terms/s/sharerepurchase.asp) while other investors might prefer to see that money invested in long-term assets. A company's debt level might be fine for one investor while another might have concerns about the level of debt for the company.

When analyzing financial statements, it's important to compare multiple periods to determine if there are any trends as well as compare the company's results to its peers in the same industry.

Last, financial statements are only as reliable as the information being fed into the reports. Too often, it’s been documented that fraudulent financial activity or poor control oversight have led to misstated financial statements intended to mislead users. Even when analyzing audited financial statements, there is a level of trust that users must place into the validity of the report and the figures being shown.

What Are the Main Types of Financial Statements?

The three main types of financial statements are the balance sheet, the income statement, and the cash flow statement. These three statements together show the assets and liabilities of a business, its revenues and costs, as well as its cash flows from operating, investing, and financing activities.

What Are the Main Items Shown in Financial Statements?

Depending on the corporation, the line items in a financial statement will differ; however, the most common line items are revenues, costs of goods sold, taxes, cash, marketable securities, inventory, short-term debt, long-term debt, accounts receivable, accounts payable, and cash flows from investing, operating, and financing activities.

What Are the Benefits of Financial Statements?

Financial statements show how a business operates. It provides insight into how much and how a business generates revenues, what the cost of doing business is, how efficiently it manages its cash, and what its assets and liabilities are. Financial statements provide all the detail on how well or poorly a company manages itself.

How Do You Read Financial Statements?

Financial statements are read in several different ways. First, financial statements can be compared to prior periods to better understand changes over time. For example, comparative income statements report what a company's income was last year and what a company's income is this year. Noting the year-over-year change informs users of the financial statements of a company's health.

Financial statements are also read by comparing the results to competitors or other industry participants. By comparing financial statements to other companies, analysts can get a better sense on which companies are performing the best and which are lagging the rest of the industry.

What Is GAAP?

Generally Accepted Accounting Principles (GAAP) is the set of rules in which United States companies must prepare their financial statements. It is the guidelines that explain how to record transactions, when to recognize revenue, and when expenses must be recognized. International companies may use a similar but different set of rules called International Financial Reporting Standards (IFRS).

**The Bottom Line**

Financial statements are the ticket to external evaluation of a company's financial performance. The balance sheet reports a company's financial health through its liquidity and solvency, while the income statement reports a company's profitability. Statements of cash flow tie these two together by tracking sources and uses of cash. Together, financial statements communicate how a company is doing over time and against its competitors.

**SESSION 9**

**PRICING OF GOODS AND SERVICES**

**Pricing a Product**

**Pricing a Product Definition:**

To establish a selling price for a product

No matter what type of product you sell the price you charge your customers or clients will have a direct effect on the success of your business. Though pricing strategies can be complex, the basic rules of pricing are straightforward:

* All prices must cover costs and profits.
* The most effective way to lower prices is to lower costs.
* Review prices frequently to assure that they reflect the dynamics of cost, market demand, response to the competition, and profit objectives.
* Prices must be established to assure sales.

Before setting a price for your product, you have to know the costs of running your business. If the price for your product or service doesn't cover costs, your cash flow will be cumulatively negative, you'll exhaust your financial resources, and your business will ultimately fail.

To determine how much it costs to run your business, include property and/or equipment leases, loan repayments, inventory, utilities, financing costs, and salaries/wages/commissions. Don't forget to add the costs of markdowns, shortages, damaged merchandise, employee discounts, cost of goods sold, and desired profits to your list of operating expenses.

Most important is to add profit in your calculation of costs. Treat profit as a fixed cost, like a loan payment or payroll, since none of us is in business to break even.

Because pricing decisions require time and market research, the strategy of many business owners is to set prices once and "hope for the best." However, such a policy risks profits that are elusive or not as high as they could be.

When is the right time to review your prices? Do so if:

* You introduce a new product or product line;
* Your costs change;
* You decide to enter a new market;
* Your competitors change their prices;
* The economy experiences either inflation or recession;
* Your sales strategy changes; or
* Your customers are making more money because of your product or service.

Prices are generally established in one of four ways:

**Cost-Plus Pricing**  
Many manufacturers use cost-plus pricing. The key to being successful with this method is making sure that the "plus" figure not only covers all overhead but generates the percentage of profit you require as well. If your overhead figure is not accurate, you risk profits that are too low. The following sample calculation should help you grasp the concept of cost-plus pricing:

|  |  |
| --- | --- |
| Cost of materials | $50.00 |
| + Cost of labor | 30.00 |
| + Overhead | 40.00 |
| = Total cost | $120.00 |
| + Desired profit (20% on sales) | 30.00 |
| = Required sale price | $150.00 |

**Demand Price**  
Demand pricing is determined by the optimum combination of volume and profit. Products usually sold through different sources at different prices--retailers, discount chains, wholesalers, or direct mail marketers--are examples of goods whose price is determined by demand. A wholesaler might buy greater quantities than a retailer, which results in purchasing at a lower unit price. The wholesaler profits from a greater volume of sales of a product priced lower than that of the retailer. The retailer typically pays more per unit because he or she are unable to purchase, stock, and sell as great a quantity of product as a wholesaler does. This is why retailers charge higher prices to customers. Demand pricing is difficult to master because you must correctly calculate beforehand what price will generate the optimum relation of profit to volume.

**Competitive Pricing**  
Competitive pricing is generally used when there's an established market price for a particular product or service. If all your competitors are charging $100 for a replacement windshield, for example, that's what you should charge. Competitive pricing is used most often within markets with commodity products, those that are difficult to differentiate from another. If there's a major market player, commonly referred to as the market leader, which company will often set the price that other, smaller companies within that same market will be compelled to follow.

To use competitive pricing effectively, know the prices each competitor has established. Then figure out your optimum price and decide, based on direct comparison, whether you can defend the prices you've set. Should you wish to charge more than your competitors, be able to make a case for a higher price, such as providing a superior customer service or warranty policy. Before making a final commitment to your prices, make sure you know the level of price awareness within the market.

If you use competitive pricing to set the fees for a service business, be aware that unlike a situation in which several companies are selling essentially the same products, services vary widely from one firm to another. As a result, you can charge a higher fee for a superior service and still be considered competitive within your market.

**Markup Pricing**  
Used by manufacturers, wholesalers, and retailers, a markup is calculated by adding a set amount to the cost of a product, which results in the price charged to the customer. For example, if the cost of the product is $100 and your selling price is $140, the markup would be $40. To find the percentage of markup on cost, divide the dollar amount of markup by the dollar amount of product cost:

$40 ? $100 = 40%

This pricing method often generates confusion--not to mention lost profits--among many first-time small-business owners because markup (expressed as a percentage of cost) is often confused with gross margin (expressed as a percentage of selling price). The next section discusses the difference in markup and margin in greater depth.

Pricing Basics  
To price products, you need to get familiar with pricing structures, especially the difference between margin and markup. As mentioned, every product must be priced to cover its production or wholesale cost, freight charges, a proportionate share of overhead (fixed and variable operating expenses), and a reasonable profit. Factors such as high overhead (particularly when renting in prime mall or shopping center locations), unpredictable insurance rates, shrinkage (shoplifting, employee or other theft, shippers' mistakes), seasonality, shifts in wholesale or raw material, increases in product costs and freight expenses, and sales or discounts will all affect the final pricing.

**Overhead Expenses.** Overhead refers to all nonlabor expenses required to operate your business. These expenses are either fixed or variable:

* **Fixed expenses.** No matter what the volume of sales is, these costs must be met every month. Fixed expenses include rent or mortgage payments, depreciation on fixed assets (such as cars and office equipment), salaries and associated payroll costs, liability and other insurance, utilities, membership dues and subscriptions (which can sometimes be affected by sales volume), and legal and accounting costs. These expenses do not change, regardless of whether a company's revenue goes up or down.
* **Variable expenses.** Most so-called variable expenses are really semivariable expenses that fluctuate from month to month in relation to sales and other factors, such as promotional efforts, change of season, and variations in the prices of supplies and services. Fitting into this category are expenses for telephone, office supplies (the more business, the greater the use of these items), printing, packaging, mailing, advertising, and promotion. When estimating variable expenses, use an average figure based on an estimate of the yearly total.

**Cost of Goods Sold.** Cost of goods sold, also known as cost of sales, refers to your cost to purchase products for resale or to your cost to manufacture products. Freight and delivery charges are customarily included in this figure. Accountants segregate cost of goods on an operating statement because it provides a measure of gross-profit margin when compared with sales, an important yardstick for measuring the business' profitability. Expressed as a percentage of total sales, cost of goods varies from one type of business to another.

Normally, the cost of goods sold bears a. close relationship to sales. It will fluctuate, -however, if increases in the prices paid for merchandise cannot be offset by increases in sales prices, or if special bar.gain purchases increase profit margins.

Thes.e situations seldom make a large percentage change in the relationship -between cost of goods sold and sales, making cost of goods sold a semivariable expense.

**Determining Margin.** Margin, or gross margin, is the difference between total sales

and the cost of those sales. For example: If .total sales equal $1,000 and cost of sales -equals $300, then the margin equals $700.

Gross-profit margin can be expressed in dollars or as a percentage. As a percentage, the gross-profit margin is always stated as a percentage of net sales. The equation: (Total sales ? Cost of sales)/Net sales = Gross-profit margin

Using the preceding example, the margin would be 70 percent.

($1,000 ? $300)/$1,000 = 70%

When all operating expenses (rent, salaries, utilities, insurance, advertising, and so on) and other expenses are deducted from the gross-profit margin, the remainder is net profit before taxes. If the gross-profit margin is not sufficiently large, there will be little or no net profit from sales.

Some businesses require a higher gross-profit margin than others to be profitable because the costs of operating different kinds of businesses vary greatly. If operating expenses for one type of business are comparatively low, then a lower gross-profit margin can still yield the owners an acceptable profit.

The following comparison illustrates this point. K.eep in mind that operating expenses

and net profit a…………………………………….re shown .as the two components of gross-profit margin, that is, their …………………..---

.combined percentages (of net sales) equal the gross-profit margin:-

|  |  |  |
| --- | --- | --- |
|  | **Business A** | **Business B** |
| **Net sales** | 100% | 100% |
| **Cost of sales** | 40 | 65 |
| **Gross-profit margin** | 60 | 35 |
| **Operating expenses** | 43 | 19 |
| **Net profit** | 17 | 16 |

Markup and (gross-profit) margin on a single product, or group of products, are often confused. The reason for this is that when expressed as a percentage, margin is always figured as a percentage of the selling price, while markup is traditionally figured as a percentage of the seller's cost. The equation is:

(Total sales ? Cost of sales)/Cost of sales = Markup

Using the numbers from the preceding example, if you purchase goods for $300 and price them for sale at $1,000, your markup is $700. As a percentage, this markup comes to 233 percent:

$1,000 ? $300 ? $300 = 233%

In other words, if your business requires a 70 percent margin to show a profit, your average markup will have to be 233 percent.

You can now see from the example that although markup and margin may be the same in dollars ($700), they represent two different concepts as percentages (233% versus 70%). More than a few new businesses have failed to make their expected profits because the owner assumed that if his markup is X percent, his or her margin will also be X percent. This is not the case.

**SESSION 10**

**MARKETING**

**Marketing in Business**

**What Is Marketing?**

Marketing refers to activities a company undertakes to [promote](https://www.investopedia.com/top-stocks-4689741) the buying or selling of a product or service. Marketing includes advertising, selling, and delivering products to consumers or other businesses. Some marketing is done by [affiliates on behalf of a company](https://www.investopedia.com/terms/a/affiliate-marketing.asp).

Professionals who work in a corporation's marketing and promotion departments seek to get the attention of key potential audiences through advertising. Promotions are targeted to certain audiences and may involve celebrity [endorsements](https://www.investopedia.com/terms/e/endorsement.asp), catchy phrases or slogans, memorable packaging or graphic designs and overall media exposure.

KEY TAKEAWAYS

* Marketing refers to all activities a company does to promote and sell products or services to consumers.
* Marketing makes use of the "marketing mix," also known as the four Ps—product, price, place, and promotion.
* Marketing used to be centered around traditional marketing techniques including television, radio, mail, and word-of-mouth strategies.
* Though traditional marketing is still prevalent, digital marketing now allows companies to engage in e-mail, social media, affiliate, and content marketing strategies.
* At its core, marketing seeks to take a product or service, identify its ideal customers, and draw the customers' attention to the product or service available.

**Understanding Marketing**

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

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

**The 4 P's of Marketing**

Product, price, place, and promotion are [the Four Ps](https://www.investopedia.com/terms/f/four-ps.asp) of marketing. The Four Ps collectively make up the essential mix a company needs to market a product or service. Neil Borden popularized the idea of the [marketing mix](https://www.investopedia.com/terms/m/marketing-mix.asp) and the concept of the Four Ps in the 1950s.

Product

Product refers to an item or items the business plans to offer to customers. The product should seek to fulfill an absence in the market, or fulfill consumer demand for a greater amount of a product already available. Before they can prepare an appropriate campaign, marketers need to understand what product is being sold, how it stands out from its competitors, whether the product can also be paired with a secondary product or [product line](https://www.investopedia.com/terms/p/product-line.asp), and whether there are substitute products in the market.

Price

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

Place

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

Promotion

Promotion, the fourth P, is the integrated marketing communications campaign. Promotion includes a variety of activities such as advertising, selling, sales promotions, public relations, direct marketing, sponsorship, and [guerrilla marketing](https://www.investopedia.com/terms/g/guerrilla-marketing.asp).

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

Marketing refers to any activities undertaken by a company to promote the buying or selling of a service. If there is a limited quantity of a product, a company may market itself in an attempt to be better positioned as one of the few who get to buy something.

**Types of Marketing Strategies**

Marketing is comprised of an incredibly broad and diverse set of strategies. The industry continues to evolve, and the strategies below may be better suited for some companies over others.

Traditional Marketing Strategies

Before technology and the internet, traditional market strategies was the primary way companies would market their goods to customers. The main types of traditional marketing strategies includes:

* **Outdoor Marketing:**This entails public displays of advertising external to a consumer's house. This includes billboards, printed advertisements on benches, sticker wraps on vehicles, or advertisements on public transit.
* **Print Marketing:**This entails small, easily printed content that is easy to replicate. Companies often mass produce printed materials as the printed materials delivered to one customer does not need to vary from other. Examples include brochures, fliers, newspaper ads, or magazine ads.
* [**Direct Marketing**](https://www.investopedia.com/terms/d/direct-marketing.asp)**:**This entails specific content delivered to potential customers. Some print marketing content could be mailed. Otherwise, direct marketing mediums could include coupons, vouchers for free goods, or pamphlets.
* **Electronic Marketing:**This entails use of TV and radio for advertising. Though short bursts of digital content, a company can convey information to a customer through visual or auditory media that may grab a viewer's attention better than a printed form above.
* **Event Marketing:**This entails attempting to gather potential customers at a specific location for the opportunity to speak with them about products or demonstrate products. This includes conferences, trade shows, seminars, [roadshows](https://www.investopedia.com/terms/r/roadshow.asp), or private events.

**Digital Marketing**

The marketing industry has been forever changed with the introduction of digital marketing. From the early days of pop-up ads to targeted placements based on viewing history, there are now innovating ways companies can reach customers through digital marketing.

* **Search Engine Marketing:**This entails companies attempting to increase search traffic through two ways. First, companies can pay search engines for placement on result pages. Second, companies can emphasize [search engine optimization](https://www.investopedia.com.cach3.com/terms/c/content-farm.asp.html) (SEO) techniques to organically place highly on search results.
* **E-mail Marketing:**This entails companies obtaining customer or potential customer e-mail addresses and distributing messages. These messages can include coupons, discount opportunities, or advance notice of upcoming sales.
* **Social Media Marketing:**This entails building an online presence on specific social media platforms. Like search engine marketing, companies can place paid advertisements to bypass algorithms and obtain a higher chance of being seen by viewers. Otherwise, a company can attempt to organically grow by posting content, interacting with followers, or uploading media like photos and videos.
* **Affiliate Marketing:**This entails using third-party advertising to drive customer interest. Often, an affiliate that will get a [commission](https://www.investopedia.com/terms/c/commission.asp)from a sale will do affiliate marketing as the third-party is incentivized to drive a sale for a good that is not their own original product.
* **Content Marketing:**This entails creating content, whether eBooks, infographics, video seminars, or other downloadable content. The goal is to create a product (often free) to share information about a product, obtain customer information, and encourage customers to continue with the company beyond the content.

**Benefits of Marketing**

Well-defined marketing strategies can benefit a company in several ways. It may be challenging in developing the right strategy or executing the plan; when done well, marketing can yield the following results.

* **Audience Generation.**Marketing allows a company to target specific people it believes will benefit from its product or service. Sometimes, people know they have the need. Other times, they don't realize it. Marketing enables a company to connect with a cohort of people that fit the demographic of who the company aims to serve.
* **Inward Education.**Marketing is useful for collecting information to be processed internally to drive success. For example, consider [market research](https://www.investopedia.com/terms/m/market-research.asp) that finds a certain product is primarily purchased by women aged 18-34 years old. By collecting this information, a company can better understand how to cater to this demographic, drive sale, and be more efficient with resources.
* **Outward Education.**Marketing can also be used to communicate with the world what your company does, what products you sell, and how your company can enrich the lives of others. Campaigns can be educational, informing those outside of your company why they need your product. In addition, marketing campaigns let a company introduce itself, its history, its owners, and its motivation for being the company it is.
* **Brand Creation.**Marketing allows for a company to take an offensive approach to creating a brand. Instead of a customer shaping their opinion of a company based on their interactions, a company can preemptively engage a customer with specific content or media to drive certain emotions or reactions. This allows a company to shape its image before the customer has ever interacted with its products.
* **Long-lasting.**Marketing campaigns done right can have a long-lasting impact on customers. Consider Poppin' Fresh, also known as the Pillsbury Doughboy. First appearing in 1965, the mascot has helped create a long-lasting, warm, friendly brand for Pillsbury.2
* **Financial Performance.**The ultimate goal and benefit of marketing is to drive sales. When relationships with customers are stronger, well-defined, and positive, customers are more likely to engage in sales. When marketing is done right, customers turn to your company, and you gain a [competitive advantage](https://www.investopedia.com/terms/c/competitive_advantage.asp) over your competitors. Even if both products are exactly the same, marketing can create that competitive advantage for why a client picks you over someone else.

**Limitations of Marketing**

Though there are many reasons a company embarks on marketing campaigns, there are several limitations to the industry.

* **Oversaturation.** Every company wants customers to buy its product and not its competitors. Therefore, marketing channels can be competitive as companies strive to garner more positive attention and recognition. If too many companies are competing, a customer's attention may be strongly diluted, resulting in any form of advertising not being effective.
* **Devaluation.**When a company promotes a price discount or sale, the public may psychologically eventually see that product as worth less in the future. If a campaign is so strong, customers may even wait to purchase a good knowing or remembering what the sale price was from before. For example, some may intentionally on hold off on buying goods if [Black Friday](https://www.investopedia.com/terms/b/blackfriday.asp) is approaching.
* **No Guaranteed Success.**Marketing campaigns may incur upfront expenses that hold no promise of future success. This is also true of market research studies, where time, effort, and resources are poured into a study that may yield no usable or helpful results.
* **Customer Bias.**Loyal, long-time customers need no enticing to buy a company's brand or product. However, newer, uninitiated customers may. Marketing naturally is biased towards non-loyal patrons as those who already support the company would be better served in further investment in bettering products.
* **Cost.** Marketing campaigns may be expensive. Digital marketing campaigns may be labor-intensive to set up and costly to maintain the scheduling, implementation, and execution of the plan. Don't forget about the headlines that promote Super Bowl commercial expenses in the millions.
* **Economy-Dependent.** Marketing is most successful when people have capital to spend. Though marketing can create non-financial benefits such as brand loyalty and product recognition, the ultimate goal is to drive sales. During unfavorable [macroeconomic](https://www.investopedia.com/terms/m/macroeconomics.asp)conditions when unemployment is high or recession concerns are elevated, consumers may be less like to spend no matter how great a market campaign may be.

**SESSION 11:**

**SMART GOALS**

**SMART Goals**

[SMART goal setting](https://www.thebalancemoney.com/elements-of-a-smart-business-goal-2951530), which stands for Specific, Measurable, Attainable, Relevant, and Time-Based, is an effective process for setting and achieving your business goals.1﻿ Applying the SMART grid to your goals will help you to create more specific, achievable targets for your business, and to measure your progress toward them.

Below are several examples of broad objectives that are reframed as specific, SMART goals. As you review the sample SMART goals, notice how each example outlines several subgoals, or specific actions, that need to take place in order to accomplish the overall goal. SMART criteria can also be applied to each of those smaller goals in the same way as shown here.

**Broad Goal Example: I Want to Start a Business**

* **Specific**: I will sell handmade cards through Etsy.com.
* **Measurable**: I will be ready to take my first Etsy order within four weeks, and I will aim to sell a minimum of five cards per week.
* **Attainable**: I will get set up on Etsy first. Then I will build an inventory of 30 handmade cards to sell. Finally, I will promote my business and build customer relationships through word of mouth, referrals, and local networking.
* **Relevant**: Selling handmade cards will allow me to benefit financially from my favorite hobby.
* **Time-Based**: My Etsy store will be up and running within four weeks, and I will have an inventory of 30 cards to sell within six weeks.2﻿

**SMART Goal**

Within a month, I am going to get set up to sell handmade cards on Etsy, which will allow me to benefit financially from my favorite hobby. Within six weeks, I will have an inventory of 30 handmade cards to sell and aim to sell a minimum of five cards per week, building customer relationships through word of mouth, referrals, and local networking.

**Broad Goal Example: I Want to Grow My Business**

* **Specific**: I will acquire three new clients for my consulting business.
* **Measurable**: I will measure my progress by how many new clients I bring on while maintaining my current client base.
* **Attainable**: I will ask current clients for referrals, launch a social media marketing campaign and network with local businesses.
* **Relevant**: Adding additional clients to my business will allow me to grow my business and increase my revenue.
* **Time-Based**: I will have three new clients within two months.

**SMART Goal**

I will acquire three new clients for my consulting business within two months by asking for referrals, launching a social media marketing campaign, and networking with local businesses. This will allow me to grow my business and increase my revenue.

**Broad Goal Example: I Want to Write a Business Book**

* **Specific**: I will write a book about social media that is a minimum of 150 pages.
* **Measurable**: I will write one chapter per month or three to five pages per week.
* **Attainable**: I will work on the manuscript first, and once that is completed, I will begin to search for a publisher or explore self-publishing.
* **Relevant**: Writing a book on social media will help me establish myself as an expert.
* **Time-Based**: My manuscript will be completed and ready to be published in 10 months.

**SMART Goal**

In order to establish myself as an expert, I will write a 150-page book on social media by writing one chapter per month (or three to five pages per week). The book will be completed in 10 months, and then I will search for a publisher or explore self-publishing.

**Broad Goal Example: I Want to Become a Well-Known Expert**

* **Specific**: I will become a well-known expert on the topic of small-business accounting.
* **Measurable**: I will be successful if I am asked to speak publicly on the topic at least once a month, receive interview requests every week, and write one article per month for a top industry publication.
* **Attainable**: I will accomplish this by acquiring the services of a PR or publicity firm and launching a publicity campaign.
* **Relevant**: Establishing myself as a small business accounting expert will reinforce my 20+ years of experience in the field and allow me to reach more small-business owners who need accounting advice.
* **Time-Based**: I want to be considered a small business accounting expert in two years.

**SMART Goal**

I will acquire the services of a PR or publicity firm and launch a publicity campaign that will help establish me as a well-known expert in small business accounting who is asked to speak publicly on the topic at least once a month, receives interview requests every week, and writes one article per month for a top industry publication. This will reinforce my 20-plus years of experience in the field and allow me to reach more small business owners who need accounting advice.

**SESSION 12:**

**BUSINESS PLANNING**

**Business Planning**

Business planning is the process whereby an organization’s leaders figure out the best roadmap for growth and documents their plan for success.

The business planning process includes diagnosing the company’s internal strengths and weaknesses, improving its efficiency, working out how it will compete against rival firms in the future, and setting milestones for progress so they can be measured.

Writing a new business plan involves a detailed process with a number of stages, some of which can overlap. Whether you are writing your plan from scratch, from a[simple business plan template](https://www.growthink.com/products/business-plan-template), or working with an [experienced business plan consultant](https://www.growthink.com/business-plan) or writer, business planning for startups, small businesses, and existing companies is the same.

**The Better Business Planning Process**

The business plan process includes 6 steps as follows:

1. Do Your Research
2. Strategize
3. Calculate Your Financial Forecast
4. Draft Your Plan
5. Revise & Proofread
6. Nail the Business Plan Presentation

We’ve provided more detail for each of these key steps below.

**1. Do Your Research**

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

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

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

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

**2. Strategize**

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

This step of the planning process may include formulating a vision for the company’s future, which can be done by conducting intensive customer interviews and understanding their motivations for purchasing goods and services of interest. Dig deeper into decisions on an appropriate marketing plan, operational processes to execute your plan, and human resources required for the first five years of the company’s life.

**3. Calculate Your Financial Forecast**

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

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

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

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

**4. Draft Your Plan**

With financials more or less settled and a strategy decided, it is time to draft through the narrative of each[component of your business plan](https://www.growthink.com/businessplan/help-center/key-components-business-plan-part-ii). With the background work you have completed, the drafting itself should be a relatively painless process.

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

**5. Revise & Proofread**

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

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

**6. Nail the**[**Business Plan Presentation**](https://www.growthink.com/businessplan/help-center/business-plan-presentation-mistakes-avoid)

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

**Business Planning Process Conclusion**

Every entrepreneur dreams of the day their business becomes wildly successful.

But what does that really mean? How do you know whether your idea is worth pursuing?

And how do you stay motivated when things are not going as planned? The answers to these questions can be found in a business plan, a written document that provides an outline and resources needed to achieve success. This document helps entrepreneurs make better decisions and avoid common pitfalls along the way. ​

Business plans are dynamic documents that can be revised and presented to different audiences throughout the course of a company’s life. For example, a business may have one plan for its initial investment proposal, another which focuses more on milestones and objectives for the first several years in existence, and yet one more which is used specifically when raising funds.

Business plans are a critical first step for any company looking to attract investors or receive grant money, as they allow a new organization to better convey its potential and business goals to those able to provide financial resources.