

Starting a Business – Ordinary Level

Identify two risks and two rewards of setting up your own business.

(20m)(LCOL 2005)

Marks: 2 risks @ 5 marks each; 2 rewards @ 5 marks each.

A SAMPLE ANSWER:

Two risks:

- Profit/income
- Personal satisfaction of success
- Satisfaction of 'being your own boss'
- Satisfaction of seeing your own ideas become reality
- Satisfaction of creating jobs in the community etc.

Starting a Business – Higher Level

Michael Kelly is twenty nine years old and is a graduate with an engineering degree. He has been working in the area of Research and Development in a large transnational company since graduation. He has a desire to work for himself and feels that the time is right to form his own business in his home town producing electronic parts for domestic appliances. He has asked you to help him in writing up his business plan. (20m) (LCHL 2002)

A) Explain the importance of the Business Plan.

The Marks:

2 points @ 7 marks, 7 marks and 6 marks.

Each point split for stating it (4, 4, and 3) and elaboration (3, 3, 3,).

A SAMPLE ANSWER:

A business plan:

- Sets out clearly the ingredients by which the business aspires to achieve success, and the short, medium and long-term steps by which it intends to achieve that success.
- Is a vital document when seeking finance, since it presents the case for investing in the business. No potential investor would consider risking money in a venture unless its details are clearly set out in a convincing business plan.
- Contains numerical targets by which the progress (or otherwise) of the business towards its goals can be measured. This is vital information for owners, lenders and managers as it will alert them to problems in time (hopefully) to fix them, and keep the business on track.

(B) Draft a Business Plan for Michael Kelly's venture under five main headings. State relevant assumptions where necessary. (40m)

Marks: 5 main headings @ 8 marks each. [2marks for stating each, plus 3 marks each for two points of information]

A SAMPLE ANSWER:

Any 5 headings from these:

[Note: the question expects the student to state relevant assumptions where necessary i.e. insert information as the student, sees fit and draw attention to these intentions]

Starting a Business – Higher Level

BUSINESS PLAN

INTRODUCTION:

[It is assumed that Michael Kelly would form a Limited Co. owned jointly by himself and his wife Eileen for his business]

Name of business: Michael Kelly Ltd.

Address: 1 Main St., Swords, Co. Dublin

Telecommunications: ph. 01-1234567; email mkelly@eircom.ie

Nature of business: Production of electronic parts for domestic appliances

Type of business: Private Ltd. Co. with two shareholders:

Michael and Eileen Kelly each owning 50%

The Products:

Electronic parts for domestic appliances. These have been designed by Michael Kelly, a highly experienced R. & D. Engineer in this field. Enterprise Ireland's technical support team has praised these products highly (see report attached). In their view they are the most technologically advanced products available. The leading purchaser of this type of product has expressed great interest in the capabilities of these products.

Key Personnel:

Michael Kelly, owner is 29 years old, a graduate in engineering with 8 years experience in R. & D. in a large TNC in the electronics business.

John Murphy, with 15 years experience as production manager of similar products has indicated he is keen to join the firm, if appropriate remuneration is offered.

Market Analysis:

[Some suitable facts and figures need to be invented here]

The market for these products can be divided into the following segments:

Domestic: The total market for these products in Ireland is about €20m. There are four major purchasers. One, a large TNC buys 70% of these products, importing them from South America. The other three companies are subsidiaries of TNCs, supplied by associated companies.

U.K: Total market estimated at £80m, dominated again by the same TNC (50%): its nearest rival, an indigenous UK firm has 25% of the market while there are an estimated ten firms supplying the other 25%.

Starting a Business – Higher Level

Marketing Strategy:

The dominant firm is keen to diversify its purchasing and to purchase more locally. This presents an opportunity for Michael Kelly Ltd., whose products are more technologically advanced than the South American competition. This is a significant USP. Michael Kelly plans to gain 10% of the domestic market this year by convincing the TNC of the quality of his produce. He plans to work closely with the TNC, using his R. & D. experience to develop new and better products to suit the TNC, ultimately replacing the South American supplier in the domestic and UK markets within three years.

Manufacturing Operations and Premises:

The company has an option on the lease of a unit in Swords Industrial Park. There is room to treble the size of the factory if needed. Suitable machinery has been identified and can be in place in three months time.

Financial Analysis:

As the attached Projections show, the company expects to break even in year two, and earn a profit of €1m in year three, rising to an annual profit of €5m by year five.

Investment Proposal:

Equity Capital invested:	Michael Kelly	€250,000
	Eileen Kelly	€250,000
Equity Capital sought		€2,000,000
Loans sought		€500,000

Michael Kelly Ltd. wishes to attract investors to this exciting proposition.