Business Management Units 1 & 2

Chapter 5 — Resources, location, finance and support

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Contents

Theory

Every business needs **resources** — the inputs it draws on to produce and deliver its goods or services. A **business resource** is any input a business uses to carry out its operations and achieve its objectives. Deciding *which* resources a new business needs, *how much* of each, and *how* to combine them is one of the first and most important planning tasks an entrepreneur faces, because resources cost money and a start-up's resources are always limited. Business resources are conventionally grouped into **three types — natural, labour and capital**.

Natural resources. Natural resources are the inputs a business obtains **from the natural environment**. They include the **land** a business occupies, farms or extracts from; **water**; the **raw materials** taken from nature (timber, minerals, cotton, wool, crops, fish); and **energy** sources such as sunlight, wind and fossil fuels. Natural resources may be **renewable** — they replenish naturally within a useful timeframe (sunlight, wind, water, sustainably harvested timber) — or **non-renewable** — they exist in a finite quantity and are used up (oil, coal, metal ores). A business transforms natural resources into the products it sells; a bakery's flour begins as wheat, a furniture maker's tables begin as timber.

Labour resources. Labour is the **human effort — physical and mental — that people contribute to producing goods and services**. It is not just the number of workers but the **time, skills, knowledge, experience, creativity and effort** they bring. Labour is the resource that **transforms natural and capital resources into outputs**: raw materials and machines produce nothing until people operate them. The *value* of a business's labour therefore depends heavily on its **quality** — how skilled, knowledgeable and productive its workers are — which is why businesses invest in recruiting and training staff. For a new business the founder's own labour is often the first and most important labour resource.

Capital resources. Capital resources are the **manufactured (human-made) aids to production** — the items a business makes or buys **not to sell, but to use in producing other goods and services**. They include **equipment, machinery and tools; technology** (computers, software, automated systems); **vehicles; and premises** (factories, offices, shops and their fit-out). **Finance (money) is also a capital resource**, because it is the funds the business puts to work to acquire all of its other resources — the labour it hires, the materials it buys and the equipment it installs. (*Where* that finance comes from is a separate planning question, covered later in this chapter; here it is enough to recognise money as the capital a business uses.) The defining feature of capital is that it is **made by people** and is used **repeatedly over time** to help produce output, rather than being sold to customers.

Telling the three types apart. The cleanest test is the *origin* and *role* of the input. A standing forest of trees is a **natural** resource; the chainsaw, truck and sawmill used to harvest and cut the timber are **capital** resources; and the workers who fell the trees and operate the mill are **labour**. Natural resources come *from nature*, capital resources are *made by people*, and labour is the *human effort itself*. Most businesses combine all three, though in very different proportions.

Factors affecting the use of business resources. Businesses differ enormously in the **mix, quantity and quality** of resources they use, and in how they combine them. The following factors shape these choices:

- **Nature of the business.** *What* the business produces and *how* it produces it largely determines its resource mix. A **manufacturing** business — say, a furniture maker — is resource-intensive: it needs large quantities of **natural** resources (timber) and **capital** (machinery, a factory). A **service** business — say, an accountancy or a consultancy — needs mostly **labour** (skilled staff) plus some capital (offices, computers) and few natural resources. The kind of good or service, and the production method, therefore set the baseline for what resources are required.
- **Cost and availability.** The **price** of a resource, and **whether it can be obtained at all**, affect how much of it a business uses and whether it **substitutes** one resource for another. If skilled labour is scarce or expensive, a business may invest in **capital** (automation) instead; if a raw material becomes costly or hard to source, it may switch to a cheaper substitute or a different supplier. Businesses generally seek resources at the **lowest cost consistent with the quality they need**, which helps control costs and improve efficiency.
- **Quality.** The **standard or grade** of a resource matters. Higher-quality resources — better raw materials, more skilled labour, more advanced equipment — generally produce **higher-quality outputs**, can improve

efficiency and reduce waste and defects, but usually **cost more**. A business must balance the quality it *needs* (given its target market and objectives) against the extra cost of obtaining it.

- **Sustainability.** Businesses increasingly weigh the **environmental and ethical impact** of using a resource, and whether its use can be maintained over the long term. This includes whether natural resources are **renewable or non-renewable**, whether they are **ethically sourced**, and the environmental footprint (energy, water, waste) of their use. Choosing sustainable resources — recycled materials, renewable energy, responsibly harvested inputs — can **reduce environmental harm, meet corporate social responsibility objectives, satisfy customer and community expectations and secure long-term supply**, although it may involve a higher upfront cost.
- **Technology.** Developments in technology change **which** resources a business needs and **how** it uses them. New technology is itself a **capital** resource, and adopting it can **substitute capital for labour**, reduce the quantity of natural resources or energy required (improving efficiency), and **change the skills** demanded of labour. Technology therefore continually reshapes the resource mix.
- **Scale.** The **size or scale** at which a business operates affects both the **quantity** of resources it needs and **how efficiently** it can use them. A larger-scale business needs greater quantities of every resource, but can often use them more efficiently — buying materials in bulk at a lower unit cost, or running specialised machinery at high volume (economies of scale). A small start-up needs far fewer resources and may **lease or hire** equipment and labour rather than own large capital assets.

Key ideas to keep straight.

- **Natural vs capital.** Both can be physical inputs, but natural resources come *from the environment* while capital resources are *manufactured by people*. The timber is natural; the saw that cuts it is capital.
- **Finance is a capital resource** — money is the capital a business uses to acquire its other resources. *Where the money comes from* (sources of finance) is a separate matter.
- **Labour is human effort, not just headcount.** Its value lies in the skills, knowledge and effort people contribute, which is why quality of labour matters as much as quantity.
- **The factors interact.** A rise in the cost of labour (a cost/availability factor) may push a business towards technology (a technology factor) that substitutes capital for labour — so a change in one factor often shifts the whole resource mix.

Contemporary example — Walkinshaw Group, November 2025

Walkinshaw Group is an automotive engineering and vehicle manufacturing business operating in Melbourne's south-east. On 17 November 2025 the Victorian Government announced that the company had opened a **$114 million** headquarters and manufacturing campus at **Dandenong South**, on a 100,000 square metre site that brought together operations previously spread across three locations. The announcement stated that the project would create **155 new jobs** across production, engineering and administration, and that the site included more than four production lines, an automotive engineering centre and a renewable solar energy system.

The investment names all three resource types at once. The **$114 million** is **finance** — a **capital** resource, the money put to work acquiring everything else — as are the **premises, production lines and engineering centre**, all manufactured aids to production the business uses repeatedly rather than sells. The **100,000 square metre site** is **land**, a **natural** resource, while the solar system draws on a **renewable** natural resource, reflecting **sustainability** as a factor in resource choices. The **155 roles** are **labour** resources — the human effort, skills and knowledge that will operate the plant. The proportions are what the **nature of the business** predicts: manufacturing is capital- and natural-resource-intensive, and consolidating three sites into one larger campus is a **scale** decision.

Source: Premier of Victoria, Driving Growth In Victoria's Automotive Industry, 17 November 2025 — https://www.premier.vic.gov.au/driving-growth-victorias-automotive-industry. Accurate as at July 2026.

Worked examples

Example 1 — scaffolded

Redgum Furniture Co. makes hardwood dining tables. To do so it uses locally milled **timber**, a computer-controlled **cutting machine**, and a team of skilled **cabinet-makers**. Classify each of these three inputs as a natural, labour or capital resource, and justify each classification.

Working	Comment
The **timber** is a raw material taken from the natural environment (trees), so it is a **natural resource**.	Natural resources come *from nature*.
The **cutting machine** is a manufactured item the business uses to produce tables rather than to sell, so it is a **capital resource**.	Capital = a human-made aid to production, used repeatedly.
The **cabinet-makers** provide human effort, skill and knowledge to turn the timber into tables, so they are a **labour resource**.	Labour = the human effort itself.
∴ Redgum uses all three resource types — timber (natural), the machine (capital) and the cabinet-makers (labour) — combined to produce its output.	State the classification and note how they combine.

Example 2 — scaffolded

Explain how the **nature of a business** affects the resources it needs, using a manufacturing business and a service business as examples.

Working	Comment
The nature of a business — what it produces and how — sets the baseline for its resource mix.	Name the factor and what it governs.
A **manufacturing** business, e.g. a soft-drink bottler, needs large quantities of **natural** resources (water, sugar) and **capital** (bottling machinery, a factory), plus some labour.	Give a manufacturing example and its heavy natural + capital needs.
A **service** business, e.g. a bookkeeping firm, needs mostly **labour** (skilled bookkeepers) and modest **capital** (offices, computers), and almost no natural resources.	Contrast with a service example dominated by labour.
∴ because the two produce different kinds of output in different ways, the nature of the business leads them to need very different mixes of natural, labour and capital resources.	Conclude by linking the factor to the differing mix.

Example 3 — unscaffolded

Distinguish between natural resources and capital resources.

Natural resources are inputs a business obtains **from the natural environment** — such as land, water, raw materials (timber, minerals, crops) and energy sources — which it typically transforms into the products it sells. **Capital resources**, by contrast, are the **manufactured (human-made) aids to production** — equipment, machinery, technology, vehicles, premises and finance — that a business uses **to help produce** other goods and services rather than selling them. The key difference is one of **origin and role**: natural resources come *from nature* and are usually consumed as inputs, whereas capital resources are *made by people* and are used repeatedly to help production. ∴ a stand of timber is a natural resource, while the saw and truck used to harvest it are capital resources.

Example 4 — unscaffolded

Analyse how the **cost and availability** of labour could affect a business's use of resources.

The cost and availability of labour can cause a business to **change the mix of resources it uses**. When skilled labour is **expensive or scarce**, the higher wages the business must pay, or its inability to hire enough staff, raise its costs and limit its output. This can lead the business to **substitute capital for labour** — for example, investing in automated machinery or self-service technology so that fewer workers are needed — which reduces its reliance on the costly or unavailable labour. Conversely, where labour is **cheap and readily available**, a business may rely more heavily on workers and delay investing in expensive equipment. In this way a single factor (the cost and availability of one resource) flows through to reshape the whole resource mix, and can also affect where the business chooses to operate and how it produces. ∴ the cost and availability of labour does not just determine how much labour a business uses — it influences its use of capital and its production methods as well.

Practice questions

Scaffolded

Q1. Define the term *business resource*.

Q2. Identify the **three** types of business resources and give **one** example of each.

Q3. For each of the following, identify which type of resource — **natural, labour or capital** — is being described: (a) the natural gas a bakery burns to fire its ovens; (b) the delivery van a florist uses; (c) the knowledge and effort of a graphic designer.

Q4. Identify **two** factors that affect the use of business resources.

Q5. A landscaping business is deciding between hiring two extra gardeners or buying a ride-on mower and other equipment. (a) Identify the type of resource each option represents. (b) Explain **one** factor the business should consider in making this choice.

Q6. Explain why finance is considered a capital resource.

Unscaffolded

Q7. Define the term *natural resources*. *(2 marks)*

Q8. Outline **one** difference between a natural resource and a capital resource. *(2 marks)*

Q9. Describe the labour resources a new café might need. *(3 marks)*

Q10. Explain how the **nature of a business** affects the resources it uses. *(3 marks)*

Q11. Distinguish between labour resources and capital resources. *(4 marks)*

Q12. Compare the resource needs of a manufacturing business with those of a service business. *(4 marks)*

Q13. Explain how the **cost and availability** of a resource can affect the way a business uses its resources. *(4 marks)*

Q14. Analyse how developments in **technology** can affect a business's use of resources. *(4 marks)*

Q15. "A business should always choose the cheapest resources available." Discuss. *(6 marks)*

Q16. Justify why a business might choose to use more **sustainable** resources even though they cost more. *(4 marks)*

Q17. *Case study.* **Ferngully Foods** is a start-up founded by Tomas to make frozen plant-based meals. It uses fresh vegetables, a commercial kitchen fitted with blast freezers and a packing line, and a small team of kitchen hands led by a chef. Tomas is deciding whether to source **cheaper imported vegetables** or **more expensive local organic vegetables**, and reliable casual kitchen staff have become hard to find in his area. (a) Identify **one** example of a natural resource and **one** example of a capital resource used by Ferngully Foods. *(2 marks)* (b) Explain how the **availability** of labour could affect Tomas's decisions about resources. *(3 marks)* (c) Analyse how **two** factors could affect Tomas's choice between cheaper imported vegetables and more expensive local organic vegetables. *(4 marks)*

Q18. Evaluate the decision by a business to replace some of its labour resources with capital resources such as automated machinery. *(6 marks)*

Q19. *Extended response.* Businesses must decide which resources to use and how to combine them. Analyse how the nature of a business and other factors affect its use of natural, labour and capital resources, and evaluate the view that cost is the most important factor in these decisions. *(10 marks)*

Q20. *Contemporary example.* In November 2025 Walkinshaw Group opened a $114 million headquarters and manufacturing campus at Dandenong South, on a 100,000 square metre site with more than four production lines, an automotive engineering centre and a solar energy system, creating 155 new jobs across production, engineering and administration. Analyse how this investment illustrates a business's use of **natural, labour and capital** resources, and how **one** factor affecting the use of resources is evident in it. *(6 marks)*

Answers

Q1. Any input a business uses to carry out its operations and produce its goods or services. **Q2.** Natural (e.g. timber/water), labour (e.g. a chef's effort and skill), capital (e.g. machinery, premises, finance). **Q3.** (a) natural (energy); (b) capital; (c) labour. **Q4.** Any two of: nature of the business; cost and availability; quality; sustainability; technology; scale. **Q5.** (a) Hiring gardeners = a labour resource; buying the mower/equipment = a capital resource. (b) Any one factor well explained — e.g. cost and availability (are skilled gardeners available and at what wage vs the price of the equipment), scale (how much work there is), or technology. See solutions. **Q6.** Because money is a manufactured aid to production used to acquire the business's other resources; it is used to help produce, not sold. See solutions. **Q7.** Inputs obtained from the natural environment (land, water, raw materials, energy). See solutions. **Q8.** Natural = from the environment; capital = manufactured by people. Must name both. See solutions. **Q9.** Model response in solutions. **Q10.** Nature of the business sets the resource mix — manufacturing is natural/capital-heavy, service is labour-heavy. See solutions. **Q11.** Labour = human effort/skill; capital = manufactured aids to production. See solutions. **Q12.** Similarity: both need labour and capital and combine resources; difference: manufacturing needs more natural resources and capital, service is labour-dominated. See solutions. **Q13.** Cost/availability affects how much of a resource is used and whether it is substituted for another. See solutions. **Q14.** Technology (itself capital) substitutes capital for labour, cuts resource/energy use and changes labour skills — causal links. See solutions. **Q15.** Disagree overall — cheap resources control cost but "always" ignores quality, availability, sustainability. See solutions. **Q16.** Argue the benefits — CSR, customer/community expectations, secure long-term supply, less environmental harm — outweigh the extra cost. See solutions. **Q17.** (a) e.g. vegetables (natural); blast freezer / packing line / kitchen (capital). (b) & (c) See solutions. **Q18.** Evaluation — weigh efficiency/cost/consistency gains against cost, job losses and flexibility, then a judgement. See solutions. **Q19.** Model response in solutions. **Q20.** Capital — the $114 million finance, the premises, production lines and engineering centre; natural — the 100,000 square metre site (land) and the solar energy; labour — the 155 production, engineering and administration roles. Then one factor (nature of the business, scale, sustainability or technology) applied to this investment. See solutions.

Fully-worked solutions

Q5. (a) Hiring **two extra gardeners** means adding a **labour** resource — the human effort, time and skill the gardeners contribute to the work. Buying the **ride-on mower and other equipment** means adding a **capital** resource — manufactured aids to production that the business uses repeatedly to carry out its work rather than sells to customers. (b) One factor the business should consider is the **cost and availability** of each resource. It needs to weigh the **ongoing wages** of two gardeners against the **upfront price** of the mower and equipment, and ask whether **skilled gardeners can actually be hired** in its area. If experienced gardeners are scarce or expensive, the business is likely to be better off **substituting capital for labour** by buying the equipment, which lets its existing staff mow far more lawns in a day; if labour is cheap and readily available, hiring may be the better use of its limited funds. *(Scale — how much work the business has actually won — or technology are equally acceptable, provided the answer explains how the factor bears on this particular choice.)*

Q6. Finance (money) is considered a capital resource because of the role it plays in production. Capital resources are the **human-made aids to production** that a business uses **to help produce** its goods and services rather than selling them to customers, and finance fits that description: money is created by people, and the business puts it to work **acquiring all of its other resources** — paying the wages of the labour it hires, buying the raw materials it transforms, and purchasing the equipment and premises it operates from. It is therefore an input the business **uses** in production, not a product it sells. It cannot be a **natural** resource, because it is not obtained from the natural environment, and it cannot be **labour**, because it is not human effort — which leaves **capital**. (*Where* the finance comes from is a separate planning question, covered later in this chapter.)

Q7. Natural resources are the inputs a business obtains **from the natural environment**. They include the **land** a business uses, **water**, **raw materials** such as timber, minerals and crops, and **energy** sources such as sunlight or fossil fuels, which the business typically transforms into the products it sells.

Q8. One difference is their **origin**: a **natural resource** is obtained **from the natural environment** (for example, the water used by a bottling plant), whereas a **capital resource** is **manufactured by people** and used to help produce other goods (for example, the bottling machine itself). *(A one-sided answer that describes only natural or only capital resources caps at 1 mark — both terms must be referenced.)*

Q9. A new café's **labour resources** are the **human effort, skills and knowledge** of the people who run it. It would need staff such as **baristas** skilled in making coffee, **kitchen staff** to prepare food, and **wait or counter staff** to serve customers and handle payments, as well as the **owner's own effort** in managing the business. What the café is really drawing on is not just the number of people but their **skills, experience and effort**, since it is this human input that turns the café's ingredients and equipment into the meals and service customers pay for.

Q10. The **nature of a business** — what it produces and how — strongly affects the resources it uses because different outputs require different inputs. A **manufacturing** business that makes a physical product needs large quantities of **natural resources** (raw materials) and **capital** (machinery and premises) to transform those materials into goods. A **service** business, which delivers an intangible service, relies mainly on **labour** — the skills and effort of its staff — with comparatively little natural resource and only modest capital. So the type of good or service, and the way it is produced, determines the **mix and proportions** of natural, labour and capital resources a business requires.

Q11. Labour resources are the **human effort — physical and mental — that people contribute to production**, including their time, skills, knowledge and experience; labour is what **operates and transforms** the other resources into output. **Capital resources** are the **manufactured aids to production** — equipment, machinery, technology, premises and finance — that a business **uses to help produce** goods and services rather than selling them. The two therefore differ in **what they are** (human effort versus human-made assets) and in **their role** (labour supplies the effort that runs production, while capital supplies the tools and funds that effort works with). Even highly advanced capital produces nothing until labour puts it to use, which is why most businesses need both.

Q12. A similarity is that both a manufacturing and a service business need **labour and capital resources** and must **combine several resource types** to operate — neither can function on one resource alone. **A difference is** the **mix and quantity** each requires. A **manufacturing** business is **natural-resource and capital-intensive**: it needs substantial raw materials and machinery, plus a factory, to turn inputs into a physical product. A **service** business is **labour-dominated**: its main resource is the **skills and effort of its staff**, supported by modest capital (offices, computers) and very few natural resources. In short, both draw on labour and capital, but manufacturing leans heavily on natural resources and capital equipment while a service business leans on labour.

Q13. The **cost and availability** of a resource affects both **how much** of it a business uses and **whether it substitutes** another resource for it. If a resource is **cheap and readily available**, a business can use it freely; if it becomes **expensive or hard to obtain**, the business faces higher costs or shortages and must respond. It may **reduce its use** of that resource, **switch to a cheaper substitute or a different supplier**, or **replace it with another type of resource** — for example, investing in capital equipment when skilled labour becomes too costly or scarce. Because businesses aim to obtain resources at the **lowest cost consistent with the quality they need**, changes in the price or availability of one resource ripple through to change the overall resource mix and how the business produces.

Q14. Developments in **technology** affect a business's use of resources through several causal links. First, new technology is itself a **capital** resource, so adopting it **increases the capital** a business uses. Second, because technology such as automation or self-service systems can do work previously done by people, it lets a business **substitute capital for labour**, reducing the quantity of labour it needs. Third, more efficient technology can **cut the natural resources and energy** a business consumes per unit of output, improving efficiency and reducing waste. Fourth, technology **changes the skills** labour must have — routine manual roles decline while roles operating and maintaining the technology grow. ∴ technology does not simply add one new input; it reshapes the whole resource mix, shifting a business away from labour and towards capital while changing the natural resources and skills it needs.

Q15. The view that a business should **always** choose the cheapest resources has both merits and serious weaknesses. **In its favour:** because a business's resources cost money and a start-up's funds are limited, choosing cheaper resources **lowers costs**, which can improve **efficiency and profit margins** and help a new business survive its early, cash-tight stage. **Against the view, however:** the *cheapest* resource is often **lower quality**, which can produce **inferior outputs, more waste and defects, and dissatisfied customers**, ultimately costing the business more; the cheapest option may also be **unreliable or unavailable**, or **unsustainable and unethical**, which can damage the business's reputation and its relationships with customers and the community. A business must weigh **cost against quality, availability and sustainability**, choosing resources at the lowest cost that still **meets the standard its objectives and market require** — so "always cheapest" is too simple. *(Discuss requires both sides; do not state one point and simply reverse it — treat cost and quality as distinct considerations.)*

Q16. A business can **justify** using more **sustainable** resources despite the higher cost because the **benefits outweigh the extra expense**. First, sustainable resources help the business meet its **corporate social responsibility objectives** and reduce **environmental harm** (less waste, lower emissions, renewable inputs), which is increasingly expected of businesses. Second, doing so can **satisfy the expectations of customers and the community**, who increasingly favour environmentally responsible businesses — this can **attract and retain customers** and **strengthen the brand and reputation**, potentially increasing sales. Third, sustainable, renewable inputs can **secure supply over the long term** and reduce the risk of relying on a finite, non-renewable resource whose price and availability may worsen. ∴ although sustainable resources cost more upfront, the gains in reputation, customer loyalty, CSR performance and long-term security of supply make the choice worthwhile — which is why a business would defend the decision.

Q17. (a) **Natural resource:** the fresh vegetables (or water). **Capital resource:** the commercial kitchen / blast freezers / packing line. *(One correct example of each for 2 marks.)* (b) The **availability** of labour could push Tomas to **change his resource mix**. Because reliable casual kitchen staff have become **hard to find** in his area, Ferngully Foods may be **unable to hire enough labour** to prepare and pack its meals, which would limit output. This could lead Tomas to **invest in more capital** — for example, expanding the automated **packing line** so the business relies less on scarce casual staff — substituting capital for the labour he cannot readily obtain. In this way the limited availability of labour directly shapes how much labour, and how much capital, the business uses. (c) Two factors that could affect Tomas's choice are **cost** and **sustainability** (or quality). **Cost:** the **cheaper imported vegetables** would lower Ferngully Foods' input costs, helping a cash-tight start-up keep prices competitive and protect its margins, which pulls Tomas towards the imported option. **Sustainability (and quality):** the **local organic vegetables**, though dearer, are likely **more sustainable and higher quality** — sourced with a smaller transport footprint and appealing to health- and environment-conscious buyers of plant-based meals — which could **strengthen the brand and meet customer expectations**, pulling Tomas towards the local option. These factors pull in **opposite directions**, so Tomas must weigh the lower cost of the imported vegetables against the sustainability, quality and marketing benefits of the local organic ones. *(Answers must apply to Ferngully Foods; naming the business alone is not a link.)*

Q18. Replacing some **labour** resources with **capital** such as automated machinery has clear advantages and disadvantages, and its wisdom depends on the situation. **Advantages:** automation can **cut ongoing labour costs**, operate **consistently and for long hours** without fatigue, **increase output and efficiency**, and reduce reliance on labour that may be **scarce or unreliable** — improving quality and lowering unit costs over time. **Disadvantages:** the machinery requires a **large upfront capital investment** that a business (especially a start-up) may struggle to fund; it can **reduce flexibility**, since machines are less easily redirected than people to new or varied tasks; it may **lower staff morale or lead to redundancies**, harming the business's reputation and its relationships with employees and the community; and it removes the **judgement, service and creativity** that human labour provides. **On balance**, replacing labour with capital is a **sound decision where the work is repetitive, high-volume and stable, labour is costly or hard to obtain, and the business can afford the investment** — there the efficiency and cost savings justify it; but where work is **varied, low-volume or depends on human service and judgement**, or where the business cannot fund the outlay, retaining labour is wiser. The decision should therefore be judged **case by case** against the nature of the work and the business's resources, rather than assumed always beneficial. *(Full marks require both sides and a clear, evidence-based judgement, not a generic "the advantages outweigh the disadvantages".)*

Q19. *Model response (10 marks).* Every business must decide which resources to use and in what combination. Business resources fall into three types — **natural** resources drawn from the environment (land, water, raw materials, energy), **labour** (the human effort, skills and knowledge of workers), and **capital** (the manufactured aids to production — equipment, machinery, technology, premises and finance). How a business uses these resources is shaped by several factors that frequently interact.

The **nature of the business** is the starting point: what a business produces, and how, sets its baseline resource mix. A **manufacturing** business is natural-resource and capital-intensive, needing raw materials and machinery to make a physical product, whereas a **service** business is labour-dominated, relying chiefly on the skills and effort of its staff. Other factors then refine the mix. **Cost and availability** determine how much of a resource a business uses and whether it substitutes one resource for another — costly or scarce labour, for instance, may be replaced with capital. **Quality** must be balanced against cost, since better resources lift output quality but cost more. **Sustainability** increasingly influences choices, as businesses weigh environmental impact, CSR objectives and long-term security of supply. **Technology**, itself a capital resource, substitutes capital for labour, cuts resource and energy use, and changes the skills labour needs. And **scale** affects both the quantity of resources needed and how efficiently they can be used, with larger businesses gaining economies of scale. These factors interact: a rise in labour costs may trigger investment in technology, which in turn changes the skills and the scale at which the business operates.

On the view that **cost is the most important factor**, there is a strong case. A business's resources all cost money, and a new business's funds are strictly limited, so cost bears on **every** resource decision — it drives the search for cheaper inputs, the substitution of one resource for another, and the very feasibility of the business. In that sense cost is always present. **However**, this does not make cost decisive on its own. Choosing purely on cost risks **poor quality**, unreliable or **unavailable** supply, and **unsustainable or unethical** sourcing that can damage reputation and ultimately cost more than it saves; and the **nature of the business** dictates what resources are even needed before cost is considered. The most defensible judgement is that **cost is one of the most important factors — often the binding constraint for a start-up — but not automatically the most important in every decision**, because a business must obtain resources at the lowest cost *consistent with the quality, availability and sustainability its objectives require*. Cost frames the decision, but the right choice depends on weighing it against the other factors rather than minimising cost alone. *(Full marks require: accurate coverage of the three resource types; analysis of how the nature of the business and at least several other factors affect resource use, including how they interact; and a sustained, two-sided evaluation of the "cost is most important" claim reaching a justified judgement.)*

Q20. Walkinshaw Group's November 2025 investment draws on **all three types of business resource**. The **$114 million** is itself a **capital** resource, since **finance is the money a business puts to work acquiring its other resources**; so are the **premises**, the **production lines** and the **engineering centre**, which are **manufactured aids to production** the business uses repeatedly to produce vehicles rather than sells to customers. The **100,000 square metre site** is **land**, a **natural** resource obtained from the environment, and the **solar energy system** draws on a **renewable** natural resource rather than a non-renewable one. The **155 new roles in production, engineering and administration** are **labour** resources — the human effort, skills and knowledge that will operate the plant — and it is the **quality** of that labour, particularly its engineering skill, that determines what the capital can actually produce, since machinery produces nothing until people run it. One factor clearly evident is the **nature of the business**: because Walkinshaw Group **manufactures a physical product**, its resource mix is **capital- and natural-resource-intensive**, which is why the investment is dominated by land, buildings and production equipment rather than by staff numbers alone. ∴ the investment shows the three resource types being **combined**, in proportions set by the factors affecting resource use. *(**Scale** — three sites consolidated onto one larger campus so resources can be used more efficiently — **sustainability** or **technology** are equally acceptable as the chosen factor, provided the answer links the factor to this investment; naming the business alone is not a link.)*

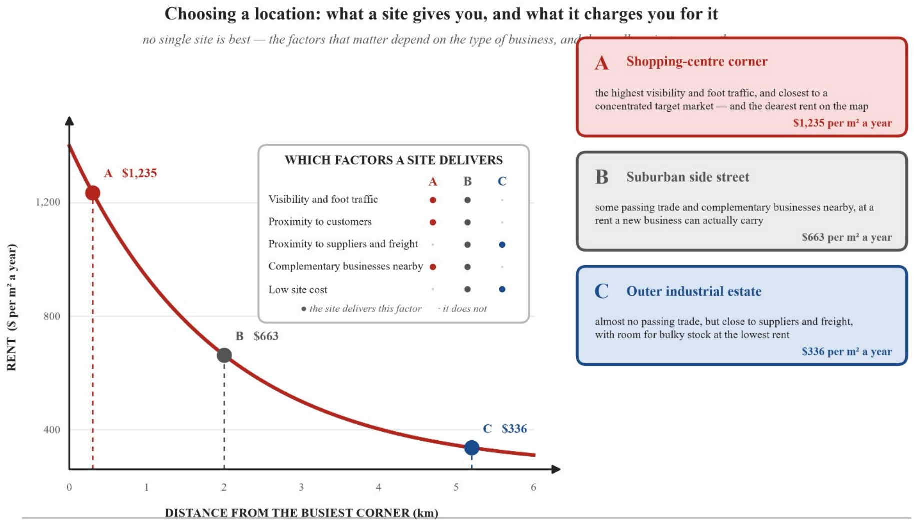
Theory

What “business location” means. A **business location** is the place from which a business operates and from which it makes its goods or services available to customers. That place may be a **physical premises** — a shopfront, office, factory, warehouse or studio — an **online presence** (a website or online marketplace), a person’s **home**, or some **combination** of these. Choosing where to locate is one of the key decisions a business makes at the **planning stage**, because location shapes how easily customers can reach the business, how much the premises cost, how conveniently the business can obtain its inputs, and ultimately how well it can achieve its **objectives** (such as making a profit and meeting a market need). A location decision is also **difficult and expensive to reverse** — leases, fit-out and moving costs are high, and customers become used to finding the business in a particular place — so it must be weighed carefully before the business is established rather than corrected later.

The factors affecting choice of location. No single site is “best” for every business. The right location depends on the **type of business** and its objectives, and it involves **balancing several competing factors** against one another and against the finance available. The main factors are set out below; for each, note *how* it influences the decision.

- **Visibility and passing/foot traffic.** *Visibility* is how easily the business and its premises can be seen by potential customers. *Passing traffic* (vehicles) and *foot traffic* (pedestrians) refer to the number of potential customers who pass the site. A highly visible location on a busy street, in a shopping centre or near a transport hub exposes the business to many potential customers, generating **awareness and walk-in or impulse sales** with less need for advertising. This factor is **critical for retail, hospitality and service** businesses that depend on walk-in trade, but far **less important** for manufacturers, wholesalers or online businesses that do not rely on passing customers. Because high-visibility, high-traffic sites are in demand, they usually carry **higher rents** — so this factor trades off against the cost of the site.
- **Proximity to customers.** This is **how close** the business is to its **target market**. Locating near customers makes it **convenient** for them to reach the business, reduces delivery times and costs to customers, and can be essential where customers will not travel far — for example a local café, gym, childcare centre or convenience store. A business should generally locate where its target market is **concentrated**. Proximity to customers matters **less** for online businesses (which reach customers electronically) or for “destination” businesses that customers deliberately travel to.
- **Proximity to suppliers and support services.** This is how close the business is to the **suppliers of its inputs** (raw materials, components, stock) and to **support services** it relies on (such as transport and logistics hubs, professional advisers or trades). Locating near suppliers **reduces freight costs and delivery times** for incoming materials, allows **more frequent and reliable restocking**, and lowers the risk of running out of stock — which is especially important where inputs are **bulky, heavy or perishable** (for example a food manufacturer). Being near relevant support services makes help **cheaper and quicker** to obtain. This factor tends to weigh heavily for **manufacturers and wholesalers** and less for many retail or service businesses.
- **Cost of the site (rent or purchase).** This is the price of acquiring the location — the **rent** if the premises are leased or the **purchase price** if they are bought — together with rates, outgoings and fit-out. Cost is a major **constraint**, particularly for a **new business with limited finance**. **Prime** locations (high visibility, heavy traffic, central, close to customers) command the **highest** rents and prices, while **cheaper** sites are usually less visible or further from the market. The business must therefore **weigh the cost of a site against the benefits** it delivers: a location that is too expensive can erode profitability even when it attracts customers, while the cheapest site may cost the business more in lost trade than it saves in rent.
- **Proximity to competitors.** This is how close the business locates to **rival businesses**, and it can cut **two ways**. Locating **away** from competitors can reduce direct competition and let the business capture a **local market** with little rivalry. However, locating **near** competitors can also be an advantage: a **cluster** of similar businesses (for example car dealerships along one strip, or cafés in a dining precinct) draws customers who come to **compare and choose**, so being where the customers already gather can **increase** trade. The right choice depends on the type of business and its strategy — a business competing on **convenience** may avoid rivals, while a **destination** business may deliberately locate among them.
- **Complementary businesses.** These are businesses whose goods or services **go together with** the business’s own, so that customers of one are likely to also want the other — for example a gym beside a health-food bar,

a cinema near restaurants, or a bridal boutique near a florist and a formal-wear hire. Locating near complementary businesses **increases shared foot traffic**, offers customers the **convenience** of meeting several related needs in one trip, and can generate **referrals** between the businesses. This is why shopping centres deliberately mix complementary tenants, and why a business will often seek a site **among** the businesses that support its own.



Location is also a choice of FORM — bricks-and-mortar, online, home-based, or a blend — and it is expensive to reverse, so it is weighed before the business is established rather than corrected afterwards.

Physical (bricks-and-mortar), online or home-based. A further location decision is **whether to operate from a physical premises, online, from home, or a combination of these.**

- **Bricks-and-mortar (a physical shopfront or premises).** *Benefits:* visibility and walk-in trade; customers can **see, touch and try** products; **face-to-face service** builds trust and relationships; and purchases can be made immediately. *Drawbacks:* **high** rent, fit-out and outgoings; the business is limited to its **local catchment**; and it is tied to fixed opening hours.
- **Online (operating through a website or marketplace).** *Benefits:* **low set-up and overhead costs** (no expensive shopfront); access to a **much wider — even national or global — market**; the “shop” is open **24/7**; and it is quick to establish. *Drawbacks:* customers **cannot physically inspect** goods before buying; the business depends on **delivery and logistics**; it faces **intense online competition** and must invest in a website and digital marketing to be found; and there is little face-to-face service.
- **Home-based.** *Benefits:* **very low cost** (no separate premises or rent), convenience and flexibility — well suited to a **start-up testing an idea**. *Drawbacks:* **limited space** and no walk-in visibility; possible **council/zoning restrictions**; blurring of work and home life; and difficulty projecting a professional image or scaling up.

Many businesses **combine** these options — for example a physical store *plus* an online store (“clicks-and-bricks”) — to capture the benefits of both. The appropriate choice depends on the **nature of the business** (does it need customers to visit? does it hold bulky stock? does it rely on face-to-face service?), the **target market**, the **finance** available, and the business’s **objectives**.

Key ideas to keep straight.

- **Location decisions are about trade-offs.** The site with the best visibility and closeness to customers is usually the **most expensive**, while the cheapest site often sacrifices trade. Choosing a location means **balancing** the factors against each other and against the finance available — not maximising any single one.
- **The factors that matter depend on the type of business.** A retail café weights **visibility, foot traffic and proximity to customers** heavily; a manufacturer weights **proximity to suppliers and site cost**; an online business may weight the physical factors hardly at all. Always match the factors to the business.
- **Proximity to competitors is not always bad.** Clustering with rivals can *attract* customers who come to compare, so a location near competitors can raise trade rather than reduce it.

- **Physical, online and home-based are location choices, not just "business models."** Each carries its own costs and benefits, and many businesses **blend** them; the choice follows from the nature of the business, its market, its finance and its objectives.

Contemporary example — Coles Group, September 2024

Coles Group is an Australian supermarket and grocery retailer that sells through stores across the country and through an online ordering service. On **20 September 2024** it opened its first automated customer fulfilment centre — a warehouse in which robotics pick and pack Coles Online orders, rather than staff walking a shop floor — at **Truganina**, an industrial area in Melbourne's outer west, just over 20 kilometres from the city centre. Coles stated at the opening that the site had a footprint of more than **87,000 square metres**, that it was built with its technology partner Ocado, and that it would serve a delivery catchment reaching from Ballan in the west across to Bunyip in the east, and from Beveridge in the north down to the Mornington Peninsula.

The choice of site illustrates that **the factors that matter depend on the type of business** — or, as here, on the type of premises. A fulfilment centre serves the business's **online presence**, and no customer ever visits it, so **visibility** and **passing or foot traffic** — the factors that dominate the choice of a supermarket shopfront — carry no weight at all. What the centre does need is **proximity to customers**, since a metropolitan catchment must be reached by delivery van; the **support services** of freight access, for the vehicles that stock it and the vans that leave it; and land enough for a footprint of that size at a **cost of the site** an inner-city location could not offer. The same business therefore weights the same factors quite differently for two kinds of location.

Source: Coles Group, Coles Changes the Online Grocery Landscape Opening its First World-Class Automated Customer Fulfilment Centre, 20 September 2024 — https://www.colesgroup.com.au/FormBuilder/_Resource/_module/ir5sKeTxxEOndzdh00hWJw/file/MEDIA_RELEASE_COLES%20OPENS%20AUSTRALIAN%20FIRST%20CFC%20IN%20VIC.pdf. Accurate as at July 2026.

Worked examples

Example 1 — scaffolded

Talia is opening a takeaway **juice bar** aimed at office workers and gym-goers. She is choosing between **Site A** — a small, high-rent shopfront in a busy city plaza surrounded by offices and next to a large gym — and **Site B** — a cheaper unit two streets away in a quiet lane. Recommend a site and justify your choice with reference to relevant location factors.

Working	Comment
The juice bar relies on **walk-in and impulse trade** from office workers and gym-goers, so **visibility, passing/foot traffic and proximity to customers** are the critical factors; **cost of the site** is the main constraint.	Start by selecting the factors that matter for *this* type of business.
Site A sits **among the offices and next to the gym** — its target customers — with high visibility and foot traffic; Site B is **cheaper** but has little passing trade and is further from those customers.	Assess each site against the chosen factors.
For a takeaway depending on convenience and impulse purchases, being **seen by and close to** the target market drives sales, whereas the quiet lane would generate few walk-ins despite its lower rent.	Weigh the trade-off: the rent saving at B against the trade lost by being unseen.
∴ **Site A** is recommended: the higher rent is justified by the far greater exposure to, and convenience for, the office and gym customers the juice bar depends on.	State a justified recommendation.

Example 2 — scaffolded

Explain how **proximity to suppliers** could influence the location decision of a business that manufactures **fresh pasta** for restaurants.

Working	Comment
Fresh pasta is made from **perishable, freight-sensitive inputs** (eggs, flour, fresh fillings) that must be delivered quickly and reliably.	Identify why suppliers matter for *this* business.
Locating **close to its suppliers** shortens delivery distances, which **reduces freight costs and delivery times** for incoming ingredients.	First causal link: proximity → lower transport cost and time.
Short, reliable supply lines also let the business **restock frequently** and reduce the risk of perishable inputs **running out or spoiling**.	Second causal link: proximity → reliability and less waste.
∴ because its inputs are perishable and costly to transport, the pasta maker is likely to **weight proximity to suppliers heavily** when choosing where to locate.	Conclude with the effect on the decision.

Example 3 — unscaffolded

Distinguish between operating from a **bricks-and-mortar** location and operating **online**.

Operating from a **bricks-and-mortar** location means running the business from a **physical premises** — a shopfront, office or store — that customers visit in person; it offers **visibility and walk-in trade**, lets customers **see and touch** products and receive **face-to-face** service, but it carries **high rent and fit-out costs** and limits the business to its **local catchment** and fixed opening hours. Operating **online** means selling through a **website or online marketplace** rather than a physical shop; it involves **much lower overheads**, reaches a **far wider (even national or global) market** and is open **24/7**, but customers **cannot physically inspect** goods before buying, the business depends on **delivery and digital marketing**, and it faces **intense online competition**. The key difference is therefore one of **presence and reach**: a bricks-and-mortar location trades higher cost and a local reach for physical presence and personal service, whereas an online location trades away physical presence for low cost and a wide reach. ∴ the two differ in **where and how customers access the business**, and each suits a different type of business and objective.

Example 4 — unscaffolded

A new business selling **handmade candles** decides to operate **only online** rather than from a physical store. Evaluate this decision.

Operating only online has clear **advantages** for a new candle business. It avoids the **high rent, fit-out and outgoings** of a shopfront, which is valuable when start-up finance is limited; it gives the business access to a **much wider market** than a single suburb could provide, and even to interstate or overseas buyers; and the online "shop" is open **24 hours a day**, allowing sales at any time and easy, low-cost scaling as demand grows. However, the decision also has real **disadvantages**. Customers **cannot see, touch or smell** the candles before buying — a genuine limitation for a sensory, handmade product — which can reduce conversion and increase returns; the business is **dependent on delivery and packaging**, adding cost and the risk of breakages; and, because online competition is **intense**, the business must invest in a **website, photography and digital marketing** simply to be found, forgoing the free exposure a visible shopfront would give. On balance, for a **new** business with **limited finance** and a product that can be marketed well through images and reviews, operating only online is a **sound and cost-effective choice** — provided the business invests in strong product photography, clear descriptions and reliable delivery to offset customers' inability to inspect the product. ∴ the decision is justified for a start-up prioritising low cost and wide reach, though the business should consider adding markets, stalls or a small physical presence later to let customers experience the candles first-hand.

Practice questions

Scaffolded

Q1. Define the term *business location*.

Q2. List **four** factors that affect a business's choice of location.

Q3. For each of the following, name the location factor being described: (a) a site on a busy corner where many pedestrians can see the shopfront; (b) a florist choosing a site next to a wedding-photography studio and a bridal boutique; (c) a business selecting a cheaper premises because its rent budget is limited.

Q4. Explain what is meant by *foot traffic* and why it can matter to a retail business.

Q5. A person is deciding whether to run a new business from **home** or from a **rented shopfront**. (a) Identify **one** advantage of a home-based location. (b) Explain **one** limitation of a home-based location.

Q6. Explain the difference between locating near **competitors** and locating near **complementary businesses**.

Unscaffolded

Q7. Describe **visibility** as a factor affecting the choice of business location. *(2 marks)*

Q8. Distinguish between **proximity to customers** and **proximity to suppliers** as factors affecting choice of location. *(4 marks)*

Q9. Explain how the **cost of a site** can influence a new business's choice of location. *(3 marks)*

Q10. Explain how locating near **complementary businesses** could benefit a retail business. *(4 marks)*

Q11. Compare a **bricks-and-mortar** location with an **online** location as options for a new business. *(4 marks)*

Q12. "A business should always choose the location with the highest foot traffic." Discuss. *(6 marks)*

Q13. Analyse how the choice of location can affect a business's ability to achieve its **objectives**. *(4 marks)*

Q14. *Case study.* **Bloom & Bean** is a new florist-café that Priya is establishing. She has narrowed her choice to two sites. **Site A** is a high-rent shopfront in a busy shopping centre, next to a bridal boutique and a wedding-photography studio, with heavy foot traffic. **Site B** is a cheaper standalone premises on a quiet suburban road with its own parking but little passing trade. Priya has limited start-up finance. (a) Identify **one** location factor that favours **Site A**. *(1 mark)* (b) Explain how the **complementary businesses** at Site A could benefit Bloom & Bean. *(3 marks)* (c) Analyse the trade-off Priya faces between the **cost of the site** and the **benefits of location** in choosing between Site A and Site B. *(4 marks)*

Q15. Justify the decision of a business to locate **near its competitors**. *(4 marks)*

Q16. Propose and justify a suitable location for a business that manufactures **bulky garden sheds** for delivery to customers. *(4 marks)*

Q17. Evaluate the decision to operate a business **from home** rather than from **rented premises**. *(6 marks)*

Q18. A business is deciding whether to open a **physical store** or to sell **only online**. Explain **two** factors it should consider in making this decision. *(4 marks)*

Q19. *Extended response.* Choosing where to locate requires a business to weigh a number of competing factors. Analyse how factors such as visibility and passing traffic, proximity to customers, proximity to suppliers, cost of the site, proximity to competitors and complementary businesses influence the choice of location, and evaluate the view that operating online is always a better choice than operating from a physical (bricks-and-mortar) location. *(10 marks)*

Q20. *Contemporary example.* On 20 September 2024 **Coles** opened its first automated customer fulfilment centre at **Truganina**, an industrial area in Melbourne's outer west, on a site with a footprint of more than 87,000 square metres, to pick and pack online orders for delivery across the Melbourne region. Analyse how the factors affecting choice of location would apply differently to this fulfilment centre than to one of Coles' supermarket stores. *(5 marks)*

Answers

Q1. The place from which a business operates and makes its goods or services available to customers — a physical premises, an online presence, a home, or a combination. **Q2.** Any four: visibility and passing/foot traffic; proximity to customers; proximity to suppliers and support services; cost of the site; proximity to competitors; complementary businesses. (The physical vs online/home choice is also acceptable.) **Q3.** (a) visibility (and passing/foot traffic); (b) complementary businesses; (c) cost of the site. **Q4.** Foot traffic = the number of pedestrians passing a site; it matters because more passers-by means more potential walk-in and impulse customers exposed to the business. See solutions. **Q5.** (a) e.g. very low cost / no separate rent, or flexibility. (b) e.g. limited space, no walk-in visibility, possible council restrictions, or a less professional image. See solutions. **Q6.** Competitors are rival businesses (locating near them can attract comparison shoppers or increase rivalry); complementary businesses sell goods that go together with the business's own (locating near them brings shared customers). See solutions. **Q7.** Visibility = how easily the business/premises can be seen by potential customers; a visible site generates awareness and walk-in trade. See solutions. **Q8.** Proximity to customers = closeness to the target market (convenience, sales); proximity to suppliers = closeness to input suppliers (lower freight cost/time, reliable restocking). See solutions. **Q9.** Cost constrains a new business with limited finance; prime sites cost more, so the business must trade site cost against the trade the location generates. See solutions. **Q10.** Complementary businesses share customers and foot traffic, offer one-trip convenience and generate referrals, increasing sales. See solutions. **Q11.** Similarity: both are ways to reach customers with their own costs/benefits. Difference: bricks-and-mortar = physical presence, local reach, high cost; online = wide reach, low cost, no physical inspection. See solutions. **Q12.** Discuss — strengths (exposure, walk-in sales) and weaknesses (high rent, not all businesses need it, cost may not be justified). See solutions. **Q13.** Causal chain: location affects access to customers, costs and inputs → sales and profit → the business's objectives. See solutions. **Q14.** (a) e.g. high foot traffic/visibility, proximity to customers, or complementary businesses. (b) Bridal boutique/photography studio share wedding customers → referrals and shared trade → more sales. (c) Analyse: Site A costs more but delivers customers/complementary trade; Site B saves rent but loses trade; with limited finance Priya must judge whether A's extra sales cover its higher cost. See solutions. **Q15.** Justify — clustering attracts comparison shoppers to a known precinct, raising total trade; locates the business where customers already gather. See solutions. **Q16.** Propose a low-cost industrial/outer site near suppliers and transport (not a prime retail site) + justify (bulky goods, delivery-based, no walk-in trade needed). See solutions. **Q17.** Evaluate — low cost/flexibility vs limited space, visibility, image and scale; judgement. See solutions. **Q18.** Any two factors (e.g. finance/cost, nature of product, target market/reach, need for face-to-face service) explained with their effect on the choice. See solutions. **Q19.** Model response in solutions. **Q20.** Different purpose → different weighting: no customer visits the centre, so visibility and foot traffic are irrelevant (they are decisive for a store); proximity to customers still matters but as delivery time/freight cost to the catchment; support services/freight access matter far more; the large footprint means cost of the site favours outer industrial land, not a prime retail site. See solutions.

Fully-worked solutions

Q4. Foot traffic is the **number of pedestrians who pass a business's site** — the flow of people walking past the premises along a footpath, street or shopping-centre walkway. It matters to a **retail** business because retailing depends heavily on **walk-in trade**: the more people who pass the shopfront, the more potential customers are **exposed** to the business and its display, which builds **awareness** with little spending on advertising and generates **impulse purchases** from people who had not set out to shop there. A site with heavy foot traffic will therefore usually produce **more sales** than the same store on a quiet street — although such sites also command **higher rents**, so a retailer must judge whether the extra trade covers the extra cost.

Q5. (a) One **advantage** of a home-based location is its **very low cost**: the owner operates from space they already occupy, so the business pays **no separate rent, fit-out or outgoings**. This preserves scarce finance at the start-up stage and lets the owner **test the business idea** with little financial risk. *(Flexibility and convenience — no commute, and hours that fit around other commitments — are also acceptable.)* (b) One **limitation** of a home-based location is that it offers **limited space and no walk-in visibility**. Because the business operates from a residential home, there is **no shopfront** for passers-by to see and little room to hold stock, display goods or receive customers. As a result the arrangement does not suit a business that relies on **passing trade** or needs to make or store **bulky** items, and the owner may have to **move to dedicated premises** in order to grow. *(Other acceptable limitations: possible* ***council or***

***zoning restrictions** on running a business from a residential property; the **blurring of work and home life**; and difficulty projecting a **professional image**.)*

Q6. Competitors are **rival businesses** selling similar goods or services; locating **near** them can mean tougher direct competition, but it can also **attract customers** who come to a known precinct to compare and choose (so a cluster of rivals can increase total trade). **Complementary businesses** are businesses whose goods or services **go together with** the business's own, so their customers are also likely to want what the business sells; locating near them brings **shared foot traffic, one-trip convenience and referrals**. The difference is that competitors sell the **same** thing the business does (rivals for the same sale), whereas complementary businesses sell **different but related** things (partners that share customers) — so locating near competitors is about capturing a share of a busy market, while locating near complementary businesses is about **gaining customers those businesses attract**.

Q7. Visibility as a location factor is **how easily a business and its premises can be seen by potential customers** passing the site. A highly visible location — for example on a busy corner, main street or in a shopping centre — exposes the business to many passers-by, generating **awareness and walk-in or impulse sales** and reducing the need for advertising, which makes it an important factor for retail and hospitality businesses that rely on passing trade.

Q8. Proximity to customers refers to **how close the business is to its target market**. Locating near customers makes the business **convenient** to reach, reduces delivery times and costs to customers, and can be essential where customers will not travel far, so it directly supports **sales**; it matters most for retail and service businesses. **Proximity to suppliers** refers to **how close the business is to the suppliers of its inputs**. Locating near suppliers **reduces freight costs and delivery times** for incoming materials and allows **reliable, frequent restocking**, which supports **efficient, uninterrupted production**; it matters most for manufacturers, especially with bulky or perishable inputs. The two factors therefore differ in **which side of the business they serve**: proximity to customers is about getting the **output to the market cheaply and conveniently**, while proximity to suppliers is about getting the **inputs into the business cheaply and reliably**.

Q9. The **cost of a site** — the rent or purchase price plus rates, outgoings and fit-out — strongly influences a new business's choice of location because a new business usually has **limited finance** and must control its costs to survive. **Prime** locations with high visibility and closeness to customers command the **highest** rents, so the business may be **priced out** of them and forced to weigh a cheaper, less visible site against a dearer, better-positioned one. It must judge whether the **extra trade** a costly location generates would **outweigh its higher cost**: a site that is too expensive can erode profitability even if it attracts customers, so cost often acts as the **binding constraint** that narrows a new business's realistic choices.

Q10. Locating near **complementary businesses** — businesses whose goods or services go together with the retailer's own — can benefit a retail business in several linked ways. Because the complementary businesses attract customers who are **also likely to want** what the retailer sells, the retailer gains access to a stream of **shared foot traffic** it would otherwise have to attract on its own. Customers also value the **convenience** of meeting several related needs in **one trip**, which draws them to the precinct and increases the chance they visit the retailer. The neighbouring businesses may even **refer** customers to one another. Together these effects mean the retailer is exposed to more potential buyers and is likely to make **more sales** than it would at an isolated site.

Q11. *(Compare — both a similarity and a difference are required.)* **A similarity** is that both a bricks-and-mortar and an online location are ways of **making a business's goods available to customers**, and each carries its own mix of **costs and benefits** that must be matched to the business. **A difference** lies in **presence, reach and cost**: a **bricks-and-mortar** location gives the business a **physical presence** where customers can see, touch and try products and receive face-to-face service, but it is limited to a **local catchment** and carries **high rent and fit-out costs**; an **online** location has **no physical shopfront**, so customers cannot inspect goods first-hand, but it reaches a **much wider market**, is open **24/7** and has **much lower overheads**. In short, a physical location trades higher cost and local reach for presence and personal service, whereas an online location trades physical presence for **low cost and wide reach**.

Q12. *(Discuss — advantages and disadvantages; no judgement required; avoid double-dipping.)* Choosing the location with the **highest foot traffic** has real **advantages**. A high-traffic site gives the business strong **visibility** and exposure to many potential customers, generating **walk-in and impulse sales** and building awareness with less spending on advertising — a major benefit for retail and hospitality businesses that depend on passing trade. However, the rule "always" choose the highest-traffic site also has clear **disadvantages**. The busiest sites command the **highest rents**, and for a business with limited finance the extra cost may **not be justified** by the extra sales, harming profitability. Moreover, **not every business needs foot traffic**: a manufacturer, wholesaler or online business relies on suppliers, transport or a website rather than passers-by, so paying a premium for foot traffic would waste money it could better spend elsewhere. High-traffic sites may also be **smaller, more congested or harder to service**. High foot traffic is therefore valuable for some businesses but not a rule that suits all — its worth depends on whether the business relies on walk-in trade and whether the added sales cover the added cost.

Q13. *(Analyse — show the causal relationships, not a list of pros and cons.)* The choice of location affects a business's ability to achieve its objectives through several connected effects. A location close to, and visible to, the **target market** determines how many customers can conveniently reach the business, which drives **sales revenue** and helps meet objectives such as **making a profit** and **fulfilling a market need**. At the same time, the **cost** of the site and its **proximity to suppliers** affect the business's **expenses** — a costly site or long, unreliable supply lines raise costs and squeeze profit, while a cheaper, well-supplied site protects it. Location therefore works on **both sides of profit at once**: it shapes the **revenue** the business can earn and the **costs** it must bear. Because a poorly chosen location can suppress sales *and* inflate costs — while a well-chosen one lifts sales and controls costs — the location decision has a direct **causal influence** on whether the business can achieve its objectives, which is why it is treated as a critical planning decision.

Q14. (a) Any **one** of: **high foot traffic / visibility**; **proximity to customers**; the presence of **complementary businesses** (the bridal boutique and wedding-photography studio). (b) The **bridal boutique and wedding-photography studio** at Site A are **complementary businesses** — their customers are planning weddings and are therefore **likely to also want flowers** (and a café to meet in). By locating beside them, **Bloom & Bean** gains access to this stream of **shared wedding customers** and to **referrals** from those businesses, and benefits from the **convenience** customers find in meeting several wedding needs in one place. This exposure to ready, relevant customers is likely to increase Bloom & Bean's **sales**, especially of higher-value wedding flowers. (c) *(Analyse — the causal trade-off.)* Priya faces a genuine trade-off because **Site A costs more but delivers more trade**, while **Site B costs less but delivers less**. Site A's high rent is a heavy burden given her **limited start-up finance**, and high fixed costs are risky for a new business; however, its **heavy foot traffic, visibility and complementary wedding businesses** would channel a steady flow of customers to Bloom & Bean, lifting **sales** — particularly profitable wedding orders. Site B would **cut her rent** and preserve scarce finance, and its parking suits customers who drive, but its **quiet location and lack of passing trade** mean she would have to **spend on marketing** to attract customers who would otherwise walk past Site A, and sales would likely be **lower**. The decision therefore turns on whether the **extra sales** Site A generates would **more than cover its extra cost**: if the wedding trade it attracts is large and reliable, Site A's benefits justify its price; if Priya's finance is too tight to sustain the high rent through the early months, the cheaper Site B may be the safer choice despite the trade it sacrifices.

Q15. *(Justify — argue why, with reasoning.)* Locating **near competitors** can be justified because a **cluster** of similar businesses often **attracts more customers than any one of them could alone**. Shoppers who want to **compare options** before buying — for example a car, furniture or a meal — deliberately go to a precinct **known** for that type of business, so a car dealer on a "motor mile" or a café in a dining strip is placed **exactly where its customers already gather**, increasing the number of potential buyers who pass its door. The established reputation of the precinct also does some of the business's **marketing** for it, drawing traffic without extra spending, and lets the business compete for a share of a **large, ready pool of customers** rather than trying to draw them to an isolated site. ∴ locating near competitors is justified when customers shop by comparison, because the increased flow of interested customers to the precinct can outweigh the more direct rivalry — the business gains from being **where the demand already is**.

Q16. *(Propose and justify — do more than name a location; argue why it suits the business.)* A suitable location for a business that manufactures **bulky garden sheds** for delivery would be a **larger, low-cost site in an industrial or outer-suburban area, close to its input suppliers and to main transport routes** — rather than an expensive, high-visibility retail site. This location is appropriate because the business is a **manufacturer that delivers to customers**, so it does **not rely on walk-in or passing trade** and would gain nothing from paying a premium for foot traffic or a central shopfront. It **does** need **space** to make and store bulky sheds, which a large industrial site provides **cheaply**, and it needs **efficient movement of heavy inputs and finished goods**, which **proximity to suppliers and to main roads** delivers by lowering **freight costs and delivery times**. ∴ a low-cost industrial site near suppliers and transport is justified because it matches the business's real needs — space, cheap premises and good freight access — while avoiding the cost of retail features it does not require.

Q17. *(Evaluate — advantages and disadvantages plus an evidence-based judgement.)* Operating a business **from home** has significant **advantages**. It avoids the **rent, fit-out and outgoings** of separate premises, dramatically **lowering costs** at the vulnerable start-up stage; it offers **flexibility and convenience**, letting the owner begin trading and **test the business idea** with little financial risk. However, a home-based location also has real **disadvantages**. It usually offers **limited space** and **no walk-in visibility**, so it suits only businesses that do not depend on customers visiting; it may breach **council or zoning restrictions**; it can **blur work and home life**; and it can make the business look **less professional** and be **hard to scale** as it grows. Weighing these, operating from home is **highly appropriate for a small, low-visibility start-up** — particularly an online or service business with **limited finance and no need for customer visits** — because the large cost saving outweighs the drawbacks while the business is small. It is **less appropriate** for a business that needs walk-in trade, space or a professional shopfront, and even a suitable home business may **outgrow** the arrangement. ∴ on balance, running a business from home is a sound, cost-effective choice for the right kind of start-up, but the owner should plan to move to dedicated premises once space, visibility or growth demand it.

Q18. *(Explain two factors, each linked to the choice.)* One factor the business should consider is the **nature of its product and the need for face-to-face contact**. If customers need to **see, touch or try** the product, or value **personal service**, a **physical store** better supports sales; if the product can be described and shown well through **images and reviews** and does not need handling, selling **only online** is viable and avoids shopfront costs. A second factor is **cost and finance versus reach**. A **physical store** carries **high rent, fit-out and outgoings** but offers visibility and walk-in trade within a **local** area, whereas **online** selling has **much lower overheads** and reaches a **far wider market** but requires spending on a **website, delivery and digital marketing** to be found. A business with **limited finance** seeking **wide reach** may favour online, while one relying on **local walk-in trade and personal service** may need a physical store — so both the product's nature and the cost/reach balance shape the decision.

Q19. *Model response (10 marks).* A **business location** is the place from which a business operates and makes its goods or services available — a physical premises, an online presence, a home, or a combination — and choosing it is a key planning decision because it influences a business's **sales, costs and access to inputs**, and so its ability to meet its objectives. Several factors influence the choice, each acting through a distinct **causal mechanism**. **Visibility and passing/foot traffic** determine how many potential customers see and can walk into the business, driving **awareness and impulse sales** — critical for retail and hospitality but irrelevant to a manufacturer. **Proximity to customers** makes the business **convenient** to reach and reduces delivery times, supporting sales where customers will not travel far. **Proximity to suppliers lowers freight costs and delivery times** and allows reliable restocking, protecting **efficient production** — vital where inputs are bulky or perishable. **Cost of the site** acts as a **constraint**, since prime, high-traffic sites cost the most and a business must weigh a location's price against the trade it generates. **Proximity to competitors** cuts both ways — a business may avoid rivals to reduce competition, or cluster with them to capture **comparison shoppers** drawn to a known precinct. **Complementary businesses** bring **shared customers, convenience and referrals**, raising trade. These factors frequently **conflict** — the most visible, customer-close site is usually the most expensive — so choosing a location means **balancing** them against one another and against the finance available, with the weighting depending on the **type of business**: a café weights visibility and customers, a manufacturer weights suppliers and cost.

The view that **operating online is always a better choice than a physical location** is **too absolute**. Online operation has genuine strengths: **low overheads**, a **wide (even global) market**, 24/7 trading and quick, cheap start-up — advantages that suit a start-up with limited finance or a product that sells well through images. **However**, "always" ignores the many businesses for which a **physical location** is superior. Where customers need to **see, touch or try** goods, value **face-to-face service**, or want **immediate purchase**, a bricks-and-mortar store converts far more sales; a visible shopfront also provides **free exposure and walk-in trade** an online business must pay to replace, and online selling depends on **delivery, logistics and intense digital competition** that add cost and risk. The best choice depends on the **nature of the business, its target market, its finance and its objectives**, and many businesses do best by **combining** a physical and an online presence to capture the benefits of both. ∴ while operating online is often an excellent, cost-effective choice — especially for new or low-visibility businesses — it is **not always** better than a physical location; the appropriate location, like every location factor, must be **matched to the particular business** rather than chosen by a fixed rule. *(Full marks require: an accurate account of what a location decision involves; analysis of how the named factors influence the choice through causal mechanisms, including the trade-offs between them; and a sustained, two-sided evaluation of the online-versus-physical claim reaching a justified judgement.)*

Q20. *(Analyse — show why the same factors carry different weight, rather than listing them.)* The two premises exist for different purposes, so the location factors apply to each of them differently. A **supermarket store** depends on customers coming to it, so **visibility and passing/foot traffic** are weighted heavily — the store must be seen and easily entered — and **proximity to customers** matters because shoppers will not travel far for groceries. For a store the business will therefore accept a **high cost of the site** in a shopping centre or main street, because the trade the location generates covers the higher rent. A **customer fulfilment centre** instead serves the business's **online presence**. No customer ever visits it, so **visibility and foot traffic** would generate no sales at all and paying a premium for them would be wasted expenditure. **Proximity to customers** still matters, but it works through a different mechanism: it is measured in **delivery times and freight costs** to the catchment rather than in how convenient the site is to walk into. **Proximity to suppliers and support services** — freight access for the vehicles that stock the centre and the vans that leave it — becomes far more important than it is for a single store, and the **cost of the site** points in the opposite direction, because a footprint of more than 87,000 square metres is affordable only on outer-suburban industrial land. ∴ the same business weights the same factors quite differently for its two kinds of location, because which factors matter follows from **how customers reach the goods**: the store is chosen for the customers it can draw in, the fulfilment centre for the cost and reach with which it can send goods out.

Theory

Almost every new business needs money before it can earn any. Premises must be leased, equipment and stock bought, a website built, licences paid for and staff paid — all **before** the first sale brings cash in. **Finance** is the money a business uses to fund these needs, and a **source of finance** is simply *where that money comes from*. Choosing the right sources is one of the most important decisions made when **establishing** a business, because the wrong choice can leave the owner with repayments they cannot meet, or with less control over the business than they wanted.

Sources of finance are first divided into two broad groups according to *where the money originates*.

- **Internal finance** is money that comes from **within the business or its owners** — it is not borrowed from an outside lender and does not involve bringing in new investors.
- **External finance** is money that comes from **outside** the business — from lenders, from new investors, or from other outside parties such as governments or the public.

Internal sources of finance.

- **Owner's equity (owner's own funds).** This is money the owner (or owners) contributes to the business from their **personal savings or assets**. It represents the owner's **stake** in the business. Its great advantages are that it does **not have to be repaid** and carries **no interest**, and using it does not surrender any ownership or control to outsiders. Its drawbacks are that the amount is **limited** to what the owner actually has, and that the owner puts their **own money at risk** — if the business fails, their personal savings are lost.
- **Retained profits.** These are **profits the business keeps and reinvests** rather than paying out to the owners. They cost no interest and require no repayment. For a business that is only just being **established**, however, retained profits are usually **small or non-existent**, because the business has not yet traded long enough to accumulate them — so retained profits matter more once a business is up and running than at the moment of start-up.

External finance — debt. *Debt finance* is money that is **borrowed** and **must be repaid**, almost always **with interest**. The main forms used by new businesses are:

- **Bank loans (term loans).** The business borrows a **lump sum** from a bank or other financial institution and repays it, plus interest, in instalments over an agreed **term** (for example, five years). Loans usually require **security** (collateral) — an asset the lender can seize if the loan is not repaid. Loans suit **large, long-term** needs such as buying equipment or a vehicle.
- **Overdraft.** A facility that lets a business **withdraw more from its bank account than the balance**, up to an agreed limit, with interest charged only on the amount actually overdrawn. It is a **short-term, flexible** source used to cover **temporary cash-flow shortfalls** — for example, paying wages in a slow week — rather than to fund major purchases.
- **Leasing.** The business **pays to use an asset** (such as equipment, vehicles or premises) owned by another party, making regular payments over time instead of buying the asset outright. Leasing **preserves cash** and spreads the cost, but the business **does not own** the asset and pays more over the life of the lease than an outright purchase would cost.
- **Trade credit.** A supplier allows the business to **receive goods or materials now and pay for them later** (commonly within 30 days). It is a **short-term** source that is often **interest-free**, and it helps a new business manage cash flow by delaying payment until it has sold the goods; failing to pay on time, however, can damage the supplier relationship.

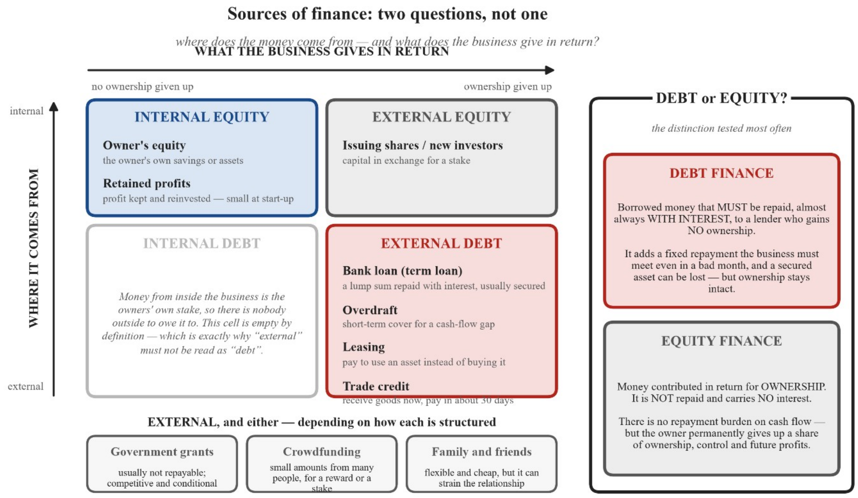
External finance — equity. *Equity finance* is money contributed in exchange for a **share of ownership** in the business. Beyond the owner's own funds (internal equity), a business can raise **external equity** by:

- **Issuing shares or bringing in investors/partners.** A company can **sell shares** to investors, and a sole trader or partnership can **take on a new partner or investor**, who provides capital in return for a stake in the business. The money raised **does not have to be repaid** and carries **no interest**, so it does not burden the business with fixed repayments. In return, however, the existing owner **gives up a share of ownership, control and future profits** — their stake is **diluted**. (Note that only companies can issue shares; a sole trader cannot.)

Other sources. Several further sources are important for start-ups in particular:

- **Government grants.** A government provides money — usually **not repayable** — to support business establishment, often targeted at particular industries, regions or purposes (for example, a grant for a new regional manufacturer). Grants are attractive because they need no repayment and dilute no ownership, but they are **competitive**, often **conditional**, and may be **small** or slow to obtain.
- **Crowdfunding.** The business raises **small amounts from many people**, typically through an online platform. Supporters may contribute in return for an early product or reward, or (in equity crowdfunding) for a small ownership stake. It can also **test demand** and build a customer base, but a campaign can fail to reach its target and requires effort to promote.
- **Family and friends.** People known to the owner lend or contribute money, often on **flexible, low-cost or interest-free** terms. This is easy to access for a new business with no track record, but it can **strain personal relationships** if the business struggles to repay.

Distinguishing debt finance from equity finance. This distinction is central. **Debt finance** is **borrowed** money that **must be repaid**, usually **with interest**, to a **lender** who gains **no ownership** of the business. **Equity finance** is money contributed by the **owner or by investors** in return for **ownership**; it does **not** have to be repaid and carries **no interest**, but it **dilutes ownership and control** and gives the provider a **share of profits**. In short, debt is *money you owe and must pay back with interest*, while equity is *money you raise by giving away a share of the business*.



Match the source to the need: short-term sources (an overdraft, trade credit) fund short-term needs; long-term sources (loans, leasing, equity) fund long-term assets. A newly established business with no trading history and few assets often finds debt hard to obtain at all.

Factors affecting the type and source of finance chosen. No source is best in every case; the owner weighs several factors:

- **Amount of finance needed.** A **large** amount may exceed the owner's savings and what any single source can provide, pushing the business towards a bank loan or towards raising equity from investors; a **small** amount may be met from savings, trade credit or an overdraft.
- **Cost of the finance.** Debt carries **interest and fees**, an ongoing expense that reduces profit; equity carries no interest but "costs" a **permanent share of future profits** and some control. The owner compares the cost of borrowing against the cost of giving away part of the business.
- **Term (short-term vs long-term).** Finance should be **matched to the purpose**: **short-term** needs such as stock or a cash-flow gap suit an overdraft or trade credit, while **long-term** assets such as equipment or premises suit a long-term loan, leasing or equity. Using a short-term source to fund a long-term asset (or the reverse) creates problems.

- **Level of risk.** Debt **increases financial risk**, because repayments are **fixed obligations** that must be met even when the business is struggling, and secured assets can be **lost** if it cannot pay. Equity places **no such obligation** on the business's cash flow, but the owner still risks their own contributed capital.
- **Control and ownership (dilution).** Raising **external equity** means **surrendering some ownership, control and profit**. An owner who wants to **retain full control** will favour internal finance or debt over bringing in investors.
- **Availability and security.** Lenders require **security (collateral)** and evidence that the business can repay. A **newly established** business with **no trading history and few assets** may find debt **hard to obtain**, making owner's equity, family and friends, grants or crowdfunding more realistic. The **business structure** also limits the options — only a company can issue shares.

Key ideas to keep straight.

- **Internal/external is about *where the money comes from*; debt/equity is about *what the business gives in return*.** Owner's equity is **internal equity**; a bank loan is **external debt**; issuing shares is **external equity**. Do not treat "external" as a synonym for "debt".
- **Debt is repaid with interest and gives the lender no ownership; equity is not repaid but gives the provider ownership and a share of profits.** This is the distinction examiners test most often.
- **Match the source to the need.** Short-term sources (overdraft, trade credit) fund short-term needs; long-term sources (loans, leasing, equity) fund long-term assets.
- **The trade-off is usually risk-and-cost versus control.** Debt keeps ownership intact but adds fixed repayments and risk; equity removes the repayment burden but gives away part of the business.

Contemporary example — Guzman y Gomez, June 2024

Guzman y Gomez (GYG) is an Australian quick-service restaurant business, founded in Sydney in 2006, that operates and franchises Mexican-inspired outlets in Australia and overseas.

On 31 May 2024 GYG announced a fully underwritten initial public offering of shares at **$22.00 per share**, including approximately **$200 million in primary proceeds** — new money raised for the business itself. The offer also included a **sell-down** by existing shareholders, whose proceeds went to those shareholders rather than to GYG. The company said the primary proceeds would fund its growth strategy, chiefly the expansion of its corporate restaurant network in Australia. Trading in GYG shares began on the ASX on **20 June 2024**.

This is **external equity finance**. The money came from **outside** the business, contributed by investors in exchange for a **share of ownership**, rather than being borrowed. Unlike a bank loan it carries **no interest** and **does not have to be repaid**, so a very large sum was raised without committing the business to **fixed repayments**. The cost is paid in ownership instead: issuing new shares **dilutes** the existing owners' stake, their **control** and their claim on **future profits**. The example also shows how **business structure** shapes the choice — only a **company** can raise finance by issuing shares to the public.

Source: Guzman y Gomez Limited, "Guzman y Gomez Announces Initial Public Offering and ASX Listing", 31 May 2024 — https://www.guzmanygomez.com.au/wp-content/uploads/2024/05/GYG_-Media-Release_20240531_vF.pdf. Accurate as at July 2026.

Worked examples

Example 1 — scaffolded

Explain how a **bank overdraft** could help a newly established business manage its cash flow.

Working	Comment
An overdraft is a facility that lets a business withdraw more from its bank account than the balance, up to an agreed limit, with interest charged only on the amount overdrawn.	Begin by identifying what the source is.
A new business often faces **timing gaps** — money must	Establish the cash-flow problem the source addresses.

Working	Comment
be paid out (wages, rent, suppliers) before enough cash has come in from sales.	
The overdraft lets the business **keep paying its bills during these gaps** by drawing on the facility, then repay it once sales revenue arrives.	Link the source's feature to the effect on cash flow.
∴ by providing flexible, short-term funds exactly when a temporary shortfall occurs, an overdraft helps the business meet its obligations and avoid running out of cash.	State the causal conclusion.

Example 2 — scaffolded

Priya is establishing an online homewares business. She needs $70 000: $50 000 for stock and a website, and $20 000 for packaging, delivery equipment and working capital. She has $30 000 of her own savings and wants to keep full control of the business. Recommend a source of finance for the shortfall and justify your recommendation.

Working	Comment
Priya can contribute $30 000 of **owner's equity**, leaving a shortfall of $40 000 to be raised externally.	Work out how much external finance is actually needed.
Because she wants to **keep full control**, raising external equity (bringing in an investor) is unsuitable, as it would dilute her ownership.	Eliminate a source using the stated factor (control).
A **bank loan** provides the $40 000 without surrendering any ownership; it must be repaid with interest, but Priya retains complete control.	Select a source that fits the factor and note its trade-off.
∴ a bank loan is recommended because it supplies the amount needed while preserving Priya's control, provided she is confident the business can meet the repayments.	Conclude with a justified recommendation.

Example 3 — unscaffolded

Distinguish between debt finance and equity finance.

Debt finance is money the business **borrows** from an external lender (such as a bank) that **must be repaid**, usually **with interest**, over an agreed period; the lender gains **no ownership** of the business and no share of its profits. **Equity finance** is money contributed by the **owner or by investors** in exchange for a **share of ownership**; it does **not** have to be repaid and carries **no interest**, but the provider gains a **stake in the business and a share of its profits**, so raising external equity **dilutes the original owner's control**. The key differences are therefore **whether the money must be repaid** (debt must, equity need not) and **whether ownership is given away** (debt gives away none, equity gives away a share). ∴ debt is money owed and repaid with interest, whereas equity is money raised by giving up part of the business.

Example 4 — unscaffolded

A new business owner states, "I will only use equity finance to establish my business, because unlike a loan it never has to be repaid." Evaluate this statement.

The statement has some merit but is **too one-sided**. It is true that equity finance — the owner's own funds or money from investors — carries a real **advantage**: it does **not have to be repaid** and charges **no interest**, so it places no fixed repayment burden on a fragile new business and reduces the risk of being unable to meet obligations. **However**, the owner overlooks equity's **costs**. Relying on the owner's own funds limits the business to the amount the owner happens to have, which may be too little; and raising equity from investors means **giving away ownership, control and a permanent share of future profits** — over the long run, sharing profits can cost far more than the interest on a loan, and the owner may lose the ability to run the business as they wish. Debt, by contrast, keeps ownership **intact** and, once repaid, ends the obligation entirely. ∴ while equity's lack of repayment is a genuine benefit, committing to equity **alone** is unwise: the appropriate mix depends on the amount needed, the cost, the owner's desire for control and the business's ability to service debt, so most new businesses sensibly combine equity with some debt rather than ruling debt out.

Practice questions

Scaffolded

Q1. Define the term *source of finance*.

Q2. Classify each of the following as an **internal** or an **external** source of finance: (a) owner's savings; (b) a bank loan; (c) retained profits; (d) issuing shares.

Q3. For each of the following, name the source of finance being described: (a) a supplier allows the business to buy stock now and pay for it in 30 days; (b) the owner contributes money from their personal savings; (c) the business pays to use a delivery van owned by another party rather than buying it.

Q4. Explain what is meant by **owner's equity** as a source of finance.

Q5. A new café needs a short-term source of finance to cover a temporary cash-flow shortfall. (a) Identify **one** suitable source of finance. (b) Explain why this source suits a short-term, temporary need.

Q6. Explain the difference between **debt finance** and **equity finance**.

Unscaffolded

Q7. Describe **trade credit** as a source of finance. *(2 marks)*

Q8. Distinguish between **internal** and **external** sources of finance, using an example of each. *(4 marks)*

Q9. Explain how a **bank overdraft** differs from a **bank loan** in its purpose and use. *(4 marks)*

Q10. Explain why **retained profits** are usually a limited source of finance for a business that is only just being **established**. *(3 marks)*

Q11. Compare **leasing** an asset with **buying** the same asset outright using a bank loan. *(4 marks)*

Q12. Discuss the use of **debt finance** to establish a new business. *(6 marks)*

Q13. Analyse how both the **amount of finance needed** and the **level of risk** can affect the source of finance a new business chooses. *(4 marks)*

Q14. *Case study.* **Tidewater Kayak Hire** is a new business being established by Marlon on a coastal foreshore. He needs $90 000: $65 000 for a fleet of kayaks and a storage shed, and $25 000 for signage, insurance and working capital. Marlon has $35 000 in personal savings and wants to remain the sole owner. A local bank has offered a five-year loan secured against the shed, and the regional council runs a "Coastal Tourism Start-up Grant" of up to $15 000 for new tourism ventures. (a) Identify **one** internal and **one** external source of finance available to Marlon. *(2 marks)* (b) Explain why the **council grant** would be an attractive source of finance for Marlon. *(3 marks)* (c) Analyse how Marlon could combine several sources of finance to raise the $90 000 while remaining the sole owner. *(4 marks)*

Q15. Justify a decision by the owner of a fast-growing start-up to raise finance by **bringing in an investor** rather than by taking out a large bank loan. *(4 marks)*

Q16. Propose and justify **one** source of finance for a school leaver establishing a small mobile dog-grooming business with **no assets and no trading history**. *(4 marks)*

Q17. Evaluate the use of **crowdfunding** as a source of finance for establishing a new business. *(6 marks)*

Q18. An entrepreneur says, "Borrowing from family and friends is free money, so it is always the best source of finance for a start-up." Explain why the entrepreneur may be mistaken, and recommend **one** step they could take to reduce the risks of this source. *(4 marks)*

Q19. *Extended response.* When establishing a business, an owner must choose from a range of sources of finance. Analyse the sources of finance available to establish a business — including internal finance, debt finance, equity finance and other sources such as grants and crowdfunding — and evaluate the view that the choice of source should always be decided by whichever option is cheapest. *(10 marks)*

Q20. *Contemporary example.* In June 2024, **Guzman y Gomez** listed on the ASX, having offered shares at $22.00 each to raise approximately $200 million of new capital for the business, which it said would fund the expansion of its restaurant network in Australia. Analyse this share issue as a source of finance, identifying the type of finance used and its consequences for the business. *(6 marks)*

Answers

Q1. Where a business obtains the money (finance) it uses to fund its needs. **Q2.** (a) internal; (b) external; (c) internal; (d) external. **Q3.** (a) trade credit; (b) owner's equity (owner's savings); (c) leasing. **Q4.** Money the owner contributes to the business from their own savings/assets; not repaid, no interest, but limited to what the owner has and puts the owner's own money at risk. See solutions. **Q5.** (a) e.g. an overdraft (or trade credit). (b) It provides flexible, short-term funds only while the shortfall lasts, with interest paid only on what is used, matching a temporary need. See solutions. **Q6.** Debt = borrowed money repaid with interest, lender gains no ownership; equity = money from the owner/investors in return for ownership, not repaid, no interest, but dilutes ownership/profit. See solutions. **Q7.** Supplier provides goods now, payment later (e.g. 30 days); short-term, often interest-free. See solutions. **Q8.** Internal = money from within the business or its owners, e.g. owner's equity or retained profits; external = money from outside, e.g. a bank loan, issuing shares or a grant. External covers both debt and equity. See solutions. **Q9.** Overdraft = short-term, flexible cover for temporary cash-flow gaps; loan = lump sum for large, long-term purchases repaid over a set term. See solutions. **Q10.** A new business has not traded long enough to accumulate profits, so little/none is available to retain. See solutions. **Q11.** Similarity: both let the business use an asset without paying the full price upfront. Difference: leasing = no ownership, spread payments; loan purchase = ownership of the asset plus a debt to repay. See solutions. **Q12.** Discuss — advantages (keeps ownership/control, amount available, interest deductible) and disadvantages (fixed repayments, interest cost, risk, security required). See solutions. **Q13.** Larger amounts push towards loans/equity; higher risk and few assets make debt harder to get and riskier, pushing towards equity/grants. See solutions. **Q14.** (a) Internal: owner's equity ($35 000 savings). External: bank loan, council grant (either). (b) Grant is not repaid, charges no interest and dilutes no ownership. (c) Combine savings + grant + loan (all keep him sole owner). See solutions. **Q15.** Justify — investor provides funds with no repayment/interest burden and shares risk, suiting a fast-growing but cash-hungry firm, though ownership is diluted. See solutions. **Q16.** Propose a realistic source (e.g. owner's savings, family and friends, or a grant) + justify by availability given no assets/history. See solutions. **Q17.** Evaluate — advantages (funds without repayment/dilution if reward-based, tests demand) vs disadvantages (may fail to reach target, effort, exposure) + judgement. See solutions. **Q18.** Explain it is not truly "free" (relationships at risk, still owed) + recommend a step (written agreement, terms). See solutions. **Q19.** Model response in solutions. **Q20.** External equity finance (issuing shares) — suits the large, long-term amount needed; no repayment and no interest, so no fixed repayment burden while the new restaurants are being built, but ownership, control and future profits are diluted; only a company can issue shares. See solutions.

Fully-worked solutions

Q4. Owner's equity is money that the owner (or owners) contributes to the business from their own **personal savings or assets**, and it represents the owner's **stake** in the business. As a source of finance it has clear advantages: it does **not have to be repaid** and charges **no interest**, and using it surrenders no ownership or control to any outsider. Its limitations are that the amount is restricted to **what the owner actually has**, and that the owner is putting **their own money at risk** — if the business fails, those personal savings are lost.

Q5. (a) A suitable short-term source is a **bank overdraft**. *(Trade credit would also be acceptable.)* (b) An **overdraft** suits a **short-term, temporary** need because it is a **flexible facility** rather than a fixed lump sum. The café can **withdraw more from its bank account than the balance**, up to an agreed limit, at exactly the moment the shortfall occurs — for example when wages, rent and supplier invoices fall due in a quiet week before takings recover. Interest is charged **only on the amount actually overdrawn, and only for as long as it is overdrawn**, so the café pays for the finance only while it genuinely needs it, and the facility is **repaid as sales revenue comes in**. A long-term source such as a bank loan would be the wrong tool for this need: it would supply a lump sum the café does not require in full and would commit it to **fixed repayments over several years** for a shortfall lasting only a few weeks.

Q6. Debt finance is money the business **borrows** from an external lender and **must repay**, usually **with interest**, over an agreed period; the lender does **not** gain any ownership of the business. **Equity finance** is money provided by the **owner or by investors** in return for a **share of ownership** in the business; it does **not** have to be repaid and charges **no interest**, but the provider gains a **stake and a share of the profits**. The difference is therefore that debt must be **repaid with interest but gives away no ownership**, whereas equity **need not be repaid but gives away a share of ownership and profit**.

Q7. Trade credit is a source of finance in which a **supplier allows the business to receive goods or materials now and pay for them later**, commonly within 30 days of the invoice. It is a **short-term** source that is usually **interest-free**, and it helps a business manage cash flow by delaying payment — often until after the goods have been sold.

Q8. *(Distinguish — both terms must be addressed and the basis of the difference stated.)* **Internal sources of finance** are money that comes from **within the business or its owners**, without borrowing from an outside lender or bringing in new investors — for example **owner's equity**, the money the owner contributes from their **personal savings**, or **retained profits**, the profits the business keeps and reinvests. **External sources of finance** are money that comes from **outside** the business — from **lenders, new investors or other outside parties** — for example a **bank loan** from a financial institution, **issuing shares** to investors, or a **government grant**. The basis of the difference is **where the money originates**: internal finance draws only on funds the business or its owners already have, so it involves **no outside party, no repayment to anyone and no loss of ownership**, but is **limited** to what is available; external finance brings in money the business does not have, which generally must either be **repaid with interest** or be paid for with a **share of ownership and profits**, though it can supply **far larger amounts**. Note that "external" is **not** a synonym for "debt" — external finance includes both **debt** (a bank loan) and **equity** (issuing shares).

Q9. A **bank loan** and a **bank overdraft** serve different purposes. A **loan** provides a **lump sum** borrowed for a **large, usually long-term** purpose — such as buying equipment or a vehicle — which is repaid, with interest, in instalments over an agreed **term**; interest is charged on the whole amount borrowed. An **overdraft**, by contrast, lets the business **withdraw more from its account than the balance**, up to a limit, and is used for **short-term, temporary cash-flow shortfalls**; it is **flexible** and interest is charged **only on the amount actually overdrawn** at any time. In short, a loan funds a specific large purchase over the long term, while an overdraft is a flexible short-term buffer for day-to-day cash flow.

Q10. Retained profits are profits the business **keeps and reinvests** rather than distributing to the owners. For a business that is only just being **established**, this source is limited because the business **has not yet traded** — or has traded only briefly — so it has **not had time to earn and accumulate profits** that could be retained. With little or no profit yet generated, there is little or nothing to reinvest, which is why a start-up must rely mainly on owner's equity and external sources at first, and why retained profits become a more significant source only **once the business has been operating profitably** for some time.

Q11. *(Compare — both a similarity and a difference are required.)* **A similarity** is that both **leasing** and **buying with a bank loan** allow a business to **obtain the use of an asset without paying its full price upfront**, spreading the cost over time and preserving cash for other needs. **A difference** lies in **ownership and what remains at the end**: with **leasing**, the business **never owns** the asset — it simply pays for the right to use it, and payments continue for as long as it needs the asset; with a **loan-financed purchase**, the business **owns** the asset outright but takes on a **debt** that must be repaid with interest, and once the loan is repaid it holds a valuable asset with no further payments. In short, leasing avoids ownership and its risks but never builds an asset, whereas buying with a loan builds ownership but adds a repayable debt.

Q12. *(Discuss — advantages and disadvantages; no judgement required; avoid double-dipping.)* Using **debt finance** to establish a business has real **advantages**. It allows the owner to raise funds **without giving up any ownership or control**, so the business remains entirely theirs; it can provide a **large amount** at once, more than the owner's savings alone; the obligation **ends once the debt is repaid**; and the interest is a **tax-deductible expense**. However, debt also has significant **disadvantages** for a new business. Repayments are a **fixed obligation** that must be met even in slow periods, straining the cash flow of a business whose income is still uncertain; the **interest** adds to costs and reduces profit; lenders usually demand **security**, so the owner risks **losing assets** if they cannot repay; and a business with no trading history may find debt **hard to obtain** in the first place. Debt finance is therefore powerful for preserving control and raising substantial funds, but it increases a new business's financial risk precisely when its income is least certain.

Q13. *(Analyse — show the causal effects, not a list of pros and cons.)* The **amount of finance needed** and the **level of risk** work together to shape the source chosen. When the amount needed is **large**, it is likely to exceed the owner's own savings, so the business must look externally — to a **bank loan** or to **raising equity from investors** — because these can supply substantial sums that internal finance cannot; a small amount, by contrast, can often be met from savings or trade credit. The **level of risk** then influences *which* external source is realistic. A new, unproven business is **high-risk** from a lender's point of view and typically has **few assets to offer as security**, so **debt may be hard to obtain**, and taking it on would add fixed repayments that a fragile business might not meet — raising the risk of losing secured assets. This pushes a risky start-up towards **equity, grants or family and friends**, which impose **no repayment obligation**. Thus a large requirement drives the business outward to loans or investors, while high risk steers it away from debt and towards equity and other non-repayable sources — the two factors interacting to determine the final choice.

Q14. (a) **Internal:** owner's equity — Marlon's **$35 000** in personal savings. **External:** either the **bank loan** (five-year, secured against the shed) or the **council grant** (Coastal Tourism Start-up Grant). *(One of each required.)* (b) The **council grant** would be attractive because, unlike a loan, it **does not have to be repaid** and charges **no interest**, so it adds no repayment burden to a new business whose income is still uncertain; and, unlike bringing in an investor, it **dilutes none of Marlon's ownership**, so he keeps full control. In effect the grant provides up to **$15 000** of funding at no financial cost and no loss of control — although it is likely to be competitive and conditional on the venture qualifying as an eligible tourism business. (c) *(Analyse — how a combination reaches the target while preserving sole ownership.)* Marlon can raise the **$90 000** by **layering sources that all leave him the sole owner**. He begins with his **$35 000 of owner's equity**, then applies for the **council grant of up to $15 000**, which is non-repayable and dilutes no ownership; together these provide up to **$50 000**. The remaining **$40 000** can be borrowed as the **five-year bank loan** secured against the shed — a form of **debt**, so it too leaves his ownership **intact**, unlike bringing in an investor. Because none of these three sources involves selling a share of the business, Marlon reaches the full $90 000 **and remains the sole owner**; the trade-off is that the loan portion adds interest and fixed repayments, so he must be confident the hire income will cover them. Combining internal equity, a grant and debt therefore lets him fund the venture without surrendering control.

Q15. *(Justify — argue why, with reasoning.)* Bringing in an **investor** can be justified for a fast-growing start-up on several grounds. First, equity finance imposes **no fixed repayments and no interest**, which suits a business that is **growing rapidly and consuming cash**: a large bank loan would demand regular repayments that a firm ploughing every dollar back into growth might struggle to meet, whereas an investor is rewarded only if the business succeeds. Second, the investor **shares the risk** of the venture rather than standing as a creditor who must be paid regardless of performance, reducing the danger of insolvency during the risky growth phase. Third, an investor may bring **expertise, contacts and further capital** for future expansion that a lender does not. The clear cost is that the owner **dilutes their ownership, control and share of future profits**. ∴ where rapid growth makes fixed loan repayments dangerous and shared risk and expertise are valuable, raising equity from an investor is justified despite the loss of some control.

Q16. *(Propose and justify — do more than name the source; argue why it suits the situation.)* A suitable source is a **loan from family and friends**. This is appropriate for a school leaver with **no assets and no trading history** because such an applicant would find it **very difficult to obtain a bank loan** — lenders require security and evidence of ability to repay, both of which the school leaver lacks. Family and friends, by contrast, will often lend on **flexible, low-cost or interest-free terms** and are willing to back the person even without collateral, so the finance is genuinely **available** when formal debt is not. The amount involved also suits the source: a small mobile dog-grooming business needs only a **modest sum** for clippers, a bath and a vehicle fit-out — well within what family and friends can realistically provide, unlike the large amounts that would require a bank or an investor. ∴ given the absence of assets and trading history, a loan from family and friends is the realistic and appropriate source, because it is accessible and cheap precisely where formal debt is not — provided the borrowing is put on clear written terms so that any difficulty in repaying does not damage the relationships.

Q17. *(Evaluate — advantages and disadvantages plus an evidence-based judgement.)* **Crowdfunding** — raising small amounts from many people, usually online — has genuine **advantages** for establishing a new business. In its common reward-based form it provides funds that **need not be repaid and dilute no ownership**, unlike a loan or an investor; it is **accessible to a start-up with no assets or trading history**, which would struggle to obtain bank finance; and, valuably, a campaign **tests demand and builds an audience** of early customers before the business even launches. Its **disadvantages** are also real: a campaign can **fail to reach its target**, in which case the money may not be released and the effort is wasted; running a successful campaign takes **considerable time, marketing skill and a compelling product**; publicising the idea can **expose it to competitors**; and the business must then **deliver the promised rewards**, which can be costly. Weighing these, crowdfunding is **well suited to consumer products with an appealing story and a ready online audience**, where its demand-testing and non-repayable funding are powerful, but it is **poorly suited to businesses that lack a marketable product or a public profile**, and it is rarely reliable enough to be a start-up's *only* source. ∴ crowdfunding is a valuable source in the right circumstances — chiefly for product businesses that can excite a crowd — but its uncertainty means most new businesses should treat it as **one part of a wider mix** rather than depend on it alone.

Q18. *(Explain the misconception, then recommend an improvement.)* The entrepreneur may be mistaken because borrowing from family and friends is **not truly "free money."** Although it is often interest-free and flexible, it is still money that is **owed and must be repaid**, and if the business struggles to repay, the cost is paid in a different currency — **damaged personal relationships** and family conflict, which can be far more painful than interest. Treating the money casually, with no clear terms, also makes disputes more likely because expectations about repayment are never agreed. To reduce these risks, the entrepreneur should **put the arrangement in writing** — a simple **written agreement** setting out the amount, whether it is a loan or an equity stake, any interest, and a clear **repayment schedule**. Formalising the terms protects both sides, keeps expectations aligned and greatly reduces the chance that money will damage the relationship, making family and friends a safer source.

Q19. *Model response (10 marks).* Establishing a business requires money before it can earn any, and the owner must choose from a range of **sources of finance**, each classified by where the money comes from and what the business gives in return. **Internal finance** comes from within: **owner's equity** (the owner's own savings) needs no repayment and no interest and surrenders no control, but is limited to what the owner has and risks their personal money, while **retained profits** are barely available to a business that has not yet traded. **Debt finance** is borrowed and must be repaid with interest: a **bank loan** supplies a large lump sum for long-term assets, an **overdraft** covers short-term cash-flow gaps, **leasing** spreads the cost of using an asset, and **trade credit** lets the business pay suppliers later — debt preserves ownership but adds fixed repayments and risk. **Equity finance** raised from **investors or by issuing shares** brings funds that need not be repaid, but dilutes the owner's ownership, control and profit. **Other sources — government grants** (non-repayable but competitive), **crowdfunding** (which can also test demand) and **family and friends** (cheap and accessible but able to strain relationships) — are often vital for a start-up that cannot yet obtain bank finance. Which source suits a given business depends on the **amount needed, the term of the need, the level of risk, the owner's desire for control and the availability of security** — for example, a large long-term asset points to a loan or equity, while a temporary shortfall points to an overdraft.

The view that the choice should **always** be decided by whichever option is **cheapest** captures something important but is **too narrow**. Cost genuinely matters: interest and fees make debt a continuing expense, so a business should not borrow needlessly dearly, and comparing costs is a proper part of the decision. **However**, cost is only one factor and is easily mismeasured. The "cheapest" source on paper — say, the owner's own savings, which charge no interest — may be **insufficient** for the amount required, or may expose the owner to unacceptable **personal risk**; debt may look cheap while interest rates are low, yet its **fixed repayments** can threaten a fragile new business's survival, which is a cost that no interest rate captures. Equity charges no interest at all, so it can appear "cheap," yet giving away a share of ownership and **all future profits** can prove the most expensive choice of all over time. Judging only by cost also ignores **control** (an owner may rightly pay more to avoid diluting ownership), **term** (a cheap short-term source is the wrong tool for a long-term asset) and **availability** (the cheapest source may simply be unobtainable for a business with no security). ∴ cost is an important consideration but should never be the sole one: the appropriate source of finance is the one that best **balances cost against the amount needed, the timeframe, the risk to the business and the owner's control** — so most new businesses are best served by a **considered mix** of sources rather than by whichever is merely cheapest. *(Full marks require: an accurate account of internal, debt, equity and other sources; analysis of how the factors shape the choice; and a sustained, two-sided evaluation of the "cheapest" view reaching a justified judgement.)*

Q20. *(Analyse — link the source chosen to the factors behind it and to its consequences, rather than listing features.)* GYG's share issue is a form of **external equity finance**: the money came from **outside** the business, contributed by investors in return for a **share of ownership**, rather than being borrowed from a lender. The choice follows from the **amount of finance needed** and the **term** of the need — approximately **$200 million** to expand a restaurant network over several years is a **large, long-term** requirement that internal sources such as **owner's equity** or **retained profits** could not supply, so the business had to look externally; and because GYG is a **company**, issuing shares was available to it as an option that a sole trader or partnership would not have. Choosing **equity** rather than **debt** then shapes the consequences. Equity **does not have to be repaid** and carries **no interest**, so GYG raised a very large sum without committing itself to **fixed repayments** during the period in which the new restaurants are being built and are not yet earning — repayments that a loan would have imposed regardless of how the rollout performed, increasing the business's financial risk. The trade-off is paid in **ownership**: the new shares **dilute** the existing owners' stake, their **control** of the business and their claim on **future profits**, permanently, whereas a loan's obligation ends once it is repaid. ∴ external equity matched the size and timeframe of GYG’s expansion and avoided the cash-flow risk that debt would have created, at the cost of permanently sharing ownership, control and profit with new shareholders.

Chapter 5 Resources, location, finance and support — 5D Business support services

Theory

Very few people who start a business are expert in every part of running one. A person may have a great product idea and the skills to make it, yet know little about company law, tax, computer systems or marketing. **Business support services** are the **external providers of specialist advice, expertise and assistance that a person planning or establishing a business can draw on** to fill these gaps. Using them lets a new business owner tap **knowledge and experience they do not have themselves**, which reduces the risk of costly mistakes, saves time, and improves the quality of the many decisions a start-up must make. The study design names seven forms of support: **legal, financial, technological and community-based services, formal and informal networks, and business mentors.**

- **Legal support services.** These are provided by **solicitors (lawyers) and legal advisers**. They help a person planning a business by advising on the most suitable **business structure** (sole trader, partnership, company) and its legal consequences, drafting and checking **contracts** such as leases, supplier agreements and partnership agreements, and ensuring the business **complies with the law** — registering the business name, obtaining the right licences and permits, and meeting consumer, employment and other regulations. A solicitor can also protect the owner's ideas through **trademarks, patents and copyright**. By getting these things right from the start, legal support reduces the risk of **fines, disputes and costly legal problems** later.
- **Financial support services.** These are provided by **accountants, bookkeepers and financial advisers**. A **bookkeeper** sets up and maintains the day-to-day **recording of transactions**; an **accountant** prepares and interprets **financial reports**, advises on **tax obligations** (such as GST and income tax) and helps with **budgets and cash-flow forecasts**; a **financial adviser** gives guidance on **finance and investment decisions**, such as how much to borrow and from where. Together they help a new business **manage its money accurately, meet its tax and reporting duties and make informed financial decisions**, which is vital because poor cash-flow management is a common cause of early business failure.
- **Technological support services.** These are provided by **IT providers, website developers and software or systems suppliers**. They help set up the **hardware and software** a business needs, build a **website or online store**, install **point-of-sale, inventory and accounting systems**, arrange **cloud storage and data back-ups**, and protect the business against **cyber threats**. Good technological support lets a new business **operate efficiently, reach customers online and keep its data secure**, often without needing to employ its own IT staff.
- **Community-based support services.** These are the **local business centres, chambers of commerce and government agencies** (for example a small-business advisory service or the local council) that exist to **help small and new businesses in a region**. They provide **information, advice, workshops, templates, grants and referrals**, frequently **free or low-cost**, and tailored to the local area. They are especially useful to a first-time owner who needs to **understand regulations, find local contacts and access support** without paying large professional fees.
- **Formal networks.** A **formal network** is a **structured, organised group that a business deliberately joins**, usually for a fee — most commonly an **industry (or professional) association** or a chamber of commerce. Formal networks provide **industry-specific information and training, updates on regulations, advocacy on members' behalf, agreed standards, and organised networking events**. Belonging gives a new business access to **expertise and connections across its whole industry** that it could not easily gather alone.
- **Informal networks.** An **informal network** is the **loose web of personal connections a business owner draws on — family, friends and other business owners** — that provides **advice, encouragement, contacts and shared experience**. These relationships arise **casually rather than through formal membership**, usually cost nothing, and offer both **practical tips** (for example, a fellow owner recommending a reliable supplier) and **emotional support** during the demanding early stage of a business.
- **Business mentors.** A **business mentor** is an **experienced, usually more established businessperson who voluntarily guides and advises a less-experienced owner** in an ongoing, one-to-one relationship. Drawing on their own experience, a mentor helps the owner **avoid common mistakes, think through decisions, build confidence and expand their contacts**, and provides **honest feedback and accountability**. Because their guidance is based on having "been there before", mentors are particularly valuable to first-time entrepreneurs.

Distinguishing formal from informal networks. Both formal and informal networks connect a business owner with **other people who can provide information, advice and contacts**, but they differ in **how they are organised and how the relationship is formed**. A **formal network is structured and official**: the owner **deliberately joins** an organised body such as an industry association, usually **pays a membership fee**, and gains access to organised services and events with a defined purpose. An **informal network is unstructured and personal**: it is made up of **family, friends and acquaintances** whom the owner relies on **casually**, with **no membership or fee** and no formal organisation behind it. In short, a formal network is a *joined, organised group*, whereas an informal network is a *personal web of contacts* — the first is deliberate and official, the second casual and relationship-based.

Key ideas to keep straight.

- Business support services are **external** — they are advice and assistance the owner draws on **from outside the business**, not tasks the owner necessarily does alone.
- **Bookkeeper, accountant and financial adviser are not the same.** A bookkeeper *records* daily transactions, an accountant *prepares, interprets and reports on* finances and tax, and a financial adviser *advises on finance and investment* choices.
- **Formal vs informal networks** differ in **structure**, not in usefulness: formal = a joined, organised body (often paid); informal = casual personal contacts (usually free).
- A **business mentor is a single, experienced guide** in an ongoing relationship, which is different from an informal network of many casual contacts, and different again from a formal network's organised industry-wide membership.
- Each service is valued for **what it does for the business** — filling a knowledge gap, reducing risk, saving time or providing support — not merely because it is available.

Contemporary example — Victorian Small Business Commission, October 2024

The **Victorian Small Business Commission (VSBC)** is a Victorian government agency — a statutory body established under the *Small Business Commission Act 2017* — that provides information and dispute resolution services to small businesses across Victoria.

On **31 October 2024** the VSBC published its 2023–24 annual report. The report recorded that during 2023–24, **7,357** Victorian small businesses contacted the Commission for information and **1,795** applications were made for assistance with a dispute. Of those disputes, **35%** were settled through early dispute resolution and **75%** of the matters that went on to a formal mediation were resolved. The report also noted that **41%** of dispute applications made under the Act concerned unpaid money.

This is a **community-based support service** in operation. Like the local business centres, chambers of commerce and government small-business agencies described above, the VSBC is an **external** source of **information, advice and assistance** that an owner can draw on rather than relying only on their own knowledge. Its 2023–24 figures show what such a service does for a business: it supplies **expertise the owner does not have themselves**, and by settling disputes through early resolution and mediation it **reduces the risk** that a disagreement over a lease or an unpaid invoice becomes a **costly legal problem** — the very benefit the theory above gives for using support services at all.

Source: Victorian Small Business Commission, "Growing number of small businesses in dispute over unpaid money: VSBC Annual Report 2023-24", 31 October 2024 — https://www.vsbc.vic.gov.au/news-publication/growing-number-of-small-businesses-in-dispute-over-unpaid-money-vsbc-annual-report-2023-24/. Accurate as at July 2026.

Worked examples

Example 1 — scaffolded

Jordan is planning to establish a mobile dog-grooming business as a sole trader. Explain how a **legal support service** could assist Jordan when setting up the business.

Working	Comment
Identify the service: a legal support service is provided by a solicitor who gives advice on legal matters	Start by defining the service in the context.

Working	Comment
affecting the business.	
Jordan is unsure how to set the business up correctly and legally; a solicitor can advise on the sole-trader structure and its legal obligations, register the business name, and confirm which permits or licences mobile grooming requires.	Link specific legal help to Jordan's planning-stage needs.
Getting these legal requirements right from the outset means Jordan avoids fines or disputes that could arise from operating incorrectly.	Explain the benefit — reduced legal risk.
∴ a legal support service helps Jordan establish the business correctly and lawfully, lowering the risk of costly legal problems later.	State the conclusion.

Example 2 — scaffolded

Meera is opening a small homewares shop but has no experience keeping business records or managing tax. Propose and justify a **business support service** she could use.

Working	Comment
Meera's gap is in recording transactions and meeting tax obligations — a **financial support service** (an accountant and/or bookkeeper) directly addresses this.	Match the need to the right service.
A bookkeeper would set up and maintain a system to record Meera's daily sales and expenses, while an accountant would prepare her financial reports and manage her GST and income-tax obligations.	Show what the service actually does (propose = more than name it).
This matters because Meera lacks the expertise herself; using the service keeps her records accurate and her business tax-compliant, and frees her to focus on running the shop.	Justify by arguing the benefits for Meera.
∴ a financial support service is appropriate because it supplies the financial expertise Meera lacks and reduces the risk of record-keeping or tax errors.	State the justified conclusion.

Example 3 — unscaffolded

Distinguish between formal and informal networks as forms of business support.

A **formal network** is a **structured, organised group that a business owner deliberately joins**, usually by paying a membership fee — for example an industry association — and which provides organised services such as industry information, training, advocacy and networking events. An **informal network**, by contrast, is the **casual, personal web of contacts an owner relies on**, made up of **family, friends and other business owners**, that provides advice, encouragement and contacts **without any membership or fee**. The key difference is **how each is formed and organised**: a formal network is **official and deliberately joined**, whereas an informal network is **unofficial and based on personal relationships**. ∴ formal and informal networks both connect an owner with helpful people, but the first is an organised body the owner joins while the second is a personal network the owner draws on casually.

Example 4 — unscaffolded

Analyse how using a range of business support services could affect a new business's chances of success.

Using business support services allows a new owner to **draw on expertise they do not personally have**, and this has flow-on effects for the business's chances of success. Because one person cannot be an expert in law, finance, technology and their own trade at once, engaging specialists means each part of the business is handled **more competently**: a solicitor ensures the business is set up legally, an accountant keeps its finances accurate and compliant, and an IT provider builds systems that let it operate efficiently. This reduces the likelihood of **costly errors**

— an unregistered business name, a tax mistake, a data breach — that can cripple a fragile start-up. At the same time, community-based services, networks and a mentor give the owner **information, contacts and guidance** that help them make **better-informed decisions** and avoid mistakes others have already made, while informal support helps sustain the owner's **confidence and motivation**. Each of these effects — greater competence, fewer errors, better decisions and stronger morale — feeds into a **higher chance that the business survives and grows**. ∴ by supplying the expertise, information and support a new owner lacks, business support services reduce risk and improve decision-making, which in turn improves the new business's chances of success.

Practice questions

Scaffolded

Q1. Define the term *business support services*.

Q2. List the **seven** forms of business support service named in the study design.

Q3. For each of the following, name the business support service being described: (a) a solicitor advises a new owner on registering the business name and choosing a legal structure; (b) an experienced businessperson meets a new owner regularly to guide them and share lessons from their own experience; (c) a developer builds the business an online store and sets up its point-of-sale system.

Q4. Identify **two** ways a **financial support service** could help a person establishing a business.

Q5. Sam is planning to start a landscaping business and wants free, local advice on regulations and available grants. (a) Identify the most appropriate business support service for Sam. (b) Explain why this service suits Sam's situation.

Q6. Explain the difference between a **formal network** and an **informal network**.

Unscaffolded

Q7. Define the term *business mentor*. *(2 marks)*

Q8. Outline how a **technological support service** could assist a new business. *(2 marks)*

Q9. Describe how a **legal support service** could help a person in the planning stage of a business. *(3 marks)*

Q10. Explain how a **financial adviser** could assist a person establishing a business. *(3 marks)*

Q11. Distinguish between a **formal network** and a **business mentor**. *(4 marks)*

Q12. Explain how a **community-based support service** could assist a person planning a business. *(3 marks)*

Q13. Compare a **business mentor** and an **informal network** as sources of support for a new business owner. *(4 marks)*

Q14. Explain how a **business mentor** could help a first-time business owner. *(3 marks)*

Q15. Analyse how using a **technological support service** could affect a new business's ability to compete with larger, established businesses. *(4 marks)*

Q16. A person establishing an online clothing label is unsure whether they can use their chosen brand name and logo. Justify the use of a **legal support service** in this situation. *(4 marks)*

Q17. *Case study.* **Fernback Ceramics** is a business Nadia is planning to establish — a handmade ceramics studio with an online store. Nadia is a highly skilled potter but has never run a business: she is unsure whether to operate as a sole trader or a company, has no system for recording sales or managing tax, wants a professional website and online payments, and admits she "feels quite alone" in making decisions. (a) Identify **two** business support services Nadia could use. *(2 marks)* (b) Explain how a **financial support service** could help Nadia establish Fernback Ceramics. *(3 marks)* (c) Analyse how using a **business mentor** could improve Nadia's decision-making as she establishes the business. *(4 marks)*

Q18. Evaluate the decision by a person establishing a business to pay to join an **industry association**. *(6 marks)*

Q19. *Extended response.* When establishing a business, an owner can draw on a range of support services — legal, financial, technological and community-based services, formal and informal networks, and business mentors. Analyse how these support services can assist a person establishing a business, and evaluate the view that professional (paid) services are more valuable to a new business than networks and mentors. *(10 marks)*

Q20. *Contemporary example.* On 31 October 2024 the **Victorian Small Business Commission** — a Victorian government agency — reported that during 2023–24 it received **1,795** applications from small businesses for assistance with a dispute, that **35%** of disputes were settled through early dispute resolution, and that **75%** of the matters proceeding to a formal mediation were resolved. Analyse how a **community-based support service** such as this could reduce the risks faced by a person establishing a business. *(5 marks)*

Answers

Q1. External providers of specialist advice, expertise and assistance that a person planning or establishing a business can draw on. **Q2.** Legal; financial; technological; community-based; formal networks; informal networks; business mentors. **Q3.** (a) legal support service; (b) business mentor; (c) technological support service. **Q4.** Any two, e.g.: set up a record-keeping/bookkeeping system; prepare and interpret financial reports; manage tax obligations (GST/income tax); prepare budgets and cash-flow forecasts; advise on sources of finance. **Q5.** (a) A community-based support service (e.g. a local business centre, chamber of commerce or government small-business agency). (b) It provides free or low-cost local information, advice and grant referrals suited to a new business owner who wants regional support without large fees. **Q6.** A formal network is a structured, organised body the owner deliberately joins (often paying a fee), e.g. an industry association; an informal network is a casual, personal web of contacts (family, friends, other owners) relied on without membership or fee. **Q7.** An experienced businessperson who voluntarily guides and advises a less-experienced owner in an ongoing relationship. See solutions. **Q8.** Sets up systems/website/online store so the business can operate efficiently and reach customers. See solutions. **Q9.** Advises on structure, contracts, registration and compliance, reducing legal risk. See solutions. **Q10.** Advises on finance and investment decisions — how much the business needs, how much to borrow and from where — so the owner's funding decisions are better informed. See solutions. **Q11.** A formal network is an organised body the owner joins, usually for a fee, supplying industry-wide information, training and contacts; a business mentor is one experienced person who voluntarily guides that owner personally in an ongoing relationship. See solutions. **Q12.** Provides free/low-cost local information, advice, workshops and grants suited to a new owner. See solutions. **Q13.** Both provide advice/support drawing on others' experience, usually low cost (similarity); a mentor is one experienced guide in an ongoing relationship, an informal network is many casual contacts (difference). See solutions. **Q14.** Shares experience, helps avoid mistakes, gives feedback and contacts, builds confidence. See solutions. **Q15.** Supplies IT expertise and systems the owner could not build alone → online store, efficient sales/stock systems and secure payments → wider reach, greater efficiency and customer trust, narrowing larger rivals' advantage. See solutions. **Q16.** A solicitor can check/register the brand name and logo as a trademark, avoiding infringement and protecting the brand. See solutions. **Q17.** (a) Any two, e.g. legal service, financial service, technological service, a business mentor. (b) & (c) See solutions. **Q18.** Evaluation — weigh the industry information, training, regulation updates and organised contacts a membership brings against the fee, its general rather than tailored nature, and the time needed to use it; reach a judgement. See solutions. **Q19.** Model response in solutions. **Q20.** A community-based support service is an external government/local agency supplying small businesses with information, advice and assistance, usually free or low-cost → a new owner without legal or commercial expertise has somewhere to take a lease, supplier or unpaid-money problem (1,795 applications in 2023–24) → most disputes settled by early resolution or mediation (35%; 75% of mediations) rather than court → legal costs and management time avoided, and the owner can trade with more confidence → lower risk that one dispute destroys a fragile new business. See solutions.

Fully-worked solutions

Q7. A **business mentor** is an **experienced, usually more established businessperson who voluntarily guides and advises a less-experienced business owner** in an ongoing, one-to-one relationship, sharing the benefit of their own experience to help the owner make better decisions.

Q8. A **technological support service** — such as an IT provider or website developer — could assist a new business by **setting up the systems and online presence it needs to operate**, for example building a **website and online store** and installing **point-of-sale, inventory or accounting software**. This allows the business to **operate efficiently and reach customers online** without employing its own IT staff.

Q9. A **legal support service**, provided by a solicitor, could help a person in the planning stage by **advising on the most suitable business structure** and its legal obligations, **drafting or checking contracts** such as leases and supplier agreements, and ensuring the business **complies with legal requirements** — registering the business name and obtaining the right licences and permits. By getting these matters right before the business begins operating, the owner **reduces the risk of fines, disputes and other costly legal problems** later.

Q10. A **financial adviser** is the form of financial support service that advises on **finance and investment decisions**, rather than recording transactions as a bookkeeper does or reporting on them as an accountant does. When a person is establishing a business, an adviser could help them work out **how much finance the business actually needs** to get started, advise on **how much to borrow and from where**, and explain the **cost and level of risk** each option carries, as well as advising on what to do with any surplus funds. Because a first-time owner rarely has this expertise, the adviser's guidance means the business is **funded on terms the owner can realistically meet**, reducing the risk of borrowing too much, too little or on unsuitable terms at the very start.

Q11. A **formal network** is a **structured organisation that a business owner deliberately joins**, usually by paying a **membership fee** — most commonly an industry or professional association — and the support it supplies is **industry-wide and shared among all its members**: industry information and training, updates on regulations, agreed standards, advocacy on members' behalf and organised networking events. A **business mentor** is not an organisation at all but a **single, experienced businessperson** who **voluntarily** works with **one** less-experienced owner in an **ongoing, one-to-one relationship**, giving guidance, honest feedback and accountability **tailored to that owner's own decisions**, usually at no cost. They therefore differ in **what each is and how the support reaches the owner**: a formal network is a **paid membership of an organised body offering broad, industry-level support**, whereas a mentor is a **personal relationship with one experienced individual offering guidance specific to that owner's situation**.

Q12. A **community-based support service** — such as a local business centre, chamber of commerce or government small-business agency — could assist a person planning a business by providing **information, advice, workshops, templates and grant referrals**, often **free or at low cost** and **tailored to the local area**. For a first-time owner who cannot afford large professional fees, this help is valuable because it lets them **understand the regulations that apply, access available grants and find local contacts**, giving their planning a more informed and better-supported foundation.

Q13. A similarity is that both a **business mentor** and an **informal network** provide a new owner with **advice, support and contacts drawn from others' experience**, and both are usually **low-cost or free** and based on personal relationships rather than a paid contract. **A difference is** their **structure**: a business mentor is a **single, experienced businessperson** who works with the owner in an **ongoing, focused relationship** specifically to develop them, whereas an informal network is a **loose group of many casual contacts** — family, friends and other owners — who offer help **occasionally and unsystematically**, and who are not necessarily experienced in business. In short, both give relationship-based support, but a mentor offers deliberate, experienced, one-to-one guidance while an informal network offers broader but more casual support.

Q14. A **business mentor** could help a first-time owner by **sharing the lessons of their own experience** so the owner can **avoid common mistakes** the mentor has already encountered. The mentor can act as a **sounding board**, giving honest feedback on the owner's decisions and helping them think problems through, and can **open up useful contacts** from their own network. Because starting a business is demanding and often isolating, a mentor also **builds the owner's confidence and provides accountability**, encouraging them to follow through. Together this guidance helps the inexperienced owner make **sounder decisions** than they would alone.

Q15. *(Analyse — trace the causal effects.)* A **technological support service —** an IT provider, website developer or software supplier — gives a new business **technical expertise and systems its owner could not build alone**, and this narrows the gap with larger, established rivals through a chain of effects. First, the provider can build a **professional website and online store**, so a business working from a single small premises can **sell right across the country and take orders around the clock**, reaching a market that once required the size and budget of an established firm. Second, installing **point-of-sale, inventory and accounting systems** lets the owner **process sales, track stock and manage money quickly and accurately**, so the new business delivers the **speed and reliability customers already expect of bigger competitors** without employing the staff those competitors need. Third, **secure payments, data back-ups and cyber-security** give customers **the confidence to buy from a business they have not heard of**, removing a disadvantage an unknown name would otherwise carry. ∴ by supplying reach, efficiency and credibility the owner has neither the expertise nor the scale to create alone, a technological support service materially improves a new business's ability to compete with larger, established businesses.

Q16. Using a **legal support service** is justified in this situation because the owner faces a **specific legal risk they are not equipped to assess themselves** — whether they may lawfully use their chosen brand name and logo. A solicitor can **check whether the name and logo are already registered as someone else's trademark**, and if they are free, help the owner **register them as a trademark** to protect the brand. This is worthwhile because using a name or logo that already belongs to another business could expose the owner to a **trademark-infringement claim**, forcing a costly rebrand or legal action after launch. Paying for legal advice now is therefore a **small cost that avoids a much larger**

one, and it secures the brand the business will build its reputation on. ∴ the expertise and protection a legal service provides clearly outweigh its cost here, which justifies using it.

Q17. (a) Any **two** of: a **legal support service** (structure and registration); a **financial support service** (record-keeping and tax); a **technological support service** (website and online payments); a **business mentor** or an **informal/formal network** (guidance and support). *(1 mark each.)* (b) A **financial support service** could help Nadia by providing the financial expertise she lacks. A **bookkeeper** would set up a system to **record Fernback Ceramics' sales and expenses**, and an **accountant** would **prepare its financial reports and manage its tax obligations** (such as GST and income tax) and help Nadia understand her cash flow. Because Nadia has "no system for recording sales or managing tax", this support would keep the new business's finances **accurate and compliant** and free her to focus on making ceramics, reducing the risk of a financial or tax error early on. *(Concept + genuine link to Fernback Ceramics.)* (c) Using a **business mentor** could improve Nadia's decision-making because a mentor would give her an **experienced guide to draw on** exactly where she is weakest — she is a skilled potter but has "never run a business" and "feels quite alone". A mentor who has established a business before could help her **think through the structure decision** (sole trader versus company) by explaining the trade-offs from experience, so her choice is **better informed** rather than a guess. By acting as a **sounding board** for her other early decisions and sharing mistakes to avoid, the mentor reduces the chance Nadia makes a **poor decision through inexperience**, and their encouragement counters the isolation she describes, helping her decide with more **confidence**. ∴ a mentor's experienced, one-to-one guidance would make Nadia's establishment decisions sounder and more confident than deciding alone. *(Analyse = causal links between the mentor and improved decision-making, applied to Nadia.)*

Q18. Paying to join an **industry association** — a **formal network** — can be a sound decision for a person establishing a business. The main **benefit** is access to **industry-specific expertise the owner cannot easily gather alone**: the association supplies **information and training about the industry**, **updates on the regulations and standards** that apply to it, and **organised networking events** at which the owner can meet suppliers, potential customers and other operators. For a first-time owner with **no contacts in the industry**, this is a quick way to learn how the industry works and to be found by the people they need; many associations also **advocate on members' behalf** and lend members a degree of **credibility** with customers and suppliers. **However**, the decision has real **drawbacks**. The **membership fee is an outlay at the very time funds are tightest**, and the support is **general to the whole industry rather than tailored to this business's particular problems** — a mentor or a free community-based service may give more targeted help for nothing. The value also depends entirely on the owner **actually attending events and using the services**, which takes time a start-up is short of, and some associations are **dominated by large, established members** whose concerns differ from a new operator's. **On balance**, joining is worthwhile **where the industry is closely regulated or standards-driven and the owner lacks contacts**, because the fee is then small beside the information, compliance guidance and connections gained; it is **not automatically worth the money**, so the owner should check what the membership actually delivers, and commit to using it, before paying. *(Full marks: a two-sided treatment plus a clear, evidence-based judgement.)*

Q19. *Model response (10 marks).* When a person establishes a business, they rarely have every skill the business needs, so they can draw on a range of **business support services** — legal, financial, technological and community-based services, formal and informal networks, and business mentors — each of which assists in a different way.

How the support services assist. **Legal support** from a solicitor helps the owner **set the business up lawfully** — advising on structure, drafting contracts, registering the business name and ensuring compliance — which reduces the risk of fines and disputes. **Financial support** from a bookkeeper, accountant or financial adviser keeps the business's **records accurate and its tax obligations met**, and provides budgets, cash-flow forecasts and finance advice, guarding against the poor money management that sinks many start-ups. **Technological support** from IT providers and website developers gives the business the **systems and online presence** it needs to operate efficiently and reach customers. **Community-based services** — local business centres, chambers of commerce and government agencies — supply **low-cost local information, advice and grants** suited to a new owner. **Formal networks** such as industry associations give access to **industry-wide information, training and contacts**, while **informal networks** of family, friends and other owners provide **casual advice, contacts and encouragement**. Finally, a **business mentor** offers **experienced, one-to-one guidance** that helps the owner avoid mistakes, decide with more confidence and expand their contacts. Together these services **fill the owner's knowledge gaps, reduce risk and improve decisions**, raising the chance the business succeeds.

Evaluating the "professional services are more valuable" view. There is a case that **paid professional services** (legal, financial, technological) are the more valuable to a new business: they supply **expert knowledge the owner cannot easily obtain elsewhere**, and they cover areas — legal compliance, tax, secure systems — where errors are **serious and costly**, so their expertise directly protects the business. **However**, this view is not decisive. Professional services are **expensive**, and a start-up with limited funds cannot pay for everything; meanwhile **informal networks and mentors deliver valuable support at no cost** — practical advice, contacts, lessons from experience and the encouragement that sustains an owner through a demanding start — a **formal network's** membership fee is small beside professional fees, and **community-based services** provide reliable information and grants cheaply. Much of what a new owner needs, such as guidance on decisions or a trusted supplier referral, comes better and more cheaply from a **mentor or network** than from a paid professional. **On balance**, the more defensible judgement is that **no single type of support is categorically "more valuable"**: paid professional services are more valuable where **risk and complexity are high** (structure, tax, legal protection), while networks and mentors are more valuable for **guidance, contacts, encouragement and low-cost support**. The most successful new owners therefore **combine both**, matching the type of support to the need rather than relying on one alone. *(Full marks require: accurate coverage of the support services named in the study design and how each assists; explicit analysis linking them to a new business's needs; and a sustained, two-sided evaluation reaching a justified judgement on the "professional services are more valuable" claim.)*

Q20. *(Analyse — trace the causal effects.)* A **community-based support service** is an **external** provider — a local business centre, chamber of commerce or **government agency** — that exists to help small and new businesses with **information, advice and assistance**, usually **free or at low cost**. The **Victorian Small Business Commission** is such an agency, and its reported 2023–24 results show how this reduces the risks a person establishing a business faces. First, a new owner **lacks the legal and commercial expertise** to handle a dispute over a lease, a supplier or an unpaid invoice; the Commission gave owners somewhere to take that problem, receiving **1,795 applications for dispute assistance** in 2023–24. Second, because **35% of disputes were settled through early dispute resolution** and **75% of those that went on to a formal mediation were resolved**, most owners using the service **avoided court**, saving the **legal fees and management time** a start-up can least afford. Third, knowing such assistance exists lets an owner **enter leases and supply agreements with more confidence**, because a disagreement need not end the business. Each effect — expertise supplied, cost and time avoided, confidence to trade — **reduces the risk that a single dispute destroys a new business**. ∴ a community-based support service reduces a new owner's risk by supplying cheaply the dispute expertise and information they do not have themselves. *(Analyse = causal links between the service and reduced risk, supported by the reported figures.)*