



Slide #1-3

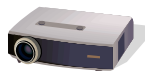
## Module 2

# Apply basic business principles

**After completing this module, you will be able to:**

- apply the profit motive to a going concern
- apply production theory in a selected workplace
- segment a market and undertake appropriate marketing measures
- operate within a company reporting structure
- align business unit goals with overall business strategy and objectives.

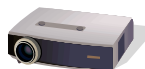
# 1. Apply the profit motive to a going concern



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*When you have completed this subject outcome, you will be able to:*

- discuss the profit of a going concern, with examples
- apply the profit motive to a selected organisation
- explain the advantages and limitations of a particular form of business ownership, with examples.

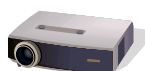


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## 1.1 Discuss the profit of a going concern with examples

Businesses commonly speak of four types of profit:

- Gross profit
- Net profit



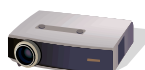
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### Activity 1

- Do the calculations yourself to satisfy yourself that you understand how the result was arrived at.
- If there were two businesses, “Mannie’s” just doing fish ‘n chips and “Sipho’s” doing hamburgers as well, with identical results to the example, which of those would you say is doing better?

*Net profit is profit after costs have been deducted. If the companies have the same results, it means that they are doing equally well. Sipho’s perhaps has more potential as a company in the long-run.*

- Net profit after interest and taxation
- Retained profit

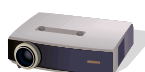


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## 1.2 Apply the profit motive to a selected organisation

From the previous section you will have learned the following things about profit:

- It is a reward to the owners of the business.
- Profits are an important source of investment funds.
- A business that does not make a profit will fail, potentially affecting employees, suppliers and the local community.



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### Activity 2

As a group, ask a local business to allow you to discuss their views about making a profit with you. When you have done this, discuss amongst yourselves how well the owners’ way of doing business reflects what you have learned about profit up to this point.

**NB: When you go to the business, take along the questions to be asked in the next activity as well.**



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## 1.3 Explain the advantages and limitations of a particular form of business ownership, with examples

- a sole trader or sole proprietor
- a partnership
- a close corporation
- a company.

### 1.3.1 Number of people (that may own it)

### 1.3.2 What the people who own it are called

### 1.3.3 How it is formed

### 1.3.4 Liability

### 1.3.5 How it can cease to exist

### 1.3.6 How do you end the business legally?

### 1.3.7 Who owns the business' assets?

### 1.3.8 Accounting requirements

### 1.3.9 Advantages

### 1.3.10 Disadvantages

### 1.3.11 When to use it



#### Activity 3

Ask the owners of the businesses the following questions and see how they compare against the learning above:

- How many people own it?
- What are these people called?
- How was it formed?
- What are the owners' and the business' liabilities?
- How could it cease to exist?
- How may it be legally ended?
- Who owns the business' assets?
- What are the accounting requirements?
- What are its advantages and disadvantages?
- What factors made the owners choose that type of business?



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This entire section is adapted from material from <http://www.paralegaladvice.org.za/>



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## 2. Apply production theory in a selected workplace

*When students have completed this subject outcome they will be able to:*

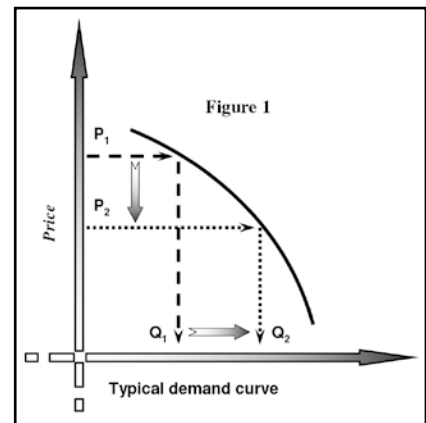
- apply the principles of demand and supply to decision making and to a pricing structure for a range of products and services
- determine break-even sales in Rand and unit terms for a range of products and services
- explain the theory of economy of scale in an essay on the topic
- present the role and cost of labour and equipment, as factors of supply or delivery of product and services, to a group of peers.



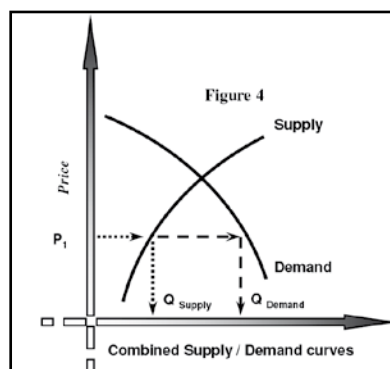
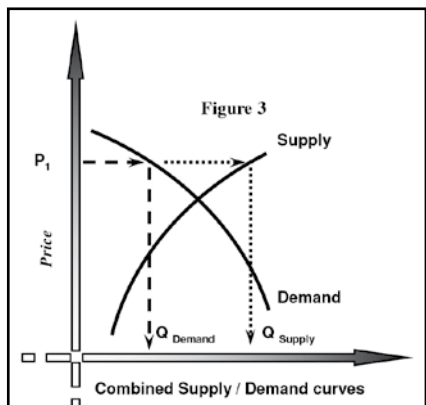
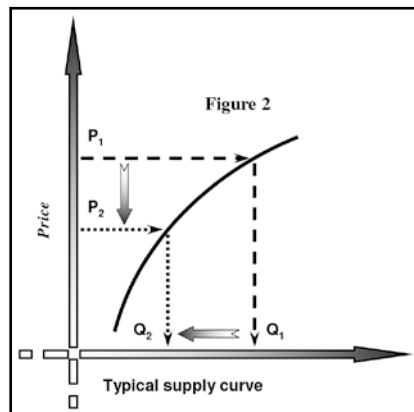
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### 2.1 Apply the principles of demand and supply to decision making and to a pricing structure for a range of products and services

The **law of demand** says that, for a given product, people will tend to buy (demand) more if the price drops and less if the price rises as shown in **Figure 1**.



The **law of supply** says that producers will tend to manufacture (supply) more if they know they can get a higher price and less if they know that the price is going to drop, as shown in **Figure 2**.





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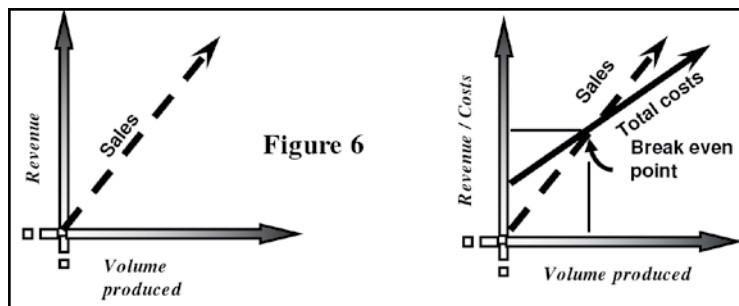
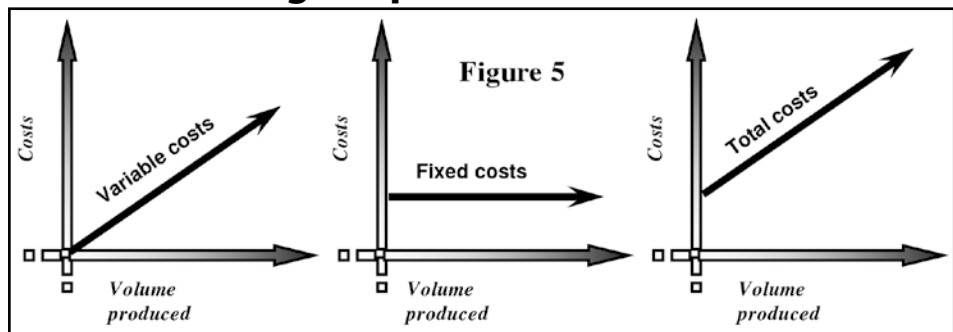
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**Activity 4**

In **Figure 4**, the starting-off price is lower than the stabilisation price. Explain how the market adjusts itself to get to the stabilisation point.

*If the market price is lower than equilibrium price, then the following happens: Demand exceeds supply, therefore suppliers will raise their prices and increase supply, at the higher price, fewer goods will be demanded this will continue until the market reaches equilibrium.*

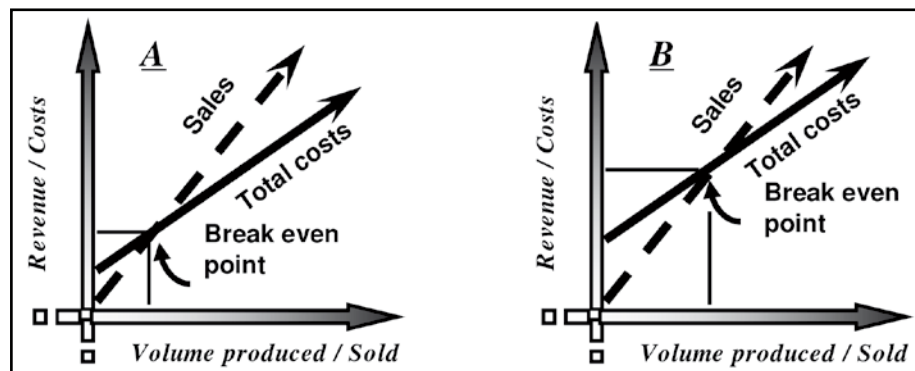
## 2.2 Determine break-even sales in Rand and unit terms for a range of products and services



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**Activity 5**

The graphs below show the combined Revenue/Costs graphs for Mannie and Siphso. Which is which, and why do you think the break-even volumes are different?

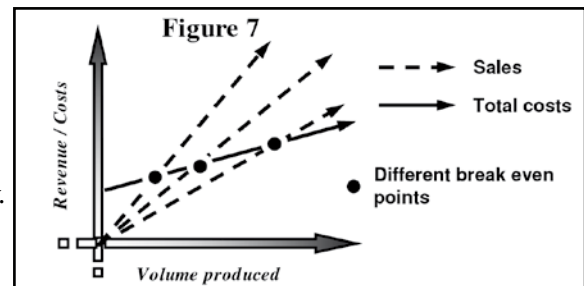


*Siphso had higher costs, so he would be the break-even on the right. The interest that Siphso pays increases his fixed costs, which means that he has to sell more to cover his costs.*

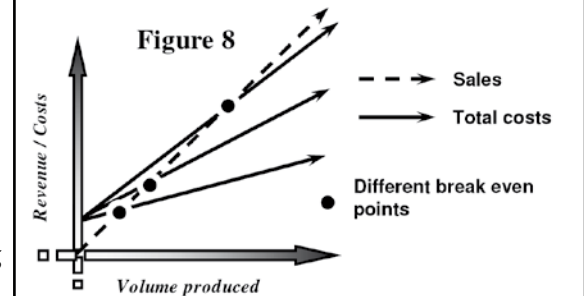


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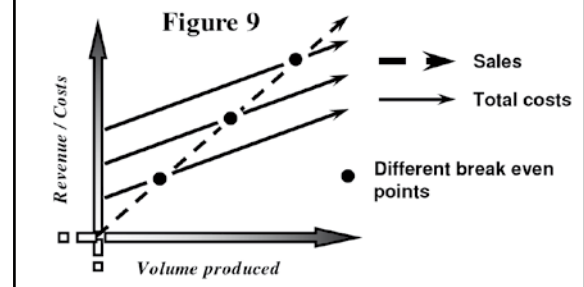
**Figure 7** shows the effect of changing the selling price only.



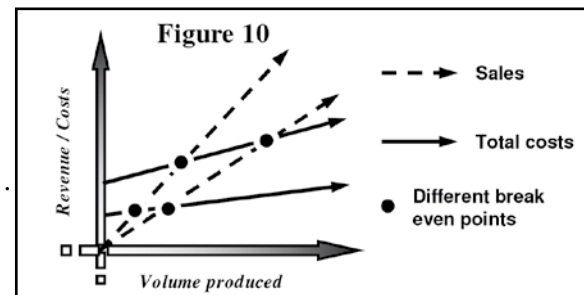
**Figure 8** shows the effect of changing the variable 'costs' (by buying different materials or possibly reducing the cost of labour by everyone working harder).



**Figure 9** shows the effect of changing fixed costs (possibly by moving to premises where the rent is different).



**Figure 10** shows what could happen if everything changes ...



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### Activity 6

Answer the following multiple-choice questions:

If everything else remains the same, then:	(a)	(b)	(c)
(a) Dropping the selling price will _____ the break-even point.	<b>increase</b>	decrease	not affect
(b) An increase in the factory's rent will _____ the fixed costs and _____ gross profit.	<b>increase, decrease</b>	decrease not affect	increase, increase
(c) Cutting direct labour costs will _____ net profit and _____ break-even point.	decrease, decrease	increase, increase	<b>increase, decrease</b>
(d) The manager buying a more expensive computer will _____ direct variable costs and _____ break-even point.	not affect, decrease	increase, increase	<b>not affect, increase</b>



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## 2.3 Explain the theory of economy of scale in an essay on the topic



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### Activity 7

Pretend there are two similar businesses in your area (say, two fast-food outlets). One has big premises and brand new vehicles whilst the other has very small premises and one old vehicle.

Both, however, seem to be selling the same amount of goods at more or less the same prices. Write an essay in which you explain why the one is probably enjoying greater economies of scale compared with the other.

Make use of graphs such as Figures 7 to 10 to explain your conclusions.

*Students should use the graphs to illustrate their argument in their essay.*



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## 2.4 Present the role and cost of labour and equipment, as factors of supply or delivery of product and services, to a group of peers

### 2.4.1 The role of labour

What the “role and cost of labour and equipment, as factors of supply or delivery of product and services” really is, is something that economists and philosophers can debate endlessly. There seems to be no single given answer, as can be seen by reading the article at [http://en.wikipedia.org/wiki/Labor\\_theory\\_of\\_value](http://en.wikipedia.org/wiki/Labor_theory_of_value). However, there is a common thread through all the debate, which agrees that “labour is the factor of production that transforms other factors of production into goods or produces services that people are willing to buy rather than make or do themselves”. To understand this, it is necessary to first understand what is meant by “factors of production” and then “transformation”.

- Factors of production
  - Raw materials
  - Labour
  - Energy
  - Manufactured goods
  - Land
  - Entrepreneurial or management skills
  - Technology
  - Transformation



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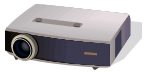
### Activity 8

In the picture above, there is a miner, a preacher and a lawyer. What product or service is each one providing (or contributing to provide)? Make a list of the factors of production each could be using, and what skills or knowledge each is using to transform these factors into the service that is being delivered.

*Miner: Using tools and labour to create raw materials for input into another process. He would be using physical strength and knowledge of mining.*

*The preacher uses his own labour, and his church and various materials like bread, wine and candles. The skills he uses are oratory skills.*

*The lawyer uses his labour to provide a service. His output can be variable, from creating a legal contract, to defending you against charges. He uses his knowledge of the law, as well as his oratory skills to perform his job.*



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## 2.4.2 The role of equipment

ENGINEER ...		CONTRACTOR...	
... deciding on best route.		... digging the trench	
One way ...	... and another	One way ...	... and another
Land survey	Aerial survey	Labour-intensive	Machine-intensive

## 2.4.3 The cost of labour and equipment

- Capital-intensive
- Labour-intensive



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## 3. Segment a market and undertake appropriate marketing measures

*When students have completed this subject outcome, they will be able to:*

- conduct market research, collate data and evaluate and present it to a mentor
- segment a buying market for a range of products
- compose advertising for a target market and select appropriate media for placement.
- Tracking the customer
- Product development
- Pricing of products and services
  - The cost price of the product
  - The market price of the product
  - The target price
  - The selling price of the product:

- Distribution channels
  - Manufacturer – consumer
  - Manufacturer – retailer – consumer
  - Manufacturer – wholesaler – consumer
  - Manufacturer – wholesaler – retailer – consumer
- Marketing communication
  - Advertising
  - Personal selling
  - Sales promotion
  - Publicity

### 3.1 Conduct market research, collate data and evaluate and present it to a mentor

According to the American Marketing Association, *marketing research* is the systematic gathering, recording, and analysing of data about problems relating to the marketing of goods and services. Every business owner-manager must ask the following questions to devise effective marketing strategies:

- Who are my customers and potential customers?
- What kind of people are they?
- Where do they live?
- Can they and will they buy?
- Am I offering the kinds of goods or services they want – at the best place, at the best time and in the right amounts?
- Are my prices consistent with what buyers view as the product's value?
- Are my promotional programmes working?
- What do customers think of my business?
- How does my business compare with my competitors?

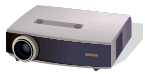
Marketing research focuses and organises marketing information. It ensures that such information is timely and permits entrepreneurs to:

- reduce business risks
- spot current and upcoming problems in the current market
- identify sales opportunities
- develop plans of action.

#### Market research – the process

Step one:	Define marketing problems and opportunities
Step two:	Set objectives, budget, and timetables
Step three:	Select research types, methods, and techniques
Step four:	Design research instruments
Step five:	Collect data
Step six:	Organise and analyse the data
Step seven:	Present and use market research findings

**Table 1**



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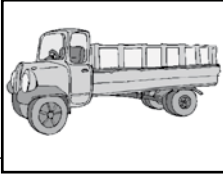
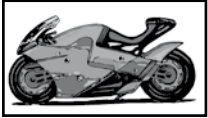


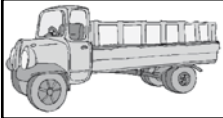
**Activity 9**

Imagine you work for a business that produces gardening equipment. Someone has come up with the idea of making a “kit” that comprises different implements that can be fitted onto a common handle by selecting and interchanging them depending on the task the gardener wants to perform. This will cut manufacturing costs and save space in the owner’s garden shed.

Make use of the seven steps in Table 1 to design a market research programme to find out if such a product would sell, and how much people would be willing to pay for something like this.

*Students should use the seven steps to come up with a marketing plan.*

### 3.2 Segment a buying market for a range of products

		Market segment			
		Students	Homemakers	Rock stars	Building contractors
Need to fulfil	Just transportation				
	Status				



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**Activity 10**

In the pictures above, why do you think the author has shown the building contractor satisfying his need for “Just transportation” with exactly the same vehicle as for “Status”?

*The builder owning a truck reflects his status as a builder.*

### 3.3 Compose advertising for a target market and select appropriate media for placement



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- Decide on the message you want to give
  - Grab attention
  - Provide information
  - Set apart both you and your product from your competition.
  - Try to influence your potential customers.
- Know and understand your market
- Choose your medium



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**Activity 11**

Go back Activity 9 and design an advertising programme that you think will convince people to buy your gardening tools. This programme should include the message you want to give, reasons for choosing the particular market, reasons for choosing particular media, as well as appropriate wording and layout for the advertisement.

*Students should design an advertising programme and present it to the class.*

## 4. Operate within a company reporting structure



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*When students have completed this subject outcome, they will be able to:*

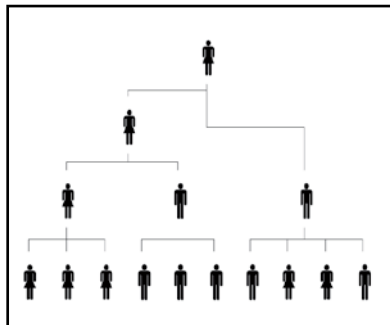
- construct an organisational chart for a particular company
- clarify staff and line functions, and identify reporting lines within a selected company's hierarchical structure
- describe the mission, vision and values of a company, relating them to function
- define and present supervisory and managerial roles, using examples.

### 4.1 Construct an organisational chart for a particular company



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Figure 11.



### 4.2 Clarify staff and line functions, and identify reporting lines within a selected company's hierarchical structure

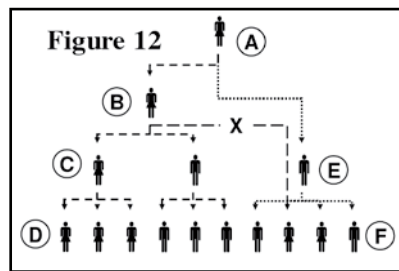
There are three types of authority that a manager can have:

- Line authority
- Staff authority
- Functional authority

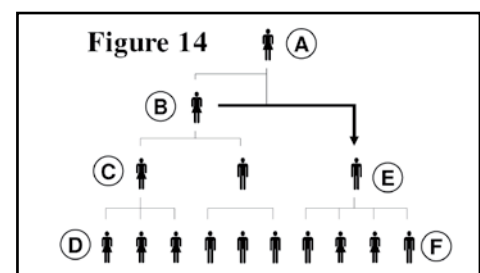
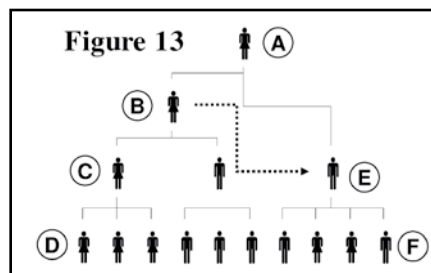
#### 4.2.1 Line authority

### 4.2.2 Staff authority

### 4.2.3 Functional authority



### 4.2.4 Reporting lines



### 4.2.5 Matrix structures

[Figure 15 is adapted from: *Advanced project management: a structured approach*, F. L. Harrison, Dennis Lock, Edition: 4, Gower Publishing, Ltd., 2004]

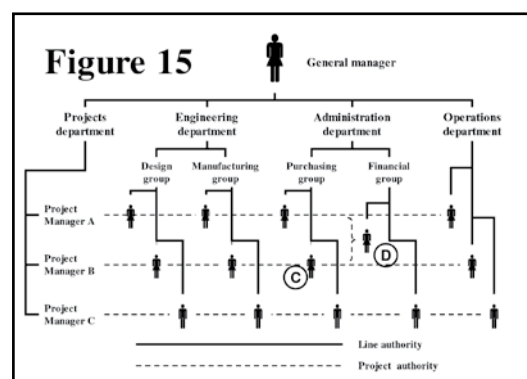


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#### Activity 12

Draw up an organisational chart for the institution that you are currently studying at. In doing so, show the authority lines reaching down from the Rector to the facilitator who is presenting this subject.

Pretend that your class facilitator wants the organisation to buy a minibus so that you can be taken on tours. Find out by asking questions and show on the organigram who has authority to approve such a purchase and who has the authority to give permission for the payment to the supplier, if the purchase is given the go-ahead.



What type of authority does the person who gives permission for the supplier to be paid have?

**Sample answer**

Drawing up the organigram should be fairly simple because most educational institutions have a strong hierarchical structure.

The person giving authority for the payment would be the financial manager – in terms of his or her functional authority.



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## 4.3 Describe the mission, vision and values of a company, relating them to function

### 4.3.1 Vision

### 4.3.2 Mission

**Elements which must be included in the mission statement are:**

- a description of the enterprise
- a description of the customers that it serves
- a description of the needs of the customers
- the method of satisfying the needs of the customers
- circumstances under which the needs are satisfied
- the values of the enterprise.

**Advantages of having a mission statement are:**

- the mission guides all activities in the enterprise
- the mission binds and coordinates all functions of the enterprise
- the mission helps build the values, culture and image of the enterprise.

### 4.3.3 Values



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**Activity 13**

Buy some newspapers (or go to your local library) and look for articles that give examples of vision statements that might be set out by various enterprises.

Ask your educational institution for a copy of its vision and mission statements, as well as any written policies and procedures they might have. Form groups to examine these and then give a presentation to your fellow learners in which you try to relate these to the steps in the Vision Pyramid.



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## 4.4 Define and present supervisory and managerial roles, using examples

### 4.4.1 Management functions

Planning  
Organising  
Leading  
Controlling

*Adapted from Rashid Javed in <http://www.sayeconomy.com/functions-of-management-in-business-organisations/>*

### 4.4.2 Management roles

Category	Role	Activity
Informational	Monitor	Seek and receive information, scan papers and reports, maintain interpersonal contacts
	Disseminator	Forward information to others, send memos, make phone calls
	Spokesperson	Represent the unit to outsiders in speeches and reports
Interpersonal	Figurehead	Perform ceremonial and symbolic duties, receive visitors
	Leader	Direct and motivate subordinates, train, advise and influence
	Liaison	Maintain information links in and beyond the organisation
Decision making	Entrepreneur	Initiate new projects, spot opportunities, identify areas of business development
	Disturbance handler	Take corrective action during crises, resolve conflicts among staff, adapt to external changes
	Resource allocator	Decide who gets resources, schedules, budgets, sets priorities
	Negotiator	Represent department in negotiations with unions, suppliers and generally defend interests.

Managers need to be both organisational generalists and specialists. This is due to three reasons:

- External frustrations, including operational imperfections and environmental pressures.
- Authority disputes, which upset even basic routines.
- The expected fallibility of the individual, and human, manager.

The role of a manager is thus quite varied and contradictory in its demands, and it is therefore not always the lack of managerial ability, but the complexity of individual situations demanding a variety of roles that troubles today's manager.

*Adapted from: Monica Kenney in <http://www.sayeconomy.com/ten-management-roles-by-henry-mintzberg/>*

### 4.4.3 Supervisory roles

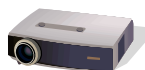
**Coach**

**Mentor**

**Advocate for organisation**

**Advocate for employee**

*Written by Carter McNamara, MBA, PhD, Authenticity Consulting, LLC.  
Copyright 1997-2008. Adapted from the Field Guide to Leadership and Supervision in <http://managementhelp.org/suprvice/roles.htm>*

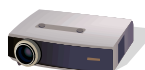


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## 5. Align business unit goals with overall business strategy and objectives

*When you have completed this subject outcome, students will be able to:*

- interpret organisational objectives and analyse a business plan for a particular company
- implement efficient action plans to meet organisational objectives
- report unworkable objectives and construct contingency plans to ensure that business goals remain achievable.



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### 5.1 Interpret organisational objectives and analyse a business plan for a particular company

#### 5.1.1 A short introduction to business plans

The business and its products and services	SWOT analysis
All the information needed by potential investors about your proposed business and the products and services it will offer.	An analysis of the! strengths, weaknesses, opportunities and threats! that will affect! your business.
Key success factors	Locality
Critical things that will 'make or break' your business if they don't happen.	Where your will business operate from Transportation to and from Security
Financial planning	Grants and assistance
Financial forecasting Capital needed Security you can offer Repayment scheduling Repayment options Sources of revenue Sources of other income Cash flow statements Break-even analysis	Seminars Business referrals Networking Training workshops <i>National and provincial government or municipal assistance</i> Sponsorship
Production planning	Marketing planning
Capacity and efficiency Logistics <i>Production targets</i> Policies	Marketing strategy Market segmentation Products Prices Place Promotion CUSTOMERS!
Licence or regulation requirements	Personnel planning
Business licence (municipality) Special licences (offensive trades, etc.) Software licences Trade name licences	Staffing requirements. A description of the owners, management team and staff The working arrangements between owners and staff

## 5.1.2 Analysing and interpreting the business plan

### Analysing the business plan

### Interpreting the business plan

**Setting an objective** in terms of the two items above could be something like this:

Person responsible:	Manuela de Ponte
Action (1):	Go to municipality and get all the documentation they have on giving assistance to local businesses.
Action (2):	Summarise the opportunities into a one-page report.
Action (3):	Present the report to Sibuniso Khumalo (Production Manager) on Wednesday 17 June 2009.
<b>Question:</b>	Is the objective above <b>SMART</b> ?

Your customers  
 Your people  
 Suppliers and distributors  
 Competitors  
 Products and services  
 Infrastructure, technology and organisation

*Adapted from: <http://www.zimbio.com/>*



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### Activity 14

- Choose any three items from the “Contents of a business plan” above.
- Write a short paragraph on how each of the three could relate to, affect or be affected by the other two;
- Write a business objective for each of the items chosen.

*e.g. Personnel planning: relates to financial planning and marketing planning.*

*Personnel planning: To recruit experts in their field, who can meaningfully contribute to the wellbeing of the business.*

*Marketing planning: To achieve sales of 500 units within the first year of business.*

*Financial planning: To break-even by the end of the second year of business.*

## 5.2 Implement efficient action plans to meet organisational objectives

- Be patient.
- Be flexible.
- Be quick to find out the cause of problems.
- Continue to talk
- Keep the big picture in mind.

Here are 5 steps to successful implementation of an action plan:

Step 1: Create a communication plan

Step 2: Raise awareness

Step 3: Build capacity



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- Operational and procedural training
- Administrative training
- Specialised training

Step 4: Motivate:

- Internal competition
- Recognition
- Financial bonuses and prizes
- Individual responsibility
- Financial responsibility
- Performance standards

Step 5: Track and monitor

- Perform regular updates
- Conduct periodic reviews
- Identify necessary corrective actions

*Adapted from [http://www.energystar.gov/index.cfm?c=implement\\_plan.track\\_monitor](http://www.energystar.gov/index.cfm?c=implement_plan.track_monitor) and <http://www.usaid.gov/leland/manual/manenglish/step6.htm>*



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#### Activity 15

Imagine your educational institution has decided that all learners must get fit enough to take part in your local SPCA's 15 km fund-raising fun run. You have been tasked with getting your fellow learners on board.

Design an action plan, using the 5 steps on page 67 that will ensure your success.

*Students should use the five step action plan, starting by creating a communication plan, which could involve a general announcement, and followed by an awareness campaign.*



Slide #58-59

## 5.3 Report unworkable objectives and construct contingency plans to ensure that business goals remain achievable

### 5.3.1 Unworkable objectives

Specific  
Measurable  
Achievable  
Relevant to the business  
Time related

### 5.3.2 Contingency plans

**Here are some things to keep in mind when drawing up contingency plans:**

- Have a system to ensure that things happen as they should.
- Have a list of people or firms you can call up in case of an emergency.
- Have a good data back-up system so that you can retrieve all data you might lose due to some emergency.

- Ensure that employees also know what to do when something goes wrong.
- Involve outside experts to help you draw up your contingency plans. Take the advice of financial experts, legal advisors, etc. to provide for every possible event.

*Adapted from: <http://ezinearticles.com/?How-To-Prepare-Contingency-Plans-For-Your-Business>*



Slide #60

### **Activity 16**

Go back to the activity where you had to prepare a plan to get fellow students fit.

*Write down as many things as possible that you think could go wrong and prepare contingency plans for at least three of them.*

*Students should draw up contingency plans, for instance a plan for if it is raining when they plan to train.*