Business Management 1 (BM101)
Business Management (BM)

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1. **Word of welcome**

Welcome to the module in Business Management. You are about to set off on a new journey of discovery and learning! Try to think of this learner guide as your detailed map for the journey in learning more about the field of business management. Distance learning requires discipline and planning. This learner guide has therefore been developed to guide you through the concepts and theory of business management and to assist you in successfully completing the module. It is not intended to replace the prescribed textbook, but the learner guide rather leads you through each unit of study allowing you to gain a full understanding of the essentials of making a success in the world of business.

Business management is the fundamental study field for managers in all fields of functional specialisation, for example, marketing. Managers need to develop an understanding of all the relevant functional and specialised fields within the broader organisation. With this skill, a manager will become the driving force behind innovation, change and opportunity development for all future sustainable business practices.

This Business Management module, in conjunction with Business Management 2 and 3, focuses on the basic skills, knowledge, functions and tasks that managers must have, develop and apply in order to manage their departments, and the organisation as a whole, successfully within the marketing industry and beyond. Furthermore the management tasks of planning, organising, leading, motivating and controlling will only be introduced in this module, as they will be discussed in greater detail in Business Management 2.
The objective is to enable you to conceptualise this study field by understanding the business environment within which an organisation exists, (consisting of various business functions or departments) and performing specialised tasks in order to provide products and services which will satisfy current and future consumer needs. The organisation as part of a broader system needs to add value through its specialised tasks and functions and ensure sustainable practice while satisfying customers’ needs.

You must develop the ability to see your field of specialisation in the context of business management, relating to a profit-driven business organisation. The prescribed textbook therefore focuses on a variety of aspects relating to business management, the business environment and an introduction to the various functions within the organisation.

If you do not want to pursue a formal marketing management career, the module will still be of great value to you as it will provide you with insight into and an overview of the world of business, the business environment and the various key business functions.

2. How to use this guide

Business Management 1 is an introductory module. The objective of this module is not to develop you into a business management expert, but rather to create an introductory awareness and understanding of the business organisation, with its primary business functions as a pivotal entity within the broader business environment system. Understanding the basics relating the different functions of the organisation within the business system, will allow you to conceptualise the functioning of an organisation and its departments as well as the application of management tasks in a broader open system.

The learner guide is especially designed for a distance-learning student. The guide will provide an overview of the total curriculum and will indicate the learning outcomes, which are essentially the core of this guide. It will provide you with each major topic that
has to be covered, along with its systematically explained learning outcomes. The guide will also indicate how the learning material must be prepared for examination.

This learner guide is divided into two sections:

**Section A** provides all the information needed about the course and where it will lead you on your path of learning within the context of the South African National Qualifications Framework (NQF).

**Section B** guides you through the 6 units of study that make up this module. You need to study each unit systematically. The outcomes tell you what you should learn; the guidelines assist you to best achieve the outcomes; and the self-assessment exercises enable you to measure how well you have achieved what you set out to learn. Make sure that you understand and can do all the exercises. This will ensure your success in the examination. Good luck as you set out on this stage of your learning journey!

The learner guide should be studied in conjunction with the textbook and does not replace the textbook.

At the end of each study unit you will find some examples of typical examination questions which should be used for self-evaluation.

The following icons appear in all of the learning guides of the IMM Graduate School of Marketing:

![Indicates learning outcomes]
3. Purpose and overall learning outcomes

There are two main aims for business management:

- To provide knowledge and an understanding of the basic concepts, tasks, theories and principles of the field of business management.
- To help you apply the knowledge to situations relating to the different business functions within the business organisation and its external environment.

The module covers the business environment, business opportunities and the business plan as well as the functional areas of the organisation. The focus is on establishing a basic understanding of a profit-driven organisation – not excluding non-profit organisations such as local government, church and non-government institutions. The focus is on any industrial, commercial or service organisations.
Once you have completed this module you should be able to:

- Understand the general background to the field of business management, including the environment in which an organisation functions.
- Identify and briefly explain the different management tasks that cover the fields of planning, organising, leading, motivating and controlling.
- Discuss the functional areas of business, namely operations management, logistics management, financial management, human resources management and marketing management.
- Understand entrepreneurship.
- Construct a business plan.

4. National Qualifications Framework specifications

This module forms a compulsory module for the Higher Certificate in Marketing, the Diploma in Marketing Management, the Diploma in Export Management and the BBA in Marketing Management and BCom in Marketing and Management Science.

In terms of the new National Qualifications Framework (NQF) it is designed as a 20-credit module offered on NQF level 5.

The IMM Graduate School of Marketing regards Business Management 1 a first-year module.

5. Pre-knowledge

Reading and mathematical skills are required in order to complete this module successfully. Although no formal specialised learning is required in the field of business
management, subjects such as economics, accounting, business management, mathematics and English can enhance your learning experience.

It is also assumed that you are sufficiently computer literate and that you will be able to operate the Internet when attempting this module. It is further assumed that you have had sufficient experience in producing advanced assignment reports integrating diverse information in a coherent purposeful report.

A sound knowledge of the use of the Harvard referencing system is compulsory before attempting this module.

6. **Relationship with other modules**

Business management is a foundation course for most of the IMM GSM qualifications. The topics covered in this course will introduce you to the broad areas of business and allow you to understand the various business functions in a general organisational environment, rather than confining those skills to a particular business area. Later in your programme of studies you will find that this module will underpin and reinforce your understanding of marketing principles.

The terminology used and the concepts that are explained are integrated into other IMM GSM modules that form part of your chosen curriculum (marketing, etc.). This will help you to make connections across the various courses you study.

7. **Prescribed textbook**

![Book Icon]
The prescribed textbook for this module is:

The textbook is written in a clear and systematic manner. Always start your studies by consulting the learner guide and then study the relevant sections in the prescribed textbook. It is unlikely that you will pass this module if you have only consulted the learner guide without studying the content of the textbook.

Note that at the end of each chapter, a variety of questions relating to a specific case study are presented in order to help you to apply your theoretical knowledge and furthermore conceptualise it with reference to practical examples.

The IMM GSM recommends supplementary texts for each of the modules offered. The purpose of these additional texts is to supplement the material in the textbook. Students are strongly encouraged to read these texts, which are available in the IMM GSM Marketing Information Centre in Johannesburg and the reference libraries in the IMM GSM’s offices in Durban and Cape Town. The following supplementary reading is recommended:


8. Curriculum

This section addresses the overall content of the module. The business management curriculum is divided into six study units. The six study units with the corresponding chapters in the prescribed textbook (Strydom, 2011) are as follows:

<table>
<thead>
<tr>
<th>Study Unit</th>
<th>Description</th>
<th>Relevant Chapters</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Business and its challenges</td>
<td>Chapter 1</td>
</tr>
<tr>
<td>2</td>
<td>The business environment</td>
<td>Chapter 2</td>
</tr>
<tr>
<td>3</td>
<td>The task of management</td>
<td>Chapters 3 &amp; a broad overview of Chapters 4-8</td>
</tr>
<tr>
<td>4</td>
<td>Business functions</td>
<td>Chapters 9, 10, 11, 12, 13</td>
</tr>
<tr>
<td>5</td>
<td>Entrepreneurship</td>
<td>Chapter 14</td>
</tr>
<tr>
<td>6</td>
<td>The business plan</td>
<td>Chapter 15</td>
</tr>
</tbody>
</table>

9. Specific learning outcomes

There are a number of specific learning outcomes for this module, as indicated per study unit in the table below.

<table>
<thead>
<tr>
<th>Units</th>
<th>Description</th>
<th>Learning Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Business and its challenges</td>
<td>Understand what the concept of business entails. Understand the concepts of profit seeking and non-profit seeking organisations. Identify and explain the factors of production. Differentiate between the different economic systems in which a business may operate. Describe the various stakeholders that influence business and its changing social contract.</td>
</tr>
</tbody>
</table>
| 2 | The environment in which the organisation operates | Understand the concept of systems thinking and the systems approach.  
Explain the level of control that management has over the different organisational environments.  
Describe the micro-environment, its elements and how various management functions impact on the success of a business.  
Classify the external business environment in terms of its sub-environments.  
Understand how the market- and macro-environment impact upon the business and its continued existence.  
Analyse the impact of the environment on an organisation using a SWOT analysis. |
|---|---|---|
| 3 | The task of management | Discuss the concept of management and differentiate between management and a manager.  
Differentiate between the different organisations in which managers work.  
Classify and explain the different levels of management.  
Understand the planning task.  
Understand the organising task.  
Understand the leading task.  
Understand the motivation task.  
Understand the controlling task.  
Briefly explain the functional areas of management.  
Introduce the management skills and competencies required for managerial success.  
Classify and explain the various management roles. |
| 4 | The functional areas of business | Know how to deal with operations management where the goods or services are manufactured or generated. Understand logistics management and the relevant logistics activities by which the flow of input and output is managed. Grasp the basic financial management principles and application thereof. Explain human resource management, which deals with attracting, developing and retaining personnel. Understand marketing management, especially identifying a target market and how to market goods or services to the customer, based on marketing research, customer behaviour and the associated marketing decisions. |
| 5 | Entrepreneurship | Understand the nature and development of entrepreneurship. Identify the contribution of entrepreneurs to the economy. Discuss the difference between entrepreneurship, leadership and management. Describe the different types of business in which entrepreneurs can be involved. |
| 6 | Business plan | Describe the different components of a business plan. Differentiate between feasibility and viability of the business opportunity. Compile a business plan. |

You are encouraged to use the above information for the planning in advance of your studies and to avoid ‘cramming’. It is always wise to set up your own study timetable so that you can manage your time effectively. When planning your studies, please keep the submission date for the assignment in mind.
10. **Critical cross-field outcomes**

The critical cross-field outcomes, also known as transferable skills as identified by the South African Qualifications Authority (SAQA), are essential for your development as a student within the education and training system, regardless of the specific area of learning. It is these outcomes that are deemed critical for your development in the capacity of life-long learning.

The critical cross-field outcomes adopted by SAQA are as follows:

1. Identify and solve problems in which responses display that responsible decisions using critical and creative thinking have been made.
2. Work effectively with others as a member of a team, group, organisation and community.
3. Organise and manage oneself and one's activities responsibly and effectively.
4. Collect, analyse, organise and critically evaluate information.
5. Communicate effectively using visual, mathematical and/or language skills in the modes of oral and/or written presentation.
6. Use science and technology effectively and critically, showing responsibility towards the environment and health of others.
7. Demonstrate an understanding of the world as a set of related systems by realising that problem-solving contexts do not exist in isolation.
8. Reflecting on and exploring a variety of strategies to learn more effectively.
9. Participating as responsible citizens in the life of local, national and global communities.
10. Being culturally and aesthetically sensitive across a range of social contexts.
11. Exploring education and career opportunities.
12. Developing entrepreneurial opportunities.

The transferable skills identified in this module are as follows:
### Taught | Practised | Assessed
---|---|---
Problem solving | X | X | X
Working in teams | X | | |
Self-management | X | X | |
Information gathering/research skills | X | X | |
Communication skills | X | X | X
Analytical skills | X | X | |
Learning strategies | X | X | X
Responsible citizenship | X | X | |
Cultural sensitivity | X | X | |
Career development | X | | |
Entrepreneurship | X | X | X

#### 11. Assessment details

There are two assessments involved in terms of the Business Management module:

- **Assignment**: The assignment contributes 20% to the overall mark for the module. Assignments will focus on selected chapters, and must be typed. Please ensure that you adhere to the general rules of the IMM Graduate School of Marketing pertaining to the style and format of assignments. You will be issued a separate brief in this regard.

- **Examination**: The exam incorporates all content covered in the textbook and constitutes 80% of the final mark for the Business Management module. The duration of the examination is three hours and the paper will count 100 marks. The examination paper will consist of multiple-choice questions and paragraph type questions, including visual illustrations. Examination results are usually released within six weeks of sitting the examination.
The final mark, consisting of an assignment mark and an examination mark, is released in the form of a final percentage (mark out of 100). The grading system is as follows:

<table>
<thead>
<tr>
<th>Percentage Scale</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>75% or more</td>
<td>Pass with Distinction</td>
</tr>
<tr>
<td>50% - 74%</td>
<td>Pass</td>
</tr>
<tr>
<td>0% - 49%</td>
<td>Fail</td>
</tr>
</tbody>
</table>

A timetable of the assessment programme for the semester, including dates for the assignment to be submitted during the course of the year, is available in the Calendar of Events for that year. Please refer to the current issue of the IMM GSM Prospectus. This document and the Student Yearbook provide details of the IMM GSM assessment policy.
Study Unit 1: Business management and its challenges

This study unit covers the nature and scope of business management by explaining the concept of business whilst the science and research field of business management are classified. The concepts of a profit-driven and non-profit organisation are also introduced. This study unit also covers the different economic systems. Finally attention is given to the various stakeholders that influence business and implicate the changing social contract between the organisation and all stakeholders.

Topics:

- Business management and the business
- Profit driven vs. non-profit organisations
- The economic principle and the factors of production
- Economic systems
- Stakeholders and the changing social contract.

1. Specific learning outcomes

After studying this unit, you should be able to do the following:

- Understand what the concept of business entails.
- Understand the concepts of profit seeking and non-profit seeking organisations.
- Understand the meaning and importance of the economic principle.
3. **Overview of this study unit**

3.1 **Introduction**

Business management is a science and a study field focusing on the practices of an organisation in the free market. Business management therefore attends to the functions of a business as well as the tasks of management and employees within that business. All of this does not take place in isolation. A business requires people with entrepreneurial spirit who are willing to take or develop opportunities in the business world. These opportunities need to address the needs of consumers while considering the impact of other market- and macro-environmental factors.

3.2 **Business management and the business**

In Chapter 1 of the prescribed textbook (Strydom, 2011), business management is classified as a science. The reasons why it is perceived to be a science are presented. The term business is presented and its relation to aspects such as the provision of goods and services to obtain a profit while servicing customer needs is explained.
3.3 Profit-driven vs. non-profit organisations

Businesses in a free market system focus on generating a profit. Therefore the aim is to ensure that the needs of customers are satisfied when producing goods, retailing products or providing services. The difference between profit-seeking and non-profit seeking businesses basically relates to the process of income generation in order to cover related costs and/or generate an additional profit. Not generating a profit results in the reality of a business opportunity being perceived as not viable. Consider Chapter 1 of the prescribed textbook to understand the profit-driven organisation functioning in a free market economy. Also consult other sources for more information on profit and non-profit organisations such as:

Nieuwenhuizen and Oosthuizen, 2012a, Chapter 1.
Du Toit, et al., 2010, Chapter 1.

3.4 Economic principle and factors of production

The economic principle is explained in Chapter 1. This concept refers to the best possible utilisation of resources in order to create profit for the organisation. This principle therefore forms one of the fundamental drivers for the existence of a profit-driven organisation.

The four basic resources required to provide products and services, which aim to service the multiple needs of customers, are also known as factors of production which are used by a business in its quest for profitability. Various production factors are considered such as natural resources, human resources, capital and entrepreneurship. Establishing a business requires entrepreneurial behaviour. Entrepreneurship is therefore seen as a key production factor in establishing and developing a business in the free market economy. Also consult the second last study unit on entrepreneurship
and Chapter 14 of the prescribed textbook. All of the production factors are discussed in Chapter 1. It is important to understand how each of these production factors contributes to the economic principle. Without quality resources (production factors), the objective to generate and maximise profit is jeopardised. Various examples of each of the four production factors are presented in Chapter 1 – you need to study them and then apply them within different businesses. See if you can identify the production factors for Woolworths, Hunt Lascaris, Vodacom, BMW South Africa, FNB, etc.

3.5 Economic systems

Any business functions within an economic system. Remember that these systems do not refer to a political system; as people easily confuse economic and political systems. Generally a business functions within one or a combination of the following four basic economic systems: capitalism, socialism, communism or a mixed-economy. These different economic systems are discussed in more detail in Chapter 1 of the prescribed textbook. Note that as indicated in Figure 1.1, the mixed-economy is a combination of features of the other three economies.

3.6 Business stakeholders and the changing social contract

Businesses need to consider the importance, role and influence of business stakeholders. Stakeholders include any internal and external role players that exist in the environment within which an organisation functions. This includes, for example, government, employees, society, media, trade unions and shareholders, to mention a few. The different primary and secondary stakeholders that are influencing South African businesses are grouped according to three types of stakeholders, based on their relation to the organisation and their expectations, namely: business related, opinion related and public related. Consider Figure 1.2 for typical stakeholders that can be identified as examples of each of these types of stakeholders. The concept of corporate
social responsibility (CPR) is therefore also defined and explained in this section. For more information on business stakeholders please consult the following source:

Nieuwenhuizen and Oosthuizen, 2012a, Chapter 2.

Finally the principles of the social contract under which South African businesses operate are discussed at the end of Chapter 1, including the different responsibilities associated with business. These responsibilities are seen as the formal contract (according to law), semi-formal contract (as a result of organisational functioning and changes) and frontier expectations (as a result of new issues arising in the future).

4. **Key concepts and terms**

Make sure that you understand and are able to explain the following key terms:

- Business
- Business management
- Entrepreneurship
- Profit-driven organisation
- Non-profit organisation
- Stakeholders
- Corporate social responsibility
- Free market economy
- Capitalism
- Socialism
- Communism
- Mixed economy.

Also refer to the GLOSSARY at the end of the chapter.
5. **Self-assessment exercise**

**Case study:**

Read the case study at the end of Chapter 1. Answer the relevant questions at the end of the case study in the prescribed textbook.

**Theory questions:**

1. Identify and discuss the production factors to consider when running a business.
2. Briefly explain business management as a science and describe the concept: business.
3. Differentiate between a profit-driven and a non-profit organisation.
4. Name and explain the four main economic systems.
5. Evaluate your own country and indicate what type of economic system is applicable to your country.
6. Various stakeholders need to be considered in business. Identify these stakeholders and give practical examples of each.
7. Explain the different relations between an organisation and its various stakeholders.

Also refer to the MULTIPLE-CHOICE QUESTIONS at the end of the chapter.
Overview of unit content

This study unit covers the three different environments identified within the internal and external business environment within which an organisation functions and performs its duties. In order to acquire a conceptual understanding of the interactive business environment, the concept of systems thinking by means of the systems approach is introduced and explained. Then the level of control that management has over the different organisational environments is presented. This is followed by a classification and discussion of the internal (organisational) environment and how various management functions impact on the success of a business, as well as how the external environment (market and macro environments) impacts upon the business and its continued existence. Finally we analyse the impact of the business environment on an organisation using a SWOT analysis.

Topics:

- The systems approach
- The organisational (internal and external)/business environment
- The micro-environment
- The market environment
- The macro environment
- A SWOT analysis.
1. **Specific learning outcomes**

   After studying this unit, you should be able to do the following:

   - Explain the concept of systems thinking and understand the relations as presented by the systems approach to the business environment.
   - Describe the micro-environment and how various management functions impact on the success of a business.
   - Understand how the market and macro environment impact upon the business and its continued existence.
   - Explain the level of control that management has over the different organisational environments.
   - Do a basic SWOT analysis and then analyse the impact of the environment on an organisation, considering the SWOT analysis.

2. **Reading reference**

   Strydom, 2011, Chapter 2.

3. **Overview of this study unit**

3.1 **Introduction**

   Organisations within a free market economy function in the business environment. As discussed in Chapter 2, the business environment consists of the internal and the external environment. The internal business environment is better known as the micro-environment. The external business environment consists of two
sub-environments, namely the market environment and the macro environment. This study unit focuses on the elements of and the interrelationship between the different sub-environments.

3.2 The systems approach and systems thinking

In Chapter 2, the systems approach is introduced. The business environment could be characterised by continuous change, the existence of opportunities and threats, and changing and influencing elements and role players. These characteristics reflect the complexity to which organisations are exposed in order to ensure future sustainable business practices and success within the system.

In Chapter 2 the concept of systems thinking and the systems approach is introduced. Figure 2.1 summarises the elements of the system. A system can be classified as open or closed. The organisation functions as an open system consisting of inputs (production factors) that are transformed into outputs (final product and services). An open system interacts with its environment – therefore the organisation is influenced by changes that take place in the external environment.

3.3 The organisational (internal and external)/business environment

The organisational environment is better known as the business environment. As mentioned earlier in the introduction, the business environment is generally classified as internal and external as presented in Figure 2.2. In the internal environment, also known as the micro-environment, strengths and weaknesses are the realities management and employees face in their daily operations. In the external environment two sub-environments are listed, namely the market and the macro environment. Opportunities and threats develop within the external business environment. Each of these sub-environments is addressed in Chapter 2.
The level of control that management has over the different organisational environments varies. This control influence is presented in Figure 2.3. Management has almost total control over the micro-environment, but management can only influence the market environment, and is subjected to the events in the macro environment over which they have no direct influence.

### 3.4 The micro-environment

In the internal business environment, a variety of variables have an influence. The variables in the micro-environment include the organisational vision, mission, goals and objectives; management; business functions and the production factors. Each of these variables are introduced in Chapter 2 and further described in the following chapters of the prescribed textbook. Figure 2.4 provides an illustration of the sub-elements associated with the micro-environment.

As the organisation is functioning in an open system it is influenced by the external environment. The management and employees of an organisation can influence the internal environment but have limited to no influence over the market or macro sub-environments, externally. In Chapter 2 the influence of management on the internal and external environment is explained.

### 3.5 The market environment

The market environment is considered to be the first link between the business itself and its external environment. The market environment is sometimes also called the task environment. In Chapter 2, the different elements of the market environment are identified and explained.
The key role players in the market environment are the market (customers), intermediaries, competition and suppliers. The market refers to individuals and groups of consumers who purchase or use the products and services provided by an organisation. Different types of markets and their associated customers are identified and explained in Chapter 2. Competition on the other hand includes different types of competition between businesses, such as direct competition or substitute products or service providers. Suppliers are very important for their role in the provision of materials and resources required for production, retailing and services. Table 2.1 summarises the consequences of ineffective suppliers. Intermediaries refer to wholesalers and retailers that act as middlemen between manufacturers and consumers. Figure 2.5 illustrates how intermediaries affect end-cost of a product. Each of these market environment factors are identified and explained in Chapter 2.

3.6 The macro environment

The macro environment as indicated in Figure 2.6 in Chapter 2 is the environment that surrounds the market and micro environment. The elements of the macro environment are explained in Chapter 2 of the prescribed textbook and include the following:

- Economic environment
- Social environment
- Technological environment
- Natural (also known as the physical) environment
- Political (also known as the legal or statutory) environment
- International environment.

Various examples of how the second component of the external environment, namely the macro environment, impacts on business is provided in Chapter 2. The sub-environments in the macro environment impact upon the business and its continued
existence. You need to be able to identify organisation specific examples of how these macro sub-environments influence for example a retailer, manufacturer or service provider.

3.7 The SWOT analysis

As announced in the beginning of this study unit, the role of a SWOT analysis is to allow management to identify opportunities and threats in the external business environment, while considering strengths and weaknesses of the internal organisation – the business itself. This analysis will allow management to evaluate whether the mission statement is realistic and, based on that assessment, which strategies to consider. Also consider Table 2.3 in Chapter 2, providing an example of a SWOT analysis for a fish and chips store. The following illustration is an example of typical aspects that could be identified while conducting a SWOT analysis.

<table>
<thead>
<tr>
<th>STRENGTHS</th>
<th>WEAKNESSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Qualified sales staff</td>
<td>• Cash flow problems</td>
</tr>
<tr>
<td>• Variety of products</td>
<td>• Technical skills shortage</td>
</tr>
<tr>
<td>• Innovative management</td>
<td>• Old infrastructure.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OPPORTUNITIES</th>
<th>THREATS</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Growing markets</td>
<td>• Economic climate</td>
</tr>
<tr>
<td>• Customers demanding</td>
<td>• Restrictive legislation</td>
</tr>
<tr>
<td>innovative products.</td>
<td>• Expensive technology.</td>
</tr>
</tbody>
</table>

Please consult Chapter 2 of the prescribed textbook regarding the SWOT analysis.
4. **Key concepts and terms**

Make sure that you understand and are able to explain the following key terms:

- Business environment
- Micro-environment
- Market environment
- Macro environment
- Internal environment
- External environment
- SWOT analysis
- System
- Open vs. closed system.

Also refer to the GLOSSARY at the end of the chapter.

5. **Self-assessment exercise**

**Case study:**

Read the case studies at the end of Chapter 2. Answer the questions at the end of the case study in the prescribed textbook.

**Theoretical questions:**

1. All organisations operate in an external and internal environment. Describe the elements of these environments.

2. Describe how the business environment can influence the organisation. Indicate further how the organisation can react to or control this influence.
3. Identify and explain all the elements of the micro, market and macro environments for any organisation you have selected.

4. Can changes in the macro (external) environment affect this organisation? Give an example to explain.

5. What are important factors in the external environment that foster economic prosperity in a nation? Explain your answer.

6. Identify any three organisational strengths and weaknesses that could be considered when conducting a SWOT analysis.

7. Describe the factor of production as a means of satisfying people’s multiple needs.

8. Consider the systems approach and distinguish between inputs, transformation and outputs.

Also refer to the MULTIPLE-CHOICE QUESTIONS at the end of the chapter.
### Study Unit 3: The task of management

**Overview of unit content**

This study unit introduces the concept of management and explains the role and skills required of a manager. The different organisations within which managers work are also introduced. This study unit furthermore covers the key management tasks that should be conducted by managers as identified in the field of business management. This study unit focuses on the four primary management tasks, namely planning, organising, leading and controlling. We pay attention to the supportive management tasks: motivation and communication – which are perceived as essential during the leading process, as well as decision making which plays a key role in planning.

**Topics:**

- Defining management and a manager
- Organisations in which managers work
- Management levels
- Management tasks and areas of management
- Planning (including decision making)
- Organising
- Leading (including communication)
- Motivation
- Controlling
- Management skills
- Management roles.
1. **Specific learning outcomes**

After studying this unit, you should be able to do the following:

- Explain and define the concept of management and manager.
- Classify organisations in which managers work.
- Identify management skills, areas of management and management tasks.
- Present the management roles.
- Realise the various management levels.
- Understand the planning task.
- Understand the organising task.
- Understand the leading task.
- Understand the motivation task.
- Explain the communication task.
- Explain the controlling task.

2. **Reading reference**

Strydom, 2011, Chapter 3 & an overview of Chapters 4-8.

3. **Overview of this study unit**

3.1 **Introduction and defining management and manager**

Management is one of the key elements in the micro-environment. Chapter 3 of the prescribed textbook presents a definition of management and a comprehensive description of a manager. The management tasks presented in the prescribed textbook
(also known as management functions but PLEASE NOTE that it is not the same as the business functions or areas of management as discussed later in Chapter 3 of the prescribed textbook) are planning, organising, leading, motivating and controlling. Other supportive management tasks include decision making and communication.

In order to understand the wider meaning of what management entails, it is suggested that you consult a variety of business management and management textbooks and compare the various definitions and descriptions of management. You can consult the following books:

Nieuwenhuizen and Oosthuizen, 2012a, Chapter 8.
Oosthuizen, 2013, Chapter 2.

Table 3.1 provides a summarised framework classifying the different types of organisations and possible legal forms in which they exist in the South African business environment. These examples indicate the organisations where management is required and managers need to fulfil an important role. In order to differentiate between the different types of organisations in which managers work you need to consider relevant examples in your business environment. The classification of the different types of organisation includes three categories, namely commercial, governmental and voluntary organisations.

3.2 Management levels

Management in general consists of three levels, namely top management, middle management and first-level management. These are also called strategic (top), tactical (middle) and operational (first-level) management. The focus of and differences between these management levels are discussed in Chapter 3.
3.3 Management tasks and areas of management

The various management tasks conducted by managers, which will be discussed in more detail at a later stage in this study unit, include

- planning (see Chapter 4 for more information on this task),
- organising (see Chapter 5 for more information on this task),
- leading (see Chapter 6 for more information on this task),
- motivating (see Chapter 7 for more information on this task), and
- controlling (see Chapter 8 for more information on this task).

In order to differentiate between the different areas of management, better known as functions, you need to consider: production and operations, logistics, marketing, finance, public relations, information technology, human resources and administration. An overview of a selective group of these functions is provided in the next study unit and in Chapters 9-13 of the prescribed textbook.

3.4 Planning (including decision making)

Planning is the first primary management task that a manager needs to conduct and is introduced in Chapter 3. Planning has several benefits to consider in an organisational context. As indicated earlier, various management levels exist and within these various levels, planning, such as strategic, tactical and operational can be identified.

Strategic management focuses on long-term planning and management and results in a variety of strategies considered for the organisation. Chapter 4 of the prescribed textbook identifies the steps of planning as well as the various types of goals and plans.
Decision making

Decision making is seen as a supporting or secondary management task. It is necessary to make decisions while conducting primary management tasks. Decision making is especially important during planning (refer to the discussion on the planning task). Decision making is furthermore necessary in order to resolve problems or utilise new opportunities. Do not confuse decision making in a managerial context with decision making done by customers when choosing a product or service. For more information on the different types of decisions, conditions for decision making and the rational decision-making process you can consult the following:

Hellriegel et al., 2012, Chapter 8.

3.5 Organising

In order to ensure that an organisation will realise its plans, organising is the next primary task to investigate. Organising is introduced in Chapter 3. It is furthermore defined and discussed in Chapter 5 of the prescribed textbook and focuses on establishing an organisational structure which will support the strategy selected during the planning process. Consult Chapter 5 in order to clearly understand the meaning of the principles of organising such as:

- Unity of command
- Unity of direction
- Chain of command
- Span of control
- Division of work
- Standardisation
- Specialisation
- Coordination
- Delegation
- Responsibility
- Accountability.

Furthermore you need to investigate the various structures of organisational design to be considered by an organisation. It is very important to ensure that the selected organisational structure supports the planned strategy. Examples of organisational structures are presented in Chapter 5 and include:

- Line and staff structure
- Functional structure
- Product divisional structure
- Location/geographic divisional structure
- Customer/client/consumer divisional structure
- Line structure
- Divisional organisational structure
- Network structure
- Matrix structure
- Team structure.

For examples of graphic illustrations of these structures you can consult Chapter 5 and other management sources. Typical sources to consult include the following books:

Nieuwenhuizen and Oosthuizen, 2012a, Chapter 10.
Du Toit et al., 2010, Chapter 7.
Oosthuizen, 2013, Chapter 4.
Hellriegel et al., 2012, Chapter 10.
3.6 Leading (including communication)

Leadership is the third primary management task discussed in the prescribed textbook. Communication and motivation are supportive tasks for leading and very important to ensure effective leadership. Therefore study the leadership tasks in association with the communication and motivation tasks.

Leadership

In Chapter 3 of the prescribed textbook the task of leadership is introduced. Chapter 6 of the prescribed textbook provides the definition of leadership and the components of leadership are explained. Leaders utilise power to affect their leadership. Different leadership powers are listed and explained. Leadership and management are often regarded as synonyms. This is incorrect and you need to investigate their relationship and differences provided in Chapter 6 – see, for example Figures 6.3 and 6.4.

Research on leadership has been evolving over the years. Various theories and approaches have been developed. Four groups of models are presented:

- Leadership traits theories
- Leadership behavioural theories
- Leadership situational theories
- Contemporary (newer) leadership approaches.

You need to analyse each of these approaches and consider the theories presented with each. The leadership traits approach focuses on the typical leadership characteristics that would result in a more effective leader. The behavioural approach focuses on theories aimed at establishing the ideal behaviour required to ensure
effective leadership. The situational approaches are based on theories, considering alternative situational factors, which should ensure effective leadership. These situational factors will include proposed leadership behaviour and traits.

Newer leadership theories are summarised in Figure 6.6 and are grouped as follows:

- Re-emerging trait theories (competency, principle and ethical perspectives)
- Leadership-followers approaches (charismatic, transactional and transformational leadership)
- Other contemporary perspectives (leaders-member exchange, leadership substitutes, servant leadership and super leadership).

These contemporary approaches in general focus on the ideal behaviour for effective leadership.

**Communication**

As communication is an integral part of management it is also an essential task of a leader in a management position. You need to have an introductory understanding of the definition and elements of communication. The process of communication is very important – as each of the steps and elements of this process indicates what to consider when communicating. Communication is often the source of mistakes, problems and conflict in the workplace. Therefore you need to aim at improving your communication skills continuously. While investigating ways to improve communication you need to consider the impact of communication in the organisation and you should differentiate between formal and informal communication. Consult the following source for more information:

Hellriegel et al., 2012, Chapter 14.
3.7 Motivation

The introduction of motivation in Chapter 3 and the description of motivation in Chapter 7 indicate the importance of energising employees to perform in order to achieve objectives. Various theories have been developed which research and investigate the meaning and methods of motivation. The first group of theories is known as content theories. One of the best known theories on motivation is the hierarchy of needs theory developed by Maslow. This theory focuses on human needs as drivers (motivators). Five need levels were identified. Ensure that you understand each of these levels and their interrelationship. Another content theory focusing on ‘what motivates people’ is Herzberg’s two-factor theory. In this theory you need to investigate the two factors that contribute to or are required for motivation. A third theory is McClelland’s achievement motivation theory focusing on three elements, namely achievement, affiliation and power.

The second group of motivation theories concerns expectations of employees. These motivational theories focus on the process of ‘how to motivate’ based on employee motivations. The theories discussed in Chapter 7 are:

- Expectancy theory by Vroom
- Equity theory by Adams.

The focus of this study unit is based only on the content covered in sections 7.1-7.3 of Chapter 7. Investigate each of these theories in order to understand how they propose people should be motivated in the workplace.

3.8 Control

In Chapter 3, control is identified as another management task. More detail on controlling is provided in Chapter 8. In order to understand why control is so
important, the definition of control needs to be analysed. The different types of control in terms of the transformation process could be identified as: pre-control (inputs); concurrent control (transformation) and finally post control (outputs). Various examples are illustrated in Tables 8.1, 8.2 and 8.3. The four sources of control in most organisations are discussed in Chapter 8.

The control process is another key management process and is illustrated in Figure 8.1. You need to understand each of these steps clearly and ensure that you know the relationship between planning and control. Identifying and classifying performance standards forms a critical part of controlling. Table 8.4 presents the different types of performance standards that could be used for controlling.

This chapter concludes with examples of financial and quality controls. The aim is not for you to be able to apply these controls at this stage but to be able to understand their meaning. The reason why you should be aware of all these quality controls is because the aim of controlling would certainly be to always maintain or improve the quality of products and services provided to customers.

A brief introduction of the balanced scorecard is provided in Chapter 8. This scorecard could be used as a strategic control tool as each of the elements can be used to measure organisational performance.

In conclusion make sure you are able to list the benefits of controlling as discussed in Chapter 8. People might have negative perceptions about controlling but it certainly has positive benefits to the organisation and its employees when applied correctly.

3.9 Management skills

The key skills that a manager should have are classified as conceptual, human and technical skills. All these management skills are identified and explained in
Chapter 3. Remember that these skills are relevant to managers on all management levels, although the focus might differ in the various levels. These skills in conjunction with various management competencies will empower managers to perform optimally. Typical competencies would include the ability to communicate effectively, apply self-management, have influence, participate in teamwork and finally to have an organisational ability.

3.10 Management roles

The various management roles and sub-roles are discussed in Chapter 3. Detailed descriptions with practical examples of each of these roles and sub-roles are presented in Tables 3.2, 3.3 and 3.4.

These managerial roles are decision-making roles (with four sub-roles), interpersonal roles (with three sub-roles) and finally informational roles (with three sub-roles). You should be able to differentiate between these roles and identify examples in the organisational context.
4. Key concepts and terms

Make sure that you understand and are able to explain the following key terms:

- Management
- Strategic
- Tactical
- Operational
- Planning
- Organising
- Leading
- Controlling
- Motivation
- Communication
- Decision making
- Unity of direction
- Chain of command
- Span of control
- Division of work
- Standardisation
- Specialisation
- Coordination
- Delegation
- Responsibility
- Accountability.

Also refer to the GLOSSARY at the end of Chapters 3, 4, 5, 6, 7 & 8.
5. **Self-assessment exercise**

**Case study:**
Read the case study at the end of Chapter 3. Answer the questions at the end of the case study in the prescribed textbook.

**Theoretical questions:**
1. Define the term ‘management’ and briefly describe the fundamental management tasks.
2. Explain the most fundamental management skills that a manager should have.
3. Explain the most fundamental management roles and sub-roles that a manager should fulfil.
4. Defend the statement ‘failing to plan is planning to fail’.
5. Briefly explain the phases of the planning process.
6. Authority can be defined as the right to make decisions, issue orders and use resources. Differentiate between the various types of authority.
7. Departmentalisation is the logical grouping in manageable sizes of organisational activities belonging together. Explain the most common types of organisational structures to be found in business.
8. The situational approach to leadership focuses on identifying the factors in each situation that influence the effectiveness of leadership. Identify and briefly explain the most prominent models of this approach as well as the leadership powers required.
9. Content theories of motivation emphasise the needs that motivate people. Identify and discuss the relevant theories under this heading.
10. Differentiate between the various types of managerial decisions.
11. Explain how communication is essential for effective leadership.

Also refer to the MULTIPLE-CHOICE QUESTIONS at the end of the chapters.
Overview of unit content

This study unit covers the various business functions identified in an organisation within the field of business management. The business functions presented in this study unit are: operations management, logistics management, financial management, marketing management as well as human resources management.

In operations management you need to understand the operations managerial skills required to manufacture products and/or provide services. Furthermore you should acquire knowledge about logistics management which is the function of managing the flow of inputs and outputs in the business. Basic financial management is another business function and the principles and relevant statements will be addressed and explained. Human resource management deals with attracting, developing and retaining personnel who will enable the organisation to achieve its objectives. The last business function to be considered in this module is marketing management which allows for the identification of a target market and how to market goods and services to the customer.

The focus of this study unit is on creating functional managerial awareness and not to turn you into a functional expert. This will require years of study, research and practice.

Topics:

Operations management (refer to Chapter 9)
- Operations management defined
- Operations strategy and design
- Operations and product design
• Operations planning and control
• Operations improvement
• Projects planning and control.

**Logistics management (refer to Chapter 10)**
• Defining logistics management
• Objectives of logistics management
• Activities of logistics
• Integrated, reverse and global logistics.

**Financial management (refer to Chapter 11)**
• The tasks and core principles of financial management
• Analysing financial statements
• Financial statements
• Ratio analysis
• Break-even analysis
• Financing capital requirements
• Risk management.

**Human resource management (refer to Chapter 12)**
• Human resource management in a business context
• Planning human resources
• Acquisition, training, development and utilisation of people
• Human rewards and performance management
• Managing employee relations and maintaining HR resources.

**Marketing management (refer to Chapter 13)**
• Overview of marketing and the nature and historical development thereof
• Consumer behaviour
• Marketing research
• Market segmentation, target marketing and product positioning
• The marketing mix (Ps):
  o Product decision
  o Distribution decision (place)
  o Price decision
  o Marketing communication decision (promotion).

1. **Specific learning outcomes**

   After studying this unit, you should be able to do the following:
   
   • Understand and know how to deal with operations management, as a business function, where goods are manufactured and services generated, considering
     • operations strategy and design,
     • operations processes, planning and control,
     • improvement and quality management,
     • project management.
   
   • Understand logistics management, as a business function, by which the flow of inputs and outputs are managed, considering
     • supply chain management,
     • purchasing management,
     • developing of supplier alliances,
     • outsourcing.
- Understand the basics of financial management, as a business function, and grasp the basic financial management principles in terms of
  - the role and principles of financial management in the organisation,
  - financing capital requirement planning,
  - the basics if financial statements and break-even analysis,
  - risk management,
  - ratio analysis and calculation,
  - inventory management.
- Explain the basics of human resource (HR) management, as a business function, which deals with attracting, developing and retaining personnel while considering
  - HR management and planning,
  - recruitment, selection and appointment,
  - training and development,
  - compensation, reward and performance management,
  - employee relations and HR maintenance.
- Understand marketing management, as a business function, especially identifying a target market and overview of how to market goods or services to the customer considering
  - the marketing environment,
  - consumer behaviour,
  - marketing research,
  - market segmentation,
  - target marketing,
  - product positioning
  - the marketing mix (4Ps).
2. **Reading reference**

Strydom, 2011, Chapters 9, 10, 11, 12, and 13.

3. **Overview of this study unit: Operations management**

3.1 **Introduction**

This study unit focuses on operations management, previously known as production management. The concept of operations management recognises that production is not the only transformation activity but that service provision forms a critical part of all transformation activities within an open system and therefore an organisation.

Chapter 9 discusses the operational management function in more detail. In order to have a better understanding of the dynamic characteristics of operations management, you need to investigate the importance of the following contributions when discussing the operations management business function:

- Improved quality
- Higher living standards
- Improved working conditions
- Concern for the environment.

The performance objective of *agility* would therefore be seen as one of the most important objective for operations. This will allow the organisation to be flexible and to react quickly. Key elements for consideration when studying the field of operations (and discussed in Chapter 9) are:

- Effectiveness – doing the right things
- Efficiency – doing it at the lowest cost
- Productivity – optimal input vs. output ratio.
Consider the different formulas associated with productivity as explained in the relevant chapter. Productivity can be classified as micro or macro. In order to have a clear understanding of how productivity is measured you need to consider the formula provided in Chapter 9 of the prescribed textbook. Productivity indicates the relation between inputs and outputs and can be expressed in terms of rand value, income and expense, units, time or other numerical expressions. The aim of measuring productivity is to establish whether value was added during an operational transformation process. Investigate further how to evaluate productivity, considering how you can go about improving productivity in a business.

Finally ensure that you obtain a clear understanding of the meaning of lead time and the main elements thereof.

3.2 Operations management defined

As indicated in the first study unit of this subject, the systems approach is fundamental to business management as a field in a free market economy. When discussing the business function of operations, you have to consider various operational processes which transform inputs, also known as production factors or resources, into final products and services. The fact that various operational processes exist is based on the different characteristics of each of these processes. Consider the examples of transformation processes presented in Table 9.1 of the prescribed textbook. When analysing the definition or meaning of operations management you need to consider the relationship between operations and performance and productivity.

3.3 Operations strategy and design

As mentioned in previous study units, a link between organisational strategy and business function strategy is crucial. Therefore you need to understand the
importance of the operational management function strategy in alignment with a broader organisational strategy.

When considering the operations design you need to differentiate between lean and agile supply. Refer to Chapter 9 of the prescribed textbook in order to gain a deeper understanding of these issues when considering operations design and its relation to product design. Table 9.2 summarises the three main categories of operation systems. Each of the systems compared, considers the following characteristics:

- Product type
- Layout
- Product flow
- Material handling
- Raw materials inventory
- Work-in-process
- Production cost
- Labour requirements.

Understanding the different operation systems leads you to the next level of investigation. Investigate the relationship between the basic process and the basic layout types. Each of these operational layout types are discussed in more detail in Chapter 9 of the prescribed textbook.

3.4 Operations planning and control

The planning and controlling management tasks for the operational management function are done on strategic, tactical and operational level. A variety of tools can be incorporated to improve operational planning as indicated in Chapter 9 of the prescribed textbook.
Operation planning requires fixed-capacity (long-term) planning and variable-capacity (short-term) planning. Fixed capacity planning should be done in conjunction with the necessary controls for operational performance. Furthermore the operational function should consider a variety of factors to ensure the optimal size of the productive unit, for example, break-even point (Refer to Chapter 11, Jooste, 2011) and the nature of competition. Reconciling (dealing with supply and demand in operations) requires four overlapping tasks, namely loading, sequencing, scheduling and monitoring.

Loading focuses on the allocation of work to different operation work centres. Sequencing focuses on the order in which work should be done, and various rules, as presented in Chapter 9, should be considered. Scheduling is another operations management function task. Operations scheduling is done in respect of the time and routing of goods, dispatching of goods, controlling of the goods and finally to ensure that the final goods are expedited. Remember that effective scheduling is necessary to ensure time utilisation for such goods and services. This means that the product or service is available for the customer to consume, when the customer needs and therefore requests the product or service. Consult Chapter 9 of the prescribed textbook for more detail on push and pull systems. Finally, monitoring refers to the controlling activity within the operations function. Note that bottlenecks are a reality and contribute to poor service and increased costs. The theory of constraints suggests a five-step procedure in order to deal with bottlenecks.

Operational management continuously needs to align the demand for products and services with the capacity of the organisation to supply these goods and services. Three categories are identified which are necessary to plan for future production capacity (demand management). Therefore we can consider forecasting as an important activity for operational planning. In order to support these forecasts, capacity planning is required. Considering the determinants of effective capacity planning (fixed and variable), you can ensure that your organisation is able to meet consumer demands and the changes in demand.
Inventory management is another important operational responsibility. This requires the planning and controlling of all types of inventory as introduced in Chapter 9. Inventory management is another responsibility of the operational management function. It is important because of the cost implication of having stock/inventory you are not using/not having stock when you require it for an operational activity. The most important elements to consider are:

- Carrying costs
- Order costs
- ROP – re-order point. (Refer to Chapter 10, Jooste, 2011)

Consider the principles of good inventory management, as presented in the relevant chapter and consider the implication of carrying cost on productivity and efficiency. The re-order point (ROP) allows operational staff to calculate when to re-order inventory items. Consider the formula and example provided in Chapter 9. Another tool for consideration is material-requirement planning (MRP) which is used to assist operations management in deciding when to order materials and how much to order at the time. An example of how MRP could be applied is provided in the prescribed textbook.

The decision to make-or-buy is often a great consideration for operational management. In this case break-even analysis is a suitable tool to determine whether it is sensible to buy or make an item, in terms of the cost : earning ratio. MRP is used to plan the need for resources (materials) for different periods in the future, for example, different seasons. Break-even analysis is used to establish the break-even point, which is that point when the total revenues are equal to the total costs. The operational manager needs to establish this in order to minimise costs and optimise the profitability of operational processes and activities and therefore the overall organisational profitability.
3.5 Operations improvement

The final area of focus in this study unit is how to ensure quality goods and services based on quality operations. Operations improvement requires a focus on quality and quality management. The concept of total quality management (TQM) is explained in the relevant chapter and the application of the ISO 9000 standards relevant to quality management in operations is introduced. Other aspects for consideration are statistical process control (SPC), maintenance and replacement, and safety, health and environmental management.

This section of Chapter 9 of the prescribed textbook investigates different aspects to improve quality operations, namely:

- Continuous improvement through total quality management (TQM)
- Statistical process control (SPC)
- Maintenance and replacement of machinery and equipment
- Preventative maintenance of machinery and equipment
- Safety, health and environmental management.

Each of these aspects should be considered to ensure continuous improvement and to optimise quality and minimise damage and loss.

3.6 Project planning and control

Project management is another field of study and requires specialised knowledge. When discussing operations, you cannot ignore the importance of projects in some operational environments. Project planning and the use of the GANTT chart as well as network analysis, are presented in the last section of Chapter 9.
3.7 Key concepts and terms

Make sure that you understand and are able to explain the following key terms:

- Operations
- Operations management
- TQM – total quality management
- CI – continuous improvement
- Forecasting
- Productivity
- Performance
- Value adding
- Transformation
- Work study
- Capacity
- Inventory
- GANTT chart
- PERT
- Benchmarking
- Quality
- Maintenance.

Also refer to the GLOSSARY at the end of the chapter.
Self-assessment exercise

Case study:

Read the case study at the end of Chapter 9. Answer the questions at the end of each of the case studies in the prescribed textbook.

Theoretical questions:
1. What is operations management?
2. Identify and explain the three main categories of operations systems
3. Discuss the tasks associated with operational planning and control
4. Large, well-known companies, such as Mercedes Benz South Africa, General Electric, McDonalds and Vodacom are all known for service delivery or other features, such as quality, speed or cost-effectiveness. These are referred to as performance objectives. List a few quality dimensions that can be regarded as performance objectives.
5. Explain how productivity is measured.
6. The operations function is the driver of corporate business strategy. Explain this statement.
7. What are the differences between a lean and an agile operation?
8. Compare the characteristics of the three main categories of operations systems in terms of product type, product flow and work-in-process.
9. The optimal size of the productive unit is achieved in the long term. Various factors can have a direct influence on the eventual size of a productive unit. List some of these factors.
10. What does operations improvement entail?
11. Explain how the GANTT chart and network analysis could be used for project planning and control.

Also refer to the MULTIPLE-CHOICE QUESTIONS at the end of the chapter.
4. Overview of this study unit: Logistics management

4.1 Introduction and defining logistics management

The next business function that will be discussed concerns the components of logistics. Logistics management considers the supply chain and focuses on inbound logistics (purchasing and supply chain), operational logistics (operations management – which we have covered in the previous section) and outbound logistics, distribution and sales. (Refer to Chapter 14, Jooste, 2011). We covered some of these elements as individual functions in this study unit, e.g. marketing management and operations management. This section will focus on the elements of logistics which allows for the flow of information and material as presented in Figure 10.1.

Logistics allow an organisation to get materials, products and services within a specific time at a specific location, e.g. where the market (customer) is. The supply chain indicates on the other hand all those role players in this chain from the supplier of the original goods through the organisation to the final customer consuming the product. The management of logistics would therefore focus on the planning, implementation and control of these processes and role players.

4.2 Objectives of logistics management

Considering the overall organisational strategies and objectives, two key objectives of logistics are identified:

- Minimisation of total logistics costs (consider what are logistics costs)
- The optimisation of customer service (consider the meaning of customer service, order lead time, dependability and convenience).

Remember that the difference between the two objectives and the trade-offs that exist between them should also be considered and are explained in Chapter 10. Figure 10.2
indicates that as the logistics costs increase, the level of customer service will improve (be higher).

### 4.3 Activities of logistics

The activities associated with logistics are summarised in six main categories:

- **Purchasing** – obtaining of materials and goods and arranging how these goods will be obtained from the suppliers.

- **Order-processing** – placing of an order up to expediting the order. This entails three tasks: order entry, order handling and order delivery.

- **Inventory management** – managing what stock to get or keep as well as the decision on how much money to invest in stock (also see the discussion in the section on operations management and refer to Figure 10.3 to get a clear understanding of the different types of inventory). Consider the examples of how economic order quantity (EOQ) and the ABC analysis can be used in order to establish optimal order quantities – see Figures 10.4 and 10.5.

- **Transportation** – moving of goods between the organisation and customers who buy the goods, using different transportation modes, for example, rail, water, road, air, pipeline and intermodal (combination of the others). Table 10.1 provides an effective summary indicating the strengths and weaknesses of the five core transportation modes. The factors to consider when choosing an appropriate mode are discussed in Chapter 10.

- **Warehousing** – storing of goods for later distribution or repackaging.

- **Materials handling and packaging** – moving of goods in storage and the way goods and materials are packed.

For more information on logistics management consult Nieuwenhuizen and Oosthuizen (2012b).
4.4 Integrated, reverse and global logistics

Consider the relationship that exists between functions within an organisation. Then certainly integration between tasks within a function is critical. Figure 10.6 illustrates the interrelated nature of logistical activities including warehousing, transportation, order-processing, inventory, purchasing and materials handling. You furthermore need to understand the meaning of reverse logistics – which focuses on logistics objectives but from the point of consumption. This chapter concludes with the globalisation and its impact on global logistics.

4.5 Key concepts and terms

Make sure that you understand and are able to explain the following key terms:

- Purchasing
- Supply
- Demand
- Warehousing
- Transportation
- Global logistics
- Outsourcing
- Supply chain
- Logistics
- JIT – just-in-time
- Inventory
- Transportation modes
- Inventory.

Also refer to the GLOSSARY at the end of the chapter.
Self-assessment exercise

Case study:

Read the case study at the end of chapter 10. Answer the questions at the end of each of the case studies in the prescribed textbook.

Theoretical questions:

1. Define and explain with the aid of a diagram the scope of logistics.
2. Explain the different objectives relevant to logistics management.
3. Discuss the trade-offs between minimising costs and optimising service.
4. Identify the various activities associated with logistics. Discuss each of them and provide practical examples to illustrate your discussion.
5. Explain the use of EOQ and ABC to calculate optimal order quantities.
6. Identify and explain in detail the various transportation modes and indicate their strengths and weaknesses.
7. Illustrate the interrelated nature of logistical activities and discuss the importance of this integration within the function.
8. Why is warehousing important for logistical performance?

Also refer to the MULTIPLE-CHOICE QUESTIONS at the end of the chapter.
5. Overview of this study unit: Financial management

5.1 Introduction

Financial management is one of the business functions focusing on long-term investment opportunities, the financing of assets and working capital as well as the management of daily financial activities. Chapter 11 of the prescribed textbook addresses the elements of financial management as a business function, considering its overall role as a function, its value for business analysis, financial planning and the development of financial statements. Once you have a broader understanding of this business function, you should not forget to investigate the important role risk management plays in financial management.

5.2 The tasks and core principles of financial management

You need to gain an understanding of the role of financial management as introduced in Chapter 11 of the prescribed textbook. Consider the following three aspects when discussing the functions of financial management:

- Analysing the financial position of a business
- Managing the assets of the business
- Managing the liabilities of the business.

The core principles of financial management as discussed in the relevant chapter are:

- the cost-benefit principle,
- risk-return principle, and
- the time-value of money principle.
5.3 Analysing financial statements

As stated in Chapter 11, key stakeholders (management and shareholders) need to evaluate continuously whether their organisation is performing acceptably and similarly to other competitors in the industry. This activity is known as business analysis and refers to the analysis of financial statements, using a variety of calculations, better known as ratio analysis. We will first consider the different financial statements whereafter we will investigate the different financial ratios.

5.4 Financial statements

Financial statements as discussed in Chapter 11 of the prescribed textbook constitute a critical activity for the financial manager. The three most important financial statements are the income statement, the balance sheet and the cash flow statement.

**Balance sheet**

The balance sheet as presented in Table 11.2 of the textbook summarises the short and long-term assets and liabilities of the business. You need to calculate your net profit as presented in the income statement, before you can finalise the balance sheet. Using the accounting equitation as presented in Table 11.1 you will be able to understand the logic and requirements of a balancing (assets = liabilities) act, required in the balance sheet.

**Income statement**

The income statement in Table 11.3 of the prescribed textbook represents income and expenses and the relationship between income generated through sales and expenditure required for these sales, in order to generate an after tax net profit. Use the format of Table 11.3 to compile your own income statement.
Example of how to compile an income statement and a balance sheet:

At the end of the financial year (28 February 20xx) you are expected to draw-up a basic version of the income statement and balance sheet for your advertising organisation People’s Marketing Solutions Pty Ltd., taking the following information into account (remember to indicate all calculations clearly):

- Accounts payable R2 265 000,00
- Depreciation
  - Vehicles over a period of 5 years
  - Computers 25% per annum
- Turnover for the year 550 units
- Interest 10 % per annum
- Salaries paid R1 615 000,00
- Cost of sales R4 275 000,00
- Bank loan R2 000 000,00
- The company is taxed at 35% per annum
- Computers R800 000,00
- Vehicles R1 200 000,00
- Office building R2 500 000,00
- Cash R660 000,00
- Accounts receivable R850 000,00
- Stock R680 000,00
- Administrative expenses R210 000,00
- Marketing expenses R785 000,00
- Equity R1400 000,00
- Interest on loan 15%
- Sale price per unit R15500
The following calculations are required in order to complete the income statement and balance sheet:

**Sales:**
550 units x R15 500 per unit = R8 525 000,00 (turnover/sales)

**Depreciation:**
- Computers \( 25\% \times \text{R800 000,00} = \text{R200 000,00 per year} \)
- Vehicles \( 20\% \times \text{R1200 000,00} = \text{R240 000,00 per year} \)
- Building & land none
Total depreciation = R440 000,00

**Interest:**
- Bank loan \( 15\% \times \text{R2 000 000,00} = \text{R300 000,00 per year} \)

**Tax:**
- Tax \( 35\% \times \text{R900 000,00} = \text{R315 000,00 for the year} \)

**Income Statement for People’s Marketing Solutions Pty Ltd. for the year ended 28 February 20xx**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong></td>
<td>R8 525 000,00</td>
</tr>
<tr>
<td><strong>Cost of sales</strong></td>
<td>R4 275 000,00</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>R4 250 000,00</td>
</tr>
<tr>
<td><strong>Operating expenses:</strong></td>
<td></td>
</tr>
<tr>
<td>Marketing expenses</td>
<td>R 785 000,00</td>
</tr>
<tr>
<td>Salaries paid</td>
<td>R 1 615 000,00</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>R 210 000,00</td>
</tr>
<tr>
<td>Depreciation</td>
<td>R 440 000,00</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>R 3 050 000,00</td>
</tr>
<tr>
<td><strong>Operating income</strong></td>
<td>R 1 200 000,00</td>
</tr>
<tr>
<td><strong>Interest</strong></td>
<td>R 300 000,00</td>
</tr>
<tr>
<td><strong>Earnings before tax</strong></td>
<td>R 900 000,00</td>
</tr>
<tr>
<td><strong>Tax (35%)</strong></td>
<td>R 315 000,00</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>R 585 000,00</td>
</tr>
</tbody>
</table>
Balance Sheet for People’s Marketing Solutions Pty Ltd. for the year ended 28 February 20xx

Assets
Current assets:
  Cash R 660 000,00
  Accounts receivable R 850 000,00
  Inventory R 680 000,00
  Total current assets R2190 000,00

Non-current (fixed) assets:
  Building and land R2500 000,00
  Gross computers R 800 000,00
  Less depreciation R 200 000,00
  Net computers R 600 000,00
  Gross vehicles R1200 000,00
  Less depreciation R 240 000,00
  Net vehicles R 960 000,00
  Total non-current assets R4060 000,00

TOTAL ASSETS R6 250 000,00

Debt (liabilities) and equity
Current liabilities:
  Accounts payable R2265 000,00
  Total current liabilities R2265 000,00

Long-term liabilities:
  Bank loan R2 000 000,00
  Total long-term liabilities R2 000 000,00

Members’ contribution R1 400 000,00
Retained earnings R 585 000,00
  Total owners’ equity R1 985 000,00

TOTAL DEBT AND EQUITY R6 250 000,00

Also consult the following sources as well as the list of recommended reading in Section A, for further examples:

Du Toit et al., 2010, Chapter 13.
Nieuwenhuizen and Oosthuizen, 2012b, Chapters 1 and 2.
5.5 Ratio analysis

Financial ratios considered for ratio analysis are grouped in various categories. Each of these categories consists of various measures and calculations.

The following categories of financial ratios should be considered:

- **Liquidity ratios**
  - Current ratio
  - Quick ratio

- **Asset management ratios**
  - Inventory turnover
  - Average collection period
  - Total asset turnover

- **Debt-management ratios**
  - Debt ratio
  - Gearing ratio
  - Interest covering ratio

- **Profitability ratios**
  - Gross profit margin
  - Profit margin
  - Return on total assets
  - Return on equity.

Consult Chapter 11 of the prescribed textbook for examples of the above-mentioned ratios, the relevant formulae and how to calculate the ratios. Ensure that you know these formulae and are able to apply each of them. Remember to use the information provided in the income statement and balance sheet in order to do these calculations. Consider the following example:
Examples of how to calculate ratios:

The following information is provided after the income statement and balance sheet of The People's Marketing Company Pty Ltd. has been drafted:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>R100 000,00</td>
</tr>
<tr>
<td>Credit sales</td>
<td>R150 000,00</td>
</tr>
<tr>
<td>Total assets</td>
<td>R850 000,00</td>
</tr>
<tr>
<td>Current assets</td>
<td>R350 000,00</td>
</tr>
<tr>
<td>Sales</td>
<td>R250 000,00</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>R200 000,00</td>
</tr>
<tr>
<td>Marketing expenditure</td>
<td>R125 000,00</td>
</tr>
<tr>
<td>Salaries</td>
<td>R250 000,00</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>R160 000,00</td>
</tr>
<tr>
<td>Stock</td>
<td>R80 000,00</td>
</tr>
</tbody>
</table>

Calculate the following ratios based on the information provided:

- **Liquidity ratio**
  
  Current ratio = Current assets / Current liabilities
  
  = R350 000 / R200 000
  
  = 1.75

- **Inventory turnover**
  
  Inventory turnover = Cost of sales / Inventory
  
  = R160 000 / R80 000
  
  = 2
Also consult the following sources as well as the list of recommended reading in Section A, for further examples:

Du Toit et al., 2010, Chapter 13.
Nieuwenhuizen and Oosthuizen, 2012b, Chapters 1 and 2.

5.6 Break-even analysis

Break-even analysis as introduced in the section covering the operational function is a critical analysis tool. It is used to establish the interrelationship between costs, volume and profit for different sales levels. Fixed costs and variable costs (see Figure 11.2) are critical components to consider when calculating the break-even point. The formula and an example on how to calculate the break-even point are presented in Chapter 11. Figure 11.4 illustrates that specific point when costs (fixed and variable) equal income (sales) – we therefore then know that if we sell more we will start making a profit. Note that there are some limitations to the use of break-even analysis.

5.7 Financing capital requirements

Financial planning as discussed in Chapter 11 of the prescribed textbook focuses on the following financial activities which can be seen as long-term and short-term financing. The first two generally focus on longer-term financing. Financing capital requirements can be classified as long-term and short-term financing as explained in the relevant chapter.

Short-term financing includes:
- Trade credit
- Bank credit
- Factoring of trade receivables.
Long-term financing includes:
  
- Equity funding
- Long-term bank loans
- Financial leases.

Capital budgeting requires you to establish whether an investment will create value for your organisation. In this case you need to calculate the net present value (NPV) over a period of time, in order to see whether an investment has actually added value. Two other approaches to consider during capital budgeting is the payback rule (establishing how long it will take to recover the money you have invested) and the profitability index. The capital structure selected by the financial manager should be viable in terms of debt incurred and equity contributed. Key considerations are business risk and the financial risk when considering debt and equity. Finally working capital management focuses on short-term financing. Here you need to consider what current assets and current liabilities are considered and managed to ensure operational performance. Investigate the meaning of the concepts: working capital, current assets, current liabilities and net working capital. The following sources can be consulted for more detail on budgeting and credit management:

Du Toit et al., 2010.
Nieuwenhuizen and Oosthuizen, 2012b.

Considering planning and financial management, it goes without saying that budgeting is an important task. Budgeting is resource planning for the future. In financial management we therefore express the monetary value of the resources required in the future. Consider the cash budget as presented in Chapter 11 and use Tables 11.4 and 11.5 to analyse and apply an example of cash budgeting. Consider the planning process and the control process referred to in Chapter 2 of the prescribed textbook and compare it with budget planning and budgetary control as discussed in Chapter 11 of the prescribed textbook.
The chapter concludes with a discussion on the management of trade receivables and inventories. When managing trade receivables you need to establish a credit policy, credit terms and a collection policy. Table 11.6 provides an illustration of how to calculate the period of time debt is outstanding. When managing inventories (as discussed in operations and logistics) financial management is crucial to ensure optimum level of inventory holdings.

5.8 Risk management

As mentioned earlier, risk is an important consideration for the financial manager. The prescribed textbook does not discuss this element in detail but for your own reference you need to understand the meaning of risk and how risks should be managed in order to increase profits. Therefore you need to investigate the meaning of business risk and the factors that influence it, as well as analyse financial risks. Ensure that you read other risk concepts such as the difference between diversifiable and non-diversifiable risk when investigating securities, demand risk, competitive risk and capability risk. Consult the following books on the issue of risk:

Du Toit et al., 2010.
Nieuwenhuizen and Oosthuizen, 2012b.
5.9 Key concepts and terms

Make sure that you understand and are able to explain the following key terms:

- Finance
- Financial management
- Income statement
- Balance sheet
- Cash flow statement
- Financial ratios
- Ratio analysis
- Activity ratio
- Profitability ratio
- Liquidity ratio
- Equity
- Debt
- Capital
- Assets
- Liabilities
- Budgeting
- Working capital
- Profit (net vs. gross)
- Financing capital
- Trade receivables
- Cash budget
- Risk.

Also refer to the GLOSSARY at the end of the chapter.
Self-assessment exercise

Case study:

Read the case study at the end of Chapter 11. Answer the questions at the end of each of the case studies in the prescribed textbook.

Theoretical questions:

1. List the tasks of the financial manager when managing a business.
2. Identify which ratio is used by the business to indicate its ability to pay its short-term debts.
3. Discuss how you will determine the net present value of the investment when you start a business to manufacture and market a new product.
4. Classify and explain the different types of financing capital.
5. Describe the elements of the cash budget of a business.
6. Compile a basic balance sheet and the income statement of a business.
7. Provide an illustration and formula to explain break-even analysis.
8. Differentiate between fixed and variable costs.
9. Identify and explain the core principles of financial management.
10. Why is financial management an important consideration for inventory management?

Also refer to the MULTIPLE-CHOICE QUESTIONS at the end of the chapter.
6. **Overview of this study unit: Human resource management**

6.1 **Introduction**

Human resource management is one of the key business functions in any type of organisation. Without employees no business will function, even those that are highly technology driven. Recruiting, selecting, appointing and maintaining human resources for an organisation are therefore essential human resource practices to ensure that the employee resource needs of the organisation are addressed. This function does not focus only on the current needs but also on future needs. Chapter 12 of the prescribed textbook provides an overview of the business function of human resource management.

6.2 **The role of human resource management in a business context**

Various definitions for human resource management exist. Consult Chapter 12 of the prescribed textbook in order to gain a full understanding of the definition of human resource management. Analyse each of the components presented in the definition. Furthermore you should consider the different activities presented in the human resource management process.

Refer to Figure 12.1 indicating the required skills for a HR manager. These skills are required in order for a HR practitioner to apply the various tasks of human resource management:

- Staffing (recruitment, selection, appointment, induction)
- Retention and maintenance
- Training and development
- Adjustment and change management.
6.3 **Strategic human resource management**

The discussion in Chapter 12 provides an overview of the human resource management process. In order for you to identify and explain the tasks of human-resources management you should consider strategic planning, staffing, assessment, development and maintenance of human resources. Therefore the human-resources management process includes: strategic human-resources planning (including job analysis and job forecasting); staffing (including recruitment, selection and induction); developing and evaluating the organisation’s human resources (including training and development, and performance management); and maintaining the organisation’s human resources. You are required to briefly explain these steps in the HR management process.

6.4 **Strategic human resource planning**

Considering this framework summarising the four phases as presented in Figure 12.2, the following discussion in Chapter 12 of the prescribed book aims at linking human resource strategies with organisational strategies and therefore overall organisational performance and success. Various perspectives exist in terms of how people perceive the human resource function. This is the reason why different human resource strategies exist. This textbook focuses on the human resource management of a local business. Please note that human resource practices in multinational and global businesses are not the focus of this chapter.

Furthermore you need to ensure that the focus of the human resource manager, in alignment with any human resource strategy, should be the management of human capital. Human capital is an element of intellectual capital and acquiring the best
human capital will therefore improve intellectual capital. To ensure best quality human resource capital, the human resource function would need to measure human capital.

The detailed human resource activities are presented in association with the broader processes required in human resource management namely acquisition, development and performance. Please note that any human resource practices should be conducted within the legal framework provided by the relevant country. Chapter 12 provides some of these legisatory examples for South Africa.

Conducting strategic human resource planning requires a logical and sequential process. This process considers the normal strategic planning process but is enhanced to address specific planning steps required for the human resource function over the long term. Investigate each of these steps and see how they could relate to a practical example when you need to appoint an individual to work for your business.

Job-analysis forms part of the strategic HR planning process and aims to establish job descriptions and job specifications. Figure 12.3 illustrates these two end-products of the job analysis task. Forecasting is essential in order to establish future organisation HR needs for staff and skills.

6.5 Staffing, developing and assessing human resources

Once a human resource plan has been compiled and finalised the human resource activity of staffing commences in order to acquire, source or recruit suitable qualified and experienced workers to fill a specific position in the organisation. As human resource management can be based on different strategies, the recruitment of staff can also be conducted according to different recruiting strategies.

Recruitment strategies are classified as ‘right person’; ‘culture-fit’ and ‘flexible person’. Other non-traditional strategies exist but we focus on two groups of sources which can
be considered for recruitment, namely internal and external recruitment. Each of these groups has different methods to be considered when recruiting.

Once possible candidates have been identified during the recruitment activity, it is time to select the appropriate candidate. Figure 12.4 presents the 9 steps to follow when selecting an appropriate candidate. Once a candidate has been selected, the next task is induction. Often organisations ignore or do not fully attend to this activity – to their detriment. Induction is necessary to ensure that a new employee becomes functional and adapts to the new work environment as soon as possible.

6.6 Human resource development and utilisation

As employees fulfil their normal duties, new needs can develop over time in terms of skills required to do a job or to be able to adapt to changes in technology or the market. Training and development is therefore an important human resource management task that focuses on training and developing new as well as existing employees. Apart from further developing employees, the human resource function assists with career planning and the management thereof for each employee. Figure 12.5 provides a summary of the training and development process implemented by the HR function.

Employees functioning and utilisation in the workplace must be measured according to set performance standards – this is known as performance management. These performance standards need to be developed in order to ensure that the organisation will meet its objectives while teams and functions as well as individuals are performing according to set standards. Performance management focusing on performance appraisal therefore forms a very important human resource responsibility. This must be conducted in association with other functions or departmental managers.
During the process of performance management, reward and recognition are two essential tasks to consider. Reward is more than just a salary and recognition assists with the management task of motivation. Rewards and recognition for good performance should be developed in conjunction with a suitable job or performance evaluation process. A variety of incentives and benefits can be considered for recognition of good performance. Figure 12.6 provides compensation examples considered for reward but also for maintaining human resources.

### 6.7 Maintaining human resources

Remember that in all business practices, relationship building is very important. Managing employee relations is therefore also a consideration of the human resource management function. This includes a variety of tasks such as discipline, counselling and the handling of grievances. The role of unions cannot be ignored either. In a country such as South Africa, unions have acquired large support and therefore power. Human resource management should take on the responsibility to liaise and negotiate with unions.

Important trends in human resource management should not be ignored. As organisations change and people develop, new themes are evolving. Some of these themes are introduced at the end of Chapter 12.
6.8  Key concepts and terms

Make sure that you understand and are able to explain the following key terms:

- Human resources
- Human resource management
- Recruitment and staffing
- Selection
- Appointment
- Induction
- Retention
- Change management
- Compensation
- Human capital
- Training and development
- Career management
- Performance appraisal
- Reward/incentives/benefits
- Employee relations
- Unions.

Also refer to the GLOSSARY at the end of the chapter.
Self-assessment exercise

Case study:
Read the case study at the end of Chapter 12. Answer the questions at the end of each of the case studies in the prescribed textbook.

Theoretical questions:
1. The HR planning process is based on four phases. List these phases and explain each of them in detail. Provide relevant examples in your explanation.
2. How does an HR strategy support the strategic objectives of the marketing, operations, sales and service functions in reaching business goals?
3. What role does a line manager play in the staffing activity?
4. Identify and briefly describe the outcomes of job analysis.
5. Identify the two broad recruitment strategies/areas that businesses can use and explain the difference between them.
6. What important elements of external recruitment will you consider to ensure the effectiveness of the campaign?
7. Distinguish between the concepts of training, development and career management.
8. Describe the purposes of performance appraisals as an integral part of performance management.
9. Provide an illustration indicating examples of compensation management considered for HR maintenance.
10. Illustrate the steps and apply a real-life example of the selection process.

Also refer to the MULTIPLE-CHOICE QUESTIONS at the end of the chapter.
7. **Overview of this section: Marketing management**

7.1 **Introduction**

The management function of marketing management, as discussed in Chapter 13 of the prescribed textbook, focuses on the ultimate objective of marketing which is to ensure a satisfactory exchange between the business and its customers. Although marketing forms a large component of your overall study focus, for the purpose of this unit, you need to ensure that you study the meaning of marketing and investigate further the marketing environment, consumer behaviour, marketing research, market segmentation, target marketing, product positioning and 4Ps of the marketing mix.

7.2 **Overview of marketing, nature and historical development**

Consult Chapter 13 of the prescribed textbook in order to establish an understanding of the definition of marketing. Note that one of the aims of marketing is to overcome the gap between production of goods by an organisation and the consumption of goods by the consumer. In Chapter 13 the term ‘marketing’ (considering management tasks, meeting opportunities and threats, creating a need-satisfying market offering, and the achievement of objectives) is defined.

Figure 13.1 provides an illustration of the marketing process which includes the market offering, market segmentation, target markets, market research and need satisfaction. This is presented within the system theory framework. Key decisions are made in this marketing process including:

- Product decision
- Distribution decision
- Marketing-communication decision
- Pricing decision.
See the example provided in Chapter 13 illustrating each of these decisions briefly. As discussed in Study Unit 2, the marketing environment is similar to the business environment and includes the micro, market and macro environments. The marketing team should establish what is happening externally to the organisation, while considering the internal strengths and weaknesses of the business itself, in order to ensure effective marketing. This will allow effective inputs being transformed into outputs that will meet specific customer needs.

The evolution of marketing is also discussed in Chapter 13. The evolution of the marketing thinking through the years, as discussed, indicates a development from the production era to the sale era to the marketing era. Consider the various orientations associated with the marketing era:

- Profit orientation
- Consumer orientation
- Social responsibility
- Organisational orientation.

7.3 **Consumer behaviour**

Consumer behaviour is influenced by a variety of factors which influence the decision-making process of the consumer and are classified as individual and group factors. You need to identify and classify these individual and group factors as discussed in Chapter 13. Individual factors include:

- Motivation
- Attitudes
- Perceptions
- Learning ability
- Personality
- Lifestyle.
Group factors include:

- Family
- Reference groups
- Opinion leaders
- Cultural groups
- Social class.

Every consumer decides what goods or services to purchase although this decision process may vary. Consider the five steps presented in Chapter 13 of the prescribed textbook. Evaluate how you experience these steps, as a buyer or consumer.

### 7.4 Marketing research

Marketing information is very important for all management and especially marketing management decisions and strategies. This research is done in conjunction with the marketing mix (product, price, promotion and place) of the business and its target market. Consider the five steps presented in Figure 13.4 of the prescribed textbook, which you need to consider when conducting marketing research.

Remember that marketing research assists with improving customer satisfaction but also allows you to identify new marketing opportunities. Information management is an important element in marketing research as data is required in order to make relevant marketing decisions. Also the tools used to collect data should be well-planned in order to obtain the correct data for informed decision making.

### 7.5 Market segmentation, target marketing and product positioning

Market segmentation allows marketing management to divide the broader market into groups of customers who are similar in terms of needs or behaviour. Once
that is done target marketing allows the organisation to decide which of these groups or segments to pursue. Investigate the definition of these marketing activities as presented in Chapter 13 of the prescribed textbook.

**Market segmentation**

Market segmentation offers a variety of benefits to marketers, as it is often impossible to service the total market. There are three approaches to market segmentation:

- Market-aggregation approach (see Figure 13.5)
- Single-segment approach (see Figure 13.6)
- Multi-segment approach (see Figure 13.7).

But you must remember that before any segmentation can take place you need to assess whether key criteria/prerequisites for market segmentation are met. Once this is established and the criteria are met, the marketing manager can consider a broad base of market segmentation variables to conduct segmentation such as:

- Geographic factors
- Demographic factors
- Behavioural factors
- Psychographic factors.

Each of these factors is discussed in more detail in Chapter 13.

**Target marketing**

When selecting potential target markets, various evaluation criteria must be considered. Some of the approaches to target marketing are:

- Concentrated targeting
- Differentiated marketing
- Undifferentiated marketing.
For more information on these approaches you could consult:
Du Toit et al., 2010.
Nieuwenhuizen and Oosthuizen, 2012b.

**Product positioning**

Once one or more markets have been selected, product positioning needs to take place. This refers to the placing of a product in the market based on the customer’s mind, in relation to other competitive products. When considering the product on offer you need to ensure that a product is positioned correctly in terms of the target market (customer). Product positioning influences the customer’s perception of a product (looking at characteristics, advantages and disadvantages, how it competes with other products, etc.). For more information on these approaches you could consult:

Du Toit et al., 2010.
Nieuwenhuizen and Oosthuizen, 2012b.

### 7.6 The marketing mix

The marketing mix refers to the 4Ps of marketing, better known as product, place (distribution), price and promotion (marketing communication) and is discussed in Chapter 13 of the prescribed textbook. You need to investigate the four key elements relevant to each of these, contributing to the final marketing mix offered to the target market.

In order to ensure an effective marketing mix, you need to have a clear understanding of the marketing process mentioned earlier.
Product decisions

A product refers to anything that is tangible or intangible and which is offered to consumers in order to satisfy a need or want. The product is classified in terms of five elements:

- Core product
- Formal product
- Need-satisfying product
- Product image
- Total product.

Consumer products, as discussed in Chapter 13, can be classified as:

- Convenience products
- Shopping products
- Speciality products
- Unsought products.

Branding forms a critical part of the product decision. Aspects relating to brand decisions, brand loyalty and the different types of brands are discussed in the relevant chapter. Furthermore packaging is integral to the brand decision.

Chapter 13 presents various product strategies for consideration. The development of new products is also discussed and the various phases associated with this task are summarised in Table 13.3. The product life cycle is illustrated in Figure 13.9 which presents the various phases products are exposed to, ranging from introduction to decline.
Distribution decisions

Distribution in this context refers to the role fulfilled by wholesalers and retailers. Figure 13.10 provides an illustration of five different types of distribution channels. Various factors play a role in the establishment of a distribution channel such as:

- The product
- The type of market
- The existing distribution channels.

Another aspect that should be investigated is the impact of channel leadership. This is based on either a push or a pull strategy as illustrated in Figure 13.11. The different market coverage options are introduced and summarised in Figure 13.12. This indicates the level of intensity of market coverage. Finally logistics, as discussed earlier, has a direct relation to the marketing function. Distribution decisions in a marketing context refer to the place element in the marketing mix.

Price decisions

Price refers to the value paid by consumers for a product or service. Figure 13.13 provides the four steps that should be considered when the price of a product is determined. Various adaptations of the final price can be considered and include:

- Price skimming
- Market penetration
- Market price
- Leader pricing
- Off prices
- Bait prices, etc.
Marketing communication decisions

Marketing communication refers to much more than just advertising. This refers to a process of informing, persuading and reminding the consumer about products available. You need to study various examples as presented in the relevant chapter in order to obtain a clear understanding of this task. The four marketing communication elements discussed in Chapter 13 and presented in Figure 13.14 are:

- Advertising
- Personal selling
- Sales promotion
- Public relations, publicity and sponsorships.
7.7 Key concepts and terms

Make sure that you understand and are able to explain the following key terms:

- Marketing
- Marketing management
- Target marketing
- Positioning
- Marketing mix
- Marketing research
- Marketing communication
- Product
- Place
- Price
- Promotion
- Consumer behaviour
- Purchasing decisions
- Segmentation
- Public relations.

Also refer to the GLOSSARY at the end of the chapter.
Self-assessment exercise

Case study:

Read the case study at the end of Chapter 13. Answer the questions at the end of each of the case studies in the prescribed textbook.

Theoretical questions:

1. Name and discuss the evolution of marketing thinking through the years.
2. Discuss the buying decision-making process.
3. Illustrate the marketing process.
4. Name and discuss the different approaches for market segmentation.
5. List and discuss in detail variables to consider for market segmentation.
6. Name and discuss the task of positioning a product.
7. Discuss the four variables which are crucial for marketing management decision making.
8. What are the benefits of the marketing planning process?
9. Identify the four components of the marketing mix. Select a product and a service and explain each of these components.
10. Explain and differentiate between the various determinants of consumer behaviour.
11. Explain how to conduct marketing research for marketing purposes.

Also refer to the MULTIPLE-CHOICE QUESTIONS at the end of the chapter.
Overview of unit content

This study unit covers the nature and scope of entrepreneurship within the broader realm of business management. This study unit focuses on the nature and development of entrepreneurship; the individual entrepreneur as well as the contribution of entrepreneurs to the larger economy. You will need to differentiate between entrepreneurship, leadership and management in order to ensure a clear understanding of each. Finally the different types of business opportunities in which entrepreneurs can be involved are identified and discussed.

Topics:

- Entrepreneurship
- Entrepreneur
- Small business management
- Creativity and innovation in business
- Types of entrepreneurial business.

1. Specific learning outcomes

After studying this unit, you should be able to do the following:

- Understand the nature and development of entrepreneurship.
- Identify the contribution of entrepreneurs to the economy.
3. Overview of this study unit

3.1 Introduction

As briefly introduced as a key production factor in the first study unit, entrepreneurship is critical in the establishment of any business. Chapter 14 of the prescribed textbook investigates and differentiates between aspects such as the entrepreneur, entrepreneurship, small business management and even leadership. This study unit focuses on the nature and development of entrepreneurship; the individual entrepreneur as well as the contribution of entrepreneurs to the larger economy. Finally the different types of business in which entrepreneurs can be involved are presented.

3.2 Entrepreneurship

When defining entrepreneurship several key elements and components can be identified. These components are described in Chapter 14 of the prescribed
textbook. The important skills to consider when investigating successful entrepreneurs are ingenuity, leadership and calculated risk taking.

Key characteristics of an entrepreneur include skills, expertise and aptitude. Furthermore as with leadership traits (discussed in Study Unit 3), some key personal characteristics are identified including creativity and innovation. Apart from characteristics, entrepreneurial skills are investigated. These include proactiveness, achievement, orientation, commitment to others and internal locus of control. An understanding of the meaning and value of these skills should be established as well as a clear differentiation between the meaning of internal and external loci of control.

A variety of these characteristics and skills are discussed in Chapter 14 of the prescribed textbook and well as other sources such as:

Nieuwenhuizen and Oosthuizen, 2012a, Chapter 3.

The entrepreneurial process is introduced in Chapter 14. This process consists of three phases ranging from the identification of the business idea to the development of the business plan and finally the establishment and growth of the business.

In Chapter 14 you will be able to identify the contribution that entrepreneurs make to the economy of a country which include aspects such as profit, skills, ingenuity, leadership and calculated risk-taking. In order to differentiate between entrepreneurship, leadership and management, you need to consider the common characteristics shared by leaders and entrepreneurs, as well as entrepreneurial career anchors and managerial career anchors as explained in the prescribed textbook.
3.3 Creativity and innovation in business

Creativity and innovation are two requirements for an entrepreneurial organisation. Many people mistakenly tend to perceive creativity and innovation as synonyms. Aim to differentiate clearly between innovation and creativity. An entrepreneurial orientation requires an entrepreneurial culture. Culture reflects the values, norms and assumptions of humans and organisational culture will therefore indicate the norms, values and assumptions of the employees as members of the business. An entrepreneurial culture will thus value the critical characteristics and elements of entrepreneurship. Although entrepreneurship in general is perceived as positive and important for organisational survival, various obstacles can limit its existence. Consider the following sources on these themes:

Nieuwenhuizen and Oosthuizen, 2012a, Chapter 3.
Du Toit et al., 2010, Chapter 2.

3.4 Types of entrepreneurial business

The different types of businesses in which entrepreneurs can be involved are introduced in Chapter 14. These include:

- The informal-business sector, e.g. a vendor selling food and cold drinks on the street corner.
- The micro- and small-business sector, e.g. a privately owned restaurant or a private jewellery shop. See Table 14.1 to establish when a business is classified as small in South Africa.
- The medium- and large-business sector, e.g. Woolworths or Pepkor.
- Franchises, e.g. Nando’s, McDonald’s and Seff.
- Corporate entrepreneurship, e.g. Adrian Gore who established Discovery medical aid within FNB.
Consider the characteristics of each of these routes to entrepreneurship and furthermore establish the differences between the types of entrepreneurial business.

4. Key concepts and terms

Make sure that you understand and are able to explain the following key terms:

- Entrepreneurship
- Entrepreneur
- Small business manager
- Corporate entrepreneurship
- Franchisor
- Franchisee
- Creativity
- Innovation.

Also refer to the GLOSSARY at the end of the chapter.
Self-assessment exercise

**Case study:**

Read the case study at the end of Chapter 14. Answer the questions at the end of the case study in the prescribed textbook.

**Theoretical questions:**

1. Discuss the different entrepreneurial skills and characteristics.
2. Why is the development of personal entrepreneurial skills essential for successful entrepreneurship?
3. Which entrepreneurial skills would you regard as being related to good human relations/commitment to others?
4. Analyse yourself to determine whether you have an internal or an external locus of control. Give two reasons why you have identified yourself in these terms.
5. Distinguish between creativity and innovation and provide an example of your own creative behaviour and an example of your own innovative behaviour.
6. Think of businesses in your city/town. Give an example of a business that is managed by (1) an entrepreneur and (2) a small business manager. Give three reasons why you think the first person is an entrepreneur, and the second a small business manager.
7. Define the term ‘entrepreneurship’ in your own words.
8. Name and briefly explain the four key success factors to consider when establishing an entrepreneurial venture.
9. Why is it important to take note of external factors when starting and managing a business?
10. Identify and explain the different types of entrepreneurial business.

Also refer to the MULTIPLE-CHOICE QUESTIONS at the end of the chapter.
Study Unit 6: The business plan

Overview of unit content

This last study unit covers the nature and scope of the business plan which is a key entrepreneurial tool required for establishing a new business venture as well as managing an existing organisation. In this study unit the different components of a business plan are identified and described in order to allow you to finally compile a business plan for a new business venture.

Topics:
- The business plan
- The viability and feasibility study
- Developing a business plan.

1. Specific learning outcomes

After studying this unit, you should be able to do the following:
- Identify and describe the different components to a business plan.
- Perform a feasibility and viability study.
- Compile a business plan.

2. Reading reference

Strydom, 2011, Chapter 15.
3. Overview of this study unit

3.1 Introduction: business plan

The development of a business plan is required for any new entrepreneurial venture. The business plan is in fact the planning tool for the entrepreneur. It can furthermore be used to acquire financial support from investors. Refer to Chapter 15 of the prescribed textbook for more information on feasibility and viability studies as well as the business plan.

3.2 Feasibility study and viability study

We have discussed the characteristics of the entrepreneurial business in Chapter 14 of the prescribed textbook. These include aspects such as risk-taking, innovation and being proactive. When establishing an entrepreneurial business various requirements need consideration such as:

- Identifying a suitable opportunity
- Doing a feasibility study (establishing the need vs. the ability)
- Conducting a viability study (establishing the profitability and sustainability)
- Drafting a business plan.

Establish a clear understanding of a feasibility and viability study. Consider also the importance of aligning an organisational mission and vision statement with goals and objectives when drafting a business plan.

The viability study is based on seven steps which are discussed in Chapter 15:

- Establish the consumers and their needs.
- Develop your mission statement.
- Define your organisational goals and objectives.
- Establish your market share.
• Calculate the income of the business (consider the formula and example presented in Chapter 15).
• Calculate the expected net profit (consider the formula and example presented in Chapter 15).
• Calculate the break-even point (consider the formula and example presented in Chapter 15).

3.3 Developing a business plan

A suitable business plan needs to be a complete and a true reflection of the facts. Key elements of the business plan as discussed in Chapter 15, that should be developed are:

• Cover page/sheet
• A table of contents
• An executive summary
• A list of the business team
• An external business environment analysis
• Business history and profile
• Products/services plan
• Operational plan
• Financial plan
• Marketing plan
• A risk assessment
• A timeline to put plan into action
• Summary and conclusion
• Annexure.
Also consult the following sources in the business plan:

Du Toit et al., 2010, Chapter 3.
Nieuwenhuizen and Oosthuizen, 2012b, Chapter 4.

4. **Key concepts and terms**

Make sure that you understand and are able to explain the following key terms:

- The business plan
- Viability study
- Feasibility study.

Also refer to the GLOSSARY at the end of the chapter.
Self-assessment exercise

Case study:

Read the case study at the end of Chapter 15. Answer the questions at the end of the case study in the prescribed textbook.

Theoretical questions:

1. Identify the elements of the business plan.
2. What is the purpose of a business plan?
3. Identify any new business opportunity.
4. Consider the primary activities of the new business and briefly identify and explain these activities.
5. Evaluate any service type of business, e.g. a hotel or advertising agency.
6. Perform a viability study.
7. Perform a feasibility study.
8. Identify the sub-elements and briefly discuss the staff requirements to be presented in your business plan as if you were starting up a similar type of business.
9. Investigate any type of retail organisation, for example, Pick n Pay, Mr Price or Cell C. Analyse its operational plan as if you were starting up a similar type of retail business.
10. Provide the elements of the business plan and compile a business plan for your own business idea (opportunity).

Also refer to the MULTIPLE-CHOICE QUESTIONS at the end of the chapter.