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Notes Overview

Business Management MNB102E

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HUMAN RESOURCE FUNCTION:

Meeting human resourced requirements and developing effectiveness in HR

The most difficult and most important management task is the process of finding, developing and keeping the right people to form a qualified workforce.

Managing people is every managers business. Successful organizations are those that combine the experience of line managers with the expertise of HR specialists to develop and utilize talents of employees to their greatest potential.

HR managers work side by side with line managers to address people issues of the organization.

HR manager responsible for:

1. advice and counsel – in house consultant on issues regarding policies , labour etc
2. service – planning recruiting
3. policy formulation and implementation - new policies , revising of old policies
4. employee advocacy – listening to employees concerns etc

HR resource planning:

1. identify the work being done in the business at present
2. identify the type of employees needed to do the work (job specialization)
3. identify the number of employees who will be needed

- Job analysis – is the process of describing and recording information about job behaviour and activities – what is the employee responsible for , what tasks are preformed , what decisions are made , what information is needed , conditions job performed under. There are various ways in which this information can be collected, by observation by a qualified job analyst, videotaping, audio taping and electronic monitoring. The method generally followed for administrative work is interviewing an employee and asks for a description of duties and responsibilities.

- Job description – does not merely list facts, it is usually predetermined format so that it is easily readable. Generally starts with a summary of job followed by a brief description of each main task with more detail and practical examples. Content of the job must be put on record in an understandable way.

- Job specification – personal qualifications an employee must possess in order to perform the duties and responsibilities. Typically it details knowledge, skills , and abilities , education , experience

- Human resource forecasting – conducting planning of quantity and quality of employees that a business is going to need Factors to be kept in mind when forecasting are : economic growth , new developments in the business , labour market
- HR Plan – with above information collated the HR can now compile the HR plan.

Finding qualified workers:

Recruiting – purpose is to ensure that sufficient number of applicants apply for various jobs

- Internal recruitment – as far as possible to fill a position with existing staff. Higher level jobs are generally placed by means of promotion. Advantages of recruiting from inside are: career planning becomes possible; assessment of applicants is easier because the business already has considerable information on the possible candidate's abilities, work performance and potential.
- Disadvantages of internal recruiting are – business tends to stagnate – no new ideas, personal competition among colleagues to the detriment of cooperation among them, staff not necessarily has the potential to fill senior positions.
- Recruitment from outside – external recruiting – advantages are active effort being made to find right person for the job , the opportunity is created for bringing in new ideas , schools of thought and approaches. Disadvantages are that recruiting costs are considerably higher , its risky because assessment of these candidates can never perfect , morale of existing staff can be negatively influenced

The recruiting procedure:

HRIS – human resources information system – record keeping system that contains all personal information like education, experience etc.

Labour market can be defined as the social or geographical area from which a business draws its employees.

Recruiting technique:

1. recruitment through advertisements – most common form
2. recruitment through consultants and labour agencies
3. recruitment through existing employees – friends acquaintances
4. recruitment through personal approach – head hunting
5. recruitment through radio, TV internet
6. sundry recruiting strategies

Selection – process can vary from short interviews to intensive assessments. 3 phases used for senior management

1. preliminary screening – efficient method for separating undesirable candidates
2. Intensive assessment – psychological testing and diagnostic interviewing.
3. final selection – usually enough information at this stage to compile a shortlist of candidates

Step 1 – initial job form submission or CV

Step 2 – initial interview

Step 3 **-** Ability, personality and interest test

Step 4 – work simulations

Step 5 – reference and background checks

Step 6 – follow – up interview

Step 7 – analysis and decision making – reject, hold, offer job

Step 8 – medical and physical tests

Step 9 – notification to candidate

Step 10 – recording of results, follow up to ensure that candidate accepts job

Placement and induction – once job has been accepted employee must report for duty, the new employee must go through induction (orientation). Induction programmed will introduce new employees to their colleagues and facilitate and expedite the socializing process. Explains the business procedures and policies, inform new employees about the business history products and services. Inform employees about practical arrangements like payment procedures, inform them about organizational structure.

Developing qualified workers – human resource development (HRD), training and development and technical training and management training. Training typically involves providing employees with knowledge and the skills needed to do a particular task or job.

Development methods –

- Informally within the work situation: no official work programmed. Hr manager can contribute by keeping record of each employee's development progress. Encouraging line manager to establish this type of development. Discussing the progress and prospects of individual staff members with them.
- Formally within the work situation – training whereby the employee receives formal qualification
- Informally outside the work situation – example training course offered within the company.
- Formally outside the work situation - studying towards a degree.

Shotgun approach to development – there are many development strategies that HR can use, however a problem is that many hr managers are of the opinion that "any training is valuable". They therefore encourage employees to attempt extramural studies and they arrange for a certain number of employees to attend some training programmes every year. They aim as if with a shotgun in a general direction and hope to hit something.

HR manager will:

1. make a thorough analysis of the development needs of staff
2. Will ensure that training money is spent on members of staff whom show potential for further development.

Performance appraisals (employee rating, employee valuation, performance review, performance evaluation, results appraisals): its purpose is to determine in which aspect the employee has performed exceptionally well, complied with the requirements for the job, not complied with the requirements for the job. The more objective an appraisal is the more successful it will be

Keeping qualified workers:

Compensation refers to all forms of financial returns and tangible services and benefits employees receive as part of employment

1. Direct compensation **-** monthly ,daily or weekly salary
2. Indirect compensation – not monetary – pension and medical aid benefit., leave benefits , housing benefits , car benefits
3. rewards – linked to individual or team performance – one off bonus etc , salary increase

Amount of compensation:

1. external compensation – determine how much employees in a similar job receive – salary survey must be done by HR
2. internal comparison – value of jobs must be compared with each other in terms of demands they make on employees
3. job evaluation – ranking of jobs in terms of value , factor comparison (jobs are compared in accordance to their demands they make n employees) also known as compensable factor

Questions:

1. Human resource planning – doing a job, compiling job descriptions and job specifications and identifying the number of employees who will be needed in the future.
2. job analyse – in HR management activity ,observation , interviewing , questionnaires can be used to collect info about job activities
3. job description – document that consists of a job summary a description of each main task and a description of the kind of decisions that the incumbent must take
4. the purpose of recruitment is to ensure that a sufficient number of applicants apply for the vacancy
5. correct order of steps in the selection process are: preliminary screening , psychological testing , diagnostic interviewing ,short listing , reference checking , job offer, placement and induction
6. it is important to ensure that development within the work place does not take place at random and HR can ensure this by – keeping careful record of employees development progress , encouraging managers to establish this kind of development and discussing employees progress and prospects with them
7. A performance appraisal is done to provide employees with feedback on how well they are doing, provide a basis for financial rewards and determine whether employees should be promoted.
8. The size of compensation for a specific position is determined by doing an external comparison of salaries, using a salary survey and doing an internal comparison of salaries, using a job evaluation based on the job description.

CHAPTER 10 – MOTIVATING AND MANAGING HUMAN RESOURCES

The role of HR management in the organization –

1. **HR function –** concerned with much more than filing, routine administration, record-keeping its main role should be that of strategic partner and HR strategies should clearly demonstrate the organizational strategy regarding people.
2. **HR management and organizational effectiveness –** assisting in the organization to reach its goal , employing the skills and abilities of the workforce efficiently , providing the organization with well trained and motivated employees , assisting in the attainment of the employee s job satisfaction and self actualization , developing the quality of work life making work more desirable,
3. **Who performs the Hr function – hr specialist**

Employee motivation:

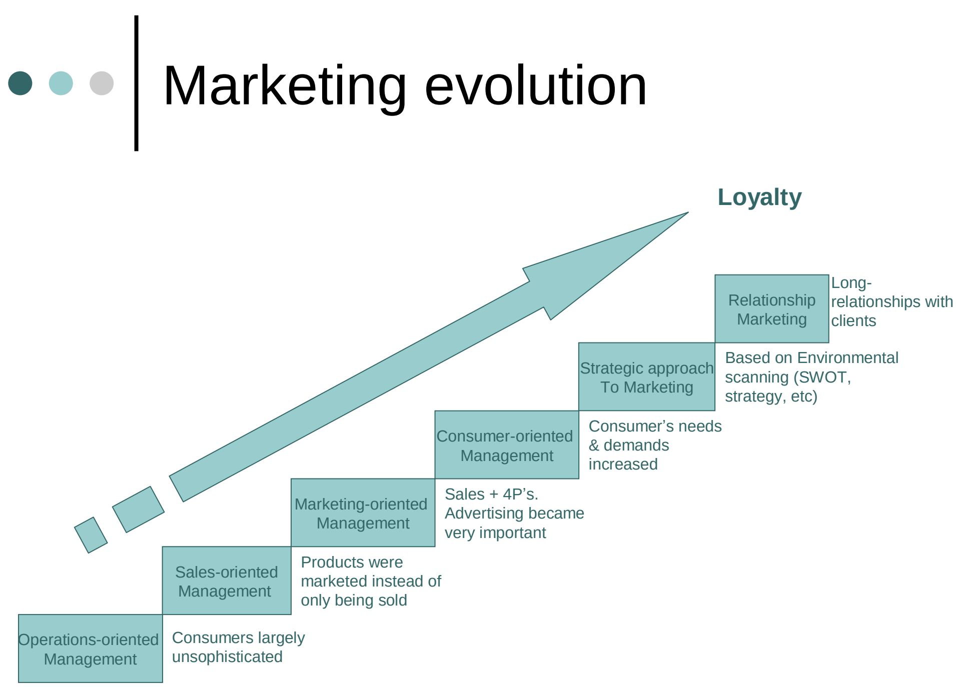
1. **Motivation in the workplace – employee performance is based on 3 things – desire to do a job, capability of doing a job and the resources to do a job.**
2. **Content approaches –** try to determine those things that actually motivate people to do their job. this theory focuses on the factors within a person that direct , energize , maintain or stop behaviour – called need theories
3. **Process theories –** in contrast try to explain the actual process or the "how" of motivation.
4. **Maslow's hierarchy of needs –** bottom (physiological needs – food ,drink , air) , safety and security needs (clothing , job security) , esteem needs (self-image , self-respect) , actualization need (potential for growth)
5. **Alderfers ERG theory - 3 core needs –** existence need (relate to a persons basic material needs , relatedness needs – desire for interpersonal relationships , growth needs – desire of an individual to make a creative or productive contribution
6. **Herzberg 2 factor theory and job enrichment –** maintenance(hygiene) factors – not motivational factors , motivational factors (growth factors) focused on the job content , achievement etc. internal motivation - originates from the satisfaction when a task is executed , external motivation – usually involves action taken by a third party (reward of money , feedback etc)
7. **Mcclellands theory of needs –** need for achievement (nAch) , need for power (nPow) , need for affiliation (nAff)
8. **Vrooms expectancy theory –** motivation depends on 2 aspects namely how much we want something, and how likely we think we are to get it. 4 assumptions are – combination of forces controlled by the individual and environment, people make decision about their own behaviour, different people have different needs goals and desires, people will act in a certain and it depends on the strength of expectation that the action will be followed by a given outcome. 3 key concepts – expectancy (persons belief that a certain effort will lead to a particular level of performance), instrumentality (strength of a person's belief that a certain performance will lead to a specific outcome) valence (desirability , attractiveness r anticipated satisfaction or dissatisfaction that a person feels toward the outcome is determined by the perceptions
9. **Equity theory and organizational justice – people are motivated by the desire to be treated equally at the workplace. Organizational justice (distributive justice – perceived fairness of how resources and rewards are distributed , procedural justice – perceived fairness of the process and procedures used to make decisions , interactional justice – quality of the interpersonal treatment people receive**
10. **Goal setting theory and feedback – theory is built on the assumption that, all things being equal the performance of employees will improve if they strive towards a definite goal. Providing feedback to employees most probably leads to improvement of their performance.**
11. **employee motivational strategies:**
    a) **job design – employees place high value on challenging jobs**
    b) **employee involvement programmes such as participative management and quality circles**
    c) **Management by objectives (MBO) strategies**
    d) **Entrepreneurial incentives**
    e) **Training and education**
    f) **Employee recognition programmes**
    g) **Empowerment programmes**
    h) **Reward systems**

i) Career management

QUESTIONS:

- **Motivation in anticipation of reward – example a salesman works hard to achieve target sales.**
- **Maslow hierarchy of needs sequence – physiological needs , safety needs , affiliation needs , esteem needs , self-actualization needs**
- **Hertzberg's 2 factor theory – the absence of maintenance factors could have a negative effect on employee morale.**
- **Vroom – motivation depends on how much I want something and how likely I think I am to get what I want**
- **Equity theory – when input-output ratios are unequal, inequity exists and employees will perceive the situation as unfair. To restore equity they will try to – resign, changing attitudes, changing inputs or outputs, changing the people that they compare to.**

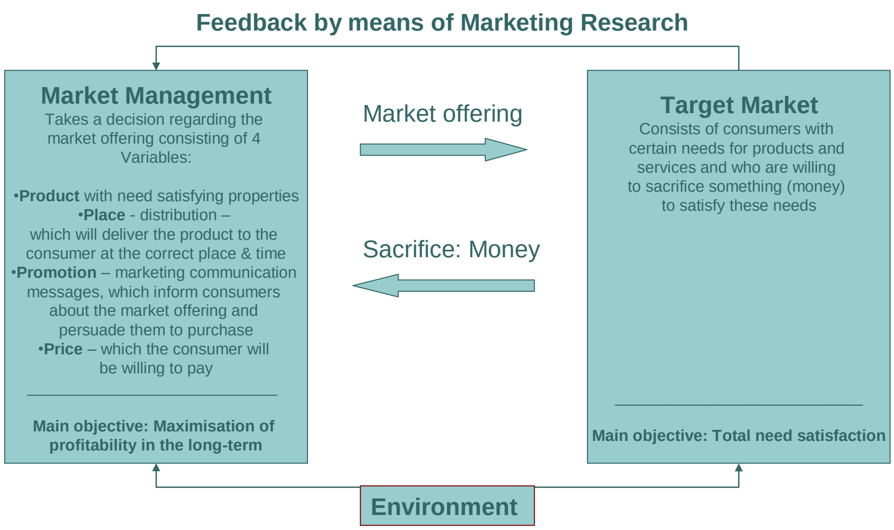
CHAPTER 13 – THE MARKETING PROCESS



What is Marketing?

- Marketing consists of management tasks and decisions directed at successfully meeting opportunities and threats in a dynamic environment, by effectively developing and transferring a need-satisfying market offering to consumers in such a way that the objectives of the business, the consumer and society will be achieved.

Components of Marketing Process



Marketing research

- Marketing research is the systematic gathering, analysis and interpretation of information on all types of marketing problems by utilising recognised scientific methods for the accumulation of information to facilitate marketing management's decision-making
- E.g. Surveys, focus groups, etc.

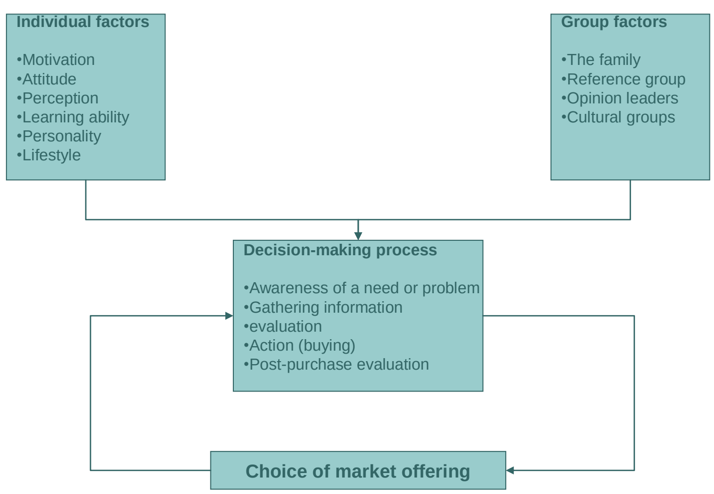
Steps involved in surveys

- Step 1: Definition of the problem to be investigated
- Step 2: Formulation of probable explanations & causes for the defined problem
- Step 3: Investigation of all the hypotheses in order to eliminate the less likely ones and find a solution to the problem
- Step 4: Compilation of questionnaire
- Step 5: Testing the questionnaire
- Step 6: Choosing respondents to whom the questions are to be put
- Step 7: Training of fieldworkers
- Step 8: Processing & analysis of the info contained in the questionnaire
- Step 9: Interpretation of results
- Step 10: Compilation of a research report & the making of recommendations based on the conclusion
- Step 11: Marketing management (& top management) study the report & make decisions
- Implementation of management's decisions

Consumer behaviour

- Consumer behaviour refers to the behaviour patterns of decision-making units (families or individuals) directly involved in the purchase and the use of products, including the decision-making processes preceding & determining these bahaviour patterns

Determinants of consumer behaviour

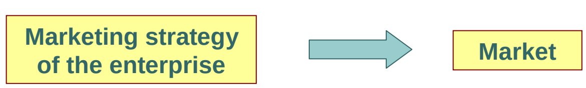


Market segmentation

- Market segmentation means different things to different people. In brief, it consists of a relatively large number of people (or organisations) that:
  - Have a need for a specific product
  - Are able to buy it
  - Are willing to spend money on it
  - Are allowed to do so

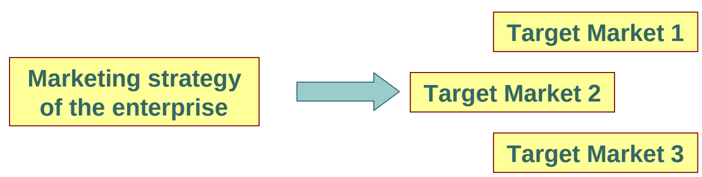
Approaches to market segmentation

- Market aggregation
  - Marketing management has only one market offering aimed at the total market



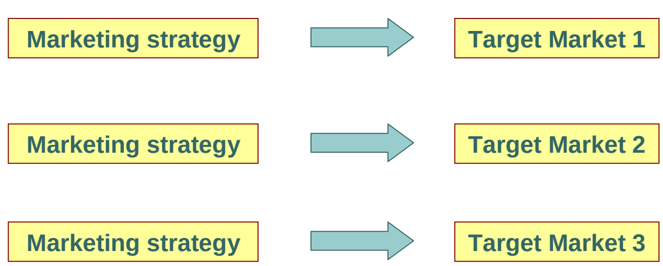
Approaches to market segmentation, cont'd

- Single segment approach
  - Marketing management has selected a specific target market and aims its market offering at it
  - No attention is paid to other segments in the market



Approaches to market segmentation

- Multi-segment approach
  - n-separate market offerings are made to n-different target markets.



Basis for market segmentation

- Demographic criteria
- Geographic criteria
- Psychographic criteria
- Behavioural criteria

- See table 13.2

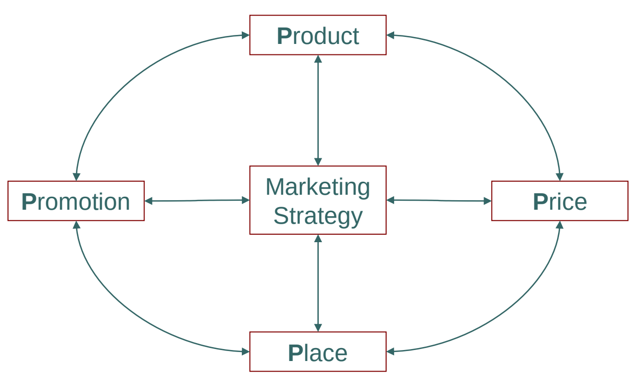
Chapter 14

The Marketing Instruments

Introduction: learning outcomes

- Explain the use of marketing strategy as an important part of the task of marketing management
- Understanding the 4 P’s

The marketing strategy: The 4 P’s



Product decisions

- The **product offering** of a business may comprise a single **product item** or a number of product items & **product ranges**.
- E.g. The **product range** for VWSA consists of:
  - Passenger cars
  - Bakkies
  - SUV's
  - Heavy transport vehicles
- The product range consists of various **product lines**.
  - Citi Golf
  - Golf
  - Polo
  - Jetta
  - Passat
  - Caddy
  - Etc.

- The Golf GTi is a **product item**

What is a product?

- **Definition.**
  - A composition of tangible & intangible need satisfying utilities offered to consumers by a business, so that they can take note of them, procure them, and use them.

A consumer product

- A consumer product consists of
  - **A core product.** Could be described i.t.o. technical & physical qualities.
  - **A formal product.** In addition, may also include such specific features as style, quality, brand, & packaging.
  - **A need-satisfying product.** Includes further need-satisfying utilities, such as guarantees, installation, repair services & free delievry.
  - **A product image.** Gives the product symbolic value by means of marketing message, price, & choice of distribution outlet.
  - **The total product.** Consists of all of the above.

Types of consumer products

- **Convenience.** E.g. sweets, cigarettes, milk, bread, & newspapers.
- **Shopping.** Here, the consumer compares suitability, quality, price and style of these products before buying.
- **Specialty.** Products with unique characteristics for which consumers make a special purchasing effort. E.g. NAD, Ferrari Enzo, etc.

Brand decisions

- A brand is a mark that is unique to the product items or ranges produced and marketed by a particular business, which is chosen to distinguish them?
- **Benefits of brands**
  - They facilitate the identification of products when purchasing
  - They assure consumers of a quality standard they can count on
  - They offer a certain degree of protection to consumers, because branded products can be associated with a specific manufacturer
  - They facilitate decision-making, because consumers easily recognise the they buy (brand salience)
  - They serve a warning against products that do not meet requirements set by consumers.

Brand loyalty

- Occurs when consumers show loyalty to certain brands
- It is a result of good quality, proven usefulness, & repeated marketing communication
- **Three phases of brand loyalty:**
  - **Brand recognition.** Consumers recognise the brand know what it stands for.
  - **Brand preference.** Consumers prefer the brand over other competing brands.
  - **Brand insistence.** Consumers insist on the specific brand & refuse to accept a substitute

Brand types

- **Manufacturer.** Include originals such as Levi's, Green Cross, etc.
- **Dealer.** E.g. Ackerman's Baby labels.
- **Generic brands.** AKA no-name brands.
- **Family/individual.**
  - **Family** (branded house):
    - E.g. BMW – BMW 3 Series, BMW 5 Series, BMW 7 Series, BMW X3, etc.
  - **Individual** (house of brands):
    - RMBH – FNB, RMB, Outsurance, Wesbank,etc.
    - Bidvest (e.g. Waltons, Safcor Panalpina, Master Currency, Rennies Bank, Prestige, etc)

Packaging decisions

- **Packaging defined:**
  - a group of activities concerned with the design, production and filling of a container or wrapper with the product item in such a way that it can be effectively protected, stored, transported and identified, as well as successfully marketed
- Different kinds of packaging:
  - **Family packaging.** All the products in the range are more or less identically packed – the same packaging material is used, and the size of the packaging is more or less the same. E.g. KOO Baked Beans
  - **Specialty packaging.** This gives and image of exclusivity of the product. E.g. Chivas Regal, perfumes, jewelry, etc.
  - **Re-usable packaging.** Creates an impression that the consumer receives a 'free' container of s/he buys the products. Consumers tend to collect the containers, e.g. Bakers Tennis Biscuits in a metal container, etc.

Product differentiation

- Means that a business distinguishes its product, whether physically and/or psychologically, from what are essentially identical competing products, so that it is regarded as a different product by consumers in a specific target market.
- Kinds of differentiation.
  - **By means of packaging.** Plastic, foil or waxed paper, brands, label design, colours?
  - **By advertising appeal.** E.g. Hansa Ads.
  - **On the basis of price.** E.g. Premium Beer vs. Non-premium
  - **On the distribution outlet.** Rolex is available at only the premium jewelers.

Product obsolescence

- A product may be intentionally made obsolescent, e.g. Mitsubishi Pajero being replaced by Mitsubishi Outlander in a short time-span.

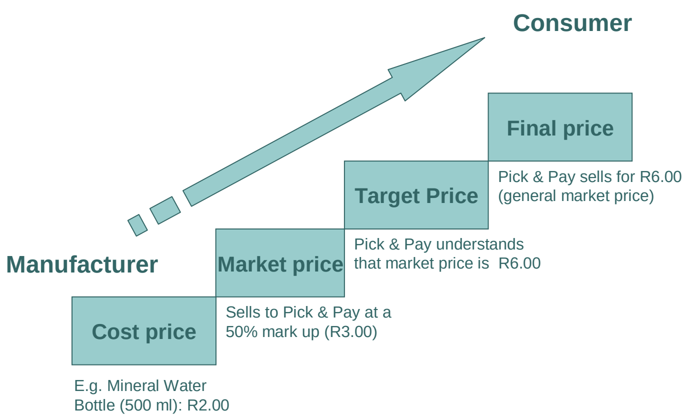
Multi-product decisions

- **Product range extension.** Ranges can be extended by making additions to existing ranges of products marketed by the business. E.g. FNB: Credit cards for different types of people/businesses.
- **Product diversification.** Exploring unknown products or markets. E.g. BMW X5, Volvo XC90 (SUV / 4 X 4 markets)
- **Product withdrawal**. When product items or ranges do not meet requirements or are no longer profitable. E.g. Lion Lager

Price decisions

- Definition: Price
  - The exchange value of a product or service, and is closely linked to concepts such as benefit and value

Price determination process



Adaptations to final price

- **Skimming prices.** If product is an innovation, & therefore unique, final price may be higher than normal.
- **Market penetration price.** The initial price of a new product is lower, & the marketer hopes to penetrate the market rapidly, discouraging competitors in the process.
- **Market price level.** This is a strategy followed if there is keen & numerous similar products that compete against each other. Catch 22: if s/he sets price below, consumers might think that there is something wrong with it; if the sets it higher, consumers would tend to avoid it.
- **Leader prices. Specials**. Sold at lower than current market price for a limited period only. Aim: To lure consumers to the store.
- **Odd prices.** Consumers are thought to accept odd prices, e.g. R1.99, R94.99, etc.
- **Bait prices.** Unethical therefore should be avoided by retailers. A bait product has a particularly lower price & is widely advertised. When arriving to the store, consumers are encouraged to buy a more expensive item. E.g. timeshare, etc.

Choice of distribution channel

manufacturer → Consumer
E.g. Dial Direct

manufacturer → retailer → Consumer
E.g. Pick & Pay

manufacturer → wholesaler → Consumer
E.g. Makro

manufacturer → wholesaler → Retailer → Consumer
E.g. Spaza

manufacturer → wholesaler → wholesaler → retailer → Consumer
E.g. foreign wholesaler selling to SA

Marketing communication

- Marketing communication is the process of informing, persuading & reminding the consumer. Its 4 elements are:
  - **Advertising.** The controlled & paid non-personal marketing communication related to a need-satisfying product & directed by a marketer at a specific target audience.
  - **Personal selling.** Verbal presentation of a product, service or idea to one or more potential purchasers in order to conclude a transaction.
  - **Sales promotion.** Marketing communication methods not normally classified as advertising, personal selling, or publicity, but that complement these in trying to influence consumer behaviour. E.g. diaries, events, etc.
  - **Publicity.** Non-personal stimulation of the demand for a product or service of a business by making its actual current news value available to the mass media to obtain a favourable and 'free' review of the business and its product in the media.

Chapter 15

The Integrated marketing Strategy

Introduction

- Marketing concept directs all marketing decisions about products, price, place (distribution) and promotion.
- The marketing concept comprises of:
  - Profitability
  - Consumer orientation
  - Social responsibility
  - Organisational integration

The principle of consumer orientation

- Marketing orientation places the consumer's needs at the core of the marketing offering
- Though the consumer is 'KING', their needs cannot be completely satisfied
- It is argued that it is more harder & expensive to lose a client than to keep one.
- Marketing communication is hence essential to communicate to the consumer correct & adequate information about the business's market offering

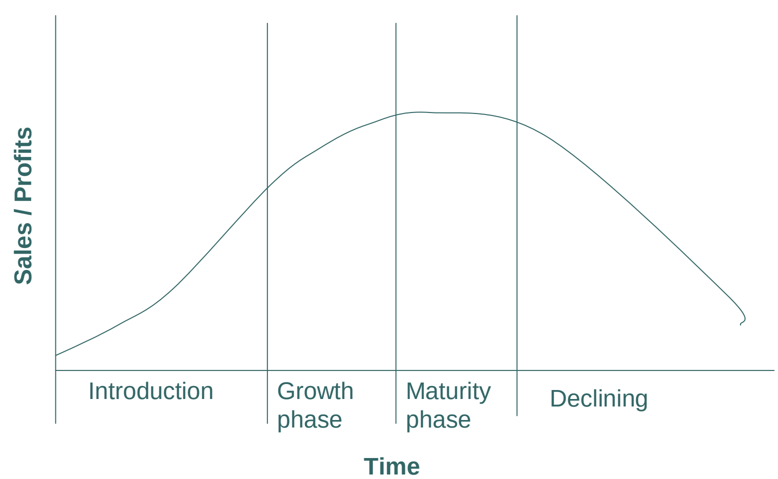
The principle of social responsibility

- Organisations operate within communities and 'ploughing back' is essential
- Education, housing, job creation & health are some examples
- Their objective is to create a stable economic, social & political environment in which future profits could be optimised
- Legislation also dictates how companies should operate other punitive measures could be applied
- A sponsorship or social responsibility must have some marketing benefits for the company
- Doing something 'contra bonos mores' could have detrimental results to the community. E.g. chemical producers need to ensure that their waste material does not contaminate rivers and streams, which could lead to health problems.

The principles of profitability and organisational integration

- This principle expresses close co-operation between all functions of business
- They all should be coordinated in a way that will eventually lead to the successful marketing of the products/services of the business.
- Businesses in the free-market system operate to maximise profit

Marketing strategy during product life-cycle



Integrated marketing strategy during introductory stage

- **Objective.** Create a demand!
- **Target market.** Consumers that are adventurous & readily able to try new things & run risks
- **Product decisions.** E.g. dimensions, colour, etc.
- **Place (distribution).** Exclusive / market coverage: only a few shops will be prepared to allocate shelf-space
- **Price.** High initial price is fixed since a new product has a high degree of prestige value
- **Communication.** Personal selling to dealers. Full-page colour advertisements appear in prestigious periodicals

Integrated marketing strategy during the growth phase

- **Objective.** Develop demand
- **Target market.** Consumers that are less receptive to new things & new ideas.
- **Product decisions.** Minor product modifications are made. The brand is emphasised.
- **Place.** Selective market coverage.
- **Price.** Price declines because of competition.
- **Communication.** Advertising through mass media (newspapers, radio, & tv)

Integrated marketing strategy during maturity phase

- **Objective.** Counteract competition & prolonging lifecycle of product
- **Target market.** New target markets are sought. Large market share is sought. Most consumers are aware of the product & its benefits.
- **Product.** Modifications or improvements have to introduced to differentiate it from numerous similar products in the marketplace
- **Place.** Intensive market coverage. All dealers with relevant facilities are allowed to stock and sell the products
- **Price.** Current market to be adhered to unless if differentiation successful
- **Communication.** Persuasive advertising through mass media.

Integrated marketing strategy during declining phase

- **Objective.** Maintain market share or withdraw.
- **Target market.** Older, more consecutive group of consumers who resist change & avoid innovation (set-in-their-minds)
- **Product.** No modification needed, but development of substitute new products or models
- **Place.** Limited market coverage, & only in areas where the product is in high demand
- **Price.** Prices are reduced and sales offered
- **Communication.** Personal selling & advertising only in areas where the product is still in high demand

Marketing warfare during the product lifecycle

- **Frontal attack.** A competitor is threatened on all fronts. Products are matched against products, prices against prices & advertisement against advertisement
- **Flanking attack.** Surprise attack on the opponent's weak points.
- **Encirclement.** Attacks launched on many different fronts. Similar products are launched in the same target markets using the same distribution channels and 'me-too' marketing messages
- **Guerilla attack.** Surprise attacks are launched at the opponent's weak points while a frontal attack is being planned.

Chapter 15

Public Relations

1

Definition: PR

- Public relations is a deliberate, planned & sustained process of communication between a business and its publics for the purpose of obtaining, maintaining or improving good strategic relations and mutual understanding between the organisation and its various publics – both internal & external

4

Reasons for the development of Public Relations

- Trade unionism around the world
- Consumerism. Need to establish links with consumer groups
- Competition. Benefits of positive corporate image essential
- Hostility by youth towards large businesses. E.g. *Laugh-it-off* satirical jokes
- Businesses operate within social structures
- Awareness of social responsibility of businesses
- Development of communication media (newspapers, tv, radio)
- Businesses' need for economic growth. Negative experiences like retrenchments mean businesses need to communicate with the public. Retrenchments could be regarded as being *contra bonos mores*.
- SA's continued reputation for bad service.

5

What PR is not!

- **Is not**
  - Part of marketing communication although both marketing & PR overlap in areas of advertising & publicity
  - A charitable organisation, even if it often contributes to an image of involvement & responsibility
  - Part of HR department. Although the HR, labour & PR departments are interested in the conditions in the labour market
  - Currying (necessarily) favour through entertainment & parties, although they are necessary to show goodwill towards certain groups
  - Intended to put up a false front behind which the defects of business could be hidden
  - Does not mean employing attractive young women to put guests in good mood, although attractive & agreeable people are always an asset when dealing with important people
  - There to think up foolish & expensive ways of wasting money
  - Out there exclusively to put out fires & save a business from different situations, although it may sometimes be called upon to do so

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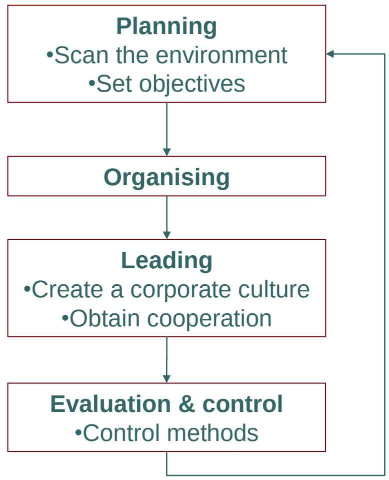
Steps in PR management



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Organising PR

- **PR as part of top management**. Here PR is part of top management & the PR practitioner is on equal footing with top managers, such as marketing, production, HR, etc.
- **PR as a staff function.** In this case, the head of PR is usually responsible only to the general manager & has no line responsibility.
- **PR consultants from outside**. Consultants provide necessary services to smaller businesses that do not have the expertise or resources. Reasons why services of these experts are used include:
  - A business may lack the necessary knowledge and/or experience
  - The head office may be so far removed from communication & financial centres as to make liaison difficult
  - PR consultants usually have a wide range of useful contacts in the business sector & the mass media
  - They often offer services of experienced specialists who earn salaries that a small business could not afford
  - Critical matters that concern the general image of the business often require independent, objective judgment of an outsider
  - An emergency situation may require an external expert

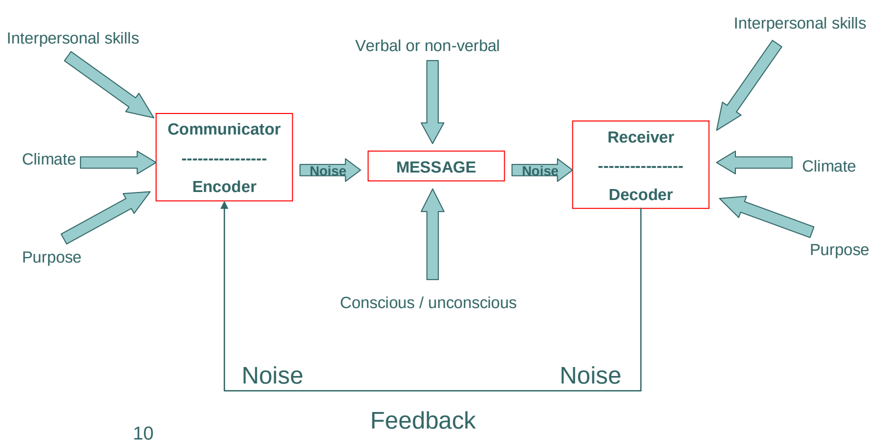
8

Examples of PR activities

- See figure 16.4
- Research
- Networking
- Exhibitions
- Conferences
- Special events

9

The communication model



10

Communicator

- Humans exchange ideas & opinions by conveying a message to someone who can understand it
- They communicate by the manner in which they speak, how they sound, their appearance, or actions & gestures that accompany their actions
- Conscious transmission: deliberate attempt to convey an idea
- Unconscious transmission: unintentional conveying of information
- The sender has to have credibility, i.e. the reader has to have confidence in the sender & respect for his competence with regard to the subject matter.

11

Receiver

- Communication occurs when there is a receiver for the message transmitted.
- Messages could be received through senses of hearing, sight, smell, & touch
- ‘Noise’, i.e. anything that interferes with the reception of the message, could get in the way of receiving the message
- The receiver may not always be a single person, e.g. a group of people the message is targeted at (target audience)
- Target audience could be employees, a specific group of consumers, shareholders, the government, or the public at large

12

The message

- The message is the idea or information being transmitted
- Two kinds of messages, i.e.
  - Verbal (spoken or written)
  - Non-verbal (e.g. symbols)
- The message must make sense to the receiver & must have reference to their situation & value system
- It must be simply composed & should carry the same meaning for both the communicator & receiver
- Must be sent via suitable channels, e.g. radio, tv, internet, newspapers
- Face-to-face communication is the most effective method, e.g. Eskom power failures
- The message should be formulated in such a way that it engages the receiver's attention, arouses their interest, & persuades them to respond (call to action)
- Persuasive message need specialist knowledge, e.g. communications agencies

13

The communications media

- The spoken word
  - The face-to-face communication
  - E.g. news conferences, panel discussions & interviews, often on radio & tv
- The printed media
  - Newspapers, magazines & company publications
  - Company publications, e.g. handbills, brochures, annual reports, news sheets, books, guides, road maps, recipe books, posters, desk diaries, personal newsletters, etc.
  - Magazines:
    - General magazines with articles on a variety of general interest & wide public readership, e.g. You, Drama, etc.
    - Aimed at a particular audience, e.g. Men's Health – Men, True Love – Women
    - Specialised publications for those interested in a particular sport type, or with specific interests (e.g. Getaway or longevity)
    - Professional journals read by academics, lawyers, doctors, farmers, engineers, etc. (e.g. Financial Mail, Engineering News, Enterprise)

14

The communications media, contd.

- Sight & sound
  - Radio & tv. TV could be used to
    - Present prestige advertisements, designed to build a business image & to make its brands known to the public
    - It can provide news reports, e.g. when there are notable achievements, etc.
    - A PR Officer may appear on news reviews or participate in discussion programmes in which newsworthy topics are discussed at length
  - Films & video. E.g. in cinemas or tv.
- Special events
  - Press conferences
  - Visits to the business
  - Receptions
  - Exhibitions
  - Crisis management
- The internet

15

Chapter 17

The Financial Function

1

Concepts in Financial Management

- **The balance sheet, asset & structure**
  - A balance sheet is a financial 'snapshot' that summarises the value (assets less liabilities) of a business at a specific point in time. All businesses have to prepare a balance sheet as part of their annual accounts, but a balance sheet can be prepared at any time.
  - A balance sheet is one of the three major financial statements used in the business world. The others are the Income Statement and the Cashflow Statement.
  - Where the Cashflow Statement shows the liquidity of your business (do you have enough cash to pay the bills and salaries), and the Income Statement shows you how much profit or loss you are making, the Balance Sheet shows:
  - How solvent the business is;
  - How the business is financed;
  - How much capital is employed in the business; and
  - How quickly assets can be turned into cash.

2

The balance sheet: Asset side

- The asset side reflects all the possessions of the business, together with their respective values as at the balance sheet date. Assets are normally divided into 2 broad categories, viz.
  - Fixed assets
    - Also called non-current assets
    - Land, buildings, machinery & other equipment
  - Current assets
    - E.g. cash in the bank, as well as other possessions that would be converted into cash within 1 year during the normal course of business, such as marketable securities, debtors & all inventories

3

Liabilities

- The liability (claims side) reflects the nature & extent of the interests in the assets, i.e. mutual coherence of the claims of the persons or institutions that provided funds (capital) for the 'purchase' of the assets
- It is usually divided into:
  - The term for which the funds have been made available
  - The source from which the funds have been obtained

4

Liability, contd.

- Contains the following details
  - Long-term funds
    - a.k.a. non-current liabilities & is made up of shareholders' interest & long-term debt
  - Short-term funds
    - i.e. current liabilities, & represents all debts or credit that is normally repayable within 1 year.
    - E.g. bank overdrafts, trade creditors
  - Shareholders' interests
    - Further divided into owners' equity (ordinary share capital, reserves, & undistributed (retained) profit)
    - Long-term debt (debentures – i.e. bonds that are not secured by the assets of a firm), secured loans, & long-term credit)
    - A debenture is a loan secured on specific assets owned by a company and is repaid if a company runs into difficulties. They usually have a fixed rate of interest and a fixed maturity date and are often issued by companies with sizeable fixed assets, such as hotel groups and breweries

5

Capital

- The accrued power of disposal over the goods used by the business to generate a monetary return or profit
- Or monetary value of the assets of the business at a specific time
- A business need capital for investment in
  - Fixed assets, i.e. need for fixed capital
  - Current assets, i.e. the need for working capital

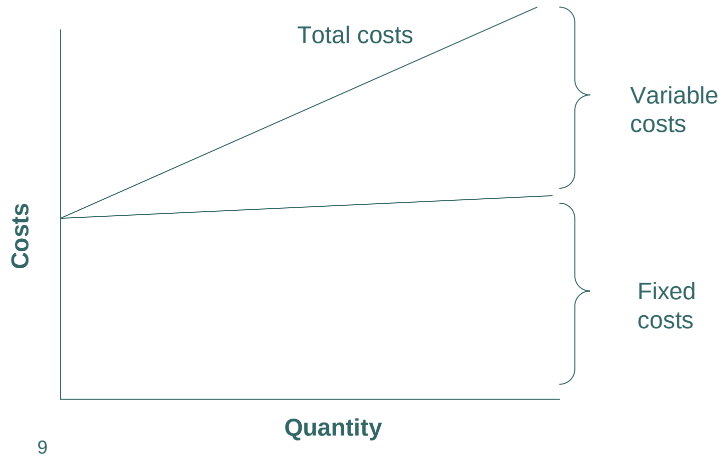
6

Costs

- Could be regarded as monetary value sacrificed in the production of goods and/or services produced for the purposes of resale
- In manufacturing they consist of
  - Materials used
  - Rent paid for the premises & building
  - Depreciation on equipment
  - Wages & salaries of all workers
  - Payments for electricity & communication services, etc.
- Total costs involved in the production of a specific number of products could be subdivided into
  - Fixed costs
    - i.e. that portion of total costs that remains unchanged – within the boundaries of a fixed production capacity – regardless of an increase or decrease in the quality of goods or services produced
  - Variable costs
    - That portion of total costs that changes according to a change in the volume produced.

8

Costs illustrated



9

Profit or loss

- Profits is regarded as the favourable difference between the income earned during a specific period and the cost incurred to earn that income
- A loss results when the costs exceed the income
- Profit or loss = income – costs

Or

- Profit = (selling price x sales quantity) - costs

10

Balance sheet as at 28 Feb 2006	R	R
Fixed assets		
Tangible assets	R40,000	
Equipment	R95,000	
Buildings		
Intangible assets		
Goodwill	R5,000	
		R140,000
Current assets		
Stock	R10,000	
Debtors	R20,000	
Cash in the bank	R5,000	
	R35,000	
Current liabilities		
Loans	R23,000	
Creditors	R7,000	
Tax	R2,000	
	R32,000	
Net current assets		R3,000
Total assets less current liabilities		R143,000
Creditors falling due after one year		R100,000
Net assets		R43,000
Capital and reserves		
Shareholders		R30,000
Reserves		R13,000
Net worth		R43,000

11

Chapter 18

Asset management: the investment decision

1

The management of cash and marketable securities

- Cash is the money (currency and coin) the business has on hand in petty cash drawers, in cash registers, and in current and savings accounts with financial institutions
- The costs of holding cash are:
  - Loss of interest. Cash in the form of notes and coins, and even money in a current account at a bank, earns interest
  - Loss of purchasing power. During a period of inflation there is an erosion in the value of money, which becomes even more serious if no interest is earned on that money

2

The costs of little or no cash:

- **Loss of goodwill.**
  - Failure to meet financial obligations on time due to cash shortages could seriously affect the relationship between the company and its employees, creditors, & suppliers
- **Loss of opportunities**
  - Cash shortages will make it impossible to react quickly to a lucrative business opportunity
- **Inability to claim discounts**
  - Discounts for prompt and early payment are very advantageous in percentage terms.
- **Cost of borrowing**
  - Shortages of cash may force a business to raise money at short notice at expensive rates

3

Marketable securities

- Marketable securities are investment instruments on which the business earns a fixed interest income. Also referred to as near-cash assets.
- Reasons why businesses should a certain amount of cash available:
  - The transaction motive.
    - Exists primarily because the business needs to have sufficient cash available to meet normal current expenditures such as payment of wages, salaries & creditors.
  - The precautionary motive
    - Entails keeping cash for contingencies, e.g. a competitor may be declared insolvent leaving an opportunity to acquire it
  - The speculative motive.
    - Implies that the business must be able to capitalise on good opportunities such as unexpected gains and bargain prices.

4

Cash budget

- Cash budget facility is a detailed plan of future cash flows for a specific period and is composed of the following elements:
  - Cash receipts
    - Originate from sales, collections from credit sales, bank loans, etc.
  - Cash disbursements
    - Categorised as cash paid for purchases of merchandise, raw materials, & operating expenses
  - Net changes in cash
    - Difference between cash receipts & cash disbursements

5

Cash cycle

- Indicates the time it takes to complete the following cycle (e.g. in manufacturing)
  - Investing cash in raw materials
  - Converting the raw materials to finished goods
  - Selling the finished products on credit
  - Ending the cycle by collecting cash
- Each cycle is a continuous process and the demand for cash should be greatly reduced if cycle is speeded up.

6

Management of debtors

- Debtors arise when a business sells on credit to its clients
- Normally given at 30 or 60 days, with extensions possible, e.g. 90 days or even 120 days!
- Credit extended to consumers is referred to **consumer credit**, whilst that extended to businesses is referred to as **trade credit**.
- The most important facets of debtor accounts are:
  - Credit policy
    - Contains directives according to which it is decided whether credit should be granted to clients, and if so, how much.
    - Evaluation of creditworthiness depends on
      - Character. The willingness of customer to pay
      - Capacity. The customer's ability to pay
      - Capital. The customer's financial resources
      - Conditions. Current economic or business conditions
  - Credit terms
    - Define the credit period & any discount for early payment
  - Collection policy
    - Concerns the guidelines for the collection of debtor accounts that have been by due dates

7

Inventory / stock management

- There exists a conflict between
  - **Profit objective**, i.e. to keep the lowest possible supply of stock, & to keep stock turnover as high as possible, in order to minimise the investment in stock, as well as attendant cash needs
  - **Operating objective**, i.e. to keep as much stock as possible to ensure that the business is never without, and to ensure that production interruptions and therefore loss of sales never occur

8

Costs of holding inventory stock

- Loss of interest
  - Interest that could have been earned on the money that is tied up in holding inventory
- Storage costs
  - Includes the rent of space occupied by the inventory stock & the cost of employing people to guard and manage stock
- Insurance costs
  - Risk associated to fire and theft and business interruption
  - Cover for these risks implies more premiums to be paid
- Obsolescence
  - E.g. Fashion stock is quick to be obsolete (3 – 6 months)

9

Costs of holding little or no inventory stocks

- Loss of customer goodwill
  - Failure to provide a supply of a customer due to insufficient stock may mean the loss of not only that particular order, but of other orders as well
- Production interruption dislocation
  - Running out of stock for some manufacturers can be costly. E.g. for a car manufacturer, this may mean a production stoppage
- Loss of flexibility
  - Additional stock holding creates a safety margin whereby mishaps of various descriptions can be accommodated without major and costly results
- Re-order costs
  - A company existing in little or no stock will be forced to place a large number of smaller orders with short intervals between each order.

10

Chapter 19

Financing decisions

1

Financial markets

- Growing businesses require funds for new investments or to expand their existing production capacity
- These businesses have a shortage of funds, & to grow they must have access to funds from financial institutions and individuals
  - **Financial markets** are the channels through which holders of surplus funds (the savers) make their funds available to those who require additional finance
  - **Financial institutions** act as intermediaries between savers and those with shortage of funds
  - **Financial intermediation** is the process through which financial institutions pool funds from savers and make funds available to those requiring finance

2

Primary & secondary markets

- Primary market issues are the new issues of financial claims, i.e. securities.
- Some types of financial claims are negotiable & can be traded on financial markets
- Trading in these securities after they have been issued takes place in the secondary market
- The JSE is an example of where savers virtually convert their savings into cash
- Debentures and company shares are examples of negotiable instruments
- Savings and call accounts are non-negotiable claims

3

Money and capital markets

- The **money market** is the market for financial instruments with a short-term maturity
- Funds are thus borrowed and lent in the money market for periods of 1 (i.e. overnight) or for months
- The **capital market** is the market for long-term investments that are raised and traded by investors.
- Much of the capital market trading happens at the JSE, however, they can also be done privately

4

Types of institutions: Deposit-taking

- Deposit taking institutions
  - South African Reserve Bank
    - Acts as banker for central government, advances loans to the state
    - Issues notes and also regulates private banks
  - Land and Agricultural Bank (Land Bank)
  - Corporation for Public Deposits (CPD)
    - Accepts surplus funds from departments, institutions & organizations in the public sector & is owned by the Reserve Bank
  - Private Sector Banks
  - Post Office Savings Bank

5

Types of institutions: Non-deposit taking

- Non-deposit taking institutions
  - Public sector institutions
    - Public Investment Commissioners (PIC). Operates as an investment intermediary for long-term public funds. It administers and invests the public sector's retirement & provident schemes & social security funds
  - Private sector institutions
    - Life assurers, pension & provident funds
    - Short-term insurers
    - Unit trust administrators
  - Other institutions
    - Industrial Development Corporation
    - Khula Enterprise Finance Limited.
    - Ntsika Enterprise Promotion
    - Development Bank of South Africa (DBSA)

PUBLIC INVESTMENT CORPORATION

Sanlam

AUTO & GENERAL
CAR, HOME & BUSINESS INSURANCE
We're looking after you.

6

Types of institutions: Non-deposit taking, contd.

- **OTHER INSTITUTIONS: KHULA ENTERPRISE FINANCE**
- Khula Enterprise Finance Limited is an agency of the Department of Trade and Industry **(dti)** established in 1996 to facilitate access to finance for SMMEs. Khula provides assistance through various delivery channels.These include commercial banks, retail financial intermediaries (RFIs) and micro credit outlets (MCOs). Through its Thuso Mentorship Programme, Khula also provides mentorship services to guide and counsel entrepreneurs in various aspects of managing their businesses.
- Khula is a wholesale finance institution, which means that entrepreneurs do not get assistance directly from Khula but through various institutions named above.
- Over the past five years, Khula has disbursed over R1 billion directly into the SMME sector. During the 2003/04 financial year alone, disbursements increased by 40% to R280 million. The number of beneficiaries also increased by 21% to 110 000 during the same period.

7

Source: www.khula.org.za

Short-term financing

- Trade credit
- Accruals
- Bank overdrafts
- Debtor Finance: Factoring & invoice discounting
  - Debtor finance is strictly not borrowing: it is not a loan, but involves the sale of debtors to a debtors company
    - Invoice discounting involves the sale of existing debtors and future credit sale to a debtor financing company. It then converts credit sales to cash sales and provides the business with a cash injection by releasing funds tied up in working capital. It is usually confidential, i.e. debtors are not advised of the arrangement!
    - Factoring is similar but goes 1 step further. Here, the financier also undertakes to administer & control the collection of debt. Here, debtors are aware of the arrangement. The factor is the financier to whom the debtors are sold.
    - The factoring/invoice discounting house will purchase outstanding book debts, against which they will advance up to 75% of the value. The balance will be paid once they have collected it from customers. See example on page 459!

8

Type of factoring

- Non-recourse
  - Here, the factor buys the debtors outright and bears the risk of bad debts. The factor accepts responsibility for credit control, debt collection & sales records. Customers pay the factor direct.
- Recourse
  - Here the factor provides the same services as in non-recourse factoring, but the seller guarantees that debts are recoverable. The factor recovers any debt from the seller.

9

Benefits of factoring

- The cost of debtor administration is transferred to the factor
- The turnover of current assets is increased and less capital is required to finance debtors
- Liquidity ratios improve
- More cash is available for other purposes

10

Short-term financing decisions

- **Matching Approach (hedging)**
  - Involves matching the period for which finance is obtained with the expected life of the asset. Financing arranged for periods longer than the life on asset is costly because it is not utilised for the entire period.
  - According to this method, fixed assets & permanent current assets are financed with long-term financing, & temporary current assets with short-term funds
- **Aggressive approach**
  - Instead of only using long-term funds, the manager uses more short-term financing than is needed. Permanent current assets are partially financed with short-term funds, instead of using only long-term funds as in the case of matching approach
- **Conservative approach**
  - Here, the manager uses more long-term funds than is needed. The temporary current asset requirement is financed with long-term funds. Since it involves the usage of mainly long-term funds, this approach is less risky and hence conservative.

11

CHAPTER 20 – THE OPERATIONS MANAGEMENT FUNCTION

Countries are classified as developed or developing on the basis of different criteria – one of them being the country's GDP – represents the total value of all final goods and services produced in a country within a specific period of time.

The nature and definition of operations management – operations function is that function of the business aimed at executing the transformation process.

Importance of operations management:

1. it can reduce the costs of making the products or offering the services

2. It can increase the revenue the business receives for offering its products and services to its customers.
3. it can reduce the amount of investment (capital employed) needed to manufacture the type and quantity of products or offer the service required
4. It can provide the impetus for new innovation by using its solid base of operational skills and knowledge to develop new products and services.
5. it can improve productivity
6. it can help a business to satisfy the needs of its customers

It can be decisive for the general reputation of the business

1. operation function – in the business primarily aimed at the utilization of resources to manufacture products and or render services
2. operations managers – are personnel, in the business who are directly responsible for managing the operations function
3. operations management /operations management function – involves operations managers activities , decisions , responsibilities etc
4. Customer needs – reduced to 6 – higher quality, lower costs, shorter lead time, greater adaptability, lower variability, high level of service.

General guideline for operations based advantages:

1. Do things right the first time
2. do things cost effectively
3. do things fast
4. change things quickly
5. do things right every time
6. do things better

The transformation model – comprises of 3 min components

1. Inputs – comprise of both resources that are to be processed, changed or converted – material, customer/clients, information, HR, equipment and facilities, technology.
2. transformation process – transformation of materials , transformation of information and transformation of customers/clients
3. Outputs – assume the form of products and services.

Operational processes have different characteristics

- volume of inputs – number of items produced over a given period
- variety of output – range of different items produced
- variation of output – particular demand pattern
- visibility of output

Classification of operational processes for manufacturers

- project process – operational process
- jobbing process - small scale with low volume output
- batch processes – aka job lot or lot production – does have same degree of variety
- mass processes – high volumes relatively low variety
- continuous processes – beyond mass processes volumes are even greater

Classification of operational processes for service providers:

- professional services – dentists , attorneys
- service shops – banks ,hotels , retail stores
- mass services – transport services , television broadcast

CHAPTER 21 – OPERATIONS MANAGEMENT ACTIVITIES, TECHNIQUES AND METHODS

Operations design – entails 2 interdependent aspects. Its primary aim is to provide products and or services and the corresponding operational processes.

1. the design of products and services
2. the design of operational processes to manufacture or provide these products or services

Products and or services – is broadly defines as anything that can be offered to a customer /client in order to satisfy his or her needs.

Interdependent components of producing services/goods:

1. idea /concept
2. package composition of products and services
3. process for creating the package

Stages of design of products or services:

1. idea or concept generation
2. the screening process
3. preliminary design
4. evaluation and improvement
5. prototype and final design

Techniques and methods used during the product design or service design

1. basic product structures and bills of materials – used to determined precisely which components and parts are to used for a specific job
2. simple flow charts – used to identify main elements of a specific process

Layout and flow of the manufacturing and or service provision facility:

Layout determines the physical arrangements of resources such as machines, equipment etc. entails 3 steps:

1. Selecting the process type – manufacturers are projects, jobbing, batch, mass and continuous process. Service providers – professional services, mass services and service shop.
2. selecting the basic layout type – 4 basic layout types
   a) Fixed position layout – product cannot be shifted due size, shape location

   b) Process layout/flexible layout – similar process are grouped together.

c) Product layout /line flow layout – different processes or operations are required to manufacture or provide a specific product or service

d) Cellular layout/hybrid layout – specific processes are placed in a cell and the particular cell itself is then arranged according to either a process or a product layout (eg – department selling men's clothes).

THE APPLICATION OF PROCESS TECHNOLOGY:

Process technology refers to the machines, equipment and apparatus used in the transformation process to transform materials, information and clients so that products and services can be manufactured. Operations manager has to be involved in all facets of process technology.

Duties of an operations manager are:

1. foresee how technology can improve a specific operational process
2. decide which technology or technologies to use
3. integrate the new technology with existing operations activities
4. continually monitor the performance of the technology
5. upgrade or replace the technology when needed.

Job design – vital importance in operations management as it determines how workers perform their various daily tasks.

Method study – entails the systematic recording and critical investigation of present and proposed work methods with a view to the development and application of easier and more effective methods in an effort to reduce costs

Work measurement – entails the application of techniques designed to determine how long it takes a trained and qualified worker to do a specific job at a fixed level of performance.

OPERATIONS PLANNING AND CONTROL:

Focuses on all the activities required to put the operational process into action efficiently on a continuous basis so that products can be manufactured and or services provided to meet the needs of customers or clients.

Planning and control activities occurs in terms of 3 dimensions – volume, timing and quality.

To reconcile volume and timing dimensions with each other 3 different but integrated activities are performed:

1. loading of tasks – volume of quantity of work allocated
2. sequencing of tasks – sequence in which tasks are performed
3. scheduling of tasks – detailed roster depicting start and end date of task

Capacity planning and control – focuses on the provision of manufacturing and or service capacity of a particular operations process.

Capacity – defined as the maximum level of vale added activity over a period of time that the process can achieve under normal operating circumstances.

Demand forecast:

1. determine the total demand and required capacity
2. Identify alternative capacity plans (level capacity – capacity levels are kept constant, chase-demand plan – levels are adjusted according to fluctuations in demand, demand-management plan – demand is adjusted tie in with available capacity.)
3. Choice of a particular capacity planning and control approach – choosing the most suitable capacity planning and control approach.

Techniques and methods used during capacity planning and control:

1. moving average demand forecasting technique
2. cumulative representations of demand and capacity

Total quality management – TQM – quality products and or services can be manufactured only if the entire or total business contributes to the achievement of such an objective. TQM is a thinking and doing with the primary aim of satisfying the needs and expectation of customers/clients by means of high quality products and services. Further aimed at meeting the needs and expectations of customers/clients , covering all parts of the business regardless of how small or seemingly insignificant they are , making each and every employee in the business quality conscious and holding him or her responsible for his or her contribution to the achievements of TQM , identifying and accounting for all costs of quality , doing things right the first time , developing and implementing systems and procedures for quality and the improvement thereof , establishing a continuous process for improvement.

Quality – consistent conformance to customers/clients expectations

The aim of quality planning and control is to ensure that the product or service that are manufactured or provided should conform to or satisfy design specifications.

Steps are:

1. defining the quality characteristics of the product or service (functionality , appearance , reliability , durability , serviceability , contact)
2. measuring the quality characteristics of the product of service
3. setting standards for each quality characteristic of the product if service
4. controlling quality against the set standards
5. identifying and rectifying the causes of poor quality
6. continuously improving quality

Performance standards:

1. historical standards – present performance compared to business past performance
2. target performance standards – compared to predetermined standard
3. Competitor's performance standards – compared to similar competitors.

Approaches to improvement:

1. breakthrough improvement – less regular but large scale and dramatic change
2. continuous improvement/ kaizen improvement – more regular but small change aims to improve process through a continuous basis

Failures of process may occur for various reasons:

1. design failures – design wrong or inadequate
2. facility failures – machines or equipment break
3. staff failures – workers not properly trained
4. suppliers failures – failure to supply products or services as per agreement
5. customer/client failures – usage of product or service not in accordance of purpose

CHAPTER 22

PURCHASING AND SUPPLY MANAGEMENT:

The purpose of purchasing and supply function is not only to provide the right materials, service and equipment, but also to ensure that they are purchased at a reasonable price, satisfy quality requirements, and are received at the right place and time in the correct quantities. The purchasing and supply function should:

1. select suppliers
2. purchase and arrange for the transport of materials to the business
3. decide what prices to accept
4. determine the quantity and quality of materials or services
5. expedite and receive materials
6. control warehousing and the inventory holding
7. determine the timing of purchases

Purchasing and supply management entails the planning , organizing, leading and controlling of all activities relating to the purchase of materials and services from an external source and is aimed at maintaining and increasing the businesses profitability and efficiency of customer service.

- Materials management – is an overarching organizational concept embracing purchasing , warehousing and certain operations functions such as the movement of materials through the transformation process
- Logistics management – entails integrating all movements (transport) and warehousing activates from the point where the materials are purchased, through the transformation process, to the final consumer
- Supply chain management – is an extension of systems approach. The internal functions of the business marketing, finance, are managed as an integrated whole.

Importance of purchasing and supply function:

1. greatest expenditure of business

2. inventory holding – inventory management aim is to keep inventory levels as low as possible, without risking interrupting operational process
3. profit-leverage effect means that if purchasing costs constitute a major portion of the total costs of a business a saving a purchasing costs has a greater profit potential than a similar increase in sales

Purchasing and supply planning:

1. strategic level – supply manager providing input to business planning
2. tactical or middle-management level – may cover medium term needs , budgeting
3. operational level – plans are formulated to allow daily function

Centralization or decentralization:

Centralized ion of business function – advantages, standardisation of purchasing, supply procedures. Standisation has cost saving advantages.

Decentralized purchasing and supply structure is particularly suited for a business comprising of geographically dispersed plants

Factors that determine the hierarchy level of importance:

- the value of the purchased materials in relation to the total expenditure of the business
- the situation in the supplier market
- the size of the business
- the nature of the materials purchased and the specialized knowledge and skills of buyers
- top managements perception

Subdivided groups internally into activity groups:

1. purchasing and negotiation
2. follow up and expediting
3. administration
4. purchasing and supply research
5. inventory holding
6. maintaining long term relationship with suppliers

purchasing and supply coordination – may be regarded as the conscious effort to harmonies the activates of the purchasing and supply function, the activities of other functional areas and those of suppliers in ways to ensure full cooperation in the pursuit of purchasing and supply objectives

Cross functional teams – consists of teams of personnel from at least 3 functions brought together to execute a purchasing related assignment or solve a purchasing related problem

Following control criteria can be used to gauge effectiveness of purchasing and supply activates:

- price proficiency
- supplier performance
- timelines
- cost saving
- workload
- purchasing costs
- inventory holding
- relationship performance with suppliers
- relationship with other financial management areas

Tools available to purchasing and supply management:

1. benchmark – laying down standards for setting objectives and measuring performance
2. budgets – administrative budget
3. purchasing and supply policy (ethical purchasing practices, internal purchasing and supply matters, supplier policy)

CHAPTER 23 SOURCING ACTIVITES:

3 steps in P&S cycle

1. notification phase – informed of need
2. order phase
3. post order phase

Quality: definition the right quality is that quality that is purchased at the lowest price, which satisfies a specific need and performs the function for which it was purchased.

Description of quality:

- Specification are the most general method of describing quality
- Standardization is a further aid in describing quality
- Other forms of quality description are market grades, brands, SABs standards engineering drawings and samples.

Control of quality:

Inspection is a normal process used to control quality.

Inventory costs:

- Inventory carrying costs – are those involved in keeping inventory. Cost of storage, salaries of warehouse staff etc.
- Inventory ordering costs – costs of placing an order. Salaries of pass personnel, stationery etc.
- total inventory cost – consists of sum of total inventory carrying costs and inventory ordering costs
- economic order quantity – (EOQ) – page 572 of text book graph

Inventory control systems:

- the systems of fixed order quantities – Each time inventory is ordered a fixed quantity is required. When inventory reaches certain level as a result of selling product the inventory level is replenished
- the cyclical ordering system - each item in the inventory is checked or reviewed at fixed intervals and is supplemented by an order to bring the inventory level to its maximum level again. Ordering times are fixed but quantities vary.
- materials requirements systems – computer assisted system where the aim is to maintain minimum inventory levels. The system uses the computer to calculate the total need for materials that may be required by an operations process in a given period.
- JIT just in time system – is a production or operations scheduling system and not an inventory system. It virtually eliminates the holding on inventory. Its operation is based on requiring suppliers to deliver materials of the right quality to the business on the day they are needed and where they are needed.
- Quick response (QR) and automatic replenishment (AR) systems - - defined as a vertical strategy in which the manufacturer strives to provide products and services to its retail customers in exact quantities on a continuous basis with minimal lead times resulting in minimum inventory levels throughout the retail supply chain.
- Efficient consumer response system (ECR) – was developed for grocery industry and is based on the same principle as QR. ECR calls for the creation of a timely, accurate and paperless flow of information – relying heavily on electronic data interchange and strategic alliances between supply chain members.

Holding of inventory – 2 reasons for:

1. To ensure that the operations process (or the marketing process in a retailing organization) can continue without interruptions resulting from shortages of materials.
2. to utilize cost savings through longer production runs and volume discounts.

Advantages of too much inventory	Disadvantages of too little inventory
Operating capital is tied up with resultant opportunity and interest costs	More urgent orders with concomitant higher order and transport costs and strained relations with suppliers
Losses in terms of depreciation, obsolescence , damage and theft	Cost of production or job interruptions and the accompanying strained relations with users or marketers in the business
Costs in terms or storage space (rental or interest) more warehouse staff and equipment and bigger insurance premiums	Lost sales because of empty shelves in the retail organization and the resultant negative influence on its image
	Higher unit prices as a result of smaller orders

Supplier selection process – ongoing process. Process starts with a compilation of a list of suppliers that may be able to satisfy the needs.

Evaluating supplier performance:

Objective of supplier performance is:

1. ineffective or unreliable suppliers are identified
2. it leads to an improvement in supplier performance
3. It serves as a guideline for the development of suppliers.

Policies for P&S at the right time:

- scheduling purchases according to needs
- advance purchasing
- speculative purchasing
- minimum purchasing

Outsourcing defined as the process of transferring a business activity including the relevant assets to a third party. Opposite is insourcing

Questions and answers from past year papers and examinations:

1 Sally realizes that the first task she has to undertake is a proper **HR planning process**. This requires that she must do and compile:

1 job analyses, job descriptions, job specifications and performance appraisals

2 job descriptions, job specifications, compensation planning and a training needs analysis

3 job analyses, performance appraisals, a recruitment plan and human resources forecasting

4 job analyses, job descriptions, job specifications and human resources forecasting and planning

21

2 The HR planning process has indicated that the company does not have enough qualified workers to run the plant on a fully automated basis. One of the most important positions to

fill is that of an electronic engineer. Which of the following **recruitment methods** will you recommend?

1 Sally asks the line managers for referrals

2 Sally places an advertisement in *The Sunday Times* to recruit suitable candidates

3 Sally places an advertisement on the notice board of the company, as well as in the company's in-house newsletter

4 Sally decides not to advertise the post, but to visit a university nearby to recruit engineering students directly

3 To address the problem of a shortage in skills, Sally compiled a human resource development plan. Which **developmental activity** would be best suited to enable subordinates to be

allocated to qualified artisans who provide them with the necessary practical training?

1 Job rotation

2 Learnerships

3 A simulation course

4 A public seminar

4 Sally also informs the line managers that **performance appraisals** will be done throughout the year. The performance information will be used to....

1 compile requirements for each job; provide a basis for financial rewards; and determine whether employees should be promoted

2 provide a basis for financial rewards; provide feedback to the employees on their performance; and to compile job descriptions

3 compile job specifications; compile a training and development programme; and provide feedback to the employees on their performance

4 provide a basis for financial rewards; determine whether employees should be promoted; and provide employees with feedback on their performance

5 Sally wants to ensure that the company keeps the qualified workers in their employ. For this purpose she reviews the company's compensation policy. The following **three**

Categories of compensation are awarded to employees:

1 Direct compensation such as a piece wage system, indirect compensation such as leave and rewards such as merit increases

2 Direct compensation such as weekly wages, indirect compensation such as medical insurance and rewards such as housing subsidies

3 Direct compensation such as a car allowance, indirect compensation such as leave and rewards such as financial bonuses

4 Direct compensation such as a financial bonus, indirect compensation such as leave and rewards such as merit increases

Read the case study below and then answer questions 6 to 10.

Siphon is the HR manager of a large, internationally based corporate company. His objective for the next month is to review the motivation and management of the human resources of the

Company. This is a huge task and Sipho has asked some of his assistants to help him achieve this objective within the next month. Sipho asks his assistants to review all they know about motivating employees, reiterating that the motivation of employees is a complex matter.

6 Sipho suggests that they start with the basic motivation theories. He recalls that motivation theories can be divided into two groups: **content theories** and **process theories**. He explains the difference between these two groups to his team:

1 Content theories emphasize the things in us that motivate our behaviour, whereas process theories focus on why people choose certain behavioral options and how they evaluate their satisfaction following goal achievement

2 Process theories emphasize the things in us that motivate behaviour, whereas content theories focus on why people choose certain behavioral options and how they evaluate their satisfaction following goal achievement

3 Process theories focus more on the needs and incentives that cause behaviour, whereas content theories focus on why people choose certain behavioural options and how they evaluate their satisfaction following goal achievement

4 Content theories focus on the fact that different people have different needs, goals and desires,

whereas process theories focus on those expectations that will guide the actions of employees

following given outcomes

7 Sipho wants to know more about **Maslow's hierarchy of needs.** This theory assumes the following:

1 There are five main areas which should be satisfied simultaneously

2 There are three main areas of needs and the most dominant of these must be determined

3 There are five main areas and that some needs must be satisfied before others can become important

4 There are three main areas which are activated by how much employees want something

8 Sipho's assistant, John, feels that **Vroom's Expectancy Theory** should be considered when motivating employees. John explains that this theory is based on four assumptions:

1 Behaviour is a combination of forces controlled by the organisation and the environment; people compare their efforts and rewards with those of other employees in similar positions in the organisation; people have different needs, goals and desires; and the tendency to act in a certain way depends on the strength of the expectation that the action will be followed by a given outcome

2 Behaviour is a combination of forces controlled by the individual and the environment; people make decisions about their own behaviour in organisations; different people have different needs, goals and desires; and the tendency to act in a certain way depends on the strength of the expectation that the action will be followed by a given outcome

3 Behaviour is a combination of forces controlled by the individual and the environment; people make decisions about their own behaviour in organisations; people will perform better if they strive towards a definite goal; and the tendency to act in a certain way depends on the strength of the expectation that the action will be followed by a given outcome

4 Behaviour is a combination of forces controlled by the individual and the environment; people make decisions about their own behaviour in organisations; different people have different needs, goals and desires; and the tendency to act in a certain way depends on the strength of the expectation that the action will be followed by a given outcome

9 Sipho reminds them that there are also some broad **motivational strategies** that may improve employee motivation. As an example he mentions that jobs can be made more challenging and desirable by including new and more difficult tasks, and granting employees more accountability.

This is an example of:

1 job rotation

2 job enlargement

3 job enrichment

4 job participation

10 Another theory Sipho may consider is that, all things being equal, people will perform better if they strive towards a definite goal. This theory is called….

1 equity theory

2 McClelland's theory of needs

3 Alderfer's ERG theory

4 goal-setting theory

MARKETING MANAGEMENT

11 There are certain variables, known as **marketing instruments**, about which marketing management must take decisions. Which of the following are these variables?

a Raw materials

b The product itself

c The distribution of the product

d The marketing communication methods to be used

e The value of the product to the consumer

1 a b e

2 a c d

3 b c d e

4 b c e

12 Which of the following **behavioural criteria** are relevant in **market segmentation**?

a Product usage

b Brand loyalty

c Post-purchase evaluation

d Reverse price sensitivity

1 a c

2 a b d

3 b c d

4 a b c

13 Which one of the following statements is **incorrect**? A **consumer product** consists of:

1 a core product

2 a need satisfying product

3 a total product

4 an informal product

14 Which one of the following is **not** a relevant factor in the choice of **packaging design**?

1 Re-usable packaging

2 Packaging materials

3 The shape of the package

4 Packaging sizes

5 The label as the carrier of the brand name

15 A very **small profit** is made on ..... products.

1 leader price

2 skimming price

3 bait price

4 market price level

16 The principle of **consumer orientation** entails, among other things, that the enterprise .....

a must provide the consumer with correct and sufficient information

b must always try to satisfy all of the consumer's needs

c should satisfy the consumer only within the limits of the profit objective

d should contribute to the welfare of the community in which the consumers live

1 a b c

2 a c

3 b c d

4 c d

17 In terms of the **marketing concept** and the **principle of social responsibility**, which of the following statements are **wrong**?

a Marketing management has a responsibility towards the community

b It is not the responsibility of marketing management to initiate sponsorship projects

c A sponsored event is the responsibility of the public relations department

d A merit of the marketing concept is that it purposely exploits consumers for higher profits

e A business is entitled to its profit to offset the risks involved in developing products

1 b d

2 b c d

3 a c e

4 a b c d e

5 a d e

Read the following case study and then answer questions 18 to 20.

Beauty Care is a new cosmetics company situated in Gauteng. The marketing manager has decided to develop a marketing communication campaign to make consumers aware of Beauty Care's cosmetics and to persuade consumers to purchase its cosmetics. A decision has been taken to train sales representatives regarding the products of the company. Sales representatives will be expected to visit retailers and sell directly to consumers. They will be expected to

distribute samples of the cosmetics to consumers as well as dealers. A competition will also be developed where consumers will be asked to design a logo for the company. In addition to the above marketing communication activities, it was also decided that Beauty Care would

be one of the sponsors of the Miss South Africa competition and that diaries with the company name on them would be distributed to as many people as possible.

18 Which of the following **marketing communication methods** does Beauty Care **not** make use of?

a Personal selling

b Direct marketing

c Advertising

d Publicity

e Sales promotion

1 a b e

2 a d

3 b c

4 b d e

19 The **samples** of cosmetics that will be distributed to consumers refer to………

1 Sales promotion

2 Advertising

3 Publicity

4 Personal selling

20 Beauty Care's **sponsorship** of the Miss SA competition and the **diaries** that will be distributed to consumers refer to which two of the following marketing communication methods?

1 Advertising and sales promotion

2 Personal selling and publicity

3 Advertising and personal selling

4 Publicity and sales promotion