

BUSINESS CASE STUDY

A comprehensive case study of THERAPuppy covering Business Planning



FOR BUSINESS STUDIES/BUSINESS MANAGEMENT STUDENTS

G.C. Williams

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3.1 Small to Medium Enterprises

3.1.1 Definition

The size of a business can be measured using a variety of indicators such as annual revenue, gross assets or the number of employees. The Australian Taxation Office (ATO) defines small business as those having an annual turnover of less than \$10 million¹, whereas the *Fair Work Act 2009 (Cth)* defines small business as those employing fewer than 15 employees².

Generally, the most accepted and widely used definition comes from the Australian Bureau of Statistics (ABS), which classifies business size according to the number of employees.

- Micro-businesses employ between 1 and 4 people.
- Small businesses employ fewer than 20 employees.
- Medium enterprises employ between 20 and 199 employees.
- Large businesses employ more than 200 people³.

3.1.2 Role

Of the more than 2 million enterprises in Australia, 97% are small businesses. More than 60% of Australian businesses operate as sole traders with no employees⁴. Small businesses are responsible for the provision of goods, services and employment. Furthermore, businesses are essential in developing new and innovative products and services which expand consumer choice and improve quality of life.

3.1.3 Economic Contribution

Small businesses are responsible for contributing billions of dollars to the Australian economy each year. In 2018-19, small businesses contributed over \$400 billion to the Gross Domestic Product (GDP), accounting for over 32% of Australia's economy⁵. In 2020, approximately 4.7 million people were employed by small businesses, which equates to over 44% of total jobs.⁶ This shows the vital role small businesses play in the Australian economy.

3.1.4 Success and/or Failure

Approximately 1 in 3 small businesses fail within the first four years⁷. Some of the reasons small businesses fail include:

- Poor financial management.
- Difficulties in managing government compliance.
- Inexperienced management.
- Lack of business planning.
- Inadequate capital and limited access to finance.
- Poor marketing strategies and inadequate digital presence.

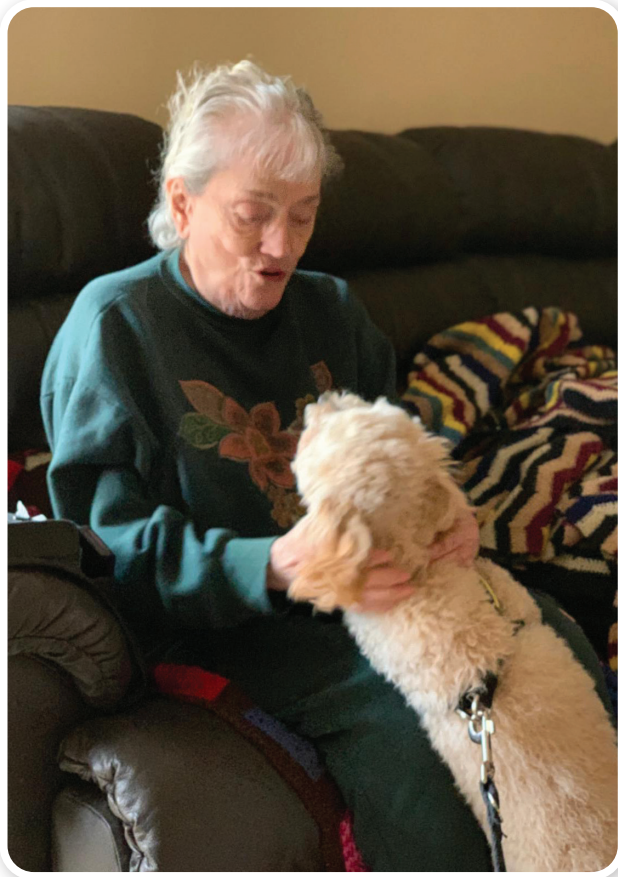
In Business Studies it is essential that you examine and assess a range of strategies used by small businesses to stay financially viable and relevant to their customers. THERAPuppy is a mobile service-based business providing therapy dogs in Sydney's Penrith and Liverpool areas. Owner, Monica Mansour, loves dogs and helping people overcome barriers that limit their capacity to live life fully. Review the following case study to see how THERAPuppy has created a market niche and become a leading provider of dog therapy services.

Cultural Background

Monica is a first generation Australian. Her parents migrated from Egypt and Sudan. Monica has inherited a strong work ethic and an ingrained sense of service to others.

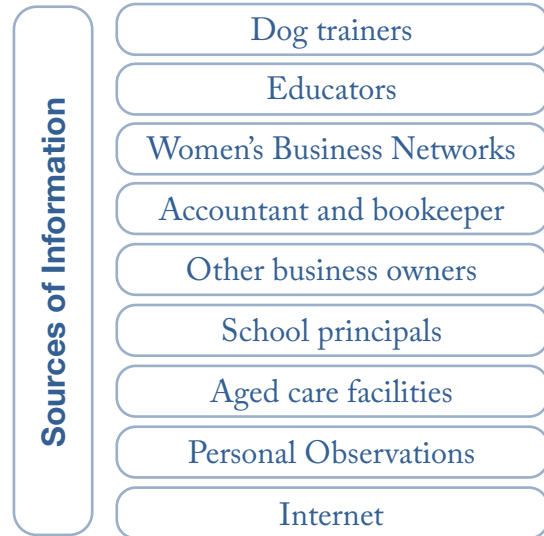
Gender

Despite representing 51% of the total population, women make up only 33% of small business owners⁸. In NSW, it is more likely that a woman becomes an entrepreneur after the age of 40⁹. This is true of Monica, who was finally brave enough to take the plunge and start her own business at 40.



Customer with a THERAPuppy dog

public relations and human resources. To ensure the viability of this business, Monica has needed to utilise a range of information sources to establish and grow her business. The most significant sources of information that Monica has accessed include:



Monica's business model is quite simple. It is about providing access to a trained therapy dog for people who need support. THERAPuppy services primary schools which means that Monica and her trainers must work in collaboration with the educators to target programs to students with specific needs. This requires Monica to be flexible, patient and mindful of the individual needs of the students she is working with.



Collaboration with educators

3.2.2 Sources of Information

THERAPuppy is a niche business which means there are not many case studies or existing business models for Monica to emulate. As a sole trader, Monica is responsible for making all the decisions that impact THERAPuppy. She needs to be multi-skilled across administration, finance, marketing,

Finance

Monica used her own personal savings to fund the establishment and initial running costs of the business. As the business expands, Monica is considering obtaining finance for the purchase of a new car that will be modified to better accommodate the dogs.

Profit and loss statements

A profit and loss statement is also known as an income or revenue statement. This statement acts as a summary of income earned and expenses over a period of time.

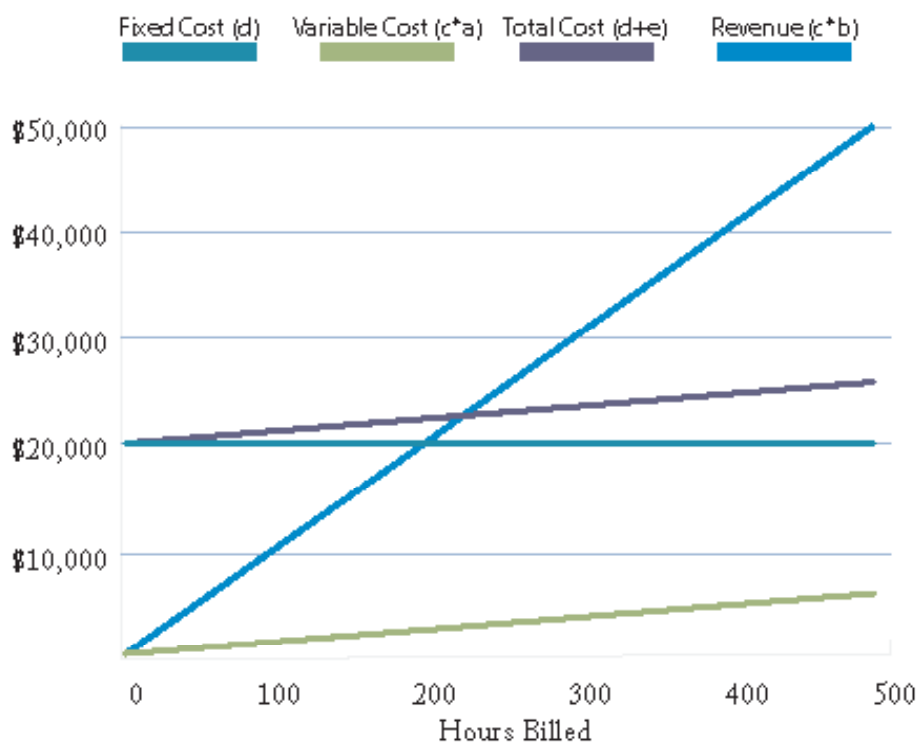
The following Profit and Loss statement is for educational purposes and does not reflect the financial position of any specific business.

Profit and Loss Statement for THERAPuppy			
	Year ended 30/6/2021 (actual)	Year ended 30/6/2022 (budgeted)	Notes
	\$	\$	
Sales			This reflects a revenue increase of 50% in Year 2 as more contractors are found and used
School Visits	60,000	90,000	
Home Visits	8,000	12,000	
Total Sales	68,000	102,000	
Less Expenses			
Accounting	1,250	1,300	
Admin / Office	800	1,000	
Advertising	0	1,500	Planning some possible social media advertising
Bank Fees	350	350	Stable
Contractors	3,800	7,000	Will increase as sales grow
Dog Food / Vet / Grooming	14,500	20,000	Will increase as sales grow - dogs working harder
Insurance	2,400	2,500	Increase for higher turnover protection
Telephone	2,400	2,400	Stable
Fuel and Car	3,000	4,100	Will increase as sales grow
Total Expenses	28,100	40,150	
Net Profit	39,500	61,850	

This analysis is shown in the table below:

Variable Cost per						
<i>a</i> Unit	\$12					
<i>b</i> Hourly Rate	\$92					
<i>c</i> Hours Billed	0	100	200	300	400	500
<i>d</i> Fixed Cost (d)	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000
<i>e</i> Variable Cost ($c \times a$)	\$-	\$1,150	\$2,300	\$3,450	\$4,600	\$5,750
<i>f</i> Total Cost ($d+e$)	\$20,000	\$21,150	\$22,300	\$23,450	\$24,600	\$25,750
<i>g</i> Revenue ($c \times b$)	\$-	\$10,000	\$20,000	\$30,000	\$40,000	\$50,000

THERAPuppy has relatively low overheads and is in a fortunate position to be generating revenues early on since its operations began. The main costs have been incurred by Monica acquiring three therapy dogs and personally delivering the services. As the business expands and uses more contractors (with their own dog and vehicle), the largest cost to the business will be the fees payable to the contractors. As can be seen by the break-even analysis below, THERAPuppy will break even in 2021 after billing 250 hours.



Cash Flow Projections

A cash flow projection can show the changes in available cash. It documents cash receipts (cash inflows) and cash payments (cash outflows), usually over a 12-month period. This aspect of planning was difficult for THERAPuppy for the first 12 months of trading, but having now traded for a full year, Monica is able to refer to past cash flow statements to predict inflows and outflows which factor in peak and off-peak months. For example, the months of January, April, July, September and December have lower sales due to the school holiday periods. This information can be useful to ensure large bills such as insurances are not due in these months.