# BUSINESS ENTERPRISE SKILLS

# MODULE 2020

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4.1 - Economic integration
4.2 - Marketing mix

8. **OPERATIONS MANAGEMENT**

1 - Nature and location of production
2.1 - Value addition
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# 1. THE BUSINESS ENTERPRISE

**1 - The business enterprise**

**2.1 - Roles of an enterpriser**

**3.1 - Drivers towards enterprising**

**THE BUSINESS ENTERPRISE**

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- Define enterprising, enterpriser and enterprise.
- Identify skills and attributes of enterprisers.
- Explain skills and attributes of enterpisers.
- Identify benefits and drawbacks of enterprising.

**Overview**

In this modern world, the concept of business enterprise plays a major role in our Zimbabwean economy. Individuals are advised to embrace entrepreneurship skills in order to increase national output.

**Concept of enterprising**

- Enterprising refers to having or showing the ability to do new or difficult business activities.
- It is the willingness to start a new business regardless of risks that could be experienced when running a business.
- It is readiness to undertake new projects.
- For example “an enterprising young man likely to go far”.

**Enterpriser**

- An enterpriser is the one who takes risk and initiative to start a business.
- It could be an individual or a group of people who have an idea that they want to develop into a project.
- An enterpriser is the one who:
- Organises all factors of production and manages the business.
- Takes risks in starting a business regardless of whether the business will succeed or not.
- Is someone who organises a business venture/ project and assumes the risk of it.
- An enterpriser is also called an entrepreneur.

**Enterprise**

- Enterprise is the business organisation that is involved in the provision of goods and services.
- Enterprise can be formed as profit making or non-profit making.
- The purpose of an enterprise is to produce goods and services that satisfy customer needs.
- Goods include all tangible (physical) items produced to satisfy human needs and wants, for example, a car, sugar, clothes, food, etc.
- Services are intangible products, for example, medical treatment, teaching, banking, transport, etc.

- Businesses or enterprises often start on a small scale and they expand their operations if they become successful.

**Enterprises in Zimbabwe**

| ENTERPRISES | ENTREPRENEUR |
|---|---|
| Econet Wireless | Strive Masiyiwa |
| Securio Security Company | Devine Ndhulukula |
| Native Investment Africa | Phillip Chiyangwa |
| TA Holdings | Shingai Mutasa |
| Lunar Chickens | Gideon Gono |

- Examples of enterprises that can be found in local communities are poultry, cattle fattening, peanut butter making, market gardening, etc.
- Other examples of enterprises that can be found in local communities but not profit making are football clubs, pressure groups like Child line and Zimbabwe Human Rights Association.

Business enterprise

**Activity**

- Name other enterprisers within your local community.
- Identify non-profit making organisation in your area.

**Entrepreneurship**

- Entrepreneurship is the activity of setting up a business or businesses, taking financial risks hoping to make profit.
- It is the process of organising and managing the factors of production in order to make profit.
- Factors of production are inputs needed to start a business which are capital, labour, land and enterprise.

Skills and personal attributes of an enterpriser.

**SKILLS**

- Skill is the knowledge, understanding and ability to do something well.
- Skills can be obtained through training and experiences.
- Skills are important in running an enterprise.

**PERSONAL ATTRIBUTES**

- An attribute is a quality or characteristic of a person (enterpriser).
- Personal attributes are character traits or personality traits.
- Trait is a distinguishing characteristic or quality.
- Traits gives distinction between/ among personalities.


Qualities of a Leader

**Leadership Skills**
- Leadership means the ability to influence and guide others to behave in a certain way.
- Leadership skills include the ability to influence, motivate, delegate, persuade and communicate to employees towards achieving the set goals.
- A good leader takes necessary measures to underperforming employees, for example, through training or disciplinary procedure.

**Risk Taker**
- Risk means a situation involving harm, loss or danger.
- Risk taker is an individual or business that tends to behave in a way that can potentially cause physical or financial loss.
- Successful enterpriser are risk takers.
- A risk taker evaluates potential risks and tries to minimise risks.
- Risk – an enterprise undertaken without regard to possible loss or injury.

**Creativity**
- This is the ability to make new things (initiate) or to think of new ideas.
- Finding ways to increase sales, fight competition and finding new markets for the product are forms of creativity.
- Enterprisers should be creative.

**Innovative**
- Innovation is a new way of doing something.
- Business can be innovative through:
- Implementing new business strategies.
- Entering new market.

- Improving product packaging.
- Adding different ingredients (flavours).
- Enterprisers should try new or improved approaches of doing business.

**Team Building**

- Team building involves organising the right people with the right skills to work together effectively within an enterprise.
- It helps a group to work together more successfully for the common purpose of achieving organisational goal.
- As an enterpriser, it is important to influence or motivate the employees to work together in a constructive manner and to boost their morale.

**Delegation**

- Delegation is whereby a superior assign duties, tasks and decisions to others (subordinates).
- To delegate is to elect, send and empower to act for or on behalf of the superior.
- Enterprisers can transfer power and duties to employees.
- It reduces the work load of the enterpriser to concentrate on other important tasks.

**Problem Solving**

- Problem solving is the process of finding solutions to difficult issues.
- An enterpriser should be able to solve problem when they do arise in the enterprise.
- As an enterpriser one should be able to identify the problem, evaluate possible causes and find a solution to a problem.
- Successful enterprisers focus on how to solve problems in an effective way.

**Ambitious/ Aiming Higher**

- Ambitious refers to having a desire to be successful.
- It is a strong inner drive for success.
- Good enterprisers should be able to aspire themselves to work towards set goals.
- They are positive thinkers.
- Being positive enables the enterpriser to encourage other team members to work in a positive way.
- They are self-motivated even when they face challenges.

**Procedures/Ideas On How To Start An Enterprise**

- Self-evaluation – enterprisers assess whether to take risks to start a new business or not.
- Develop an idea - the idea should not be just any but something that you are passionate about.
- Market research- finding out if people would be willing to purchase your product or not, to avoid incurring a loss.
- Determine the cost- before starting a business one should know how much it will cost to run that business so as to find necessary resources.
- Finding potential investors- sometimes the owner may fail to have enough capital to start the business, hence it is important to find people (investors) who will assist with funding.

**Benefits of enterprising**

**Benefits to the society**

- Employment creation - the enterprisers employs people in the society to work for them.
- It reduces poverty in the society since people get income through earnings.
- Provision of goods and services - enterpriser supply goods and services.
- High quality products – competition encourages provision of high quality products.
- Customer satisfaction – it helps enterprisers to meet customer's needs and wants.
- Infrastructure development - through construction of roads, bridges, buildings, electrification, etc.

**Benefits to the enterpriser**

- Enjoy profits - enterprisers provides goods and service and in return they earn profit.
- Enterprisers who are in non-profit making business, enjoy status.
- Independence- an enterpriser will be in total control of the business and can make decisions without consulting anyone.
- Flexible- the enterpriser is able to adapt to changes, for example, if there is a change in consumer preference, they can easily change their products to meet customers' needs and wants.
- Government support - enterprisers get assistance from the government such as, offering assistance to acquire loans, grants, subsidies and place to market their products.

**Drawbacks of enterprising**

**To The Community**

- Pollution – some activities carried out by enterprisers cause pollution to the community.
- Relocation – some members of the community may be relocated to other areas in order to create space for enterprisers.
- Loss of arable land – land used for agricultural purposes may be taken and used to construct buildings.
- Environmental hazards – undertaking activities which involves extraction (mining) may cause environmental hazards.

**To The Enterpriser**

- It can be risky and uncertain – starting a new business may be too risky because the outcome is not known. The enterpriser may experience losses.
- Due to competition from bigger companies an entrepreneur may lose customers.
- Enterprisers may lack of enough capital to run the enterprise.
- The enterpriser has to work harder and for long hours in order to succeed.
- Lack of adequate resources to run the business, for example, warehouse to keep raw materials, vehicle to transport goods, etc.
- The enterpriser may lack knowledge on how to run a business.

**Summary**

- Enterprise is the business organisation that is involved in the provision of goods and services.
- Enterprises can be formed as profit making or non-profit making.

- An enterpriser is the one who takes risk and initiative to start a business.
- An enterpriser must have attributes and skills which enables him/her to operate successfully
- Examples of attributes or skills are initiative, creativity, leadership skills, problem solving, risk taker, delegation and ambitious.
- Enterprising offers benefits as well as disadvantages to the enterpriser as well as the community.

## 2.1 ROLE OF AN ENTERPRISER

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- Explain the role of an enterpriser.

**Enterpriser/ Entrepreneur**

- Is an individual who undertakes any business risk for different reasons, such as gaining profit, self-interest and improving the community.
- Enterpriser is a person who organizes and operates a business venture and assumes much of the associated risk.

**Roles of an enterpriser**

- An enterpriser performs a number of roles which include, scanning the environment, identifying opportunities, mobilizing resources, allocating resources, setting up the business, managing business operations and in summation enterpriser act as the local economy developers.

**Scanning the environment**

- Environmental scanning involves identifying factors (internal and external environment) that affect a business.
- The enterpriser gathers information regarding the political, economic, social, technological and environmental factors.
- It helps the enterpriser to predict the future of the business.
- It also assist in making decisions.

**Identifying business opportunities**

- An enterpriser should identify unsatisfied needs of consumers.
- The enterpriser can identify problems in the community and create an enterprise to solve these problems (business opportunity).
- Enterprisers will go for opportunities that generate high profits.

**Mobilising necessary resources**

- It is the role of an enterpriser to bring together all necessary resources to produce goods or services.
- Some resources needed include capital, plant, land or building, raw materials and labor.

**Proper allocation of resources**

- An enterpriser decides necessary resources needed to start a business.

**Setting up the business**

- This is where the enterpriser implements his/her business plan.
- The enterpriser establishes a business with available resources.

**Managing business operations**

- The enterpriser is liable to the operations of the business
- The business must be operated efficiently and effectively so as to meet the demands of customers.
- Management of business operations is essential to the business as it ensure customer satisfaction.
- Enterpriser controls everything and make final decisions on business operations.

**Create employment**

- Enterprisers are not job seekers but they create employment.

**Community development**

- An enterpriser develops the community by building infrastructure such as buildings and roads.
- They provide services such as education, healthcare and telecommunication.
- Enterprisers may sponsor community sports, scholarship programs and other donations.

**Improves standards of living**

- An enterpriser play a significant role in improving the standards of living in a community.
- This is done through developing and adopting innovations that lead to improvements in the quality of life of employees and customers.

**Activity**

- State roles played enterprisers.
- Explain any three roles played by enterprisers to the community.

**Summary**

- Enterprisers play important roles in the business communities they operate in.
- The roles include scanning the environment, identifying business opportunities, mobilise resources, managing business operations, etc.
- Hard work is much more pertinent than dreams to turn an innovative idea into a successful business enterprise.
- Entrepreneurs emphasises more on aspects such as self-realization, quality, than reaping profits. Money is not the only objective.
- Entrepreneurships need not necessarily a way of self-employment but a means to create an identity in society and business circles.

## 3.1 DRIVERS TOWARDS ENTERPRISING

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- List the drivers towards enterprising.
- Explain different drivers towards enterprising.

- Evaluate drivers towards enterprising.

**Drivers towards enterprising**

- Most business people are often influenced by different factors when starting an enterprise. These are called drivers.
- A drive refers to a push or force that influences someone to do something.
- It can be an inner or outside push that motivates one to achieve something.
- Drivers towards enterprising include, government policies, demographic changes, economic changes, self-actualisation and technological changes.

**Government policies**

- A policy is a plan intended to guide course of action in order to achieve set goals.
- Government policy is a principle formulated by the government which influence activities to be carried out within an enterprise.
- Government formulates policies that promote enterprising in the economy. Such policies include:

**Subsidies**

- A subsidy is a form of assistance offered by the government to a business to produce at a lower cost thereby lowering prices of certain goods and services.
- Subsidies may come in form of cash and other resources such as raw materials needed for production.
- The sole purpose of offering subsidies is to lower operating costs.
- Subsidies encourage production and consumption of goods and services (necessities) in the economy.
- The government can offer subsidies as a way of creating employment (employment subsidy).
- An example, if a domestic industry such as farming, is struggling to survive, the government can offer inputs (seed, fertilisers and chemicals) to farmers.

**Government grants**

- A business grant is a sum of money or product given by the state to individuals or enterprises.
- Grants are not repayable.
- Grants are used for specific purposes, for instance, special research.
- Grants are usually given to non-profit making enterprises such as Childline, Population services International Zimbabwe, etc.

**Tax holidays**

- Tax holiday refers to a temporary time in which the government removes or reduce tax to a business to promote growth.
- This means that the state may choose not to charge tax on businesses so as to promote enterprising in the economy, for example the state may not charge tax for the first five years of commencing a business.

**Trade policy**

- It is also known as commercial/ international trade policy.
- It is a policy which governs trade between countries.

**Trade policy can be in form of;**

- Tariffs-this is tax or duty to be paid on certain types of imports or exports, for example motor vehicles, cooking oil, maize, etc.
- Quotas-the state limits the quantity of a particular product to be imported or exported.
- Embargoes- this is a total ban on trading certain types of goods such as harmful drugs or exportation of limited resources in a country.
- Government can promote enterprising by restricting number of imports or completely ban some imports.
- That is, people will be encouraged to buy local products rather than imported products.
- Reduction in imports promotes demand for local products, therefore it increases production.

**Demographic changes**

- Demography relates to the structure of the population in a certain area.
- Structure of the population include factors such as age, level of education, income, sex, and many more.
- Changes in any of these variables can greatly influence enterprising.
- Population changes can affect demand and supply of goods and services in the economy there by promoting enterprising.
- Demographic factors that can promote enterprising include:

**Age**

- Changes in the age structure of the population can influence enterprising
- Businesses will be encouraged to produce goods that cater for different age groups.
- An example, producing clothes for babies under the age of 5 years or producing alcohol for people above the age of 18years.

**Sex**

- It relates to whether one is female or male.
- A company can produce goods targeting one group, for example, women's products.
- If there are more women than men in a population, it will encourage enterprisers to produce goods and services which meet women demands.

**Economic changes**

- It relates to changes in production and consumption of goods and services in a country.
- Economic factors that can promote enterprising can be:

**Low interest rates.**

- Interest is the cost of borrowing funds from a financial institution.
- The Reserve bank of Zimbabwe, can use the Micro-financing act which regulates interest rate (low interest rates) to encourage more borrowing from the banks.

- Thus, more people will be keen to borrow funds from a bank since the interest rate will be low.

**Low inflation rate**

- Inflation refers to general increase in the prices of goods and services in the economy.
- Inflation can cause a rise in the cost of production for a company.
- A low rate of inflation will be more favourable as it will encourage enterprisers to operate at a lower cost.

**Unemployment rate**

- It is the rate at which a person with desired qualification and skills who is searching for a job is unable to find one.
- If the unemployment rate in the economy is high, most people will be encouraged to become entrepreneurs rather than seeking for employment elsewhere.

**Income**

- Consumers' demand is based on their income.
- An increase in the level of income can influence enterprising.
- Also if the people's income increases, it will affect saving and investment positively.
- Saving and investment will in turn influence enterprising.

**Self-actualisation**

- Self-actualisation is the fulfilment of an individual's talent or full potential.
- Some people engage in enterprising because they want to fulfil their dreams and desires.
- They are self-motivated to start a business.

**Other drivers towards enterprising**

- Community heroes- others are inspired by successful enterprisers in their communities, hence they are also encouraged to start businesses.
- To gain profits- most people would prefer to be self-employed and earn more income rather than working for someone and earn less.
- To create employment for others in the country.

**Activity: Group Work**

- Identify any enterprising heroes in local communities.
- Ask them what could be the driving factors towards business start-ups.

**Summary**

- Drivers towards enterprising vary from one individual to another, depending on the economical, demographic and environmental factors.

**2. THE ENTERPRISING ENVIRONMENT**



## 1. ENTERPRISING ENVIRONMENT

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

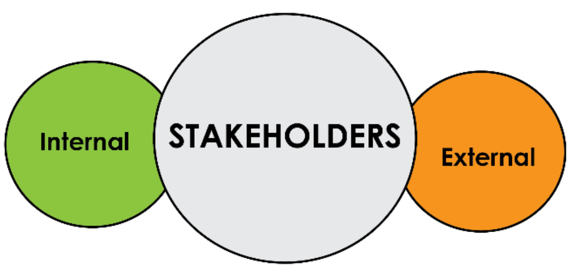
- Give the definition of stakeholders.
- Distinguish between internal and external stakeholders.
- Define resources and capabilities.
- Identify different types of resources and capabilities within an enterprise.
- Differentiate resources and capabilities.

**Overview**

The success of any enterprise is largely influenced by people that exist within the enterprise and those outside the enterprise. These people are referred to as stakeholders.

**Stakeholders**

- These are individuals or group of people that have interest in the activities of an enterprise.
- Stakeholders include shareholders, customers, managers, workers, etc.
- They can influence or be influenced by the operations of an enterprise.
- Stakeholders are classified into two groups, which are, internal and external stakeholders.




Stakeholders

**Internal stakeholders**

- They are also known as primary stakeholders.
- These are individuals that are within the enterprise.
- They are directly involved in the day to day running of the enterprise.
- They influence or can be influenced by the success or failure of the enterprise.
- They have more knowledge of the internal matters of the enterprise.

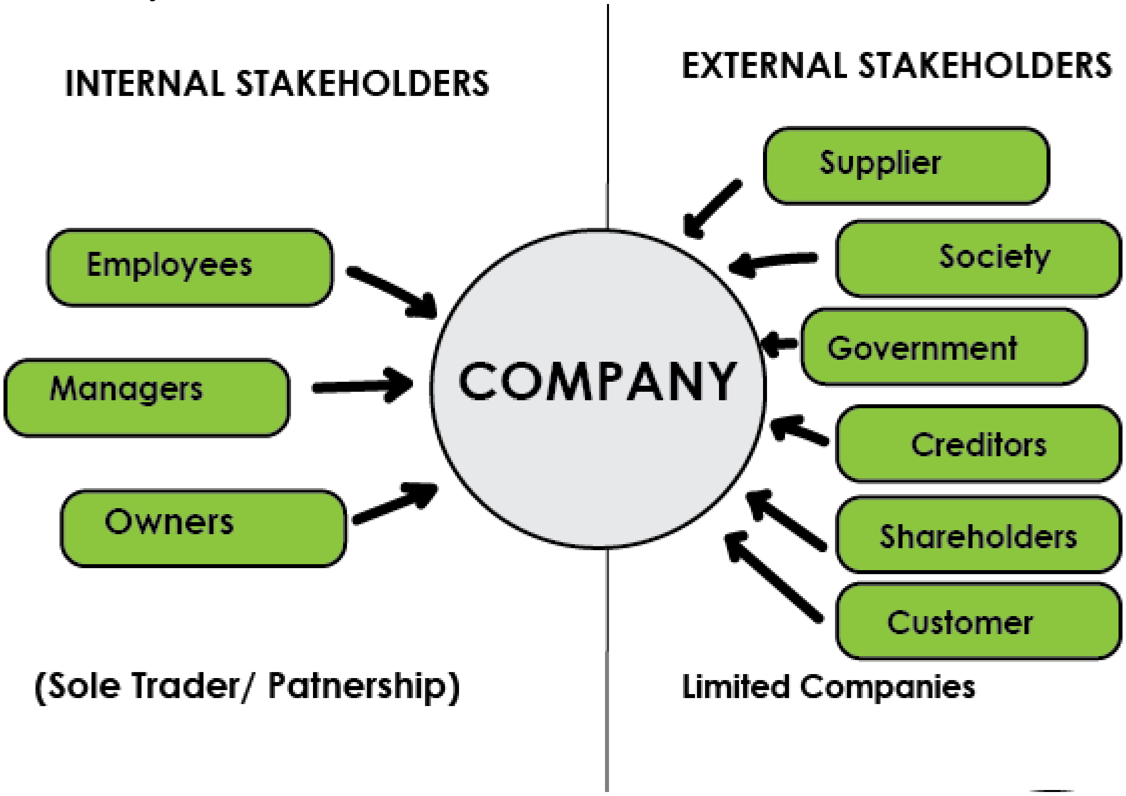
- Without internal stakeholders, the enterprise will not operate.
- Examples of internal stakeholders include employees, managers, owners and administrators.

**External stakeholders**

- They are also known as secondary stakeholders.
- They are individuals or group of people that exist or operate from outside the enterprise.
- They are not directly involved in the day to day running of the enterprise.
- They are not employed by the enterprise but they can influence or be influenced by the activities of the enterprise.
- They are less informed about the internal matters of the business.
- Examples of external stakeholders include customers, suppliers, government, banking institutes, community, etc.

**Roles of stakeholders in the enterprise**

- Business success depends on the key roles played by each stakeholder in the enterprise.
- Role- a part played by a person in the enterprise.
- It can be a function played by someone or a group of people in a particular business activity.




Internal/External Stakeholders

**Roles played by internal stakeholders**

**Enterpriser (Owner)**

- The enterpriser is the one who owns the business.

- Owners are
- In the case of sole trader and partnership, the owners are directly involved in the day to day running of the enterprise.
- Enterprisers invest their capital to start an enterprise.
- They take risk in starting the enterprise.
- They make decisions on what to produce and where to sell the produce.
- They provide necessary or basic resources to run the enterprise, such as human labour, equipment and raw materials.
- They make company policies and rules.
- They are interested in achieving the set goals so that they can maximise profits.

**Managers**

- A manager is a trustee (one who is legally committed with property for the benefit of another) entitled to control resources of the enterprise on behalf of the owners.
- They are part of internal stakeholders and their role include planning, controlling, organising, leading and coordinating organisations' resources.
- They ensure that the enterprise runs smoothly and can delegate when necessary.
- Managers take part in decision making.
- They consult the owner on crucial decision making.
- They ensure that the resources are used efficiently to minimising wastages.
- They monitor the production process by supervising employees.

**Employees**

- Employees are people hired to perform specific tasks in an enterprise.
- Individuals employed by the enterprise.
- Employees work towards achieving set goals.
- They are guided by organisational norms, rules and regulations.
- Employees interact with customers and they have knowledge about customer preferences.
- The success of the enterprise depends on the effort put by employees.

**Activity**

- Name internal stakeholders at your school.
- What roles do they play?

**Roles played by external stakeholders**

**Suppliers**

- A supplier is an individual or company that provides goods and services to other enterprises.
- Suppliers deliver goods in large or small quantities to the retailers.
- They supply to different enterprises, raw materials, semi- finished goods or finished goods.
- The enterpriser ensures that suppliers deliver products on time so as to avoid slowing down the production process.
- The relationship between an enterpriser and supplier is gained through timely payment, delivery and good communication.

**Customers**

- Customers are the most influential external stakeholders in the enterprise.
- Customer buy goods that the enterprise produce and service that the enterprise provides.
- Success of an enterprise is determined by the relationship between itself and its customers.
- The more customers an enterprise has, the more goods that will be sold.

**Shareholders**

- A shareholder is an individual or a group of people that owns part or entire company through stock.
- Their ownership is through buying shares.
- Shareholders provide finance/capital/ funds to the enterprise.
- They are not directly involved in the daily activities of the enterprise but they elect a board of directors that will run the enterprise.
- They are interested in their investment returns and growth of enterprise.
- They form company policies that govern how the enterprise should operate.

NB: shareholders are stakeholders in an enterprise, but stakeholders are not necessarily shareholders.

**Government**

- The government is responsible for maintaining a stable economy.
- They affect the activities of any enterprise that operate in the country.
- The government passes out laws and policies that governs how an enterprise should operate legally.
- Their focus is on protecting the environment, customers and workers.
- Government restricts production of certain goods to protect consumers, for example, lightening cream, harmful drugs and Genetically Modified Organisms (GMO), etc.
- They control prices of basic goods and services, such as sugar, bread and health service, through institutions such as Consumer Council of Zimbabwe.
- Impose tax on the profits earned by the enterprise.
- Restrict the number of imports to protect local products and or industries.
- They promote growth and development of enterprises in the economy through offering grants and subsidies.
- They ensure infrastructural development, that is, build proper roads, communication channels and power supply for enterprisers to carry out their businesses efficiently.

**Competitors**

- A competitor is any enterprise which is in the same industry or offers similar products, or provide similar or service(s) for instance, in the telecommunication industry, Telone competitors are Telecel, Netone, Econet and Africom.
- Enterprises compete for customers in order to increase their sales and profits.
- The enterpriser produce high quality products so that they can be competitive in the industry.
- The enterpriser should be creative and innovative at all times.

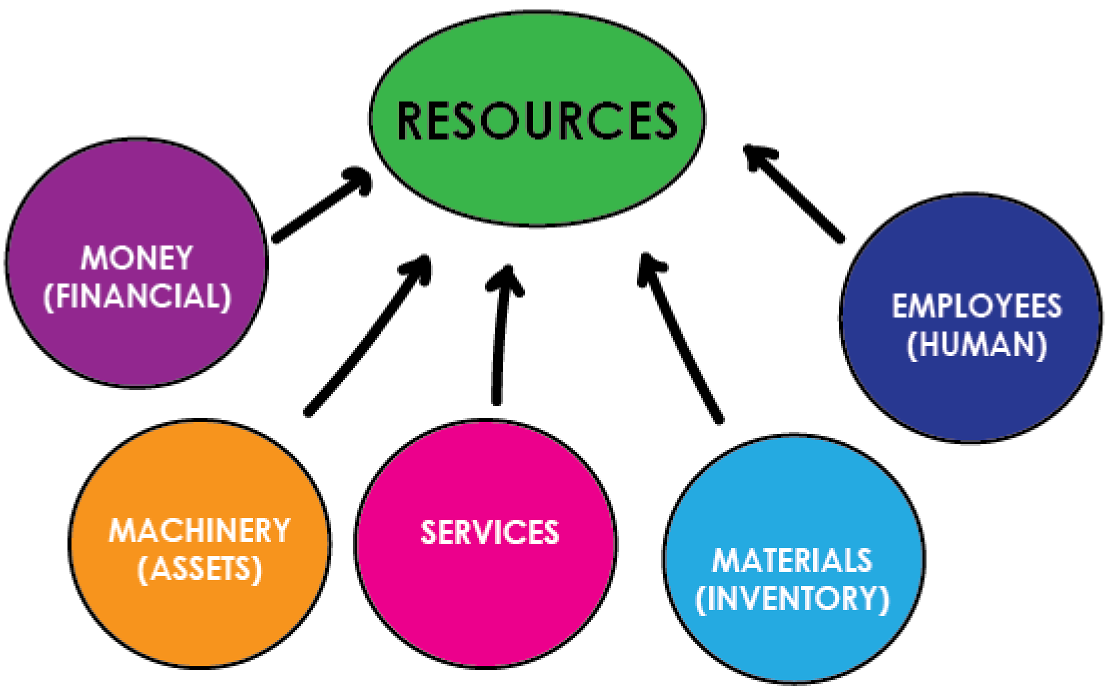
- They can adopt some ideas from their competitors.

**Creditors/ Banks**

- Creditor is an individual or an enterprise to whom a business owes money.
- Creditors can be banks, finance houses and suppliers.
- Creditors help the enterpriser with finance and other resources to run the enterprise.
- Enables the enterprise to purchase goods without making full payment or any payment for those goods.
- Creditor expect the enterprise to be able to pay interest and repay capital lent.

**Summary**

- An organisation be it profit or non-profit making have stakeholders.
- The stakeholders may be from within (internal) or outside (external).
- The internal stakeholders have more knowledge of the affairs of the enterprise while the external stakeholders do not have or have less knowledge on the affairs of the enterprise.
- Both the internal and external stakeholders play important roles to enterprises.




What is a resource

**Activity**

Outline natural resources in your local area.

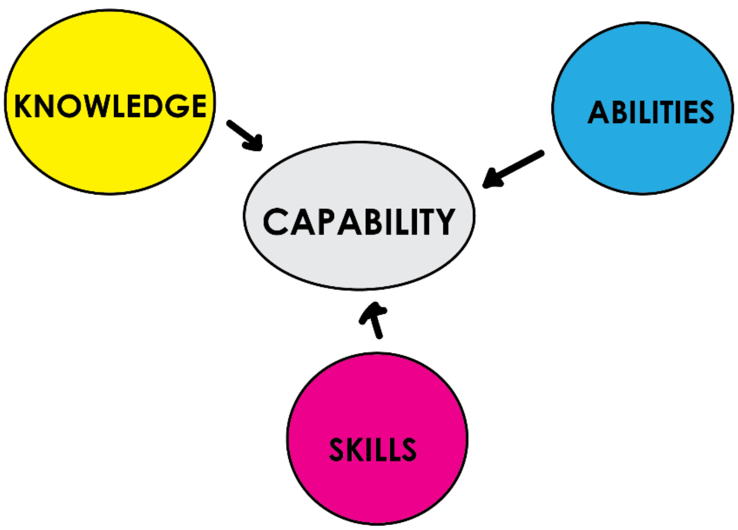
**Resource**

- It is tangible and intangible material that can be used to carry out a task or to achieve something.

- Resources are products or materials that we use to ensure our survival and to satisfy our needs and wants.
- A resource can be tangible (physical) or intangible (not physical).
- Resources are needed to achieve goals within an enterprise.
- Resources can be natural or man-made.
- Examples of resources are: money, employees, materials, machinery and services

Examples of Resources

**Capability**




Capability

- It is the ability, potential or power of an individual to do something.
- It is the ability to perform or achieve certain actions or outcomes.
- It can also be the capacity to perform effectively.
- Resources depend on capabilities for exploitation.
- Examples of capabilities include; intelligence, skills, ability, experience, creativity and innovation.

**Activity**

- Identify successful enterpriser in your community and identify the capabilities that he/she holds.
- Outline the resources of the enterpriser you have mentioned above on activity 1.

**Difference between resources and capabilities**

| RESOURCES | CAPABILITIES |
|---|---|
| **This is what is used to obtain the results from the actions performed.** | **The skills available for the company to do the actions.** |
| **What a company owns.** | **What the company can do with its existing resources.** |
| **What a company uses to produce goods and services.** | **The way the company utilizes and use these resources wisely.** |
| **Resources can be acquired using money.** | **Capabilities are things that an organization develop with time.** |

**The need for resources**

- To fund when starting a business.
- To meet or satisfy customer needs and wants.

**The need for capabilities**

- To achieve company's set goals.
- To maintain customer relationships.
- To maintain advantage over its competitors.
- To provide skills-base.

**Reasons for analysing capabilities**

- To assess performance.
- To determine risky areas of business.
- To choose a suitable investment.
- To provide a way for defining an effective business strategy.
- To improve output/productivity.
- To maximise profits.

**Types of resources**

- There are different types of resources which are tangible and intangible.

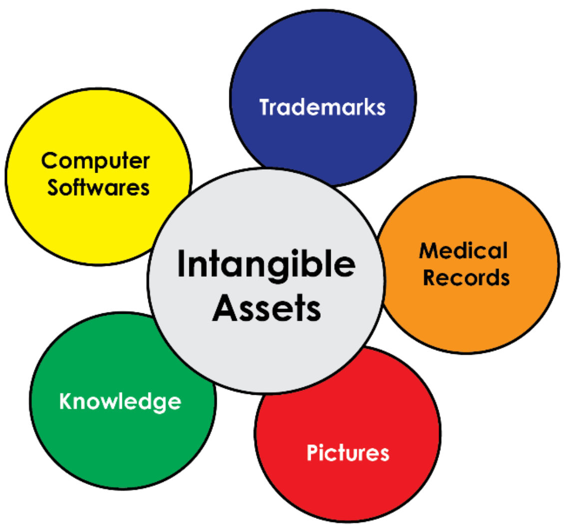
**Tangible resources**

- These are resources that a company has in a physical form.
- They can be touched and seen.
- Examples of tangible resources are land, vehicles, equipment, cash and furniture.

Tangible Resources

**Intangible resources**

- They are non-physical resources, that is, they cannot be touched or seen.
- They cannot be destroyed by fire, storm or other accidents.
- Examples of intangible resources are trademarks, knowledge, computer software and employment contracts.




Intangible Resources

**Summary**

- Individuals or enterprises require resources for survival.
- Resources can either be tangible (physical) or intangible (not physical).
- An enterprise also require capabilities in order to achieve its set goals.

### 2.1 INTERNAL AND EXTERNAL ENVIRONMENT

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- Define internal and external environment.
- Identify internal and external environmental factors.
- Describe the internal and external environmental factors using SWOT analysis.

**Internal and external environment**

**Activity**

Identify factors affecting the business internal and environment.

**Internal environment**

- Internal environment relates to factors from within the enterprise that has an impact on the activities that are carried out by a particular enterprise.
- The enterprise has direct control on the factors that impact business activities.
- These internal factors may include enterprise culture, human resource, the enterprise management, finance, organisational structure, and assets used by the enterprise.
- Following is a description on the internal environment:
    - Assets – these are resources which are owned by an enterprise. Enterprisers must therefore have adequate resources for smooth flow operation of the business.
    - Finance – refers to capital used to fund a business.
    - Management – it involves planning, leading, organising and controlling individuals or activities
    - Human resource – it refers to individuals employed by an enterprise.
    - Enterprise culture – it relates to the norms, values and beliefs that are shared by an organisation.
    - Organisational structure – it is a way in which the organisation is arranged and it shows the level of management, authority and their responsibilities.
- These internal environmental factors may impact positively or negatively.

**External environment**

- External environment refers to factors from outside the enterprise and has an impact on the activities that are carried out by an enterprise.
- The enterprise does not have control on such factors hence they are uncontrollable.
- The external factors include political, economic, social, technological, legal, climate changes, competition and media.
    - Competitors – these are individuals who are operating in the same industry or may offer same or similar products with what is offered by an enterprise.
    - Climate changes- it refers to changes in weather conditions that occur in a particular area for over a given period of time.
    - Political changes – these are changes which result from government policies.
    - Economic changes – it relates to changes which results from interest rates, inflation, demand, supply, consumer income, exchange rates, economic growth and development, trade control, money and banking.
    - Social factors – refer to the attitudes, beliefs, opinions, behaviours and interest consumers.

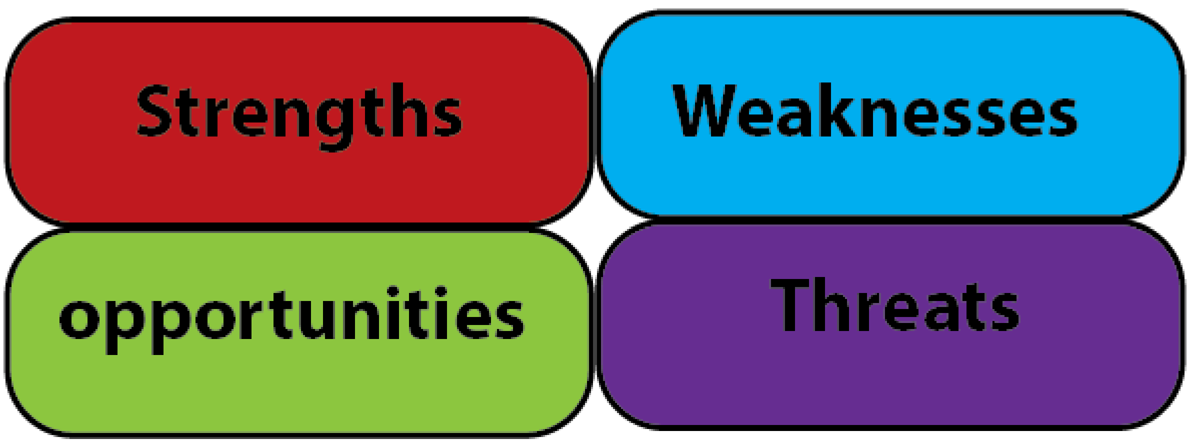
- Demographic factors – relate to levels of education, population, lifestyle and social classes.
- Technological factors - refer to rapid pace of change in new inventions and developments, for instance, internet connectivity, cloud computing and automation.
- Legal factors - relate to how the legislation impact business operation, for example, consumer law, employment law, trade policies, health and safety.
- Media – it refers to communication channels which are used to spread information.
- Pollution of the environment.

**Activity**

Samukange is in horticulture business. He sells his produce to a market which is located in the Central Business District. On his way to the market, the truck he used to carry his produce had a break down. Upon arriving at the market, the market had been flooded by the same produce as his.

Identify the external factors that affected him on this particular day.

**SWOT Analysis**




SWOT ANALYSIS

- SWOT is an acronym for Strengths Weaknesses Opportunities Threats.
- It is an environmental scanning tool used for strategic planning.

**Strengths**

- Strengths refer to positive attributes and resources that are found within an enterprise.

- Strengths places an enterpriser at an advantage as compared to its competitors.
- Examples of strengths that are found within an enterprise are:
  - Risk- the unpredictability of outcomes is inherent and reconised.
  - Confidence- the confidence level enterprisers have in their own ideas is substantial.
  - Mental framework- progresses from environmental to individual.
  - Skilled employees
  - quality products offered by the enterprise
  - use of modern technology
  - wide capital base
  - having more customers
- Strengths can also be talked in terms of potentials, fortified merits and expertise of the enterprise.

**Weaknesses**

- These are negative internal factors that can limit the growth of the business.
- Enterprises need to make investigations so as to know their weaknesses in order to take corrective actions.
- Weakness can be faults and inadequacies of the enterprise.
- Examples of weaknesses that an enterprise may have are:
  - Outdated equipment
  - ageing employees
  - lack of finance
  - poor quality products
  - poor management

**Opportunities**

- Opportunities refer to external factors that show potential for growth or expansion of an enterprise.
- Opportunities can be identified through carrying out research or they just come without having done research.
- These are chances for advancement, progress or profit.
- Opportunities are favourable circumstances or occasions.
- Examples of opportunities are:
  - improvement in technologies
  - new markets
  - low interest rates

**Threats**

- These are unfavourable conditions that come from outside the enterprise.
- Threats are expressions of intents to injure or punish the enterprise from within or from outside.
- Threats are necessary for an enterprise.
- They help to keep it on its toes.

- The more the enterprise adequately deals with its threats the more it gains dominance over its competitors.
- Examples of outside threats include:
    - Competition
    - increase in interest rates
    - political instability
    - climate changes

**Activity**

Identify an enterprise in your local area and list its strengths, weaknesses, opportunities and threats.

**Summary**

- An enterprise is comprised of internal and external environment.
- Internal environment relates to factors from within the enterprise that has an impact on the activities that are carried out by a particular enterprise.
- External environment refers to factors from outside the enterprise and has an impact on the activities that are carried out by an enterprise.
- The internal environment include assets, enterprise culture, management and enterprise structure.
- The external environment include political factors, economic factors, social factors, technological factors, legal factors and competitors.
- To scan these environmental factors a SWOT analysis is used.

## 2.2 RESOURCES AND CAPABILITIES

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- Identify different ways of acquiring resources.
- Analyse different forms of resource ownership.
- Explain various ways of sustainable use of resources.
- Explain the importance of using resources sustainably.

**Resources and capabilities**

**Resources**

- Resources refer to assets owned by an enterprise.
- A resource is anything that can be used to carry out a task or achieve something.
- Resources can be tangible (touched and seen) or intangible (cannot be touched or seen).
- Resources can be further classified into different categories which are physical, human, financial, intellectual and social resources.
- Physical resources examples are buildings, motor vehicles, machinery, raw materials, land etc.
- Human resources examples are employees and management.
- Financial resources example is money.
- Intellectual resources examples are patents, company secrets and brands.

- Social resources examples are political connection, support networks advisors and patrons.
- Resources can be natural or non-natural.
- Natural resources can be further classified into renewable and no-renewable.
- Examples of renewable resources are water, crops, wind, soil, sunlight, and animals.
- Examples of non-renewable resources are minerals, charcoal, coal, natural gas and oil.

**Capabilities**

- Capabilities encompasses all skills or competencies used in an enterprise to convert inputs into outputs.
- It is also the power or ability to generate an outcome.
- Examples of capabilities are intelligence, skills, ability, experience, creativity and innovation.

**Activity**

- Outline resources at your school.
- Identify your teacher's capabilities.

**Ways of acquiring resources**

- Resources can be acquired in a number of ways depending on their nature.
- Acquiring physical resources may be different from the way human resource is acquired.

**How to acquire physical resources**

- Physical resources may be acquired in a number of ways.
- These include mining, farming, hire purchase, leasing and mortgages.
- Hire purchase involves buying assets on credit having paid a large sum of deposit a regular equal installments over a fixed period of time.
- Raw material are extracted from nature through mining and farming.
- Mortgage is a type of a loan used to purchase real estate consisting of land and buildings.
- Leasing is an agreement which involves two parties (lessee and lessor), which allows the lessee to use property or equipment at an agreed premium.

**How to acquire human resources**

- Human resource refers to individuals who are employed by an enterprise.
- Examples of human resource are employees and managers.
- Human resources may be acquired through recruitment, selection and training.
- Recruitment is a process of attracting suitable candidates to fill up a job post.
- Selection is the process of choosing the best suitable candidates from the list of applicants.
- Training is an employee learning process whereby they acquire skills and knowledge that relate to a certain job or task.

**How to acquire intellectual resources**

- Intellectual resources are intangible resources of an organisation.
- They can be acquired through research and development.
- Research and development involves gathering, analysing, interpreting data and taking corrective measures to improve the problems that would have been identified.

**How to acquire social resources**

- Social resources can be acquired through networking.
- Networking involves constructing, designing and using network to facilitate exchange of information to people who share a common interest.

**How to acquire financial resources**

- Financial resources can be acquired in a number of ways which include sale of assets, trade credit, debt factoring, loans, issuing shares, owners' savings and retained savings.

**Activity**

- Name the resources that are owned by your family.
- How were these resources acquired?

**Resource ownership**

- There are four forms of resource ownership.
- These are private ownership, state ownership, common ownership and open access ownership.

**Private ownership**

- Resources are owned by private individuals and private enterprises.
- The owner (s) have complete control over their resources. This means that the owner (s) can sell the resources without having to consult others.
- However, private ownership may be subject to government tax.

**Common ownership**

- This can be also called community share ownership projects.
- This is whereby resources are owned and controlled by a well-defined group of individuals.
- The defined individuals may be of the same community, race, tribe or others who may have interest on the resources.
- The owners of the resources have an equal share of the resources that they own.
- In common ownership, they are set rules that govern the use of resources as the property is not owned by an individual.
- Common ownership may be affected if one of the owners decide to transfer his/her share to another person.

**State ownership**

- The resources are owned and controlled by the state, for example, roads, railway lines, electricity power lines, natural resources, etc.
- The state appoints commissions which monitor the use of resources, for example, Environmental Management Agency.

**Open access**

- These resources are not owned by anyone since every individual have access to the resources.
- The resources may be found far away from where people reside.
- Open access resources includes air and sun.

**Sustainable use of resources**

- Resources are limited in supply particularly the physical resources like land, water and air.
- Limited resources need to be used sustainably.
- Sustainable use of resources refers to a careful use of resources without compromising the future generation.
- It is the use of resources without depleting them.
- Following are ways in which resources may be sustainably used:
    - Water can be harvested, reused and desalinated to make sure that its availability increases.
    - Laws must be put in place so that waste deposit is done on designated areas so that enterprisers do not dump waste anywhere.
    - Several commissions must be put in place to monitor the activities of the enterprises, for instance, EMA (Environment Management Agency) can monitor on waste disposal and ZESA for energy usage.
    - Enterprisers who are in wood business or who use wood as a source of energy can engage in reforestation and afforestation programs to replace trees that are being cut.
    - There must be use of other substitutes for example, recycled plastic and bio-fuels.
    - Making wise purchasing decisions helps to reduce costs of living, the same applies to business.
    - Using resources which do not harm the environment.

**Activity**

Describe how you can sustainably use any two resources in your community.

**Importance of using resources sustainably**

- Sustainable use of resources help to reduce costs, for example, reusing and recycling will reduce cost that would have been incurred by acquiring new resources.
- Sustainable use of resources assures continuous availability of resources.
- It helps to reduce emissions that may harm the environment thus ecofriendly.
- Better farming and mining methods help to reduce environmental degradation.

**Summary**

- Resources refer to assets owned by an enterprise.
- Capabilities encompasses all skills or competencies used in an enterprise to convert inputs into outputs.
- Resources can be acquired through various ways. These include research and development, issue of shares, hire purchase, mortgage, networking etc.
- These resources ought to be used sustainably so that future generations will not be compromised.

### 3.1 BUSINESS CONSTRAINTS

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

1. Define business constraints.

2. Identify business constraints.
3. Explain the business constraints.

**Business Constraints**

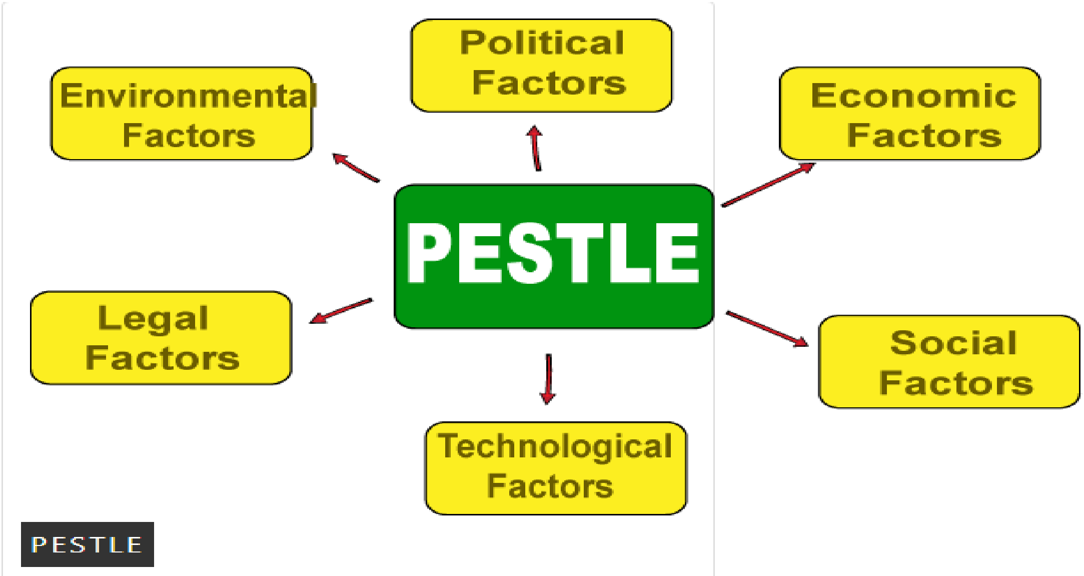
- It is any restriction that limits or interferes with the success of an enterprise.
- Business constraints holds back a business's ability to achieve its objectives.
- These are factors which a business has no control over and which need to be understood by every organisation.
- These factors can be called external factors or influences.
- For a business to be successful it need to identify external factors within their environment that could impact on their operations.

**Business constraints in an environment**

- A business does not operate in a vacuum.
- Business activities are constrained by the environment which it operates in.
- A popular tool used to identify business constraints is the PESTLE Analysis.
- It is an acronym for Political, Economic, Social, Technological, Legal, Environmental

**PESTLE Analysis**

- It is a tool that is used to identify, analyse and monitor the macro-environment factors in which an enterprise is operating and the opportunities and threats that lie within the environment.
- It is a framework that analyse the key drivers of change that have an impact on an organisation.
- It is a macro environmental framework used to scan and understand the impact of the external factors of the organisation.
- It is a tool used by an enterprise to track the environment they are operating in or when planning to launch a new product or service.




**Political factors**

- These are factors which determine the extent to which a government policy impact the business.
- It consists of law, government agencies and pressure groups that influence business operations.
- A government can change its rules and regulations (legislation), which impacts the relationship between the firm and its customers, suppliers and other organisations.
- The political environment (political condition whether stability or instability) has a great impact on business organisations.
- For instance, wars could add risks which leads to business loss.
- Political factors which affect a business are:

**Tax policy**

- It affects the price of goods through Value Added Tax (VAT).
- Value added tax is the amount charged to a product on each stage of production when its value increases.
- A government can impose a new tax or duty which will affect the generating structures of an organisation.
- Thus, an increase in tax or duty may force businesses to increase prices so that they are able to earn adequate sales revenue.

**Shifts in interest rates**

- Interest rate is the amount charged by a lender on the borrowed amount, for example a bank loan may have an interest of 5%.
- It can affect a business positively or negatively.

- High interest rate means that the amount borrowed is expensive resulting in low profit, hence a business may increase the prices of commodities in-order to cover high interest rate.
- If the interest rate is low, it means the amount borrowed is cheaper, hence a business may reduce the price of goods and services.

**Political instability**

- It is a situation whereby there are forms of violence within a country.
- This can lead to business malfunctioning in that business operations may be disturbed by violence leading to a reduction in revenue.

**Economic factors**

- Business activities are affected by consumer disposable income and other financial resources.
- Economic factors affecting business activities include interest rates, inflation, recession, demand and supply etc.

**Demand and supply**

- Demand is the willingness of consumers to purchase a commodity at a given price at a given time and supply is the quantity of commodity provided at a given price at a given time.
- If the price of a product falls, the quantity demanded for that product will rise and the quantity will reduce when the price increases.
- In supply, enterprises tend to supply more when the price of a commodity rises so that they earn more revenue.
- When the price of a product falls, enterprises will supply less.

**Consumer income**

- Income refers to money earned or received through investing or working.
- This affects the purchasing power of consumers, spending patterns and also determines the rate of demand.
- An increase in consumer income increase the purchasing power of consumers, while a decrease in consumer income reduces the buying power.

**Economic growth and development**

- Economic growth refers to an increase in output of a country at a given time.
- An enterprise must cater for the demands of the economy which brings economic development.

**Interest rates**

- High interest rates reduces business revenue or income while low interest rates increases revenue.

**Inflation**

- Increase business expenses, for example, cost of materials used in production, rent and utilities.

- Inflation also reduces consumer purchasing power.

**Exchange rates**

- This is the amount at which local currency is exchanged for another currency.
- It determines the value of a currency, for example if one bond note is equivalent to fourteen South African Rand, this means that bond note has more value than the Rand.
- Exchange rate affect exportation and importation of products within a country.
- If there is a decrease in the value of local currency, it means that local goods will be cheaper resulting in an increase in exports and reduction in imports.
- An increase in value reduces exports and importas will be cheaper.

**Recession**

- It refers to a period where there is a temporal decline in the economy which results in reduced activities.
- During this period, business make great loss in sales and profits.

**Money and banking**

- The banking policy affect prices of goods, interest rates along with investments.
- Money in circulation determines the purchasing power of the consumers.

**Trade control**

- This is whereby quality and quantity of products are regulated within an economy through legislative measures.
- The government can enforce laws to restrict trading such as embargoes, oats and tariffs.

**Social factors**

- They are also known as socio-cultural factors.
- There is no doubt that the society is changing each day and businesses should meet demands of the society.
- The socio-cultural factors that relate to society are attitudes, beliefs, opinions, behaviours, interests that directly affect how a business operates.
- Demographic factors such as level of education, population, lifestyle and social classes may be included in the socio-cultural factors. .
- These include:

**Population growth**

- The population structure of a country has an impact on business operations.
- Population growth affects demand and supply for certain products.

**Lifestyles**

- A business should aim to offer products which benefit different people’s lifestyle.
- Multiple lifestyles increase the complexity of consumers’ buying habits.
- Customers choose goods and services that meet their diverse needs and interests.

**Education level**

- Poor education system limits innovation and productivity.

**Values**

- Values are a key determinant of what a person want or do not want.
- Values affect demand for goods and services.

**Technological factors**

- Technology refers to how the rapid pace of change in new inventions and development.
- Technology is continuously advancing and the advancement has a great impact on business activity.
- These factors affect the operations of the businesses in a favourable or unfavourable way.
- Technological factors that affect businesses are:

**Internet connectivity**

- Nowadays businesses are using internet to connect with their customers, suppliers and distributors.
- An example of use of wireless devices enhance business communication.
- An organisation which is still using traditional communication methods might find it difficult to embrace technology.

**Cloud computing**

- This is when businesses store documents on virtual devices or computers which can be accessed by co-workers.
- Documents can be corrupted by viruses and bad network connection.
- Some customers are illiterate and not able to access information on the internet.

**Automation**

- Machines have replaced human power (employees).
- Products are produced using computerised machines which therefore require highly skilled personnel to use such kind of machines.
- The use of machines in industries increases the level of production leading to an increase in output.

**Legal factors**

- These are factors which relate to how the legislation affect the way businesses operate and customers behaviour.
- Businesses need to know legal and illegal factors for them to run smoothly.
- These factors include consumer law, employment law, trade policies, health and safety, tax etc.

**Consumer laws**

- These are government regulations that protect the rights of consumers.
- These are laws which are designed to prevent businesses from unfair practices towards consumers.
- Businesses can be affected where there are private watchdog companies who will be watching out for detailed information about their products.

**Employment law/labour law**

- It governs the employer-employee relationship.

- It is aimed at protecting the health, safety and rights of employees.
- It is essential for businesses to comply with labour laws to avoid lawsuits.

**Competition law**

- It aims to ensure fair competition takes place in an industry.
- Businesses require several patents and copyrights to ensure competitors do not copy their products.

**Tax**

- Government can increase or reduce taxes to promote economic growth.
- Increase in tax affects business operations negatively as it reduces consumer spending.

**Trade policies**

- Trade policies allow business to grow or fail.
- If government restrict free trade, operating a business becomes difficult.
- An increase in customs duty can lead to reduction on imports, thus reducing the quantity of raw material that can be imported resulting in decrease in production.
- If the government reduces taxation it can increase exports, leading to increase in sales revenue.

**Environmental factors**

- These are external factors which are determined by the surrounding environment (location).
- It refers to the physical environment which comprises of the available resources that can hinder business production.
- The environment affects enterprises especially on products that vary with season and climate.
- The factors include geographical location, weather, climate, resources etc.

**Climate**

- Climate variations may affect negatively production of certain products.

**Location**

- Location hinders successes of a business.
- It is expensive to build distribution channels for companies whose target markets are geographically dispersed.
- In hilly areas it is difficult and expensive to bring products to the customers.

**Resources**

- Availability of non-renewable resources such as oil or natural gas.
- If the supply for these resources decreases its price increases and this has a great impact to a business that use these fuels.

**Activity.**

- In pairs, identify any enterprise near your school and explain constraints influencing its operations.

**Summary**

- Business constraints are negative factors affecting business operations.
- These factors are political, economic, social, technological, legal and environmental. (PESTLE)
- Political factors- influenced by government laws.
- Economic factors- influenced by changes in disposable income and other monetary factors such as interest rate, exchange rate and inflation.
- Social factors- socio-cultural beliefs and attitudes of community may affect businesses operating in their society.
- Technology factors- changes in human skills, knowledge and equipment influence business activities.
- Legal factors- these are rules and laws governing business operation such as consumer laws, pricing, taxation policies, etc.

**4.1 BUSINESS OPPORTUNITIES AND RISKS**

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- Identify business opportunities.
- Identify business risks.

**Business opportunities**

- A good enterprise is always in search for new opportunities and maximising on existing ones.
- One of the best ways to identify new opportunities within your business is to carry out a SWOT analysis.
- SWOT stands for strengths, weaknesses, opportunities and threats.
- SWOT analysis is meant to arm you with valuable information about your company as well as strategy formulation.
- Therefore, business opportunities are potential areas for expansion of the business.
- It can be defined as a packaged business investment that allows the buyer to begin a trade.
- Opportunities serves as fertile ground for the business to diversity.

**Ways in which opportunities might arise.**

- There are many ways that can be used by business enterprisers in order to identify business opportunities.
- Below are some of the ways that can be used to identify business opportunities.

**Identifying the need or demand for a product or service**

- It involves identifying gaps in the market palace.
- Gaps are identified relate to the needs of the market that are not being met.
- These gaps can be identified through market research.
- Any enterpriser can identify the problems in the community and search for solutions which promote entrepreneurship.

**The ability to meet demand**

- Enterprises should identify market demand and organise or channel resources to meet the demand of the consumer.
- This can be achieved by effectually preparing forecast based on the market research data obtained.

**New technology**

- What technological developments are affecting the industry?
- Opportunities can arise through technology advancement and technological evolution.
- Enterpriser can survey around different business enterprise and analyse what sort of new technology they require in their business operations.

**Research and development**

- Refers to work directed towards the innovation, introduction and improvement of products and processes.
- Good market provides you with data you need to develop a marketing plan that really works for you.
- Research and development enables enterprise to identify the specific segments within a market that you want to target and to create an identity for your products/service that separates it from your competitors.
- It is a way used to identify business opportunities because it helps enterprises to choose the best geographical location in which to launch their new business.

**Recognising areas for expansion**

- In researching the industry, look for the latest trends.
- You need to compare the statistics and growth in the industry.
- Entrepreneurs should identify areas of the industry that appear to be expanding and what areas are declining.
- How can they use them for their advantage?

**Changes in taste and fashion**

- Consumer taste and fashion are always ever changing.
- Enterprisers should always produce products which suit taste and fashion of the consumer.
- Produce new products which are required by consumer on that time.

**Changes in size and structure of population/demography**

- Increase in population means increase in demand for goods and services which results in business opportunity.
- This will lead to more investment and creation of employment opportunities.

**Changes in real income**

- The demand for goods also depends upon the income of the people.
- The greater the income of the people, demand for goods.
- The greater income means the greater purchasing power.
- Therefore, when incomes of people increases, they can afford to buy more.

- Hence, it becomes a business opportunity to operate in such an environment.

**Opportunities offered by globalisation**

- Globalisation is the term used to describe increases in worldwide trade and movements of people and capital between countries or the process by which businesses develop international influence.
- When a company operates in a mature or saturated market, exploring other countries, it may lead to additional opportunities.
- Having information on the size of the market and competitors in other countries will help to estimate the business potential.
- Monitoring what happens in other countries may help to identify new products or services to develop.
- The removal of trade restrictions by other nations becomes business opportunity for enterprises because they could be able to purchase goods at cheaper.
- Globalisation views the world as a global village

**Government policies**

- Flexible and accommodative government policies become an opportunity to businesses if there are flexible.
- Government policies should encourage economic growth through offering grants, training, skills development and facilities as well as encouraging foreign direct investment (FDI).
- It should support for capital raising schemes, low interest rates, giving incentives such as tax exemption and subsidies.

**Activity**

In your local communities, identify possible opportunities that may influence business start-ups.

**Business risks**

- The term business risk refers to the possibility of inadequate profits or even losses due to uncertainties.
- The survival of business depends on identifying business risks and managing them.
- There are many business that have shut down due to failure to identify business risks.
- Therefore, business risks are potential obstacles to the success of the business.
- Business risks can be internal or external factors that affect business activities.
- Factors that influence risk include:
  - Sales volume
  - Price
  - Costs
  - Competition
  - Government policy
  - Economic environment
  - Climate

**Risks associated with business enterprise**

**Advances in technology/ Redundance in technology**

- Technological advancements shorten life cycles of products.
- Business models change and new competitors appear due to developments in technology.
- Failure to copy up with technological changes will result in business failure.

**Political instability/ Insecurity**

- The government has extra ordinary powers to affect the economy.
- It may introduce legislation affecting which affect investment.
- Change of governments can also cause change of business policy which affects some of business activities.
- Civil war and political upheaval or violence in a society are threats to business activities.
- Instability creates too many shocks in the business environment by pushing risk to unacceptable levels.
- It results in low predictability of strategic planning.
- Therefore, it becomes risky to operate in an environment that is heavily associated with politics.

**Economic factors**

- Volatile economic climate create business risks.
- It creates uncertainty and lack of confidence to investors.
- Acquisition of resources also becomes difficult when the economy is not stable.

**Government policy**

- Changes in government policy may place additional burdens on business enterprises.
- Increasing payrolls and taxes could raise operating costs which could affect business enterprises profitability and growth plans.

**Legal issues**

- Failure to comply with legal policy requirements can cause business risks.
- Success of the organisation comes from proper management of legal issues such as corporate governance, health and safety issues, ethical conduct, etc.

**Human resource challenges**

- High labour turnover is also another challenge on the part of human resources.
- Staff turnover may increase due to poor working conditions.
- Therefore, vital expertise could be lost as staff leave.
- As a result of that, it becomes costly in terms of hiring and training new staff since it takes time as well as money.

**Customer dissatisfaction**

- A decline in quality of products is one of the greatest risks to a business.
- The quality of products could drop hence this causing an increase in customer complaints.
- Customer with therefore shift to other substitutes offered by competitors in the market.

**SUMMARY**

- Business opportunities can be identified using SWOT analysis
- Ways in which business opportunities may arise include new technology, changes in population, changes in consumer taste, etc.
- The government can also promote businesses through policies such as foreign investments, trade policies and by offering business training skills.
- Risks associated with business include political instability, government policies, customer dissatisfaction, etc.

## 3 SETTING UP A NEW ENTERPRISE

**1 - Setting up a new enterprise**
**2.1 - Incorporated business enterprises**
**2.2 - Setting up unincorporated business enterprises and business ethics**
**3.1 - Forms of business enterprises**
**3.2 - Assistance to enterprise start-ups**
**4.1 - Formation of business enterprise**
**4.2 - Business size**
**4.3 - Business growth**

### 1.SETTING UP A NEW ENTERPRISE

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- Define unincorporated business enterprises.
- Identify the forms of unincorporated business enterprises.
- Make a description of forms of unincorporated business enterprises.
- Explain the advantages and disadvantages of unincorporated business enterprises.
- Explain the purpose of business enterprises.

**Setting up a new enterprise**

- The establishment where the business activities are undertaken is called business enterprise.
- The business enterprise may be owned by one or more individuals.
- There are two types of business enterprises which are incorporated and unincorporated business.
- Incorporated business are enterprises which have been registered formally with the registrar of companies.
- Such businesses offers more benefits than unincorporated.
- Examples of incorporated business include limited companies and non- profit making organisation.

**Unincorporated business enterprise**

- It is a business that is owned privately by one or more people.
- The government limit control of the activities of a business.
- Unincorporated business may be registered with the registrar of companies (legally registered).
- The owner(s) of an unincorporated business have unlimited liability.
- Unlimited liability is whereby owner(s) are held responsible for paying business debts. In the event of failure to pay business debts, the owner(s)' property may be used to cover up for the debt.
- Examples of unincorporated enterprises are sole trader (proprietorship) and partnership.
- Unincorporated business enterprise are also known as informal traders.
- Examples are tuck-shop business and fresh produce vendors.

**Forms of unincorporated business enterprises**

**Sole Proprietor**

- It is the most common type of business organisation.
- It is a business owned and managed by one person (owner).
- It is often referred to as sole trader.
- The owner's family can assist in running the business, for instance, by providing labour, finance and other resources.
- Trading name can be the legal name of the owner, for example, tuck shops and rural stores named Tafadzwa General Dealer.
- The enterpriser is said to be self-employed.
- He or she provides capital to start up the business.
- The owner has unlimited liability.
- All or most of the decisions are made by the owner.
- The business can be inherited by family members in case of death or ill health of the owner.
- Examples of sole proprietors include, tailor shops, bakery shops, street hawkers, beauty salon and restaurant.

Shop

**Advantages Of Sole Proprietorship**

- The owner has complete control and makes all or most business decisions.
- Sole traders can open for long hours and cannot decide to open.
- The owner have personal contact with customers.
- They do not publish their accounts.
- The owner enjoys all the profits.
- There are minimum legal requirements in starting up the enterprise.
- There are lower start-up costs.

**Disadvantages Of Sole Proprietorship**

- Too much work and pressure on the part of the owner in running the company.
- All responsibilities and business final decisions fall on the shoulders of the owner.
- There is relatively poor decision making since there is limited no one to consult.
- The owner of the business is held personally liable for the debts and obligations of the business (unlimited liability).
- Bears all risks and incurs all the losses alone.
- Usually lacks continuity (death of the owner leads to closure of the business).
- Lack adequate capital to finance themselves.

**Activity**

- List the names of sole traders within your area.
- For every sole trader, identify the type of business he/she does.

**Partnership**

- It is a business formed by 2 to 20 people with the aim of making profit.
- Owners of partnership are referred as partners.
- They consult each other (partners) when making decisions.
- Professional partnerships are special partnerships formed by professionals, for example, doctors, lawyers or teachers.
- Partnership operations are governed by an agreement (oral or written) known as a partnership deed or partnership act.
- Partners normally have unlimited liability which means that they may lose personal assets in settlement of business debts.
- There are legal requirements needed when starting up a partnership. These include trading license and partnership deed.
- Partners provide their own capital to start a business.
- They may be involved in the day to day running of the business.

There are two types of partnerships, these are General partnership and Limited partnership.
Partnership

**General partnership**

- A partnership in which all partners manage and control the business activities.
- The general partners bears risk of losing personal assets when the business fails to pay its debts (unlimited liability).

**Limited partnership**

- It consist of one general partner and limited partners.
- A general partner manages the business and have unlimited liability.
- A limited partner does not participate in managing the business and have limited liability.

Limited liability is whereby partners' failure to pay business debts does not result in loss of their personal assets. Business debts are treated separately from its owners.

**Advantages Of Partnership**

- Partners help each other in raising start-up capital, usually more capital injection as compared to sole trader.
- It is flexible – A partnership is easier to form and manage.
- Responsibility of running the business is shared among the partners.
- Partners are involved in decision making – partners consult each other.
- Absence of one partner due to social problem or holiday does not necessarily affect business operations.
- Loss is shared among partners.

**Disadvantages Of Partnership**

- Slow decision making due to consultation.
- General partners have unlimited liability for the debts of the firm.
- Death, disagreements and mental illness of one partner can lead to dissolution of partnership.
- Sharing of profits with lazy partners may discourage some who are honest, resourceful and hardworking.
- Less freedom with regards to the management of the business.
- Capital raised may not be adequate to expand business activities.
- In some cases profit sharing may be difficult in the absence of partnership agreement.

**Purpose of business enterprise**

- To create jobs in the country.
- To improve living standards of the community.
- To make profits.
- To produce goods and provide services.
- To satisfy customer needs and wants.
- Development of infrastructure, for example, roads, buildings and bridges.

**Summary**

- An unincorporated business is a business owned privately by one or more people.
- There are two types of unincorporated businesses which are sole proprietorship and partnership.
- Partnerships fall into two categories which are general and unlimited.
- In general partnership, all partners have unlimited liability.
- In a limited partnership, a limited partner have limited liability while general partners have unlimited liability.

## 2.1 INCORPORATED BUSINESS ENTERPRISE

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- Identify forms of incorporated business enterprises.
- Explain the features of incorporated business enterprises.
- Analyse the benefits and limitations of different incorporated business enterprises.

**Incorporated business enterprises**

- Incorporated business enterprise is a type of company, legal entity where ownership has been arranged into shares.
- Incorporated business enterprises are formed by two or more individuals for the lawful purpose of carrying out business activities.
- They are also called corporations or limited companies.
- Incorporated business continue to exist even if one of the owners die.
- People who own the incorporated business enterprise are called shareholders.
- Ownership is achieved through buying shares in the enterprise.
- Shareholders enjoy limited liability, that is, loss is on amount of capital invested in case of failure.
- A shareholder has no responsibilities to the company and the potential losses of the shareholder are limited to the value of the stock turning to zero in the case of bankruptcy.
- Limited companies are in two forms – Private and Public limited company.

PIC HERE

**Private limited companies**

**Features**

- Formed by at least 2 to 50 shareholders under Zimbabwe Companies Act.
- Legal documents such as Articles of Association, Memorandum of Association and Statutory Declaration are submitted to the registrar of companies.
- The Companies Act governs the formation and commencement of the company.
- Transfer of its shares is restricted to friends and family.
    - A share is a unit of account for various investments.
    - It is a portion of capital, which resembles a stake in a limited business.
    - Each unit represents a prescribed value of money.
- Company name ends with "Ltd" &"Pvt" Limited.

- A company is a separate legal entity from its owners (incorporated business).
    - Separate legal entity means that the enterprise and its members are distinct / separate entities / person.
    - The enterprise is treated as a legal person.
    - An enterprise can sue and be sued under its own name.
    - An enterprise will still continue to exist even though all its members die.
    - An enterprise may hold property under its own name.
    - A shareholder would not be personally liable for the enterprise's debt.

- Personal property is safeguarded since a company is, treated as separate entities under the law (Owners' accounts and company accounts are kept separate).
- Company can own property, employ people, make legal agreements and contracts on its own (legal persona).

**Control and Management**

- The company is managed and controlled by appointed Board of Directors.
- Directors are elected by shareholders at annual general meeting (AGM).
- The Directors report to shareholders after certain period as determined by the company policy, for example, quarterly or yearly.
- Ordinary shareholders vote at annual general meeting (AGM).
- Shareholders use voting rights to pass resolutions.
- They do not publish annual accounts but file with the registrar of companies for Value Added Tax purposes.
- Strict on transfer of shares, they issue shares to their friends and families only (Private Placement).

**Raising Capital**

- Private placement (selling shares to family and friends only).
- Plough back profits.
- Obtain loans from bank and finance houses.
- Leasing assets.
- Factoring debts (selling trade receivables/ debtors to factor agent).
- Mortgages.
- Debt finance.

**Distribution of Profits**

- Used to pay dividends to shareholders.
- Ploughed back into the business.
- Used to pay taxes, service loans and overdrafts.
- Used to sponsor activities, for example, charity, scholarships and corporate social responsibility.

**Benefits**

- Shareholders enjoy limited liability.
- Separate legal entity helps the company to make contracts on its own.
- Can sue or be sued in its own name.
- Can raise capital by selling shares (private placing).
- Enjoys continuity in event of the death of one of the shareholders.
- Founding shareholders retain control of company by not issuing shares to public.
- They do not publish their financial accounts to the public.

**Limitations**

- Too many legal formalities are needed to start up the business.
- Capital is limited since shares cannot be sold on stock exchange, which limits business growth.

- Audits are carried out annually, which is costly.
- More expensive to setup.

**PUBLIC LIMITED COMPANIES**

**Features**

- Formed by at least two shareholders to an upper limit of authorised share capital.
- They offer shares to the public.
- Most ideal for very large business.
- Listed on stock exchange.
- Membership is open to the public and invitation is through a prospectus.
- It ends with public after name or an abbreviation 'plc.'
- Governed by Companies Act.
- Promoters of the company draft and submit to the registrar of companies the prospectus, Articles of Association, Memorandum of Association and statutory declaration.
- After approval of these documents, the registrar of companies will issue a Certificate of Incorporation and a Trading Certificate that enables the company to commence business operations.
- Examples include Econet Wireless, ABS Holding, Barclays bank, Ok Zimbabwe, etc.

**Raising Capital**

- Through selling shares and issuing debentures to the public.
- Through borrowing from banks and finance houses.
- Ploughing back profits.
- Debt factoring.
- Leasing assets.
- Buying goods on credit.
- Purchasing durable goods on hire purchase.

**Control and Management**

- Their annual accounts are audited and debated in parliament.
- Their accounts are published in the press and submitted to the registrar of companies.
- Disposal of profits and Liability of shareholders is similar to shareholders of private limited companies.

**Benefits**

- Shares are freely transferred on stock exchange.
- Membership is open to the public.
- They acquire more capital since they have many methods of sourcing funds.
- They have separate legal entity.

**Limitations**

- The company is forced to publish its final accounts by law therefore:
    - Other competitors can enhance their competitive advantage by using that information.
- Lot of legal requirements, which increase cost and time before commencing.
- Stock exchange registration exposes the company to takeovers.

- It promotes dilution of ownership since shares are sold to the public.

Note:

- There is difference between public limited company and public sector.

**Activity**

Give the differences between private and public limited enterprises.

**Cooperatives**

- A cooperative is formed by a group of people within the society.
- It is a member- owned business structure with at least five members, all of them has equal voting rights regardless of their level of participation in the business.
- It is also a type of company that is owned partially or wholly by its employees, customers or tenants.
- A united voluntary association formed by people in a society to meet their common economic, cultural and social needs through working as a group.
- A business owned and controlled equally by the people who use its services or who work at it.
- For example housing, agriculture and consumer cooperatives in Zimbabwe.

**Features**

- Cooperative Societies Act of Zimbabwe is the legal document that governs running of cooperatives.
- Membership is open to people within that community.
- They enjoy limited liability.
- Surplus is shared among the members.
- Members buy goods and services at cost price or nominal profit.
- Government assist cooperative through offering grants so that they can achieve their goals.
- The members usually provide workforce.
- They have equal voting powers in decision-making.

**Benefits**

- Few legal requirements in formation.
- Members benefit from trade discounts.
- Membership is open to everyone in the society.

**Limitations**

- Other members can manipulate the system to serve their personal interest.
- Absence of profit objective reduces chances of business growth.
- They can suffer from poor management due to lack of business experience.
- Disagreement in decision-making and principal governance due to different level of education and understanding can occur.
- They are prone to excessive government and political intervention.

**Activity**

Mazowe dam residents are considering starting a fishing project. Outline the requirements they might need to start their cooperative.

**Summary**


- Incorporated business enterprises are business enterprises that are legally formed to carry out business activities.
- Incorporated business enterprises fall into two categories which private and public limited enterprises.
- Public limited companies can raise finance through debt factoring, buying goods on credit, leasing assets, ploughing back profits, purchasing durable goods on hire purchase and selling shares and issuing debentures to the public.

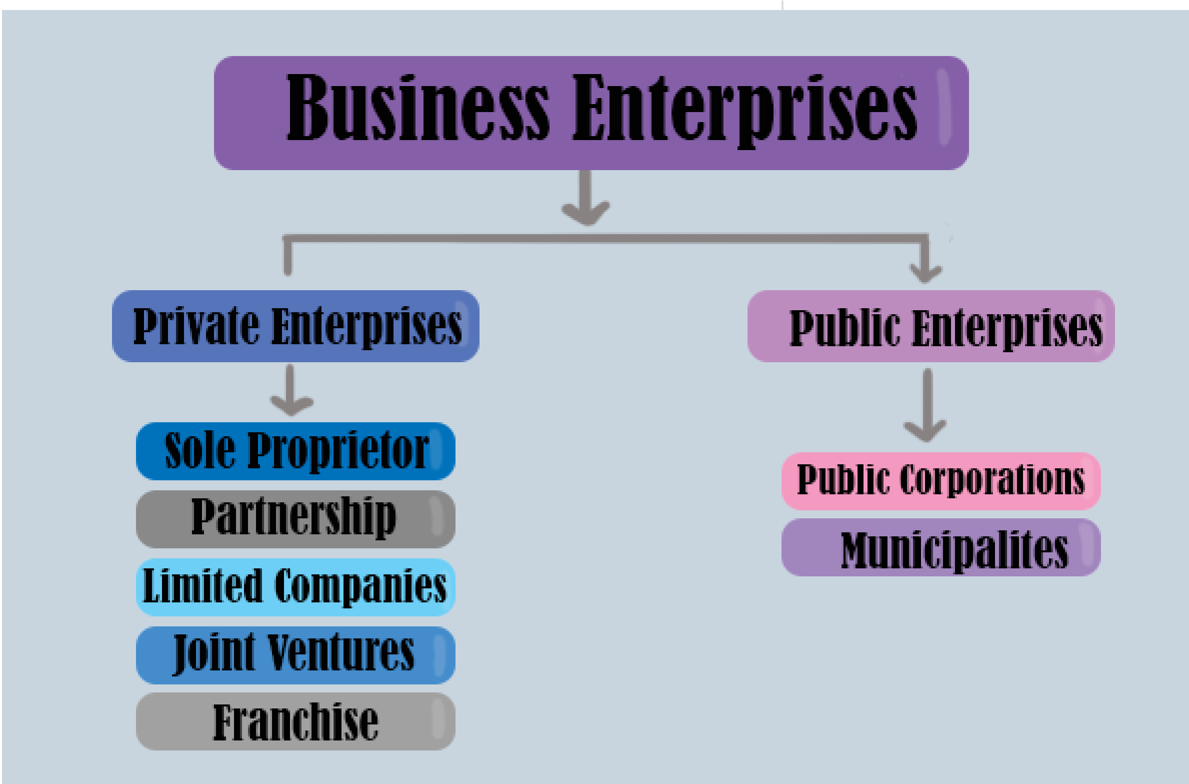

**FORMS OF BUSINESS ENTERPRISE**

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- Outline forms of business enterprises.
- Describe features of different forms of business enterprises.
- Analyse advantages and disadvantages of each form of business enterprise.
- Compare and contrast forms of business enterprises

**Forms of business enterprises**

- Business enterprises are divided into two main forms, which are; private and public enterprises.




Business enterprises

**Private enterprises**

- These are enterprises that are owned and controlled by one or more individuals.
- The government has less control on the activities of private enterprises.
- The main purpose of private enterprises is to make profit.
- Private enterprises include; sole proprietor, partnership, limited companies, joint ventures and franchise.

**Sole proprietor**

- It is the most common type of business enterprise.
- It is owned and controlled by one individual.
- The owner provides capital to start the business.
- Business and the owner have no separate existence (unlimited liability).
- All debts are at owner's risk.
- They do not pay corporate taxes on profits obtained.
- There is no or less legal requirements in formation and running of the business.

**Advantages**

- The owner has complete control and makes all business decisions.
- Sole traders can open for long hours.
- The owner have personal contact with his or her customers.
- They do not publish their accounts.
- The owner enjoys all the profits.
- There are minimum legal requirements in starting up.
- There are lower start-up costs.
- Easy process when the owner decides to change into a partnership, stop operations or pass to heirs.

**Disadvantages**

- Too much work and pressure in running the business.
- All responsibilities and business decisions fall on the shoulders of the owner.
- There is poor decision making as they is no consultation.
- The owner of the business held personally liable for the debts and obligations of the business.
- Bears all risks and incurs all the losses alone.
- Lacks continuity (death of the owner leads to closure of the business).
- Difficult in coming up with a substantial amount of money to get the business going.

**Partnership**

- It is formed by 2 to 20 for trading partnership and 2 to no maximum for professional partnership.
- Owners do not have a separate legal entity with their business enterprise.
- Professional partnerships are special partnership formed by professionals who are not allowed to form a company, for example doctors or lawyers.

- Partnership operations are, governed by an agreement (oral or written) known as a partnership deed or partnership act.
- Partners have unlimited liability which means that they may lose personal assets in settlement of business debts.
- Trading license is required when operating as a partnership.

**Partnership deed**

- It is also known as partnership agreement.
- It is prepared by partners.
- It contains the following:
- Name of the partnership.
- Objectives of forming a partnership.
- The rights and responsibilities of all partners in partnership.
- Laws that governs the partnership.
- Profit sharing ratio.
- Where a Partnership Deed has not been drafted, the Partnership Act is applicable.

**Partnership act**

- It is endorsed by the government.
- It has set of guidelines (provisions) which states that:
- Contributions of partners must be equal.
- Majority decision should settle disputes and any difference of opinion.
- Profits and losses should be shared equally among partners regardless of capital contributed.

**Advantages Of Partnership**

- Partners help each other in raising start-up capital.
- It is flexible – A partnership is easy to form and manage.
- Responsibility of running the business is shared among the partners.
- All partners are involved in decision making.
- Absence of one partner due to social problem or holiday does not affect business operation.
- Loss is shared among partners.

**Disadvantages Of Partnership**

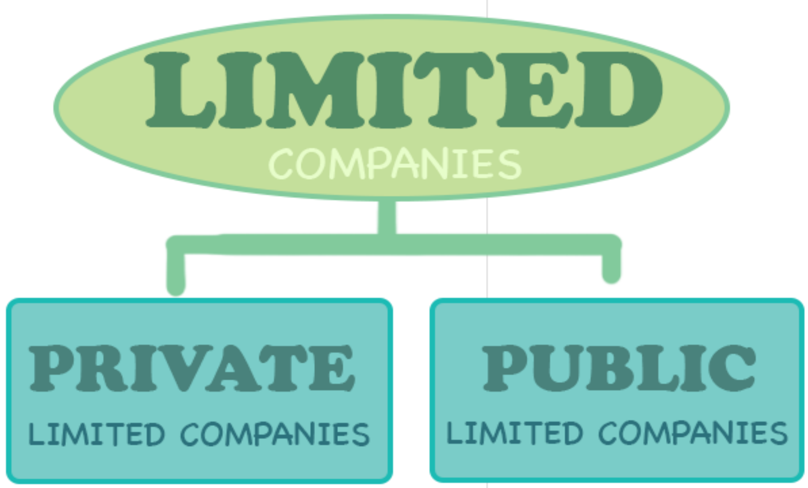
- Slow decision making due to consultation.
- General partners have unlimited liability for the debts of the firm.
- Death, disagreements and mental illness of one partner can lead to dissolution of partnership.
- Sharing of profits with lazy partners may discourage some who are honest, resourceful and hardworking.
- Less freedom with regards to the management of the business.
- Capital raised may not be adequate to expand business activities.

**Limited enterprises**

- A legal enterprise (company) formed by two or more individuals.
- It is a separate legal entity meaning that the enterprise exist own its own and is distinct from its owners.
- The main motive for forming limited companies is to make profit.
- A limited enterprise continues to exist even if one of the owners dies or move out of business.
- The company can make legal agreements and contracts on its own.
- Capital is in form of shares.
- Ownership is through buying shares.

***Share***

- *A unit of account for various investments.*
- *It is a portion of capital, which resembles a stake (ownership) in a limited business.*
- *Each unit represents a prescribed value of money.*
- *Each share represents a voting right.*
- Owners are called Shareholders.
- Shareholders enjoy limited liability, that is, they only lose the amount of capital invested in the enterprise when the company becomes insolvent.
- Limited companies pay corporate tax to the government.
- Limited company exist in two forms - Private and Public limited company.




Limited enterprises

**Private limited enterprise**

- It is formed by at least 2 to 50 shareholders under Zimbabwe Companies Act.
- The Company Act governs the formation and commencement of the company.
- Company name ends with "Pvt" and "Ltd", for example, Colmat Pvt Ltd.

- Legal documents such as Articles of Association, Memorandum of Association and Statutory Declaration are submitted to the registrar of companies.

**Control and Management**

- The shareholders appoint a Board of Directors at Annual General Meeting (AGM) to run the enterprise.
- Shareholders use voting rights to pass resolutions.
- They do not publish their annual accounts to the public but file with the registrar of companies for Value Added Tax purposes.
- Strict on transfer of shares, they do not issue shares to the public on stock exchange but sell them to friends and families only (Private Placement).

**Raising Capital**

- Private placement (selling shares to family and friends only).
- Plough back profits.
- Obtaining loans from bank and finance houses.
- Leasing assets.
- Factoring debts (selling trade receivables/ debtors to factor agent).
- Debt finance.

**Distribution of Profits**

- It is used to pay dividends to shareholders.
- Part of the profit is ploughed back into the business through acquiring assets.
- It is used to pay taxes, service loans and overdrafts.
- It is used to sponsor corporate social responsibility.

**Advantages Of Private Limited Enterprises**

- Shareholders enjoy limited liability.
- Separate legal entity helps the company to make contracts on its own.
- A private limited company can sue or be sued in its own name.
- It can raise capital by selling shares.
- There is continuity of the business even if one member (shareholder) dies.
- Shareholders retain control of company as they do not sell shares to the general public (avoiding dilution of ownership).
- They do not publish their financial accounts to the public.

**Disadvantages Of Private Limited Enterprise**

- Too many legal formalities are needed to start up the business.
- There is limit in raising capital through issuing of shares since the enterprise is not listed on the stock exchange.
- Audits are carried annually, which is expensive.

**Public limited enterprise**

- An enterprise formed by at least two or more shareholders, that is, there is no limit on the number of shareholders.

- It ends with public after name or an abbreviation 'plc.'
- It is ideal for very large business.
- A public limited enterprise is listed on stock exchange (a public market where share stocks are sold and bought).
- Membership is open to the public and invitation is through a prospectus.
- Prospectus is the document used by shareholders to advertise shares to potential investors.
- It is governed by Companies Act.
- Examples include ABS Holding plc, Barclays bank plc and Ok Zimbabwe.

**Raising Capital**

- Through selling shares and issuing debentures to the public.
- Through borrowing from banks and finance houses.
- Ploughing back profits.
- Debt factoring.
- Leasing assets.

**Control and Management.**

- They differ with private limited enterprises on that:
  - Their annual accounts must be audited and debated in parliament.
  - Their accounts must be published to the public and submitted to the registrar of companies.
- They elect a board of directors to run the company.
- Disposal of profits and Liability of shareholders is similar to shareholders of private limited companies.

**Advantages Of Public Limited Enterprise**

- Shares are, freely transferred on stock exchange.
- There is no limit on the number of shareholders since membership is open to the public.
- They acquire more capital by selling shares to the public.
- They enjoy economies of scale.
- Shareholders enjoy limited liability.

**Disadvantages Of Public Limited Enterprise**

- It is mandatory that public limited enterprises publish their accounts to the public, hence there is no privacy.
- Other competitors can use the published information to enhance their competitiveness.
- Lot of legal requirements in starting up, which is costly and time consuming.
- Stock exchange registration exposes the company to takeovers.
- It promotes dilution of ownership since shares are sold to the public.

**Joint venture**

- It is an agreement or contract between two or more enterprises to work together in a particular project.

- They agree to work together and share costs, resources and reduce risks to achieve a specific goal.
- Partners in a joint venture can decide whether the enterprise will operate as an incorporated or unincorporated business.
- Members share capital, expenses, experience and profits on the project they engage into.
- Partners can have other businesses which is separate from this joint venture.
- Joint venture is different from merger in the sense that there is no dilution of ownership between the engaged enterprises.
- When they accomplish their goal, partners can decide to sell the venture.

**Advantages Of Joint Ventures**

- Partners share experience and gain skills.
- It enables businesses to save money since they share resources.
- It promotes good relations between companies that work together.
- It is flexible - businesses can engage in other different projects.
- The joint venture can easily be terminated after completion of the project.
- Risk is shared among different enterprises.

**Disadvantages Of Joint Ventures**

- Due to complexity in structure they suffer from:
    - Management problems.
    - Decision making problems, partners may fail to agree when making decisions.
- They may be difference in corporate culture, that is, partners may differ in the way they integrate and run their business leading to conflict.
- Other partners may not be fully engaged in the project.

**Franchise Enterprise**

- It is a business enterprise that uses brand names, promotional logos and trading methods of an existing successful business.
- It is an agreement in which one enterprise (franchisor) allows another (franchisee) to use its trade name for a fee.
    - **Franchise** is the business enterprise.
    - **Franchisor** the owner of trade name.
    - **Franchisee** is the enterpriser that uses the trade name.
- A license is issued to the franchisee by the franchisor on condition of meeting all requirements needed.
- Franchisee remains the owner of the enterprise.
- Examples of franchised enterprises include KFC, Spar super markets, Innscor and McDonalds, Pick and pay supermarket, etc.

**Roles of the franchisor:**

- Gives the franchisee licence to use his/her brand name.
- Provide necessary information to the franchisee on how to conduct the business.

- Can provide ingredients to use so that the franchise can produce the same products in terms of quality.
- Provides training to the franchisee to maintain standards.
- Controls how products are marketed and sold.

**Advantages of franchising**

**To The Franchisee**

- Business failure is less likely to occur since the franchisor uses well-known brand name.
- The franchisee does not incur advertising costs because the franchisor carries a collective advertising for its members.
- Relationship with suppliers may have been established.
- Training of staff, setting up a shop and other necessary ongoing advice can be undertaken by the franchisor.

**To The Franchisor**

- Quick method of expanding the business without using more capital.
- Source of income since the franchisee will pay for the licence.
- Franchisor is relieved in stress which is associated by managing an enterprise.

**Disadvantages of franchising**

**To The Franchisee**

- Licensing restricts the franchisee to sale the enterprise.
- Profits can be limited due to annual fees paid to the franchisor.
- Decision-making is centralised.
- They can receive financial assistance from franchisor which attracts high interest rates.

**To The Franchisor**

- Profits made by franchisee are not remitted to the franchisor.
- If one of the franchisee tarnishes the image of the business then the image of the franchisor may be tarnished.
- Lot of capital is required to undertake franchise operations.

**Public enterprises**

- It consist of companies owned and controlled by the government for the benefit of serving people (community).
- Their main purpose is to provide affordable goods and services.
- They provide goods and services that are not provided by the private sector.

**Public corporations**

- Public corporations are owned and controlled by the government through appointed ministers.
- Established by an Act of Parliament.
- They are managed by a board of directors appointed by government.
- Government provides capital for the business functions through selling bonds, stock and other sourcing methods.

- They provide essential goods and services at affordable prices.
- They are non-profit making business.
- They use their surplus (profits) to re-invest in the communities they serve.
- They employ external audit and the results are debated in parliament and published annually in the press.
- Examples of public corporations include National Railways of Zimbabwe, Agricultural Marketing Association and Grain Marketing Board.

**Local authorities**

- The central government controls rural, district, town and city council.
- Local governments are set up to administer an area (council).
- They provide amenities (services) to communities they serve for example: water purification, refuse collection, sewage disposal, road construction, etc.
- Day to day management is carried by councillors who are elected by residents of communities in which they live.

**Advantages Of Public Corporations**

- Responsible for the provision and distribution of basic goods and services at a cheaper price.
- Reduces rate of unemployment.
- There is no duplication of services.
- It reduce burden to the taxpayers since they inject cash inflow to the government.
- Everyone in the society has the right to buy shares since they are sold on stock exchange.
- A change in government does not affect the corporation.

**Disadvantages Of Public Corporations**

- They are associated with wide organisational structure, which leads to inefficiency.
- Operates at below full capacity and sometimes are inefficient and wasteful.
- Tend to provide poor quality goods and services because of monopoly.
- There is lot of political control and interference.

**Difference between private and public sector business**

## Difference between private and public sector business

| | Private sector | Public sector |
|---|---|---|
| Ownership | Individual and Organisations | Controlled by state |
| Motive | To make profit | To provide goods and services at affordable prices |
| Price determination | Market forces of demand and supply | By the state |
| management | Private board of directors elected by shareholders | Board of directors appointed by government |

**Summary**

- A business is either private or a public enterprise.
- Partnership, sole trader, private and public limited enterprise are examples of private enterprises.
- Public enterprise consist of government owned enterprises such as local authorities.

**ASSISTANCE TO ENTERPRISE START-UPS**

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- Give reasons why new business enterprises need support.
- Identify ways of supporting new business enterprises.
- Explain why some enterprises grow and others remain small.
- Discuss advantages and disadvantages of different business enterprises.

**Assistance to business start-ups**

- Starting an enterprise can be a very challenging task to new enterprisers.
- Enterprisers could be faced with different challenges when starting a new enterprise.

**Enterprisers need support to be able to:**

- Acquire enough capital to start an enterprise.
- Manage and run the enterprise successfully.
- Market their products locally and internationally.
- Compete with other enterprisers who are already in the market.
- Recruit skilled workers.
- Produce goods and service at a lower cost.
- Grow and survive in the market.
- Acquire sophisticated equipment to produce high quality products in large quantities.

**Assistance to enterprise start-ups**

- Enterprisers can get support from family members, friends, financial institutions and government.

**Family and friends support**

- Family members and friends can assist with resources in form of capital, labour and advice.

**Government support**

- The government can assist enterprisers on how to acquire loans from financial institutions.
- They can also assist with grants.
- Reduce tax charged on new businesses to allow them to gain more profits.
- Offer subsidies so that they can produce at a lower cost.
- They can also provide infrastructure where the enterprise can operate in.
- Offer a marketing place for new businesses to market their products, for example, agricultural shows and Zimbabwe International Trade Fair (ZITF).

**Financial institutions**

- These are companies that offer financial aids to business in form of loans, investments and deposits.
- They also provide financial advice to businesses.
- Examples of financial institutions in Zimbabwe include Standard bank, AGRIBANK, Metbank, etc.

**Small businesses**

- These are businesses enterprises which are owned by individuals.
- They are defined by their characteristics, which are:
    - Low capital base.
    - Fewer number of employees.
    - Less annual revenue.
    - Small market share.

**Reasons why other businesses stay small**

- It is not a principle that business must grow. Some remain small, using relatively little capital and employing few people.
- Some of the reasons remaining small are:

**Type of industry the business belongs**

- Type of business may force the enterpriser to operate on a small scale, for example, plumbing, hairdressing, car repairs, convenience stores, etc.

**Market size**

- If the total number of customers is small, the business may remain small.
- For example, shops that operate in rural areas where population is low, have a limited chance of growth.

**Owners' objectives**

- They want to make quick decisions.
- They want to keep personal contact with their customers and suppliers.
- They want to remain as their own boss (independence and control).
- To enjoy profits alone.
- They want to keep flexible operation times.

**Other factors**

- They want to avoid legal process involved when running a big enterprise.
- They want to enjoy government assistance offered to small firms, such as, tax holidays, loans, grants, subsidies etc.
- They lack expertise.
- They lack motivation.

**Importance of small businesses**

- It encourages self-employment; people will engage in business activities other than seeking for jobs.
- They contribute to national output (Gross Domestic Product).
- Lead to full utilisation of resources in a country.
- Increase competition in a market hence high quality and cheap products will be produced as firms compete.
- They increase revenue for the government through paying tax.

**Challenges faced by small enterprises**

- Competition from bigger firms- they may not be able to compete with bigger firms because of high costs involved in marketing.
- Poor managerial skills as they are not able to recruit experts.
- Lack of diversification- they are not able to produce wide variety of goods to spread risks.
- They lack financial support.
- Inability to survive economic recession.
- Affected by government legislation, for example price, control policies can hinder the enterpriser to sell other commodities at higher prices.

**Reasons why some enterprises aim for growth**

- Other firms may seek to expand their businesses in order to benefit from operating on a larger scale.
- The benefits of operating at a larger scale are:
    - To obtain high profits.
    - To create brand name for the enterprise, that is, the enterprise will become well-known in the market.
    - To enjoy economies of scale- the benefits of operating at a large scale thereby reducing production costs.
    - To be able to compete with other enterprises in the market.
    - To avoid takeover by other firms in the industry.

**Large business**

**It is an enterprise which can be characterised by :**

- Large capital base.
- High market share and market size.
- High annual revenue.
- The number of outlets a business owns.
- High volume of sales.
- Large number of employees.

**Advantages Of Operating On A Large Scale**

- They enjoy economies of scale (purchasing, marketing, managerial, and financial).

- High market share.
- Large enterprises are able to acquire large sum capital by selling shares and borrowing.
- They are able to acquire sophisticated machinery.
- They are able to attract skilled labour.

**Disadvantages Of Operating On A Large Scale**

- Large enterprises are difficult to manage and control.
- Poor communication due to long channel of communication.
- High cost of expansion can be incurred.
- There are more legal formalities involved when operating on a larger scale.
- They lack personal contact with customers as such, enterprises are likely to produce goods that do not meet customers' needs.
- They can become a monopoly - being a sole provider of goods and services in the industry thereby manipulating customers by charging high prices.

**Activity**

- In groups, identify how small to medium enterprises in your communities are supported.
- Identify enterprising opportunities that can be carried out a school.

**Summary**

- Small to medium enterprise get support from government, friends or financial institutions.
- Government provide assistance by reducing tax charges, offering grants, subsidies, etc.
- Small to medium enterprises encourage self-employment and promote growth in a country.

**BUSINESS SIZE**

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- Give ways of measuring business size
- Evaluate each method of measuring business size
- Evaluate the importance of small to medium enterprises in the economy
- Identify how the government give assistance to small to medium enterprises
- Identify factors that influence business size

**Business size**

- Business enterprises are categorised into different groups according to function or size.
- The size of a business determines the scale of operation of any enterprise, that is, whether small, medium or large scale operation.
- Comparing business size can help the following stakeholders;
    - Investors – to check security of their investments in a firm.
    - Employees – for job security and to find out the number of employees in that organisation.

  - Government- to calculate the amount of tax, national output and to monitor business activities of each firm.
  - Banks- to check whether a firm is able to provide collateral security for a loan.
  - Community- infrastructural development (corporate local responsibility)
- There are certain factors which are used to give comparison between firms especially within the same industry.
- Enterprises are categorised using different measures or yardsticks such as the following;

**Sales turnover**

- This is the value of sales a business earns at a given period, for example, firm A had turnover of $30 000 compared to firm B which had $28 000.
- With this, firm A is bigger than firm B in terms of sales revenue obtained.
- This method is most useful when comparing enterprises within the same industry only.
- Firms producing goods different goods like clothing, stock feeds or stationery cannot compare their sales turnover since they are in different industries.
- In some instances, a firm may be going through depression which reduces turnover in that year, but it does entirely mean that it is a small firm.

**Number of employees**

- This is number of workers who are employed by a firm.
- An enterprise with more workers is said to be large whereas one with few employees is a small enterprise.
- It is believed that a firm with more workers is able to cover high labour cost compared to small firms.
- However this factor depends on the degree of intensity employed by a firm, that is, whether a firm is highly capital or labour intensive.
- Capital intensive firm will employ less workers since it uses machines and still be able to produce more units of output.
- An example DZ cotton producers employs 20 people to produce 3000 units while JJ cotton farmers is highly automated with 8 people and produces 5000 units.

**Capital employed**

- These are funds used as investments in a business for a long term period.
- Having high value of capital for long term investments would mean that a firm may need to invest in assets or shares.
- The more the money needed for long term investments, the larger the business and vice versa, for example a sole trader may only require $ 2 000 for investment while a limited company needs $ 450 0000
- Disadvantage of this method is that it does not cater for labour intensive firms which do not require capital equipment.
- Such firms may have less amount of capital employed and still operate as a large firm.

- Also firms in different industries require different equipment, hence it might be difficult to use this method.

**Market share**

- It is the total number of sales contributed by one firm in an industry over a specific period of time.
- It represents the proportion of the market controlled by a firm.
- If a firm has a high market share it is larger than the one with a low market share, for example if Jongwe enterprise supplies over 60% of meat product compared to other suppliers in the same industry, it is consider to have large market share.
- However using market share may not be ideal where the market itself is small, having a high market share will not mean that the business is large.

**Market capitalisation**

- It is the value of company's outstanding shares based on current share price.
- Most suitable for companies that are listed on the stock market.
- Calculated by multiplying the number of shares listed by the current share price on the market.
- The higher the value the bigger the business is and vice versa.
- However not all companies are listed on the stock exchange, hence the results may be biased
- Share price change rapidly on the market due to many factors but it does not change the size of the business.

**Time**

- How much time the enterprise has stayed in the business.

**Other ways of measuring business size**

- Profits- more profits can imply that a firm operates on a large scale or vice versa
  - However it is not a good measure of size as it is mostly used to measure success of a business. A small firm may make more profits than a large firms.
- Number of outlets- counting the number of shops a firm has in different locations, for example, chicken inn has more outlets compared to chicken slice.
- NB: There is no best way of measuring business size, it depends on what exactly one is focusing on when comparing the size of firms.

**Activity**

In your local shops, note down any characteristics that defines the size of that business.

**Small to Medium enterprises**

- These are independent businesses which are owned by individuals (sole traders) or small group of people (partnership)
- They are defined by their characteristics, that is, they have
  - Lower cost of production
  - Low level of output

  - Few number of employees
  - Earn low profits
  - Have a small market share
  - Low capital investment
- They are engaged in different sectors like agricultural, industrials, service sector, etc.

**Importance of small firms to the economy**

Developing small firms in an economy can have the following benefits;

- They create employment- many small firms create jobs for more people resulting in decrease in unemployment rate and improved standard of living.
- Encourage self-employment- people engage in business activities other than seeking for jobs hence promoting innovation and diversification in an economy.
- They contribute to national output- they increase the number of goods produced by a country resulting in economic growth.
- Small firms ensure that resources are fully utilised in a country.
- Increase competition in a market resulting in production of high quality and cheap goods as firms compete to gain customers.
- They are a source of revenue to the government through taxation.
- They also engage in international trade, more goods will be exported causing a decrease in unfavourable balance of trade and increasing foreign currency in a country. As well as positively impacting the Gross Domestic Product (GDP).
- They provide specialist services to large firms such as cleaning, maintenance, supplies of small quality equipment, etc.
- They enjoy lower cost of production, therefore they charge lower prices making goods to be cheaper for consumers.

**Government assistance to small and medium enterprises**

Small to medium enterprise may face challenges as they operate in the market such as the following;

- Lack of adequate finance to continue operating.
- Inability to recruit qualified personnel.
- Lack of managerial skills to manage their businesses.
- Poor marketing skills to market their products.

With such challenges, the government provides assistance to help small enterprises to:

- Run their businesses efficiently.
- Acquire enough capital to start their own businesses.
- Market their products.
- Compete effectively in the market.
- Recruit skilled personnel.

**How the government assist small enterprise**

**Financial schemes**

- They offer finance to enterprisers who are not able to finance their business start-ups through grants, subsidies and loans

**a) Grant** is the sum of money given by the government for a particular purpose in this case to start or run a business.

- Government grant is not expected to be paid back as it may be used to develop a business.
- Grants are given on special conditions which must be met by the enterpriser who wishes to get a grant, for example, to create employment or locating in remote areas.

**b) Government** also assist entrepreneurs with loans at low interest rates through small enterprise development corporation (SEDCO)

- Acts as a guarantor of loan repayment if the enterpriser fails to pay back the bank loan.

**c) Subsidies** is a type of financial aid where government offers cash in order to promote economic and social growth in an economy.

- For enterprises subsidies, help reduce cost of production.
- The government can offer building premises, land or equipment.

**d) Tax reduction/holiday** - government reduces tax for small to medium enterprise in order to stimulate growth in certain industries.

**Non-financial schemes**

- Offer premises with low rental fees.
- Provide trade exhibitions such as Zimbabwe International Trade Fair (Z.I.T.F) and Harare show grounds for enterpriser to market their products to different companies.
- Offer educational training facilities to provide managerial skills and other related business information through government agencies like Zimbabwe trade information (ZIMTRADE) and Zimbabwe main power development fund (ZIMDEF)
- Tighten trade policies on imports in order to protect local producers.
- Through product development boards the government encourage development of new products.
- The government on itself be the market of small-to- medium enterprise.

**Activity**

Identify the role played by small businesses in your communities.

**SUMMARY**

- Business size is determined by the number of employees, scale of operation, capital employed, etc.
- Market capitalisation is the value company’s shares based of market price.
- Profit can be used to measure business size however in some cases a small business can make more profit than large business.

- Small to medium enterprises have a small market share, low capital investment, low cost of production.
- Small enterprises encourages self-employment, contribute to national output, and promote competition in an economy.
- The government can assist small to medium enterprises by offering financial schemes, reducing taxation, providing a market for their products.

**BUSINESS GROWTH**

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- Identify methods of business growth
- Evaluate methods of business growth
- Assess the effects of business growth

**Business growth**

- Business growth is the process of improving or enhancing one or more areas of a business enterprises success.
- These are process which are used by a business for expanding its operations.
- There are two forms of business growth which are:

**Internal growth**

- It is where by a business enterprise uses its resources to expand its operations by opening other outlets.
- Internal growth is when a business expands without involving other business.
- Organic growth means that a firm expands by selling more of its existing products. This can be done through selling to a wider market.
- Internal growth is usual financed by retained profits.
- An example of internal growth is where by a supermarket owner increase number of outlets.
- Internal growth is easier to manage but quite slow.
- This is growth as a result of inward or inside process and activities.
- Internal growth is often a slow process.

**External growth**

- It is a faster method of growth.
- This can be by acquisition or takeover of other business or by merging with them.
- A takeover is when one company buys control of another.
- It can also be referred to as integration because it involves merging of enterprises.
- Merger usually means that two companies are agreed to join together and create a new company.
- Example of external growth are:

**Horizontal integration**

- It involves integration of two firms in the same industry and at the same stage of production.

**Merits of horizontal integration**

- Business reduces competition and market domination.
- It reduces risks.
- It increased financial strength of an enterprise.
- It may lead to rationalisation of business operations.
- They prevent price wars.
- There are opportunities for economies of scale.
- Increased market share and profits.

**Demerits of horizontal integration**

- It may create monopoly if combined business exceeds.
- May bring bad publicity because of the issue of rationalisation.
- Lack of control might leads to finger pointing especially when things go wrong hence affect productivity.
- It needs higher levels of responsibilities.

**Vertical integration**

- It arises when two or more firms merging together but at a different stages of production.
- This is when one firm merges with another one within the same industry but at a different stage of production, for example bakers' inn integrating with national foods.
- It can be categorised into two sectors namely backward and forward vertical integration.
- Backward vertical integration is the acquisition at an earlier stage of production.
- It also arise when a firm moves backwards down the chain of production and acquire one of its suppliers for example, a food chain store taking over an agricultural producer.
- Forward vertical integration takes place at a later stage of production.
- Forward vertical integration is formed when a firm amalgamate with one of its outlets for example, an oil company acquiring a chain of fuel stations.

**Merits of vertical integration**

- The supplier could be prevented from supplying other manufacturers.
- Information about consumers' needs and preferences can now be obtained directly by the manufacturer.
- It eliminates middlemen and absorbs their profits.
- Chances of gaining economies of scale are there.
- The firm can be able to control the promotion and pricing of its own products.
- It encourages joint research and development in to quality of supplies.

**Demerits of vertical integration**

- Cost increases as resource requirement increases.
- Loss of jobs and employees frustration due to changes in management.

- The move might be viewed by consumers as uncompetitive and might treat it negatively.
- Suppliers may become relaxed as a result of a guaranteed customers.
- They may lack of experience of managing the enterprise activities.
- Subjected to loss of specialisation and reduced flexibility.
- Differences in organisational culture take time to integrate into one consolidated and flowing culture.

**Merger**

- It is the act of combining or amalgamating two or more businesses into one for example Swift transport integrating with Wilson transport.

**Takeover**

- Is when one firm buys out the owners of another firm into its operations and becomes part and parcel of the business.
- Takeover can also be called acquisition.
- Takeover can take place when one firm buys more than 50% stake in another enterprise which give it power to control the enterprise.

**Merits of merger and acquisition**

- It eliminates competition.
- It adds more value to the combined entity than what a single company can produce on its own.
- Potential for increased production is very high.
- It opens up new markets for both companies.
- It is a cost- effective method to speed expansion.
- It can create multiple growth opportunities.
- It can improve financial resources therefore boost the productivity.
- It increases the credits worthiness of the company in the financial markets.
- Improves utilisation of resources.
- It spread company risk by promoting diversification.
- It leads to economies of scale.

**Demerits of merger and acquisition**

- It may increase the amount of debt that is owed.
- There can be differences in corporate culture that are not easy to consolidate.
- Conflicts may arise due to different organisational culture.
- Too much growth can lead to diseconomies of scale.
- May suffer from poor change of management.
- There may be loss of key employees on the course of a merger that is may lead unemployment.
- Dilution of ownership leading to some shareholders losing control or ownership.

**Activity**

Research further on local businesses that exist through merger or integration and takeovers.
Identify the possible benefits customers are gaining from a merger.

**Reasons why business grow**

- Business grow in order to survive.
- Gain economies of scale.
- Increase future profits.
- To reduce business risk.
- To increase market share.

**Effects of business growth**

- The growth of a business is the increase in sales and market share of the business which is usually also an increase in the total output level of the business.

However, there are several benefits to stakeholders because of the growth and expansion of business.

- The growth of business results in its becoming more competitive.
- Larger firms are able to dominate a market, enjoy monopoly power to a certain extent and raises prices too.
- Growing business are able to benefit from diversification, it reduces business risk.
- Managers are highly motivated as they have greater status, get high salaries and fringe benefits if achieve intended objectives.
- Expansion motivate employees since it give them job security and higher wages and salaries.
- Growth may yield higher profits hence returns for investors (shareholders and owners).
- Enjoy economies of scale.
- Specialisation and division of labour can be practised.

**Demerits of business growth**

- Organisational structure will automatically change due to new posts and developments.
- High operational cost can be incurred equipment’s and furniture that facilitate expansion.
- If business grows beyond a certain size, they may face diseconomies of scale.
- Too rapid expansion may result in severe cash flow problems.
- Too much expansion can demand complex management process.
- Growth can lead to resistance from shareholders.
- Growth is associated with lack of funds to finance that business growth.

**SUMMARY**

- Business growth means the expansion of a business in terms of its size, scale of operation, acquiring machinery.
- A business can expand internally or externally.
- Internal expansion occurs when a business opens more outlets, increase number of employees, increase production output, etc.
- External growth can be through integration or takeover.

- Integration is when two firms agree to join their operations.
- A takeover refers to a process where a firm buys out another firms.
- Integration can be horizontal or vertical.
- Horizontal integration is when firms of the same industry operating at the same stage of production integrate.
- Vertical integration is when firms that are in the same industry but at different stages of production integrate.

4. **BUSINESS PLANNING**



**1. BUSINESS PLANNING**

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- Define a business plan and business planning.
- State the importance of a business plan and business planning.
- List the components of a business plan.
- Design a mini business plan for a certain project.
- Define business objectives.
- Identify and explain different business objectives.

**Business planning**

- It is a process of formulating goals, strategies and actions for a business enterprise so that it can get started, survive, grow and prosper.
- It is a sequence of steps of action to achieve specific objectives set by an organisation.
- Business planning mainly focus on two key aspects which are profit making and dealing with risks.

**A business plan**

- It is a written document that gives full details on how a business is going to achieve its goals.
- Business plans are usually drafted by new enterprisers.
- It acts as a guide or a map with details on how to achieve business set goals.
- It lays out a written plan on how to source finance, produce goods and distribute them.
- A business plan can also be called a business proposal.

**Importance of business planning**

In the absence of planning all the business activities may become meaningless.

- Increase efficiency – planning helps to reduce wastage of valuable resources.
- Reduce business risk – it helps the enterpriser to identify possible threats to the business and take necessary precautions, for example, change in technology.
- Helps in organising resources – planning brings all available resources together, amount of resources to be used and when are they needed.
- Gives right direction – by giving information and guidance on how to carry out business activities in order to achieve set goals.
- Enables the enterpriser to control all business activities.
- Cuts costs and boost profit.
- A business plan is time-based (which business operation is to prioritise to prioritise at any given time.

**Importance of a business plan**

- It helps the owner to source funds for the business.
- Helps identify resources needed.
- Assist the business owner to be focused on achieving business objectives.
- It helps managing the business better – business plan makes it possible to know who is responsible for which duties.
- Staying on a budget is much easier – planning allocation of money to various business units and avoiding unnecessary spending on the business.
- It provides checks and balances of an enterpriser. The enterpriser quickly identifies what has been done and what is still be to be done.

**Activity**

How do you tend to benefit from writing a business plan of your own choice?

**The need and purpose for business plan**

- To attract potential investors to fund the business.
- To provide an analysis of the business.
- To analyse whether the business project is attainable (feasible) or not.
- To make a strategic reflection on the business.
- To provide clarity to the business.
- To identify strategies which enables the business to earn profit.
- It can also act as a source for innovation and creativity.

**The need and purpose for business planning**

- To set objectives for the business.
- To ensure the business idea can be delivered profitably.
- To raise finance for the enterprise.
- To help control or manage the business.
- Identification of strategic resources.
- Business operations are operations as quickly as possible.

**Elements or components of a business plan**

- Executive summary

- Business description
- Market analysis
- Marketing strategies
- Organisational management
- Sales strategies
- Funding requirements
- Financial projections
- Background of the owner
- Business objectives
- values

**A MINI-BUSINESS PLAN**

Here is a simple sample for a business plan. These are guidelines on how to come up with a business plan for a grocery shop.

**Executive Summary**

- Our business purpose is to supply groceries
- It is located in down town area shop number 4, Harare Street.

**Business Name**

- Super Saver groceries

**Ownership**

- Owner by two directors

**Line Of Business**

- A grocery shop

**Products And Services**

- Bread and baked goods
- Soups and canned goods
- Detergents
- Dairy products and eggs
- Beverages
- Pasta and rice
- Cereals and breakfast foods

**Market Analysis**

- Customers are made up of members of the public coming in town especially downtown area.

**Marketing Strategies**

- Using flyers showing what the shop provides and its prices.
- Through advertising using radio so that the audience know the existence of the shop and its location.
- Putting a suggestion box inside the shop which helps to know customers' queries, needs and expectations.
- Newspapers and social media.

**Sales Strategies**

- We offer products at affordable prices.
- We offer fresh baked goods every day.
- Our shop is open till 12 midnight.
- Excellent customer care.

**Organisational Management**

- Offer training to sales team.
- Always looking for better recipes for the bakery section.
- Researching on the customers' needs all the time.

**Funding Requirements**

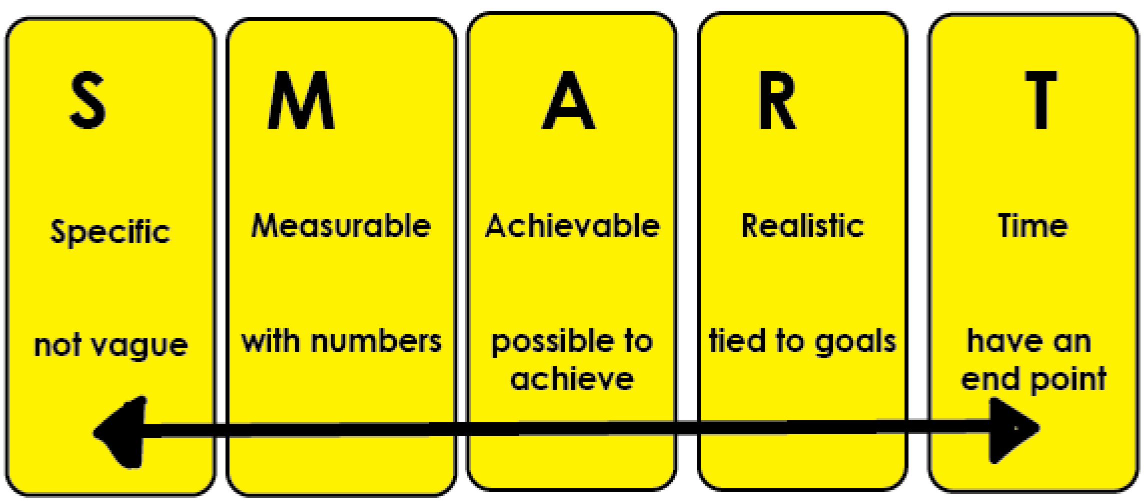
- To secure a loan of $10 000.

**Financial Projections**

- Annual goal - $180 500
- Monthly goal - $15 500

**Business Objectives**

- Objectives are targets, aims or goals set by a business, which they seek to achieve within a time frame and with available resources.
- They are specific outcomes that the business want to achieve in the future.
- It gives the business a clearly defined target.
- Business objectives should be SMART.




S.M.A.R.T Objectives

**Specific**

- They should be clear and well defined to anyone who has a knowledge of the project.
- They should answer questions like "what exactly do you want to achieve?"
- An example for a specific objective, increasing sales by 20%.

**Measurable**

- An objective should be quantified, this means they should be in meaningful figures and action oriented, for instance, to produce 20 000 units of goods.

**Achievable / Attainable**

- Goals set should be achieved.

**Realistic**

- The objectives should be achieved using the resources available and at a certain time.

**Time**

- Objectives should have a time frame.
- Specify when the results can be achieved, for example, to increase sales by 20% by 2018.

**Business Objectives**

- Business enterprises aim to achieve goals such as:

**Activity**

If you were operating your own business, which objectives would you set for your business?

**Profit maximisation**

- It is whereby a business owners or managers would want to increase revenue at the same time minimising expenses.

**Growth**

- It is when a business aims at expanding its operation in terms of size, for example when an existing food outlet like Chicken Inn open another outlet.

**Survival**

- Business operating in a recession economy and those being set up for the first time would want to stay in the market.
- This is the reason why they aim for survival rather than anything else.
- Especially in a competitive environment.

**Sales revenue**

- It is when a business wants or intents to increase its sales volume.

**Corporate social responsibility (CSR)**

- It is when a company aims at protecting the environment, providing good and safe working conditions and also participating in community life.
- An example of social responsibility is that of 'Econet Wireless' offering scholarships through Capernaum Trust.

**Ethical**

- Ethical objectives are set goals by an organisation for moral guidelines or fair business practices.
- For example, treatment of employees, customers, suppliers and shareholders.

**Creation of employment**

- State owned business, profit making and non-profit making business aim at improving standards of living by creating employment.

**Summary**

- Every business whether profit making or non-profit making have certain objectives they seek to achieve.
- The objectives must meet the SMART criteria which stands for Specific, Measurable, Specific, Attainable, Realistic and Time- frame.
- Examples of objective which enterprisers seeks to achieve are growth, survival, profit maximisation, increase in sales and creation of employment.

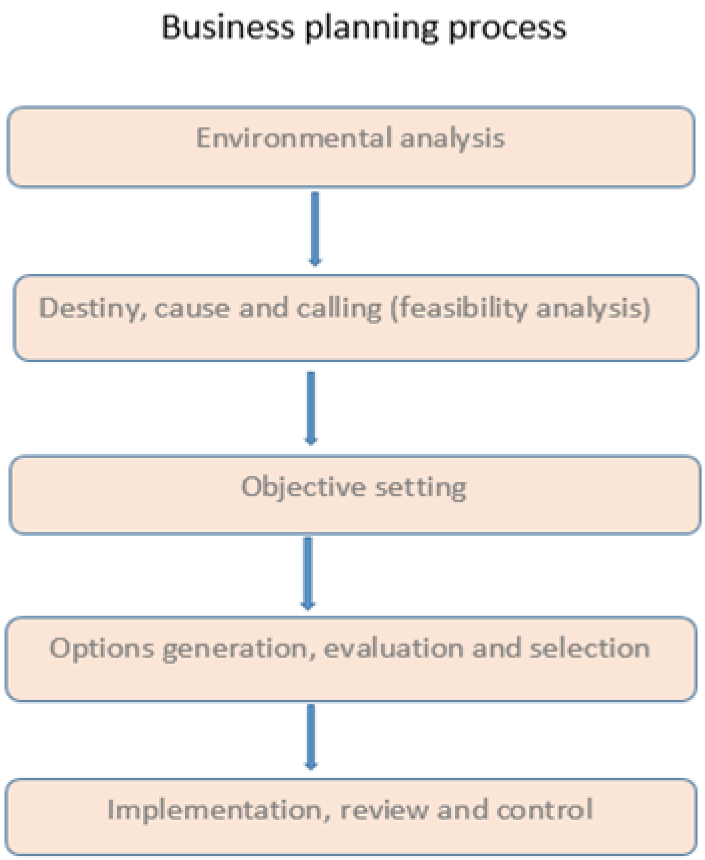
**2.1 BUSINESS PLANNING PROCESS**

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- Describe the business planning process.
- Discuss the importance of each business planning step.
- Execute business planning process.

**Business plan**

- A written document that describes in detail how a business is going to achieve its objectives and realise its goals.
- It is a set of intended actions, usually mutually related, through which one expects to achieve a goal.
- A guide or a map with details of how to achieve goals.




Business Planning

**Environmental analysis**

- It is a process which involves identifying factors (internal and external) that affect enterprise / business performance.
- Identification of the factors that affect business performance can be done using environmental scanning tools such as PESTLE and SWOT analysis.

**Importance of environmental analysis**

- To identify opportunities and threats affecting business enterprise.
- It helps to understand current environmental changes and make adjustments to suit in the environment.
- It assist in decision making.
- It enables an enterprise to develop strategies and policies.
- To ensure effective utilisation of the resources available.

**Destiny, cause and calling (feasibility analysis)**

- Destiny in business planning process involves setting long term objectives, vision and manage all the steps involved so as to attain the set objectives.
- Cause and calling refer to what drives an enterpriser to engage into business.

- Feasibility analysis is done in order to see the viability of the business idea.

**Importance of feasibility analysis**

- It helps to assess the viability of a business idea.
- To help the enterpriser whether to proceed with the proposed business or not.
- To analyse concept in terms of market availability, operational, financial feasibility.
- To seek finance from investors and banks.

**Objective setting**

- Objectives are goals which the business seeks to achieve.
- Objectives set must meet the SMART criteria.
- Overall business objectives should be split to departmental plans.

**Importance of objective setting**

- It helps to convert mission and vision of enterprise into specific measurable targets.
- Objectives motivate employees – if the employees know what the organisation seeks to achieve, they work towards attainment of these goals.
- Objectives will help to evaluate performance –workers are given targets to work on, managers will therefore evaluate performance of workers using the targets they have allocated to workers.

**Options generation, evaluation and selection**

- Options generation involves generating alternatives (options), assessing the impact of each alternative on the identified problems.
- Options generation helps to come up with a preferred alternative that is supported information obtained from environmental scanning.

**Importance of options generation, evaluation and selection**

- It helps the enterprise to choose best alternatives.
- It helps to allocate resources.
- It helps to formulate evaluation tools which may be used to monitor progress.

**Implementation, review and control**

- Implementation is whereby the business is taken into effect.
- Implementation begins when the strategic plan has been created and approved by the upper level management.
- Implementation begins when the plan is clearly communicated to employees.
- After implementation, every department should create a report for review and control purposes.
- Plans should be reviewed on regular basis depending on the business.
- Review and control must be used as a tracking system to assess and measure business goals.

**Importance of implementation, review and control**

- It helps to coordinate business and departmental plans.
- To make changes when necessary.

- To monitor progress after implementing business plan.

**Activity**

Thabhani is considering writing a business plan for his business. Which procedures should he follow to make a good business plan?

**Summary**

- Business planning is a process of formulating goals, strategies and actions for a business enterprise so that it can get started, survive, grow and prosper.
- Business planning process include environmental analysis, feasibility analysis, objective setting, options generation, evaluation and selection and implementation, review and control.
- Therefore, enterprisers should follow a step by step procedure to make sure that their business plans are thoroughly done.

**3.1 BUSINESS PLAN**

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- Define business plan and business planning.
- List components of a business plan.
- Explain components of a business plan.

**Business plan**

- It is a written document which gives description of company goals, strategies and financial plan and how to achieve them.
- A business plan establishes a guide to achieve goals and objectives of a business.
- A business plan can be for a new or existing business.
- A business plan is not only prepared for seeking potential investors but it is an important document for giving description of goals and how to work towards achieving them.
- It is essential for highlighting the present and future position of a business.

**Components of a business plan**


Components of a business plan

**Executive summary**

- It describes briefly the business opportunity that is to be exploited.
- It summarizes other sections of the plan.
- It include organisational background, management overview, marketing strategies, financial highlights and contents page.
- Though an executive summary is the first part to appear, it should be the last item to be written.

**Organisational background**

- This is where the line of business is described.
- A description of when the business was established, its vision and mission statement are stated.
- If the business sell products, this is where it describes the manufacturing process, availability of materials and other operational details.
- If the business provide services, it describes their offerings and their value to customers.
- The following are included;
    - Name of the business
    - Its address
    - Legal structure
    - Intellectual property
    - Aims and objectives

**Products**

- A description of goods and services that are offered to potential customers.
- The business describes the uniqueness of their goods or services from their competitors.

**Market analysis**

- It is an assessment of the market, to see where the business fits in the market and how competitive is the business.
- Market analysis data is obtained through marketing research.
- It include:
    - The industry the business intends to operate.
    - It shows sales forecast.
    - Target market and customer buying behaviour.
    - Competitor analysis.
    - Pricing strategies.
    - Promotional strategies.
    - Barriers to entry and regulations.

**Strategy and implementation**

- This section is about explaining how the business choose different strategies to achieve set goals.
- It highlight major points which include:
- SWOT Analysis - by identifying the internal and external factors that are favourable and unfavourable to business objectives.
    - Macro environment – these are external and uncontrollable factors that influence a business activities. These factors include political, legal, economic, social, technological, demographics.
    - Competitive edge – what a business can offer which is more competitive to what competitors offer. Do the business offer better quality, lower prices, better service, better style etc.
    - Value proposition- is the business aspect that differentiates it from its competitors.
    - Sales strategy – how to win potential customers when in store, visited the website or contact an organisation.
    - Marketing strategy which include

a) Product differentiation –product, price, promotion and place.
b) Pricing strategies such as penetration, skimming, psychological, etc.

**Management**

- Description of the business management team and outline the qualifications and experience of key team members.
- Explaining how their expertise will help the business to meet its goals.

**Financial plan**

- It is a key component of the business plan.
- It shows how the business is financed (savings of owners and borrowing).
- The projections should be realistic based on information about the business revenue growth and profitability model.

- The financial plan consist of income statement, balance sheet and cash flow statements.

**INCOME STATEMENT**

- Its purpose is to disclose the annual revenues and expenses of a business for a given period.
- For an existing business, the statement should cover one or two years.

**CASHFLOW STATEMENT**

- It is a financial statement that shows about when and how funds will be circulating in and out of the business.
- It enables manages to make decisions on what, how and when to afford the necessities for business operations on a monthly basis.
- It highlights if there is need for borrowing.

**BALANCE SHEET/ STATEMENT OF FINANCIAL POSITION**

- It is a statement of assets, liabilities and business equity of business at any given date.
- The information is useful as it allows creditors to see the creditworthiness of the business.

**BREAK-EVEN ANALYSIS**

- It is used to determine if the business will be able to cover all the costs (without making a loss or profit).

**Summary**

- A business plan gives a description on how an enterprise would achieve its goals set.
- It includes executive summary, marketing strategies, financial aid and the product to be sold or manufactured.
- A business plan enables an enterpriser to identify how much materials are needed for production and profit that could be made.
- This also gives a clear guideline on how they can market their product,

**3.2 IMPORTANCE OF A BUSINESS PLAN**

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- Explain the importance of a business plan.
- Write up a business plan.

**Importance of a business plan**

- It acts as a yardstick of measuring real business performance against plan.
- It assist in seeking finance (finding potential investors and finance lenders).
- It helps to identify resources and time needed to achieve business goals.
- It helps the business to stay on track.
- It motivates employees since they become aware of business direction.
- It helps to draft budget which are essential for business operations.
- It showcase marketing strategies to be undertaken by the business.

- It assist in targeting markets.
- It gives an opportunity to test out a new idea.
- It gives a clear statement of the business mission and vision.
- It clarifies business direction.

**Coffee shop business plan**

**Executive summary**

- Tiffany Aroma's coffee shop is determined to become a daily supply for local coffee addicts.it is a dream place to escape the daily stresses of life.it is a comfortable place to meet with friends or to read a book. All is found at Tiffany Aroma coffee shop, where it will offer its customers the best prepared coffee in the area served with pastries and free books that customers can read to enjoy their visit.
- The company will operate the coffee bar in a Central Business District (CBD) where it will reach all working people at breakfast and after hours. The owners have secured this location through a three- year lease with an option of extending. They have provided $120 000 of the required $150 000 start-up funds. The remaining capital will be obtained from CABS loans.

**Objectives**

Tiffany's objectives for the first year of operations are:

- To become the "Best New Coffee-Bar in the area"
- To turn in profits from the first month of operations
- Maintain a 65% gross margin
- Achieve and maintain outstanding customer service.

**Keys to success**

- Employee training to ensure best preparation technique
- Store design that is attractive
- Build a solid base of loyal customers
- Maximizing the sales of high margin products for example coffee, drinks and pastries

**Mission**

- To provide best effort to create a unique place where customers can socialize in a comfortable and relaxing environment while enjoying the best brewed coffee and pastries in town.
- Our business will be of helping our customers to relieve daily stresses providing piece of mind through convenient location, friendly customer service and products of consistently high quality.
- Tiffany Aroma will invest its profits to increase the employee satisfaction while providing stable return to its shareholders.

**Company summary**

Tiffany Aroma sells coffee and other beverages, pastries in the Central Business District (CBD). Tiffany Aroma's major investors are Thabani and Norbet who accumulatively own over 70% of the company

**Organizational background**

- Tiffany Aroma is registered as a private limited enterprise which sells coffee and other beverages. Tiffany Aroma coffee bar will be located in the Central Business District, number 50 1st and N Mandela Street. Tiffany Aroma's shareholders are Thabani who owns 51%, her sister Shylet 30%, as well as Lovemore who owns 19%.

**Start-up summary**

**Expenses**

- Legal expenses for company registration and permits $450
- Marketing promotion expenses $2 000
- Consultants fees $500
- Insurance fees (for workers and company assets) $2 500
- Prepaid rent expenses $6 000 ($500 per month)
- Premises renovation $5 000
- Miscellaneous expenses (phone, stationery) $200

**Start-up assets**

- Start-up inventory $ 8 000
- Equipment $40 000
- Funding for the company is through two major sources – owners' investments and bank loans.
- Two major owners – Thabani, Shylet and Lovemore contributed $25 321, $14 895 and $9 434 respectively. The total contribution amounted to $49 650.The remaining $15 000 needed to cover the start-up expenses will be borrowed from CABS as a long – term loan (5years).

**Company location and facilities**

Tiffany Aroma coffee bar will be located in the Central Business District, number 50, 1st and N Mandela Street. The enterprise has secured a five year lease. The coffee bar will have 20 tables, kitchen storage area and four toilets. The bar has neat interior décor and the tables and chairs are positioned in such a way that customers will sit comfortably as they enjoy their coffee and beverages.

**Products**

- Tiffany Aroma will offer its customers the best tasting coffee in the area. It will provide a menu lists, catalogues and magazines with all products offered.
- Tiffany Aroma will offer different kinds of beverages for all races and culture.
- To those clients who prefer to have coffee at home, delivery team will be sent to their addresses for home delivery. This will be done through online selling and phone calls.

**Product description**

- Tiffany Aroma will be serving cappuccinos. The drinks are offered with whole, skimmed or soy milk.

**Sales literature**

- Two thousand flyers will be distributed in the CBD and selected office buildings within three weeks before opening of Tiffany Aroma coffee bar.

**Market Analysis**

- Zimbabwe coffee consumption has shown a rapid growth, with cappuccino coffee having the robust growth. Coffee addicts in the Harare west record the highest demand. They favour well brewed cappuccino coffee.
- Tiffany Aroma will endeavour to build loyal customer base by offering great taste coffee in a relaxing environment.

**Market segmentation**

- Tiffany Aroma will be focusing at working class people in offices in the Central Building District, who have offices located near the coffee bar and also classy people. Our market research indicate that these are the customer groups that are most likely to buy coffee products.

**Target market segment strategy**

- Tiffany Aroma will target those who want great coffee cup daily. Such customers will have different age groups, since our location means most of our clients will be from offices and business. From our market research, a lot of business people consider coffee bars to be convenient for business meetings. It is an inviting atmosphere especially for those customers who will come after work to seek relaxation. For us, this will provide a unique possibility for building a loyal customer base.

**Market needs**

- The market desire coffee products especially cappuccino coffee.

**Industry analysis**

- The local climate is conducive for the hot non-alcoholic beverages. The climate is cool, in winter season. In summer people order iced beverages.

**Competition**

- Tiffany Aroma’s direct competitors will be other coffee bars nearby. These include, Hideout cafe, Cottage cafe, Vanilla Moon and other small establishments. Hideout café is the major competitor because of its strong financial position, established marketing and operational practices. An estimation for market share for Hideout café 35%, Cottage café 25% and Vanilla Moon10% with the remaining share split among other establishments.
- Tiffany Aroma will position itself as a unique coffee bar that also offers western beverages in a comfortable environment which competitors’ lack.

**Buying patterns**

- Customers usually come back to buy coffee due to our unique products and customer service such as tasty coffee, quick serving and a conducive environment.

- Tiffany Aroma will prices will be fair and competitive.
- Our belief is that we will have a larger market share which is backed by our tasty coffee and good customer service.

**Strategy and implementation**

- Our main focus is to get new customers who frequently buy coffee and maintain already existing customers.

**Competitive edge**

- Tiffany Aroma will position itself as a unique coffee bar where its customers will enjoy a cup of perfectly brewed coffee in an exotic environment
- The sitting arrangement is made in such a way that customers will be comfortable and relax themselves as they enjoy their orders listening to quiet music.

**Sales strategy**

- Our brilliant waiters will handle the sales transactions. To quicken up service delivery, at least five waiters will be servicing clients.
- Tiffany Aroma will use banners, brochures and fliers for marketing purposes. Customer promotional programs (for every 5 meals bought, 1 free meal will be given) to make sure the customers come back to spend more and more.

**Sales forecast**

- Food costs are assumed at 60% for coffee and 30% for beverages.

**Management**

- Majority owners for Tiffany Aroma are Thabani and Shylet. Thabani holds a Bachelor's Degree in Marketing Management. She worked for several years as a business consultant. Previously, she owned XYZ Travel Agency, which she profitably sold 3 years ago. Shylet has a Bachelor's degree in Business Administration. For the last decade she has worked as a manager at Rainbow Towers. Under Shylet's management the hotel has consistently increased sales while maintaining a lower average operating costs.
- In the running of the business, they will hire a professional manager who will be paid $800 per month. Three full time waitress ($300/month) will be in charge of coffee preparations. Two more part-time employees will be hired to fulfil the staffing needs.
- We believe that our candidates has the right experience for this role

**Financial plan**

Tiffany Aroma will benefit from the high demand for cappuccino coffee. With good management aimed at establishing and growing a loyal customer base, the company is looking forward to increase its net profit three times in subsequent years. Tiffany Aroma will maintain a 55% gross margin and expenses will be kept at minimum level.
Interest on long term loan is 10% per annum.
Tax rate (after 5 years of establishment) is 25% per annum.

**Projected cash flow**

| YEAR 1 | YEAR 2 | YEAR 3 | |
|---|---|---|---|
| | $ | $ | $ |
| Cash from operations | 574 000 | 632 000 | 696 000 |
| Cash sales | | | |
| SUBTOTAL CASH FROM OPERATIONS | 574 000 | 632 000 | 696 000 |
| Additional cash received | 15 000 | - | - |
| New current borrowing | | | |
| SUBTOTAL CASH RECEIVED | 589 000 | 632 000 | 696 000 |
| Expenditure | | | |
| Cash spending | 58 650 | 78 850 | 90 850 |
| Bill payments | 8 040 | 10 040 | 11 040 |
| SUBTOTAL SPENT ON OPERATIONS | 66 690 | 88 890 | 101 890 |
| Additional cash spent | | | |
| Interest on loan | 1500 | 1500 | 1500 |
| Purchase of long term assets | - | 5 000 | - |
| Dividends | - | - | - |
| SUBTOTAL CASH SPENT | 68 190 | 95 390 | 103 390 |
| Net cash flow | 520 810 | 536 610 | 592 610 |

**Projected Income statement**

| YEAR 1 | YEAR 2 | YEAR 3 | |
|---|---|---|---|
| Sales | $ | $ | $ |
| | 574 000 | 632 000 | 696 000 |
| Cost of sales | 194 000 | 214 840 | 237 300 |
| GROSS PROFIT | 380 000 | 417 160 | 458 700 |
| Expenses | | | |
| Wages and salaries | 114 600 | 133 800 | 145 000 |
| Sales and marketing expenses | 15 800 | 17 600 | 21 000 |
| Rent | 6 000 | 6 000 | 6000 |
| Electricity | 1 440 | 2 000 | 2 100 |
| Water | 600 | 350 | 400 |
| Total expenses | 138 440 | 159 750 | 174 500 |
| Profit before interest and tax | 241 560 | 257 410 | 284 200 |
| Interest on loan | 1 500 | 1 500 | 1 500 |
| NET PROFIT | 240 060 | 255 910 | 282 700 |

**Activity**

1. Using any business enterprise activity, draw a business a plan showing the following elements;
    a. cover page
    b. executive summary
    c. business background
    d. the product

**4.1 IMPLEMENTATION OF BUSINESS PLAN**

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- Implement business plan

**Implementation of business plan**

- A business plan or business proposal is a document which gives a description of company goals, strategies and financial plan and how to achieve company's goals.
- After a business plan has been drafted, it should be executed or put into effect thus implementation of a business plan.
- A well written business plan become realistic when it is implemented.

**Implementation**

- Implementation is defined as a process that turns strategies and plans into actions in order to accomplish objectives and realise goals.
- Business plan implementation is the most important and most crucial part of a business plan process.
- Business plan implementation requires critical actions to move a plan from a theoratical document to reality.
- A business plan provides a business with the roadmap it needs to:
    - pursue a specific strategic direction,
    - to set performance goals,
    - deliver customer value,
    - be successful
- The business plan should answer the following questions on implementation:
    - What size?
    - What is the scope of business?
    - Which resources will be needed?
    - How will it be financed?
    - How will the resources be acquired?
    - How and where will product/ service be marketed?
    - How will the business be organised?

**Components necessary to support implementation**

**People/ Human capital**

- The business enterprise should hire or have the right and competent people, with required competencies and skills that are needed to support the business plan.
- New business acquire human resources through proper recruitment and selection and placement process.

**Resources**

- Implementation requires sufficient funds, physical resources and enough time to support the process.

**Organisational structure and technical system**

- Lines of authority should be clear, which facilitates open and clear communication.
- The organisational structure should have clear reporting lines to support progress reviews as well as an oiled chain of command.
- Management and technology systems should help to track the implementation progress of the business plan and make it faster to adapt to changes that is flexibility and versatility.

**Culture**

- The working environment should support and connect employees to the organisation's mission and vision.
- The culture should reinforce the importance of focusing on strategy, vision, reward and success.

**How to implement a business plan**

**Define clear objectives (SMART)**

- On implementation, set objectives should be clearly defined.
- There should be clear and specifically spelled out for effective implementation.
- Objectives are the main fundamental aspects in implementation of the plan.
- Objectives should be broken down into tasks.
- Breaking objectives into task, helps to clearly set who is accountable and responsible for a task.

**Time allocation**

- Time should be allocated appropriately.
- Tasks should be granted appropriate time frame for not just completion but competent work as well.

**Assessing and reviewing progress**

- Upon implementation, a formal assessment of progress check is done.
- The management team needs to monitor each task's progress checking with set standards for the purpose of keeping on track.
- When problems arise, root cause should be identified and dealt with.
- Adjust, modify and update standards where it is necessary.

**Why implementation of business plan fail**

- Lack of communication.
- Failure to have responsibility in the plan (lack of ownership).

- Failure to consider implementation plan.
- Ineffective change management policy.
- Management being consumed by daily operating problems lose sight of long-term goals.
- Overwhelming plan (plan which is difficulty to implement and acquire results).
- Poorly designed business plan.
- Poor organisational structure which lacks accountability, authority and responsibility.
- Failure to check and report progress.
- Lack of sufficient financial resources to fund key activities and process.

**Implementation of designed business plan**

**Implementation design for Coffee shop (Tiffany Aroma's Coffee Shop)**

Tiffany Aroma Coffee Shop uses a strategy of total quality in product and service delivery. Our promise is to deliver the best product in areas where we are located, attract potential customers and to create a conducive atmosphere.

**Strategic Assumptions**

- Customers want a better tasting coffee drink.
- Coffee drinkers want a more inviting coffee shop environment.
- Coffee drinks are considered an affordable luxury.
- The coffee shop business enterprise is largely unaffected by the economy and world events.
- Tiffany Aroma Coffee Shop offers several unique advantages over all other coffee shops.

**Strategy and implementation**

- Our main focus is to get new customers who frequently buy coffee and maintain already existing customers.

**Competitive edge**

Our competitive edge, compared to the other coffee shops in Harare CBD area includes the following:

- A significantly higher quality tasting coffee.
- Our coffee shop is a unique coffee bar where our customers enjoy brewed coffee in an exotic environment
- We offer free and Wi-Fi zone for our clients.
- Our current location can arguably be considered the best in the market in the heart of the uptown shopping, dining and entertainment.
- An ambiance superior to all other coffee shops in the area with unique sitting arrangement. Its features stained glass decorations, art woodwork, Zimbabwe sculpture and outdoor dining.
- The only coffeehouse downtown to provide regular weekend evening entertainment.
- We offer a wider variety of popular drinks, including flavoured coffee drinks, tea, chai, cocoa, juice and Italian sodas.
- Our brilliant waiters will handle the sales transactions to quicken up service delivery.

- Our Internet website will include sales of whole coffee beans, tea, chocolates, gift items and gift basket.

**Launch marketing**

- Most coffee shops in our area do little or no marketing and advertising. For example Hideout Café philosophy is that their appearance in the marketplace is all they need to sustain and grow their customer base.
- They spend less than 3% of gross revenues on advertising, and when they do spend, it is usually to introduce a new product.
- Our difference from other coffee Shops will be our use of advertising and marketing to gain awareness, build customer traffic and establish a strong brand image.
- We intend to create immediate customer awareness and not wait for word-of-mouth.
- We use penetrating pricing strategy.

**Launch Marketing**

- Launch marketing will promote awareness, build immediate traffic and establish our brand image via several methods:
    - Public relations/publicity
    - Internet advertising and direct mailing
    - Local print and broadcast media
    - Road shows
    - Design and packaging
    - Community involvement
    - Sampling
    - Distribution of flyers and pamphlets all over.

**Public relations**

- We have a strong public relations.
- Publicity program is used as its primary promotion strategy.
- The goal of the PR/publicity is to achieve local market awareness and establish the brand on a wider scale to set the stage for future expansion.
- Local market awareness is vital because more than 50% of sales will come from people living within a 5 kilometres radius of the business enterprise.
- National awareness will help drive the expansion by generating opportunities created by the media and familiarising people with our brand name.

**Internet advertising**

- Pop ups
- Ads
- Social media advertising (Facebook and Whatsapp)

**Website**

- Our website is fully e-commerce functional and could easily become a significant revenue source.

- We will eventually sell the following items online:
  - Whole coffee beans, tea
  - Gift baskets
  - Gift items

**Direct mail**

- Ongoing direct mail generated from our website data. We send massages to customer who visit our website through direct mailing.

**Local Broadcast Media**

- Will make use of local broadcasting media such as:
  - Radio stations
  - Television stations for example ZTV
  - Business magazine
  - Newspapers
  - DSTV
  - Business cards or company profiles, posters, flyers and bulk SMS messaging.

**Community Involvement**

- We will make ourselves an integral part of the local and world community.
- This will generate goodwill, create opportunities to make important contracts with key people and live up to our company mission statement.
- Some of these community involvement goals include:
  - Take an active role in social corporate responsibility.
  - Supply complementary product to local charities for fund-raising activities.
  - Sponsor local sports teams.

**Location**

- Tiffany Aroma coffee bar will be located in the Central Business District, number 50, 1st and N Mandela Street. It is the best location in Harare CBD.
- Site selection criteria include:
  - Year round business activities.
  - High traffic location.
  - Surrounded learning institutions.
- Exceptions will be made for some sites if they are deemed to be potentially very profitable.
- Other sites that meet these criteria include Victoria Falls, Kariba, Bulawayo, Hwange and Mutare.

**Sampling**

- We will engage in several sampling activities to introduce potential and current customers to Tiffany Aroma Coffee Shop range of drink options.
  - Samples will be distributed at the coffee shop.
  - Samples will be given to passers-by on the street

- Discount coupons will be distributed on the street, via direct mail and at special events.
- Free coffee service will be provided to the radio station, the newspaper and at selected government offices.
- Run a competition for winners to receive prices.

**Pre-paid, re-loadable, frequency and discount cards**

- We will offer these services of gift cards and customer frequency card to promote business and stimulate cash flow.
- Pre-paid and re-loadable cards have also proven to be very popular with the major chain coffee shops.
- These cards promote customer loyalty.
- Frequency cards rewarding the repeat customer with a free drink after a specified number of visits are popular and proven methods to create customer loyalty.

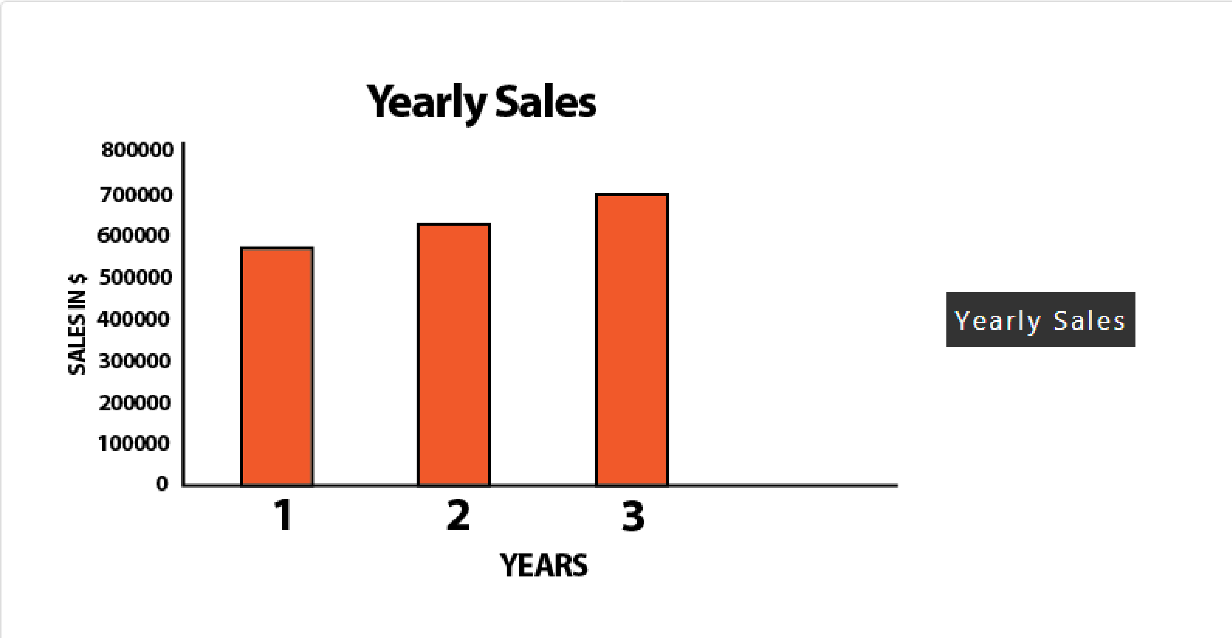
**Sales Strategy**

- Our sales strategy includes:
    - Staff salaries that are 9% above the industry average in order to attract the best people.
    - Hiring for attitude so that we always have a friendly, enthusiastic staff to make customers feel welcome and appreciated.
    - Constant staff training to assure the best quality possible.
    - Sales/inventory system that reduce customer waiting time and create efficient product ordering.
    - Create a mobile kiosk to take Tiffany Aroma Coffee into the community at special events, farmer's markets, art shows, etc.
    - Solicit customer feedback to constantly improve and stream line our operation.

**Sales forecast**

- Food costs are assumed at 60% for coffee and 30% for beverages.
- We expect growth to occur across all categories at about 15% annually as the business becomes more established and well known.
- Predictably, we are forecasting an average of 250 customers per day during the first year with an average guest check expenditure for all items of $3.50.
- Projected sales for the period of the years are as follows $ 574000, $632000 and $696000 respectively.

**Sales by Year**




**Activity**

As a group, draw up a business plan for a business project of your choice.

**SUMMARY**

- A business plan is document showing the company's goals, purpose and financial plan of that business.
- A business plan has to be implemented to convert all strategies and plans into action.
- Its purpose is to show how the company will sources out finance, meet its objectives, market its product, etc.
- For a business plan to be implemented fully the company should employ workers, acquire resources, have a working culture and organisational structure that will enable them to achieve their objectives.
- The implementation process may fail because of poor communication, failure to plan properly, unrealistic objectives, etc.

## 5. ENTERPRISE FINANCE AND SECURING INVESTORS

1 - Need for business finance
2 - Sources of finance
2.1 - Financial statements and cash budgets
3.1 - Working capital
3.2 - Financial statements
3.3 - Cash budgets
3.4 - Financial institutions

4.1 - Business costs
4.2 - Budgeting and budgets

**NEED FOR BUSINESS FINANCE**

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- Define finance, investment and saving.
- Give the difference between saving investment and saving.
- Explain the need for finance in an enterprise.

**Finance**

- These are funds businesses use in their operations.
- The funds can be used to purchase resources needed in the running of business activities.
- For example, money used in paying wages, buying raw materials and assets.
- Capital can be in form of cash, assets and other resources which the owner put into the business to support business activities.
- Capital is the money needed to start a business and revenue is income earned by the enterprise.

**Activity**

- List your financial needs?
- If you were going to start a business, what will be your financial needs?

**The need for finance**

- In general students need money to buy stationery, food, paying school fees and many other goods and services they need.
- It is also the same with businesses, they need finance for;
- Capital expenditure for instance, starting up a business, buying fixed assets.
- Revenue expenditure for example, buying raw materials and repairing an asset.
- The financial needs of a business are:
    - start-up capital
    - expanding a business
    - additional working capital
    - capital expenditure and
    - revenue expenditure

**Start-up capital**

- Finance is needed to acquire assets before the business start to operate.
- Finance or capital needed to launch a new business is called start-up capital.

Capital - Money or other types of assets that are introduced into the business by the owner(s).

**Money**

- It is the medium of exchange for goods and services.
- Money can be in form of bank notes and coins (cash in hand) and also be in the form of resources.

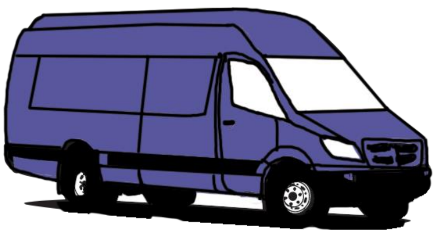
Money

Money 2

**Types of assets in a business**

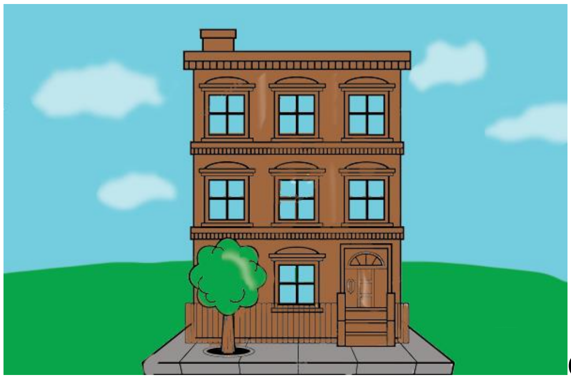
Office lamp

Office computer



Delivery vehicle


Office chair

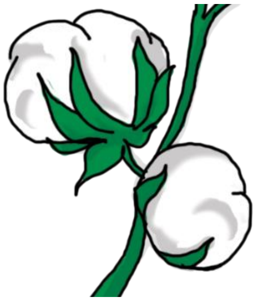

Office building

- When individuals come up with a business idea, they should consider all the necessary resources to be used in the business.
- Resources to be considered include, land, buildings, raw materials, plant and machinery, cars and equipment.
- These are known as assets.
- Human resources are also important to be considered in setting up and running an enterprise.

**Buying raw materials**


Wood


Coals


Cotton

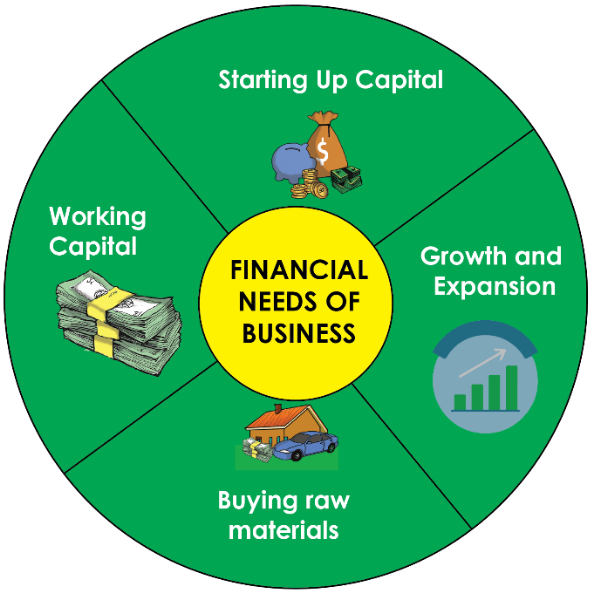
- Raw materials are the basic materials from which products are made.
- Examples of raw materials are oil, wood and steel.

**Expanding an existing business**

- Enterprisers often make decisions to expand their businesses in order to increase profits.
- Expansion can be in form of;
- Purchasing additional assets – such as equipment, machinery and buildings.
- Developing new products, increasing production so as to meet requirements of new markets.
- This form of growth need to be financed for it to be successful.
- Opening of new outlets, deports or factories.

**Increasing working capital**

- Working Capital-the capital of a business which is used in its day-to-day trading operations.
- Working capital can be used to pay wages, purchase raw materials, water bills, electricity bills and creditors.
- Business should have enough working capital so that it can continue to meet its short term obligations (financial responsibilities).
- When the business entity does not have adequate working capital, it may not be able to carry out its day-to-day business activities.
- The business needs to raise additional working capital so that it continues trading.
- In short, business need finance to pay for or fund their capital expenditure and revenue expenditure.




Financial needs of business

**Investment and Saving**

Students mostly confuse these words, they interchange them as if they mean the same. Saving and investing are not the same, key difference lies on risk and liquidity.

Risk – probability of losing something of value.

Liquidity – how quickly a business can covert assets into cash.

**Saving**

- Funds being kept for specific purpose to be used in future date.
- They are low risk funds that must be available (liquid) when needed.
- Most people open a savings account with banks in order to save money.
- Savings can also be part of one's income after all monthly expenses have been paid.
- These savings can be used for home renovation, emergency purposes, buying properties and paying college fees.
- Funds or money for savings can be in the form of cash or kept in a bank account.

**Activity**

Assume that you are a working class, what would you save your income for?

**Investment**

- It is an act of using saved money to acquire assets that will help to generate more income at the same time building wealth.
- To invest is to allocate money, resources and time in the expectation of some benefits in the future.
- Benefits obtained from an investment are called returns.
- High risk is involved but greater returns are received when managed properly over a long time.
- The sole purpose for investing is wealth building.

- For example when a farmer buys livestock he/she expect them to reproduce over a long period, therefore when they multiply it will increase the returns (wealth building).
- Investments methods can be in form of:
- Taking an investment policy for example Retirement funds.
- Starting a business.
- Buying of shares – buying share in different companies.
- Real estate – buying many buildings then offer them for rentals.
- Acquiring bonds,
- Putting money on the money market.

**Definition of Terms**

**Asset:**

a resource that is owned or controlled by a company and that can be used to provide a future economic benefit.

**Capital:**

money or assets introduced in the business by the owner(s).

**Capital Expenditure:**

money spend on fixed asset such as equipment which last for more than two years.

**Fixed Assets:**

physical resources of a company which are purchased once for long-term use and are not likely to be converted into cash as quickly as possible, such as land, buildings and equipment.

**Revenue Expenditure:**

money spent on day to day expenses, for example, money used to buy stationery, pay wages and rent.

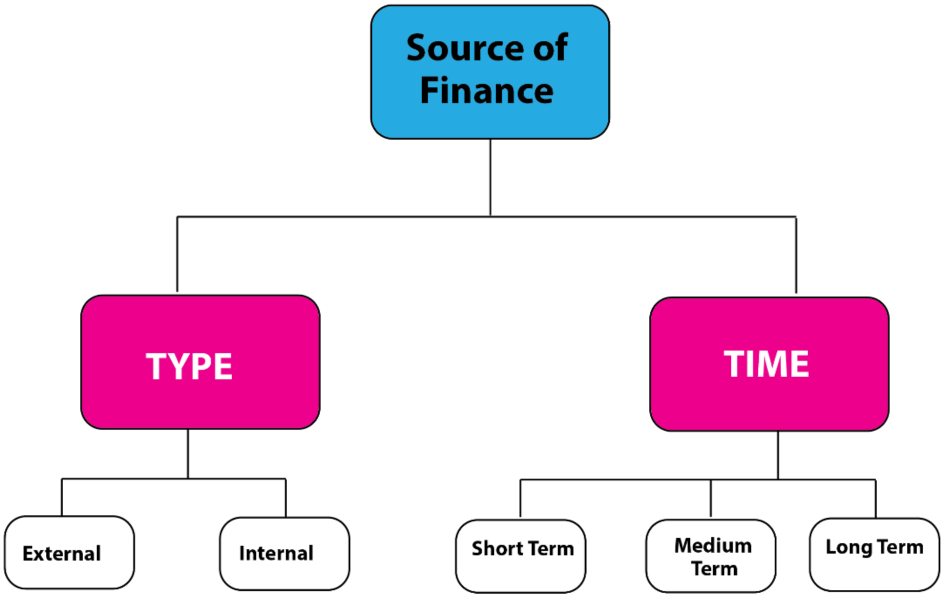
**Summary**

- Savings are funds kept for specific purposes to be used at future date.
- To invest is to allocate money, resources and time in the expectation of some benefits in the future.
- Savings less risky as compared to investments.

**2 SOURCES OF FINANCE**

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- Identify sources of finance.
- Distinguish between internal and external sources of finance.
- Explain advantages and disadvantages of various sources of finance.
- Identify factors to consider when choosing finance.
- There are different ways of funding a business (sourcing finance).
- Sourcing finance is classified into two common ways or groups which are:
    - **Internal and external sources of finance.**
    - **Short-term, medium-term and long-term sources of finance.**




Sources of finance

**Internal sources of finance**

- Funds which are obtained from within the business itself for example, additional capital from owner(s) and sale of stock.
- Enterprises obtain these funds from carrying out business activities.
- Most common examples of internal sources are owner's investment/ savings, retained profits, sale of assets and debt collection.

**Activity**

List items you own which you can sell to raise money for your school fees.

**External sources of finance**

- It refers to sourcing finance from outside the business organisation.
- These include bank loan, debt factoring, trade credit, hire purchase, leasing, mortgages and issue of shares.

**INTERNAL SOURCES OF FINANCE**

**Short term sources of finance**

- Short term sources of finance are payable within a maximum period of one year.
- These include: additional capital from owner(s), sale of old equipment (auction).

**Retained profit**

- Profits re-invested into the business after deducting tax and dividends.
- When a business makes profit, the owners may choose to use their profit to reinvest it in the business.
- Retained profit can be re-invested or kept as a reserve for specific objectives, such as purchasing assets or paying off debts.

**Advantages Of Using The Retained Profits**

- Cheap since there are no fees and interest charged unlike taking a loan.
- There is no need for repayment.

**Disadvantages Of Using The Retained Profits**

- Retained profits are available to businesses that are generating profits only.
- It reduces the amount of dividends to be paid to shareholders.
- Profits retained may be too low to finance business projects.

**Sale of assets**

- This can be in form of sale of stock, fixed assets and debt collection (public auctions).

**Sale of stock**

- Finance which comes from selling available stock (sales).

**Advantages Of Sale Of Stock**

- Quick and safe way of raising finance.
- Selling stock reduce cost of keeping stock.

**Disadvantage Of Sale Of Stock**

- Business can sale at a reduced price which limits profits.

**Sale of fixed assets**

- Money which comes from selling off fixed assets, such as motor vehicles, machinery and buildings which are no longer needed (public auctions).

**Advantages Of Sale Of Fixed Assets**

- Easy way to raise finance from an asset that is no longer needed.
- Capital tied in assets will be used for other important things.
- No interest to be paid as it is an internal source of finance.
- Avoiding further depreciation of assets.

**Disadvantages Of Sale Of Fixed Assets**

- Not all businesses have fixed assets which they no longer use.
- There is a limit to the number of fixed assets a firm can sell off.
- Assets can take time to be sold.
- Reduction of the net worth of the enterprises.

**Debt Collection**


Debt collection

- A debtor is someone who owes a business.

- Business can raise finance by collecting the money owed to them (debts) by the debtors (debt collection).

**Advantages Of Debt Collection**

- It saves time and resources- enterprisers can focus on other important activities while a third party collect their debts.
- It quickens the payment process by debtors.
- It reduces bad debts.

**Disadvantages Of Debt Collection**

- Not all debtors repay, there is a risk of failure to pay.
- There is a fee attached to debt collection.
- It affects relationship with customers.
- Costly and time consuming if the enterprise decides to do it by itself.

**Owners' savings/ Owners' investment**

**Owners' savings**

- Sole traders and those in partnerships can save money in their personal bank accounts or keep money for themselves as cash in hand.

**Owners' investment**

- Funds injected by the owners themselves in their business.
- It can be in form of stat-up capital or additional capital (working capital).

**Advantages Of Owners' Saving And Investment**

- There is no interest charged.
- Its availability is quick.

**Disadvantages Of Owners' Savings And Investment**

- Owners' savings/ investment may not be enough to fund business activity.
- Owners' savings may be used to pay business debts (unlimited liability).

**Activity**

Delight is on the verge of closing his business because he has a number of debts to pay.

- Which internal source of finance can he use to pay his debts?
- List other internal sources of finance besides the one you have mentioned above.

**EXTERNAL SOURCES OF FINANCE**

**Trade credit**

- It is offered by suppliers to trade buyers to encourage them to buy more frequent.
- It involves delaying payment for goods that have already been received from suppliers.

**Advantages**

- The business will be able to use the money for other purpose before paying the suppliers.
- Goods are sold and profit is earned before paying for the goods.
- No collateral security is required. Collateral security refers to property which is offered in order to secure a loan.
- Finance is raised freely.
- Re-investment of profit becomes possible.

**Disadvantages**

- If the business exceeds agreed payments dates, it attracts interest.
- If not managed properly, it creates poor relationship with suppliers.

**Bank Overdraft**

- This is when a business withdraws amount exceeding more what is in their own bank accounts.
- It is usually arranged when emergency funds are required.

**Advantages**

- Interest is charged only on the amount withdrawn.
- Quick and flexible.
- Less paper work is required.
- No collateral security is required.
- Emergent obligation can be met.

**Disadvantages**

- There is a limit on withdrawal.
- Banks allows a shorter payback period.
- The interest rate is high.

**Debt Factoring**

- Debt factoring company deals with collecting debts on behalf of business organisations.
- Debtor factoring is whereby an enterprise sells its debts to a factoring company at a discounted price.
- Debt factor agent buys at a discounted price and then collect the whole amount from the debtor hence get a profit.
- An example of debt factoring, assume that Edgars has its debtors owing $500 which is sold to a factor at $450. The factor will then collect the whole $500.The remaining amount is the factor's profit ( $500 - $450= $50 (factor's profit).

**Advantages**

- Risk of bad (doubtful) debts is reduced.
- Cash is received immediately.

**Disadvantages**

- Full amount from debtors is not received.

**MEDIUM TERM SOURCES OF FINANCE**

- It is available for a period above three years.
- These incudes:


Hire purchase agreement

- It is when a business/buyer purchase fixed asset for a period of time making fixed regular payments (instalments).
- The buyer will own the equipment after paying last instalment.
- The buyer is allowed to use the asset whilst making instalments.
- The hire purchase agreement is governed by the Hire Purchase Act.

**Advantages**

- Buyer uses the asset whilst making payments.
- It gives an opportunity for small entities to acquire expensive assets.
- The business does not have to find a large sum of cash to purchase fixed assets at once.
- Instead of using large sum of cash to buy assets, the cash can be used for other projects.

**Disadvantages**

- Buyer is supposed to pay deposit before collecting the item to be purchased.
- The seller will remain the legal owner of the item until the buyer pays the last instalment.
- It is more expensive to buy an item using hire purchase because of interest attached to it.

**Leasing**

- It is where by a company rent fixed assets paying regular amount for a period of time.
- The company can use the asset without purchasing it.
- The item belongs to the leasing company (lessor).
- The company renting (lessee) only pay for using the item.

- Examples of items that can be leased are building, equipment and machinery.

**Advantages**
- No deposit is paid.
- The lessor (owner) carries out the repairs and maintenance of the asset.
- It is cheaper in the short run than buying a piece of equipment at once.

**Disadvantages**
- Lessee does not benefit from the value of selling an asset (disposal).
- The agreement may limit on the usage of certain products or materials on particular asset.
- If you lease for a long period of time, a greater amount of money is used.

Hire purchase is similar to leasing, with the exception that ownership of the goods passes to the hire purchase customer on payment of the final credit instalment, whereas a lessee never becomes the owner of the goods.


Bank loan

- A loan is a sum of money provided by an entity (organisation or individuals) to another entity at an interest rate.
- It is payable over a fixed period of time.
- Organisations which provide loans are banks and other financial institutions such as finance houses and micro-finance enterprises.

**Advantages**
- Payback period varies depending on the amount borrowed.
- Arrangements are quick to make.
- Large firms can be offered loans which attract low interest rates.
- It does not dilute ownership of the business.
- Condition of the loan are flexible.

**Disadvantages**
- There is interest attached when paying back.

- It can only be acquired with well-established business that have collateral security to attach.
- If the business fails to repay, then they will have to use their profits to pay back and if profits don't suffice lawsuits steps in.

**LONG-TERM SOURCE OF FINANCE**

- This source of finance is available for a period of more than ten years
- It includes:


Mortgage

- Mortgage is a special type of loan for buying property/real estate (land and buildings).
- Monthly instalments are spread over a number of years.
- It is usually obtained from building societies, commercial banks and government.
- Acquiring mortgage requires collateral security like premises and other large assets and long term/permanent employment contracts.

**Advantages**

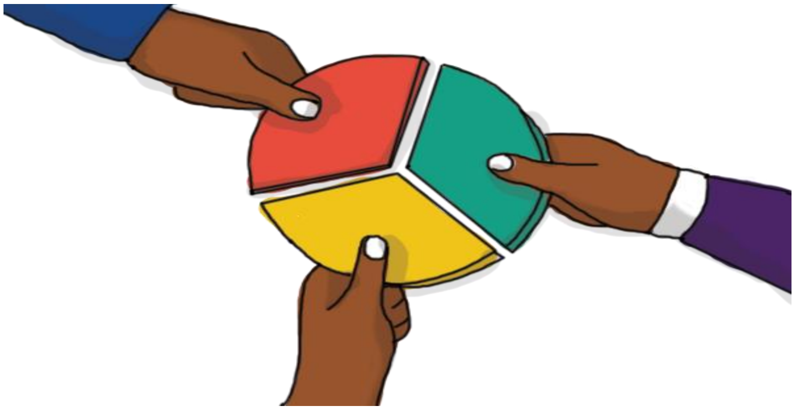
- It increases the buying capacity.
- Payment is spread over long period of time making acquisition of property easier.
- The amount of tax paid to the government is reduced.

**Disadvantages**

- It is costly, usually you pay much more than what you borrowed.
- Property value will be affected as there are fluctuations on the market.
- In the event of failure to complete payment, repossession is possible.

**Issue of shares (equity finance)**

- Shares entitles the owner of the enterprises profits.
- This is an act of allotting shares to individuals or companies who then become part owners of the enterprise.
- A share is a unit of account for various investments.
- The issue of shares assist in raising large sums of money.
- Individuals who own shares are shareholders.
- Private limited companies issue shares to family and friends only.
- Public limited companies issue shares to the general public.
- Shares can be divided into ordinary shares and preference shares.



Shares

**Ordinary shares**

- They are also called equities.
- Shareholders' dividends depend on the profit earned and how much directors wish to retain in business.
- Ordinary shareholders have voting rights on strategic decision making at Annual General Meeting (AGM).
- They do not get a fixed dividend.
- They receive dividends after preference shareholders have received their dividends.
- Dividends are profits made by the enterprise.

**Preference shares**

- They are also known as preferred stock.
- Preference shareholders are not exact owners of the company.
- Preference shareholders receive a fixed rate of dividend.
- They receive dividends first before ordinary shareholders.
- Preference shareholders have no voting rights as compared to ordinary shareholders.

**Advantages Of Raising Finance Through Issuing Shares**

- Issuing shares gives the capability to borrow money (credit worthiness).
- Assets of the company cannot be used as collateral security as done on mortgages.
- It serves as permanent capital and can be paid when the company fails to pay its debts.

**Disadvantages Of Raising Finance Through Issuing Shares**

- More formalities are involved and it will cause delays in raising funds.
- It involves advertising which makes it costly.
- It promotes ownership dilution.
- It can lead to losing control of the enterprise.

**Debentures**

- It is a certificate or voucher acknowledging a debt.
- It is classified under debt finance.
- It is a long term loan issued by a company and it attracts a fixed interest rate.
- Debenture are tradable on the stock exchange.

- They can be converted into shares.
- Debentures holders have no voting rights.
- Debenture is a writing or certificate signed by a public officer.
- Debenture bond- a bond that is backed by the credit of the issuer but not any specific collateral.

**Advantages Of Debentures**

- Huge sums of money are raised and are payable for a long period of time.
- The amount of tax is reduced because of interest allowed on debenture.

**Disadvantages Of Debentures**

- There is interest attached when repaying.
- Some company assets may be used as security and it will limit control for them.
- Since debentures are obligations they compromise the net-worth and credit worthiness of the enterprise.

**Long-term loan**

- It can be classified under debt finance.
- Long-term loans are payable over a long period of time, say ten years.
- The difference between a debenture and a long-term loan is that a debenture can be traded on the stock exchange while a long-term loan cannot be traded on the stock exchange.

**Advantages Of Long Term Loans**

- Shares cannot be diluted.
- Those who lend money have no right when it comes to voting at Annual General Meeting (AGM).
- It attracts low interest rate.

**Disadvantages**

- Assets can be secured (collateral security) for a loan which reduces control for them.
- If there is a financial need, acquiring further loans will be limited.
- It increases the chances of becoming insolvent (being unable to pay debts).

**Activity**

Which external source of finance would you consider the best? Give reasons for your answer.

**Other Sources of Finance**

**Venture Capital**

- It is also called risk capital.
- Venture capital refers to loan capital or equity capital which is provided by private investors (venture capitalists/ investors) or special financial institutions.
- Venture capitalists finance small and medium sized companies which have potential for growth.
- Venture capitalists usually use their own funds and they take risk.

**Business angels**

- These are successful business people that seek to promote upcoming entrepreneurs, by providing funds.

- They may be professionals such as doctors, lawyers, and retired business people.
- Their interest is to help the next generation.
- In return, Angels need equity.

**Donations**

- It is money or something given to an individual or organisation as a way of helping.
- Donations fall into two categories and these are general donations and specific donations.
- General donations have no specification on how to use the donated money.
- Special donations are given in order to meet a particular need or arising.

**Grants**

- These are funds given by the government to individuals, educational institutions or businesses.
- Usually organisations which are given grants are non-profit making.
- The funds that are given are not repaid, for example, student grants.
- Granter –one who grants.
- Grantor –the person by whom a grant is made.
- Grantee –the person to whom a grant is made.

**Subsidies**

- It relates to aid, support usually in form of money rendered from government to an enterpriser.
- These are funds disbursed by the government to organisations especially small businesses so that they continue to function and grow.
- Subsidies are also given to help businesses keep the price of products lower.
- An example of subsidies in Zimbabwe is provision of agricultural inputs to farmers at no cost.

Point to note: Sources of finance for private and public limited enterprises are the same. The exception is on the mortgage source. Public limited companies do not use the mortgage source since there is no one owner who can be held responsible for the debt.

**FINANCE PROVIDERS**

**Shareholders**

- A shareholder is one who holds/owns a share/ shares in an enterprise or company.
- These are owners of the company.
- They finance the business by buying shares.
- Shareholders are also known as stockholders or shareowners.

**Banks**

- Banks are examples of financial institutions.
- They provide short and long term finance.
- Short term finance is provided in the form of overdrafts.
- Long term finance is provided in the form of long term loans or mortgage to allow the business to purchase land and property.

**Financial Institutions**

- Financial institutions include Stock Exchange, Banks, Finance Houses and Insurance Companies, Discount houses, World bank and IMF.
- Financial institutions help business manage risks for example providing insurance in the case of a risk and uncertainties.
- Companies are able to raise finance through the stock exchange that is when selling their shares.

**Government**

- The government can allocate funds to various organisations.
- Funds are offered in the form of grants and subsidies as a financial aid to support business activities.
- Government provides finance to growing businesses and existing business.
- Government plays an important role in passing laws that allows to operate legally and to the best of citizens.

**Community Sources**

- These are funds which are contributed by the people in the community.
- They can be in form of charities, cooperatives and social enterprises.
- Charities - are organisations set up to provide help and raise money for those in need.
- Social enterprises - these are businesses which use their surplus (profit) to reinvest in the community.

**Factors to consider when making choice of finance**

- There are a number of factors that are taken into consideration when making choice of finance.
- These factors include amount of money required, purpose, time, size and form of business, gearing and risk.

**Amount of money required**

- When a small amount is required, profits will be the most suitable source of finance.
- For huge amounts, a loan can be the best option or mortgage.

**Purpose**

- The reason to which the finance is needed.
- For example solving short-term cash flow problems or acquiring fixed assets.

**Time**

- If the finance is required for a short period of time, the short term sources may be used for example; paying for one month rent, an overdraft is suitable.
- For long-term project, long term sources will be suitable.

**Size and form of business**

- Small and large business organisations choice of finance differs.
- Usually small business organisations have a limited choice of finance.
- Large business organisations have a wide choice of finance due to their size and they have collateral security which small business organisations do not have.

**Gearing**

- Gearing ratio describes the extent to which the business is financed by debt.

- A company is highly geared when more of its finance is from loan as compared to share capital.
- A company is lowly geared when more of its finance is from share capital as compared to loan capital.
- For example, if a company have a total capital of $3 000. If the share capital is $700 and the loan capital is $2 300, it is said to be highly geared.

**Risk**

- A risk is a danger or harm that is likely to happen during the operation of business.
- Usually when businesses source finance they consider risks associated when sourcing that finance.
- For example, taking a long term loan involves risk as compared to taking a short term loan.

**Summary**

- Sources of finance can either be internal or external.
- Internal sources are obtained from within the enterprise. Examples of internal sources include owner(s) savings, sale of assets and debt collection.
- External sources of finance are obtained from outside the enterprise. Examples of external sources of finance are trade credit, bank loan, debt factoring, leasing, mortgage etc.
- There are a number of finance providers which are shareholders, financial institutions, government and community sources.
- Enterprisers take into consideration a number of factors when making choice on finance.
- The factors include amount of money required, purpose, time, size of business, gearing, etc.

## 2.1 FINANCIAL STATEMENTS AND CASH BUDGETS

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- Explain the importance of keeping accurate financial records.
- Describe income statement and statement of financial position.
- Draw income statement and statement of financial position.
- Calculate turnover, cost of sales, gross profit and net profit.
- Describe and prepare a simple cash budget.

**Financial Statements**

- They are also known as final accounts.
- Financial statements include income statements and statement of financial position.
- Financial statements are prepared from items listed in the trial balance.

**Importance of keeping accurate financial records**

- To ascertain profit/loss made by the business.
- To keep track of business revenue and cost for future references.
- It provides management with information for decision making.
- It shows the net worth of the firm.

- To measure the performance of the business.
- It is a legal requirement when firms wants to be listed on the stock exchange.
- It provides information needed by financial institutions.
- To deter fraud/ theft.

**Income statement**

- It is also known as statement of comprehensive income.
- It can be referred to as a trading and profit and loss account.
- It shows revenues and expenses of an enterprise over a given period of time.
- It is a summary of financial performances of a business over a given accounting period.
- It tells how much money the enterprise generated and spent over a specified period, typically a month.
- It shows how well the enterprise produced revenues and hoe efficiently is converted sales to profits.
- The income statement top line shows sales, the middle shows expenses and the bottom line shows the net income or loss.
- Income statements also shows profitability at several levels: gross, operating and net.
- To calculate profit, enterprisers need to prepare income statements.
- The income statements is in two phases namely the trading account and the profit and loss account.

**Elements of the Income Statement**

- The Trading Account consists of the Sales revenue and Cost of Sales (Cost of Goods Sold).

**Cost of Sales**

- It is calculated as Opening Inventory (stock) plus Purchases minus Closing (Inventory) Stock.

**Gross Profit**

- It is calculated as Sales minus Cost of Sales.

**Operating expenses**

- These are costs incurred in day to day running of the business but they are not directly linked to production.
- Examples of Operating expenses include rent, repairs, maintenance and taxation.
- Operating expenses can be grouped into selling, administrative and general expenses.

**Net profit**

- It is the difference between Gross Profit and Operating expenses.

**The trading account**

- It is prepared to calculate gross profit or gross loss.
- Gross profit means that the sales revenue for the period is greater than the cost of goods sold.
- Gross loss means that the cost of goods sold is greater than the sales revenue.
- Cost of sales is calculated as Opening Inventory (stock) plus Purchases minus Closing (Inventory) Stock.

- Closing inventory is the value of goods that remain unsold at the end of the period.
- The value of closing inventory is found by physically counting the items remaining unsold and multiply them by the cost price per unit.

**The following is a layout of a trading account:**

| | $ | $ |
|---|---|---|
| Sales | | 9 000 |
| Less sales returns | | 1 000 |
| | | ***8 000*** |
| **Turnover** | | |
| Less cost of sales | | |
| Opening inventory (stock) | 4 000 | |
| Add purchases | 6 000 | |
| | ***10 000*** | ***5 000*** |
| Less Closing inventory (stock) | 5 000 | 3000 |
| **Gross Profit** | | |

**Profit and loss account**

- It is prepared to calculate net profit/net loss.
- Net profit means total revenue earned is greater than the total expenses incurred for the period.
- Net loss means that the total expenses incurred in the period are greater than the total revenue earned.

**The following is a layout of the income statement**

| | $ | $ |
|---|---|---|
| Sales | | xx |
| Less sales returns | | (xx) |
| Turnover | | **xxx** |
| | | |
| Less cost of sales: | | |
| Opening stock | xx | |
| Add purchases | xx | (xxx) |
| Less :closing stock | (xxx) | |
| | | **xxx** |
| Gross profit | | |
| Less: operating expenses | | |
| Wages and salaries | xx | |
| Rent and rates | xx | |
| Electricity | xx | |
| Selling expenses | xx | (xxx) |
| General expenses | xx | **xxx** |
| Net profit | | |

**Example 1: The following information was extracted from the books of Bright Vision Academy Pvt (ltd).**

| | $ |
|---|---|
| Sales | 9 000 |
| Sales returns | 1 000 |
| Opening stock | 4 000 |
| Purchases | 6 000 |
| Closing stock | 5 000 |
| Wages and salaries | 1 200 |
| Rent and rates | 400 |
| Electricity | 100 |
| Selling expenses | 500 |
| General expenses | 600 |

Prepare an income statement for the year ended 31 December 2017. Which was their first year of trading.

**Solution1 :Bright Vision Academy Pvt (Ltd)**

**Income Statement for the year ended 31 December 2017**

| | $ | $ |
|---|---|---|
| Sales | | 9 000 |
| Less sales returns | | (1 000) |
| | | **8 000** |
| Turnover | | |
| Less cost of sales | | |
| Opening inventory (stock) | 4 000 | |
| Add purchases | 6 000 | |
| | 10 000 | (5 000) |
| Less Closing inventory (stock) | (5 000) | **3 000** |
| **Gross Profit** | 1 200 | |
| Less Operating Expenses | 400 | |
| Wages and salaries | 100 | |
| Rent and rates | 500 | |
| Electricity | 600 | ( 2800) |
| Selling expenses | | |
| General Expenses | | **200** |
| **Net Profit** | | |

**Statement of financial position**

- It reports assets, liabilities and equity of an enterprise.
- It is also known as balance sheet.
- It has two sides which are the asset side and the equity + liabilities side.

**Elements of a Statement of financial position**

**Assets**

- An asset is an item of monetary value that is owned by a business.
- Assets are classified into two categories namely non-current assets and current assets.

**Non-current assets**

- These are assets required by business for the purpose of generating profit.
- They are also known as fixed assets.
- They can be used for a long period of time.
- They are not bought for resale.
- Examples of non-current assets include land, building, office furniture's, fixtures and fittings, motor vehicles, computers, etc.

**Currents assets**

- These are assets that can be easily converted into cash.
- They can be used for a short period of time.
- Examples include cash in hand, cash at bank, inventory, accounts receivables (debtors) etc.

**Equity and Liability**

- On this side we start on with the capital which is also known as owners' equity or owner's net worth.
- Liability- is the amount of money owed by the business.
- Liabilities can be classified in to two groups' namely non-current liabilities and current liabilities.

**Current liabilities**

- Are defined as amounts owed by the business which must be paid back in less than twelve (12) months.
- Examples include accounts payable, overdrafts accrued expenses.

**Non-current liabilities**

- These are amounts owed by the business which must be repaid in periods longer than a year.
- It can be defined as debts to be repaid over a long period of time.
- Examples include loans and mortgages.

**Working capital**

- It is the amount of money being used by firms in order to meet their day-to day business operations.
- It is calculated as current assets less current liabilities.

**Net assets**

- It is calculated as working capital plus fixed assets.

**Retained profits**

- Can be defined as profits being generated by the business but are not distributed to shareholders.
- They are reinvested in some projects.

**Capital**

- It refers to resources used to start a business.
- Examples of capital include cash, equipment, machines, land, properties, etc.

**Capital employed**

- It entails all the resources put together in generating profits.

**Depreciation**

- It is the loss of value of an asset due to continuous usage or over a long period of time.

N.B. The totals of the two sides of the statement of financial position must always be equal.

**The following is a layout of statement of financial position**

| | $ | $ | $ |
|---|---|---|---|
| **Fixed assets** | **Cost** | **Accumulated depreciation** | **Net book value** |
| Premises | xx | - | xx |
| Equipment | xx | - | xx |
| Furniture | xx | - | xx |
| | **xxx** | | **xxx** |
| **Current assets** | | | |
| Stock | | xx | |
| Debtors | | xx | |
| cash in hand | | xx | |
| cash at bank | | xx | |
| **less: current liabilities** | | **xxx** | |
| creditors | | | |
| bank overdrafts | xx | xxx | |
| | xx | | **xxx** |
| net assets | | | **xxx** |
| financed by: | | | |
| capital | | | xx |
| retained profit | | | xx |
| add long term loan | | | **xxx** |
| capital employed | | | xx |
| | | | **xxx** |

**Example 2: The following information was extracted from the books of Bright Vision Academy Pvt (Ltd). Prepare a statement of financial position as at 31 December 2017. Which was their first year of trading.**

| | $ |
|---|---|
| Premises | 8 000 |
| Equipment | 45 000 |
| Furniture | 3 000 |
| Stock | 2 500 |
| Debtors | 5 200 |

| | |
|---|---|
| Cash at bank | 1 800 |
| Cash in hand | 1 550 |
| Creditors | 2 500 |
| Bank overdrafts | 1 200 |
| Capital | 52 750 |
| Long term loan | 10 400 |
| Profit form income statement | 200 |

**Solution: 2: Bright Vision Academy Pvt (ltd).**

**Statement of Financial Position as at 31 December 2017**

| | $ | $ | $ |
|---|---|---|---|
| **Fixed assets** | **Cost ($)** | **Accumulated** | **Net Book Value** |
| Premises | | **Depreciation** | |
| Equipment | 8 000 | | 8 000 |
| Furniture | 45 000 | - | 45 000 |
| | 3 000 | - | 3 000 |
| **Current Assets** | **56 000** | - | **56 000** |
| Stock | | - | |
| Debtors | | | |
| Cash at bank | | 2 500 | |
| Cash in hand | | 5 200 | |
| **Less: Current Liabilities** | | 1 800 | |
| Creditors | | 1 550 | |
| Bank overdraft | | **11 050** | |
| | | | |
| **Net assets** | 2 500 | | |
| | 1 200 | 3700 | |
| **Financed by:** | | | 7350 |
| Capital | | | **63350** |
| Retained profit | | | 52 750 |
| Add Long Term Loan | | | 200 |
| Capital Employed | | | 52 950 |
| | | | 10 400 |
| | | | **63 350** |

**Budget**

- A budget is a spread sheet that details what the enterprise intends to generate in revenues and expend in costs over the next quarter or year.
- It is a forecast.
- Enterprises use pest performance combined with expectations of future results and performance to create a budget.
- A budget is an important accounting and administrative planning tool because it helps in defining and setting business goals and measure the achievement of those goals.
- Budget helps to identify the potential pit falls of a business down turn or rapid growth and determine ways to avoid or reduce those pitfalls.

**Cash budget**

- It is one of the forms of budgets.
- A budget is a sum of money allocated for a particular purposes.

- A cash budget can be defined as an estimation of the cash inflows and outflows for a business over a specific period of time.
- Cash inflows refers to money which a business receives from its activities.
- Cash outflows refers to the money which a business paid out in order to meet its expenses.

**Importance of cash budgets**

- To forecast the firm's future in terms of financial needs.
- It is a tool for cash planning and control.
- It allows to make management decisions regarding cash position a business.

**How to create a cash budget**

- To create a cash budget one need to focus on three components which are time frame, cash position and estimated sales and expenses.
- On time frame one need to decide the period or the time for which one's budget will apply for example 3 months, 6 months or yearly.
- On cash position one need to focus on the amount of money one need to keep and this will depend on the nature of the business.

**Layout of a cash budget**

| Particulars | Period 1 | Period 2 | Period 3 |
|---|---|---|---|
| Opening balance at the beginning of the month | | | |
| Add: receipts or cash collections | | | |
| Less: expenses or Payments | | | |
| Closing balance at the end of the month | | | |

- From the layout above, cash budget starts with the opening cash balance at the beginning of the month.
- Which is then added to cash inflows i.e. receipts or cash collections.
- Less expenses or payment (cash outflows) being made.
- Calculate the ending cash balance at the end of the month hence the ending cash balance becomes the beginning cash balance for the next period.

**Example: 3**

**From the following information, draw up the cash budget for the month of March 2017.**

- On December 2016, Bright Vision Academy Pvt (Ltd) had a

| | |
|---|---|
| Cash balance of | $50 000 |
| Cash from debtors | $165 000 |
| Machine bought | $35 000 |
| Materials bought | $22 500 |
| Direct labour | $29 600 |
| Selling and administration expenses | $74 000 |
| Dividends | $28 000 |

**Solution: 3**

**Cash budget for the month of March 2017**

| | Amount $ |
|---|---|
| Opening cash balance | 50 000 |
| Add: cash collections | 165 000 |
| Total cash available | **215 000** |
| **Less: expenses** | |
| Machine bought | 35 000 |
| Direct labour | 29 600 |
| Selling and administration | 74 000 |
| Materials bought | 22 500 |
| Dividends | 28 000 |
| **Total expenses** | **(189 100)** |
| Excess (deficiency) of cash available | **25 900** |

N.B. the ending cash balance becomes the beginning cash balance for the next period.

**Activity**

Join hands with a friend and visit an enterprise of your choice and ask for their business transactions and prepare the financial statements based on the transactions of that particular enterprise.

**Summary**

- Enterprises require to keep financial statements and budgets for them to assess the performance of their businesses.
- The financial statements include the Income statement and the statement of financial position.
- An income statement shows revenues and expenses of an enterprise over a given period of time.
- A statement of financial statements reports assets, liabilities and equity of an enterprise.
- A budget is a sum of money allocated for a particular purposes.

## 3.1 WORKING CAPITAL

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- Define working capital.
- Identify components of working capital cycle.
- Discuss importance of managing working capital.
- Explain ways of managing working capital.

### Working capital

- Working capital is also known as circulating capital or short term capital.
- Working capital is the amount of money needed by a business to conduct its day to day activities (short term expenses).
- It is cash needed to pay for the day-to-day operations of the business.

- Examples of short term expenses (obligations) include purchase of inventory, payment of short term debts and operating expenses.
- It is a common measure of a company's liquidity, efficiency and overall health.
- For business to operate smoothly and meet its financial obligations there should be adequate working capital.

**How to calculate working capital**

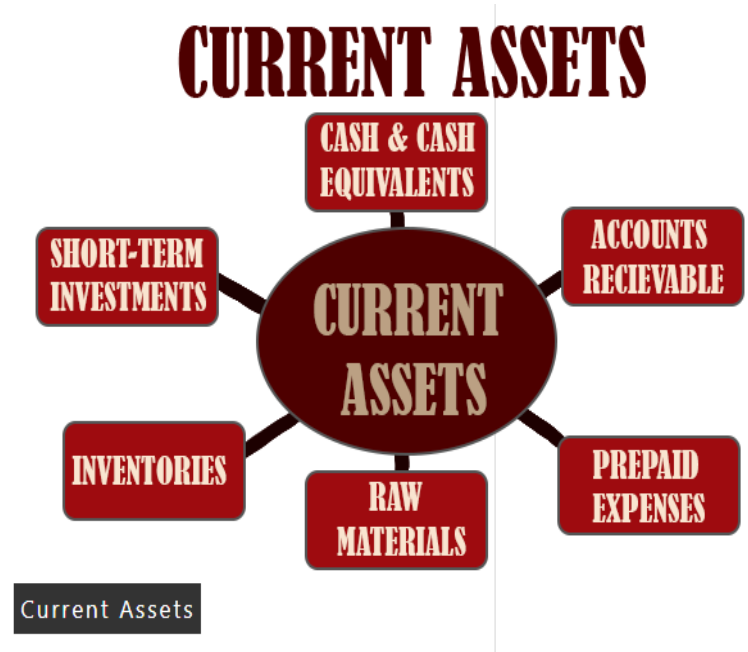
- Working capital is the difference between the current assets of a business and its current liabilities.
- Working Capital= current assets less current liabilities.

**Current assets**

- It is cash or an asset that can be sold or converted into cash within a year.
- It is often used to pay off current liabilities.

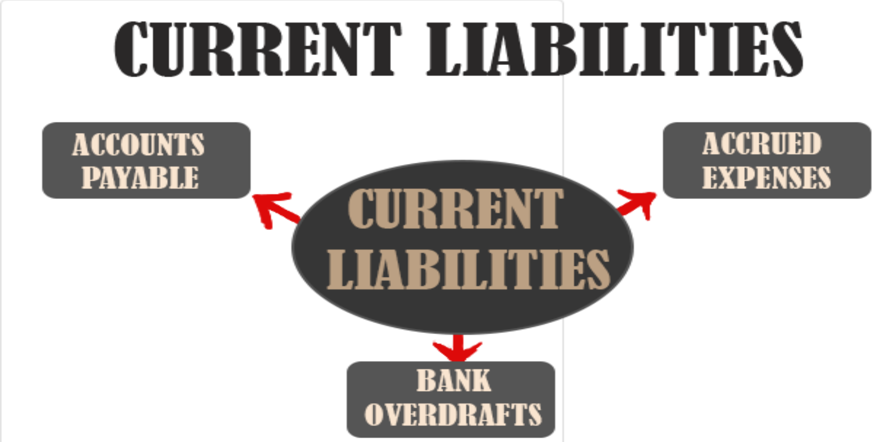
**Examples of current assets:**

- Inventories-these are goods produced in the business and have not been sold.
- Cash in hand- it can be received from payment of goods and services by cash rather than cheque.
- Cash in bank- sum of money held at a bank or payments of goods by cheque.
- Raw materials- materials used in production of other goods.
- Accounts receivables- debts owed by customers to an enterprise after selling goods and services on credit.
- Prepaid expenses- obligations that have already been paid for in advance enabling the enterprise to use cash for other activities.




**Current liabilities**

- These are business obligations that has to be paid within one year.
- Examples of current liabilities includes:
    - Accounts payable - This is money owed to suppliers.
    - Accrued expenses – This is an amount incurred but not yet paid; for example, wages payable, rent.
    - Accrued interest - This includes amount of interest on loan that has accumulated since the last payment.
    - Bank account overdrafts – This is money withdrawn from the bank that exceed the available balance, leaving the balance below zero (negative balance).

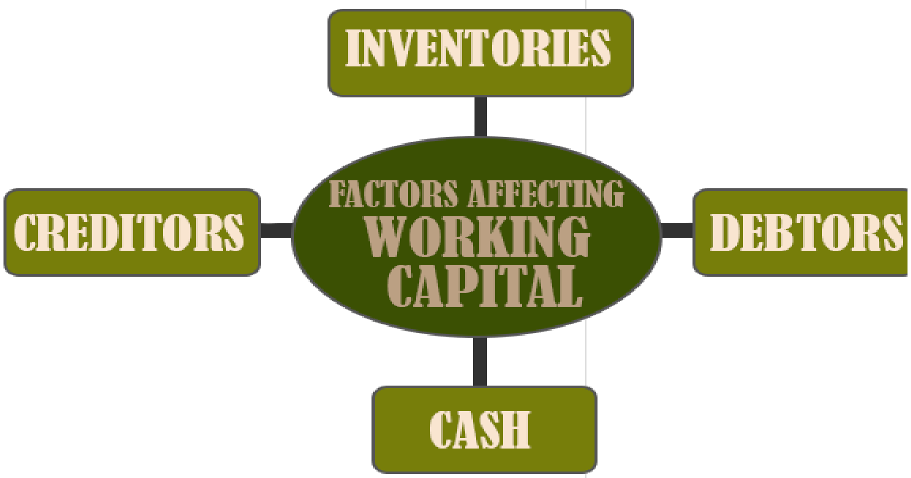



Current Liabilities

**Working capital cycle**

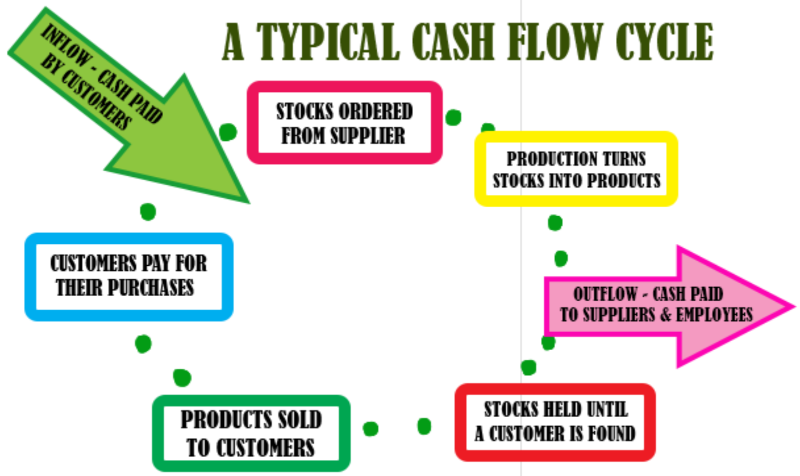
- It refers to the time taken by an organisation to convert its net current assets and current liabilities into cash.
- The longer the cycle is, it will be difficult for the enterprise to manage its short-term liquidity position.

**Main components of working capital cycle**




Working Capital Cycle

- Accounts receivable (debtors) – it is the amount of money owed by customers.
- Accounts payable (creditors) - it is the amount of money to whom the business owes to their suppliers.
- Inventory (stock) – primary asset of a company that can be sold.
- Cash-it is the lifeblood of any business and it enables the business to operate efficiently on daily basis.




Working Capital Cycle and Components

**In the diagrams above:**

- The business uses cash to acquire inventories (stock).
- The stock is used to produce goods and services. These are then sold to customers.
- Some customers pay in cash but others buy on credit (debtors). Eventually they pay and these funds are used to settle current liabilities of the business, for example, paying suppliers.
- The working cycle is repeated again and again.

**Working capital management**

- It is concerned with the problems that arise in attempting to manage current assets, current liabilities and the relationship that exist between them.
- Working capital management involves managing inventories, payables, accounts receivables and cash.
- The aim of working capital management is to ensure that an enterprise is able to continue its operations and have sufficient funds to satisfy both maturing short-term debts and upcoming operational expenses.

**Importance of Managing Working Capital**

- It allows businesses to cover their financial obligations.
- It assist enterprise to boost their revenues.
- It helps to identify weak business area which require focus.
- To maintain liquidity and profitability of the business.
- To improve creditworthiness.
- It gives a competitive advantage.

**Causes of working capital problems**

- Poor control of debtors.

- Overstocking and understocking.
- Overtrading.
- Over borrowing.
- Decrease in demand.
- Seasonal demand variation.

**Ways of managing working capital**

- Ensuring timely payment.
- Encouraging debtors to pay promptly.
- Reducing stock holding period.
- Reduce credit period to debtors.
- Debt factoring.
- Leasing assets.

**Activity**

- Calculate working capital using the following information

| | $ |
|---|---|
| Fixed assets | 4 500 |
| Bank overdraft | 2 100 |
| Account receivables | 5 550 |
| Accounts payable | 3 200 |
| Cash in hand | 2 300 |
| Rent prepaid | 1 200 |

**Summary**

- Working capital is the amount used to meet day to day expenses.
- Working capital = current asset less current liabilities.
- It is important for any business to manage its working capital efficiently.
- This can be done through debt factoring, reducing payment period, offering cash discount, etc.

**FINANCIAL STATEMENTS**

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- List types of financial statements.
- Draw up an income statement.
- Draw a statement of financial position.
- Financial statements are summary reports that shows how a firm has used the funds, entrusted to it by its stockholders (shareholders and lenders).
- When a business purchase or sell its products, the transactions should be recorded in the books of accounts.
- Every financial transaction that an enterprise gets involved with, will be put in the accounting records.

- In business, there are two main types of financial accounts which are financial and management accounting.

**Financial accounting**

- It involves book-keeping which is recording of business transactions on daily basis.
- It formally records, summaries and reports the transaction of the business.

**Management accounting**

- It provides information for specific purposes, for instance, forecasting.
- The financial information is very important to managers for decision making.

**Types of financial statements**

- Income Statement
- Statement of Financial Position

**Income statement**

- It can be referred to as Trading and Profit and Loss Account.
- It is a summary of financial performance of a business over a given accounting period.
- It shows revenues and expenses of a given period.
- Income statement = Revenue less expenses.

**Elements of the Income Statement**

- Sales revenue – is amount received from selling goods and services.
- Cost of Sales –These are direct cost incurred by an enterprise in the production of goods to be sold for example carriage costs, purchases of raw materials.
    - It is calculated as Opening Inventory (stock) plus Purchases minus Closing (Inventory) Stock.
- Gross Profit - It is the profit realised after deducting cost of goods sold before operating expenses.
    - It is calculated as Sales minus Cost of Sales.
- Operating expenses - These are costs incurred in the day to day running of the business and are not directly linked to production.
    - Examples of Operating expenses include rent, repairs and maintenance and taxation.
    - Operating expenses can be grouped into selling, administrative and general expenses.
- Net profit - It is the difference between Gross Profit and Operating expenses.

**Layout of an income statement**

## Simple Income Statement Format

| | | |
|---|---|---|
| **Revenues** | | |
| Sales | xxxx | |
| Total Revenues | | xxxx |
| **Expense** | | |
| Cost of Goods Sold | xxxx | |
| Depreciation Expense | xxxx | |
| Wage Expense | xxxx | |
| Rent Expense | xxxx | |
| Total Expense | | xxxx |
| **Net Income** | | xxxx |

Layout of an income statement

ABC Limited
Income Statement for the year ended 31 December 2016

| $ | $ | |
|---|---|---|
| Sales | | 12 500 |
| Less sales returns | | 1 000 |
| Turnover | 4 500 | 11 500 |
| Less cost of sales | 6 500 | |
| Opening inventory (stock) | 11 000 | |
| Add purchases Less Closing inventory (stock) | 5 500 | 5 500 |
| Gross Profit | 1 500 | 6 000 |
| Less Operating Expenses | 300 | |
| Wages and salaries | 100 | |
| Rent and rates | 600 | 3 300 |
| Electricity | 800 | |
| Selling expenses | | 2 700 |
| General Expenses | | |
| Net Profit | | |

**Statement of financial Position**

- It is also called balance Sheet.
- It gives a summary of assets, liabilities and equity on a given date.
- Equity is the value of total assets less liabilities.
- A balance sheet is comprised of two sections, one which records assets and the other which records liabilities.

**Elements of a balance sheet**

**Assets**

- An asset is an item which has an economic value that an individual or business owns.
- These are two types of assets which are:

**Fixed Assets (non-current assets)**

- These are assets acquired by the business for the purpose of generating revenue and they can be used for a long period of time.
- Examples of non-current assets are land, building, machinery, furniture and office equipment.

**Currents Asset.**

- These are items which are either cash or equivalent to cash or that which can be easily converted to cash.

**Liability**

- This is the amount of money owed by the business.
- There are two types of liabilities:

**Current liabilities**

- These are debts to be paid within one year.

**Long term liabilities**

- These are debts which are repaid over a long period of time.

**Working capital**

- It is calculated as current assets minus current liabilities.

**Net assets**

- It is calculated as working capital plus fixed assets.

**Retained profits**

- These are profits generated by the business but are not distributed to shareholders.
- They wait to be invested in some projects.

**Capital**

- This is the money or resources invested in a business.

**Capital employed**

- It entails all the resources put together in generating profits by adding ordinary shares, preference shares, reserves and loan.

**Depreciation**

- It is the loss of value of an asset over solemnly a long period of time Below is an example of a balance sheet:

**XYZ Limited**

## XYZ Limited
## Balance sheet as at 31 December 2012

| Fixed assets | Cost $ | Accumulated Depreciation $ | Net Book Value $ |
|---|---|---|---|
| Premises | 10 500 | - | 10 500 |
| Equipment | 75 000 | - | 75 000 |
| Furniture | 6 500 | - | 6 500 |
| | 92 000 3 500 | - | 92 000 |
| Current Assets | 1 500 | | |
| Stock | | 4 500 | |
| Debtors | | 6 500 | |
| Cash at bank | | 3 500 | |
| Cash in hand | | 2 500 | |
| | | 17 000 | |
| Less Current Liabilities | | | |
| Creditors | | | |
| Bank overdraft | | | |
| Net assets | | 5 000 | 12 000 |
| Financed by: | | | |
| Capital | | | |
| Retained profit | | | 104 000 |
| | | | 92 800 |
| Add Long Term Loan | | | 700 |
| Capital Employed | | | 93 500 |
| | | | 10 500 |
| | | | 104 000 |

**Activity: group work**

Prepare an income statement using the following information from the trial balance

| | $ |
|---|---|
| Opening inventory | 12 500 |
| Purchases | 25 000 |
| Sales | 76 500 |
| Sundry expenses | 13 200 |
| Carriage inwards | 12 340 |
| Discount received | 6 500 |
| Salaries and wages | 43 400 |

**Summary**

- Financial statements shows the use of funds and profit or loss made by a business.

- Income statement reflects the company's revenue and the expenses incurred over a period.
- Sales revenue less expenses = profit/ loss.
- Statement of financial position gives a summary of company's assets and liabilities in given period.
- Assets should be equal to capital plus liabilities.
- the balance can also shows the working capital of a business.

**CASH BUDGETS**

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- Define the term budget.
- Define a cash budget.
- Draw a simple budget.

**Budget**

- It is an estimated financial plan made in advance, which takes into account revenues, resources and costs for a specific period of time.
- It is a quantified plan made prior to a given trading period.

**Classification of budgets**

- Budgets can be classified according to time; that is short term and long term.
- They can be classified according to flexibility, for example fixed budget and flexible budget.
- They can also be classified according to function.
- The following is a list of classification of budgets according to function:
  - Cash budget
  - Sales budget
  - Production budget
  - Purchases budget
  - Selling and distribution cost budget
  - Labour cost budget
  - Research and development budget
  - Cash budget
  - Master budget

**Cash budget**

- It is a financial budget with an estimate of the cash inflows and outflows for an enterprise over a specific period of time.
- Cash flow is the amount of money an enterprise generates and give out by way of payment.
- Cash inflows are funds which business receives from its operations.

- Cash outflows is the money paid out by an enterprise as a result of its financing, operating and investment activities.

**Importance of cash budgets**

- It allows enterprise to predict possible cash shortages and take corrective actions before a crisis occurs.
- It helps to see if cash is lying idle, so that it can be utilised for other projects.
- It reveals weaknesses in enterprise's debt collection.

**Preparation of cash budgets**

- They are three main methods which can be used in preparing cash budgets, which are:
  - Receipts and payment method.
  - Adjusted profit and loss method.
  - Statement of financial position method.

**Information required to prepare cash budget**
**A cash budget is prepared with the help of following information:**

- Cash balance
- Expected cash receipts
- Cash sales
- Collections of accounts receivable
- Other income

**Expected cash expenses**

- Raw materials (inventory)
- Payroll

**Other direct expenses**

- Advertising
- Selling expenses
- Administrative expense
- Plant and equipment expenditures
- Other payments

**Layout of a Cash Budget**

| Particulars | Period 1 | Period 2 | Period 3 |
|---|---|---|---|
| Opening balance at the beginning of month<br><br>ADD: Receipts<br><br><br>(A)<br>LESS: Payments<br><br>(B)<br>Closing balance at the end of month. (A-B) | | | |

Layout of a Cash Budget

**Example**

From the following information, draw up the cash budget for the month of January 2016.
On 31 December 2015, ABC Limited had a cash balance of $25 000. Shareholders received dividends worth $15 000 in March.
Bought machine for $100 000
Cash from debtors $80 000
Materials bought $17 680
Direct labour $18 000
Selling and administrative expenses $53 000
Dividends $15 000

Cash Budget for the month of January 2016

| | Amount |
|---|---|
| Opening cash balance<br>Add cash collections | $25 000<br>$80 000 |
| **Total cash available** | **$105 000** |
| less expenses<br>Materials<br>Direct Labour<br>Selling and Administrative Expensives<br>Dividends | <br>$17 680<br>$18 000<br>$53 000<br>$15 000 |
| | **$103 680** |
| Excess (deficiency) of cash available | $1 320 |

Cash Budget for January 2016

* The ending cash balance becomes the beginning cash balance for the next period.

**An example of cash budget for 3months**

| An example of cash budget for 3months | | | |
|---|---|---|---|
| | February | March | April |
| Opening balance | 132 | 36 90 | 61 20 |
| Add cash collections | 76 50 | 63 40 | 45 50 |
| Total cash available | 77 82 | 100 30 | 106 70 |
| Less expenses | | | |
| materials | 13 20 | 12 65 | 12 35 |
| Direct labour | 8 90 | 10 10 | 9 90 |
| Selling and administrative expenses | 7 70 | 6 50 | 9 70 |
| dividends | 11 12 | 9 85 | 10 40 |
| | 40 92 | 31 10 | 42 35 |
| Excess of cash available | 36 90 | 61 20 | 64 35 |

**Activity**

Assume that you have started an enterprise, draft a 2 months cash budget to show possible receipts and payments to be incurred.

**Summary**

- A budget is an estimate of revenue, expenses and other resources for a given period.
- Examples of budget are purchases budget, cash budget, production budget, etc.
- Cash budget shows cash inflow and cash out flow in a business.
- It helps to identify possible cash shortages in an enterprise.

**FINANCIAL INSTITUTIONS**

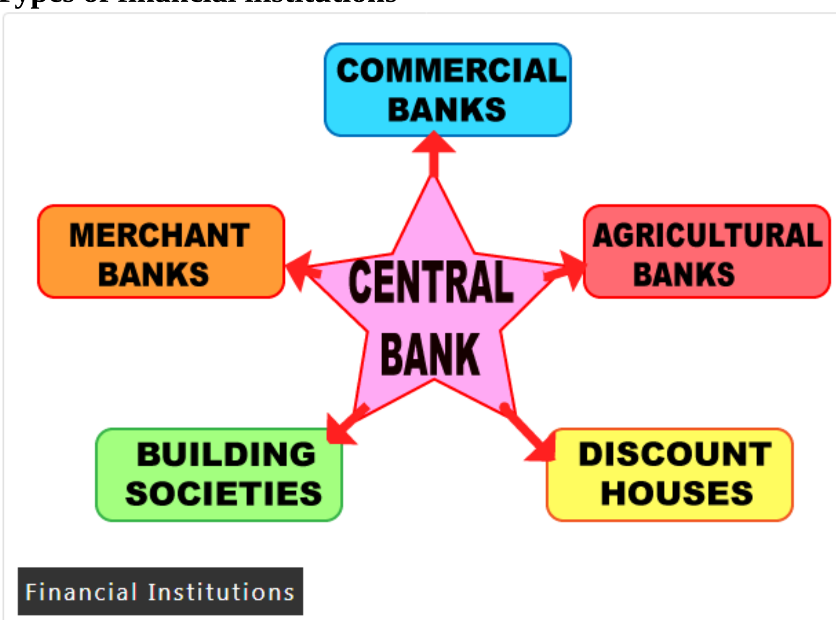
BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- Define a financial institution.
- Identify different types of financial institutions.
- Explain functions of different financial institution.

**Financial institutions**

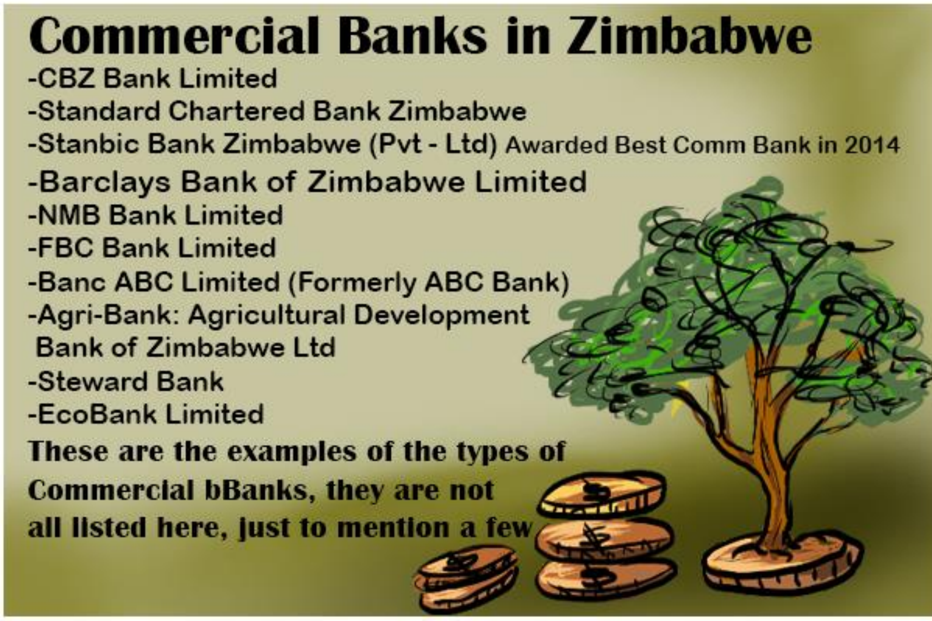
- A financial institution is an organisation that provides financial services to the public.
- It is any enterprise that deals with monetary transactions such as deposits, investments, exchange rates, loans etc.
- A financial institute can be privately or publicly (government) owned.

**Types of financial institutions**




**Commercial banks**

- These are financial institutes that offer financial services to the general public and businesses.
- They are authorised by the law to receive and lend money to individuals and businesses.
- They provide various services to the public.




Commercial Banks

**Services offered by commercial banks**

- They offer current accounts and savings accounts to business enterprises and individuals.
- It allows account holders to receive and make payments through cheques, direct debit and credit transfers.
- They offer loans for general purpose.
- Provide overdraft facilities to current account holders.
- Offer credit and debit cards for the convenience of its customers.
- Provide automated teller machines (ATM) for quick and easy cash withdrawal.
- Keep valuables for its customers such as jewellery, gold, diamonds, tittle deeds, etc.
- They give financial advice to customers on how to invest their money.
- Offer foreign currency through traveller's cheques.
- Allows international traders to make payments (bill of exchange).

**Merchant bank**

- It is a financial institution that provides banking and investment services.
- It is a bank that assist business enterprisers through providing advice, guidance and financial services for a fee.
- It mainly focus on serving companies and international traders.
- In Zimbabwe, examples of a merchant banks are Merchant bank of central Africa (MBCA) and National merchant bank(NMB).

**Functions of a merchant bank**

- They provide financial services.
- It help its clients in starting up a business.
- Offer consultancy advice on how to operate business enterprises.

- Help business enterprisers to raise finance by buying and selling their shares (broker in stock exchange).
- They facilitate exportation and importation of goods on behalf of clients.
- They give special assistance to small enterprises by helping them to identify business opportunities.
- They assist enterprisers to get permission from the government to undertake some projects.

**Discount house**

- It is a financial enterprise that deals with buying and selling of bill of exchange at a discounted rate.
- It also deals with other financial products such as money markets, banker acceptance and certain government bonds.
- Examples of discount houses in Zimbabwe include Tetrad Bank and National discount house.
- A bill of exchange is a document used in international trade, ordering the payee to pay the stipulated amount owed on goods purchased.
- Discounting a bill of exchange- occurs when the drawer of the bill sells bill to a discount house at a discount.

**Functions of a discount house**

- Lend money to government and private enterprises.
- They invest in securities such as government bonds.
- Provide banking services, for example, they accept deposits.

**Agricultural bank**

- A financial institution that exist to support farmers.
- It provides finance to farmers at a low rate.
- Their main aim is to encourage people to be engaged in agricultural production.
- They also provide other services which are offered by the commercial banks such as accepting deposits, providing foreign currency, offering current accounts and savings account.
- In Zimbabwe, the agricultural bank is known as Agricultural development bank of Zimbabwe (Agribank).

**Building society**

- It is a bank that offers mortgage.
- A mortgage is a long term loan that is used solely for the purpose of building.
- They also offer savings accounts.
- Building society also provides services similar to those offered by a commercial bank.
- Examples of building societies in Zimbabwe include, Central Africa Building Society (CABS), First Building Society (FBC), National Building Society (NBS), etc.

**Central bank**

- It is owned and managed by the government.
- Central bank works on behalf of the government to influence all activities of other financial institutions that operate in the country.
- In Zimbabwe, the central bank is the Reserve bank of Zimbabwe (RBZ).

**Functions of central bank**

- It controls the amount of money circulating within the economy through monetary policy.
- It issues notes and coins.
- It keeps reserves of gold and foreign securities according to the rules of the state.
- It manages interest rates, setting reserve requirement and lender of last resort to the banking sector.
- It also regulates amount of foreign currency in the country through revaluation of local currency (exchange rates).
- It is the government's bank balances - cash balances for the government are kept in a current account at the Central bank.
- It acts as a banker's bank- all other banks in the country are required to keep a certain percentage with the central bank.
- The central bank can also provide loans to other banking institutions in times of liquidity crisis.
- It manages the national debt- the central bank can raise finance to pay off the national debt by selling bonds.
- It is used as a clearing house to clear cheques- assist other banks to set off cheque claims.
- It gathers statistical data for other banks in the economy.
- Offers treasury bills (short term loan issued by Central bank at a discount) to financial houses.

**Activity**

In pairs, visit the nearest financial institutions and find out what they offer.

**Summary**

- Financial institutions offer monetary assistance to enterprises.
- They offer loans, bank accounts, financial advices and many other services.
- Central bank of Zimbabwe controls all other financial institutions.
- It issues notes and coins

1. Define what a business cost is
2. Classify business costs.
3. Explain break-even analysis.
4. Construct a break-even chart.
5. Calculate break-even point, output and margin of safety for a business venture.
6. Discuss importance of break-even analysis.

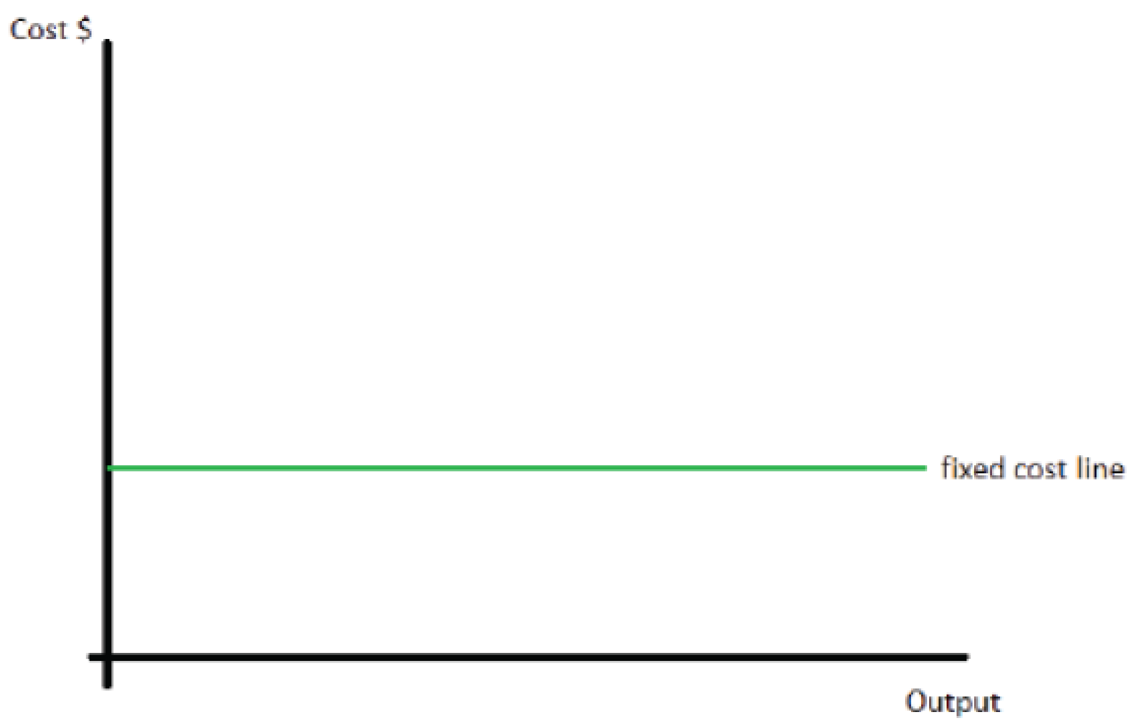
---

**Business costs**

- Business costs is defined as the amount of money paid or spent by an enterprise on production or to produce goods and to provide services.
- Business enterprise incur costs on buying raw materials, paying labour, rent, bills, etc.
- These costs can be classified as fixed costs, variable costs, direct costs, indirect costs, average costs and marginal costs.
- Business cost are usually classified as follows:

**Fixed costs**

- These are costs which remain constant within a certain level of output or sales.
- Fixed cost do not vary with the number of items produced or sold in the short run.
- They have to be paid whether the business is:
    - Producing or not producing.
    - Making profit or loss.
- They are also known as overhead costs.
- Examples of fixed costs are rent, interest, insurance, salaries of management, etc.
- Fixed cost may increase due to inflation.
- The following is a graphical presentation of fixed cost.

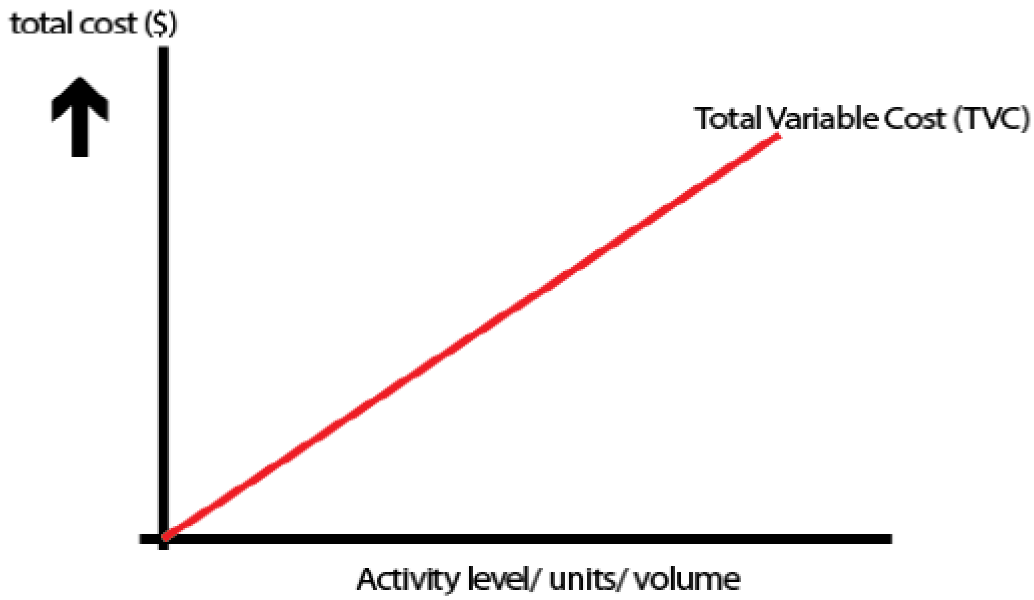



Fixed Cost

**Variable Costs**

- Variable costs are costs that vary or differ with the number of items produced or sold.
- They are affected by output.

- As output increase, variable costs also increase.
- They change in relation to variations in activity.
- Examples of variable costs include raw materials, commission, piece-rate, energy usage, fuel and packaging.
- It can be illustrated graphically as follows:

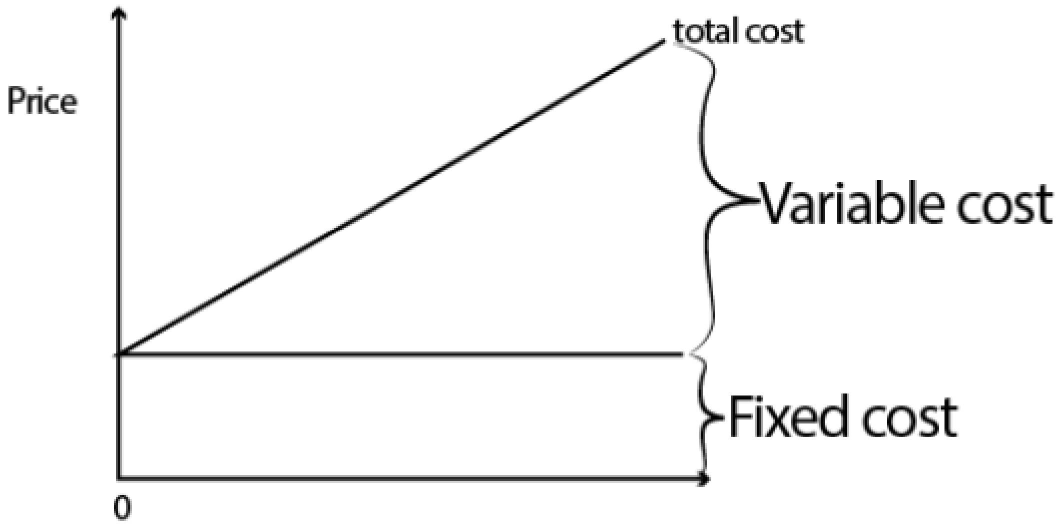



**Variable Cost**

- There are some other costs which are called semi variable costs/ step cost/ semi fixed cost. They are a combination of both fixed costs and variable costs.

**Total cost**

- This is a combination of fixed cost and variable cost.
- Any given level of output, gives total cost.
- Increase in output leads an increase in total cost.
- Total cost is given by:
- Total Cost (TC) = Fixed Cost (FC) + Variable Cost (VC)
- The diagram below shows a total cost curve.




Total Cost curve

**Direct cost**

- It is that cost which is completely attributed or linked to production of particular good or service.
- It also refers to cost of materials used to produce a product.
- Examples of direct costs include raw materials, power, fuel, packaging material and direct labour.

**Indirect costs**

- These are costs not directly attributed to production.
- Indirect costs cannot be directly traced or associated with particular product or processes.
- Examples include insurance, rent, administrative salaries, office expense, etc.
- Usually fixed costs are indirect costs while variable costs are direct costs.

**Average costs**

- It is also known as unit cost.
- It is the cost of a unit per given output.

$$Average\ \cos t = \frac{Total\ Cost}{Output}$$

OR

$$Average\ \cos t = \frac{Fixed\ Cost + Variable\ \cos t}{Output}$$

Given the above formula, Average Fixed Cost and Average Variable Cost can be calculated.

**Marginal costs**

- Marginal costs are cost incurred when an additional output (unit) is produced.
- It is given by:

$$Marginal\ cost = \frac{Change\ in\ total\ cost}{Change\ in\ output}$$

- For example, if Windmill manufacturers total cost of 100 bags of fertilisers at \$210 and the total cost of producing 105 bags of fertilisers is \$240, then Marginal cost will be:

$$Marginal\ cost = \frac{\$240 - \$210}{105 - 100} = \frac{\$30}{5} = \$6$$

Total revenue

- It is the aggregate of receivables (debtors), sales and other income over a given period of time.
- Usually the revenue is obtained from sales of products and services.

**Contribution**

- It is the difference between selling price and variable cost.
- Contribution per unit is given by:
    - Contribution = selling price – variable cost
- Total contribution = Total revenue – total variable cost
- For instance, Willowvale Motors has the following information on 31 December 2014.

| Description | Variable Cost | selling price | Contribution |
|---|---|---|---|
| Mazda B1600 | \$5000 | \$6000 | \$1000 |
| Toyota Corolla | \$3500 | \$5000 | \$1500 |
| Golf | \$800 | \$890 | \$90 |

- It is possible to calculate profit using contribution.
- Profit = total contribution- fixed cost
- Profit can also be calculated as total revenue minus total cost.

**Break- even analysis**

- Break even analysis is a mathematical technique for analysing how revenue, expenses and profit vary with changes in sales volume.
- It is based on the relationship between cost (fixed and variable) and sales revenue.
- Organisations use the break even analysis in decision making.

**Break- even point**

- It is a point where total revenue is equal to total cost.
- At breakeven point, a business earns no profit or makes a loss.

**Break -even output**

- This is amount produced by a firm in order to break-even.
- It can be calculated using :

$$Break - even\ output\ = \frac{Fixed\ cost}{Contribution}$$

- 
- Total cost which is (Fixed Cost + Variable Cost)

OR

- Total Revenue which is (price quantity)
- If production level is above the break- even output, then a profit is made.
- On the other hand, if production level is below break- even output, then a loss is made.

**Example:**

Bata, a shoe company manufactures high quality shoes made from original leather. The shoes, in particular, school shoes sell for $20 each pair. The variable cost for a pair of shoe is $6. Bata's fixed costs are $50.00.

| Output per month | Sales | Variable costs | Fixed cost | Total cost | Profit |
|---|---|---|---|---|---|
| 000 | $ 000 | $ 000 | $ 000 | $ 000 | $ 000 |
| | | | | | |
| 0 | 0 | 0 | 50 | 50 | -50 |
| 1 | 20 | 6 | 50 | 56 | -36 |
| 2 | 40 | 12 | 50 | 62 | -22 |
| 3 | 60 | 18 | 50 | 68 | -8 |
| 4 | 80 | 24 | 50 | 74 | 6 |
| 5 | 100 | 30 | 50 | 80 | 20 |
| 6 | 120 | 36 | 50 | 86 | 34 |

**You are required to:**

- Calculate how many pairs of shoes Bata needs to produce and sell to break-even?
- How many pairs of shoes will Bata need to sell to break-even if the price increased to 35?

**Solution**

- $Break - even\ output = \frac{Fixed\ cost}{Contribution\ per\ unit}$
- Contribution = Selling price - Variable cost

= \$20 - \$6

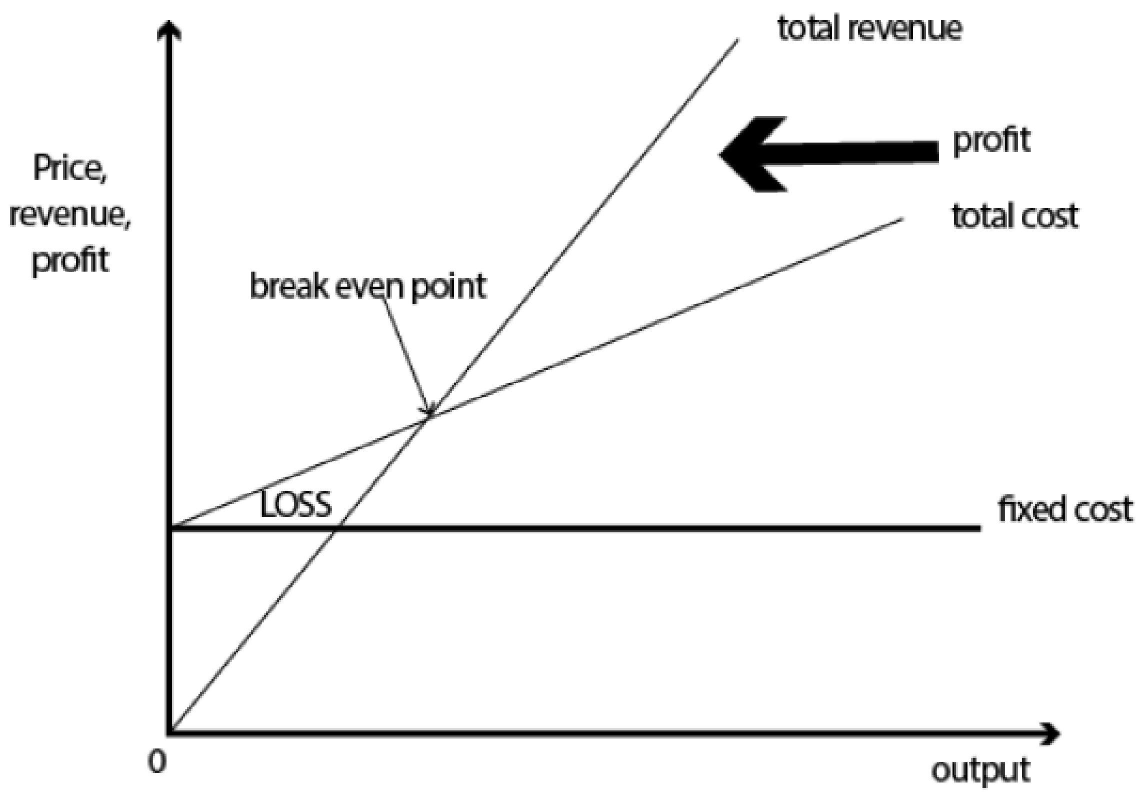
= \$14

- $Break - even\ output = \frac{Fixed\ cost}{Contribution\ per\ unit}$

= 3.5 units

**Calculating break-even using charts**

- Total revenue and total cost are taken into account when plotting the break-even graph.
- The plotted graph is called the Break even chart.
- Following is an example of a break-even chart.




Arrow Chart

**Margin of Safety**

- It is a point to which sales can fall before a business breaks even or loss is made.
- Businesses often prefer to operate when they have a large margin of safety.
- Large margin of safety entails that, even if there is a drop in sales, a business can make some profit.
- On the other hand, if a business has a small margin of safety, it can be under risk of making losses.

**Usefulness of the break even analysis**

- It assists business people to understand the viability of the business.
- The risk associated in starting up a business can be depicted.
- If a business is faced with different choices, comparisons can be made using break even charts.
- Are business can be able to make choices, give different alternatives?
- Business can be able to estimate profit.
- Break even analysis can be used for setting prices.
- Breakeven analysis can be used in Production planning.
- It acts as an assessment and evaluation tool of the enterprise as a whole.

**Limitations of the break even analysis**

- There is an assumption that all products will be sold, which is unrealistic. Firms will always have stock at the end of each period.
- The break even chart cannot account for changes in wages, prices or technology.
- If the data used is inaccurate, then decision making will be affected as it depends on the break even chart.
- Some businesses sell multi products which makes it difficult for them to allocate fixed costs for individual products.
- Some fixed cost may increase when more capacity is needed to increase output.
- That is, in a highly volatile economy break even analysis can be highly misleading.

**SUMMARY**

- Business costs are classified as fixed and variable costs.
- Fixed costs remain costs with number for output.
- Variable costs change as output changes.
- Direct costs are costs that are incurred during production process, for example, cost of raw materials, costs of paying production workers.
- Indirect costs are any other costs that are not directly linked to production such as administration expenses.
- Marginal cost can be used to calculate profit made by each unit (contribution).
- Break even chart shows output to be produced by a firm for them to make profit and at what price.
- Break even analysis can be used to set prices, estimate profits or to plan for production

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**BUDGETING AND BUDGETS**

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- Explain the concepts of budgeting and budgets.
- Explain the importance of budgeting.
- Identify different types of budgets.
- Prepare a budget for an enterprise.
- Explain different ways of attracting investors.

**Budgeting and budgets**

- Budgeting involves preparation of detailed financial statements for a specified future period.
- Budgeting also entails pre-allocation of funds to different areas of the enterprise.

**Budget**

- It is an estimated financial plan made in advance, which takes into account revenues, resources and costs for a specific period of time.
- It is a quantified plan made prior to a given trading period.
- The amount of money or resources earmarked for a particular activity time frame.

**Importance of budgeting**

- Budgeting facilitates communication within the enterprise, for instance, information on future objectives is passed from top management to employees.
- It allows the enterprise to predict cash shortages and take corrective action before a crisis occurs.
- It helps to see cash which is lying idle and utilise it for the better.
- It assist in monitoring and controlling operations.
- Employees will have a sense of direction and motivated as the information concerning the future is passed to them.
- It is promotion of management by exception.
- Resources can be allocated to departments and it improves accountability in departments.
- It guards against over and underspending.
- It gives room for adjustments on how the enterprise intends to spent funds
- Allocation of resources is effective an efficient.

**Types of budgets**

- There are numerous types of budget which are cash, production, sales, purchases, etc.

**Cash budget**

- It is a financial budget with an estimate of the cash inflows and outflows for an enterprise over a specific period of time.
- Cash inflows are funds which business receives from its operations.
- Cash outflows is the money paid out by an enterprise as a result of its financing, operating and investment activities.

**Preparation of cash budgets**

- There are three main methods which can be used in preparing cash budgets.
- These methods are:
    - Receipts and payments method
    - Adjusted profit and loss method
    - Statement of financial position method
- Preparation of cash budget requires the following information:

**Receipts**

- Cash balance
- Expected cash receipts
- Cash sales
- Collections of accounts receivable
- Other income

**Expected Cash Expenses**

- Raw materials
- Inventory (stock)
- Advertising

- Selling expensive
- Administrative expenses
- Plant and equipment expenditures
- Other payments

Layout of a Cash Budget

| Particulars | Period 1 | Period 2 | Period 3 |
|---|---|---|---|
| Opening balance at the beginning of month. | | | |
| ADD: Receipts | | | |
| (A) | | | |
| LESS: Payments | | | |
| (B) | | | |
| Closing balance at the end of month. (A – B) | | | |

Layout of a cash budget

The following information was taken from Madyirapazhe books of accounts.
50% of his sales are paid by cash and the remainder is for one month's credit. All the purchases are for credit and they are payable on the following month.
The following are sales and purchases figures for the year 2017.

| Sales $ | Purchases $ | |
|---|---|---|
| May | 25 000 | 11 000 |
| June | 20 000 | 9 000 |
| July | 13 000 | 15 000 |
| August | 17 000 | 20 000 |
| September | 23 000 | 25 000 |

**Additional Information**

- Madyirapazhe pays $1500 for wages every month.
- Rent is $1 000 per month.
- Madyirapazhe plans to sell a car for $1 700 and also to buy another one for $4 500 in August.
- Madyirapazhe draws $500 every month for his personal use.
- At 31 May 2017, Madyirapazhe bank balance was $200.

You are required to prepare cash budget for 3 months from June to August.

Cash budget for 3 months ending 31 August 2014

| | June $ | July $ | August $ |
|---|---|---|---|
| Cash at the beginning of the period | 200 | 8 700 | 13 200 |
| **Add Receipts** | | | |
| Cash sales | 10 000 | 6 500 | 8 500 |
| Cash received from debtors | 12 500 | 10 000 | 6 500 |
| Sale of a car | - | - | 1 700 |
| | **22 700** | **25 200** | **29 900** |
| **Less payments** | | | |
| Purchases (creditors) | 11 000 | 9 000 | 15 000 |
| Wages | 1 500 | 1 500 | 1 500 |
| Rent | 1 000 | 1 000 | 1 000 |
| Purchase of a car | - | - | 4 500 |
| drawings | 500 | 500 | 500 |
| | **14 000** | **12 000** | **22 500** |
| Closing balance at the end of the month | 8 700 | 13 200 | 7 400 |

Cash Budget

**Sales budget**

- It indicates the price and units of sales expected to be sold for a given period of time.
- It refers to estimate of expected sales volume.
- Its purposes is for planning, co-ordination, control and evaluation.

**Methods used for deciding sales budget**

- Sales percentage method
- Executive judgement
- Objective and task method

**Example**

Draw up a sales budget from the following information for six months to 31 December 2017.

| Month | Quantity | Price $ |
|---|---|---|
| July | 5 000 | 2 |
| August | 6 000 | 2 |
| September | 8 000 | 2.2 |
| October | 7 000 | 2.2 |
| November | 7 500 | 2.2 |
| December | 8 000 | 2.2 |

**Solution**

sales budget

| Month | Quantity | Price $ | Revenue $ |
|---|---|---|---|
| July | 5 000 | 2 | 10 000 |
| August | 6 000 | 2 | 12 000 |
| September | 8 000 | 2 | 16 000 |
| October | 7 000 | 2.2 | 15 400 |
| November | 7 500 | 2.2 | 16 500 |
| December | 8 000 | 2.2 | 17 600 |

**Production budget**

- It states the number of units that must be produced in order to meet the demand of customers.
- Production budget is stated either in quantity or money.
- Production is given by:

Budgeted sales + closing stock of finished goods – opening stock of finished goods

**Example**

Budgeted sales 40 000 units, closing stock of finished goods 10 000 units, opening stock of finished goods 20 000 units

Therefore production = 40 000 +10 000 -20 000 = 30 000 units

Tafara owns an enterprise which manufactures electric kettle. His estimated sales for three months are as follows: April 300, May 500 and June 800.

At 1 April 2015, Tafara had 500 kettle in stock.

The enterprise produces 400 kettle per month.

You are required to prepare a production budget for three months to June 2017.

Solution

## Production budget

| | April | May | June |
|---|---|---|---|
| Opening stock | 500 | 600 | 500 |
| Add production | 400 | 400 | 400 |
| | 900 | 1000 | 900 |
| sales | 300 | 500 | 800 |
| Closing stock | 600 | 500 | 100 |

Production Budget

**Purchases budget**

- It states the amount of stock which is supposed to be purchased for a given period.
- It may be stock of raw materials needed for the production of goods or finished goods that may be bought for resale.

**Example**

ABC is an enterprise that produces goods for resale.
ABC purchases for direct materials are:
July 100, August 150, September 200, October 250, November 350, December 270
Stock at 30 June 2017 was 450.
Production will be 50 units per month for the first three months and 60 units for the last three months.
Direct materials cost $5 per unit.

**Materials purchases budget**

| | July | August | September | October | November | December |
|---|---|---|---|---|---|---|
| Opening stock | 450 | 300 | 300 | 150 | 100 | 300 |
| Add Purchases | 100 | 150 | 270 | 250 | 350 | 270 |
| | 550 | 450 | 570 | 400 | 450 | 570 |
| Less materials used in production | 250 | 250 | 300 | 300 | 300 | 300 |
| | **300** | **200** | **150** | **100** | **300** | **270** |

## Material Purchases Budget

You are required to draw a Materials purchases budget.

**Ways of attracting investors**

- An investor is an individual or entity that injects money into financial scheme (business enterprise) with the aim of yielding profit.
- There are a number of ways to attract investors so that they invest in enterprises.
- Investors can be attracted where there are favourable government policy, good corporate governance and reputable brands.

**Corporate governance**

- It refers to a way of running enterprises in line with rules and regulations set by the government.
- It aims at promoting transparency, accountability and fairness in enterprises.
- Corporate governance encourages efficient use of resources, stewardship of these resources, protects all the enterprises stakeholders and enables the enterprise to compete on the international markets.
- Good corporate governance lures investors to invest in the enterprises.

**Reputable brand**

- A brand refers to a symbol, logo, or statement which is used to differentiate a product from other products.
- Reputable brands assure customers of quality and as such customers will buy more increasing sales volume (customer loyalty), for instance, olivine oil.
- If an enterprise has high sales volumes, it is likely to earn more profit which will lure investors to invest in it.

**Government policy**

- It relates to laws and regulations set by the government to regulate business activities.
- These include interest rate, exchange rate, trade policy, taxation policy, indigenisation policy and pricing policy.

**Interest rate policy**

- Interest is the cost of borrowing in form of a percentage on the amount borrowed.
- Interest rate is set by the government.
- Lower interest rate reduces cost of borrowing hence it encourages investment. Therefore government must set lower interest as it encourages investment.

**Exchange rate policy**

- It is whereby a currency is expressed in terms of another currency, for instance, Zimbabwean dollar expressed in terms of Botswana pula.
- The government should raise the value of its currency so as to attract investors.
- The government should stabilise the economic environment.

**Trade policy**

- It refers to regulations that are set to control exchange of products between two or more countries.
- The government must allow free trade to allow movement of goods and services in and out of the nation.
- This will lure investors to invest in enterprises as they see possibility of getting a return on their investment resulting from expansion of business beyond a nation's borders.

**Taxation policy**

- It refers to the tax that the government charges on the income earned by individuals or enterprises.
- The government ought to charge lower tax as it reduces enterprise expenditure and consumer spending.
- As consumers spend more, it encourages investors to invest as they see that there will have a return.

**Pricing policy**

- This is whereby the government sets maximum price (price floor) and minimum price (price ceiling) to be charged on goods and services.
- Minimum prices allows enterprisers to order goods and services at a lower cost hence reducing enterprise expenses.

**Sound organizational culture**

**SUMMARY**

- Budgeting enables a firm to predict possible cash shortages in the long run, provides direction for productive running of the business.
- There are different types of budgets namely cash budgets, purchases budgets and sales budget.
- Cash budgets shows the cash inflows and outflows for e specific period.
- Sales budget estimates the number of output to be sold at a given time and at what price.
- Production budget estimates the number of output to be produced in order to meet demand.
- Investors are individuals who are willing to finance a business projects with the aim of gaining profit
- Investors are persuaded to invest in a company through government policies, company's brand name.

**6 PEOPLE IN BUSINESS ENTERPRISES**

2.1 - Functions of managers
3.1 - Motivation theories
3.2 – Leadership
3.3 - Business communication
4.1 - Methods of motivation
4.2 - Organisational structure

# FUNCTIONS OF MANAGERS

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- Explain functions of managers in business.
- Explain the benefits of motivated employees.
- Identify and describe financial and non-financial methods of motivation.

**Management functions**

- A manager is any person or individual who supervises one or more workers and get things done through other people.
- Management is a process which involves planning, leading, organising and controlling.
- It is the achievement or attainment of business objectives through effective utilisation of resources.

**Functions of a manager**

**Planning**

- Planning is a management process which is concerned with setting business objectives.

- It is the expression of what an enterprise wish to achieve or the best prediction of what might occur in future.
- It is an important management function because other functions depends on planning.
- Planning also involves the allocation of resources to achieve organisational aims.

**Organising**

- Refers to the process of arranging, allocating work, authority and resources among organisational members to achieve organisational goals.
- Organising is the process of creating framework of authority and duties for workers to perform tasks efficiently and effectively.
- It is the establishment of rules and reporting relationships that allow workers to achieve organisational goals.

**Leading**

- This entails directing, influencing and motivating employees to achieve set goals of an organisation.
- Managers are leaders responsible for influencing people so that they perform the assigned tasks.
- Leaders has the ability to command employees to perform certain tasks so as to achieve enterprise's goals.
- The main task of managers as leaders is to direct and coordinate people in an organisation.

**Controlling**

- It is the process of monitoring the enterprise's performance by comparing actual performance with the set goals.
- Controlling involves the correction of organisational activities.
- It establish standards of performance and how it will be measured.
- It also involves the processing of paperwork, staffing, training and development.
- Assist managers to make correct decisions.
- Helps in the setting of objectives.

**Other functions of managers**

- Coordinating activities and assign overall responsibilities.
- Hire, train and deploy the right personnel.
- Communicate the strategy internally.
- Develop and maintain a stakeholder database.
- Develop and maintain a commitments register.
- Track changes in the quality of stakeholder relationship.

**Activity**

Outline the functions of your parents, friends, school teacher and church leaders.

**Motivation**

- It is the desire that pushes an individual to work well.
- Motivation is set of processes that arouse human behavior towards attaining certain goals.
- It can be defined as the influence that causes workers to behave in a particular way.

- Motivation at work refers to anything that influence employees to work willingly.
- Workers can be motivated internally or externally.

**Internal motivation**

- This type of motivation comes from within an individual.
- It is self-driven.
- This means that employees do their jobs to achieve personal satisfaction rather than external gains.
- Examples include self-esteem, sense of achievement, status and enjoyment of work.

**External motivation**

- It is that motivation where workers go to work in order to get rewards.
- Workers are motivated by outside motives or rewards like pay rise, bonuses, medical aid services and vacation trips or tours.

**Benefits of motivated employees**

- Higher productivity (outputs).
- Improved quality of goods with less wastage.
- Improves efficiency (doing the right thing).
- Low rate of accidents at work place.
- Lower rate of labour turn over (employees leaving the enterprise).
- Lower absenteeism rate.
- Less resistance to change.
- Higher punctuality.
- They accept responsibilities.
- They show a higher levels of commitment.
- They also able to participate and makes suggestions for improvement.

**Financial and non-financial methods of motivating employees**

- There are basically two methods of motivating employees that is financial and non-financial rewards.

**Financial rewards**

- Financial rewards are those rewards in which payment is given to workers in monetary terms.
- Examples of financial rewards include:

**Time rate or hourly rate**

- This is the payment given to employees according to the time they spend on a certain job.
- Usually, an hourly rate is fixed meaning to say it remains constant all the time.

**Piece rate**

- It is a method of payment whereby workers are just paid in accordance to the number of products they produce.
- Thus, the more they produce, the more they are also paid.

**Salary**

- It is a method of payment given to employees at the end of each and every month.
- It is not paid in cash.

- The money just goes straight into the bank.

**Commissions**

- It is a method of payment given to employees depending on with the sales they made.
- Thus, the more sales they made, the more they are also paid.

**Performance related pay**

- It is a method of payment used to reward workers who have performed well and reach their targets on time.

**Profit sharing**

- It is a method of payment whereby a certain proportion of the company's profits will be paid out to employees after meeting the target.

**Share ownership**

- It is a financial reward where shares in the company are given to the employees for them to become part owners in the company.

**Bonus**

- It is a method of payment given to employees at the end of an agreed period as a reward of good work, for instance, quarterly, half a year or yearly.
- It also act as a token of appreciation.

**Wages**

- It is a method of payment given to workers either per week or fortnight.
- It is sometimes paid in cash or into bank account.

**Non- Financial rewards**

- Non-financial rewards are those rewards that are given to workers to motivate them but do not involve any monetary value.
- Examples of non-financial rewards include:

**Job enlargement**

- It involves increasing the scope of job in order to make it more challenging and interesting.
- Usually it is for unskilled or semi-skilled workers.

**Job rotation**

- This is when workers from the same department switch/ change jobs from one task to another.

**Job enrichment**

- It is a process of organising work in such a way that employees are able to use their fullest abilities and do the work with lesser supervision.

**Team work**

- Refers to a situation whereby employees work in small groups to achieve a common goal.

**Delegation**

- Refers to the passing down of authority to perform tasks and take decisions from the higher level to the lower level workers in an organisation.

**Appreciation and recognition by the enterprise**

- Refer to a situation whereby workers need to be appreciated, recognized and praised if they do their job well.
- This will create a strong bond/relationship between employer and employees.

**Job security**

- Workers needs to work in a free and safe environment.
- They need to be protected from harmful environment.

**Fringe benefits**

- These are payments in kind not in cash.
- Examples are company car, vouchers and coupons.

**Activity**

- How can a restaurant manager motivate employees?
- Outline ways used by your teacher to motivate you in class.

**Summary**

- Managers perform four functions which are planning, leading, organizing and controlling.
- Among these functions leading plays an important role.
- Leading involve directing, influencing and motivating employees to achieve set goals of an organisation.
- Motivating employees can either be financial or non-financial.
- Financial motivation include salary, wage, piece-rate, time-rate, commission, performance related and profit share.
- Non-financial motivation include job rotation, enlargement, enrichment, team work, delegation and decentralization.

# MOTIVATION THEORIES

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- Define motivation.
- Identify theories of motivation.
- Discuss theories of motivation.
- Assess the applicability of motivation theories to business enterprises.

**Motivation**

- The word motivation is derived from the word motive which means reason for doing something.
- Motivation can be defined as a way of influencing someone to act in a certain way.
- Motivation at work refers to anything that influences an employee to work willingly.
- It is any drive or factor that pushes employees to work effectively and efficiently.

**Motivation theories**

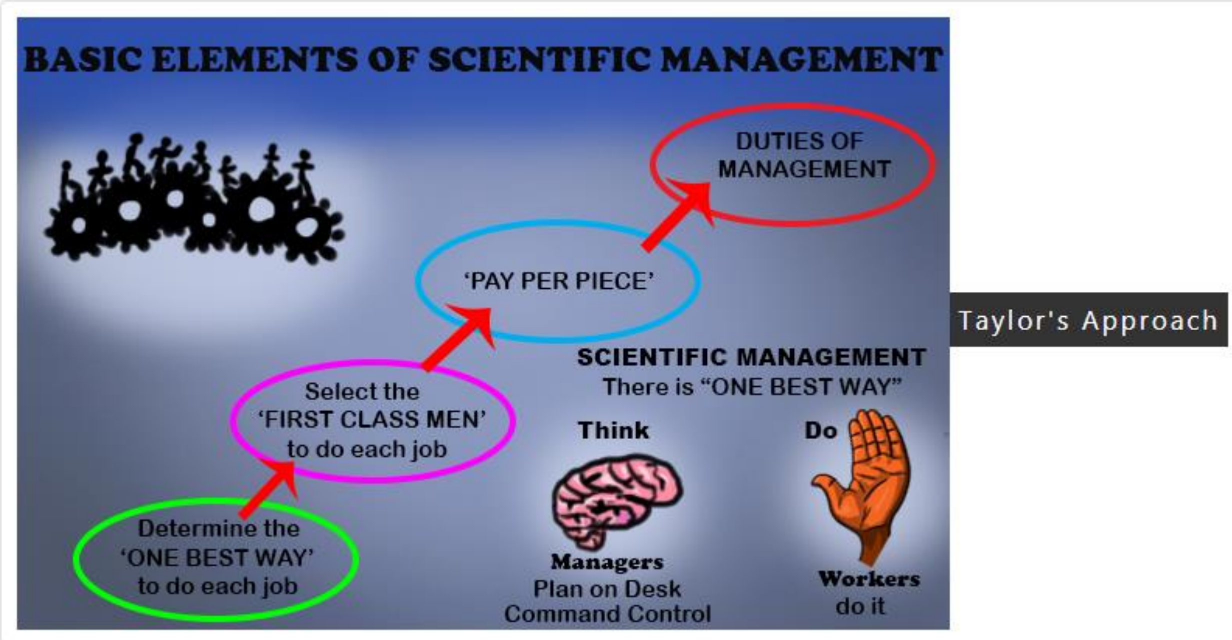
- Different researchers have discovered the possible reasons why individuals work effectively.
- Theory is a set of assumptions, suggestions, or acknowledged facts that attempts to provide a rational clarification.
- Motivational theories are theories that explain what drives employees to work towards attainment of organisational goals.
- They are sets of ideas that assist managers to understand how to motivate their workers.
- Managers may apply these theories in order to satisfy employees' needs.
- If employees are satisfied, productivity is likely to increase.
- The following are examples of Motivational theories :
    - Maslow (The concept of human needs)
    - Herzberg (Hygiene factors)
    - Taylor (scientific management)
    - McGregor theory (X and Y)

**Taylor's scientific management theory**

- The theory development began with Fredrick W. Taylor in the 1880s.
- It is also called Taylorism.
- His theory is based on the study of employees and the work they performed within the manufacturing industries.
- His main aim was to improve productivity by reducing wastage.
- He believed that economic efficiency is obtained through improving labour and productivity through establishing workflow processes.
- He believed that employees are best motivated by money.

**Taylor's approach to increase productivity**

- He believed in division of labour.
- Division of labour means breaking down each job unit into its simplest tasks.
- A few skilled workers are required to perform the task using different methods and the time taken to do each task is observed and recorded.
- This process is called work study.
- The quickest method is identified and all the workers are trained to use the quickest method.
- Employees' personal skills should not be the basis for assigning the job to individual workers.
- As they do their job, each employee is supervised to make sure that the methods are carried out correctly.
- The workers must be paid according to how much they produce; this means that if they produce less they earn less, if they produce more they earn more.
- Those who exceed targets must be given bonus.




**Results of the scientific management theory**

- Taylor's ideas resulted in
  - Improved productivity.
  - Increased employee income.
  - Improved quality control.

**Criticism of Taylor's approach**

- Taylor treated employees like machines which needed to be programmed on what to do.
- His theory did not cater for individual differences.
- The theory does not promote innovation at the work place.
- Not every worker is motivated by financial rewards; some employees are motivated by internal factors.
- The theory is not practical for the type of jobs where output is not measurable, for example, human resources and some administrative functions.
- The tasks become monotonous since employees do the same activities every day.

**The concept of human needs (Maslow)**


- This theory was developed by Abraham Maslow (1943) upon realising that motivation is the result of an employee's attempt to fulfil the five basic needs.
- He suggested that workers become motivated to satisfy these needs, which are arranged in a hierarchical structure.
- The hierarchical structure of the needs imply that:
  - Every employee seeks to fulfil the lowest level of needs first.
  - Once the lower level need has been met the individual strives for the higher level need.
  - The individual keeps on moving up this pyramid of needs till all of them are satisfied.
  - Once a need has been satisfied it stops to be a motivator because the worker would seek to satisfy higher order needs.
- These needs consist of financial and non-financial rewards.

**Application of Maslow's hierarchy of needs**

**Physiological needs**

- These are basic human needs that must be met in order for a person to survive, such as air, water, food, clothes, shelter and rest.
- Maslow asserts that every employee seeks to satisfy these physiological needs first before other needs.
- Managers can motivate workers by paying them adequate salaries so that they will be able to meet their physiological needs.

- Employees must work for a reasonable number of hours per day, with breaks during working time so that they have periods to rest.

**Safety and Security needs**

- After their physiological needs have been met, workers would like to have their safety and security needs satisfied.
- Safety and security needs are concerned with how safe the employees are while at work.
- The employees must feel protected; they need to have a sense of personal and financial security.
- The working environment must be free from threats such as accidents or harm.
- The manager must ensure that there is a safe working environment by providing safety clothes like helmets, work suits or safety shoes if there is need for these.
- The company must provide fringe benefits such as medical benefits or retirement fund so that employees feel a sense of security.

**Love and belonging**

- These refer to social needs like friendships, intimacy and family.
- Employees want to feel loved and accepted in the organisation so that they don't feel isolated and depressed at work.
- Managers need to promote social interaction in the organisation, so that employees interact as they work.
    - This can be achieved by making sure that employees know each other.
    - Management must encourage team work.
    - Opportunities for workers to participate in decision making must be provided so that they feel being part of the organisation.
    - Managers must ensure that social events such as games, end of year parties, dinner parties become part of the organisational culture.

**Self-esteem needs**

- All employees have a need to feel respected, accepted and valued by others at work.
- Maslow states that employees seek to boost their self-esteem through acquiring high status, recognition or prestige at work.
- Managers need to offer promotion to deserving employee so that they feel respected.
- Hardworking and loyal employees must be praised for job well done if they have performed well.
- Managers can also give more responsibilities to experienced and hardworking employees in order to make them feel valued.
- Workers become motivated when they feel a sense of achievement and self-respect.

**Self-actualisation**

- Once all the lower needs of employees have been met, the workers seek to achieve self-fulfilment or self-actualisation.

- Self-actualisation takes place when a person achieves his/her full potential at work or in life.
- Full potential means that a person has reached a stage where one is able to do the best that one can in a special area or at work.
- It is concerned with personal growth; employees can be given more challenging task or holding a higher position so that they will be able to reach the point of self-fulfilment.

**Criticism of Maslow's hierarchy of needs**

- Not everyone has the same needs as assumed by Maslow.
- Maslow's assumption that every worker seeks to satisfy the physiological needs first before any other needs is questionable. Other employees would want to satisfy higher needs before physiological needs are met.
- Therefore the fulfilment of the needs may not necessarily be in a hierarchical order.
- It is difficult for managers to measure the level at which every employee is at in the hierarchy.
- Money is necessary to satisfy physiological needs and might also play a bigger role in trying to satisfy other higher needs such as status and esteem needs.
- In reality, self-actualisation stage may not be reached as people's needs tend to change and become more complex as they move up the social ladder.

**Herzberg's two factor theory**

- This theory was developed by Fredrick Herzberg.
- Herzberg theory had close links with Maslow's needs theory.
- His main aim was to find out what satisfies employees and what causes dissatisfaction.
- He assumed that there are two sets of factors that influence motivation at work:
  - Motivators (directly motivates employees to work harder)
  - Hygiene factors (factors that cause dissatisfaction)
- There is interrelationship between hygiene factors and motivating factors because the absence of one or more of these factors may lead to de-motivation at work.

**Hygiene / maintenance factors**

- These are extrinsic factors, for example, salary, working conditions, company policies or security.
- Herzberg believed that these do not motivate workers but their absence causes dissatisfaction at work. Such factors include:
  - Pay - pay should be adequate so that employees are not dissatisfied.
  - Company Policies - company policies should be fair and clear.Company policies, which include procedures, rules and regulations, must be written down and employees must access them at will.
  - Good working conditions. These include flexible working hours, holidays and existence of an appropriate dress code, etc.

- Fringe benefits - employees should be given additional benefits such as health care facilities or pension benefits.
- Safe working conditions–there should be safe working conditions. Also, there must be safe work processes and safety clothing, tools and equipment, when necessary.
- Relationships/social needs - managers should create friendly environment for the employees to interact, as they work together in teams, so as to reduce conflicts within the organisation.
- Job Security – employees must be aware of terms and conditions of their contracts so that they feel secure about their jobs.
- Supervision- this refers to the extent to which managers control and monitor their subordinates. Managers must not control employees excessively as this makes them to feel mistrusted and this lowers their self-esteem.

- Managers need to ensure that these hygiene factors are improved so that employees are not de-motivated.

| HYGIENE/MAINTENANCE FACTORS | MOTIVATING FACTORS |
|---|---|
| Good salary | Achievement |
| Safe working conditions | Recognition |
| Company policies | Responsibility |
| Job security | Advancement |
| Supervision | personal growth |
| relationships with peers/ manager | |
| status | |

**Motivators**

- Employees have intrinsic needs that must be satisfied.
- Employees seek the fulfilment of the human needs that Maslow termed higher order needs such as self-esteem and self-actualisation.
- Motivators give workers job satisfaction.
- Herzberg asserts that motivators include giving workers more responsibilities, challenging work and promotions.
- Sound work relationships and personal growth opportunities lead to intrinsic motivation.
- Herzberg believes that these factors are the ones that drive employees to work willingly.

**Motivating factors and how they can be satisfied.**

- Recognition- managers must praise and recognise employees who have excelled in their jobs.
- Sense of achievement- employees must have a sense of achievement.

   - Setting achievable work targets is important in order to make employees feel a sense of achievement.
- Growth and promotion- managers should create opportunities for employees to advance in the organisation, for example, through training and promotion.
- Responsibility- giving employees more responsibilities would give them satisfaction as they will feel challenged and trusted.

**Limitations of Herzberg's two factor theory**

- Herzberg did not take into account individual differences; people are motivated by different factors.
- Other workers may not aim at achieving high order needs such as job enrichment.
- Not all hygiene factors lead to dissatisfaction, for example, other employees may not bother much about rigid company policies as long as they get paid.
- Herzberg may not be correct to say that money does not motivate employees; other employees may be motivated by pay.

**McGregor's theory X and Y**

- Douglas McGregor developed this theory in 1960 at the MIT Sloan School of Management.
- His work was based upon Maslow's Hierarchy of Needs.
- He grouped lower order needs (theory X) and higher order needs (theory Y).
- His assumption was that there are two types of workers, the ones that are willing to work and others that need to be pushed to do their work.
- He developed two theories in trying to explain why people work: theory X and theory Y.

**Theory X workers**

- This theory assumes that workers have a negative attitude towards work.
- Workers dislike work and avoid responsibility as much as possible.
- They are self-centred, meaning that they are driven to work to achieve their own personal goals rather than organisational goals.
- They are motivated by external factors such as money or job security.
- Managers need to closely supervise such workers when they are doing work.
- Authoritarian leaders are required to lead such people so that they will be pushed to do their job and be punished for performing below standard.
- Managers are responsible for making all the decisions in the organisation since theory X workers dislike working and don't want to take responsibility.

**Theory Y workers**

- The assumption is that theory Y workers, naturally like working and they are not pushed to do their work.
- They are self-directed and self-controlled; they do not need managers to supervise them.
- They accept and seek responsibility.
- They are willing to work towards achievement of organisational goals.

- They aim to satisfy their intrinsic needs such as self-esteem and self-fulfilment.
- Theory Y workers are capable of promoting innovation at work as they enjoy doing their work.
- Managers need to delegate some of the duties to these workers and give them authority as they are willing to take responsibility.
- Managers should involve such workers in decision making.

**Comparison between theory X and theory Y workers**

| HEORY X | THEORY Y |
|---|---|
| workers dislike work | they naturally like to work |
| They avoid responsibility | They accept and seekresponsibility |
| They need to be supervised and controlled when carrying out task. | They are self-directed and self-controlled. |
| They are motivated by external rewards | They are motivated by internal factors. |
| Centralization of authority | There is decentralization of authority |
| Managers should be autocratic | Democratic leadership style is desired. |
| Workers Aim to achieve personal goals | Workers want to achieve company's goals |
| Workers are Less ambitious | They are innovative and creative |

**Conclusion**
- Different motivational theories can be used to explain the reasons why people go to work.
- From the theories discussed above, we can conclude that most people work because of:
    - The need for good pay.
    - Some enjoy working in order to be praised or promoted which makes them to be satisfied.
    - Others admire to be part of social groups in an organisation.
    - Others want to reach their full potential by accepting more challenging tasks.
- Whatever the reasons, managers may use motivational theories to establish ways of motivating the workers so as to improve productivity, hence attainment of organisational goals.

**Activity**
- Give similarities and differences between motivational theories in a tabular format.

**Summary**
- Motivation is the way of influencing people to work effectively.

- Taylor's scientific theory entails that workers must be paid according to their performance.
- Abraham Maslow says that people aim at fulfilling five basic needs.
- Herzberg's theory is grouped into hygiene and motivating factors.
- According to McGregor a worker is either a theory x or theory y

# LEADERSHIP

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- Define leadership.
- Identify qualities of a good leader.
- Discuss different leadership styles.

**Leadership**

- One of the main functions of a manager is to be able to lead people towards achieving a common goal in the organisation.
- Studies on motivation show that a good manager needs to be able to influence subordinates to work effectively and efficiently.
- Leadership means the ability to influence others to perform their assigned duties willingly.
- It is the ability to direct people to achieve certain goals.
- A leader may be someone who has authority, for example a manager.
- Leadership ability can be natural, that is when someone has the ability to lead that comes from within him or her.

**Leadership styles**

- Leadership style refers to the manner in which managers' deal with the subordinates in an organisational setting.
- Leadership styles are different approaches that are used by leaders when directing other people to achieve certain objectives.
- Examples of leadership styles are autocratic leadership style, democratic leadership style or laissez-faire leadership style.

**Autocratic/ Authoritarian leadership**

- In this leadership style, authority is concentrated on the manager only.
- The leader will be in total control of the organisation.
- The leader instructs members on what to do and how to do it.

**Characteristics of an autocratic leader**

- The manager is in charge of the business and enforces rules upon everyone.
- The leader finds it hard to delegate duties to subordinates as he believes that he is the only one who can do things best.

- He makes all the decisions without consulting subordinates and expects everyone to follow them.
- Such a leader uses one way communication, meaning that subordinates only receive information from the leader and do not question or give feedback unless that leader asks for it.
- The leader does not delegate some tasks to the subordinates, thereby holding on to all leadership responsibilities.

**Advantages of autocratic leadership style**

- Quick decisions are made since the leader does not consult anyone.
- The leader can easily control subordinates and maintain discipline and order.
- This style is mostly suitable when dealing with less experienced and lazy workers as supported by McGregor's theory X and Y.
- Work can be done fast, subordinates will aim at achieving the goals set by the leader because they may be consequences if they fail to do so.

**Disadvantages of autocratic leadership style**

- Workers may end up resisting orders given by the manager as they may feel oppressed.
- There can be low morale among the workers because the leader does not involve them in running the company; as a result the employees do not feel that they are an important part of the organisation.
- Loss of initiative among the employees. Some experienced and knowledgeable workers may be innovative since the leader does not involve them, new ideas may be lost which may help the organisation to be successful.
- It de-motivates employees who are willing to accept responsibility.

**Democratic leadership style**

The following diagram illustrates democratic leadership style

- The democratic leadership style is also known as participative leadership style.
- In this type of leadership style the leader involves members of the group when making important organisational decisions.
- The workers contribute in the decision making process but the leader makes the final decision.

**Characteristics of a democratic leader**

- There is decentralisation of authority in the organisation; subordinates have the power to make decisions.
- The leader delegates responsibilities to subordinates but keeps important tasks to oneself.
- The leader empowers subordinates by providing training so that employees may develop skills to become leaders in future.
- There is two way channel of communication which enables subordinates to give feedback to the leader.

**Advantages of democratic leadership style**

- Exchange of ideas may lead to better decisions making.
- Democratic leadership improves employee morale as the employees take part in making important decisions. Therefore employees feel valued and trusted.
- Delegation of authority motivates employees to work effectively and efficiently because they know that they contributed in company objectives.
- The leader instils confidence and cooperation among employees so that they work towards achieving company goals.

**Disadvantages of democratic leadership style**

- It is time consuming. Due to consultations, the decision making process may be slow.
- The leader can end up losing management control due to dispersal of authority within the organisation.
- It may lead to conflict if other employees' input is not taken into consideration by the leader when making the final decision.
- This style is not suitable for inexperienced workers because they may abuse the authority assigned to them.

**Laissez- faire leadership style**

- Laissez faire means “leave to do”.
- It is also known as the delegate leadership style or free reign.

**Characteristics**

- The leader delegates most of the authority and duties to the team members, who will be responsible for making most of the decisions in the organisation.
- The leader gives team members freedom to carry out their tasks.
- The leader only provides support and advice if team members need such support and advice.
- There is little guidance from the leader.
- The group members are given broad objectives to attain and are expected to solve work problems on their own.

**Advantages**

- It is most effective when group members are highly skilled.
- It leads to job satisfaction and results in high employee morale as they are able to carry out task on their own without supervision.
- There is room for creativity since members are given freedom to do what they want in order to achieve their work objectives.

**Disadvantages**

- This style is not suitable for lazy and inexperienced workers because they may abuse the freedom given to them.
- It leads to conflict among the members of the group as they may fight to be in charge.
- The group may lack sense of direction since the leader does not direct or control the members towards achieving their overall goal.

**Qualities of a good leader**

- Apart from applying the different leadership styles in an organisation, the leader has to have certain abilities that will enable him to influence others to work and to achieve the goals of the organisation.
- The following are some of the qualities that good leaders must have:
    - Vision and set goals - this is the first attribute that a leader needs to have in order to provide direction to others.
    - Trustworthy- good leader must be trusted by subordinates and must be honest, so that they can work together as a team.
    - Able to delegate - giving team members' additional responsibilities and authority will make them feel part of that group. Delegation also improves the morale of the employees.
    - Motivator - a leader needs to influence others to carry out their task willingly. This can be achieved by applying different motivational theories to the work situation.
    - Good communicator – a good leader must be able to communicate with team members concerning their progress. Communication also helps the employees to know what is expected of them.

**Conclusion**

- There is no one perfect leadership style that can be adopted by managers.
- The type of leadership style adopted by each leader depends greatly upon certain factors like:
    - The personality - the character of an individual in charge of the group can determine the leadership style to be used.
    - The company culture - the tradition of the organisation can greatly influence the style to be used; for example if the organisation values employees' input in the company, they can use democratic style.
    - The type of employees - skilled workers may require a democratic leader or laissez faire leader.
    - The urgency of the decision - other decisions need to be taken quickly hence the leader can be autocratic in this. Consulting others may be time consuming.
    - The task - the type of task to be performed will influence the leadership style to be adopted. Very important tasks are left in the hands of the leader thus the leader can be autocratic in order to guide employees on how to carry that task.

**Summary**

- Leadership is the ability to influence people.
- Autocratic leaders makes all decisions in the entprises.
- Democratic leader delegates some authority to lower managers.
- A lassies faire leader leaves subordinates to do all the work and assume authority.

- The type of leadership style used depend on the type of workers being dealt with, company culture or the task being carried out.

**BUSINESS COMMUNICATION**

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- Define business communication.
- Analyse the importance of communication in business.
- Evaluate different methods of communication.
- Assess the impact of ICTs in business communication.

**Communication**

- It is the process of transmitting information from one person to another.
- It is the exchange of information between people or groups.
- Communication in an organisation involves sending and receiving of information between managers and employees.
- The organisation can also communicate with clients and stakeholders who are outside.
- Effective communication is important for the smooth running of the business.

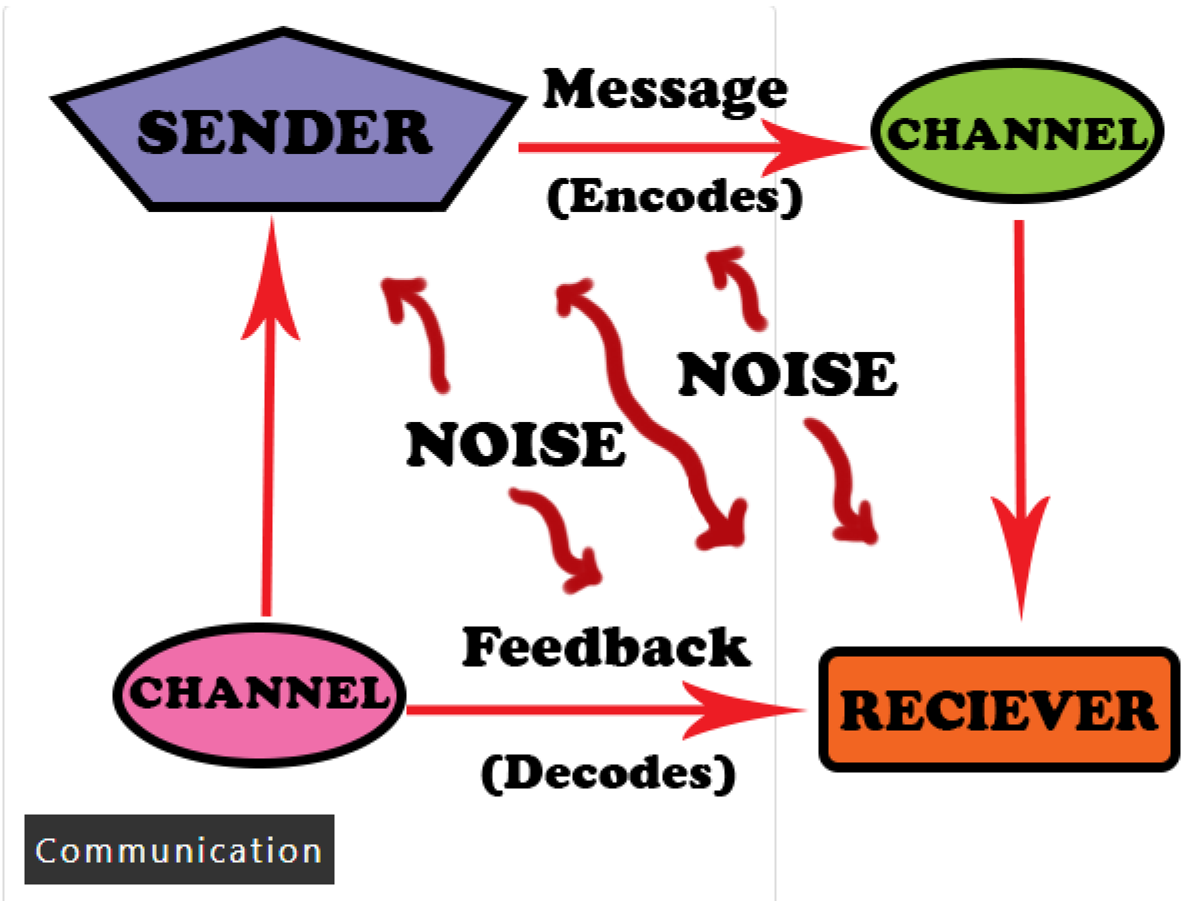

**Importance of effective business communication**

- It facilitates easy control and coordination of business activity.
- Motivates employees – it helps them feel part of business.

- It increase business sales since it conveys information to the customer.
- It improves good relationship with suppliers.
- It improves chance of obtaining finance.
- It facilitates decision making process.

**Communication process**

- Communication process involves steps that are taken in transmitting the message from the sender to the receiver.
- The process must be effective. This means that the receiver should understand the message and provide accurate feedback to the sender.
- Communication process consists of certain elements which are shown in the diagram below.




**Sender**

- Communication process starts with the person who has an idea to be transmitted to the receiver.
- The sender is the one who passes the information to the receiver.
- The sender has to encode the message in such a way that it will be understood by the receiver.

- Encoding means organising the information, removing offensive language, grammar or spellings mistakes, so that the receiver understands the message.

**Channel**

- The sender has to choose the appropriate medium of communication to use when sending information.
- Channel of communication is the route by which the message is transferred from the sender to the receiver, by use of communication medium.
- Communication medium is the method used to carry the message from the sender to receiver, for example a letter, email, oral, newspapers, etc.
- The channel used should be able to convey accurate message to the receiver at the right time.

**Receiver**

- The receiver is the person who receives the message.
- The receiver has to decode the message. Decoding means interpreting the message that has been sent, after which the receiver provides feedback.
- The receiver also needs to use the communication channel to send feedback to the sender.

**Feedback**

- It relates to the response (reply) given by the receiver to the sender confirming that the message has arrived and understood.
- The feedback is important because it shows that the receiver has understood the message.
- It is used to assess the effectiveness of communication process.

**Noise**

- Noise is anything that disturbs the smooth flow of the communication process, for example network breakdown, technical fault or noise from the factory.

**Internal communication**

- Internal communication refers to the situation whereby information is passed from one person to the other within the same organisation, for example, a manager communicating with his or her employees in a department.

**External communication**

- It is the exchange of information between one organisation and another individual or organisation outside the organisation.
- It also takes place when an employee of an organisation communicates with a person outside the company, who may be a supplier or any other stakeholder.
- External communication can also take place between the organisation and its customers, for example, by advertising its products the organisation will be informing the customers about its goods and services.
- Other examples of external communication include:
- Ordering raw materials or goods from suppliers.
- Paying debts to other organisations.

**Formal communication**
- This is an official communication process in the organisation.
- It is used by the individuals, departments or formal groups to pass information within the organisation.
- Formal communication follows the chain of command (the hierarchy to which information is passed), for example, factory workers communicating with the factory manager.

**Informal communication**
- This is the communication process that does not follow the chain of command in the organisation, for example managing director communicating with shop floor workers during tea break.
- It is used by informal groups that exist within the organisation.
- Managers can seek information using this channel of communication.
- Informal communication leads to satisfaction of social needs of employees as they interact freely in the organisation.
- One disadvantage of this informal communication is that it can be a source of conflict arising from gossips and rumours which may be false.

**Effective communication**
- Effective communication is a two way process of sharing information from the sender to the receiver and vice versa.
- When the receiver understands the message that has been sent then communication becomes effective.
- The following are some of the functions of effective communication:

**Quality decisions**
- It enables other employees to make contributions in decision making as they may communicate their views before the final decision is made.

**Source of motivation**
- Managers can communicate with the employees concerning their performance. Through praise and promotion the employees can be motivated.

**Pass information**
- It is important to inform employees on certain organisational changes, for instance, the marketing manager may inform the employees on new strategies that are used to promote their products.

**Control the employees**
- Policies can be created to guide employees on their work behaviour.
- Clear communication will assist the company to achieve its objectives.
- It can also be used to monitor the working environment.

**Coordination of employees and work**
- Communication is useful for managers to pass feedback to employees.

**It helps in the development of good human relations**

- Through communication managers and employees may share ideas or perceptions as they interact formally and informal.
- This interaction and communication helps them to understand each other.

**Ways of communication**

**One way communication**

- It refers to communication which flows from the manager to subordinates (downward communication).
- The subordinates do not provide feedback.
- It occurs when the sender gives no room for the receiver to respond or give feedback to the message.
- This type of communication is associated with centralised authority and is commonly used in the army and in police force.
- It is used to give orders or instructions.
- In organisations it can be used when dealing with immature subordinates.

**Two way communication**

- This type of communication flows in both directions, from the sender to the receiver and vice versa.
- Communication flows from the manager to the subordinate and the manager allows the subordinate to give feedback.
- It is usually associated with democratic leadership.
- Two way communication can take the form of vertical or horizontal communication.

**Vertical communication**

- This is when communication flows from the higher level in the organisation to lower level of management or vice versa.
- For example such communication occurs when the manager passes information to the subordinate who in turn responds to the manager.
- Vertical communication provides line of authority.

**Horizontal communication**

- This is communication which takes place between members which are at the same level in the organisation.
- Communication among functional managers is an example of horizontal communication.

**Advantages of two way communication**

- Both parties are involved in the communication process.
- It motivates employees as they exchange their own views with their leaders.
- The receiver has a chance to ask for clarity if he or she does not understand the message.
- It allows the sender to get feedback from the receiver; therefore it assists in monitoring work progress.

- Communication is essential since it plays an important role in solving employee grievances.

**Methods of communication**

- Communication can be verbal or non verbal communication.

**Non verbal communication**

- Non-verbal communication refers to the passing of information from one person to the other without using spoken words.
- Messages are conveyed using body language. The following are examples of how people can communicate without using words:
- Gestures - these include movement of hands and arms to show emphasis on a particular thing. Others may use gestures to pass information.
- Facial expressions – use of face to express emotions.
- Other body positions (postures)

Non verbal communication is used for the following reasons:

**Providing feedback**

- If the organisation decides to reduce wages paid to the workers, these workers can show by their body language that they are not happy about such a decsion.
- However, after reading such body language the manager can provide a response based on the employees' reactions.

**Making emphasis**

- Non-verbal communication shows the importance of the message being shared, for example, if the sender shows an angry face to the receiver while passing the information on, the receiver will notice such anger.
- The receiver then understands that the person he/she is communicating with is not happy about the message he would have conveyed.

**Providing clarity**

- Non-verbal communication also enables the manager to understand the emotional state of employees when passing on information.
- For example the manager can see by the reactions of employees that they are either angry or happy.

**Verbal comunication**

- It is the use of spoken, written words or sounds to send information, for example, through the use of phone calls, face to face discussion, radio paging,letters or emails.

**Tools used in verbal communication**

**Oral communication**

- It is the process of transmitting information by word of mouth.
- Examples include, face to face conversation, telephone conversations, video conferencing and staff meetings.

**Advantages**

- Information can be passed out quickly unlike using other forms of communication such as letters.
- The receiver can quickly ask for clarity if he or she does not understand the message.
- Immediate feedback can be provided, if the sender wants a quick feedback he or she can use oral communication.
- It is direct and provides confidentiality since the one sending the message will be directly sharing it to the respective reciever.
- It allows body language reinforcement, for example if the subordinates are relating their complaints they can easily use body language to stress out their grievances.

**Disadvantages**

- It does not provide written record. In any organisation written records are important so that anyone in the organisation can refer to the written record later as a point of reference.
- It can easily be affected by noise, for example giving out orders in a factory workshop can be affected by machine noise.
- There is a need to listen carefully and attentive especially if the leader is autocratic and does not give room for questions.
- The message can be easily forgotten.

**Written communication**

- It involves the process of passing information from one person to the other using written words.
- It is the most important and effective method of communication in business.
- Examples include:

**Memorandum (memo)**

- it is used like a letter for internal purposes only.

**Advantages of a memo**

- Simple in form and easy to use.
- Very brief in form and it saves valuable time.
- Easy to write since there are no formalities.
- Specific, the main message is written very briefly in a memo.
- It is cost saving- it is written in simple papers and can be transmitted very cheaply.

**Disadvantages of a memo**

- Limited scope since it does not provide detailed information.
- Lack of secrecy.
- Not suitable for external communication.

**Business letter**

- It is used for internal and external purposes.

**Advantages of Business Letter**

- It can be filed for reference.
- It shows proof of communication.

- Can be scanned, emailed and faxed.
- The size of a letter may be big or small as required.
- Duplication can be archived.

**Disadvantages of Business Letter**

- Two-way communication takes long time to get feedback.
- Body language is absent for reinforcement.
- Written message might be long and ending up confusing the interest of the reader.
- They are costly.
- There is no immediate response.

**Notices**

- They are placed on notice boards for every employee to read.

**Advantages of notices**

- Information can reach a large number of people.
- It can be filled for references
- Cheaper way of communication.

**Disadvantages of notice**

- Message lacks reinforcement
- It can be easly removed or destroyed.
- There is no certainity that the messages are read.

**Emails, Faxes, Intranet and internet**

- Messages are sent via the internet to the intended recipients.

**Advantages**

- Easy to send to many people at the same time.
- Message can be stored for future reference.
- Printouts of messages can be obtained if a hard copy is needed.
- Less expensive way to communicate to a large number of people.
- It can be used internally and externally.
- It can send attachments, such as photographs, documents and spreadsheets.

**Disadvantages**

- Information overload can be created due to too many messages when there is a need for quick feedback.
- Network problems can affect the tranmission of information.
- It can be affected by power cuts (electricity).
- Not everyone has internet connectivity.
- Spam emails can be sent which can clutter the inbox.
- Viruses can be sent by email.
- Misunderstandings can occur if messages are not constructed properly.
- Confidential information can be easily forwarded and disseminated and if done in error could easily end up in the wrong hands.

**Social networks**

- Include the use of facebook, whatsapp or twitter.The organisation can use these networks to send information.

**Advantages of written communication**

- It provides a written record which can be used as evidence and point of reference.
    - The receiver can refer back to the message to check on details.
    - Both the receiver and sender can use it as proof in case of a disagreement between the two of them.
- Written communication is important when passing on crucial information ,which may be essential in legal terms.
- It is essential to put contracts of employment, project proposals, lease agreements and other critical information in written form as these will act as proof of transactions.
- If well- structured, written communication enables the transmission of complicated information easily by the use of diagrams or tables to explain certain information.
- It is easy to distribute documents to a large group of people.
    - Additional copies of documents can now be made by photocopying, faxing and scanning.
- It is cheap and quick to transfer information to people or organisation that are far away.
- For example if the receiver is in another country the sender can avoid transportation cost by using email or text messages.

**Disadvantages**

- There can be delays in the communication process as it might take a long time for the receiver to get the written message.
- Written communication lacks secrecy, anyone can access the information if it is on paper.
- It does not cater for illiterate employees. Employees who cannot read and write cannot get the message unless someone reads it for them.
- Where there is no direct contact, the sender may not get clarification on the information which is not clear.

**Visual communication**

- This is communication presented through the use of pictorial message.
- It is used to support oral and written communication by providing graphs, diagrams, pictures, posters, etc.
- It is used to simplify information that is presented in oral or written form.
- It makes communication attractive; for example, if the company wants to pass information to its customers about their product, they can use pictures so as to attract the customers' attention.

**What to consider when choosing communication media**

**The importance of a written record**

- Information to be shared may require the sender to provide evidence, for example,a contract of employment may require the manager to produce a written document.
- Another example could be receipt of sale- this is important because it provides written evidence that a sale of a product has taken place.

**The cost**

- Other media of communication may be expensive to use for example , video conferencing.

**The speed**

- The sender might require urgent feedback, hence choosing the most convenient method which will enable the sender to get feedback quickly.
- Face to face or telephone conversation assists to make communication fast and convenient.

**Quantity of data**

- The sender has to consider how long or short the message is.
- If the information to be shared is too long, then the sender may opt for written communication as it enables the receiver to refer back to the message when necessary.
- If the information is short the sender can use other means of communication such as a phone call.

**The distance**

- If the receiver is located far from the sender, the sender should use medium that enables the message to reach the receiver fast and convenient.

**Confidentiality**

- Some information may be sensitive and only meant to be read by the receiver only.
- The sender has to select the medium of communication that conforms to secrecy so that the message may not be read by a third party.

**The number of audiences**

- If the message is directed to one person, the sender can use telephone or face to face conversation.
- If there are many receivers, the sender can use the channel of communication that accomodates more than one recipient for example, emails or reports.

**Barriers to effective communication**

- These are obstacles that hinder the process of effective communication in an organisation.
- If the receiver fails to understand the message as intended by the sender, then there is communication barrier.
- Anything that prevents the smooth flow of communication in the organsiation is called a communication barrier.

**Causes of barriers**

- Difference in language - for example if the sender is shona speaking and the receiver is a ndebele speaker, the receiver may not understand the message.
- Use of jargon - for example technical terms may not be easily understood by people who are not familiar with that subject area.
- The message may be too long- information send to the receiver may be too long which will make the receiver to miss part of the information in the message.
- The medium used - the sender may use the wrong communication media to convey the message. Wrong communication medium may lead to communication breakdown.
- Long chain of command - if the chain of command is too long, the message may be lost or distoterd as the information is passed up the hierachy.
- Noise - it is anyhting that can distract the receiver to get the message clearly, for example, factory noise.
- Lack of trust in the sender- the receiver may not trust the sender hence may have prejudice over the information send by him or her.
- Lack of feedback.

**Overcoming barriers to effective communication**

**The sender should:**

- Use simple language.
- Avoid technical terms.
- Use common language (universal) if there is difference in language, for example English language.
- Use short and precise messages so that the receiver may understand the main points of the message.
- Ensure that the environment is free from noise.
- Be able to capture the audience's attention by using pictures, graphs or tables when passing the information.
- Use appropriate channel of communication which enables the receiver to decode the message easily.

**The receiver should:**

- Provide feedback when required to do so.
- Be able to trust the sender.
- Pay careful attention to the sender when speaking.

**ICTs in Business communication**

- ICT stands for Information and Communication Technology.
- It is a framework (infrastructure) and components (machinery) that enable modern computing.
- In general ICTs are all devices, networking components, applications and systems that are combined to allow access to global information.

- They are used in business communication because they transmit information and meaning from one individual or group to another.
- They maintain effective level of communication among the staff members, sending marketing communication message to current and potential customers.
- Measuring the level of customer satisfaction, online sales, increasing the level of employee morale, etc.

**Positive impacts of ICTs in business communication**

- Fast communication medium.
- Offers different communication channels and tools.
- Improved access to information.
- Create new tools and opportunities.

**Negative impacts of ICTs in business communication**

- Loss of jobs due to automation.
- Reduced personal interaction.
- Expensive to buy and install.

**Activity**

Visit the nearest business enterprises to identify different means of communication being used.

**Summary**

- Communication helps workers in an enterprise to work effectively.
- It can be internal or external communication.
- Internal communication cab ne formal or informal.
- One way communication is used to pass information from managers to subordinates
- Two way communication enables the receiver to provide feedback to the sender.
- Communication can also be verbal and non-verbal.

# METHODS OF MOTIVATION

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- Define motivation
- Distinguish between financial and non-financial methods of motivation.
- Evaluate financial and non-financial methods of motivation

**Methods of motivation**

- The word motivation is obtained from the word motive which means the reason for doing something.
- Motivation refers to a way of causing someone to act in a certain way.
- Motivation at work refers to anything that cause employees to work willingly.
- Motivation also refers to willingness of action especially in behavior.
- There are two methods of motivating employees which are financial and non-financial.

**Financial motivators**

- Financial motivators are monetary incentives used to motivate employees.
- Examples of financial motivators are salaries, wages, piece rate, time rate, commission, bonus, profit sharing and performance related pay.

**Salary**

- It is a payment awarded to an employee every month for the service rendered.
- Salary is given to white collar employees, for example, managers, accountants, teachers, doctors, etc.
- Salary is independent of time and output produced.
- It is a fixed amount of money paid to a worker usually measured in a monthly basis.

**Advantages of salary**

- Employees are guaranteed to have income every month hence it gives them security.
- It gives employees status as compared to others who are based on piece or time rate.
- It is appropriate for jobs which one cannot measure output.
- It is suitable for employees occupying management positions.
- Salary does not always vary per year.

**Disadvantages of salary**

- Income is not related to efforts that would have exerted by an individual.
- There may be need for performance appraisals to be done so as to make adjustments on salary.

**Wages**

- These are payments made to employees for providing labour services, usually according to contract and their paid in less than thirty days.
- Wages can be given daily, weekly or fortnight.
- They can be given to blue collar employees like manual workers () or factory workers.

**Advantages of wages**

- Employees are paid regularly.
- Employees get overtime payment for working for longtime.
- Wages are usually on higher rate.
- It helps to improve industrial relations as well as discipline in enterprises.
- Wages are based on standard performance.

**Disadvantages of wages**

- Quality is compromised since workers will be concentrating on quantity.
- There is need to employ wages clerk which may be costly for the enterprise.
- Employees may overwork themselves hence causing harm to their health.

**Time rate**

- This is a type of wage payment whereby employees are paid according to the time they spend working.
- There is a fixed time rate, for example, $2 per hour.
- The more hours the employee work, the more pay they earn and vice versa.

**Advantages of time rate**

- Time rate wages are easy to calculate.
- High quality products are likely to be produced since the employees spend more hours working.
- It reduces the rate of wastages since the employees will take their time on the work they will be doing.

**Disadvantages of time rate**

- Workers tend to concentrate on one product, which may lead to lower output.
- There is need for management to monitor the employees so that they attain set goals.
- Employees will get their wages even if they may be machine break down.

**Piece- rate**

- This is whereby employees are paid depending on output produced.
- An example of piece-rate is $2 per unit produced.

**Advantages of piece-rate**

- Payment based on output leads to increase in output.
- There is better utilisation of machinery.
- Employees will require little or no supervision as they aim at producing more output.

**Disadvantages of piece-rate**

- Concentrating on output tend to compromise quality.
- It is not suitable where output cannot be measured, for example, accountant.
- If there is machine breakdown, employees will produce less leading to demotivation.
- There is less security on the level of pay.

**Bonus**

- A bonus is a lump sum paid to employees in addition to wages/salaries they receive.
- A bonus is referred to as an additional financial benefit given to an employee, over and above his/her basic wage/salary as an appreciation of the hard work in the enterprise.
- Employees usually receive bonus at the end of the year.

**Advantages of bonus**

- Bonuses motivate employees.
- It improves productivity as employees will be aiming for bonuses.
- Bonuses can be distributed easily.

**Disadvantages of bonuses**

- It creates competition between employees rather than co-operation among themselves.
- Bonuses creates expectations which may be unrealistic.
- Bonuses are costly for the enterprise.
- Bonuses are paid considering the performance of employees, the lower performer will end up getting jealousy to the higher performer hence the working environment is affected.

**Commission**

- A commission is a payment made to a salesperson or agent depending on the income he/she has generated through selling products on behalf of the rightful owner.
- It is used mainly to pay sales persons or sales representatives.
- Commission can be given to an employee for meeting set targets earlier than expected.
- Commission is based on a percentage of sales.
- Enterprises that use commission method include insurance companies, for instance, Nyaradzo, car dealers and estate firms.

**Advantages of commission**

- It encourages sales persons to sell more as they aim at increasing their earnings.
- It reduces labour costs as employees will be paid when they have sold some products.

**Disadvantages of commission**

- Sales persons may not take their time to explain about the product as they would want to sell more and they will end up misleading customers.
- The enterprise might have a bad reputation and customers may not be willing to buy their products. This will result in reduction in sales revenue as well as reduced commission.
- The product may have reached its decline stage and it becomes difficult for sales persons to get customers.
- Employees are not guaranteed to earn more.
- It may be difficult to administer.
- Since it is based on percentage, potential for sales reps to over price is high.

**Profit sharing scheme**

- It is an additional benefit given on top of salary as a percentage of the profit.
- Employees receive share of profit regardless of whether they are shareholders or not.

**Advantages of profit sharing scheme**

- It motivate employees to work hard.
- It encourages employees to work towards enterprise goals.
- It encourages team work.
- It helps to reduce conflict of interest between shareholders and employees as they all aim at achieving the same goals.
- Employees become committed to the enterprise work.
- The workers feel that they are part of the enterprise.
- Additional income improves employee standard of living.

**Disadvantages of profit sharing scheme**

- Employees may focus on earning profit rather than producing quality products.
- Some people get profit share even if they did not put much effort.
- Employees may claim that it is their right that they get profit share.
- Enterprisers will tend to earn less profit as some is distributed to employees.

**Performance related pay**

- It is whereby employees are paid according to their performance.

- It is based on how well the employees have performed against set standards.
- It is used where employee performance is not measured in terms of output.
- It is done through a system called performance appraisal where managers assess individual's work and rate their performance according to standards of the enterprise.
- Factors considered when doing performance appraisal are target meeting, punctuality and working relationship.

**Advantages of performance related pay**

- Employees are motivated to improve their performance so as to increase their income.
- Target setting give employees direction.
- It helps managers to identify training needs to poor performing workers.
- It provides feedback to employees on their performance.

**Disadvantages of performance related pay**

- It can fail to motivate employees who do not aim to increase their financial rewards.
- Rating system may be subjective. Some manager can favour some employees.
- It may lead to conflict as employees may compete to reach target to earn more.

**Activity**

Give at least two examples of firms that use of the following method of pay system in your communities.

- Salaries
- Piece rate
- Performance related pay

**Non-financial methods of motivators**

- Non-financial rewards refer to rewards which are given to employees other than money.
- These are ways of motivating employees which are non-monetary.
- Examples of non-financial rewards include job rotation, job enlargement, job enrichment, fringe benefits, team work, delegation and decentralisation.

**Job rotation**

- It involves employees working in the same department shifting from one task to another for a specified time, for instance, two hours.
- Job rotation is horizontal because it involves employees who are on the same level.

**Advantages of job rotation**

- It helps managers to identify talents which are hidden in employees.
- It motivates employees as they deal with new and challenging tasks.
- It helps to eradicate fraudulent behavior or practices.
- Employees gain experience while rotating their jobs.
- It helps to identify training needs of employees.
- Management get flexible workforce.

**Disadvantages of job rotation**

- It is costly as some employees might need training that suit in different tasks.

- Some employees may not be willing to rotate as they fear that their positions might be taken.
- Work may be disrupted as the employees would want to adjust to the jobs they will be rotating.
- It encourages jack of all trades and masters of none.
- It may create stress in employees.

**Job enlargement**

- It is whereby an employee job description is increased with tasks which are similar to those that are performed by an employee.
- The increase is quantitative and not qualitative in nature, for example, a factory worker making dough for baking can also package buns.

**Advantages of job enlargement**

- Employees will gain more skills.
- The job becomes more challenging hence employees are motivated.
- It reduces monotony and boredom.

**Disadvantages of job enlargement**

- Increase work burden.
- Increase frustration of employee.
- Union members may consider job enlargement as a bad behavior with the workers and they might stand against the orders of organisation.

**Job enrichment**

- It involves giving an employee additional tasks which are different from the one he/she performs.
- It involves giving employees higher responsibilities to perform within the enterprise.
- It is a vertical way of increasing scope of a job.

**Advantages of job enrichment**

- Employees earn more income because of increase in their responsibilities.
- It motivates employees while reducing monotony.
- It increases flexibility in workers.

**Disadvantages of job enrichment**

- It increase employee workload.
- If worker are poorly trained it may lead to poor performance.

**Fringe benefits**

- These are benefits given to employees apart from their wages and salaries.
- They can be financial or non-financial.
- The fringe benefits may be given to workers when they are promoted.
- Examples include company car, house, medical aid, free trip and discounts on company products.

**Advantages of fringe benefits**

- It attracts qualified employees as well keeping them in the enterprise.
- It improves productivity as employees feel secured.
- It improves employee's standards of living.
- It motivates employees.
- It increases employee income.

**Disadvantages of fringe benefits**

- It is expensive for the organisation.

**Team work**

- It involves grouping employees so that they work on a particular task as a team.
- The team distributes tasks upon themselves.
- The team members will then work towards their intended target collectively.

**Advantages of team work**

- It motivates employees as it improves relations between themselves (social needs).
- It improves productivity since employees are motivated.
- Team work helps to identify talents within employees and it allow the full use of the talents hence specialisation.
- Team work helps to reduce management costs as teams usually require less management.
- Employees share responsibilities.
- Working in teams helps to reduce problems that may arise in the enterprise.

**Disadvantages of team work**

- Disagreements may arise between employees.
- Some team members may not participate as required by the group.
- The teams may develop a culture which is contrary to the enterprise culture.
- Team work require training which may be costly for the organisation.
- The team may want to do meetings checking their progress which is time consuming.

**Decentralisation/ Devolution**

- This is whereby decision making is not concentrated on top management but can be delegated to middle or lower management within the enterprise.
- The authority to make decisions can be assigned to management at lower level hence they can make decisions without consulting the top management.
- It is most suitable when the enterprise is large and have many business units around the country.

**Advantages of decentralisation**

- It reduces work load for top management which will allow them to concentrate on more important tasks.
- Well informed decisions may be made since lower management might have a better knowledge of what really will be taking place in their areas.
- Lower level management may be motivated as they make decisions.
- Quick decision making due to less consultation.

- Lower management develop more managerial skills which will equip them for higher posts.

**Disadvantages of decentralisation**

- Senior management may lose control of the enterprise to lower management.
- There is no uniformity which may be costly for the enterprise.
- Decentralisation may cause conflict between top and lower management.
- It requires highly qualified personnel who have knowledge of the department.
- Poor decisions may be costly for the organisation.

**Delegation**

- Delegation is the transfer of authority from the one who is in charge to one or more of his/her subordinates.
- It involves transfer of authority to perform tasks from top levels to lower levels within an enterprise.
- The manager remains accountable for the results of the assigned responsibilities thus the manager is answerable to the performance of the subordinate.
- Delegation, therefore, is the act of giving the subordinates the authority to carry out assigned tasks.

**Advantages of delegation**

- It reduces work load for top managers allowing them to concentrate on more important tasks.
- There is coordination of work even when the manager is not around.
- Quality decisions are made because the subordinates will be close to where the action is.
- Delegation motivates employees and they feel trusted by their managers.
- It boosts employees' self-confidence and reduces rate of absenteeism at work.
- It promotes creativity at work.
- It helps to build team spirit.

**Disadvantages of delegation**

- Depends on experience or quality of subordinates.
- Top management do not delegate due to fear of unknown.
- It may increase workload and stress of subordinates.

**Recognition**

- Giving awards to employees.

**Motivation for entrepreneurship**

- Enjoy satisfying life that is personal fulfillment.
- Pride of ownership, self-esteem and sense of achievement.
- Chance to help the community in some way.

**SUMMARY**

- Motivation is the willingness of employees to work.
- Workers are motivated financially and non-financially.

- Financial motivators involves monetary incentives such as salaries, time rate, piece rate, bonus, etc.
- In piece rate, worker will be paid according to how much they produce at given time.
- Employees may also receive a share of company's profit.
- A company may pay their worker according to how they perform at worker (performance related pay)
- Non-financial motivators include job rotation, enrichment, fringe benefits, enlargement and delegation.
- Under job rotation, employees will be interchanging duties in the same line of work.
- Job enlargement is the increase in the scope of employee's task in horizontal way.
- In job enrichment, an employee will be given higher responsibilities in a vertical way.
- Decentralisation entails the making of decision by lower managers in an organization.
- Decentralisation reduces work load for top managers so that they can concentrate more other important tasks.
- Delegation involves giving a subordinate authority to perform tasks, however the manager remains accountable for all the task performed.

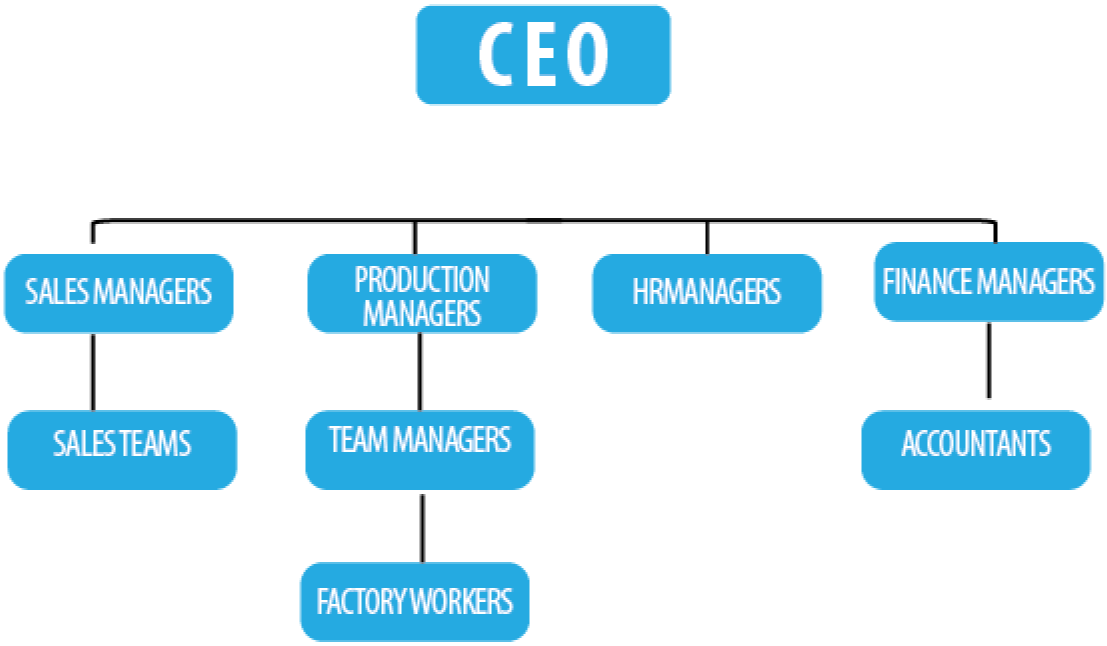
# ORGANISATIONAL STRUCTURE

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- Describe an organisational structure.
- Give an illustration of an organisational structure.
- Explain features of organisational structure.

**Organisational structure**

- An organisational structure refers to the manner in which the organisation is arranged.
- It shows the internal structure of the business, that is, the levels of management and their responsibility and authority within the workplace.
- Organisational structures are often presented using a chart.
- Following is an example of typical organisational structure.
- Alternatively organisational structure can be called an organogram.




## Organisational Structure

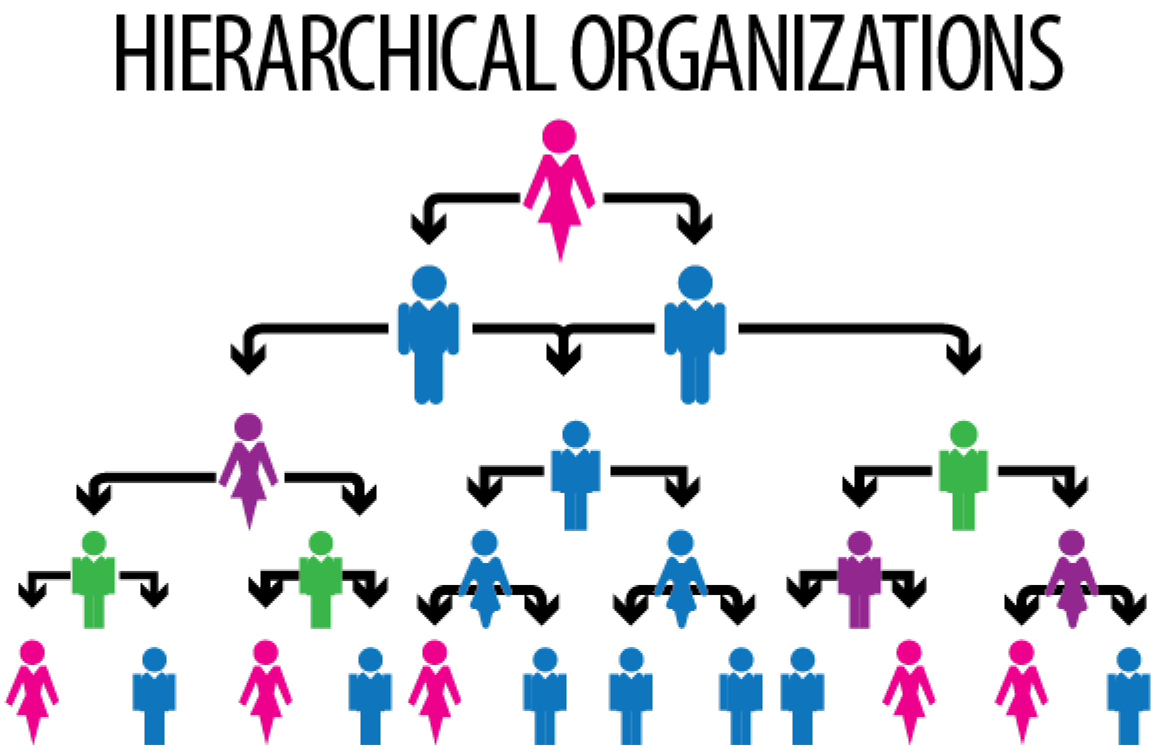
- nterprises have different ways of presenting their organisational structures.
- Organisational structures can be presented based on function, product, location or market they serve.
- By function – the enterprise takes into consideration the duties performed by each department, for instance, finance department, marketing department, production department, human resources department, etc.
- By product – this is whereby the enterprise structures its organisation according to production units, where an organisation have a wide range of products.
- By market – this is whereby the organisation presents its structure according to different customers they serve, for instance, gender, status or age.
- By area – this is whereby the organisation presents its structure according to branches they have.

**Features of an organisational structure**

**Hierarchy**

- Is a body of authoritative officials organized in nested ranks.
- It is a system which shows the level of management in an enterprise from top to lowest positions.
- It shows the chain of command within the enterprise.
- Any group of objects ranked so that everyone put top most is subordinated to a specified one above it.

- The diagram below shows the hierarchy of the organisation.




Hierarchy of the organisation

**Chain of command**

- This is hierarchy which shows different levels of authority which exist in an enterprise.
- Chain of command allows power and authority to be passed from higher levels of management to lower levels of management.
- It shows the route through which authority flows in the enterprise.
- Top level management have high authority and authority decrease as it goes down the hierarchy.
- Information can be passed down or up following the levels in the chain of command.

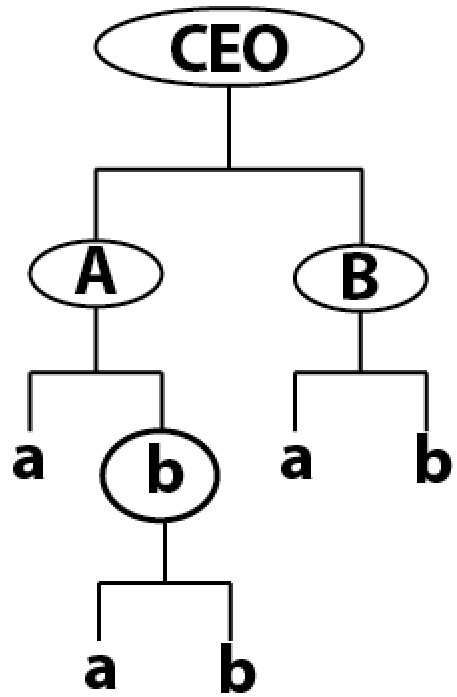
**Span of control**

- It entails the number of employees who report to a manager.
- It also means the number of employees who are directly accountable to one manager, for instance, workers under production department reports directly to the production manager.
- There are two types of span of control which are narrow and wider span of control.

**Narrow span of control**

- This is when a few number of employees report to a manager.

- The narrow span of control has a long chain of command due to a large number of hierarchical levels.
- Following is an diagram which shows narrow span of control:




Narrow Span of Control

**Advantages of having a narrow span of control**

- Managers are able to monitor their subordinates closely while they will be working.
- Easy monitoring of subordinates who are under a manager's supervision.

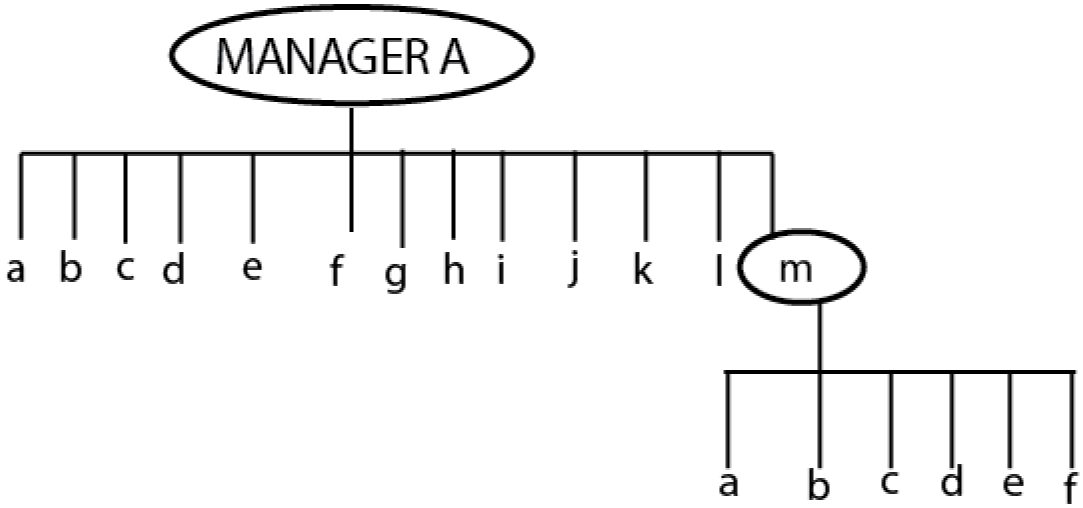
**Disadvantages of having a narrow span of control**

- High cost may be incurred as the enterprise will need to employ many managers.
- Communication is slow since there are many management levels that exists in the organisation.
- Subordinates may not be able to show their skills and talents as they are closely monitored by their managers. This reduces the level of motivation among employees.
- Delegation may not be effective as there are few subordinates to manage.

**Wider/ broad span of control**

- This is whereby many subordinates will be reporting to a manager.
- In a wider span of control, there are short chains of command because there are few hierarchical levels.

- Following is a diagram which shows wider span of control:




Wide Span of Control

**Advantages of wider span of control**

- Communication is faster and accurate since there are fewer levels of management.
- Management may feel trusted because of less management control. They are able to make some decisions on their own.
- Management may delegate work to their subordinates because they have so much work to do.
- The enterprise hires few managers which reduces cost for the enterprise.

**Disadvantages of wider span of control**

- Due to less supervision given to them, subordinates may abuse their freedom.
- If subordinates are poorly trained, they are held liable if they make mistakes.

**Responsibility**

- All employees have responsibilities in an enterprise.
- Responsibility encompasses all the tasks, targets and objectives to be accomplished by employees within an organisation.
- Responsibility also entails the duty/ duties that an employer, manager or employee is supposed to perform.
- An example of a responsibility is that of a production manager monitoring factory workers so that they meet set targets.

**Authority**

- Authority refers to the right of a manager to give orders to subordinates.
- An example of authority is that of a sales manager giving orders to the sales representatives.
- There are three types of authority which are functional, line and staff authority.

**Functional authority**

- This is the right to give orders in other departments apart from your own department, for instance, a marketing director can give orders to a production supervisor on how best they can add value to their products so that they are marketable.
- This type of authority arises when one has a special skill and is allowed to give orders in another department.

**Line authority**

- This is a type of authority that follows the chain of command. Meaning that managers can only give orders in their departments, not to employees working in other departments.
- Managers who have this type of authority are called line managers.
- Such authority flows in a hierarchical order, that is, from top to bottom.
- Line managers make decisions in their departments only.
- An example of line authority is that of a production manager giving orders to employees in the production department.

**Staff authority**

- This is an advisory authority.
- Staff managers have staff authority.
- It does not follow the chain of command in an enterprise, that is, a finance manager can give advice to a production manager.
- Staff authority flows horizontally in the enterprise.
- Staff managers only provide support and advices to line managers.
- An example of managers who have staff authority are human resources managers.
- Staff managers do not have line authority.

**Activity**

Identify the type of organisational structure at your school. Draw a simple diagram to represent the structure.

**SUMMARY**

- Organisational structure shows the internal structure of any company.
- It outline responsibilities and authority of each management.
- Organizational structure can be represented by function, product, market and area.
- By function- the company take in to account the duties performed by each department.
- By product- considers a wide range of products they produce.
- By market- presents their structure based on the customers.
- Organizational structure shows the flow of authority in organization (chain of command)

- It also show the number of employee directly accountable to one manager (span of control)
- Authority can be functional or line authority.
- Functional authority is the right to give orders to subordinates regardless of departments they are in.
- Line authority, a manager gives order in his/her department only.
- Staff authority is the advisory authority.

**7 MARKETS AND MARKETING**

1 - Marketing and markets
2.1 - Types of markets
3.1 - Market research
3.2 - Market segmentation and demand forecasting
4.1 - Economic integration
4.2 - Marketing mix

# MARKETING AND MARKETS

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- Define market, product, demand and supply.
- Discuss the importance of marketing to business enterprises.
- Explain the relationship between demand and supply.

A picture showing a market

**Market**

- A market or a market place is where buyers and sellers exchange goods and services to satisfy customers' needs and wants.
- A market may be a physical or virtual place.
- It can be local, regional or global.

**Buyers** - are individuals or organisations who have the desire to buy goods and services.
**Sellers** - are individuals or organisations who offer or provide goods and services.

**Needs** - are defined as necessities for survival, that is, one cannot live without them. Examples of needs are food, water, shelter, clothing etc.

**Wants** - are defined as goods or services which one desire or wish to buy but they are not quite necessary for survival. Examples of wants are entertainment, luxurious cars, expensive jewelleries, games etc.

**Customer** - refers to an individual or organisation who buys goods and services for different purposes.

**Consumer** - refers to an individual who buys goods and services for final use or consumption.

**Client** – a potential customer.

Groceries (Goods)


Teaching service

**Product**

- It refers to anything offered to the market.
- A product can also be defined as a bundle of attributes offered to customers.
- Products attract a monetary value.
- Products are goods (tangible) and services (intangible).

**Goods** - are items that can be touched, such as shoes, television and furniture. They are tangible products.

**Services** - are activities done in order to satisfy customers' needs and wants which include haircutting, banking and teaching. They are intangible products.

**Types of product**

- Products can be classified into consumer products and producer (industrial) products.

**Consumer products**

- These are defined as products which are bought for use or consumption.
- They are products which are bought for the purpose of not conducting business.
- There are four main types of consumer products which are; convenience products, shopping products, specialty products and unsought products.

**Activity**

- Make a list of products that you often buy as a consumer on a monthly basis.
- Outline the products which your parents buy after a period of time, say after one year.
- Name a particular brand that you would buy if you were a high incomer earner.

**Convenience products**

- These are products which consumers often buy, that is, they are bought time and again.
- When buying convenience products, consumers usually do not have to plan.
- These products are usually for daily consumption.
- Examples include, soap, vegetables, soft drinks, bread etc.

**Shopping products**

- These are products which consumers buy less frequently.
- This is so because they need time to plan to buy them.
- When buying shopping products, consumers compare quality and prices.
- Examples of shopping products include, television set, cars, microwaves, washing machines etc.

**Specialty products**

- Specialty products are goods and services which consumers buy because they have a special nature or special features.
- The consumers do not compare them with other products because they will be looking at the brand.
- Consumers do not look for substitutes because they are loyal to a particular brand.

Brand - is a symbol, logo, mark or name that distinguishes a product from other products in the market.

- Examples of specialty products include, expensive cars, cell phones and jewelleries.

**Unsought products**

- These are products which customers are not aware of.
- The consumers do not often think of buying them.
- Consumers do not see the necessity of buying them.
- Examples of such products are funeral services, life insurance, fire extinguisher, encyclopaedias, etc.

**Producer / Industrial products**

- These are products which are bought for the purpose of producing or manufacturing other products.
- Examples of such products include, machinery, equipment and raw materials.

**Marketing**

- It is a process which involves communicating, delivering and exchanging products to satisfy customer needs and wants.
- It is about identifying unfulfilled needs and desires of customers so that they get them at a right price and at a convenient place.
- In order for these needs to be fulfilled a lot of research must be carried out (marketing research).
- Marketing involves advertising.

**Importance of marketing**

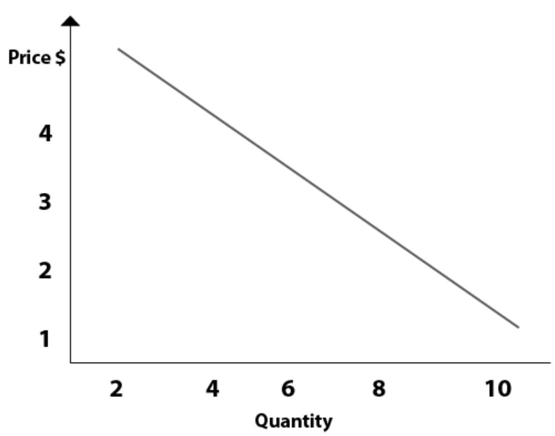
- It helps to satisfy customer needs and wants.
- It helps to create a link between producer and consumer.
- It helps to build good reputation with customers.
- It helps to gain customers' trust.
- It assist in creating employment because it involves various functions, for example, advertising.
- Marketing helps to maintain standards of living.
- National income can be increased, for example, if proper marketing is done, more customers will buy products which leads to increase in national income.
- It helps to maintain a balance on demand and supply.
- It creates awareness of goods and services.

**Demand**

- It refers to the willingness or desire of the customer to buy a certain commodity at a given price at a given time.

**The law of demand**

- It can be explained using a diagram, which is called the demand curve.




The demand curve

- It states that there is an indirect relationship between prices of goods and demand.

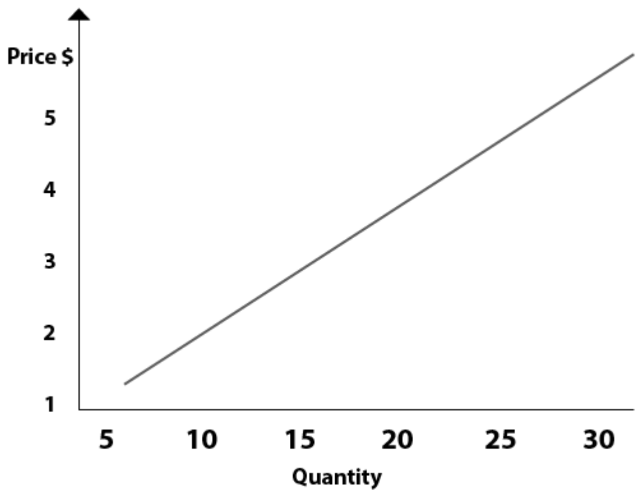
- This means that, if prices of a certain product rise, then the demand for that product will fall.
- An example, if the price of bread increases from 90c (ninety cents) to $1.20 (one dollar twenty cents), the demand for bread will fall.
- The increase of 30c (thirty cents) will cause people to avoid buying bread.
- On the other hand, if the price of bread falls from 90c (ninety cents) to 70c (seventy cents), consumer will demand more bread leading to high demand.

**Supply**

- Supply entails the quantity of commodity made available or provided at a given price at a given time.

**The Law of Supply**

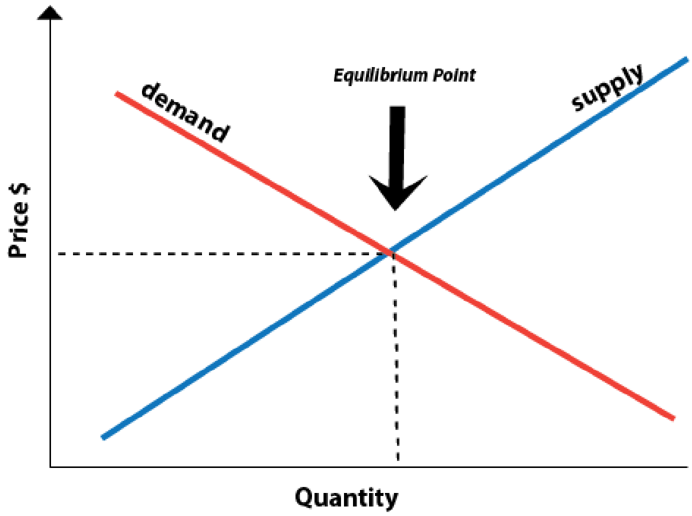
- It can be illustrated using a graph called the supply curve.




The supply curve

- It states that there is a direct or positive relationship between price of a product and supply.
- When the price of a product increases the quantity supplied will increase.
- An example, if the price of airtime increase from $1 (one dollar) to $1.50 (one dollar fifty cents), the 50c (fifty cents) increase will cause the supplier to supply more airtime.
- On the other hand, if price the of airtime fall from $1 (one dollar) to 80c (eighty cents), the 20c (twenty cents) decrease will cause the supplier reduce supply.

**The relationship between demand and supply**




Equilibrium Point

**Equilibrium point**

- It is a point where demand for goods and services is equal to the supply of goods and services.
- At this point, the producer is supplying goods at the same price at which the consumer is demanding it.

**A Case Study**

Assume that there is a cloth manufacturing company which manufactures track suits for men. The company sells the track suits for $30. If the company had a previous demand record which showed that customers demand is at 100. If that demand rise from 100 to 120, the prices will go up causing the supplier to supply even more.

However, if the demand remains at 100, the price will not rise because the supply exceeds demand. The remaining 20 track suits will be sold at a less price because producers will be trying to get rid of them.

From this case study, it is clear that both demand and supply are affected by price hence they have a relationship.

**Summary**

- A market place is where buyers and sellers exchange goods and services to satisfy customers' wants and needs.
- A market may be physical, virtual, local, regional or global.
- For a market to be available, there must be products on offer.
- Products are classified into two, that is, capital and consumer products.
- Capital products are bought for the purpose of producing other goods while consumer products are goods bought for consumption.
- Consumer products have four classes which are convenience, shopping, specialty and unsought goods.
- These products can be marketed using different techniques.
- Demand and supply affect the prices of products in a market.

# TYPES OF MARKETS

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- Identify and explain types of markets.
- Describe the features of virtual and physical markets.
- Discuss the merits and demerits of physical and virtual markets.
- Evaluate benefits and challenges encountered in foreign markets.
- Implement solutions that reduce challenges faced in foreign markets.

**Market**

- Refers to an interaction of sellers and buyers with an intention of exchanging goods or services and finalise the transaction.
- Is the place where buyers and sellers come together to exchange goods and services.
- Alternatively a market is a concept or structures that allows buyers and sellers to exchange any type of goods and services and information.
- While parties may exchange goods and services by barter, most markets rely on sellers offering their goods or services in exchange for money from buyers.
- More technically a market is the process by which the prices of goods and services are established.
- Markets differ by products or factors sold, product differentiation, place in which exchanges are carried, buyers targeted, selling process, government regulation, taxes, subsidies, liquidity, intensity of speculation, size , speculation, minimum wages, price ceilings and geographical extension.
- The exchange of goods or services with or without money is a transaction.
- Market participants consists of buyers and sellers of a good who influence its price.
- Markets can be classified as local, regional, global, virtual and physical.

**Types of markets**

**Local markets**

- Refers to markets that provides goods and services in a local community, for example fruit and vegetable market.
- When buyers and sellers are limited to an area, then the market is called a local market.
- It is a place where locally produced goods and services are purchased.
- Usually, local markets offer products to customers or consumers located within an area.
- Examples of local markets are hairdresser shops, fruit and vegetable market.

**Regional markets**

- Refers to markets where buyers and sellers are concentrated to a certain region.
- Regional market consist of countries that can be grouped together for marketing purpose since they share common characteristics.
- Countries agree to eliminate tariffs and other barriers that restrict trade.
- Examples include Southern African Development Community (SADC), ECOWAS (Economic Community of West African States), EU (European Union), FTA (Free Trade Area) etc.

**Global markets**

- Global markets take place when the demand of a product crosses the boundary of a country.

**Physical markets**

- A physical market is a place where buyers and sellers meet physically for trade purposes.
- A physical market is a commodity market place where buyers and sellers meet and finalise their transactions.
- Goods are bought and sold for cash and delivered immediately.
- Examples of physical markets includes shopping malls, department stores and retail stores.
- Food retail markets includes famers, fish markets, wet markets (market selling fresh meat and produce distinguishes from dry markets which sell durable goods)
- Retail market places includes public markets, market squares, main streets, high streets and shopping malls.
- Big-box stores: these include supermarkets, hypermarkets and shopping malls.
- Ad hock auction markets: is the process of buying and selling goods or services by offering them up for bid, taking bids and then selling the item to the highest bidder.
- Used goods markets: these markets include flea markets (mupedzanhamo).
- Temporary markets include fairs, shows (ZITF, Harare AgriShow).
- Physical wholesale markets: sale of goods or merchandise to retailers, to industrial, commercial or other professional business users.
- Labour markets: where people sell their labour to business in exchange for a wage.

**Merits of physical markets**

- Customers are able to view the products physically and see their quality.
- Buyer and seller can negotiate on price.
- There is personal contact of buyers and sellers.
- Buyers and sellers can access information.
- There is immediate delivery of goods purchased.
- Customers can be able to compare prices and products before buying them.

**Demerits of physical markets**

- It is time consuming – when customers move around comparing products.
- Sometimes check out points can be very long hence it irritate customers and cashiers.

**Virtual markets**

- They are also known as online markets.
- These are markets which allow buyers to purchase goods and services through the internet.
- Buyers and sellers do not meet or interact physically, instead the transaction is done through the internet.
- Sellers can compete with each other but do not meet or interact physically with buyers at all.

- Examples of virtual markets include electronic commerce (E-Commerce), electronic marketing (E-Marketing), electronic shopping (E-Shopping), electronic banking (E-Banking) and electronic bay (E-Bay).

**Merits of virtual markets**

- It operates twenty-four (24) hours day and seven days (7) a week.
- There is wide choice of goods since many shops operate online services.
- Customers are able to buy goods from different countries.
- Goods can be delivered whilst a customer is in the comfort of his/her home.
- Sellers can gain information and process data about customers' buying behaviour and complaints.
- It saves customers time and effort to move around the shops.
- Customers are able to compare prices and features.

**Demerits of virtual markets**

- They lack personal touch and relationship with customers.
- It may take long days awaiting a product.
- There is risk of scam and fraud.
- Price negotiation is limited.
- It is associated with cost, for instance, shipment cost.
- Some of the information may mislead customers which makes false claims.

**Foreign markets**

- Refers to buying and selling of goods and services between countries.
- It is trade between citizens of different countries.

**Benefits encountered in foreign markets**

- One can get what is not produced in his/her country.
- There is variety of goods and services.
- One can get seasonal goods throughout the year since different countries have different seasons.
- Obtain high quality of goods at affordable prices.
- One can increase profit and market share.
- It creates friendship with other countries.
- It helps to share cultural and religious beliefs.
- Employment creation.
- It improves people's standards of living.
- It helps to obtain foreign currency.
- It helps to access new technology.

**Challenges encountered in foreign markets and their solutions.**

**Different language**

- It is a barrier in foreign markets because it leads to communication problem hence there is need to hire an interpreter.

**Different currencies**

- Different countries use different currencies which need conversion.

- Therefore, there is need to visit currency exchange houses or agents who can assist in currency conversion.

**Different cultures and religious**

- Different people in the world believe in different religions and are of different cultures.
- For instance, a Zimbabwean trader cannot export beef to India because their cultures and religion forbid consumption of beef.
- There is need to study the environment first, in order to know their values an religions,

**Difficulties in conducting marketing research**

- To identify the demand for the goods in another country, is expensive and difficult for the exporter to obtain such information in foreign markets.
- Hence, to solve it you need to employ agents or middlemen in foreign markets such as the forwarding agents, factor, broker, del credere agents and exports merchants.

**Long distance**

- Long distance are involved resulting in higher transport cost, insurance charges and transit risks.
- In order to solve the issue of long distance, enterprisers need to create marketing strategies as well as make use of virtual marketing /online marketing.

**Stiff competition**

- Foreign markets face stiff competition from other competitors within the market hence to solve this issue there is a need to seek for a new markets as well as being innovative and creativity.

**Different in laws and regulations**

- Each country has its own laws and regulations which govern the activities of its citizens.
- For example, Zimbabwe drive on the left side whilst Nigerians use the right-hand side.
- Therefore, to solve this, enterprisers need to follow regulatory law of the country they need to conduct their business.

**Difference in technology**

- Developing countries therefore face stiff competition on international markets from developed countries.
- Hence, they need to cope up with the current technology.

**Financial markets**

- Financial markets facilitate the exchange of liquid assets.
- Most investors prefer:
- The stock market: this is the exchange of shares.
- The bond markets (debt market/credit market.
- Currency market: is used to trade one currency for another. They are often used for speculation on currency exchange rates.
- The money market: is the name for the global market for lending and borrowing.
- Future markets: where contracts are exchanged regarding the future delivery of goods.
- Prediction markets: are type of speculative market.

**Unauthorised and illegal markets**

- Grey/Black markets (parallel markets): is the trade of a commodity through distribution channels which are illegal, are unofficial, unauthorised or unintended by the original manufacturer.

**Activity**

Identify a suitable market(s) for the following;

- Fresh farm produce
- Clothing
- Dairy products
- Cattle

**Summary**

- A market refers to an interaction of sellers and buyers with an intention of exchanging goods or services and finalise the transaction.
- Markets can be physical, local, regional, national, global or virtual.
- Physical, local and national markets are confined to one country.
- Regional and virtual markets may be found in more than two countries.

# MARKETING RESEARCH

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- Define market research and marketing research.
- Explain the importance of marketing research.
- Identify different types of research data.
- Identify sources of data.
- Discuss sampling methods.
- Design data collection tools.
- Collect research data.
- Present data in graphs, tables and charts

**Market research**

- It is the process of gathering, analysing and interpreting data for a given market.
- It is done to assess the market and a particular product (how the market is responding to the product).

**Marketing research**

- It is a systematic gathering, recording and analysing of data in order to identify problems in goods and services.
- It is done in order to get information about products and consumer needs.

**Market research versus marketing research**

- Market research is a narrow concept which focuses on a specific market.
- Marketing research is a broader concept which encompasses on aspects like research of new products, how these products are developed and distributed.
- Market research and marketing research are usually used interchangeably.

- A person who carries out a research is called a researcher.
- When carrying out a research, a person who responds to questions is a respondent.

**Market research process**

**Stages of market research.**

**Problem discovery**

- The company identifies the problem which the research should look for solution.
- The reasons for carrying out the research are written down.
- For example the company wants to know how the customers view its products.

**Research methods**

- It deals with how the company is going to collect the information.
- Is it going to use structured methods such as questionnaires or unstructured interviews or observation?

**Research designs**

- Focuses on research samples.
- A sample refers to the number of people from which the required information is going to be obtained.
- It deals with how the sample is going to be selected.

**Data processing and analysis**

- This is when the information that has been gathered is presented in a report format.
- The researcher can use tables, graphs and explanations.

**Report**

- Here the findings of the research is summarized in a way that is easy to understand.

**Importance of marketing research**

- To make marketing decisions on products.
- To fight competition – discovering information of competitors' identity and their marketing network.
- To make decisions on target markets- research assist in providing customer information especially their location, age, gender and buying behaviour.
- To maximise profits – finding strategies that helps to maximize profits.
- To increase sales – research assist in understanding customers' needs and wants.
- To create good reputation with consumers – by providing what customers demand.

**Research data**

- It refers to the data that has already been collected, created or observed.
- The purpose of collecting research data is to make an analysis which will be used to produce original research results.

**Types of research data**

- There are two types of research data which are qualitative and quantitative.

**Qualitative research**

- Qualitative research is exploratory research which is used to get detailed data (underlying reasons, opinions and motivations).

- It provides an understanding of the problem and helps to generate ideas.

**Quantitative research**

- Quantitative research refers to the collection of numerical data in a structured way to produce facts which can guide you.
- Quantitative research data can be used to quantify attitudes, behaviours, opinions or other variables in order to come out with facts.

**Comparison between qualitative and quantitative data**

| Basis for comparison | Qualitative data | Quantitative data |
|---|---|---|
| Meaning | Concerned with descriptions which can be computed. | Focuses on numbers and mathematical calculations and can be computed. |
| Methods used | Exploratory and subjective. | Conclusive and objective. |
| Data collection | Unstructured research instruments. | Structured research instruments. |
| Outcome | Develops initial understanding. | Recommends final course of action. |

**Sources of data**

- There are two sources of research data which are primary and secondary data.

**Primary research**

- It is also called field research.
- Primary data is the data that is collected by the researcher (first-hand information).
- Various methods can be used to get primary data.
- These methods are observation, questionnaires, interviews and focus groups.

**Primary research methods**

**Questionnaire**

- It is a set of questions with given choice of answers for the purpose of getting information from a selected sample.
- Questionnaires can be done face to face, using telephone or by post.
- They form basis for primary research.

**Advantages of questionnaires**

- The researcher can gather detailed data about a product.
- Opinions of customers about product can be obtained.
- There is direct contact with customers.

**Disadvantages of questionnaires**

- If questions are not structured well, there is a danger of getting inaccurate answers. Inaccurate answers may be misleading especially in planning or decision making.
- It is time consuming.
- It is costly.

**Interviews**

- An interview is a conversation between two or more people whereby the interviewer (one asking questions) wishes to get information on a specific topic.
- The interaction can be done face to face or using telephone.
- There are two types of interviews which are;
- Standardized/ open ended interview (unstructured) - an interview where there are no choice of answers. The interviewees answer freely.
- Closed/ fixed response interview (structured) – an interview where interviewees choose answers from a given set of answers.

**Advantages of interviews**

- There is room for explanation by interviewer if the interviewee does not understand the questions being asked.
- Detailed information is gathered.

**Disadvantages of interviews**

- It is time consuming.
- Inaccurate results resulting from interviewer bias- in the case where the interviewer can lead the interviewee to answer questions in a certain way.

**Observation**

- It involves using one's senses to examine customers' behaviour.
- There are two types of observation which are participant and nonparticipant observation.
- Participant observation is whereby the observer is actively involved in the activities being observed.
- Nonparticipant observation is whereby the observer does not take part in the activities being observed.
- Observation may take several forms such as:
- Recording of television channels selected.
- Watching while customers buy the product.
- Audits stock take in a shop.

**Advantages of observation**

- It is cheap.

**Disadvantages of observation**

- The researcher will not understand consumer decisions because the information gives figures.

**Focus groups**

- A focus group is a group of people who gather to participate in a discussion about a specific product.
- The group can be given products to test and the researcher gets feedback from the clients.

**Advantages of focus groups**

- Customers' opinions can be provided in detail.
- Easy to conduct.

**Disadvantages of focus groups**

- It is time consuming.
- Customers might give biased responses as they can be influenced by group members.

**Advantages of primary research**

- The information that is collected is up to date.
- The data obtained is related to a specific problem.

**Disadvantages of primary research**

- It is time consuming.
- It is expensive.
- The research can be biased because of human behaviour and human error.

**Secondary research**

- It is also called desk research.
- Secondary data is data that have already been collected and can provide information for current research.
- Secondary data comes from two sources which are internal and external.

**Internal sources of research data**

- Internal information refers to the information that is already available in the company.
- The following are examples of sources of internal data:
- Invoice books
- Sales records
- Company reports
- Accounting records
- Quotation books
- Suggestion boxes
- Company intranets
- Stock movement records

**External sources of research data**

- External information refers to information which is obtained from outside the enterprise.
- There are various institutions to which information is obtained. These institutions include:
- Banks
- Newspapers
- Professional bodies
- Information from competitors
- Government publications
- International publications
- Commercial publications
- Internet websites pages

**Advantages of secondary research**

- It is cheap since the information is already available.
- It can provide background information that can assist the researcher.
- Some possible problems can be indicated in the data available.
- It is gathered quickly.

**Disadvantages of secondary research**

- The information may not apply to the problem at hand.
- Some of the information may be unreliable since no one is sure of where and how it has been obtained.
- Some information may be difficult to access.

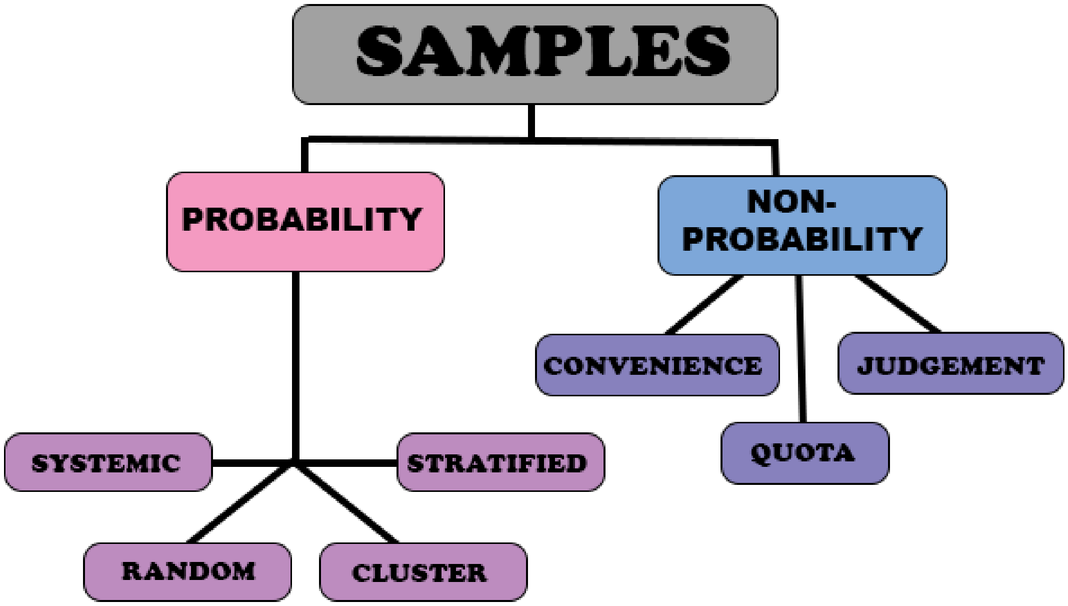
**Differences between primary and secondary data**

| Primary data | Secondary data |
|---|---|
| Current data | Past data |
| Researcher is sure about sources of data. | Researcher is not sure about sources of data. |
| Expensive and time consuming. | Cheap and less time consuming. |
| More flexible | Less flexible |

## Sampling

- Sampling refers to a process of selecting certain units (for instance, people, organisations) from a given population for the purpose of gathering information.
- A sample is a small number of people who represent the entire population in a research process.
- A sample must be large enough to provide accurate information.

**Sampling methods**




Sampling Methods

**Probability sampling**

- There is a probability that each unit in the population can be selected in the process of sampling.

**Simple random sampling**

- Every member has a chance of being selected.

**Systematic sampling**

- A starting point is selected from a larger population in a fixed periodic interval, for example in a group, every 5th item is selected from the population.

**Stratified sampling**

- The population is divided into subgroups with common properties.
- Samples are then taken from each subgroup.

**Cluster sampling**

- The population is divided into clusters basing on geographical area.
- Samples are then taken from each cluster.

**Non- probability sampling**

- Some units may not have a chance of being selected in the process of sampling.

**Convenience sampling**

- Convenient methods are used to get samples.
- The researcher may select people who live closer to him/her or relatives in order to reduce travelling costs.

- This sample makes it easy and quick to collect the data.

**Judgment sampling**

- The researcher selects a sample based on his or her judgment.
- For example, doctors and nurses can be selected if the research deals with health products.

**Quota sampling**

- Quota sampling is used when people are selected based on their known characteristics such as race, age, health and income.
- Samples are then collected using judgment.

**Advantages of sampling**

- By using a sample a researcher saves time.
- A sample leads to the use of fewer resources than it would be if the entire population was involved.
- The cost of the investigation is less when a sample is used.

**Disadvantages of sampling**

- It is difficult to interview each and every person in a sample.
- Experts are required for careful study of the population.
- Careful sampling selection is difficult.

**Data collection tools**

**A sample questionnaire**

XYZ Restaurant would like to improve customer satisfaction on rice and chicken stew. Your responses to this questionnaire will be very helpful in improving our services.

**Instructions**

- You are not required to write your name on this questionnaire.
- Your responses will be treated with confidentiality.
- Tick the appropriate box for your responses.

1. How often do you buy rice and chicken stew?

More Frequent | Frequent | Less Frequent | Never

2. How do you rate this dish?

Very Delicious | Delicious | Not Delicious

3. Is the restaurant clean and meet health standards?

Strongly Agree | Agree | Disagree | Strongly Disagree

4. Do waiters respond quickly to your orders?

Strongly Agree | Agree | Disagree | Strongly Disagree

**Sample interview questions**

I am John, a manager at XYZ Restaurant. I am carrying out a research on customer satisfaction (rice and chicken stew dish).

**Instructions**

- Responses will be treated with confidentiality.
- Answer questions sincerely.

**Interview guide**

- Why do you want to buy rice and chicken stew?
- How does our dish taste?
- What have you observed on our customer service?

**Data collection**

- It is a process of gathering information from sources which are relevant to the research.

**Example of data collection**

Assume that XYZ restaurant questionnaire was distributed to 20 people (sample size). The following table shows the responses from the research using questionnaire.

| | | |
|---|---|---|
| Responses to question 1 | Responses | Number of people |
| | More frequent | 3 |
| | Frequent | 10 |
| | Less frequent | 6 |
| | Never | 1 |
| Responses to question 2 | Responses | Number of people |
| | Very delicious | 5 |
| | Delicious | 12 |
| | Not delicious | 3 |
| Responses to question 3 | Responses | Number of people |
| | Strongly agree | 4 |
| | Agree | 14 |
| | Disagree | 2 |
| | Strongly disagree | 0 |
| Responses to question 4 | Responses | Number of people |
| | Strongly agree | 8 |
| | Agree | 9 |
| | Disagree | 2 |
| | Strongly disagree | 1 |

**Data presentation, analysis and interpretation**

- Data presentation is a method in which data collected is summarized and organised in a logical, sequential and meaningful categories for easy interpretation.
- Data analysis and interpretation refer to a process of bringing order and sense to collected data.
- Data can be presented using tables, graphs and charts.

**Example of data presentation**

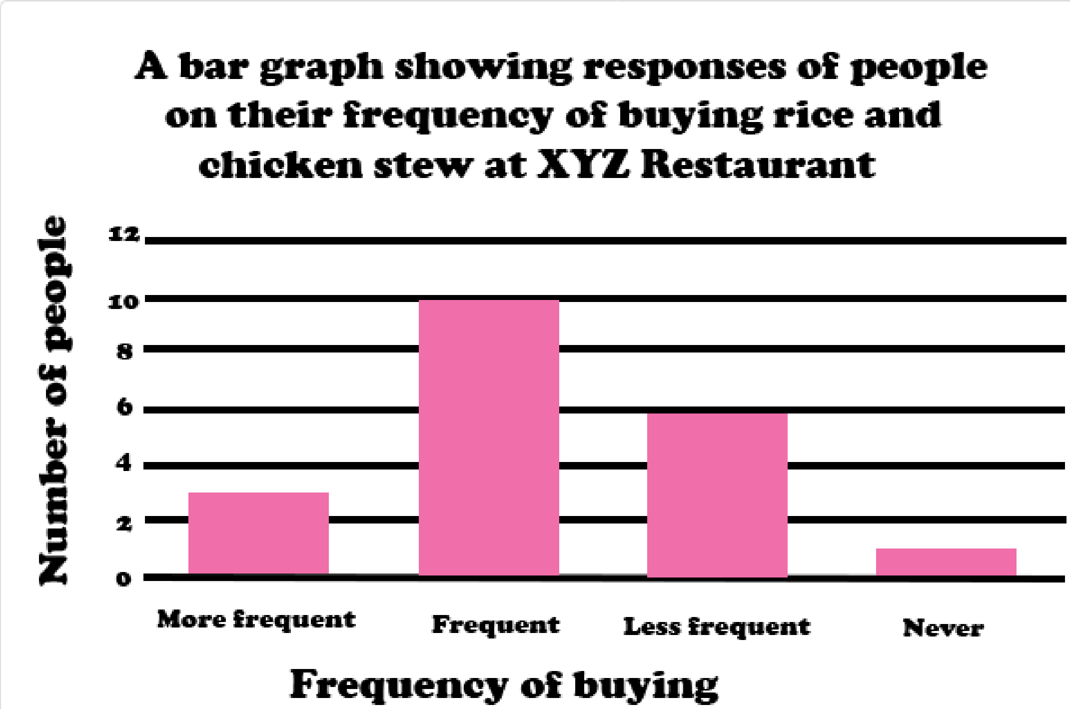



Fig 1

From fig 1, it shows that 65% of respondents (13 people) often buy rice and chicken stew at XYZ Restaurant. This means that customers are satisfied with rice and chicken stew dish. 30% of the respondents (6 people) buy less frequently which means they are not always satisfied with that dish.

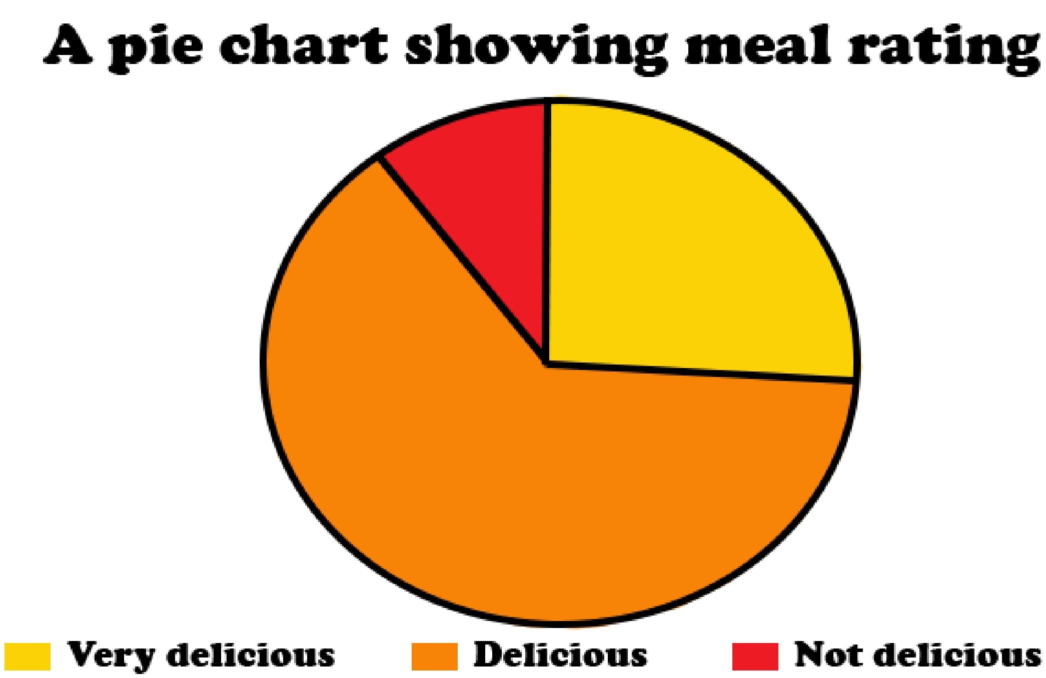



Fig 2

80% of respondents (18 people) rated rice and chicken stew dish as a delicious dish. That explains why people buy it frequently.

- The table below shows people's responses on the question, "Is the restaurant clean and meet health standards?"

| Responses | Number of people |
|---|---|
| Strongly agree | 4 |
| Agree | 14 |
| Disagree | 2 |

The above table depicts that XYZ Restaurant is always clean which is shown by a large number of people (18) who agree on that.

- The table below shows responses of people on the question," Do waiters respond quickly to your orders? "

| Responses | Number of people |
|---|---|
| Strongly agree | 8 |
| Agree | 9 |
| Disagree | 2 |
| Strongly disagree | 1 |

There is clear evidence that waiters attend quickly to customers' orders as noted from the above table.
To sum up, there is customer satisfaction at XYZ Restaurant.

**Activity**

Farai and Nomsa are considering operating a school tuck-shop. Suggest possible research instruments they can use to carry out their market research at that particular school.

**Summary**

- Market research is the process of gathering information for a given market.
- Market research enables an enterpriser to make marketing decisions on products.
- Research data can be qualitative or quantitative.
- Quantitative research is the collection of numerical data.
- Information collected can be primary of secondary.

# MARKET SEGMENTATION AND DEMAND FORECASTING

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- Define market segmentation.
- Discuss factors to consider when segmenting a market.
- Explain reasons for market segmentation.
- Define demand forecasting.
- Explain the importance of demand forecasting.
- Identify methods of demand forecasting.

**Market segmentation**

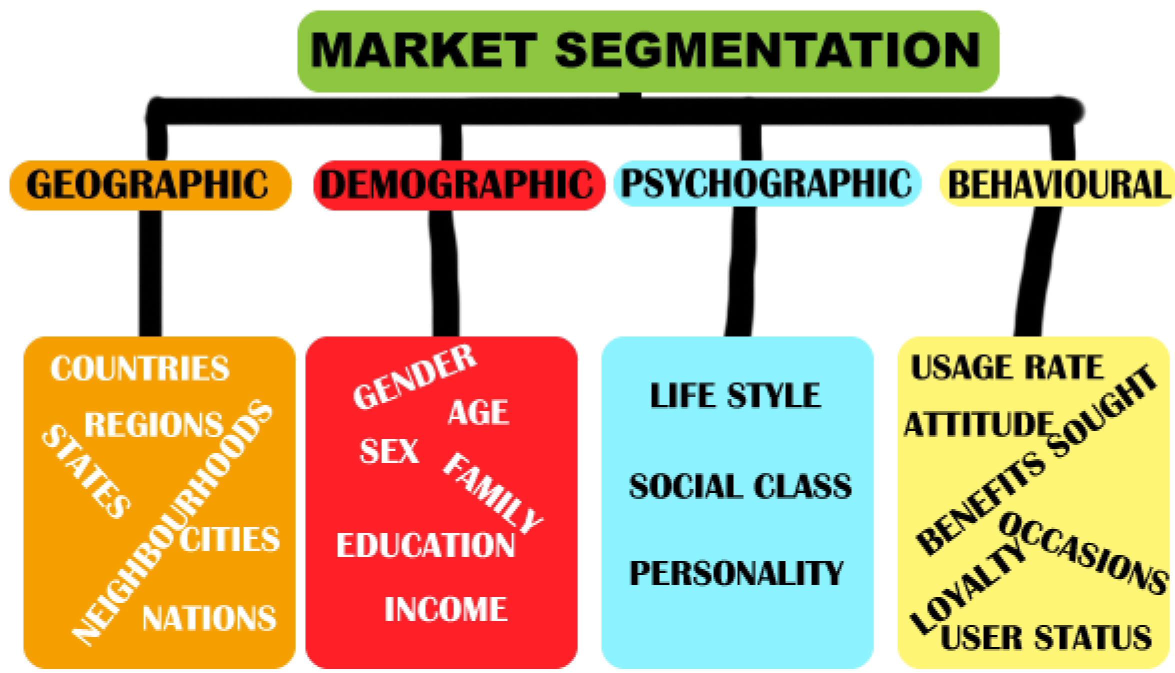
- It is a process of breaking down a market into sub-groups with similar characteristics.
- It is subdividing a market into sub-groups with similar buying habits.
- Market segmentation enables a business to target its products to the relevant customers.
- Market segmentation allows an organisation to tailor its approaches to the needs of different groups.
- It gives an organisation a great advantage over competitors who use a "one size fits all" approach.
- Example of market segmentation for Delta Beverages, it segmented its products into soft drinks and beer.

**Reasons for market segmentation**

- To meet customer needs – customer needs are different and they ought to be offered products which meet their needs.
- To increase profits for the enterprise – customers earn different income and they respond differently to prices. Customers will buy the products they can afford thereby increasing organisational profits.
- To increase sales- customers may be encouraged to buy products which are introduced into the market at a given price.
- To retain customers - customers change with time (growing older, change their occupation) and as such their buying pattern changes.
- To improve communication with customers – needs for every segment must be communicated separately. Communication to a large market causes customers (targeted customers) to miss some information they intend to get.

**Factors to consider when segmenting a market**

- There are various factors which are taken into consideration when segmenting markets.
- The factors include geographic, demographic, psychographic and behavioural.




Market segmentation

**Geographic factors**

- The customers are divided according to the places where they live.
- Customers can be grouped according to the regions, countries, provinces or cities where they stay.
- People who live in urban areas may be considered to have different needs as compared to those who live in the rural areas.
- The geographical units are also based on population density, climatic conditions and size of the area, which is mainly determined by population size.
- Example of geographic segmentation in Africa is SADC region.

**Behavioural factors**

- It is based on customer behaviour towards products.
- The usage of the product, benefits which the product provides to a particular group and brand loyalty are considered when using this type of segmentation.
- The usage rate, attitude, readiness to buy and status are also other aspects that influence this segmentation process.

**Demographic factors**

- This is when the market is divided according to the characteristics of the population.
- Some personal attributes are considered when dividing the customers into groups.

- Examples of such attributes include gender, age, income, sex, education, marital status and occupation.

**Psychological factors**

- This is when segmentation of the market is based upon the mental attributes, attitudes and lifestyles of the customers.
- The class of the customers and personality of the psychological group in which individuals are placed.

**Examples of market segmentation**

- Diapers produced for babies – demographic.
- Mercedes Benz for high income earners – psychographic.

**Demand forecasting**

- It is a process of estimating the expected demand for a product in a given specified future period.

**Importance of demand forecasting**

- Assists in reducing wastage of resources - accurate demand forecasting enables an enterprise to produce required quantity of a product at the right time.
- Assists in customer satisfaction – customer needs must be met by providing what they demand.
- It helps to make timely purchases especially for raw materials.
- It helps in minimizing costs associated with holding less or more stock – more stock requires a storage space which is big which becomes expensive.
- It helps in pricing decisions – when the forecast indicates that there is a fall in demand, the enterprise reduce price.
- It helps the enterprise to produce adequate quantity – when there is high demand for products, it means that more should be produced.

**Methods of demand forecasting**

**Qualitative methods of demand forecasting**

- These methods are based on managers' judgments.
- Qualitative methods include, Delphi technique, expert opinion, sales force polling, consumer surveys and historical analogy.

**Expert opinion**

- This is where the management seek for experts opinions in a certain area.
- The experts can come from purchasing, production, sales, and finance and administration departments.
- Experts give their views in the current and future development that may influence the economy or a specific market.

**Advantages of expert opinion**

- Forecast is easily and quickly done.
- Forecasting can be done in the absence of data.

**Disadvantages of expert opinion**

- There is peer pressure when giving opinions.
- The opinions may be biased.
- Their judgments may be influenced by others.

**Delphi method**

- It is based on knowledge and judgment of experts (group).
- This is a technique where experts are questioned individually on how they perceive future events.
- The experts are given questionnaires to answer in two or more rounds.
- For every round a summary of forecast is given.
- The summary can be returned to experts so that they revise it and can change their opinions.
- The questioning continues until they reach a consensus.

**Advantages of a Delphi method**

- There is no peer pressure.
- The experts can anonymously change their opinions.
- It is done by questionnaire format which eliminates group thinking.

**Disadvantages of Delphi method**

- There may not be a consensus from the responses of experts.
- It is time consuming.
- Some experts may drop out.
- Its reliability is low.

**Sales force polling**

- It is whereby an enterprise uses people who have a continual contact with customers (sales people).
- It is based on the belief that sales people may have insight on the future market.

**Advantages of sales force polling**

- It is simple to use.
- The information may be broken down easily, for example, product, customer or place.
- Actual results can be attained as the sales people are directly involved with customers.

**Disadvantages of sales force polling**

- Sales people tend to be over optimistic on their predictions which may lead to inaccurate results.

**Consumer surveys**

- Some enterprises may carry out research using interviews and questionnaires to obtain data.

**Historical analogy**

- A comparison is made on the sales of a new product and sales of a previous product which is similar.

- Managers assume that previous sales of a similar product can be the same to a new product.

**Summary**

- Market segmentation helps enterprises to meet customer needs.
- A market can be segmented into four parts, which is geographic, demographic, psychographic and behavioural.
- Demand forecasting is the estimation of demand for a product.
- It helps in pricing decision.

# ECONOMIC INTEGRATION

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- Define economic integration
- Identify and explain different economic blocs
- Describe aims of different economic blocs
- Give the benefits and limitations of economic integration

**Economic integration**

- Economic integration is defined as an agreement among countries located in one region so as to reduce or eliminate trading barriers that exist between them.
- Countries within a region come together and form a trading bloc through the World Trading Organisation (WTO) which controls all the trading activities around the world.
- It is meant to allow free movement of goods, services and factors of production between groups of countries.
- It can also be used for non-economic activities like strengthening political affairs or for immigration purpose.
- There are three levels of economic integration
    - Bilateral integration- it is the integration between two countries sharing common interests.
    - Regional integration- a group of countries within a certain geographical area come together and form a trading bloc for example, SADC.
    - Global integration- integration of countries located in different parts of the world such as Common Wealth.
    - Continental integration- is the integration of countries within a particular continent.
- The degree of economic integration can be classified into the following forms;

**Preferential trade area**

- It is the first form of economic integration where a nation grants partial trading preferences to another or a group of nations.

- Countries agree to lessen tariffs on selected products between participating members of the trading bloc.
- Tariffs are not completely removed but reduced for countries that are part of the trading bloc.

**Free trade**

- In this type of integration, members of the trading bloc agree to remove all trade restrictions.
- Members are free to trade with other countries that are not part of the bloc and can also impose their own trade restrictions.

**Customs union**

- It is an agreement between countries with a bloc to eliminate tariffs between them and set one joint charge on imports for non-members who want to trade with them.
- Any country in the customs union that exports to external members only need to pay single duty and once the goods reach the borders of the union they move freely.
- Members in customs union set policies that regulate the movement of goods and services.

**Common market**

- It has the same features as customs union but in addition members also allow free movement of all factors of production amongst them.
- They set up a common barrier to trade with countries outside the bloc.
- They set trade policies, for example, pricing policies, taxation, external tariffs to non-members, etc.

**Economic union**

- Allows goods, services and factors of production to move freely among group members.
- Members have common external trade policies, for example taxation rates, common monetary and fiscal policies.
- Requires the use of common currency, for example European Union uses one currency.
- Example of a common market is Common Market for Eastern and Southern Africa (COMESA)

**Regional economic blocs**

- Also known as trading blocs.
- Formed by countries that are geographically located close to each other, in any part of the world, for example in Africa, Europe, Asia, etc.
- Trading bloc must have members who have similar trading interest and policies.
- They facilitate trade between members of the group but creates a trading barrier for non-members.

**1. Southern African Development Community (S.A.D.C)**

- Formed in 1992, consists of 15 countries located in the southern region of Africa.
- It has the following countries;

Angola, Botswana, Democratic Republic Of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, United Republic Of Tanzania, Zambia, Zimbabwe

- Each country has its own responsibilities so that they are actively participating members in the group, for example, Angola is responsible for conserving energy, Zimbabwe for food security.
- Designed to address the following needs;
    - Reduce poverty.
    - Promote production of local products.
    - Access cheaper raw materials.
    - Increase direct foreign investments within countries.

**Aims**

- To promote regional integration to allow free movement of goods and capital among its members.
- To develop and promote economic growth so as to reduce poverty in the southern region.
- To promote peace and security among its members.
- To attract foreign direct investors to invest in the region.
- Encourage self-reliance and inter-dependence between members.
- Attain sustainable use of natural resources and effective protection of the environment.
- Fight HIV/AIDS and other deadly diseases among the people of the region.
- Promote political and social relationship in the region.

**2. Common market for Eastern and Southern Africa (COMESA)**

- It is a free trade area formed in 1994 by nineteen African countries located in the eastern and southern region.
- Created to assist its members in developing natural and human resources for the benefit of the people in that region.
- Its main focus is to overcome challenges faced by member states when trading, by reducing tariffs on selected products.
- The member States of COMESA are:

Burundi, the Comoros, the Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Sudan, Swaziland, Seychelles, Uganda, Zambia and Zimbabwe.

**Aims**

- To achieve sustainable growth and development of its members through stimulating production and marketing structures.
- To promote combined development of economic activities so as to raise the standards of living of its people and foster closer relations among its member countries.
- To co-operate in the creation of direct foreign investments.

- To promote peace, security and stability among the member states in order to enhance economic development in the region.
- To co-operate in strengthening the relations between the Common Market and the world as a whole
- To recognise, promote and protect people.

**3. Economic Community of West African States (ECOWAS)**

- Established in 1975 by African countries located in the western region.
- It is a trading union formed to enforce self-sufficiency for its members.
- Its mission is to promote economic integration in all sectors like industries, transport, communication, agriculture, natural resources, etc.
- Consist of the following countries;

Benin, Burkina Faso, Cape Verde, Cote d' Ivoire, The Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Sierra Leone, Senegal and Togo.

**Aims**

- To promote cooperation and integration to stimulate economic activities.
- Remove trade barriers among members of the bloc.
- To correspond policies of each country in order to carry out other projects and programmes in a peaceful manner within the region.
- To create common market to allow free movement of goods, services and people within the region
- To promote joint venture among member states.
- To improve living standards of the people in member states.
- To promote cultural interaction among member states.
- To promote industrial development among member states.

**Regional Economic Integration (REI)**

- REI is process whereby countries in a geographic region cooperate with one another to reduce or eliminate barriers to the international flow of products, people, or capital.
- A regional trading block is a group of nations in a geographic region and forgoing economic integration.
- The major goal of REI is to create cross-border trade and investment and raise the living standard.

**Levels of REI**

a) Free Trade Area

- Countries removes all barriers to trade among members but each country determines its own barriers against non-members.

b) Customs Union

- Countries remove all barriers to trade among members but enact a common trade policy against non-members.

c) Common Market

- Countries remove all trade barriers and the movement of labour and capital between themselves, but enact a common trade policy against non-members.

d) Economic Union

- Countries remove all barriers to trade and the movement of labour and capital, enact a common trade policy against non-members and coordinate their economic policies.
- Require members to harmonise their tax, monetary and fiscal policies create a common currency and concede a certain amount of sovereignty to the suprational organisation such as World Trade Organisation (WTO).

e) Political Union

- Countries coordinate the aspects of political systems.
- Members accept a common stance on economic and political policies regarding non-member nations.
- Nations are allowed a degree of freedom in setting certain political and economic policies within their territories.

**Benefits of economic integration**

- Formation of one big market thus increasing the level of production and market for products.
- Members may benefit from economies of scale.
- Resources are pooled - member states can share natural and other resources for economic growth.
- Creation of employment.
- Allows free movement of goods and services across borders at a lower cost, thus reducing the cost of production for each state.
- Enables consumers to access a wider selection of goods that were previously not available in their own country.
- Promotes innovation among member states thus they easily adopt technological changes to enable qualitative enhancement in production.
- Strengthen the relationship between countries, thus promoting peace and stability within the region.

**Disadvantages of economic integration**

- Existence of trading blocs creates trading barriers for non-member states there by making it difficult for them to trade.
- Member states are forced to loosen up on some of their independent policies for the benefit of the bloc thus resulting in loss of national sovereignty and control.
- Interference in political affairs of one states leads to loss of control of that state.
- Due to trade diversion countries are forced to trade with member states which may be inefficient.
- It may lead to cultural centralisation.

- Some members have some delicate ties with non-member nations while others have strong ties the setting of regional trade agreements on people, jobs, companies, culture and living standard spark debate.

**SUMMARY**

- Economic integration is the agreement between countries to trade freely amongst each other.
- Countries in the same area may form a trading block to allow free movement of goods and services within that block.
- Economic integration can be bilateral, regional and global.
- Bilateral I between two countries.
- Regional is the integration of countries located in the same region such as SADC.
- Global integration include countries located in different parts of the world.
- Preferential trade is whereby a country grants partial trade preferences to another.
- Free trade is the total removal of all trade restrictions among countries.
- Customs union is the agreement between countries to set one joint charge for imports for non-member countries.
- In a common market the members allows factors of production to move freely between them.

# MARKETING MIX

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- Define marketing mix
- Identify and explain marketing mix variables
- Assess the effects of marketing mix variables on marketing

**Marketing mix**

- Marketing mix refers to set of actions combined by a firm in order to persuade customers to purchase a product.
- These strategies used by enterprisers to meet the demands of customers.
- It also describes the different kinds of choices which an organisation make in the process of bringing a product or service to market.
- Marketing mix variables are product, price, promotion and place.


**Product**

- Product is a commodity offered for sale.
- Refers to goods or services which a firm manufacturers for the purpose of meeting consumer's needs.
- Product should possess physical features such as quality, packaging design and brand name in order to satisfy consumer needs.
- Products can be goods, ideas, services or intellectual property.
- The product should be attractive for customers to buy, thus a firm needs to be innovative when developing a product

**Place**

- Refers to the distribution channels through which the product is made available to the customers.
- It is about how a product reaches the consumer, includes aspects like channels of distribution, locations, inventory, transportation, coverage and logistics.

**Price**

- This refers to the value of a product in monetary terms, that is, the price that a customer pays in order to get a product.
- It covers the aspects of price determination, pricing strategies, competitive strategies and credit terms.

**Promotion**

- It is the process of raising the awareness of the product and its benefits to customers.
- It includes aspects of advertising, personal selling, public relations, sales promotion, etc.

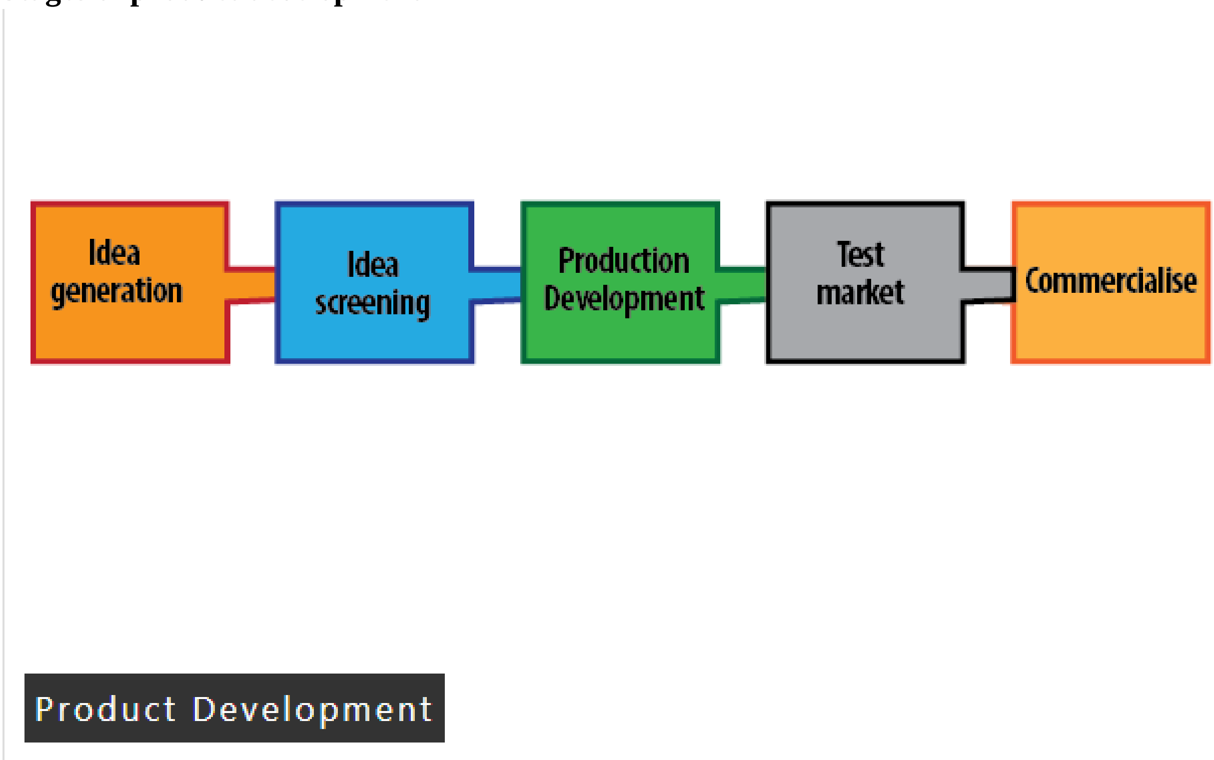
**Product development**

- It is the process of conceptualising, designing, developing and marketing a new product.
- New product is the one that opens new markets or replaces an existing product in an existing market.
- It also involves modifying an existing product by rebranding and adding new features.

**Reasons for developing new products**

- To substitute declining product in the market.
- To maintain or gain competitive advantage over competitors.
- To satisfy changing consumer needs.
- To increase or maintain market share.
- To take advantage of technology that allows a firm to take risk in developing a product.

**Stages of product development**




**Idea generation**

- This is where by ideas are generated by identifying consumer needs and wants.
- It is a continuous search for new opportunities using different resources and methods.
- Ideas may come from employees, customers, competitors, top management or through market research.

**Idea screening**

- Is a process of comparing ideas that have been gathered in order to select the most reasonable or achievable ideas to pursue.
- Unsound ideas are eliminated.

**The screening process should answer the following questions;**

- Will the product be profitable and at what price?
- Is the idea realistic?
- What is the expected size of the market?
- How will customers benefit from using the product?

**Development**

- This is the stage where a prototype/model is developed in order to get customers' views on the suggested product.
- This is a sample of a fully finished product used to test the concept in the market.
- Prototype goes through various designs and manufacturing stages to ensure that it meets consumers' requirements.
- At this stage customer's attitude towards the product is examined so as to find out whether the product meet customers' needs and avoid costly mistakes.
- Estimation of selling price is based upon competition and customer feedback.

**Market testing**

- This is when the product is tested on small scale representing the total market area prior to the introduction of the product on a larger scale.
- Before products are launched companies usually test their new products to limited geographical areas to assess the reaction of the consumers.
- This is to make sure that the product appeals to the customer.
- Under market testing, the marketing team comes up with a strategy describing the targeted market, the price to be charged, distribution channel and anticipated returns.

**Commercialisation**

- It involves full production and marketing the product to the whole targeted market properly.
- At this stage the product is produced in large quantities and launched.
- There is strong advertisement and promotion of the product at this stage.

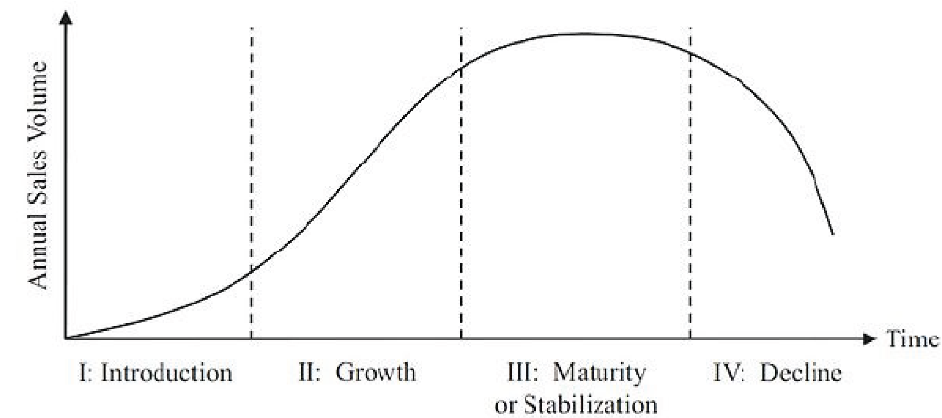
**Activity**

As a group, use the above mentioned product development stages to promote a product of your choice at school or local community.

After commercialisation the product goes through a life cycle.

**Product life cycle (PLC)**

- Describes the stages that a product passes through from its introduction to its growth and finally to its decline in the market.
- It describes the life of a product from the time it is launched to its final withdrawal from the market.
- The life cycle is illustrated using the diagram below which shows the characteristics of the product in terms of costs and revenue at each stage.




Product Lifecycle

Introduction Stage

- This is the first stage when the product is introduced in the market.
- Its objective is to create product awareness.
- Targeted customers are innovators those who are willing to try new ideas.

**Characteristics**

- Growth of the product is slow and sales are usually low.
- Low levels of competition since the product is new.
- There are no profits.
- High costs of producing and launching the product.

**Marketing mix strategies are as follows:**

- Product- Branding and quality level is established and intellectual property protection such as patents and trademarks are obtained.
- Pricing- a firm can use cost based or market based pricing strategies, for example price penetration, skimming or at cost price.
    - Penetration pricing is the strategy of charging very low prices during product introduction stage.
    - Skimming pricing is charging high price at introduction stage so as to cover investment costs.
    - Cost price is used to recover costs and to earn profits for example, mark u and marginal pricing.
- Place- The product is distributed to selected markets until consumers accept the product fully
- Promotion- advertise the product to build awareness among early adopters

**Growth Stage**

- The firm increases its market share and also seeks to build brand preference.
- This is the period where demand of the product increases since more customers are aware of it.

**Characteristics of the growth stage:**

- There is rapid sales growth.
- The quality of the product is maintained.
- The price is maintained as the firm enjoys increasing demand with little competition.
- Profits increases at this stage.
- Average costs due to increase in economies of scale

**Marketing mix strategies at growth stage:**

- Price- it must be market based, the firm can maintain the price used at introductory stage.
- Place- Channels of distribution are added as demand increases.
- Promotion – may increase since the firm is aiming at increasing market share and to encourage brand loyalty.
- Product should be packaged and branded.
- Offer product extensions such as different flavours, size, colours, etc.

**Maturity Stage**

- This is the longest stage a product can go through before it reaches its decline stage.
- Growth in sales diminishes but at a later stage of maturity.
- The main objective at this stage is to defend the market share while maximising profit.

**Characteristics of the maturity stage:**

- Competitors appears in the market with similar or improved products.
- The features of the product are improved to compete effectively and to differentiate the product from competitors.
- Prices are reduced because of competition.
- Low costs due to mass production.
- There is intensive distribution of the product to maintain market share.
- Promotional incentives may be offered to persuade consumers to buy and to emphasize product differentiation.

**Marketing mix strategies**

- Product- modify the product by improving on its features so as to differentiate it from competitors', that is,
    - Change packaging, create new models and brands.
- Price- reduce price, offer discounts and credit facilities to beat competition.
- Place- build more distribution channels.
- Promotion- make use of persuasive advertisement to make emphasis on brand differences and its benefits.

**Decline Stage**

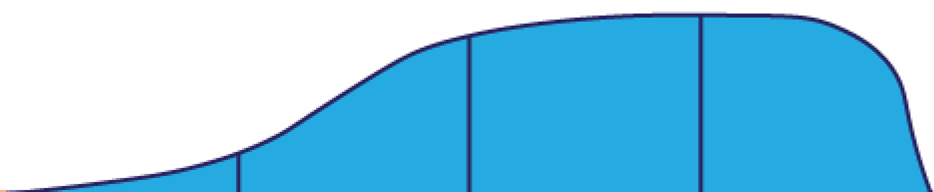
- This is stage in which the product is phased out of the market may be due to increase in competition or the product may have lost its appeal to customers.

**During the decline stage:**

- Sales and profits decline.
- The product may be withdrawn from the market as the company will no longer be able to cover production costs.
- It may be possible for a firm to continue making profit if they charge high price and incur lower cost of production.
- However the firm has options to either discontinue the product by selling it to another firm that is willing to continue its production or to extend the life cycle of the product.

**Marketing mix strategies**

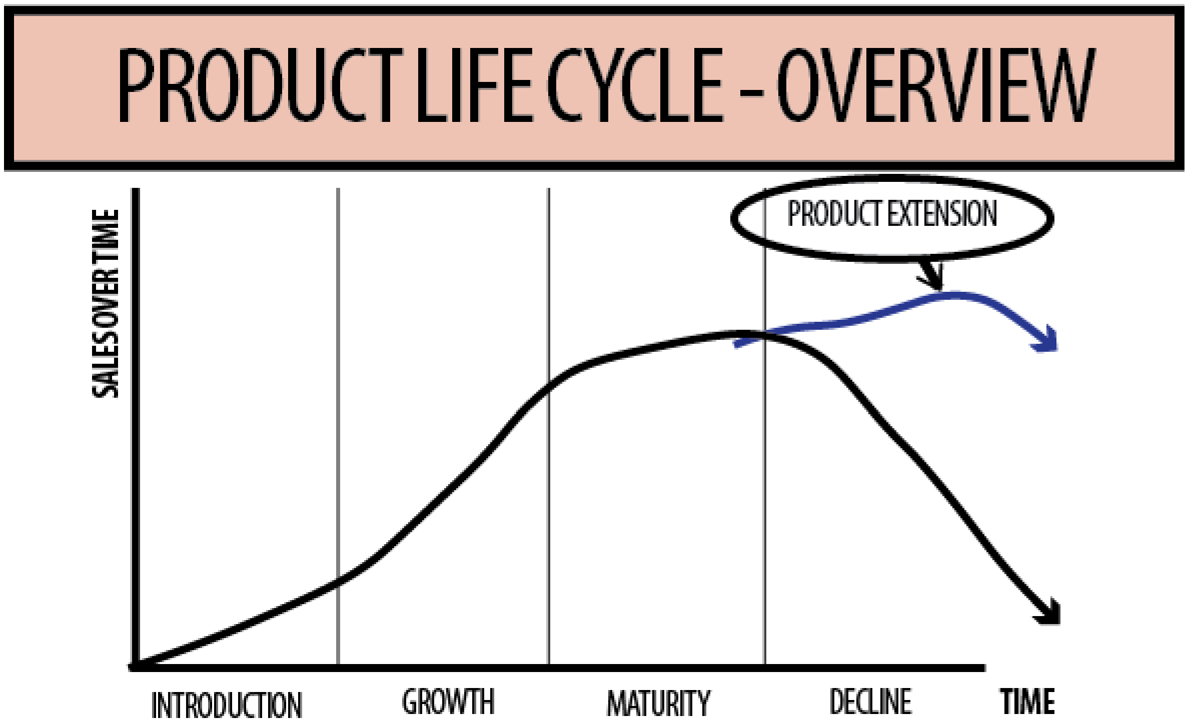
Price- lower the prices to sale remaining stock.
Place- use selective outlets, phase out unprofitable market places.
Promotion- educate customers on brand improvement and reduce promotional expenditure.
Product- phase out weak products.
NB: Not all products reach the final stage, some continue to grow and others rise and fall.
The life cycle of each product is different and other products do not follow this cycle due to frequent changes in styles, fashion or trends.



| Characteristics | introduction | Growth | maturity | decline |
|---|---|---|---|---|
| sales | Low sales | Rapidly rising | Peak | declining |
| costs | High cost per costumer | Avg cost per customer | low cost per customer | low cost per customer |
| profits | Negative | Rising | High | declining |
| costomers | Innovators | Early adopters | Middle majory | Laggards |
| competitors | Few | Growing | starting to decline | declining |

Product Lifecycle 2

**Extending the Product life cycle**




Product Lifecycle Overview

- This is a strategy used by most firms to keep their product at maturity stage rather than moving to decline stage.
- Extension strategies include rebranding, price discounting, advertising and seeking new markets.
- The diagram below illustrates how a product's life cycle extends before it reaches decline stage.

**A firm can do the following in order to extend the product life cycle:**

- Introduce new advertising techniques in order to gain a new audience or to remind the current audience of the product.
- Rebranding the product, that is, create a new look for the product in order to differentiate the product from its competitors.
- Reducing the price of the product as a way of attracting more customers.
- The firm may add new features to the current product in order to add value, for example putting some more flavours, packaging sizes.
- The company may resort to sell the products into new markets for example, new geographical areas.
- Segment the market by producing different versions which cater for different markets.

- It can engage in social responsibility such as sponsoring social functions in order to promote brand loyalty.

**Packaging**

- It refers to the process of designing, evaluating and producing packaging material for wrapping a product.
- It is the physical container or wrapper used to preserve a product.
- It can be in different shapes or colour.

**Packaging serves the following functions:**

- It helps customers to handle the product easily.
- It keeps the product safe and in shape.
- It gives additional information to the consumer about a product.
- It helps in the preservation of a product especially for perishable goods.
- It is used as a promotional tool by making the product different from its competitors'.
- Provides useful information on how to use the product and other related information like, nutrients, ingredients, recycling information, etc.

**Branding**

- Branding is a marketing strategy that involves creating a differentiated name and image in the mind of the consumers.
- A brand refers to a symbol, or logo or statement which is used to differentiate one product from another.
- Company logos are examples of tools that are used in creating awareness of the product in the minds of consumer's.

**Terms used in branding**

**Brand name**

- It is a unique name which differentiates one product from other brand products.
- It assures the consumers of the quality of the product.
- Brand name is a trademark that is used by a manufacturer to differentiate its products from other products that are offered by competitors, for example, Stasoft fabric softener, Domestos house hold cleaner, Coca-Cola, etc.

**Brand loyalty**

- Brand loyalty occurs when a consumer has a tendency of buying products of the same brand, repeatedly rather than its competitors.
- It is the positive attitude that customers have towards a certain brand and is demonstrated by repeated purchase regardless of pressure from competitors.

**Brand image**

- Brand image is made of the set of associations that exist in the minds of the consumers about a brand and the expected benefits of the range of products.
- It is concerned with how customers perceive a product.

- Brand image deals with the identities which distinguish the firm's products from the products of its competitors.
- A brand is developed overtime through advertising campaigns and use of the products.

**Role of branding**

- Provides the product with an identity, customers are able to identify a product easily from other products.
- Provides sense of security and assurance about the quality of the product.
- Gives a product a competitive advantage over its competitors.
- Brands help to differentiate the products from other products.
- Adds value to a product, for example, one would prefer to purchase Tanganda tea leaves other than non-branded ones.
- Help to create customer loyalty resulting in a decrease in advertising costs.

**Pricing**

- It is the process of placing monetary value to a product in which consumers are expected to pay in exchange for the product.
- A business sets a price to sell its product at.
- Pricing plays a key role in the marketing mix.
- Pricing creates revenue whereas other marketing mix aspects add costs.
- The price of an item is important as it determines the customers' perception about the value of a product.
- The price needs to be affordable for consumers to buy.

**Role of price**

- Price enables customers to value the product, for example setting high price may mean that the product is of high value.
- Price is a competitive weapon that helps a business to exploit market opportunities.
- An affordable price lures many consumers to buy a product.
- Although a high price may lead to lower sales more revenue can be generated from a few sales.
- It determines what the customers are willing to pay.

**Price objectives.**

**Profit Maximisation**

- By keeping in mind revenue and costs, a company may want to maximize profits.
- Firms set prices that enable them to make profit.
- However, the companies may not set the prices beyond certain limits.

**Revenue Maximisation**

- A company may focus on increasing revenues with less focus on profits.
- It focuses on increasing the market share and lowers costs in the long term.

**Maximise Quantity**

- A company may focus on selling a specific number of items in order to reduce long term costs, thus they can charge low prices in order to increase number of customers.

**Maximise Profit Margin**

- A firm may aim to increase the profit margin for each unit sold.
- Margin refers to the difference between the selling price and cost of producing one product.

**To Be Quality Leader**

- A company charges high prices for its products as a way of informing the consumers that its products are of high quality.

**Partial Cost Recovery**

- This strategy is adopted by a firm that has multiple revenue streams.
- The term "multiple revenue streams" means that a company has other sources of revenue, apart from that provided by the product.
- The company sells quality products at low prices.
- Companies without other sources of income avoid this strategy.

**For Survival In The Market**

- A company may want to cover costs and to remain in the market.
- The goal of the company is to survive not to make a profit.
- This is a short term pricing strategy.

**To Maintain Status Quo**

- A company maintains a stable price to continue at the current profit level as a means to avoid price wars with competitors.
- The company tends to keep the prices of its products in the same range as that of its competitors.

**Factors that influence pricing**

The price of a product is ever changing due to certain reasons like;

**Internal factors**

- Cost of production- the higher the costs, a firm can set high price in order to cover costs of production.
- Firm's objectives- if the firm is a non-profit making organisation they will set low prices since profit is not their main focus.
- Quality of the product- high quality products are expensive compared to low quality products.
- Financial condition of the firm- stable firm can set lower prices without losing much profits unlike growing firms.

**External factors**

- Level of competition- fierce competition can lead to decrease in price as firms compete with each other.
- Economic condition- high inflation cause general increase in prices.

- Availability of substitute- if there is a close substitute for the product the price is likely to be low.
- Government policies- government regulates prices of certain goods like basic commodities.
- Demand and supply- price is determined when the quantity of goods supplied is equal to quantity demanded by customers (equilibrium).

**Types of pricing strategies**

- There are a number of pricing strategies that a company can adopt when selling its product.
- The method used at any given time will depend on the company's objectives.
- There are three main approaches to pricing which are:
    - Cost based pricing,
    - Market/customer based and
    - Competition based pricing.

**1. Cost based pricing method**

- Pricing technique that focuses on the costs of production.
- The price is determined by the costs incurred in production, examples of techniques used include;
- **Full cost pricing-** based on absorption costing, the price of a product is calculated based on total costs incurred when producing one unit plus mark-up to cover profits.
- **Direct cost pricing**- based on marginal costing, here the firm adds mark up after calculating variable costs per unit.
- The price set under direct cost pricing only covers variable costs of production as compared to full cost pricing which covers both fixed and variable costs.

**Advantages of cost based pricing technique**

- It is easy to calculate provided that costs are calculated accurately.
- It ensures that all costs of producing a product are covered.
- It is flexible, the price of a product can be adjusted if the costs of production changes.
- It guarantees profit for the firm.

**Disadvantages of cost based pricing**

- Does not take into account demand of a product which may be influenced by what customers are willing to pay.
- It ignores competitors pricing strategies, thus one can charge a high price whilst the competitors charge less which may lead to loss of revenue.
- An increase in cost of production leads to increase in price.

**2. Market based pricing technique**

- Pricing methods that are based on the conditions of the market compiled by the market researcher.

- Marketers set prices based on results found, for example, competitors' price or customer demand.
- Examples of market based pricing strategies.

**a. Penetration Pricing**

- Used where a business seeks to secure a position in the market especially for a new product.
- A low price is set to build up sales and market share.
- This is because consumers are lured to buy a product and to create product image.
- Once the product is positioned, the price may be raised.
- This method is often used by big companies operating in mass production

**b. Skimming Pricing**

- The initial price of the product is high for a limited time.
- It aims at maximising profit as much as it can before competitors enter the market.
- The company introduces the product to certain segments of the market and later sold to the whole market.
- Skimming helps develop brand loyalty to customers that associate price with quality.
- However the price will be lowered at a later stage as demand of the product changes.
- Electronic gadgets often start with very high prices which are lowered right before new models are launched.

**c. Price Discrimination**

- Practise of charging the same commodity different prices to different buyers.
- The business can charge high price to high class customers while charging low price to low class located in different area.
- A Samsung plasma TV at Borrowdale flea market may have a higher price compared to the one at warren park complex.
- This method allows the producer to earn revenue from the most profitable segments.

**d. Promotional pricing**

- The prices of the products are temporarily set very low as a means to attract more buyers by offering discounts.
- This is usually done when the sales of the product are going down.
- It is also used to sell unwanted stock.

**e. Psychological pricing**

- This involves a firm setting the price of a product below the rounding figure.
- It is usually used to create impression of good value, for example, the price of jacket is set at $6.99.
- Usually the buyer will think that the product is cheaper than the one going for $7.

**Competitive based pricing technique**

- Pricing strategy that is determined by what competitors offer for the same product.

- A company which offers similar products to those of its competitors may decide to;
- Set a price that is higher than that of its competitors to create the perception that its product is of higher quality.
- Set the same price as that of its competitors.
- Set a price that is lower than that of its competitors to try to gain more customers.

**Promotion**

- Defined as any means of communication used by a business to convey information, encourage and remind customers about their products.
- It is any way a business makes its products known to its current and potential customers.
- A company uses different promotional mix tools to persuade customers to buy their product.

**Roles & objectives of promotion as marketing mix tool**

- To increase demand among the targeted market.
- To differentiate products from its competitors and create a brand identity.
- To build awareness about the product and its benefits.
- To strengthen the company/product's brand name.
- To remind customers of the existing products.
- To arouse their interests and motivate them to purchase the product.
- To inform people about any particular changes about the product, its price and channels of distribution.
- To help position the products better than the competitors'.
- To increase sales by persuading more customers to purchase.

**Activity**

Explain briefly how you would the marketing mix variables to market a new product in your community.

**Tools of promotional mix**

- These are techniques used by a business to spread information about a product.

**a. Advertising**

- Advertising refers to the process of informing the consumers about a product.
- Advertisement involves any form of paid non-personal means of passing information about a product to consumers.
- Mass media such as television, billboards, radio or newspapers and magazines are usually used.
- Companies usually use the following types of advertisements
    - Informative advertising- to inform customers about new products, its benefits and price.
    - Persuasive advertising- to encourage customers to buy their product rather than its competitors.

- Collective/generic advertising- usually undertaken by a group of companies that sell the same product.

**Advantages of advertising**

- Information about a product reaches a large market.
- There are a wide variety of media available for advertising.
- Able to show or demonstrate the function and benefits of a product.
- Enhance customer satisfaction and confidence for using the product.
- Helps to boost sales revenue.

**Disadvantages of advertising**

- It is an impersonal communication- there is no direct communication between the customer and marketer.
- The marketer assumes that the message is communicated yet sometimes the audience does not pay any attention to impersonal messages conveyed through advertising.
- It is difficult to ascertain the response of customer after the advertisement.
- The effectiveness of advertisement is very difficult to assess as there is no immediate and accurate feedback given by the customers.
- It is difficult to choose the best media each media has its own advantages and disadvantages.
- When a choice of media is wrong, no matter how good the advertisement is, the information will not reach the target customer.

**b. Public Relations and Sponsorship**

- Public relations include many activities that are carried out with the objective of creating a good image of the company and its products to the community.
- The company may use influencers such as role models, like musician to test its product and speak positively about it to the public.
- The company does not pay to have publicity but it can sponsor major events in order to improve its brand and company image.
- By maintaining public relations, companies create goodwill.
- Other publicity activities include TVs and radio presentations, charitable contributions, speeches and participation in seminars.

**c. Personal Selling**

- It involves a face to face interaction between a seller and a buyer for the purpose of initiating a sale of a product.
- Direct selling connects company representatives with the consumer.
- This interactions can be in person, over the phone or email or chat.
- It is aimed at creating a personal relationship between the client and the brand.
- Facilitate immediate feedback from the customer.
- Examples include sales presentations, sales meetings, sales training and incentive programs as well as telemarketing.

**d. Direct Marketing**

- This is a process whereby businesses communicates directly with its customers.
- Potential clients can receive information over the use of the telephone, customised letters, emails and text messages.
- Other organisations use interactive consumer websites, online display ads, fliers, catalogue distribution, promotional letters and outdoor advertising.

**Sales Promotions**

- Sales promotion refers to the use of short term incentives aimed at stimulating consumers to buy the product.
- Usually these are short term strategic activities used to increase sales within a short period.
- Media and non-media marketing communication are used for a limited time to increase consumer demand of a product.

**Sales Promotion Techniques**

- Rebate- selling a product at a special price which is less than the original price, for a limited period of time.
- Discounts- it is a conditional reduction in the price of a product, for example if a consumer is willing to make a payment immediately or purchase more than one product.
- Refunds- This is the money that is given back to the customer who has purchased a product.
- Premiums or Gifts- A customer is given a free gift after purchasing a product.
- Samples- The manufacturer or seller of a product may distribute free samples of product to the target customers.
- Contests- the participation of consumers in competitive events which are organised by a firm.

**Advantages of sales promotion**

- Attracts attention of customers.
- Useful in New Product Launch.
- Supplements advertising and personal selling techniques.
- It leads to higher sales volume resulting in high market share.
- There is an improvement in the reputation of the company.

**Disadvantages of sales promotion**

- If not done well it may damage the image of the product.
- May reduce the profit margin of the company.
- The sale effect may only be for a short period.

**Place**

- Refers to any means by which the goods and services are distributed to the customers.
- It is where the customers receive or access the products.

A firm can use either of the following techniques to distribute its product;

- Intensive distribution- to distribute low priced products suitable for impulse purchases.
- Exclusive distribution- It involves limiting distribution to a single outlet usually on highly priced goods.
- The main objective is to make goods available to consumers at the right place and right time.
- This can be achieved by using different channels of distribution.
- Channels of distribution are routes taken by a producer to deliver a product to the final consumer.
- They use intermediaries responsible for distributing the products to consumers.

**Channels of distribution**

**Direct selling (manufactures to consumers)**

- In this channel, the manufacturer directly provides the product to the consumer.
- Products that are likely to use this channel are mail orders, services, farmers' produce, etc.
- E-commerce is an example of direct selling technique where customers buy goods online.
- The advantage of this method is that the company has complete control over the marketing mix of the product.

**Manufactures to retailers to consumers**

- Mostly used to distribute wide range of consumer goods over a wide market area.
- Middlemen are important in this channel since there is mass production, goods need to be delivered in different areas.
- Retailers usually have large warehouses where they store stock.
- Retailers also sell their goods in small quantities to consumers.
- However manufactures lose control over marketing mix, they are not able to set price for their own product.

**Producer to wholesaler to retailer to consumer**

- This is a long route where the wholesales keep bulk goods which they sell to retailers.
- The retailers in turn sell the goods to consumers.

**Manufactures agent**

- Producer hires an agent who will be responsible for their product to wholesalers and receives commission.
- The company may sell to an agent that further distributes products to wholesalers.
- The agents may belong to the manufacturing company or they can be independent ones.
- This channel is necessary for large producers who sell through many small retailers.
- This raises product costs since each intermediary gets a percentage from the sales revenue.

**Factors influencing the choice of distribution channel**

The distribution channel used depends upon certain factors such as;

- Nature of product- industrial products like heavy machines or equipment tend to have a shorter channel because of their bulkiness, as such consumers will buy form manufacturers.
- The market- in a niche market it is possible for a manufacturer to deliver goods to customers unlike in a geographical dispersed market where different intermediaries will be needed to deliver goods.
- The costs involved- if the cannel is long it means that there are greater costs to the final consumers, as such retailers may prefer to purchase directly from the producer and not from the wholesaler to reduce costs.
- Degree of control- other manufacturers would want to control the marketing mix for their product, thus they will avoid using long chain of distribution so as to maintain control.
- Legal factors- these are restrictions set by the government which determine how a product may be distributed, especially chemicals and drugs, thus, they are designated intermediaries which are allowed to distribute such commodities.
- Availability of technology- the use of internet eliminates other distributing channels as it directly connects consumer and the seller.

**SUMMARY**

- Marketing mix describes strategies used by a firm in order to encourage customers to buy their products.
- The marketing mix variables are the product itself, price, promotion and place.
- The product refers to any goods and services that a company produces or sell in order to make profit.
- The product should look attractive to customers and of quality so that customers would buy.
- Place refers to the channel in which the product will be distributed customers.
- Price is the value of the product that customers must pay in order to get the product.
- Promotion deals with how a company raises awareness to the public about the product they offer and its benefits, it includes advertising and selling strategies.
- Product development is the modification of existing products and the creation of new products.
- Before a product is commercialised it has pass through market testing where samples are distributed to potential customers to get their new on the new product.
- A product basically passes through the four stages of a life cycle after it has been launched, that is the introduction, growth, maturity and decline stage.
- A firm can extend the product life cycle of a product that has reached the decline stage by opening new markets, adding different varieties, and or rebranding the product.
- Examples of pricing strategies that can be used include cost based, penetration and skimming pricing.
- Good marketing helps to create advanced brand awareness.

**8 OPERATIONS MANAGEMENT**



# NATURE AND LOCATION OF PRODUCTION

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

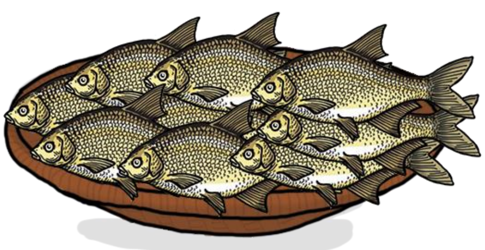
- Idenntify and define land, labour capital and enterprising.
- Identify and explain the stages of production.
- Expain and illustrate the production function.
- Identify factors that influence location of a business unit.
- Explain or discuss factors that lead to relocation of a business unit.

**Production**


Mining

Timber Production

Farm Produce



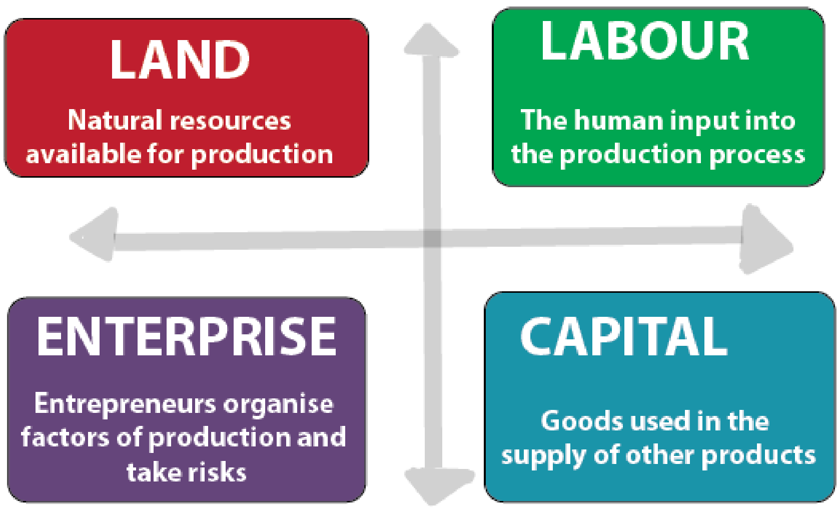
Fish Production

1. Production refers to the process of converting inputs or raw materials into semi/ finished goods and services.
2. Inputs are resources that are put into a system in order to get a desired output.
3. Inputs can be tangible or intangible.
4. Tangible inputs are resources that can be touched physically, for example, raw materials, machinery, stock, vehicles, etc.
5. Intangible inputs are resources that one cannot touch, for example, information, knowledge or ideas.

6. Intangible inputs are intrinsic in nature.

**Means of production / factors of production**

1. Factors of production are inputs that are used in the production process or drivers of production.
2. For producers to satisfy consumers' needs and wants they must make use of factors of production at the same time making profit.
3. These factors of production are land, labour, capital and enterprise.




Factors of production

**Land**

Land

1. It is solid part of the surface of the earth.
2. It can be small or large.
3. It can belong to an individual or people as a country, estate, farm or tract.
4. It can be exploited in a lot of ways for example cultivation or construction.
5. Land can also refer to all natural resources which are found under, on and over the earth's surface.
6. Land is a gift of nature which is immovable/ permanent and limited in supply.
7. Examples of natural resources include; soil, minerals, mountains, seas, forests, etc.
8. The reward for using land is rent.

**Labour**

1. Labour refers to the work force in an enterprise.
2. Labour is human resources.
3. Labour entails the human efforts which is put into production.
4. Human effort can be physical or mental effort used to produce goods and services.

Physical effort - involves actions, muscular movements to get work done. An example is of a farm worker digging in the garden.

Mental effort - involves use mind to get work done. An example is a teacher teaching in a classroom.

1. Labour can be classified into skilled and unskilled labour.

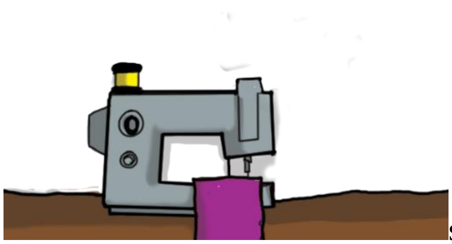
Skilled labour - is whereby special knowledge, learning, training and acquired ability is required to perform a specific task. An example is a doctor.
Unskilled labour - is whereby a task is performed without having special learning or training. An example are general workers, farm labourers, house maid, etc.

1. The compensation for labour is wages or salaries.
2. The remuneration for skilled workers varies to that of unskilled workers.
3. The skilled workers tend to be highly paid.
4. Between the skilled and unskilled are the semi-skilled.

**Activity**

1. Suggest how machinery can replace manual labour?

**Capital**


sewing machine


tractor

1. Capital encompasses all man-made resources used to produce goods and services.
2. Capital can be categorized into physical capital and human capital.

Human capital - refers the skills, talents, abilities and education that individuals have.
Physical capital - refers to the equipment used in the production.

1. Examples of man-made resources include; machinery, buildings, trucks, raw materials etc.
2. The reward for capital is interest.
3. Human capital drives/mobilise/manage/control the physical capital.

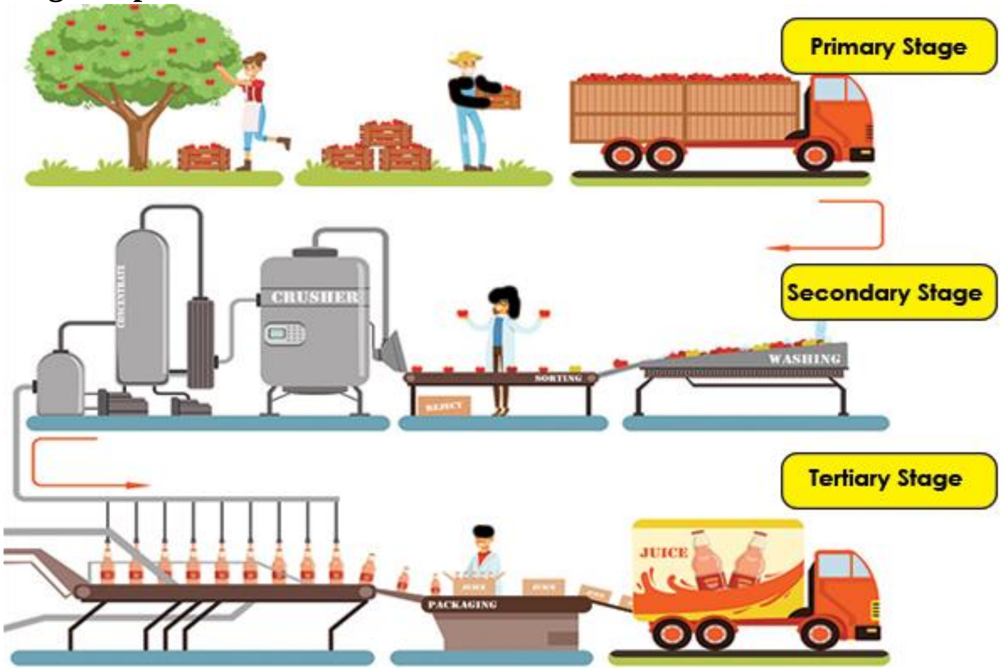
**Entrepreneurship/enterprise/ organisation**

1. Entrepreneurship combines land, labour and capital in order to produce goods and services.
2. The reward for entrepreneurship is profit.

The following is a summary of factors of production and their rewards.

| FACTORS OF PRODUCTION | REWARDS |
|---|---|
| Land | Rent |
| Labour | Wages or Salaries |
| Capital | Interest |
| Entrepreneurship | Profit |

**Stages of production**




Stages of Production

1. The stages of production are divided into three main stages which are; primary, secondary and tertiary.

**Primary production**

1. Primary production is the first stage of production.
2. It involves extraction of raw materials from nature (land and sea).
3. Primary production activities include; mining, fishing, farming, quarrying and forestry.

**Secondary production**

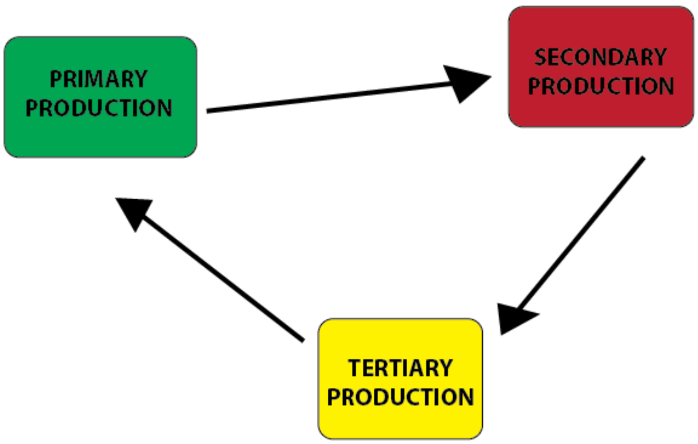
1. This is the second stage of production.
2. It involves converting raw materials into semi–finished goods, finished goods and assembling of components into finished goods.
3. Examples are construction of buildings or roads, pottery, baking and shoe making.

**Tertiary production**

1. This is the third stage of production.
2. It involves the provision of services.
3. Examples of tertiary production include healthcare, education, tourism, transport, insurance, banking etc.

**Points to note**

1. Raw materials from primary production are used in secondary production.
2. Tertiary production provides services to both primary and secondary production.
3. All the stages of production are interdependent.




Interdependence of stages of production.

**Production function**

1. Entrepreneurs ought to organize factors of production (land, labour and capital) so that products are produced.
2. Entrepreneurs try to produce at a lower cost.
3. Efficient management of resources (lowest possible cost and profit maximisation).
4. In order to see if they are producing at a lower cost, a comparison must be done on the inputs and output.
5. Production function is therefore the relationship between inputs used to produce certain amount of output.
6. An example of production function:

It may take two men, two loan mowers and sixteen hours to cut grass on a one hundred square metre (100m2) ground.

1. In the short run, firms however should not use fixed proportions of inputs.
2. Varying proportions (factors of production such as labour) are important especially in the short run.
3. If an enterprise wishes to increase or decrease its production capacity, it cannot change its fixed cost of production in the short run but it can increase or decrease output by changing the variable cost.

**Short run**

1. It refers to a time period where a factor of production is fixed.
2. Only labour and materials can be variable in the short run.

**Long run**

1. It refers to a time period where there are no fixed factors of production.
2. All the factors of production are variable.

3. In the long run, the firm may change its fixed factors of production because it can locate to a factory of different size.
4. In the long run, land, capital and labour changes. The costs are not fixed.

**Fixed cost**

1. It refers to cost incurred by an enterprise which is constant despite the amount of goods produced for instance, rent.

**Variable cost**

1. It refers to cost incurred by the enterprise which vary as output increase or decrease, for instance, raw materials.

NB: Production function is best explained using the Law of Variable Proportions.

**Activity**

1. List fixed and variable cost that could be incurred at your homestead.

**Law of Variable Proportions (Diminishing Returns)**

1. It refers to a concept whereby if a factor of production (for instance labour) is increased while other factors remain constant, it will cause output to decrease as time goes on.
2. It entails that, a point will be reached where additions on inputs will produce a smaller output.

**A case study**

Assume that maize is grown on a fixed area of land which is ten hectares (10ha). The amount of capital is fixed in supply. Labour is the only variable factor.

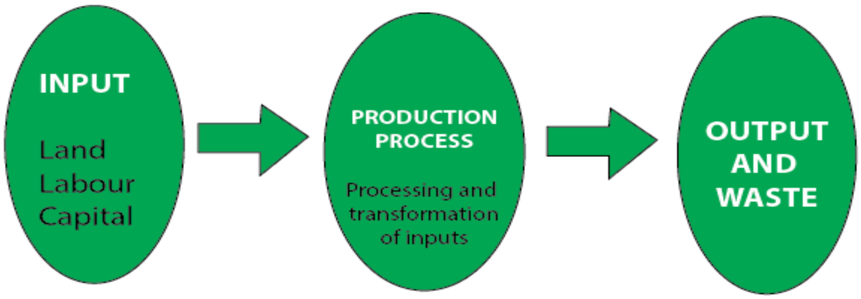
**Assumptions**

The only variable factor of production is labour.
There are no changes in the farming methods.
The following table illustrates relationship between labour (variable factor of production) and output.

| NUMBER OF WORKERS(LABOUR) | OUTPUT (TONNES OF MAIZE) |
|---:|---:|
| 1 | 10 |
| 2 | 30 |
| 3 | 67.5 |
| 4 | 106.5 |
| 5 | 110.5 |
| 6 | 110.5 |
| 7 | 100 |
| 8 | 94 |

From the above table, it shows that if labour (number of workers) is added to fixed factors of production which are land and capital in this case, there is increase in output at first then output will decrease later.

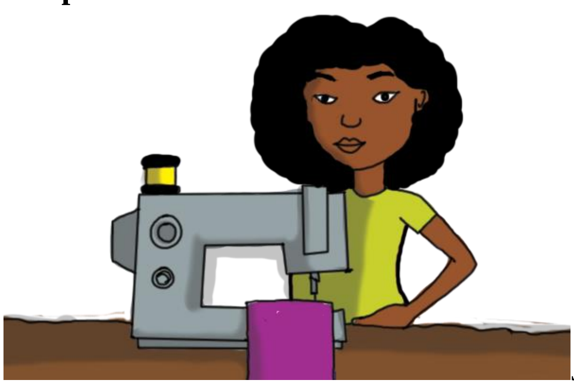
**Production process**




Production process

1. It involves converting inputs into outputs.
2. In order for production to be successful, production methods must be used.
3. Production methods are techniques used in production.
4. There are three methods that can be used in the production process.
5. The production methods are job production, batch production and flow production.

**Job production**


Job Production

1. This is a production method where a product is made specifically for an individual.
2. Each customer's order is different from another customer's order.
3. A single worker or group of workers handles the task.
4. Job production requires highly skilled labour.
5. Examples of job production are dress making, hairdressing and decorating.

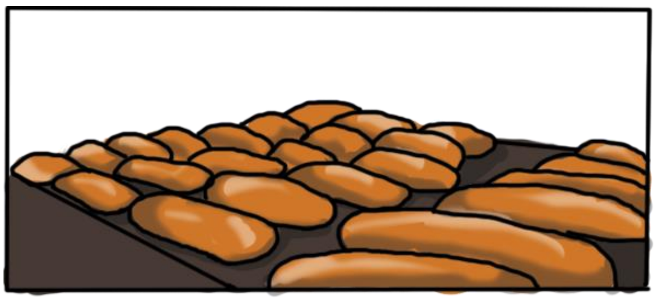
**Advantages Of Job Production**

1. Customers' specific requirements are met.
2. Goods produced are unique.
3. Different products are produced hence there is flexibility.
4. There is production of high quality goods.
5. It suits personal service .Personal service entails service offered directly to a customers.
6. Personal touch.

**Disadvantages Of Job Production**

1. It requires use of highly skilled labour.
2. High costs incurred on materials because each customer has own specifications.
3. Time taken to produce can be long.
4. It may be expensive to correct errors per specific order.
5. Reduced profits as opposed to mass production.

**Batch production**


Batch Production

1. This is where a product is produced stage by stage in different batches.

Batch - refers to a group of people or items which can be dealt with at the same time.

1. Products are made in such a way that if one batch finishes, the next batch starts.
2. The process is not continuous hence there is need of changing over.
3. Examples of batch production include: clothing production, furniture production, baking and car assembly.

**Advantages Of Batch Production**

1. Materials are bought in bulk which becomes cheaper for the enterprise.
2. It reduces unit cost since a large amount of output is produced.
3. Specific customer needs are met for instance size, weight and style.

**Disadvantages Of Job Production**

1. There is delay in production, when switching from one batch to another.
2. Space is needed for storing raw materials.
3. Goods have to be stored until they are sold which is very expensive (high storage cost).
4. Work become boring because of repetition of work.
5. Different specialised machinery may be required.
6. Cost of production is relatively high.

**Flow production**

Primary ProductionFlow Production

1. It can also be referred as mass production or line production.
2. In flow production, it is a continuous movement of items from one stage to another until completion without stopping or interruption.
3. Units are worked in each stage and then passed straight to the next work stage without waiting for the batch to be completed.
4. Examples of flow production is used in the production of packaged food, beverages, cars and televisions.

**Activity**

Research on how machines affect human resources.

**Advantages Of Flow Production**

1. High quality products are produced.
2. Lower cost of labour due to high use of machinery, leading to lower prices products.
3. Time is saved because there is no need to switch to other batches.
4. There is easy control of production process.
5. Waste is eliminated leading to lower costs.
6. It requires a minimal storage space.

**Disadvantages Of Flow Production**

1. The system may be boring for workers.
2. Setting up production line can be expensive.
3. If there is breakdown of one machine, it will affect the whole production line.
4. Contributes to unemployment because of great use of machinery.

**Location of production**

1. It refers to a site or geographical place that provides facilities for movement of goods, other support services and factory.
2. Example of locations include; airport, shopping complex and freight station.
3. Decisions on location affect costs and revenue of the enterprise.

**Factors influencing the location of a business unit**

1. The factors that influence business location can be put into two categories which are supply factors and demand factors.

Supply factors - refer to the factors that are mainly concerned with costs of operating the business (production oriented factors).

Demand factors - refer to factors mainly concerned with customer service and revenues (market oriented factors).

**Supply factors**

**Labour costs**

1. These are wages paid to employees, cost of employee benefits and payroll taxes.
2. The labour costs depends on the region you are operating on.
3. The labour costs differ from one region to another.
4. If the location has highly skilled workers then labour costs will be high.

**Land costs**

1. Land, buildings and other facilities may be bought or rented.
2. Rent vary from one location to another.
3. Government usually intervene in form of grants, infrastructure development programmes and other incentives in order to reduce land costs.

**Energy costs**

1. Energy costs depends on the type of energy used by the business for example gas, solar and electricity.
2. Businesses must be able to do negotiations on price if they use substantial amounts.

**Transport costs**

1. It is cost of bringing inputs into the business and also cost of delivering products to customers.
2. A business needs to be close to its source of supply if the cost of transporting raw materials is high (for example food processing is often carried out close to the farms).
3. Delivery firms carry out the transportation where the customer pays.

**Demand factors**

**Customer convenience**

1. Businesses should be located where customers find it quick, easy and cheap to access.
2. An example is that of a fast food restaurant which needs to be close to customers.

**Labour skills**

1. Businesses which require highly skilled workers should be located in an area where they can find highly skilled workers.

**Site suitability**

1. A site ought to have certain characteristics in order to maximise customer satisfaction and revenues for the business.
2. For example, a luxury restaurant ought to be located in an area which is attractive (up market location).

**Image of the site**

1. Some customers associate site and the product.
2. If they dislike the site, then they will not buy from there.

**Expansion potential**

1. Future production capacity (maximum output) has to be considered.
2. If the location provide limited scope for business expansion/ growth, it might be rejected.
3. On the other hand, if the location does not limit business expansion, it may be accepted.

There are also community factors that can affect business location. These are:

4. Local amenities and services, for example schools.
5. Local government attitude in terms of supporting business.
6. Language.
7. Political stability.
8. Access to water (crop production).
9. Close to an airport (air freight business).

**Activity**

Ruvimbo and Peter are considering opening a food outlet in their residential area. Suggest how they may effectively use the factors affecting location of business.

**Relocation of a business**

1. It refers to the action of moving to a new site and establish a business there.
2. An example of an enterprise which relocated is Econet Wireless which relocated to South Africa.
3. The reason for relocation is that a new market was discovered.

**Factors that lead to relocation of business**

1. There are numerous factors which can lead to relocation of business.

**Growth and expansion**

1. When a business production capacity increases, it might need larger premises to use.
2. If the current premises limits expansion, then the business will relocate.

**Cheaper or new sources of materials**

1. If a business discovers that there are cheap suppliers of raw materials, it may move to a new site closer to raw materials.

**New markets**

1. If there are new markets outside the current location, the business may decide to locate near the new market to avoid costs associated with transporting goods.

**Rent and taxes**

1. Some business may decide to relocate because rents and taxes may become expensive at the present location.

**Government grants and other incentives**

1. Governments may offer grants or other incentives to businesses so as to lure them to operate in their country.
2. They do so in order to earn foreign currency and create employment for their citizens.

**Government legislation**

1. Government can introduce stricter legislation which can drive out enterprises to other neighbouring countries.

**Trade tariffs and barriers**

1. Tariffs - refer to tax or duty which is paid on imports or exports.
2. Trade barriers - are limitations (restrictions) put by the government on the importation and exportation of goods.
3. Trade tariffs and barriers affect business negatively/ positively.
4. A business may relocate to another country to avoid restrictions on trade.

Extinction of mineral resources until nothing is left in the case of mining.

**Summary**

1. Production refers to conversion of raw materials (inputs) into semi-finishes and finished goods.
2. Four production to take place, there factors of production that come into play. The factors of production include land, labour, capital and entrepreneurship.
3. Production is in three stages; primary, secondary and tertiary. These stages of production are interdependent.
4. There are three types of production which are job, batch and flow.
5. A number of factors affect location of an enterprise. Example of factors affecting location of an enterprise are labour costs, transports costs, energy costs and suite suitability.
6. An enterpriser can decide to relocate his/her business due to a number of factors. The factors can include expansion, rent, trade barriers and new markets.

# VALUE ADDITION

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- Explain the production function.
- Define value addition and give ways of adding value to a product.
- Explain the importance of adding value to a product within the context of value chain.

**Production function**

- It is concerned with turning inputs into output through a series of production process.
- It shows the relationship between inputs and output, that is, how much quantity of output can be produced from a given quantity of inputs.
- Production function helps the manager to identify how best they can use the resources to maximise output.

**Inputs**

- These are resources used to produce goods.
- It can be raw materials that are transformed into outputs.

**Examples include;**

- Land- includes all renewable and non-renewable natural resources such as water, timber, oil, coal, etc.
- Capital- include all man-made resources used in the production of goods and services, for example, plant and machinery, finance, vehicles, etc.
- Entrepreneur- the one who combines all factors of production and takes risk in the business.
- Labour- includes all work performed by workers when producing goods.

**Production process**

- It involves different methods that are used to convert inputs into output to suit customers' needs.
- It also involves a series of activities that transforms inputs and adds value to products.
- It can be designing, cutting, grinding, grilling, etc.
- Inputs pass through different stages of production to increase value of output.
- Production process ensures that resources are used efficiently and effectively.

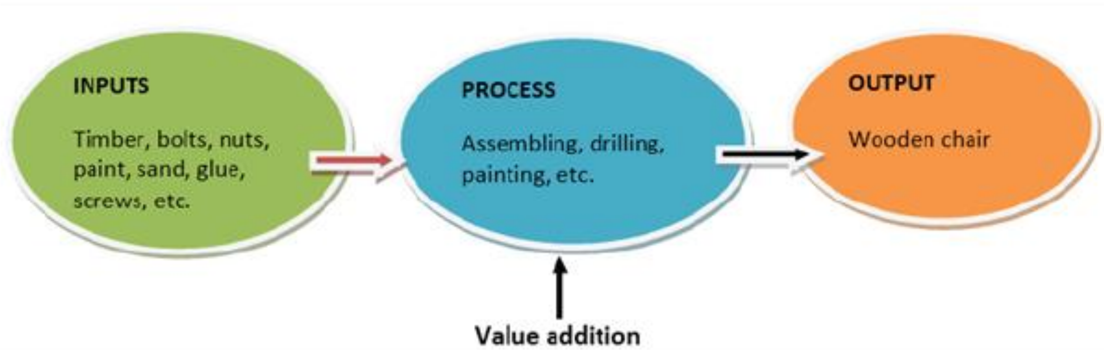
**Output**

- It is the quantity produced.
- It can be tangible or non-tangible.
- Examples of output are clothes, health services, food, vehicle, etc.

**Concept of value addition**

- Value is defined as anything that positively affects the features of something, in this case, a product.
- Value addition refers to process of changing the characteristics of raw materials into a more valuable state which appeals to customers, for example, changing animal skin to make leather material or to make shoes.
- It is the improvement of a firm's product before dispatching it to customers.
- A product is said to have value when customers are willing to pay for it at the price charged.

- Value is added during the production process where the product is designed, refined for customer preference.
- Value addition increases the price or value of a product.
- It is calculated by subtracting cost of producing the product from the selling price.
- For non-manufacturing company it is difference between total revenue and total purchases.
- Value added amount is not regarded as profit.

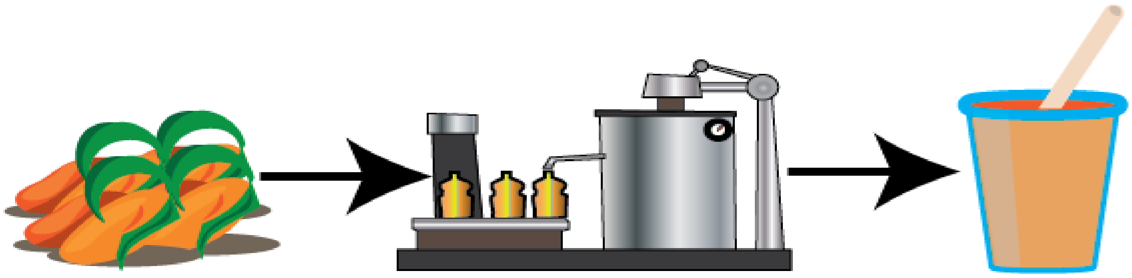



Value addition in production

**Ways of creating value to a product**

Customers are mostly like to purchase what is desirable and more convenient to them, hence a business can create more value to their products by;

- Improving on quality- engage in total quality management to ensure that the firm offers durable product desired by customers.
- Packaging, designing and branding so that it becomes appealing to customers and for good reputation.
- Ensure that the product is available at a desired place and time, for example, using internet sites, mail order, door to door delivery, reliable transportation, etc.
- Improving on customer services to gain competitive advantage over other competitors by:
  - offering after sales services,
  - being convenient,
  - Helping customers while shopping.
- Train workers so that they become more competent and produce quality products.
- Increase productivity that is, managing the use of resources efficiently by reducing waste there by reducing the cost of production.
- Improve working conditions so that employees will be motivated to work effectively.



Value addition in fruits

**Calculating value added**

Sold 1500 units for $10 each

Production costs; raw materials $ 7 500, labour $2300, other production costs $ 400

Value added = Sales revenue less cost of production

= $ 15000 – ($7 500 + $2 300 + $400)

= $4 800

**Activity**

How can a production manager at a dairy farm add value to dairy products?

**Importance of adding value to a product**

- The firm can charge high price to their product, for example the price of Irvine's products are always high because of their value as compared to other brands.
- Customers will able to differentiate their product from competitors' by providing unique features.
- It enables the enterpriser to meet customers' needs thereby creating customer loyalty.
- A firm can increase their profit, if the product has value customers will be willing to pay more.
- Value addition enables a firm to protect their own products from competitors who charge low prices for the benefit of attracting customers.
- For survival and growth in the market by producing quality goods.
- It can be cost cutting method in the long run, a firm may reduce promotional cost since the product will be well known.

**Disadvantages of adding value to a product**

- It is costly to the business- it requires sophisticated equipment for a business to add value to their products.
- The process of adding value may be time consuming, for example, training of employees and adding special features to a product.
- The product becomes more expensive for customers due to value addition.
- There is need for continuous improvement since consumer taste changes regularly.

**Value chain and value addition**

- There is a close relationship between the concept of value chain and that of value addition.
- Value chain refers to the entire system of production, processing and marketing of a particular product, from inception to the finished product.
- A value chain consist of a series of chain activities, linked together by flow of products, finance, information and services.
- At each stage of the chain, the value of the product goes up, because the product becomes more convenient for the consumer besides value, costs are added at each stage in the chain.
- For example, value chain in agriculture refers to the addition of value to preliminary agricultural products by combining them with their resources such as tools, manpower, knowledge, skills, raw materials or other preliminary products.
- As the product passes through several stages of this chain, the product's value increases.
- A key contribution of value chain analysis lies in the notion of upgrading, the acquisition of technological, institutional and market capabilities for greater competitiveness or movement into higher value activities.

**Summary**

- Value addition refers to a process of changing the characteristics of raw materials into a more valuable state which appeals to customers, for example, changing animal skin to make leather material or to make shoes.
- Ways of adding value include improving quality, packaging, designing and branding, ensuring that the product is available at a desired place and time, improving on customer services to gain competitive advantage over other competitors, training workers so that they become more competent and produce quality products.

# TRANSPORT

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- Explain the importance of transport in operations management.
- Discuss the benefits and draw backs of different modes of transport.
- Identify factors that influence the choice of each mode of transport.

**Transport**

- Transport is a system of carrying goods or people from one place to another, for example, transporting water using pipelines, coal using railway, etc.
- It is any means that is used to move goods from one location to another.
- Transport plays a vital role in enterprising as it helps the enterpriser to distribute goods and services to customers.
- Well established transport network is needed for effective running of the business.
- Transport is one of the key factors influencing the choice of location for a business as it helps an enterpriser to achieve set goals.

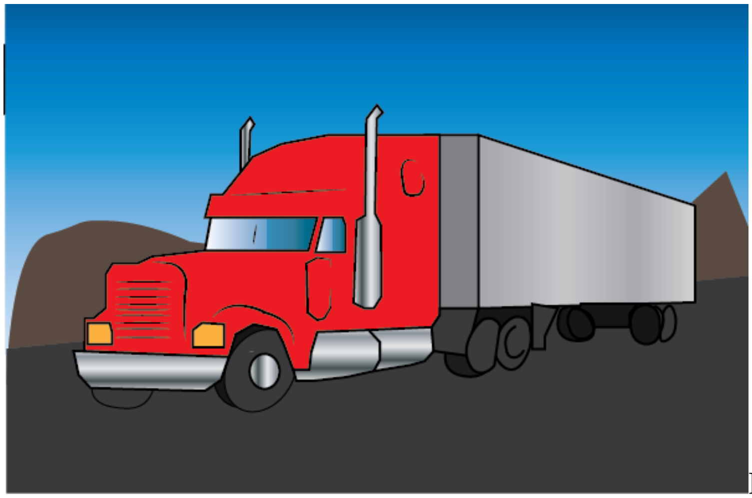
**Importance of transport in production**

- Transport enables an enterprisers to have access to different markets.
- It improves firm's efficiency - raw materials will be delivered regularly to avoid production stoppage.
- It connects different stages of production.
- Reduces storage costs of finished goods since deliveries are made regularly.
- Enables producers of perishable goods to deliver their goods in time to avoid any loss, for example flowers can be delivered in United Kingdom by air transport immediately.
- Ensures large scale production since the firm will be able to carry more raw materials from one place to another resulting in a decrease in cost of production.
- Transport guarantees continuous production of goods in a firm, for example workers will be at work in time and avoid any delays.

**Modes of transport**

- It is a term used to distinguish substantially difference means of convenience.
- These are different means of carrying goods from one place to another.
- They are grouped into three major categories, that is,
    - land ( road, railway and pipeline)
    - water ( sea transport)
- air transport
- Land transport include rail, road and off-road transport.
- Other modes also exist, including cable transport and space transport.
- Each mode of transport has a fundamentally different technological solution, and some require a separate environment.
- Each mode has its own infrastructure, vehicles and operations.
- A vehicle is a machine which transport people and cargo.
- Vehicles include wagons, bicycles, motor vehicles, railed vehicles, water craft and space craft (orbital vehicles, space scuttle/ space planes.
- Each mode of transport has special facilities which allow easy transportation of goods, for instance, they may be refrigerated to preserve perishable goods in transit.

**Road transport**


Road Transport

- This is the most popular mode of transport used in businesses since there are well developed road networks in most countries.
- Many firms provide scheduled delivery time to deliver orders to customers and to collect orders from suppliers.
- Examples of vehicles used by most companies include haulage trucks, lorries, buses, cars etc.
- Suitable to ferry fragile goods, perishable goods and cargo of different sizes over short distances.
- Vehicles can be owned by a company or hired.

**Benefits of using road transport**

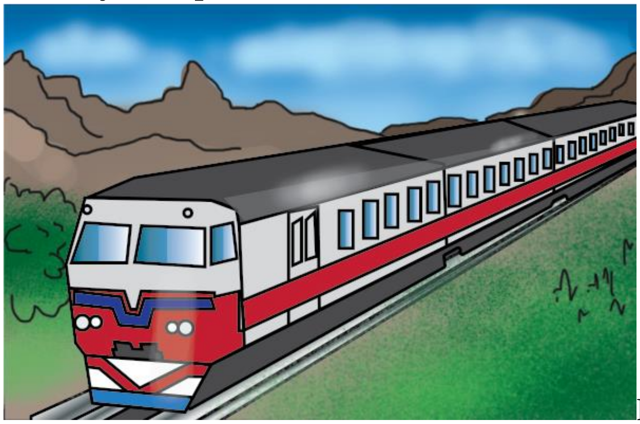
- It is the cheapest mode of transport compared to other modes.
- Enables an enterprise to make door to door deliveries.
- It is convenient over short distances.
- It can be used to deliver perishable goods.
- It is flexible, routes and timetables can be easily changed in case of emergency.
- Road transport permits the use of different types of vehicles depending on the type of cargo carried, for example heavy trucks to carry abnormal loads.
- Goods can easily be monitored.
- Road transport offers wide coverage of market, international markets can be reached easily even the ones in rural areas where there are poor roads.
- An enterprise can advertise its own products by placing advertisements on the sides of the trucks, for example, Baker's Inn have advertisement stickers on their trucks

**Disadvantages of using road transport.**

- The carrying capacity is limited.
- Efficiency of road transport depends upon certain factors like road structure, traffic congestion which can cause delays or break down.
- It is slow over long distances, for example transporting goods from Zimbabwe to Ghana may be slow as compared to air transport.

- Easily affected by bad weather conditions, goods can be damaged in transit and roads can be unsafe during rainy seasons.

**Railway transport**


Rail Transport

- It is a means of carrying people and goods using vehicles that operate on rails called trains.
- Mostly used to ferry wide range of bulky goods like coal, steel and any other heavy products.
- Trains operate on fixed timetables and routes.
- Trains use coal as source of fuel or can be electrified to achieve greater speed over long distances.

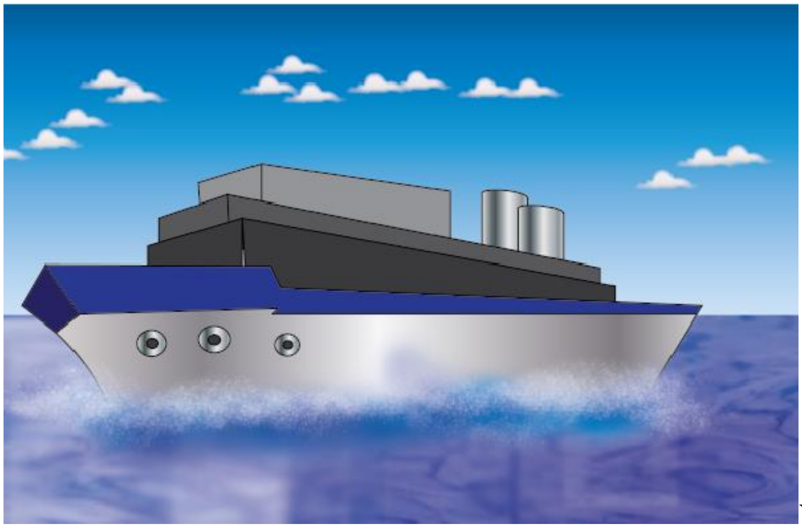
**Benefits of using railway transport**

- It is fast and cheap over long distance as compared to road transport.
- Can carry large and heavy quantities of cargo like coal, machines, chemicals, food grains, etc.
- Not easily affected by bad weather conditions.
- There is no traffic congestion and less risks of accidents.
- They operate on fixed timetables to avoid any delays.
- Can operate with few employees thereby reducing cost of operation.

**Disadvantages of railway transport**

- There are high capital costs- it requires high investment to construct and maintain the railway.
- Trains are slow over short distances, hence they cannot be used to deliver goods to close by areas.
- It does not provide door to door deliveries.
- It is not flexible since it operates on fixed timetables and routes, timetables cannot be altered to suit individuals requirements.
- Railway transport covers a limited market - fail to reach to reach customers in remote areas or where there are no railway services.

**Water transport**

Water Transport

- Carries goods and people using ships or boats.
- Suitable for carrying heavy and bulky goods.
- Uses available routes that is inland waterways and sea/ocean waterways.
- Inland waterways consist of rivers, canal or lakes that exist within a state.
- Sea/ocean waterways connects different states and is mostly used in international trade.
- In Zimbabwe we only use inland waterways since we are a land locked country.
- Most ships are refrigerated to allow the shipment of perishables over long distances.
- There are different types of cargo ships used in water transportation of goods, namely;

**Tramps**

- Designed to transport mixed cargo.
- Can be hired by companies for a specific period.
- They have no fixed routes or timetables since they can be used randomly.

**Liners**

- They carry variety of cargo.
- Cannot be hired by a company for personal uses, instead they pay freight charges if they want to transport goods.
- They follow fixed routes and timetables, suppliers have to adhere to these routes for deliveries.

**Oil-bulk ore ships**

- Designed to carry cargo in liquid and dry form such as oil, explosives, mineral ore, etc.
- They take advantage of economies of scale since they carry bulky goods.

**Roll on Roll off ships**

- Special vessels that carry finished goods like vehicles.
- Car manufacturers make use of this type of ship to transport their goods to customers.

**Advantages of using water transport**

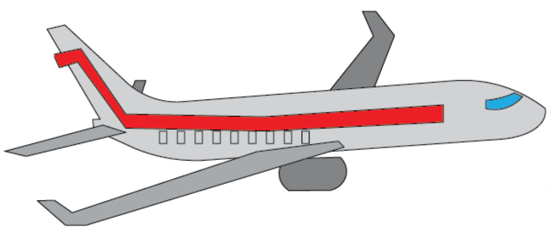
- It is a cheap mode of transport  of transporting valuable goods over long distances than air transport
- It is suitable for carrying heavy and bulky goods.

- Availability of different types of ships enables an enterpriser to select the best that suit the type of goods being transported.
- Easily connect countries which are separated by land, resulting in wide coverage of market base.
- Can be flexible- companies can hire ships that will operate in their own set schedules.

**Disadvantages of using water transport**

- There are high packaging costs incurred since goods are special packed to protect them from water.
- Water transport relies on other modes of transport, for example road transport for delivering goods to customers.
- It requires the use of documents when transporting goods which increases transportation costs.
- Affected by bad weather conditions which causes delays.
- There is high risk of piracy- goods may be stolen in transit.

**Air transport**



Air Transport

- Goods are transported using aeroplanes.
- A firm may have its own aeroplane or may use one provided by the state to transport their goods.
- Air transport can be used by agricultural farmers to spray pesticides in their plants.
- Operate on fixed routes and timetables.

**Benefits of using air transport**

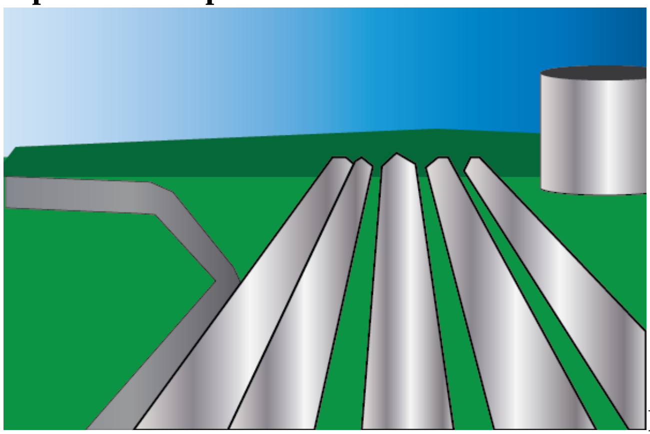
- It is the fastest mode of transport over long distances, hence can be used to carry goods needed urgently and perishables.
- Reduced risks of damage since goods are monitored thoroughly.
- It is suitable for transporting expensive and valuable goods.
- Can reach remote areas using helicopters, resulting in an increase in the number of customers.

**Disadvantages of using air transport**

- It is a very expensive mode of transport as it attracts high freight charges.
- It is not suitable for carrying goods over short distances.
- There are high operational and maintenance cost for companies that operate their own aeroplanes.

- It relies on road transport to transport goods to their final destination.
- It is not readily available, one has to make bookings in advance first.
- Heavily affected by bad weather which can cause delays in transportation.

**Pipelines transport**


Pipeline Transport

- Goods are transported through a pipe which connects the supplier and the consumer or customer.
- Goods that can be transported using pipeline include all liquid and gaseous products, for example, water, sewage, crude oil, fuel, natural gas, etc.
- Producers of liquid products make use of this transport mode and most manufactures use it for disposing waste produce.
- Pipelines are constructed in a wide area of land.

**Advantages of using pipeline lines**

- It provides door to door deliveries, customers acquire the product in their homes, for example, city council water or sewage system.
- It is most convenient for transporting liquid products.
- The risk of contamination and theft is reduced.
- It ensure continuous flow of fluids.
- It is a fast and cheap means of transporting fluids of large volumes.
- It saves on labour costs, few workers are needed for maintenance.
- Pipelines are not easily affected by weather conditions, they can operate for a long time.

**Disadvantages of using pipelines**

- It is not suitable for transporting small volumes of fluids.
- Limited to transporting liquid products only, other products cannot be transported.
- Requires strict monitoring to ensure smooth transportation.
- Very expensive to set up and costly if one part of the pipe is damaged, the whole transport system will be down until they fix the problem.

**What determines the choice of mode of transport?**

  - The availability of different modes of transport allows an enterpriser to choose the best suitable mode for a particular task.

- Firms have to consider the following factors before selecting the best mode of transport;

**The Nature Of The Product To Be Transported**

- Some products require specific mode of transport because of their nature, for example,
- Perishable goods like flowers, milk, fruits need to be delivered quickly.
- Heavy/ bulky goods such as coal, ore, and machines require mode of transport that will be able to accommodate such materials such as railway and sea transport.
- Liquids or gas can be transported using pipelines depending on the quantity being transported.
- If the goods are needed urgently, a firm has to use the best means, that is, it can be air transport for long distances or road transport for short distances.

**The Value Of The Goods**

- Goods with high value need mode of transport that provides security with less risk of theft, hence one has to choose the best suitable mode of transport.

**Transport Costs**

- Cost is one of the major factors considered by most firms – most firm would aim at incurring less transport cost in order to maximise

**Distance To Be Covered**

- If the goods are to be delivered in nearby areas, it is best to use the most effective mode of transport for short distances.

**Availability Of The Mode Of Transport**

- Other modes of transport are not easily available as they operate on fixed timetables and routes, for example, air transport, railways and sea transport.

**Summary**

- Transport is a system of carrying goods or people from one place to another.
- Transport is important to enterpriser as it enable them to carry their products from one market to another and connects different stages of production.
- There are different modes of transport which are road, railway, water, pipeline and air.
- The choice on the mode of transport to use depend on the nature of product, urgency of delivery, cost, distance to be covered etc.

# PURCHASING AND INVENTORY MANAGEMENT

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- Define purchasing.
- Explain importance of purchasing function.
- Identify five purchasing rights
- Explain stages of the purchasing cycle.
- Explain the role of e-purchasing.
- Define inventory management.
- Describe inventory management.

- Explain the advantages and disadvantages of holding inventory.

**Purchasing**

- It is a process which involves buying of goods and services used in the accomplishment of business goals.

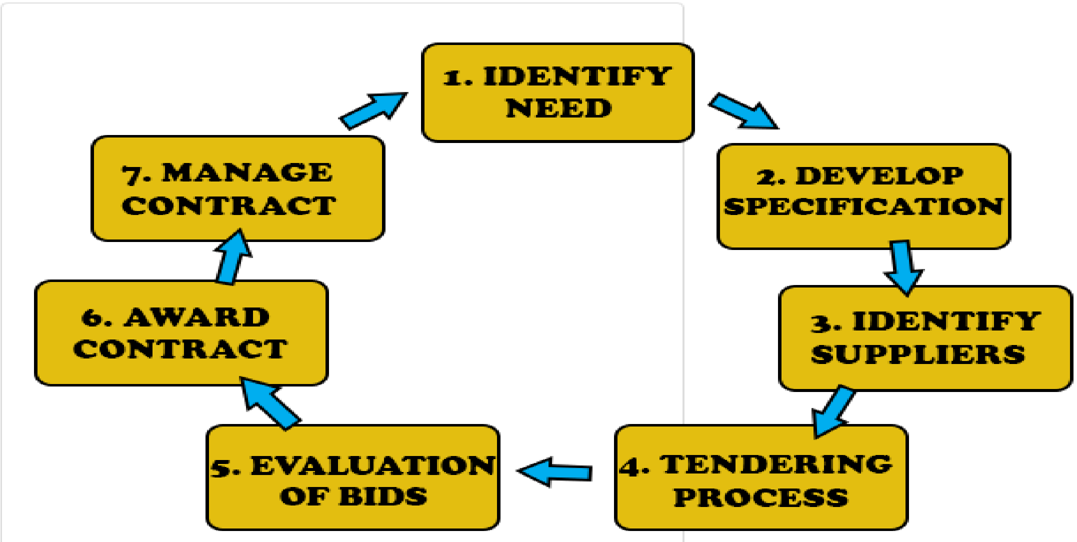
**Importance of purchasing function**

- To provide an uninterrupted flow of products (materials and services) for activities to be undertaken by an enterprise.
- To find sources of suppliers which are reliable.
- To purchase at most economic order quantity.
- To purchase right quantity materials at the right price from a right supplier.
- To maintain a good relationship with suppliers.

**Purchasing cycle**

- It is a cycle which shows steps involved in the purchasing of goods within an enterprise.

**The purchasing cycle**




The purchasing cycle

**Steps of the purchasing process**

- Identify a need
- Some materials may be running out of stock or may be out of stock and there arise a need to purchase.
- For example, in a bakery if flour runs out of stock, the bakery should buy for them to continue producing.

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- Select specific product
- A specific product must be selected to meet the need.

- For example, the bakery must select the type of flour they need to use.

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- Appoint purchase team
- The purchasing team appointed is responsible for managing the purchase of required items, ordering and making payments.

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- Budget for purchase
- Make a budget for items to be purchased.

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- Negotiate
- The buyer (purchasing team) negotiates for fair deal on the price of the items.

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- Place order
- Place order to different suppliers to solicit bids.

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- Award contract
- Select the best supplier among the bids and make payment.

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- Manage contract
- It is the final stage of the purchasing process.
- This is when the products purchased are delivered to the enterprise.

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**Rights of purchasing**

- Basically there main five main purchasing rights which are:

**Right to quality**

- Goods must meet the purpose for which they are intended.

**Right to quantity**

- Demand of the purchaser must be met.

**Right to place**

- The goods must be delivered to the exact place.

**Right to time**

- Goods ought to be delivered at the right time.
- They must not arrive early to avoid inventory costs nor late so as to meet demand.

**Right to price**

- The goods must be affordable with a fair price and competitive price.

**E-purchasing**

- It is also called electronic purchasing or supplier exchange.
- E-purchasing is the use of internet (electronic data interchange) to buy goods and services.

- E-purchasing can be done enterprise to enterprise, enterprise to individual consumer or enterprise to government.

**Role of e -purchasing**

- It reduces costs of purchasing – using e-purchasing does not require use of stationery for instance, stamps.
- Eliminate paperwork –every transaction is stored electronically which makes it easier to conduct the process time and again.
- It increases speed on carrying out transactions – e-purchasing is fast compared to traditional purchasing.
- Ensures that purchasing within an enterprise is standardized – e-purchasing allows the different departments to conform to the purchasing standards of the enterprise.
- Reduce errors in carrying out transactions – electronic paperwork is effective and efficient, it is easier to check errors.
- It is transparent – reports are easier to make on the products purchased.

**Inventory management**

- It is a process of controlling stock in order to keep cost at minimum level.
- It also involves re-ordering of stock and the storage of stock.

**Types of inventory**

- There are three types of inventory which are raw materials, work in progress and finished goods.

**Raw materials**

- These are items that are used to produce goods (inputs).
- They are purchased from a supplier prior to production process.
- For example, flour is a raw material for producing bread.

**Work in progress**

- These are items which are partly finished (semi -finished).
- The items are still in a process of being manufactured.

**Finished goods**

- These are items that have been completed (final products).
- Finished goods awaits to be sold or dispatched.

**Advantages of holding large amount of stock**

- Prepares for increase in sales - to meet customers' demand at any given time. It also increases customers' confidence.
- Meeting production demands – if there are no raw materials, production may not go on until raw materials are bought.
- Receiving quantity discounts – when buying in bulk, enterprisers receive discounts.
- Handling uncertainty – customers may demand more than expected which leads to improved cash flow.

**Disadvantages of holding large amount of stock**

- Storage costs – storing large amount of inventory requires large space.
- Insurance cost incurred in holding stock.
- Deterioration – some goods easily go bad (food) and they may get perishable before they are sold.
- Obsolescence (out of date) - there are some goods which get obsolete because of changing time, for instance, electronic devices.
- Change in demand –stored goods may not be sold due to changes in consumer demand.

**Advantages of holding too little stock**

- There is low cost of holding inventory- less stock requires little storage space.
- Less stock is easy to manage unlike large quantity of stock.
- It improves working capital.
- Enterprisers may have more space for carrying out other activities as less stock do not occupy much space.

**Disadvantages of holding too little stock**

- Customer confidence is undermined, the enterprise will not be able to meet customer demands.
- Reduced sales because of holding too little stock.
- It causes bad reputation with customers.

**Points to note**

- All business enterprises ought to effectively manage their inventory levels in order to keep their costs lower.
- Inventory must be re-ordered before it runs out to allow smooth flow of production hence meeting customers' demand.

**Activity**

Using an illustration, give an example of a purchasing cycle for any enterprise.

**Summary**

- Purchasing ensure continuous flow of production.
- Purchasing cycle shows steps used when purchasing goods in an enterprise.
- Every enterprise must know their rights before and when purchasing.
- E-purchasing is an electronic way of purchasing goods and services.

# WAREHOUSING

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- Describe the importance of warehousing
- Explain factors to consider when locating a warehouse
- Listing types of warehouses
- Explaining functions of the listed types of warehouses

**Warehouse**

- It is a large building where raw materials or goods are kept for a certain period prior to their dispatch.
- It is also a place for storing large amounts of products.
- Storage or warehouse facilities are locations where food and non-food commodities are stored.

**Basic principles**

- Existing warehouse should be used whenever possible.
- Facilities should be appropriate for the storage of commodities.
- Storage facilities should be chosen to achieve the most cost effect and logistically practical delivery operation.
- Each facility should hold an appropriate level of stocks, taking into account the shelf lives of commodities.

**Warehouse management**

- Warehouse management include the following:
    - Managing temporary or permanent warehouses
    - Receiving of goods
    - Storage facilities
    - Stock control
    - Dispatch of goods
    - Security of warehouses
    - Stock reports

**Major roles of running a warehouse**

- Rotate stock so that old goods are used first (FIFO).
- Stock goods safely.
- Plan layout of goods for easy access and finding them again.
- Record the movements of goods on the correct forms.
- File all papers immediately.
- Keep goods secure.
- Dispose of spoiled goods correctly and quickly.
- Communicate effectively.

**Importance of warehousing**

- Protection of goods against bad climatic conditions.
- Protection from theft.
- It helps to store seasonal good so as to meet future demand.
- Storage of raw materials for future production.
- Shortages in the market can be avoided as unexpected demands are meet.
- Preserve goods in order to retain original quality for example fruits, fish, meat, wine, etc.
- Increase efficiency and clientele service by reducing cycle times and lowering overall costs (value adding).

- Reduce delivery cost since goods can be transported and stored in bulk.
- Enables goods to improve on quality or enables goods to mature for example wine, spirits, and fruits.

**Factors to consider when locating a warehouse**

**Rent, rates and taxes (cost)**

- Cost is a key factor when considering warehouse location.
- Enterpriser would consider leasing wen rent, rate and taxes are cheaper.
- Where leasing cost is higher, enterpriser may opt to build their own warehouses.

**Workforce availability, labor skills and costs**

- Warehouse should be located where pool of labour.
- Urban may have a pool of labour as compared to remote areas.

**Physical location**

- The site of the warehouse is important.
- A company should ensure a product is stored near supplier and customers for prompt deliveries.

**Roads, railways, ports and traffic flow**

- Accessibility must be considered for example public transportation, road safety, and proper and road signs.
- It should be easily accessible from major highways.
- Warehouse should be close to roads for easy accessibility.

**Markets and local environment factors**

- The warehouse should be near to supplies, producers and customers.
- This will decrease transport cost, reduce lead times and increase responsiveness.
- Weather conditions and natural disasters should be considered.

**Storage area**

- When choosing a warehouse a large space is considered.
- Large space is important for loading and off loading zone, parking space and to allow warehouse expansion.

**Types of warehouses**

**Private warehouses**

- It is owned and operated by individuals to store their stock of goods.
- Individuals who own warehouses maybe producers, wholesalers or retailers.
- Producers may construct warehouses to store their produce.
- Wholesaler and retailers store their goods before dispatch.
- The nature of warehouse is determined by the goods to be stored for example cold storage to store perishable goods like meat, vegetables, fruits, etc.
- The goods are stored, preserved and supplied to the market on demand.

**Public warehouse**

- Provides storage facilities to the general public for a charge.
- Also known as duty- paid warehouse.

- A license is required to construct a public warehouse.
- Manufactures, exporters, importers, wholesalers, government agencies use these warehouses.
- Methods of operation and rate of charges are controlled and regulated by the government.
- Goods can be packed, graded, branded whilst in the warehouse.

**Bonded warehouses**

- Are owned, managed and controlled by government and private agencies.
- Are found near sea ports, boarder posts, railway stations, big cities, etc.
- Are used to store imported goods, whose duty has not yet been paid.
- Importers are not allowed to take away the goods until they pay custom duty.
- They are owned by port authorities or by an individual.
- Goods stored in bonded warehouses cannot be interfered by the owner without the permission of customs authorities.
- Goods lying in a bonded warehouse can be packed, grades, branded for sale.
- Goods can be sold whilst in bond
- They work under the supervision and control of the custom authorities of the country for example Zimbabwe Revenue Authorities (ZIMRA).

**Government warehouses**

- They are owned, managed and controlled by state or public corporation.
- Both government and private enterprises may use them.
- They can be used by government departments for example health department may use warehouses to store medical equipment, blood used for transfusion and drugs.
- Government may use warehouse to store farm produces through it marketing boards.

**Co-operative warehouses**

- Are owned, managed and controlled by co-operative societies.
- Provide warehouse facilities at a lower rate to members of the society.
- The non-members benefits by storing their goods in cooperatives warehouses on rent bases.

**Activity**

Identify different types of warehouses that may be found in your local areas. State what type of materials are kept in those warehouses.

**SUMMARY**

- Warehousing is place where goods are stored before they are dispatched to respective destination.
- A warehouse helps in protecting goods from bad weather conditions, theft, to store seasonal goods and to preserve maturing products.
- Factors consider when choosing the location of a warehouse include rental charges, government policies, availability of inputs and other infrastructures.

- A private warehouse is owned and operated by individuals whereas the public warehouse is for the public and owned by the government.
- Bonded warehouse can be owned by both government and private individuals.

# QUALITY MANAGEMENT AND ICTs IN OPERATIONS

BY THE END OF THIS SUB-TOPIC, LEARNERS SHOULD BE ABLE TO:

- Define quality
- Explain the concept of quality management
- Analyse the importance of producing quality goods
- Explain ways of assuring quality
- Evaluate the impact of ICTs in operations management
- Explain ICTs tools used in operations management

**Quality**

- Quality refers to excellence possessed by a product or delivery of a service.
- It is the ability of a product or service to meet or exceed customer's expectation.
- Quality can be defined as the state of a product being free from defects, deficiencies and variations.
- It is features of a product that customers desire to buy and are satisfied with.
- The success of a business depends on the quality of the products it produce.
- Quality include; performance, features, reliability, appearance, durability, after service, etc.

**Quality management**

- Quality management involves all activities undertaken by an enterprise to ensure that products are consistent in terms of quality.
- Quality management comprises of quality assurance and quality control.

**Importance of producing quality products**

**Quality expectation**

- Quality is important in that it helps to retain customer loyalty.
- The company revenue and profitability rise due to continuous buying from loyal customers.
- Customers expect organisation to deliver as per their expectations or beyond.

**Reputation**

- Quality is an important tool used to earn reputation.
- High quality products creates good reputation while poor quality products create bad reputation
- A good publicity is welcomed by keen customers who will share the favorable opinions via forums, social networking for example Facebook, whatsapp etc.

**Meeting standards**

- Accreditation to a recognised quality standard is essential.

- Enterprise should get approval and certification of standards so as to protect consumers

**Managing costs**

- When poor quality product produced, it results in high production costs to replace them.
- Customers may return defected products, this increase costs as the company will have to pay for returns and replacements.
- Legal costs can be granted if the company fail to comply with customers or industrial standard.

**<u>Quality control</u>**


Quality Control

- Quality control is a set of procedures intended to ensure that a manufactured product or performed service adheres to a defined set of quality required by a client or customer.
- It is a system or process for verifying and preserving a desired level of quality in a product or service.
- Defects products are reduced which lead to less variable cost.
- Scrap, wastage and pollution will be minimised.
- Quality control improves the potential of production to produce quality products.
- The objective of quality control is to ensure that the business is achieving the standards it sets for itself.

**Quality assurance**

- It is "all those planned and systematic actions needed to provide adequate confidence that a product will satisfy given requirements for quality and be fit for use".
- Quality assurance program is the total of the activities aimed at achieving that required standard.


Quality Assurance

- It is also known as zero defect approach.
- It is how the business maintain quality throughout the organisation.

- It is a systematic way of monitoring the production process to prevent mistakes and defects.
- It is based on setting agreed quality standards at all stages in the production process in order to ensure that customers' satisfaction is achieved.
- Quality assurance is fundamentally focused on planning and documenting those processes to assure quality
- Quality assurance can be achieved through inspection, test plan and quality plans.
- Workers should seek problems before producing than finding them after they occur.
- It reduces the need for expensive final inspection and correction of faulty products.

**Three levels of Quality Assurance (QA)**

- Often the components of QA program are grouped into three levels, these are:

**The strategic/ Organisational level**

- It deals with the quality policy, objectives and management and usually produced as the Quality Mensal.

**Tactical/ Frictional level**

- It deals with general practices such as training, facilities and operation of QA.

**Operational level**

- It deals with the Standard Operation Procedure (SOPs) worksheets and other aspects of day to day operations.

**Setting up a QA system**

- There is no universally accepted of single method for establishing a QA system.
- Each organization or institution has its own unique problems and challenges that will require special consideration and approach and planning.
- Once the decision is implemented a QA system has been taken and necessary funds and facilities have been availed, then a plan must be drawn up.

**Ways of assuring quality**

**Total Quality Management (TQM)**

- It is designed to prevent error by getting it right for the first time.
- Quality is to be maintained throughout the business so as to minimise defects.
- Aim at improving and meeting customer satisfaction.
- All members in the organisation help to improve products process, goods, services and the culture in which they work.
- Total quality management priorities quality, cost, delivery, stakeholder, environment and safety at work.

**TQM focuses on:**

**Customers**

- Where customer's needs are to be met, enterprise should provide high quality products at lower cost.

**Employee involvement**

- Involving employees in day to day running of the business.

- Training employees to gain more knowledge and skill on the work they are doing.

**Performance measures**

- Employee performance should be measure according to cost, time, quantity improvement and qualitative aspects their products.

**Integrated system**

- Connects business improvements elements in an attempt to continually improve and exceed the expectations of customers, employees and other stakeholders.

**Continual improvement**

- Drives an organisation to be both analytical and creative in finding ways to become more competitive and more effective at meeting stakeholder expectations.

**Communications**

- Plays a major role in maintaining morale and motivating employees at all levels.

**Just- In-Time (JIT)**

- It is a system where the enterprise produce products that are on demand for a particular moment or time.
- It reduce non-profit activities, eliminating unnecessary costs associated with carrying and maintaining the inventory.
- It is a strategy to increase efficiency and decrease waste.

**Quality circles**

- It is a volunteer group who present their ideas on how to solve problems affecting the quality of their work.
- It is formally established.
- Circles elect their own leader and select name of their circle.
- It consist of members of the same department who regularly meet to identify, analyse and solve their problems.
- Its purpose is to push decision making to increase efficiency and implement customer requirements into their work.
- It helps in removing inter office political barriers.

**Information Communication Technologies ICTs**

- It is electronic means of capturing processing, storing and disseminating information that allow people and organisation to interact in the digital world.
- These are networking components, application and systems.
- It includes equipment like telephones, laptops, computers used to enhance communication between employees

**Benefits of ICTs**

The introduction of internet, applications of computers and information communication systems have a positive impact in operations management.

- Productivity
    - Productivity has been improved due to advancement in technology which brings automation.

- Quality and accuracy
  - Same standard produced by machines is maintained which reduce human error
- Lower labor costs
  - Machines replace human tasks this saves the business from paying wages for labor.
- Improves communication
  - It improves communication internally and external

**Drawbacks of ICTs**

- Staff should be trained and have appropriate skills.
- Financial cost
  - Equipment is expensive to buy and maintenance costs.
- Demoralize staff
  - Worker become redundant due to use of ICTs.
- Breakdown
  - Machinery used can be breakdown which will affect production.
- Resistance to change
  - Introduction of new technology may cause employee to be resistance change.
- High levels of crime
  - Such as hacking of private information, disrupt of organisation system, communication limitation between subordinates.

**ICTs tools**

**Barcode Reader**

- It is a machine which is readable like scanner.
- It provides a means of keeping track of parts , tools and materials that are purchased, stocked or consumed
- The label identify the item, supplier date of delivery, purchase order number and price.
- Inventory record.

**Radio Frequency Identification (RFID)**

- It refers to technologies that use radio waves to automatically identify people and objects.
- It communicate information between a unique item and a system.

**Computer Aided Design (CAD)**

- It is the use of computers to modify or create a design.
- It is used to enhance productivity of the designer or to improve the quality of designs.
- Uses computers to help in the production of design, drawings and data to be used in manufacturing.

**Online billing**

- It is used to manage business invoices, payments, tracking and receive payments online.
- An organisation can do its payments using online billing, paying raw materials, machinery, equipment, etc.

**SUMMARY**

- Quality refers to ability of a product to meet customers' expectations.
- Quality means the product is free from defects.
- Quality management includes quality assurance and quality control.
- Quality products enables a firm to retain customer loyalty, create brand image and minimize cost or reworks.
- Under quality control and quality assurance the organization ensure that there are no defects through the production system.
- The organization can involve everyone working in the company to ensure quality (total quality management)
- Just in time and quality circle are other methods of ensuring quality products are produced.
- A business can make use information communication technologies in their production to ensure quality products.
- They can make use of sophisticated machines in production other than employing people to produce goods.