THE BUSINESS PLANNING PROCESS

CHAPTER 11

Multiple choice

1.	B	**6.**	C	**11.**	C	**16.**	A
2.	B	**7.**	D	**12.**	A	**17.**	A
3.	D	**8.**	A	**13.**	D	**18.**	C
4.	A	**9.**	D	**14.**	A	**19.**	A
5.	A	**10.**	A	**15.**	B	**20.**	B

Matching terms

The process of long run planning that establishes the objectives of the business	**Strategic planning**
Middle-term plans usually generated by middle management, that concentrate on implementing the strategic plans	**Tactical plans**
Shorter term plans focusing on specific breakdowns of tactical plans	**Operational plans**
A comprehensive review of the situation and factors affecting the business, covering both the internal and external business environments	**SWOT analysis**
A statement giving a business its overall direction and spirit	**Vision**
A statement defining the main purpose and goals of a business	**Mission statement**
A technique used to determine how many products it will need to sell and produce to earn a profit	**Break-even analysis**
A forecasting tool which in monetary values, plans the future operations of the business	**Budget**
An analysis document comparing the business's performance against the rest of the industry	**Market report**
A diagrammatical illustration of the available options in a decision process, and the consequences of each choice	**Decision trees**

Short answer questions

Question 1

(a) Preparing a business plan is an important factor contributing to business success. A business plan helps a business to think realistically about the details of the business, to analyse its present position and to consider some of the opportunities and threats facing the business in the future. In addition, a business plan also allows a business to identify the necessary steps to transform its goals into reality. Businesses that do not plan may lack focus and struggle to make short-term decisions that are in the long-run interests of the business.

(b) A SWOT analysis evaluates the strengths and weaknesses of a business as well as the opportunities and threats presented by its external environment. An analysis of strengths is important as it allows a business to consider what it does well and to ensure that it continues to perform these functions in an effective manner. At the same time, a business should be conscious of its weaknesses, as these are areas that the business must address if it is to achieve its long-term goals. Identifying possible opportunities helps a business to constantly move on to new challenges, which can be important for motivating employees and managers. Finally, a business must be aware of possible threats and take actions to ensure that it is not adversely affected.

Question 2

(a) A mission statement is a short document that attempts to convey a distinctive character for a business that differentiates it from its competitors.

(b) "To become the leading banking corporation in Australia, delivering unparralled levels of service to our customers, while safeguarding the interests of our employees and shareholders."

(c) Mission statements are important tools for conveying the distinctive elements of a business to employees, customers, owners and other shareholders. They outline the goals of the business and serve as basis against which business decisions can be judged.

(d) Internal stakeholders: A mission statement outlines how the business differentiates from its competitors. It is an important tool for fostering loyalty to the business itself. In addition, a mission statement helps internal stakeholders understand what they should aim for when performing their roles.

External stakeholders: A mission statement forms a benchmark against which external stakeholders can judge the actual performance of the business. In addition, it helps external stakeholders to understand and appreciate the contribution of the business to society at large.

Question 3

(a) Breakeven analysis allows management to determine how much output their business will need to produce in order to cover its fixed and variable costs and make a profit.

(b) Break even point = Total fixed costs/(Selling price – variable costs per unit)

= (4,800)/(3.00 - 1.40)

= 4,800/1.60

= 3,000 units

(c) Decision trees are used to clarify the decision making process for management by setting out in a step by step manner the choices for managers and the consequences of these choices.

(d) A budget is a financial forecasting tool that plans the future operations of the business. A budget allows a business to determine its forecast revenue, expenses and profit over a period of time.

(e) Budgets as planning tools: Budgets allow businesses to forecast their planned revenue, expenditure and profit. In this way, a budget helps managers to determine whether the business will be able to meet its financial obligations.

Budgets for resource allocation: Budgets allow managers to plan future expenditure. As part of this process, managers must allocate a certain level of funds to various areas within the business, such as marketing, financial planning or human resource management.