

LESSON 3:

FINANCE, RISK AND REWARD

AIM: To successfully launch the programme and allow students to identify their skills within their teams.

LEARNING OBJECTIVES:

By the end of this lesson...

- All:** Students will understand what business costs are and the potential risks involved.
- Most:** Students will understand what business costs are, understand and identify risks and rewards and be able to make the link between these and costs and revenue.
- Some:** Students can identify benefits and costs of starting a business and explain the risk associated with establishing a new business.

CROSS-CURRICULAR:

Enterprise skills: Problem solving, communication, presentation, research, teamwork, the world of business, entrepreneurship, creativity

Literacy: Summarising – analysis and evaluation

Community: An understanding of others, skills of participation and responsible action; identifying needs in the community

ICT: Data and information, searching and selecting, organising and investigating

KEY WORDS:

Risk concerns invention, creation and innovation. If a person has 'enterprise', or is described as 'enterprising', they are likely to be inventive, creative and/or innovative.

Running costs need to be met so that a business can go through the day-to-day process of producing and selling its products.

Reward is the expected return which is either financial, or other, based on the risk taken.

Start up costs are costs which need to be met before a business can start selling the new product.

Profit is the reward for risk; the excess of sales revenue over costs.

STARTER:

If you were starting a pizza restaurant what would you need to buy?

Students to brainstorm all the costs a business would need to incur before starting a business:

1. Start up costs

- Market research
- Premises (purchase price or rent deposit)
- Any building alterations
- Fixture and fittings
- Legal/professional fees
- Equipment
- Furniture
- Communication equipment
- Advertising/promotional materials
- Prepared to take risks
- Insurance
- Utilities

- Transport
- Business stationary
- Licences and permits

2. RUNNING COSTS

Running costs need to be met so that a business can go through the day-to-day process of producing and selling its products.

Students to brainstorm a list of these costs:

- Salaries
- Insurance premiums
- Rent/lease payments
- Utility payments
- Business rates
- Accountancy fees
- Raw materials or stock
- Loan repayments
- Packaging materials
- Tax
- Postal and distribution charges

MAIN ACTIVITIES AND OUTCOMES, WITH ASSESSMENT METHODS, INCLUDING AFL:

Discuss finance: How is it that you can raise funds for your business?

SOURCES OF FUNDS

- **Owner's funds** – savings of the owner – or an additional mortgage
- **Profits** – sales revenue less costs. Profits can be retained and re-invested
- **Loans** – from a bank or other financial institution
- **Government grants** – available for specific reasons, e.g. located in a deprived area
- **Hiring and leasing** – this saves having to buy expensive items outright as payments are made in regular instalments
- **Issuing shares** – only applies to companies (on the Stock Exchange)
- **Selling assets** – such as unwanted machinery or building
- **Venture capital** – finance from a company that specialises in lending to successful small businesses – often in exchange for shares

Students are to research different methods of sources of funds (Worksheet 7a). Suggest each group could research one or two and present to the class.

COSTS AND RISK:

Discuss:

- The main risk associated with entrepreneurship and starting a new business is the possibility of business failure which could, ultimately, lead to financial loss and emotional suffering
- A significant amount of money may be required to purchase the resources, e.g. the start up costs, a large proportion of which may come from the entrepreneur's own personal funds. If the business fails, the entrepreneur (and/or business investors) will have to bear the financial costs of failure and pay off any debts incurred. The entrepreneur may also suffer emotionally from the loss
- Even if the business does not fail, setting up and running a business requires a great deal of hard work which can put a strain on social and family life and relationships, and cause emotional stress. This is a less obvious risk but one which ought to be considered before an entrepreneur becomes committed to starting a business. If an entrepreneur does not have the support of their partner/family to begin with, then this could create conflict later and could, ultimately, be a factor leading to business failure

MINIMISING RISK:

Students are to discuss in pairs how they think as an entrepreneur they could minimise the risk involved in starting a business.

Discuss:

- Undertaking initial (and ongoing) **market research** to detect problems/weaknesses with particular decisions/strategies, as well as potential threats to your business (competition, etc)
- Drawing up a **detailed business plan** – the actual process of creating a business plan should ensure the business idea is properly thought through
- Keeping **investment to a minimum**, for example, by renting and leasing instead of purchasing
- Taking out **insurance**, e.g. buildings and contents, public liability

- Ensuring **adequate training and supervision** of any labour employed

Discuss:

Although the risks associated with setting up and running a business can be minimised, they cannot entirely be eliminated. This is because there are numerous factors over which the business has little or no control (e.g. political, economic, social, technological and competitive), which cannot always be foreseen and which can seriously impinge upon its success. It is still possible to unexpectedly fail. This is something appreciated by entrepreneurs. They are, however, prepared to take that risk in return for the potential financial and other rewards associated with starting and running a business.

LESSON 3: FINANCE, RISK AND REWARD

FINANCIAL REWARD:

- Financial reward comes in the form of profit. **PROFIT = total revenue – total costs**
- The amount that a business receives from the sale is called **total revenue**
- The amount that the firm pays to buy the inputs (flour cheese, workers, ovens, etc) is called **total costs**
- Profit is a firm's total revenue minus total costs

Profit is the main aim when people start a business. Profit is, therefore, essential as a motivating force in business.

The incentive to earn higher income must, however, be tempered by the fact that running one's own business requires considerable effort which can impinge upon one's home life. Indeed, working as a business owner needs many more hours and intense, prolonged commitment. If the only reward were extra money, few people would set up in business. There are, in fact, many non-financial rewards that entrepreneurs might gain from setting up their own business.

Additional information: Non-financial rewards mainly concern:

- Being one's own boss (freedom and flexibility)
- Establishing and building up a business can provide a sense of achievement

ACTIVITY FOR BUSINESS PLAN

In your groups, fill in the financial plan sheet. Consider the start up and running costs and the risk of your business idea.

Plenary:

Students share risks with the class and how they plan to conquer them.

Discuss:

Any decision to enter into business should involve an assessment of the risk and rewards. Remember in general, the higher the risk undertaken, the higher the expected reward which must compensate for the risk.

DIFFERENTIATION:

Supported material

Difficult words/key words explained.

Extension

Using the internet, research your costs so you can work out accurately how much your costs will be.

RESOURCES:

Resources:

Worksheet 7: Financial Plan

Worksheet 7(a): Source of Funds

WORKSHEET 7

FINANCIAL PLAN

START UP COSTS:	RUNNING COSTS:
<p>RISK INVOLVED:</p>	
<p>PLAN TO MINIMISING THE RISK:</p>	
<p>REWARD:</p>	

WORKSHEET 7A

FINANCIAL PLAN

SOURCE OF FUND:	ADVANTAGE:	DISADVANTAGE: