



THE GRADUATE ACADEMY
A REPUTATION FOR EXCELLENCE

INTRO TO BUSINESS
MANAGEMENT
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Revision Notes

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Taken from the UNISA study guide and the prescribed textbook
Cronje et al. Introduction to Business Management 7th Edition 2007

TOPIC 1
THE HUMAN RESOURCE FUNCTION

STUDY UNIT 1
MEETING HUMAN RESOURCE REQUIREMENTS AND
DEVELOPING EFFECTIVE HR

1. Overview

The main objective is to maximize profitability in the long term. People are involved in all business opportunities. The HR function is responsible for finding and keeping people who will work to achieve the goal of the organisation.

2. The relationship between line management and the HR department (9.2)

The Human Resources function is responsible for

- providing
- developing and
- maintaining the human resources in a business.

The HR manager has the following key responsibilities:

- advising and counseling
- rendering service
- formulating and implementing policies
- being an employee advocate

3. Human resource planning (9.3)

HR planning is the process of using the organisation's goal to forecast the HR needs regarding finding, developing and keeping the work force. It can be divided in 3 steps:

1. Identify what the employees are doing currently (job analysis-responsibilities, work condition and job description)
2. Identify the type of employees needed to do the tasks (job specification-knowledge, skills education)
3. Identify the number of employees needed in future (HR forecasting)

- Economic growth, new developments, labour market opportunities)

4. **Finding qualified workers (9.4)**

Recruiting - alerting people that there are vacancies available and thus creating a pool of possibilities.

Recruitment can be done from inside (internal) or from the outside (external) the business.

The following techniques can be used:

- Advertisements
- Using consultants and labour agencies
- Personal approach
- Radio, TV and internet
- Variety recruiting strategies - visits to universities.

Selection is done after the advertisement. It therefore follows recruitment. The higher the position, the more steps that may be included in the selection process!

There are usually three phases in the selection of a senior post:

- Preliminary screening - personal detail, work history
- Intensive assessment - psychological testing and diagnostic interview
- Final selection- shortlist, final comparison and medical examination.

5. **Developing qualified workers (9.5)**

Learning is the core of all human development.

Four basic ways or developing methods:

- **Informal in the work situation**
Are place in work and expected to learn the work
- **Formal in the work situation**
Learnerships. Must pass to obtain qualification.
- **Informal outside the work situation**
Training courses inside the business.
- **Formal outside the work situation**

Obtaining a *BCom* degree at an institution.

Performance Appraisal

This is done to determine in which aspects the employee has:

Performed very well
Met the requirements
Did not meet the requirements

6. Keeping qualified workers (9.6)

A HR plan will be meaningless if an organisation can not keep its current worker.

Compensation

This refers to all forms of returns that an employee receives as part of the business agreement or relationship and can include:

- Financial returns
- Tangible returns
- Other benefits and services

The following matters may influence the company policy on compensation:

- The level of pay by the competitors
- Kind of benefits available
- How outstanding performance will be awarded
- How increases will be approached

THE BASIC COMPENSATION HAS 3 ELEMENTS:

- ***Basic or direct salary***
Based on monthly/weekly work and not on job performance. Time or piece wages.
- ***Indirect compensation or benefits***
Not monetary. Some required by law. Fringe benefits for example leave, insurance, housing car.
- ***Rewards***
Individual or team performance

Important terms:

Job analysis	Activities involved in each job
Job description	Forms the basis of job specification and job comparison. Describing the tasks, duties and responsibilities of a job
Job specification	Describing the qualifications. Knowledge and experience needed in order to perform. Are used in recruitment and selection
Performance appraisal	Comparing employees performance against job standards. Evaluate quality of work
Job evaluation	Determines the worth of a job and determines the salary

7. The legal environment (11)

An organisation must abide by the Acts and by the law. There are a number of Acts that directly influence a business and HR.



**COMPLETE AND STUDY ALL ACTIVITIES IN
THE STUDY GUIDE, ESPECIALLY 1.9**

TOPIC 1
THE HUMAN RESOURCE FUNCTION

STUDY UNIT 2
MOTIVATING AND MANAGING HUMAN RESOURCES

1. Overview

People are important to insure that a business can reach its goals. Motivating workers can improve employee morale and performance.

2. The role of HR management in the organisation (10.2)

The role of HR has changed from an administrative activity to the key of effectiveness.

HR contributes in the following ways:

- Assisting everyone in the organisation to reach set goals
- Utilising the skills of workers efficiently
- Providing well trained workers
- Assisting in reaching job satisfaction
- Developing quality of work life

3. Employee motivation (10.3)

Motivation is the internal drive that encourages people to achieve certain goals. It has two dimensions: internal and external.

• **Internal motivation**

The feeling of contentment or satisfaction when a task is completed well.

• **External motivation**

The motivation one feels in anticipation of a reward.

Motivation theories can be divided into groups:

Content theories: emphasise the things in us that guide behaviour
Process theories: focus on why people choose certain behavioural options

4. Content Theories

4.1 Maslow's hierarchy of needs

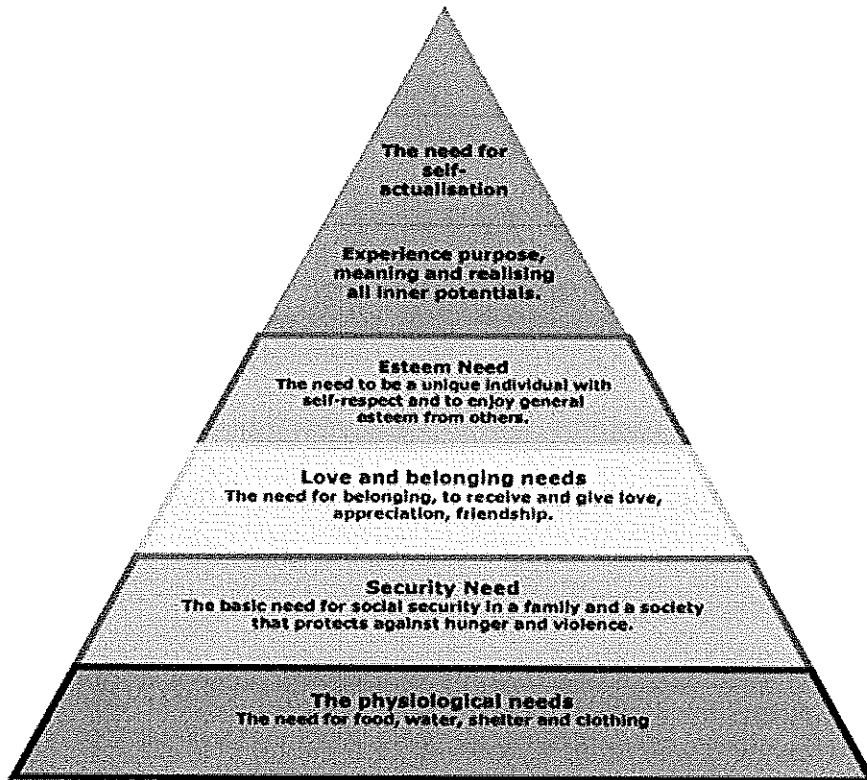


Figure 10.1, pg. 234 of the textbook

The shortcoming of this theory in the working place is the fact that it oversimplifies needs.

Not all needs are always present and needs differ in different cultures (different hierarchies)

4.2 Alderfer's ERG Theory (a refinement of the 5 needs of Maslow)

There are 3 core needs:

- Existence needs

Relates to the basic needs. Same as Maslow's physiological and safety needs.

- **Relatedness needs**
Relates to a person's desire for interpersonal relationships and interaction. Maslow's social needs.
- **Growth needs**
Desire to make a creative and productive contribution. Maslow's self actualization need.

4.3 **Hertzberg 2 factor Theory**

Employee motivational strategies

This model consists of maintenance and motivational factors:

(a) Maintenance (hygiene) factors

Essential to do any job. These factors are important for example administration, **supervision, equipment or tools, security in the work place**, monetary payment and working conditions.

(b) Motivational factors (growth factors)

Focuses on the content of the job and includes aspects such as **recognition, progress and growth** and aspects of the job itself.

The maintenance factor is similar to the lower level need of Maslow.

A further distinction can be made between Internal motivation and External motivation:

- **Internal motivation based on motivators**

This occurs when a task is done.

- **External motivation (maintenance factors)**

Action from someone else. Salary bonus, profit sharing but this is not the motivation needed for the long term.

Job enrichment is an important aspect of this theory.

4.4 McClelland's Theory of needs

Needs are learned and reinforced. Three needs:

- (a) **Need for achievement (nArch)**
Need to be successful and excel.
- (b) **Need for power (nPow)**
Need to be in control over others or to influence.
- (c) **Need for affiliation (nAff)**
Need for close and warmth (relationship) Acceptance.

5. Approach to motivation

Identifying the process by which factors influence motivation.

PROCESS:

5.1 Expectancy Theory (Vroom)

Motivation depends on two aspects namely:

- **How much we want something**
- **How likely we think we are to get it**

There are 4 assumptions on which this theory rests:-

1. **Behavior** is a combination of forces controlled by the **individual** and the **environment**.
2. People make **decisions** about their own behaviour in businesses.
3. People's needs, goals and desires are **different**,
4. People **act in a certain way** and this depends on the strength of the expectation that it will be followed by a specific outcome.

There are 3 concepts in this theory:

1. **Expectancy** ~ effort leads to performance
2. **Instrumentality** ~ strength of belief that a certain performance will lead to a certain outcome
3. **Valence** ~ desirability is the anticipated satisfaction or

dissatisfaction

For Management:

- Must assist in order to help workers to reach goals
- Help workers to increase self efficiency
- Personal goals and organizational goals should be linked

5.2 Equity Theory (Stacey Adams)

Workers compare their efforts and rewards with other workers in the same situation. This is based on assuming **equal treatment** in the work place.

Various means can be used to **restore equity** by the employee:

- Change inputs
- Change outputs
- Change attitude
- Change person he/she compares him/her with
- Leave the job

Organisational justice reflecting the extent to which employees perceive they are treated fairly at work, consists of 3 components:

1. Distributive justice
2. Procedural justice
3. Interactional justice

5.3 Goal setting Theory and Feedback

Workers' performance will improve if they strive towards a definite goal. The more difficult the goal, the higher the level of performance.

Another important factor is **feedback**. This can lead to improvement in performance.

Important principles with feedback:

- Give it immediately
- Be descriptive
- Focus on the behaviour and not on the person
- Must be specific
- Directed towards behaviour that can be changed
- Development activities available

Self-efficacy is also central to goal setting. Refers to the belief in one's capability to perform a specific task to reach a specific goal. Can be increased by applying the following approaches:

- Provide guidance and support provided
- Provide role models
- Reduce stress in the environment
- Concentrate on the worker's good points such as ability or knowledge

6. Employee motivational strategies (10.4)

- **Job Design**
Employees want positions that provide a challenge, growth and opportunities.
- **Employee Involvement**
Employees are encouraged to commit to organisation success.
- **Management By Objective Strategies**
Closely related to goal setting theory and comprises cascading of organisation objectives down to individual objectives.
- **Intrapreneurial Incentives**
Employees can produce new ideas which the business can support financially.
- **Training and Education**
A business must provide for opportunity for the employee to develop his/her skill.
- **Employee Recognition Programmes**
Recognition for above average work performance.
- **Reward Systems**
The reward system is closely related to the expectancy theory
- **Career Management**
Part that an employee identifies and follows in order to achieve his or her aspirations.
- **Empowerment programmes**
Process of enabling employees to set their own goals and make decisions and solve problems.

**COMPLETE AND STUDY ALL ACTIVITIES
IN THE STUDY GUIDE**

TOPIC 2
THE MARKETING FUNCTION

STUDY UNIT 3
THE MARKETING PROCESS

1. Overview

- Previous sections dealt with the concept of making a profit while satisfying the needs of society. This is the basic idea of the marketing process.
- It is regarded as the process of transferring products and services to the market:
- The marketing process broadly involves the following:
 - a) Environmental scanning via marketing research to collect relevant information on which to base marketing decision-making.
 - b) Developing need satisfying market offerings such as tangible products or intangible services at a convenient price delivered in a convenient place after conveying adequate information to the customer.
- Marketing is the bridge between a business and its environment. It provides input into the development of a business mission and helps correlate resources with the demands of the market.

• **Marketing can be defined as:**

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

• **Key words in the definition explained**

Management tasks	Planning, organising and control
Decisions	Regarding product, place, price and promotion
Opportunities	Favourable circumstances in the marketing Environment
Threats	Unfavorable circumstances in the marketing environment
Dynamic environment	Continually changing environmental variables that necessitate appropriate
Development	The creation of a need satisfying product/service
Transferring	Bridging the gap between the producer and the consumer
Need satisfying	Properties of a product based on what the consumer wants
Market offering	Product, price, place, promotion as well as service by people

2. **The nature of marketing and the marketing process**

Marketing is not simply selling and advertising. It involves market segmentation and market research. Aspects which should be researched are the market offerings. The offerings consist of four very important variables:

- The product
- The price
- The distribution(place)
- The promotion

3. **Evolution of marketing thought**

Marketing has evolved through the following phases or approaches:

1) **Operation-oriented management**

Top management was mostly concerned with production and solving production problems. The customer at that time was unsophisticated and not used to choice, e.g. Henry Ford typified this era with his mass production techniques for a motor vehicle.

2) **Sales-oriented management**

This period followed the production-oriented phase. It became clear that factories could not just produce and all would be sold.

Inventory levels grew and the solution was to recruit sales teams to push sales to consumers.

A campaign of advertising and high-pressure sales techniques led to customers being exploited. It was the era of the door-to-door salesman selling vacuum cleaners.

3) **Marketing-oriented management**

Marketing added new dimensions to the idea of a product offering. The previous two orientations considered only sales and price.

The essence of this approach lies in the following four principles:

- Profit orientation
- Consumer orientation
- Social responsibility
- Organizational integration

This era saw the importance of packaging, distribution channels and new methods of informing customers about offerings.

Advertising became the most important tool in passing these types of messages and top management realised that it could **integrate** departments within the organisation to work more efficiently.

4) **Consumer-oriented management**

As competition and choice grew, the importance of **consumer demand** emerged.

Society became wealthier and more sophisticated and began to reject products it did not want.

The importance of producing goods and service the consumer wanted and needed become the norm.

5) **The strategic approach to marketing**

Accelerating change brought to attention the need to survive and grow a business. Attention was slowly focused on strategic **long-term** issues and scanning.

This process identified technological innovation, economic changes and cyclical movements in markets as well as providing vital

information on competition, demography and changing consumer tastes and preferences.

It became clear that relationships were needed to survive ever-changing environments.

6) **Relationship marketing**

The concept of relationship marketing focuses on attracting and retaining customers by satisfying their needs and wants over a long period of time. This is more than just selling customers products and services.

Relationship marketing is the only way of surviving turbulence in the world of business and resisting intense competition

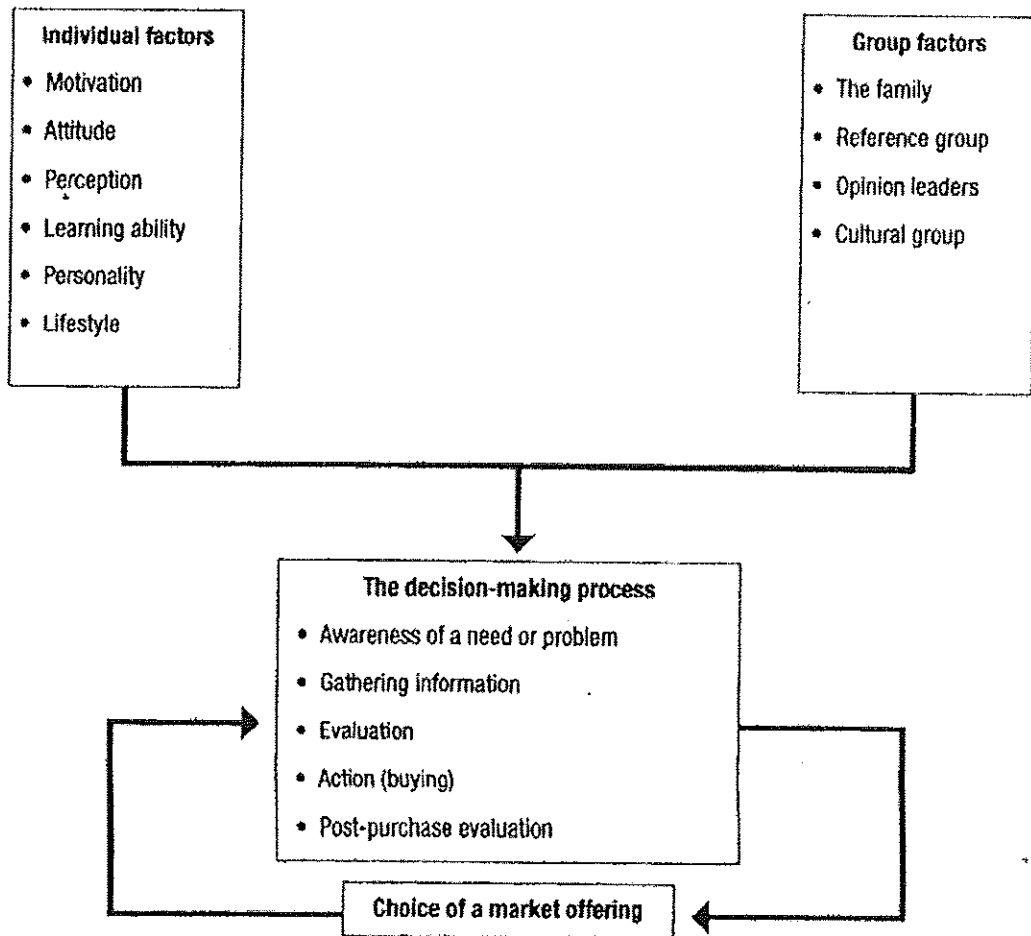
4. **Consumer Behaviour**

- Consumer behaviour refers to the behaviour patterns of families or individuals directly involved in the purchase and use of products, including the decision-making process and determining these behaviour patterns.
- It refers to obvious acts studied by other people when individuals look at, touch and play with goods.
- It is also a series of hidden processes that cannot be observed.
- Examples of this are financial position, weighing the pros and cons of different branded products and doubting the truth of advertising.
- Marketers need to know why consumers behave in certain ways because this behaviour can be explained, influenced and predicted.

Example

One instance of studying consumer behaviour in the USA comes from Coca-Cola. Coca-Cola knows how many ice cubes the average American puts in a glass of Coke as well as how many drink Coke for breakfast.

- It is now useful to focus on those factors that determine consumer behaviour, as follows:



Taken from page 309 of the text book (Figure 13.3)

1) Individual factors

They are as follows:

a) Motivation

An individual may spend 16 hours a day at work because they may want to become a director within 5 years.

b) Attitude

A hatred of exercise may force an individual to avoid buying sports drinks, for example.

c) Perception

This is the way in which we see the world.

An example could be Catholics in Mexico hearing about a visit from the Pope.

d) **Learning ability**

The consumers' ability to learn about new concepts, products and services and be able to identify the brand names of the various products.

Example

Does anyone not know the company behind the following slogan?

'The quest for zero defect.'

e) **Personality**

There are two main types of personality, namely extroverts and introverts. Extroverts may purchase a pink Golf while introverts may prefer a quieter vehicle.

f) **Life style**

Convenience is the most important variable. People have crammed labour saving devices into their kitchens such as microwaves and dishwashers.

Time is of the essence, as they say. Who wants to wait an hour for a baked potato when a microwave takes only 10 minutes?

2) **Group factors**

a) **Family**

Child cries and wants Coco Pops. Mummy gives in because she has a headache and dad shrugs his shoulders and pays up.

b) **Reference groups**

This is a group against which we can evaluate behaviour. One good example is the use of sports stars to promote sports drinks such as Energade and Powerade.

c) **Opinion leaders**

These people act as go-between for marketers. They have extensive knowledge of products and services and will willingly pass them on to others called opinion seekers.

The purchase of a high risk or big ticket item such as fashion clothing is an area where opinion leaders reduce the risk of financial loss.

Example

If Mr. Mandela says it's good, then believe it, and if Doctor Khumalo or Eden backs him up, then it's got to be great.

d) **Cultural groups**

Schools, churches and other social institutions are good examples. They all influence the behaviour of the consumer.

- 3) The next phase is to study the way in which individuals make **buying decisions**, as follows:

Phase 1 : Awareness of unsatisfied needs

A failing motorcar will soon give rise to the need for a more reliable one. You will soon be looking at the newspaper and the Junk Mail.

Phase 2 : Gathering information on how to best solve the problem

As mentioned above, you will scan the Press and maybe visit a car lot. Make sure it's reputable.

Phase 3 : Evaluation of all possibilities

In light of price, quality, performance, aesthetics, potential level of satisfaction and how much you can afford.

Many goods are therefore backed by official standards such as ISO 9000 or SABS or Pick 'n Pay's double your money back guarantee.

Phase 4 : Decision on a course of action

In the case of students, many will suck up to dad and hope. Others may slap down that deposit and go into perpetual debt to get their hands on that new speed machine.

Phase 5 : Post-purchase evaluation

A buyer may not be sure that he or she made the correct decision and will seek reassurance from family and friends.

Expansive items fit this behaviour best. Now you know how and why you bought that crazily priced item the other day!

5. Marketing research

- Continuous scanning of the market and macro-environments are crucial to the success of a business.
- This is carried out to evaluate the firm's strong and weak points and opportunities and threats in the external environment. A SWOT analysis is generally used to complete this task.
- A SWOT analysis can be used to identify marketing opportunities and are based on monitoring regularly. Information is collected using marketing research tools and used to assist decision-making.
- In summary, all marketing decisions are based on information collected in the micro, market and macro environments.
- It can be defined as:

'The systematic gathering, analysing and interpretation of information on all types of marketing problems by utilising acknowledged scientific methods of the accumulation of information to facilitate marketing management's decision-making.'

- The most common method of gathering information is to use a **survey**. This is one of the methods of gathering primary data. This is data that is collected for a specific purpose and is original in form.
- *External ad hoc* research is research undertaken to identify a specific problem in the external environment while *ad hoc research* is conducted in the micro-environment.
- The steps in conducting a survey are as follows:

Step 1) Description of the problem to be investigated

A careful description of the problem is necessary in this phase.

Step 2) Formulation of probable explanations and causes for the defined problem

This comes in the form of a hypothesis and can be regarded as a potential reason for the existence of a problem.

Example

A company losing their market share due to more intense competition. This is a common occurrence in business.

Step 3) Investigation of all the hypotheses in order to eliminate the less likely ones and find a solution to the problem

Secondary information can be used to support primary research.

Secondary data or information is that which has already been published. It exists in journals, reports and literature as well as being available in huge quantities on the Internet.

Step 4) Compilation of a questionnaire

The contents of such a document require skill and expert judgement. It should contain questions that not only clarify the problem, but offer suggestions.

Example

Suppose that Coca-Cola discovers that much of its markets are not keen on the sugar and caffeine contents of its offering. It is then a simple matter to initiate development of an offering that eliminates this problem. Coke Lite is such an offering.

Step 5) Testing the questionnaire

One method of pre-testing a questionnaire is to test it on the internal staff of the agency that compiles it and on limited numbers of other involved parties such as family and friends.

Step 6) Choosing the respondents to whom the questionnaires are to be put

This is known as drawing a sample.

There are various methods of doing so, the most common of which is to use past practices and draw a sample that is similar in size and composition to previous ones.

This is commonly done in samples for fast moving consumer goods, *FMCGs*.

Step 7) The training of field workers

Training and accuracy of completion are the key issues here. Field workers can be trained by testing the questionnaire on each other before administering it externally.

Step 8) The processing and analysis of the information contained in the questionnaire

This is normally an automatic process and involves statistical techniques such as correlation, regression and so on.

There is a third year marketing research course on this subject.

Step 9) The interpretation of results

A researcher interprets the results of the survey and draws meaningful conclusions.

Step 10) The compilation of a research report and the making of recommendations based on the conclusions

Graphs, charts and diagrams represent the data and the penultimate task of the researcher.

Step 11) Marketing management studies the report and makes decisions

This is the crux of the decision-making process for marketing managers. They can use the results of the research to adjust their marketing mix.

Step 12) Implementation of management's decisions

This can be considered the final task of the researcher, that of encouraging management to use the results of a survey.

6. Market forecasting

The following types of forecasting can be used:

a) Sales forecasting

This generally involves the use of historical data to project sales for future periods. Judgement and intuition are also important.

Previous sales figures are used to forecast future sales.

Example

Let's say that we spend R500 000 on a limousine used to transport people to weddings and so on. We work out that income will be R100 000 per year. Simple payback is therefore 5 years.

b) Forecasting of the profit contribution

(This will be discussed fully in chapters on Financial Management).

7. Market segmentation

Market segmentation is the process of dividing large numbers of people with similar needs and wants into groups. A stadium of soccer or rugby fans is such a group.

These people can:

- Have a need for a specific product

- Are able to buy it
- Are willing to spend money on it
- Are allowed to do so

The total market can be divided into consumer markets, industrial markets, resale and government markets.

The methods of dividing a market are now mentioned:

1) **The total market approach**

This was used decades ago by Coca-Cola and Volkswagen when they each had only a single offering for the entire market.

2) **The market segmentation approach**

As mentioned, this involves chopping up a population into groups with similar needs and wants and giving them a name.

The best example is Pay-as-you-go.

For market segmentation to be meaningful, it must fulfill the following criteria:

a) **Identifiable and measurable**

Who are the customers for a product and how many of them are there?

b) **Substantial ness**

There must be enough individuals in this segment to make a profit.

c) **Accessibility**

The marketing people must be able to reach the segment.

Example

How do you reach the inhabitants of the Lesotho mountains.

d) **Responsiveness**

Segments must be willing to respond to different messages.

Example

The airline industry sells economy, business and first class seats.

The next step is to study how markets can actually be segmented, as follows:

- 1) **Geographic**
In South Africa, we could use provinces, urban or suburban as criteria.
- 2) **Demographic**
Groups can be divided according to age, gender, education, income, race, religion and family size.
- 3) **Psychographic**
Life style and personality are the main variables used to divide a market.
- 4) **Behavioural**
Product usage and brand loyalty are the most common variables.

8. Target market selection and positioning

Once the market has been divided into segments, the next step is to identify those that look the most promising. This involves using a number of criteria, including those already mentioned.

Therefore, target market selection involves discarding those segments that do not meet pre-agreed criteria and focusing on those that are large, reachable, measurable and responsive.

Positioning is the very core of the marketing process. Marketing stands or falls on this activity.

It can be defined as the process of locating a product or service in the mind of the consumer.

Once completed correctly, the consumer can then be informed of this by means of marketing communications. These include advertising and direct marketing and so on.

**COMPLETE AND STUDY ALL ACTIVITIES
IN THE STUDY GUIDE**



TOPIC 2
THE MARKETING FUNCTION

STUDY UNIT 4
THE MARKETING INSTRUMENTS

1. Overview

The previous section looked at the methods of developing a marketing following material concentrates on:

- a) Integrating **product** decisions
- b) **Pricing** decisions
- c) Decisions about **distribution**
- d) Decisions about **marketing** communications called promotion

A marketing strategy comprises a combination of the above four marketing instruments. It seeks to mix these elements in the best possible way to achieve maximum profits.

2. The key to the market

The key to the market involves using all four marketing instruments, directing them towards the target market on a continual basis.

3. Product decisions

A product can be described as a composition of tangible and intangible need satisfying utilities offered to customers by a business so that they can take note of them, procure them and use them. A product is however more than just a tangible commodity. It also includes the packaging and the image.

Need satisfying utilities include beer, services such as hairdressers, personalities, places, and institutions such as the SPCA.

The section on product is a long one and will be broken down into several sub-sections, as follows:

3.1 The product offering

A company may decide to have a single product item, a number of items or product ranges. Product decisions are crucial.

An example of a **product range** is the following **product lines**:

Hyundai Accent

Hyundai Getz (couple of **product items** in this **product line** for example 1.3L, 1.6L)

Hyundai Tuscan

Hyundai Terracan

A **product offering** consists of various **product ranges**.

Hyundai has the following **product ranges**:

- Passenger cars
- Transport vehicles
- SUV's
- Bakkies

Remember that a product has a **life cycle** with the following phases:

- Introductory
- Growth
- Maturity
- Declining

3.1.1 **A consumer product consists of:**

a) **A core product**

The item itself can be a crystal glass with a round base and a long stem.

b) **A formal product**

These are the specific features of a product such as air conditioning and alloy wheels on a car.

c) **A need-satisfying product**

These include guarantees, after-sales service and installation.

d) **The product image**

This gives the item symbolic value such as a Rolex watch.

e) **The total product**

This comprises all of the above components together with any other image-enhancing elements such as fashionable.

Goods can be classified into two categories, namely durable and non-durable goods.

3.1.2 Consumer products can be classified as follows:

a) Convenience products

Convenience products are products that a consumer needs, but is not willing to spend much time or effort shopping for. These products are bought and often require little service or selling. They are cheap and may even be bought by habit.

b) Shopping products

Shopping products are products that a customer feels are worth the time and effort to compare with competing products. Furniture, clothing, dishes and some cameras are good examples.

c) Speciality products

Speciality products are consumer products that the customer really wants and makes a special effort to find. It is the customer's willingness to search not the extent of the searching that makes it a speciality product.

Any branded product that consumers insist on by name is a speciality product. Marketing managers want their customers to ask for a specific brand again and again.

3.2 Branding decisions

- A brand is a mark that is unique to the product items or ranges produced and marketed by a particular business and are chosen to distinguish them from similar competing products.
- South Africa's most powerful brand is Coca-Cola. This is also the most powerful brand in the world.
- The **advantages of brands** are:
 - a) Assist in identifying products during purchase

- b) Offer guarantees of quality
 - c) Offer certain degrees of protection to consumers
 - d) Assist in decision-making due to instant recognition
 - e) Serve as warning to other sub-standard product offerings
- **The marketer perceives the following advantages:**
 - a) Brands are the cornerstone of a marketing communications strategy
 - b) They promote brand loyalty and make brand switching more difficult
 - c) They make price comparisons more difficult and protect against price wars
 - d) They are an inseparable part of the product image
 - e) They make product differentiation simpler
 - f) They make it easier to extend the range of products
 - Consumers move through a series of stages towards **brand loyalty**.
 - They begin by **recognising** the brand from marketing communications messages they choose to receive. They then move towards **brand preference** whereby they stop purchasing other brands.
 - The final step is towards **brand insistence**. This is characterised by regular buying and refusing to accept a substitute.
 - Marketers naturally seek to **achieve the final phase**.
 - There are several types of brands, as follows:

Examples of family brands are Kellogg's breakfast cereals and Kenwood appliances.
 - A special kind of family brand is a **licensed brand** that is a well-known brand that sellers pay a fee to use. An example is Christian Dior.
 - A company uses **individual brands**, separate brand names for each product, when it's important for the products to each have a separate identity, when products vary in quality or type. An example such as Unilever, markets Aim, Close up and Pepsodent toothpastes, but each brand involves different positioning efforts.
 - **Generic products** have no brand at all other than identification of their contents and the manufacturer of middleman. Generic products are usually offered in plain packages at lower prices and are quite common in less developed countries. They are known as grey products in South Africa.

- **Manufacturer brands** are brands created by producers. These are sometimes called "national brands" because the brand is promoted all across the country or in large regions.
- **Dealer brands** (private brands) are brands created by middlemen. An example of this is Woolworths.

3.2.1 **Packaging design**

There are **three common forms of package design**, as follows:

1) **Family packaging**

All the products in the range have the same packaging. An example is Pick 'n Pay's no label.

2) **Speciality packaging**

This lends exclusivity to the item such as an expensive bottle of spirit.

3) **Re-usable packaging**

Plastic containers are an example.

The choices of packaging design can be limited to the packaging materials, the shape of the product, its sizes and label.

3.2.2 **Product differentiation**

- Product differentiation involves distinguishing a product physically and psychologically from competing offerings so that it is regarded as a different product in a specific market.
- It can take place on the basis of design, quality, colour, taste, size, brand and so on.
- One of the best examples is found in the motor vehicle industry where new models are introduced to differentiate a product from those of its competitors.

3.2.3 Product obsolescence

- This concept involves products being rejected by consumers. There are numerous reasons for this.
- A good example is the disappearance of the LP or long play vinyl record. The CD has simply made the LP obsolete. You can also look at how the word processor has put the typewriter out of business.
- One other decision in marketing management is to determine the range of the offering. For example, a car manufacturer may decide to reduce or expand the range of vehicles on offer. **This is called multi-product decision-making and impacts on the profitability of products.**

3.2.4 The basic decisions to be taken in this regard are:

a) Product range extension

This is simply an increase in a range of products. BMW has introduced the X5 and has extended its overall range.

b) Product diversification

This involves expansion into dissimilar products and requires expertise and knowledge of the new offering.

An example is Porsche sunglasses or Cadbury's ice cream. The first makes cars while the second chocolate.

c) Product withdrawal

These are products that are withdrawn from the market. There are literally thousands that disappear from supermarket shelves each year.

The reason behind this is that it simply does not sell fast enough or it does not make sufficient profit for its owners.

The final part of this section on product concentrates on the development of **new products**. The processes or phases are as follows:

- 1) **Development of new ideas**
- 2) **Screening of product ideas (According to**

- financial criteria)**
- 3) **Elimination of product ideas (Unprofitable ones)**
 - 4) **Physical product development (Prototypes)**
 - 5) **Development of marketing strategy**

This phase includes:

- Positioning of the product
 - Choice of brand
 - Design of packaging
 - Compilation of marketing communications messages
 - Choice of distribution outlets
- 6) **Test marketing (In a limited geographic area)**
 - 7) **Introduction to the market (Full roll-out)**

4. Price decisions

- Price can be regarded as the exchange value of a product or service and is closely linked to benefits and value.
- It is difficult to describe the concept of price because the marketer and the consumer have different perceptions of it and because of the large variety of goods and services on offer.
- **The price determination process** is as follows:

1) Determination of cost price

This involves adding up all costs involved in manufacturing, distributing and advertising products and services. It is in practice an almost impossible task due to the complexity of the process.

2) Determination of the market price

There are a number of methods. One is to simply ask the consumer of a specific range via a survey. The average price will be close to the true perception of the market.

3) Determination of target price

This is the price that will achieve the marketing objectives of the business by taking into consideration costs, capital needs and potential sales volumes.

4) Determination of the selling price

This will lie somewhere between the market price and the target price. Price can be adjusted in the following ways:

a) **Skimming**

A new product can be given a high-class image and sold to recoup costs as fast as possible.

b) **Penetration**

This involves entering the market with a low price with the aim of gaining long-term market share. It is a strategy that is used with fast moving consumer goods.

c) **Market price level**

This is called competition-based pricing and is self-explanatory.

d) **Leader pricing**

These are found in the form of 'specials.' Supermarket chains pursue this strategy on a frequent basis.

e) **Odd pricing**

It used to be thought that consumers would accept prices of R3-99 and so on. Today, this practice is still used but has little impact.

f) **Bait pricing**

This strategy is one where the retailer advertises an item at a ridiculously low price and encourages customers to purchase a more expensive item.

It is an unethical practice that is still used today.

5. Distribution decisions

- It is the task of marketing management to transfer goods from the point of manufacture to the point of sale or the end user. This is the essence of distribution.

5.1 The different types of distribution channels:

1) Manufacturer to consumer

An example is the Samsung factory shop. It sells directly to the public but does not manufacture on the premises.

Tedex, a local electronics player, actually manufactures and sells via a factory shop from the same location.

2) **Manufacturer to retailer to consumer**

Pick 'n pay are an example.

3) **Manufacturer to wholesaler to consumer**

The best-known example is Makro or Jumbo.

4) **Manufacturer to wholesaler to retailer to consumer**

This is still considered the most effective by many manufacturers. Many small businesses use this channel. They buy at Makro, for example, and resell to their customers.

5) **Manufacturer to wholesaler to wholesaler to retailer to consumer**

In this case the first wholesaler is usually a speciality wholesaler. He might be in a foreign country and buys products from a producer in that country and delivers it to a wholesaler in South Africa. This often occurs when the goods are imported and is the longest channel.

It is useful to detail the different types of retailers, as follows:

- a) Department stores
- b) Speciality stores
- c) Chain stores
- d) Supermarkets
- e) Discount stores
- f) Hypermarkets
- g) Shopping centre
- h) Mail-order stores

5.2 **Market Coverage**

- The number of intermediaries in a channel is directly linked to the type of market coverage. Types:

Intensive - As many intermediaries as possible (e.g. Coke).

- Exclusive** - Number of intermediaries are limited (e.g. Rolex, Ferrari's)
- Selective** - Refers to the selection of only those intermediaries that will distribute the product efficiently (e.g. I-phone only distributed by Vodacom in South Africa).

5.3 Channel Leadership

The business that controls the channel of distribution is called the channel captain. It can dictate terms to the other members. Checkers is one example of a channel captain.

Two interesting distribution strategies are 'push' and 'pull' strategies.

5.3.1 The '**PUSH**' occurs when a manufacturer literally motivates other members of the channel to stock and sell more. It offers discounts and other incentives to motivate resellers.

5.3.2 The '**PULL**' occurs when consumers literally demand more and manufacturers are obliged to increase production.

5.4 Physical Distribution

- The **costs of distribution comprise several elements**, as follows:
 - Transportation
 - Storage
 - Inventory holding
 - Receipt and dispatch
 - Administration
 - Ordering
- These are actually marketing costs and are added before determining price. In some cases, these costs can amount to 50% of total costs.
- You can now see why a can of Coke costs R0.40 to make and retails for over R4.00. Someone has to pay for the Coke trucks.
- Physical distribution involves selecting warehousing, the most suitable modes of transport and optimum inventory levels.

6. Marketing communications decisions

- Marketing communication can be regarded as the process of informing, persuading and reminding the customer.
- The elements of marketing communication are:
 - Advertising
 - Personal selling
 - Sales promotion
 - Publicity
- The textbook fails to mention the crucial nature of *direct marketing*, *sponsorship* and the *Internet*.
- **Advertising** is a controlled, paid, non-personal marketing communication related to a need-satisfying product and directed by a marketer at a specific audience.
- The main forms of advertising are television, radio, cinema, magazines, newspapers, transit and outdoor advertising.
- **Personal selling** is a verbal presentation of a product or idea to one or more potential purchasers in order to conclude a transaction. Its most frequent form is the sales representative. This method is a company's most direct link with its clients.
- **Sales promotion** can be found in three forms, namely:
 - Consumer (coupons, three-for-two, and competitions)
 - Trade (discounts to wholesalers and joint promotional campaigns) and
 - Internal sales promotion (a competition to motivate sales staff to compete for a valued prize such as a holiday to Mauritius)
- Sales promotion compliments the other forms of marketing. Methods of sales promotion includes:
 - Sampling
 - Price incentives
 - Coupons
 - Premiums
 - Contests
 - Gifts
 - Point of purchase
 - Promotions

- **Publicity** is the non-personal stimulation of the demand for a product or service of a business by making its actual current news available to the mass media to obtain a favourable and free review of the business and its products. It is sometimes not free and firms can spend large amounts on it.

7. Public Relations

Overview

Public Relations is an important element of the marketing process. It is built on the concepts of social responsibility and business ethics.

It is the driver in formulating such a code of ethics as well as projecting the image of the organisation.

7.1 The nature of public relations

- One of the tasks of PR is to create a favourable image of an organisation. This is generally achieved by developing relationships with the media. However, it is clear that large companies' fall into this category and that small firm's generally remain unnoticed.
- Others say that PR is a form of propaganda that aims to obtain free media coverage and that it operates in the same area as marketing communications. Links with mass media forms are of course important because it passes on messages to the general public.

A definition of Public Relations could be:

'A deliberate, planned and sustained programme of communication between a business and its publics for the purpose of obtaining, maintaining or improving good relations with regard to goodwill, mutual understanding, acceptance and co-operation in which profitable survival and growth depend.'

- One of the most important aspects of PR is that it seeks to develop and maintain goodwill and avoid ill will in its markets.
- PR has evolved through different phases:

It **started** off as a tool for manipulation in the political arena of the 18th century.

It slowly **developed** into a tool for disseminating information on behalf of organisations.

The **third phase** of its development moved it into the so-called mutual influence phase. This can be described as an attempt to win approval from the public.

- Many non-profit organisations make extensive use of PR to pass their messages.

The Red Cross and SPCA are examples of such.

8. **The communication programme (See pg. 388 for the communication model diagram)**

- The principles of communication are universal and applicable at all levels. The most common forms in business are written and spoken. The purpose of communication is to convey a message so that a receiver reacts as the sender intends.
- It involves the transmission of ideas, attitudes and thoughts from one person to another. People can communicate through visible behaviour without using words. For example, showing anger is a common form.
- From a PR perspective, the receiver must correctly receive the message and make the proper response.
- The following is a commonly used ***communications model***:

Stage 1 Communicator

A person wants to consciously transmit a message, such as a speech. This person must be credible, in that the receiver needs to have confidence in the subject matter.

The successful transmission of a message therefore depends on interpersonal skills, the climate and the purpose. Applied to tertiary education, you can see the importance of having all three elements in place.

Stage 2 Receiver

Communication only occurs if there is a receiver. This element of the communications model decodes the message from a sender. One form of interference of transmission is noise. On a simple level, this could be loud music interfering with a telephone call.

Stage 3 Message

There are two kinds of messages, namely verbal and non-verbal. As mentioned, verbal messages can be written or spoken while non-verbal messages can be found in many forms such as a warning sign or body language.

The most effective method of transmitting messages is via face-to-face communication. Both verbal and non-verbal can then be combined to convey the message.

Stage 4 Feedback

This is the response of the receiver. It could be in the form of a standing ovation after a speech. PR uses this form of communication in the form of news conferences, panel discussions and interviews.

8.1 The communication media

We have mentioned the mass media as being important in conveying messages to internal and external publics. It consists of spoken word, printed media, special events and internet.

Below are outlines of the common forms of printed media. Examples of printed media include:

a) Newspapers

The purpose of this form of media is to provide news about events and conditions in a locality. Such publications are an excellent form of media for PR since they are often willing to publish news items on the activities of an organisation.

b) Magazines

These can be divided into categories, as follows:

- General magazines with wide public readership
- Niche magazines aimed at specific target markets
- Specialised publications such as sports magazines
- Professional journals for doctors, lawyers and so on

c) Company publications

These include publications such as annual reports, diaries and corporate information booklets. It is the task of PR to release these forms of communication. They provide information about a

business, its employees and its activities to internal and external publics.

d) Radio and television

PR can use these forms to:

- Present prestige adverts to build image
- Provide reports of notable or newsworthy achievements
- Convey messages on news programmes

e) Film and video

This is another way of bringing the activities of a business to the attention of the general public. Sponsorship of such broadcasts is a commonly used tool.

One interesting development in this field is the appearance of brands such as Budweiser and Coke in Hollywood movies.

8.2 Examples of Special Events:

- 1) Press conferences
- 2) Visits to the business
- 3) Receptions
- 4) Exhibitions
- 5) Crisis management

8.3 The Internet

Probably the most important development from a PR perspective is the use of the **Internet**. It has revolutionised the way in which we send messages in all walks of life. Electronic channels will become increasingly powerful for PR practitioners for the following reasons:

- a) Increasing demand for information rather than attempts to sell products.
- b) The need to operate in real-time and respond instantly to market changes.
- c) Increasing need for customisation based on almost unlimited choice.

9. **Publicity**

This is the free mention of an organisation in the mass media. The idea is to generate positive publicity and not a negative environment in which extensive damage can be caused.

The main methods of obtaining publicity are:

a) **Unique special events**

Events such as the 94.7 cycle race generate extensive good publicity.

b) **Unique communication messages**

Donations to worthy causes make a huge splash in the business world.

c) **News releases**

These should be supplied to the media on a regular basis.

d) **Sponsorships**

This is a popular method of seeking publicity. This entails swapping financial assistance for goodwill and seeks to demonstrate social responsibility.

The following types are common:

- Benefit to employees
- Benefit to the community
- Benefit to conservation
- Benefit to sports or cultural events

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TOPIC 3
FINANCIAL MANAGEMENT

STUDY UNIT 5
THE FINANCIAL FUNCTION AND FINANCIAL MANAGEMENT

1. Overview

Finance is one of the functional areas of an organisation.

2. The financial function and financial management

- A business depends on assets such as land, buildings and machinery to function efficiently.
- It also needs funds, called capital, to obtain these assets, resources and services.
- The financial function is concerned with:
 - The acquisition of funds, known as financing
 - The application of funds, known as investment
 - The administration and reporting on financial matters
- Financial management is responsible for the efficient management of all facets of the finance function within the broad strategies of the organisation.
- It contributes to the objectives of the business in the following ways:
 - Efficient financial analysis, reporting, planning and control
 - Managing the acquisition of funds or capital structure
 - Managing the application of funds or asset structure

3. Concepts in financial management (17.3)

The following are the main concepts in financial management:

3.1 The balance sheet, asset and finance structuring

The balance sheet is a photograph of a business at a certain point in time. The most common point in time is the end of a financial year.

It consists of assets and liabilities that show what the business **owns** and what it **owes** respectively.

Assets are possessions of the business, represent the asset structure and are divided into two main types, as follows:

3.1.1 Current assets

Examples are debtors, stock and cash and are short-term in nature.

3.1.2 Fixed assets

- Examples are land, machinery and buildings.
- The liabilities of a business are divided into two time-based categories, namely current and long-term liabilities.
- **Current liabilities** are those that should be cleared within a year and are commonly found in the form of trade creditors and a bank overdraft.
- **Long-term liabilities** are commonly found in the form of long-term loans.
- Therefore, the liabilities side of a balance sheet will contain the following details:
 - Long-term funds (long-term debt)
 - Shareholders' interest (The money put into the business by the owners)
 - Short-term funds (Trade creditors and overdrafts)

3.2 Capital

It is the monetary value of the assets of a business at a specific time.

A business needs capital for investment in fixed assets referred to as the need for fixed capital. The capital for investment is commonly called the need for working capital.

3.3 Income

This consists of receipts from sales of goods and services, as well as income received from interest earned on investments.

3.4 Costs

These can be described as value sacrificed to acquire some form of benefit that promotes profitability in an organisation.

They can be divided into categories, as follows:

3.4.1 Fixed costs

This is the portion of total costs that does not vary according to the level of activity.

Example:

A common example is office rent. Once a lease has been signed, it is of no importance how much of the premises is used. The rent remains the same.

3.4.2 Variable costs

This type of cost varies according to the level of activity.

Example:

Sales commission is a good example. The greater the amount sold, the higher the cost. The opposite of lower sales also holds true.

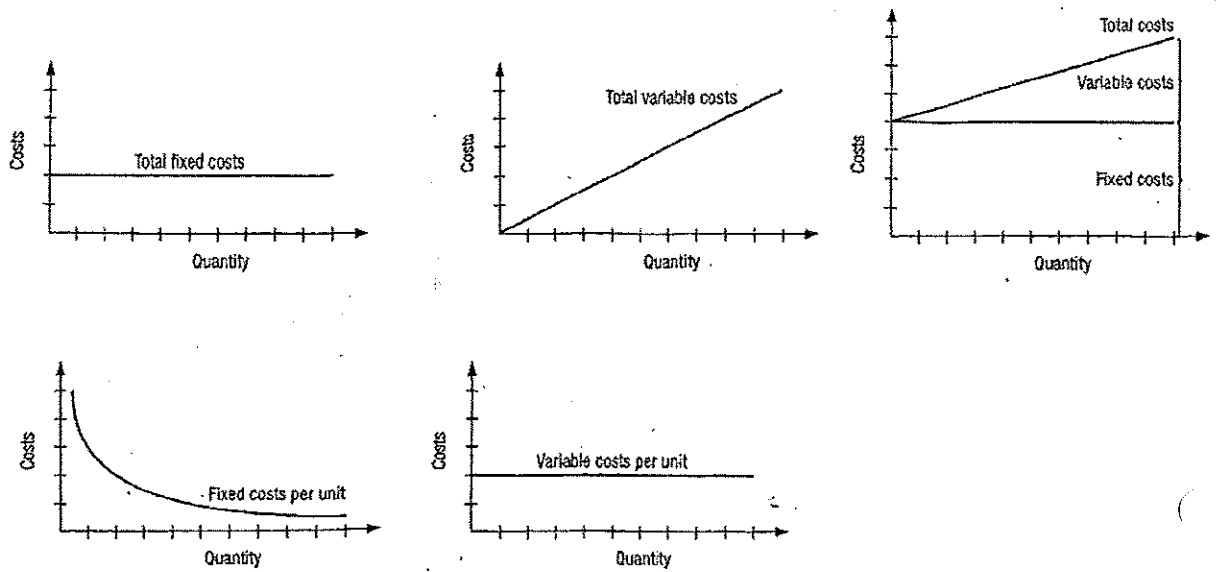
3.4.3 Semi-variable costs

These are combinations of fixed and variable costs.

Example:

A telephone bill consists of a fixed cost for line rental and so on and a variable portion consisting of phone calls.

It is then clear that total costs consist of fixed plus variable costs.



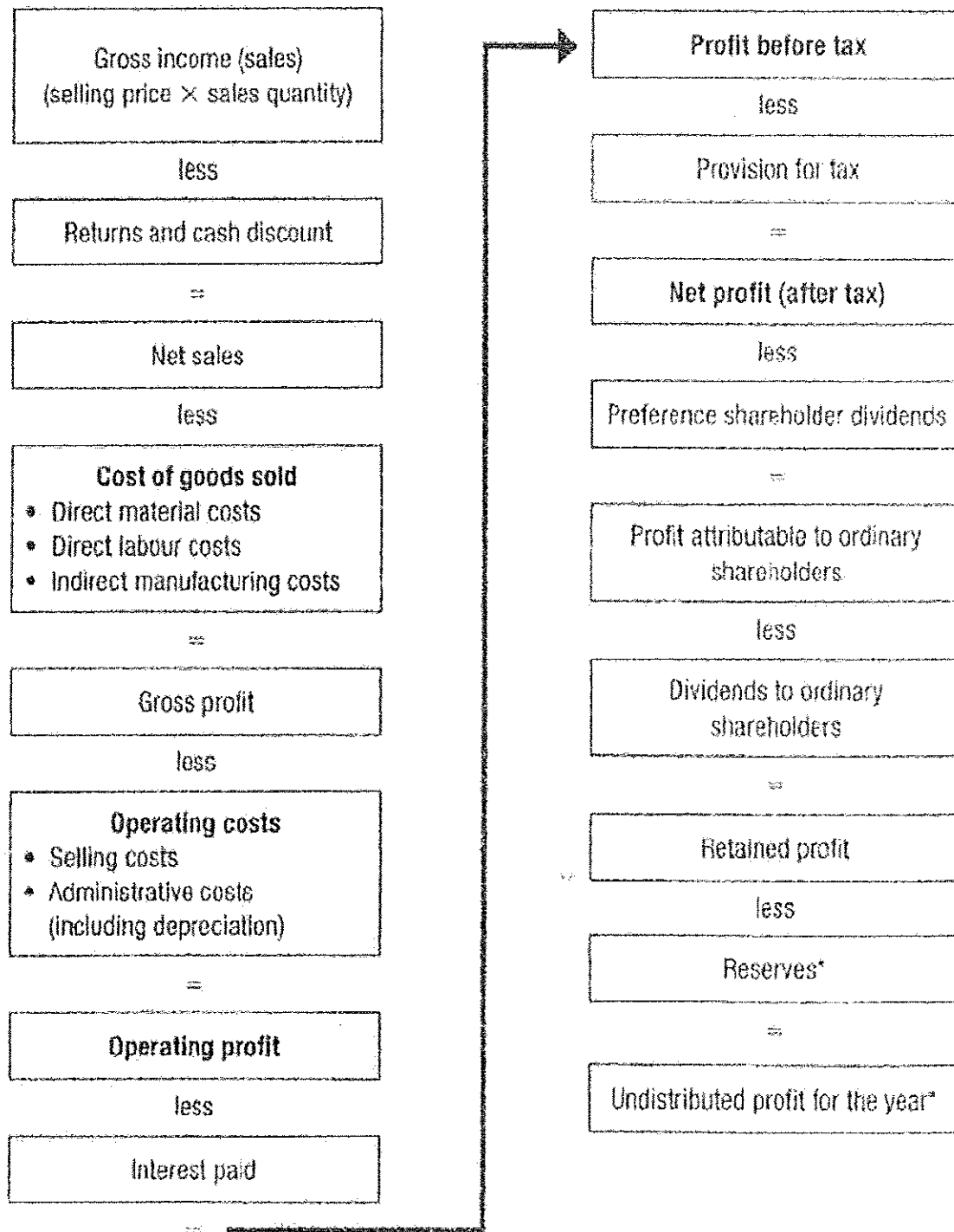
Taken from the text book (Pg. 412)

3.5 Profit

Profit is the positive difference between income and cost incurred to achieve it.

3.6 Income statement

This financial statement consists of details of income minus all costs incurred.



* Appears in the liability side of the balance sheet – see section 17.3.1

Taken from pg. 414 of the text book.

NB – Memorise the above figure

4. Objectives and fundamental principles of financial management

Financial management is based on three principles, as follows:

4.1 The risk-return principle

Risk is the probability that an investment will deviate from a planned return and cause financial loss. It is a trade off between risk and return or profit.

Example:

High interest rates in South Africa reflect high levels of risk. Credit cards and overdrafts carry interest rates of around 10% above the accepted lending rate because they are considered high risk.

4.2 The cost-benefit principle

Sound financial management depends on an analysis of total cost and total benefits and the latter should always exceed the former.

4.3 The time value of money principle

This concept is based on the fact that money is invested to increase its value and that this added value or interest is greater than the rate of erosion of inflation.

5. Cost volume profit relationships (416)

- This is commonly called break-even analysis. It shows the point at which **no profit or loss is made** or the point at which **income equals total costs**.
- The formula runs as follows:

$$N = F/SP-V$$

Break =	Total Fixed Cost
Even	Selling Price (per unit) - Variable Costs (per unit)

NOTE that the selling price and variable costs are for one unit and **NOT** for totals.

Selling price	R12 per unit
Variable costs	R8 per unit
Fixed costs	R100 000 pa
Units made	30 000

Break even		<u>Total Fixed Costs</u>
		Selling Price (per unit) - Variable Costs (per unit)
		<u>100 000</u>
		(12-8)
	=	25 000 units
Profit	=	Income-Total Costs
	=	(30 000 x 12) - (30 000 x 8) - 100 000
	=	360 000 - 240 000 - 100 000
	=	R 20 000

Student activity

Leprechaun Inc sells garden gnomes at R40,00 each. The following costs are incurred:

Total sales	14 000 units
Cost of materials	R20 per unit
Rent of premises	R30 000 per annum
Rates	R20 000 per annum

How many gnomes does the firm need to sell to break even?

Answer: R2 500 using above formula.

6. Time value of money

- This is about the effect of time and interest on the value of money.
- It is the rate of return earned from an investment less the effects of inflation.
- It is approached from two perspectives, namely the future and present value of some expected future amount.
- The processes for increasing an investment is compounding of adding interest upon interest to an amount.
- The opposite is discounting and involves reducing the amounts received in the future by a discount rate that accounts for the anticipated erosion of money.
- The underlying concepts of future and present value are:

❖ **An assumption of certainty**

It is assumed that all receipts and payments will occur without risk and uncertainty.

❖ **An assumption of discrete periods**

The normal time period is one year.

❖ **An assumption concerning receipts and payments at the end of periods**

All receipts and payments are assumed to be received at the end of a period of one year. The investment is made at the beginning of a period.

❖ **An assumption concerning inflation**

The effects of inflation are ignored.

❖ **An assumption concerning taxation**

The effects of taxation are ignored.

❖ **The principle of the zero point in time**

This refers to the points in time where amounts are comparable.

6.1 **Compounding**

The future value of an investment is determined by compounding. This means that the amount of interest earned in each specific period is added to the amount of the investment.

The formula runs as follows:

$$FV_n = PV(1 + j)^n$$

$$PV = FV \frac{1}{(1 + j)^n}$$

- FV is the future value of an investment
- PV is the original investment or principal
- i is the interest rate per period expressed as a decimal number
- n is the number of periods of the investment

Example

What is the future value of R100 invested for one year at 5% per annum?

$$FVi = \frac{100(1+0,05)^1}{R105} = 105 = 110.25 = 115.76 = 3$$

The same investment for three years yields R115,76.

- The present value of a single amount is also based on the principle that the value of money is affected by timing. It is accepted that R105 today would be worth only R100 in a year's time. This provides an opportunity to invest at 5% today and not lose R5.

6.2 Discounting

- It is the opposite process to compounding.
- The process has been simplified by the creation of discount tables. These provide the necessary factors to complete the process. These factors can also be found on pages 420 & 422 respectively.
- **They will be given in the exam and need not be memorised.**
- Using the previous example, we can now see that R115.76 discounted by the correct factor, namely 0.8638, yields R100.
- **The present value (PV) of a future amount (FV) can now be defined as an amount invested today at a certain rate of interest per period that would grow to the same amount at the end of a specific number of periods.**
- It can be seen that the higher the interest rate, the smaller the present value of a given amount will be and the further in the future an amount is expected, the smaller its present value at a given rate of interest will be.
- Uneven streams of cash inflows are treated in a similar manner. They are simply multiplied by the relevant discount factor and added together to obtain the total discounted inflows.

Example

Year	Cash inflows	Discount factor 10%	PV
1	1 000	0,9091	909,10
2	500	0,8264	413,20
3	0	0	0
4	4 500	0,6830	3073,50
5	6 000	0,6209	3725,40
Total	12 000		8121,20

The principles of **equivalence** and **comparability** are dependent on the existence of investment opportunities available to a business.

7. Financial analysis, planning and control

- Financial analysis monitors the financial position of a company and limits the risk of financial failure.
- It reveals strengths and weaknesses in the position of a firm so that corrective measures can be taken.
- Financial analysis is generally undertaken by applying ratios to the balance sheet, cash flow and income statements.
- It is therefore necessary to conduct an analysis of how capital is employed and its sources. This is the flow of funds analysis in a business.
- It is apparent that:
 - A business obtains funds from financial markets and uses them to generate a profit.
 - It sells goods at a price that is higher than its costs
 - Interest is paid from operating profits to the suppliers of loan capital
 - Remaining profit is taxable and after tax profit is paid to shareholders or retained
- The funds flow statement shows **changes in the financial position between two balance sheets. It can be produced from two perspectives, namely from changes in working capital and from changes in cash position.**
- **The advantages of a funds flow statement are that it:**
 - Indicates the justification of dividends
 - Shows the growth of fixed assets
 - Highlights possible imbalances in the application of funds

- Helps management to analyse and evaluate the financial methods of the business
- Financial ratios assist effective control and analysis. They highlight a relationship between two variables in financial statements.
- However, they do not identify the reasons for weaknesses. They only indicate the symptoms of a problem.
- Interested parties include:
 - Management
 - Suppliers of capital
 - Potential owners
- There are also three types of comparison, namely with ratios of the past, with similar businesses and with the industry as a whole. The prescribed textbook gives three categories of ratios, as follows:

7.1 Liquidity ratios

These provide an indication of the ability of the business to meet its short-term debts without affecting its normal business. The important ones are current and acid test ratios, as follows:

$$\begin{array}{lcl} \text{Current ratio} & = & \frac{\text{Current assets}}{\text{Current liabilities}} \quad \text{objective is 2 :1} \\ \text{Acid test ratio} & = & \frac{\text{Current assets - inventory (stock)}}{\text{Current liabilities}} \quad \text{objective is 1 :1} \end{array}$$

7.2 Solvency ratios

These indicate the ability of the business to pay its debts by selling assets.

They also indicate the level of risk of an investment in a business. The two important ones are:

$$\begin{array}{lcl} \text{Debt ratio} & = & \frac{\text{Debt}}{\text{Assets}} \times 100\% \quad \text{max 50\%} \\ \text{Gearing ratio} & = & \frac{\text{Owners' equity}}{\text{Debt}} \quad \text{objective is 1:1} \end{array}$$

7.3 Profitability, rate of return or yield ratios

$$\text{Return on total capital (Before tax)} = \frac{\text{Operating profit}}{\text{Total capital}} \times \frac{100\%}{1}$$

$$\text{Return on capital (After tax)} = \frac{\text{Operating profit - tax}}{\text{Total capital}} \times \frac{100\%}{1}$$

$$\text{Return on shareholders interest} = \frac{\text{Net profit after tax}}{\text{Shareholders interest}} \times \frac{100\%}{1}$$

$$\text{Return on owners equity (ROE)} = \frac{\text{Net income}}{\text{Owners' equity}} \times \frac{100\%}{1}$$

Also remember gross profit margin and net profit margin.

8. The focal points of budgets in a control system are:

- Ensure that a specific strategic business function is carried out properly
- Typical responsibility is assigned to:
 - a) Income centre (A retail chain)
 - b) Cost centre (Marketing department)
 - c) Profit centre (A profitable SBU)
 - d) Investment centre (Usually head office)

8.1 Main types of budgets

- A typical manufacturing business uses two types of budgets, namely an operating and financial budget.
 - The first contains details of costs, income and profits. The second consist of capital expenditure, cash, financing and balance sheet budgets. A capital expenditure budget indicates the expected future capital investment in physical facilities while a cash budget focuses on details of cash inflows and outflows.
 - Another common form of budgeting is zero-based budgeting. This comprises obtaining estimates for each activity and developing a budget from scratch. Each manager has to justify his/her entire budget.
 - Traditional budgeting which involves using previous years' income and expenditure as a basis for this year's budget.

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TOPIC 3
FINANCIAL MANAGEMENT

STUDY UNIT 6
ASSET MANAGEMENT: THE INVESTMENT DECISION

1. Overview

The previous chapter highlighted the fact that management of the asset structure of a business is a key task of financial management.

Decisions regarding fixed and current assets have to be as efficient as possible in order to maximise returns for shareholders.

2. The management of current assets

- The management of current assets involves two aspects, namely cost and risk.
- The first concept of importance is over-investment in current assets and a subsequent low degree of risk characterised by ample support for bills and inventory.
- The second concept is one of under-investment in current assets. This entails increased risk, inventory shortages and lower ability to pay bills.

Current assets will now be discussed in more detail:

2.1 Managing cash and marketable securities

- Marketable securities are investments on which the company earns a fixed interest income. There are three reasons for having cash available, namely to **pay expenses**, for **contingencies** and for **speculative purposes**.
- The latter involves exploiting opportunities in the marketplace. Cash management is important because the firm needs to trade-off between liquidity risks and the cost of being too liquid.
- The way of achieving this optimum position is to use a cash budget and a cash cycle. The cash budget is simply a statement of receipts, payments and changes in a cash position.

- It determines the cash needs of a business and when bridging finance is needed.

Example

Hennie Sebokke, a gardening service provider, wins a contract to lay out the landscape for Siemens new corporate headquarters. He requires two months to complete the job and will then be paid.

In the interim, he needs cash to purchase plants, materials, lawn and so on. He also needs to pay his labourers during the contract.

The client delays payment for a number of weeks, as is common with large corporations.

Finally, Hennie hears that a local competitor has gone out of business and is selling his equipment very cheaply. He needs cash to take advantage of the opportunity.

We can now see that a business has to keep cash on hand to cater for these types of situations.

Student activity

Outline a simple solution to Hennie's problem.

- The cash cycle in a business runs as follows:
 - a) Investing in raw materials
 - b) Converting raw materials in to finished products
 - c) Sell the finished products
 - d) End the cycle by collecting the cash

2.2 The management of debtors

- Debtors arise when a business sells goods and services on credit or allows payment at a later stage.
- Common terms of trade in South Africa are 30 to 90 days. **Consumer credit** is granted when a firm allows deferred payment to **individuals**. **Credit** extended to **companies** is known as **trade credit**.
- The important aspects of managing debtor accounts are the **credit policy, credit terms and collection policy** of a firm. The first is

generally set at management level and involves evaluating the credit worthiness of customers.

Credit is sometimes based on the four Cs of credit, namely character, capacity, capital and conditions.

Cost of credit includes: Loss of interest, cost to determine credit worthiness, administration, bad debts

- Credit terms can be described as the period of grace before obligatory payment. Collection policy concerns action after the due date.
- It can involve obligatory legal action or a series of communication leading the legal action.

2.3 The management of inventory

- The management of work in progress, storage of materials and trading stock are increasingly important in the drive towards lowering costs and improving efficiency.
- There is a conflict between profit objectives and operating objectives. On the one hand, the firm wants to maximise profits while on the other hand it wants to avoid being without stock items for sale.

Costs involved include:

Cost of holding stock, storage costs, obsolescence, lost interest, insurance costs and re-order costs.

3. Long-term investment decisions and capital budgeting

- Capital investments involve using business funds to acquire fixed assets such as land, buildings and machinery. These assets are then used to generate income.

Example

A printing press can be imported from the USA and used to print newspapers or You and Drum magazines, thus generating sales for the printing company.

- Three factors reflect the importance of capital investment projects:
 - a) Relative magnitude of amounts involved
 - b) Long-term nature of the capital investment decision
 - c) Strategic nature of capital investment decisions
- Projects are evaluated by ensuring that benefits outweigh costs and increase shareholder wealth.
- They are commonly evaluated in terms of cash in and outflows. This is to avoid the problem of the timing and amounts received during the life of the project.
- The important aspects of capital budgeting are the **initial investment**, the **expected annual cash inflows** and the **expected terminal cash flow** at the end of the project.
- One way of depicting such a project is to use a time line, as shown on page 462 of the prescribed textbook.
- The annual net cash flows are calculated as profit after interest and tax, minus cash and non-cash outflows such as depreciation. The initial investment is self-explanatory while the annual net cash flows are cash inflows minus cash outflows.
- The life of the project (n period or years). The terminal cash flow is the expected net cash flow after tax such as the sale of assets or recovery of working capital. One method of making long-term investment decisions is to use the **(DCF) discounted cash flow method**. It is also called the **net present value** method.
- It involves the following:
 - Forecasting the project inflows
 - Determining a suitable discount rate
 - Calculating the present values of the components
 - Calculating the net present values of the components
 - Accepting all projects with a positive NPV

- The net present value is the difference between the present value of all net cash inflows after tax and the present values of all cash outflows such as the investment.
- The NPV formula is:
NPV = Present value of net cash flows - initial investment
- The critical NPV project decisions are as follows:
 - Accept projects with a positive NPV
 - Reject projects with a negative NPV
 - Projects with an NPV of zero make no contribution and should be rejected.

Example

ABI is thinking of buying a bottling machine for its plant in South Africa. The machine will cost R450 000 and increase output and save on costs.

Year	Net inflows	Discount rate	Present value
1	150 000	0,9091	136 365
2	200 000	0,8264	165 280
3	250 000	0,7513	187 825
			<u>489 470</u>
	Minus initial		450 000
	Net present value		<u>39 470</u>

**COMPLETE AND STUDY ALL ACTIVITIES
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TOPIC 3
FINANCIAL MANAGEMENT

STUDY UNIT 7
FINANCING DECISIONS

Overview

Managing of the financing structure is one of the tasks of the financial manager.

1. Financial markets

- At any point in time, an economy consists of individuals and institutions that have surplus funds and those with a shortage. Those with excess funds seek to invest while those with a shortage seek to borrow.
- Financial markets exist for the purposes of matching the two above groups. They are channels through which holders of surplus capital can lend to those who require finance.
- Financial institutions act as **intermediaries**. Financial markets use investment instruments or securities to achieve returns on investment.
- Financial markets are a primary market and are classified in terms of time.
- New issues of securities of financial claims are called primary markets while those that have already been traded are referred to as secondary markets. The **JSE** is a secondary market.
- The money market is a **short-term market** for financial instruments. It depends on the needs of savers and borrowers. The capital market raises funds for long-term investment for businesses. Trading takes place at the JSE and generally consist of private transactions.
- The main types of deposit taking institutions are:

a) **SARB**

The South African Reserve Bank is the nation's and the government's banker. It lays down policy for commercial banks and issues currency, among other things.

b) **Land and Agricultural Bank**

This entity grants loans to farmers and agriculture in general.

c) **Private sector banks**

The big four, ABSA, Standard, First National and Nedbank, are examples in South Africa.

d) **The CPD**

The Corporation for Public Deposits accepts surplus funds from departments, institutions and organisations in the public sector, pays interest and repays deposits on demand.

e) **Post Bank**

This also accepts deposits but does not grant credit. The main non-deposit taking institutions are:

- Public Investment Commissioners
- Life Assurers, pensions and provident funds
- Short-term insurers
- Unit trusts

Others are:

- The IDC (Industrial Development Corporation)
- NTSIKA (Enterprise Promotion Agency)
- DBSA (Development Bank of South Africa)

2. **Short-term financing (current assets)**

Short-term financing is lending or borrowing money for less than one year. The following are the most common forms:

a) **Trade credit (Terms of 30 or 60 days, for example)**

To ensure prompt payment, suppliers often offer a cash discount. This is a form of supplier's credit. The cash rebate is calculated with the following formula:

$$\text{Cost of not accepting the rebate} = \frac{\% \text{ rebate}}{100 - \% \text{ rebate}} \times \frac{365}{\text{add days after rebate period available}}$$

Example

Amex's main supplier offers a 3% discount for accounts paid within 10 days of a 30-day credit period. Should it pay within 10 days or only after 30 days? $3/97$
* $362/20=56.44$

Using the above formula, Amex can earn a return of 56% per annum and should take advantage of the rebate.

The main advantages of trade credit are:

- Readily available
- Informal
- More flexible

b) Accruals (Liabilities that remain unpaid)

These represent liabilities for services provided but not yet been paid for. The most common examples are accrued wages and taxes. Employees provide labour but are not paid until the end of the month. Accrued tax is a form of financing and has no associated costs. Tax accruals are an excellent form of finance.

c) Bank overdrafts

This is an arrangement with a bank for payments beyond the limit of the funds in the account. It is commonly used by businesses as bridging finance.

Overdraft arrangements are generally reviewed annually and interest is charged on the outstanding amount. An overdraft differs from other forms of credit in that it is repayable on demand.

d) Debtor finance

Two forms of debtor financing are:

- **Invoice discounting** can be described as selling existing debtors and future credit sales to a debtor financing company. It then converts credit sales to cash and provides a necessary cash injection.
- **Factoring** involves selling a debtor's ledger for a fee. The most common types of factoring are non-recourse factoring and resource factoring.

The first refers to buying the debt outright and bearing the risk of not collecting. The second refers to the seller guaranteeing the recoverability of the debts.

There are three approaches to short-term debt financing, as follows

a) Matching approach

This involves matching the period for which the finance is obtained with the expected life of the asset. Fixed assets are financed in long-term deals while current assets with short-term bridging.

b) Aggressive approach

The overuse of short-term funds is the key here. Permanent current assets are partially financed with short-term funds instead of using some long-term finance.

c) Conservative approach

The use of a greater proportion of long-term funds is the key here. Temporary and permanent current assets are funded by long-term finance.

3. Long-term financing

The following section is a discussion about the cost of capital with reference to financial gearing. Shareholders' interests are divided into owner's equity and preference shareholders' capital.

3.1 The first source of finance consists of **shareholders interests**, funds made available by legal owners of a business, as well as **profit retention and undistributed profit**.

The true owners of a business are the holders of ordinary shares. An ordinary share gives right of ownership in the form of share certificates that are exchanged for money.

There are two types of ordinary share, namely **par value shares** and **non-par value shares**. The first type all have equal value while the second do not.

The characteristics of the ordinary share are:

- Liability limited to amount invested
- Success depends on the performance of the business
- Ordinary shareholders are owners of the business and have full control
- Shares are tradable on the JSE
- No interest in the form of dividends is payable on shares
- Share capital is available for an unlimited time

The disadvantages of issuing ordinary shares are:

- Profit reductions reduce the amount of dividends paid out
- Voting rights may devolve to block owners of shares
- Cost and risk of issuing shares may be higher than other forms of financing

3.2 The **second** method of raising long-term finance is to **retain profits**. These consist of **reserves and undistributed profit**. It is also referred to as *internal financing and holds various advantages for the business:*

- It is more cost effective
- Immediate availability
- Flexibility of capital structure
- No control by shareholders
- Alternative form of financing
- No interest or redemption obligations

3.3 The **third** form of long-term financing is to raise **preference shareholders' capital**. There are two types, namely **ordinary and cumulative preference shares**.

The **first** involves forfeiting a dividend if directors decide not to declare one. The **second** group of shareholders retain the right to receive a dividend at the end of the year.

A preference share has the following characteristics:

- A preferential claim over an ordinary share but limited returns
- Preferential claims over assets in cases of liquidation
- Unlimited term of availability
- Variable authority on voting rights

3.4 Long-term debt refers to borrowed funds that will be repaid over more than one year. It can be obtained in two ways, namely through a loan and through credit.

A loan is a contract according to which the receiver of funds agrees to make interest payments to the supplier of funds, as well as repaying the principal.

Credit is extended when a supplier provides a business with the power to dispose of assets and repay over an extended period of time.

The following types of loans are important:

a) **Debentures**

These are the most common form of long-term debt for companies. This is a negotiable certificate that consists of an agreement to repay the borrowed sum plus a fixed rate of interest.

b) **Bonds**

This instrument consists of secured loans and is issued with fixed assets.

c) **Registered term loans**

These are unsecured loans and are not freely negotiable.

A financial lease is another source of long-term finance. It involves giving a lessee the opportunity to own the asset at the end of the payment period. An operating lease contrasts with this in that it does not allow ownership and does not terminate after a period.

Two basic forms of leasing are available. The first is direct leasing and involves regular payments plus interest.

Leaseback agreements differ in that certain assets are sold to the credit supplier and leased back to the selling firm. Firms needing capital generally seek to enter into such agreements.

Example

A dentist may finance equipment on a leaseback basis. He or she sells the equipment and leases it back.

- 3.5 The cost of capital is an important issue for a growing business. It can be described as the costs of borrowing and using capital. It is found in many forms such as dividends paid to shareholders, interest paid to credit suppliers and so on. The main objective is to minimise cost of capital.

The cost of capital is crucial to capital investment and to financing decisions. In the first instance, it is a measure of the profitability of investment proposals. In the second case, the firm should minimise risk by combining sources of capital.

As mentioned, capital structure refers to the combination of long-term financing, namely ordinary shares, preference shares and debt.

The weighted average cost of capital is determined by weighting each component cost of the capital structure in terms of its proportion of the total.

The three-step approach is to calculate the after-tax cost of each form of capital, calculate the proportion of each form of capital in the total structure and combine them to determine the weighted average.

An example could run as follows:

- The total capital amounts to R1 million
- Owner's equity is R500 000 or 0,5
- Preference share capital is R300 000 or 0,3
- Long-term debt is R200 000 or 0,2

Note that the interest rate on the long-term debt is 13,5%, but with a tax rate of 46 %, the actual cost is $13,5\% \times 0,54 = 7,29\%$. It is for this reason that the long-term debt proportion of 0,2 is multiplied by the after tax cost of 7,29%.

Ensure understanding of this key concept.

4 The optimum capital structure

- The key is to satisfy the planned capital requirements of a business by acquiring funds at the lowest cost and under the most favourable conditions.
- Capital structure implies financial risk. This can be described as variances in profit income due to the inclusion of interest repayments on long-term debt. Financial leverage is a term we hear often.
- It can be said to represent the influence a company has with lenders based on its asset structure.
- We have said that capital structure results in financial risk. We also said that level of risk is reflected in the cost of capital. This means that investors expect increasing returns as risk grows.
- One of the financial manager's tasks is to identify the alternative that offers the lowest cost of capital since the lowest ratio debt makes the greatest contribution to the wealth of shareholders.

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TOPIC 4
THE OPERATIONS MANAGEMENT FUNCTION

STUDY UNIT 8
OPERATIONS MANAGEMENT

Overview

- Countries are classified based on their output or GDP. They can be labelled developed or developing based on this.
- GDP or gross domestic product is the total value of all final goods produced in country within a certain period.
- It follows that developed nations such as the USA and Japan have higher levels of GDP than developing countries such as South Africa and Taiwan.
- In short, a country must increase the amount of goods and services it produces to increase its wealth.
- It completes this partly by manufacturing greater quantities. The function of operations management deals with manufacturing issues and is the topic of this chapter.

1. The nature and definition of operations management

We know that a business transforms inputs such as raw materials into finished goods. It follows that the operations function is concerned with this process. Operations management is important for three reasons:

a) **It improves productivity**

This is measured by using a ratio of input to output. It measures the level of efficiency with which a firm converts scarce resources into products or services.

Example

Addis may produce more plastic products with less wastage. Its increased output and reduced waste helps increase profits.

b) **It helps the business to satisfy the needs of its customers more effectively**

One of the most important objectives of operations management is to ensure supply of high quality goods at a reasonable price.

Satisfied clients are the lifeblood of a business and retention is everything. It is also important that a firm completes these tasks better than its competitors to survive and grow.

c) **It is vital to the general reputation of the business**

Reputation or image is also crucial to the business. This can be seen in many cases when firms spend vast fortunes on improving their image. This is mainly done through advertising and other promotional tools.

Example

Woolies and Panasonic have built up excellent reputations for quality over the years and use this as a source of competitive advantage in the market place.

Definitions of operations management generally include concepts relating to the operations function, operations managers and operations management.

2. **An operations management model**

Refer to figure 20.1 on page 496 of the prescribed textbook.

It illustrates a typical operations management model. Inputs from the environment such as materials, customers, information, human resources, equipment and technology are transformed into outputs via the manufacturing process.

Example

Crude oil is processed via a system of cracking. This produces numerous types of products ranging from lubricating fluids to petrol, diesel and even lighter fluid.

The activities of operations management include operations design, planning and control and improvement throughout the process. The above-mentioned inputs form the basis of an operations-based advantage over other firms.

It is for this reason that customer requirements are referred to as 'competitive priorities'. The achievement of an operations-based advantage requires the following:

a) **Do things right the first time (Higher quality)**

Defect free and of high quality are important here.

b) **Do things cost effectively (Lower costs)**

Cost is crucial to competitive advantage and cost advantage is important in the market place.

c) **Do things fast (Shorter lead time)**

This involves reducing the amount of time it takes to deliver the products. It is often called speed to market and is another crucial element in the process.

d) **Change things quickly (Greater adaptability)**

This is often found in the form of an adaptability advantage. It could entail reacting quickly to changes in customer preferences or tastes.

Example

Healthy eating has become an important issue in society. Food manufacturers have reacted by producing goods that fit this trend. Flora margarine can now be found in several new types. There is even a type that focuses on lowering cholesterol. Check out the butter counter in your local supermarket.

e) **Do things right every time (Lower variability)**

High reliability is the order of the day. This can also be extended to low variability and can become an advantage for the firm. Low variability means that the final product is always the same.

Example

McDonald's prides itself on producing identical Big Macs all over the world.

The prescribed textbook outlines some of the most important objectives of the operations management function, as follows:

- a) Low cost
- b) High quality
- c) High dependability
- d) High speed of delivery
- e) High flexibility

f) **Do things better (Better service)**

The additional parts of a product are often called the **service elements**. These include after-sales service, guarantees and so on. As a package, they provide a source of competitive advantage for the firm.

It allows a firm to stand out from a service delivery perspective and creates an impression that the firm is the best provider.

One technique for ensuring this is from a product perspective is TQM. **Total quality management** provides checks at every point of manufacture to ensure lower levels of error.

Example

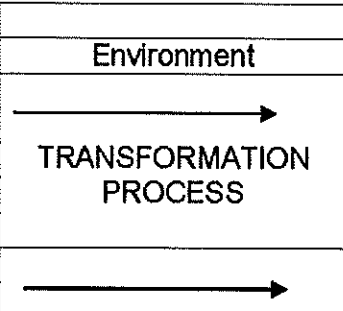
Panasonic uses the positioning statement 'the quest for zero defect.' It clearly follows the TQM route to ensure decreasing amounts of defects in its products.

In fact, Panasonic's entire business philosophy revolves around this issue. It has used this approach to become one of South Africa's leading players in the domestic electronics market.

It also provides checks and balances in various functional areas of the business such as marketing and so on. As mentioned operations management focuses on utilising scarce resources in a transformation process to produce finished goods and services.

The transformation process comprises three main components, as follows:

3. **A basic transformational model**

INPUTS	Environment	OUTPUTS
Resources	TRANSFORMATION PROCESS 	
Materials		
Customers		PRODUCTS
Information		
Human Resources		
Equipment/Facilities		SERVICES
Technology		

The first element in the transformation process is inputs which may consist of the following variables:

3.1 Inputs

These include raw materials such as steel, rubber and glass for motor vehicles. A service provider such as a hairdresser would use shampoos and scissors as inputs.

3.2 Customers/Clients

These provide the subjects to be transformed or processed. They comprise patients in dental or doctor's rooms and are those that receive the service.

3.3 Information

This can either be primary input that is processed or converted. The first is preparing the service for delivery while the second can be reactions to having consumed the service.

3.4 Human resources

Human involvement involves a variety of tasks such as workers completing manufacturing tasks and providing the actual services. It is dependant on how labour intensive the organisation is.

3.5 Equipment and facilities

These may be found in many forms such as machinery, premises and so on.

Example

A hospital may use wards while a bank would prefer a vault.

3.6 Technology

The role of technology is a crucial one in the transformation process. It normally helps to improve the process by making more products with fewer defects.

Example

The 'robotisation' of motor vehicle assembly plants has led to the reduction in the number of people employed, but has dramatically increased productivity. Robots do not complain, go on strike and bunk work.

4. The second part of the process is transformation. This involves converting inputs to outputs. Three types of inputs are processed, as follows:

a) **Materials**

This is the process of altering the shape or physical properties of materials. Steel can be made into automobile steel, for example.

b) **Information**

This can involve raw data being transformed into a report or information.

Information can be used, for example, to segment and better understand groups of customers.

c) **Customers/clients**

This has already been mentioned and is about people offering and receiving services.

5. The third part of the process is the output stage. Outputs assume the form of products and services. Here, products and services differ as follows:

Characteristics of products and services

Products	Services
Physically tangible and durable	Intangible and perishable
Output kept in stock	Output not kept in stock
Low customer contact	High client contact
Manufactured before use	Provision and consumption on site
Long response time	Short response time
Local and international markets	Mainly local markets
Large production facility	Small service provision facility
Capital intensive	Labour intensive
Quality easily measurable	Quality difficult to measure

6. **The classification of operations processes for manufacturers and service providers**

The following depicts a classification system for products and services:

6.1 **Operations processes for manufacturers**

The main types are:

a) **Project systems**

Examples are construction sites and large scale manufacturing plants.

b) **Jobbing systems**

This comprises low volume production on a small scale. Jewellery production falls into this category.

c) **Continuous or repetitive systems**

These are operations that provide the same product continuously. Examples are a sugar mill, power station and cement manufacturer.

d) **Multiple unit project system**

This is a combination of repetitive and project systems. It is found in aircraft and missile manufacturing.

e) **Job-lot system**

This is a combination of repetitive and jobbing systems. It involves making a limited range of products such as sound equipment and domestic appliances.

6.2 Operations processes for service providers

Three main categories exist:

a) **Professional services**

These require formal academic qualifications such as a degree or diploma. They range from a doctorate to practice medicine to a degree to consult.

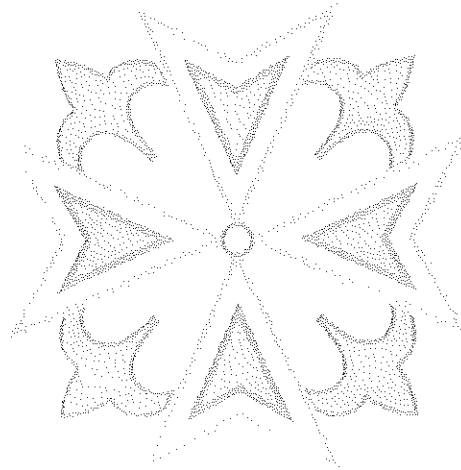
b) **Service shops**

These represent a category that falls between professional and mass services. There is some client contact and standardisation. Examples are banks and retail stores.

c) **Mass services**

These represent many client transactions, little contact and high levels of standardisation. Examples are television broadcasting and railway transportation.

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TOPIC 4
STUDY UNIT 9
OPERATIONS MANAGEMENT: ACTIVITIES, TECHNIQUES AND METHODS

The following section contains:

Overview

The previous chapter offered us a model of operations management. This section highlights the three activities of operations management, namely operations design, planning and control and operations improvement.

1. **Operations design**

1.1 **The nature of operations design**

The first step in the process entails two independent aspects, the **design of products and services** and the **design of processes** to manufacture these goods.

The primary aim of operations design is to provide goods and services that satisfy the needs of the customer.

Example

A fridge has to be aesthetically pleasing, simple to manufacture, function well and be reliable for a long time.

1.2 **The design of products and services**

An operations manager is not generally solely responsible for the design of a product or service. Design begins and ends with the customer. In the first stages, products must satisfy customer needs, but must also realise profits for the firm.

Good design can be a strong way of dominating a market.

Example

Venter Trailers bases its operations on excellent design and leads the market despite having numerous competitors.

1.3 **The (components) composition of products and services:**

All products consist of three interdependent components, as follows:

(a) **Idea or concept**

This is an expected set of benefits which the organisation deems will satisfy customer needs.

Example

Good medical care is an example of a service offering

(b) **Package**

This is the composition of the offering and is either tangible or intangible in nature. Two further aspects are worth mentioning, **explicit versus implicit advantages and core versus peripheral services.**

The first are advantages that indicate the physical benefits received from a package. This can be a long-life product because the packaging keeps it fresh. The second refers to a psychological advantage such as peace of mind.

Example

We purchase life insurance and medical aids for peace of mind in case of tragedy.

The core service is the principal product on offer while the peripheral refers to additional services.

Example

A garage offering a vehicle repair service adds to this by offering a car wash.

(c) **Process for creating the package**

This refers to the combination of product design and a manufacturing process.

1.4 **Stages in the design of products and services**

- Idea or concept generation
- Screening process
- Preliminary design
- Evaluation and improvement
- Prototype and final design

1.5 **Techniques and methods used during the product or service design**

There are a number of techniques used to design products. The majority of them are outside the scope of this course, but two are of use:

1.5.1 Basic product structures and bill of materials

This system is used to determine the parts required for a specific product.

1.5.2 Simple flow charts

Flow charts are used to identify the main elements of a specific process.

The manufacture of a product can be broken down into a number of activities.

1.6 The design of operations processes

The layout of a facility involves a three-step approach, as follows:

(a) Select the process type

The process types in manufacturing are project, job, continuous, multiple-unit and job-lot.

(b) Select the basic layout type

Four basic layout types can be used:

Fixed position layout (Construction site)

Process layout (A saw mill)

Product layout (Assembly line)

Cellular layout (A department store)

(c) Detailed design of the layout

This step outlines the broad layout of an operations facility but does not determine the precise placement of machinery and equipment.

1.7 The application of Process technology

- Process technology refers the technology used in the transformation process. (e.g. machines, equipments and apparatus)
- This can entail determining the use of robot manufacturing or computerised design and so on.

1.8 Job design and work organisation

- Focuses on peoples involvement in the operations activity
- Work measurement and method study are two work study techniques utilized.

- The first seeks to measure the length of time it takes a worker to produce a given item. The second refers to finding the most efficient way of making an item from a cost point of view.
- There are a number of advanced techniques for designing processes. They are outside the scope of this course.

2 Planning and control of the operations process

The previous section dealt with the design activity. It is within these limits that this activity needs to be implemented.

Planning and control of the operations process focuses on finding **the most efficient way of manufacturing goods to satisfy customer needs**.

It comprises two aspects, namely the **supply** and the **demand side**.

The supply side refers to the literal supply of materials and so on while the demand side refers to the level of demand from the customer.

Reconciling supply with demand is completed in terms of three dimensions, namely volume, timing and quality.

Volume and timing dimensions are reconciled by loading tasks to particular work centres, sequencing those tasks to be completed in a specific order and scheduling them so that they are completed in the most efficient manner.

An operations manager is responsible for activities such as **capacity** and **quality**. Capacity refers to the total quantity a factory can produce within a given period.

Example

A motor vehicle assembly plant can produce a certain number of cars per day, per month and per annum. Capacity forecasts need to be matched with demand forecasts to determine the optimum amounts to produce.

2.1 The nature of capacity planning and control

The following process can be used:

Step 1: Determine the total demand and required capacity

- The marketing function is generally the provider of information regarding total demand.
- This is then matched with capacity and a middle ground found.
- In cases of mass produced items, it is usual to measure capacity in terms of output of volumes. In some cases, it is preferable to measure in terms of inputs.

Example

A hairdresser may measure in terms of total number of hours per day and hairdresser availability.

Step 2: Identify alternative capacity plans

Alternate capacity plans can be found in three different forms, as follows:

- (a) *Level capacity plan* Capacity levels are kept constant.
- (b) *Chase demand plan* - Capacity levels are adjusted for fluctuations in demand.
- (c) *Demand management plan* Demand is adjusted to tie in with capacity.

Step 3: Choice of a capacity planning and control approach

This must best reflect the firm's specific circumstances.

Example

A fruit packing plant will employ more workers during the harvest season and supermarkets will use more casual staff at Xmas and Easter.

2.2 Techniques and Methods used during capacity planning and control

(a) **Moving average demand forecasting**

This is based on the availability of data for specific periods and is used to forecast for future periods. It is especially suitable when firms have stable demand patterns over time. Growing demand creates shortages.

(b) **Cumulative representations of demand and capacity**

This method evaluates the effects of different capacity plans in the form of a graph.

2.3 Inventory and supply chain planning and control

- **Inventory** and purchasing planning control are considered activities of purchasing and inventory management. However, both have an effect on the transformation process and are therefore the responsibility of operations management.
- Inventory is usually defined as all stored resources required for the smooth function of the operations process.

2.4 Quality planning and control

- Quality planning and control are so important today that their execution is not confined to one functional area of the business.
- Quality is one of the main ways of adding value to products and obtaining a competitive advantage.
- Quality impacts directly on the profits of a business and its chances of survival and growth.
- It can be defined as 'the absolute best' or 'meeting customer expectations.' There are 6 steps in quality planning and control, as follows:

Step 1: Define the quality characteristics of the product or service

These include:

- Functionality
- Appearance
- Reliability
- Durability
- Serviceability
- Contact

Step 2: Measure the quality characteristics

This is completed by marketing research that seeks to identify the important determinants of product quality.

Step 3: Set standards for each quality characteristic

The key is to set standards for each aspect of quality.

Step 4: Control quality against set standards

This step seeks to determine whether the product measures up.

Three questions can be asked here:

- Where should one check for achieved standards?
- Should every product be checked?
- How should inspections be conducted?

Step 5: Identify and rectify the causes of poor quality

This is discussed later in this module.

Step 6: Continuously improve quality

This is completed with the aim of obtaining competitive advantage in the market place.

3 Operations improvement

The improvement of the operations process is an important function of the operations manager.

It begins with failure prevention and recovery, is completed by using the approaches and techniques of improvement such as TQM. Before any operations process can be improved, current performance levels must be identified.

3.1 Different types of performance standards

Four kinds of standards can be identified:

- a) Historical standards
- b) Target performance
- c) Competitors performance
- d) Absolute performance

3.2 Priorities for improvement

The main types of improvement are:

- a) **Breakthrough improvements**
These are rare because they involve producing something completely new. Examples are VCRs, Play Station and Walkmans.
- b) **Continuous improvements**
Known as Kaizen, these refer to small, incremental changes in a product or service. This is the case for most products on the market today.

3.4 Failure, Prevention and Recovery:

There are **five types of operations failure**, as follows:

- a) Design failure
- b) Facility failure
- c) Staff failure
- d) Supplier failure
- e) Customer failure

3.5 Failure deflection and analysis

- Mechanisms in place to detect such failures include **process monitoring, complaints and feedback** from customers and sales people and questionnaires.

- The first step with regard to operations failure is to prevent further occurrence. This can be completed in a number of ways. One way is to implement TQM or EOQ or JIT-type systems.

3.6 **TQM**

Is a process of satisfying customer needs by generating high quality products or services.

It is aimed at:

- Involving every employee in its implementation
- Identifying all costs related to achieving it
- Doing things right the first time
- Implementing quality procedures
- Establishing a continuous process for improvement

3.7 **ISO 9000**

On other method of avoiding operations failure is to implement an ISO 9000 system.

This refers to global manufacturing requirements standard. It also includes a series of guidelines on managerial responsibility, quality systems, design and process control and so on.



**COMPLETE AND STUDY ALL ACTIVITIES
IN THE STUDY GUIDE**

TOPIC 5
STUDY UNIT 10
THE PURCHASING AND SUPPLY FUNCTION

The following section contains:

Overview

Businesses make purchases to meet their short and long-term needs. A business buyer purchases a wide variety of goods and services on behalf of a company. Buyers have also to keep up to date with the latest developments within the field of interest, ensure quality and be aware of market trends.

In fact, buying expertise is an important element in the process of reducing costs and improving efficiency. The purchasing function satisfies the firm's needs in the most effective way at the lowest cost.

1. **Purchasing and supply perspective**

The purpose of the purchasing function is to provide the correct materials at a reasonable price delivered at the right time in the right place.

The activities of purchasing include:

- Select suppliers
- Purchase and arrange transportation
- Decide on price
- Determine quality of materials
- Expedite and send materials
- Control warehousing and inventory

Definition

Purchasing management entails the planning, organising, leading and controlling of all activities related to the purchase of materials and services from an external source and aimed at maintaining and increasing the firm's profitability.

2. **Broadening the provision function**

There are many versions of purchasing management. We outline a few:

a) **Materials management**

This is a concept that covers purchasing management and warehousing as well as certain movements of material through the transformation process. It is an attempt to combine all materials purchasing activities under one person, the materials manager.

b) **Logistics management**

This version integrates all movements and warehousing of materials up to the point at which they enter the transformation process. Some of the activities of purchasing are incorporated into this discipline. The aim is to provide the best customer service at the lowest price.

c) **Supply chain management**

This is an extension of the systems approach. The functions of a business operate as one integrated unit and seek to maximise the efficiency of the flow of materials from point of origin to the end user. Refer to figure 21.1 and 22.2 on page 544 of the prescribed textbook for an example.

The activities of supply chain management are information systems, purchasing, product scheduling, orders, inventory management, warehousing, client services and recycling. The supply chain are a sense of linked suppliers and customers.

3. **The importance of the purchasing function to the business**

As mentioned, purchasing affects profits in the following ways:

1) **Greatest expenditure for the business**

Some firms in the retail industry spend up to 90% of each rand on purchases. They are keen to make cost savings when purchases directly affect profitability.

2) **Inventory holding prevents disruption in the transformation process**

Stock is held to prevent disruptions in the transformation process, ensuring that materials do not run out before the next delivery.

There is a fine balance between too much and too little inventory. Firms holding too much stock tie up money that cannot be released to make further purchases and pay expenses. A firm holding too little stock risks not being able to meet its demand.

3) **Profit leverage**

The profit leverage effect means that small savings in costs can be translated into large increases in sales and profits. A saving in

purchasing cost has greater profit potential than a similar increase in sales.

4) **Contribution to the marketing of products**

Effective purchasing allows a manufacturer to make final products, price them competitively and deliver them at the right time. It can therefore assist in the success of the 4Ps of marketing.

Example

Siemens, the German conglomerate, decided to reduce its suppliers to 50 companies. It requested that they each supply a broader range of goods and at keener prices. This had the result of improving the reliability of supplies and of improving efficiency in general.

4. **The management tasks of the purchasing manager**

The management tasks of the purchasing manager are the same as for any manager, namely planning, organising and controlling.

1) **Purchasing and Supply planning**

Purchasing planning should support the firm's overall objectives, minimise costs and seek greater efficiency.

It occurs at three levels, as follows:

a) **Strategic level**

- Planning entails the purchasing and supply manager providing input in business planning process.
- Activities here include developing long-term sources of supply, purchasing research and availability forecasting.

b) **Tactical level**

- This covers the firm's medium term needs and includes activities such as budgeting, purchasing methods, negotiation and cost reduction techniques.

c) **Operations level**

- This involves daily plans to ensure smooth running of the purchasing department. Short-term planning includes keeping records, invoice clearing and enquiries and quotations.

See figure 22.4 and 22.5 on page 550 for the levels of purchasing planning and purchasing objectives.

- One important task of the purchasing department is to formulate specific objectives. This entails developing a cost reduction policy such as standardising consumables or using one supplier for all requirements.
- Inventory holding is kept to a minimum and costs controlled.
- Purchasing budgets are also a significant part of purchasing planning and are expressed in terms of a materials budget and a purchasing cost budget.

2) Organising the purchasing department

A purchasing department also needs to be organised in the most efficient manner. There are four main issues here:

2.1 The place of the purchasing department in the organisation

Three elements affect the place of the purchasing function in an organisation, namely centralisation or decentralisation, hierarchical level of purchasing and the approach to the integration of purchasing and materials flow activities under the materials management or logistics management approach.

(a) Centralisation or decentralisation

There are a number of options. The precise nature of the issue depends on the structure of the organisation.

Many large firms in the grocery retail trade buy centrally to generate economies of scale and buying leverage while others prefer to purchase on an as needed basis.

Centralised purchasing has advantages such as standardisation of procedures, greater volumes and so on.

Decentralised purchasing occurs in multi-national organisations. Business units buy locally rather than import at higher cost.

Example

McDonald's in South Africa uses this approach in sourcing local manufacturers. One useful compromise is a combination of both approaches. For example, capital equipment can be purchased centrally while specialised needs can be satisfied with local purchases.

Example

Telkom negotiates large contracts for copper cable, optic fibres and microwave dishes but prefers to buy non-strategic items such as tools, maintenance materials and so on from local suppliers.

(b) **Hierarchy level of purchasing and supply**

Hierarchy determines the level of the purchasing department in an organisation. Its importance is determined by the following:

- Value of materials purchased in relation to total expenditure of the business.
- Situation of the supplier market (monopoly or oligopoly)
- Nature of materials purchased and specialised skills of buyers
- Size of the business
- Top management perception

2.2 **The internal organisation of the purchasing department**

- May consist of an informal structure or special groups

A typical purchasing department structure would focus on the following activities:

- Purchasing and negotiation
- Follow up and expediting
- Administration
- Purchasing research
- Inventory holding
- Maintaining long-term relationships with suppliers

2.3 **Co-ordination with other functional management areas**

Co-ordination occurs at three levels, namely internal, external and with other functional areas of the organisation.

Budgets play an important role in the co-ordination of the purchasing department and with other functional areas.

Systems such as JIT and EOQ also help in coordinating purchasing activities and materials flow planning.

2.4 **Cross-functional teams in purchasing**

This is a new trend according in which a buyer co-operates with managers from other functions such marketing to improve negotiations on price and supplier performance.

Applications for cross-functional teams have been identified:

- Developing cost reductions strategies
- Sourcing
- Supplier evaluation
- Supplier certification
- New product development

3 **Purchasing control**

3.1 The steps in the control process for the purchasing department are:

- Formulating objectives
- Setting criteria and norms
- Measuring actual performance
- Comparing actual performance
- Studying deviations and taking corrective actions

3.2 The main areas of control are:

- Scope and authority of purchasing activities
- Level of efficiency of policies, procedures and practices
- Level of knowledge and skills of managers
- Development programmes for purchasing personnel
- Relationships between purchasing and other areas
- Level of internal effectiveness of the purchasing department
- Level of co-ordination of same
- Supplier perceptions of the purchasing function
- Level of use of total purchasing leverage
- Performance appraisals and control systems in the purchasing department

3.3 The effectiveness of purchasing activities is determined in the following areas:

- Price proficiency
- Supplier performance
- Timeliness of deliveries
- Cost saving
- Work load
- Purchasing costs

- Inventory holding
- Relationship performance
- Relationships with other functional management

5 **Aids for purchasing management**

The aids for purchasing management are as follows:

1) **Benchmarking**

This is a fairly new concept in purchasing management that seeks to study industry or world best practice standards.

This allows the purchasing people to compare their practices with those of the best in a non-competitive industry.

Example

Eskom, Transnet and Telkom could be benchmark partners because they do not compete but are in the same fields.

They all purchase large quantities of materials such as copper wire, wood and fuel.

2) **Budgets**

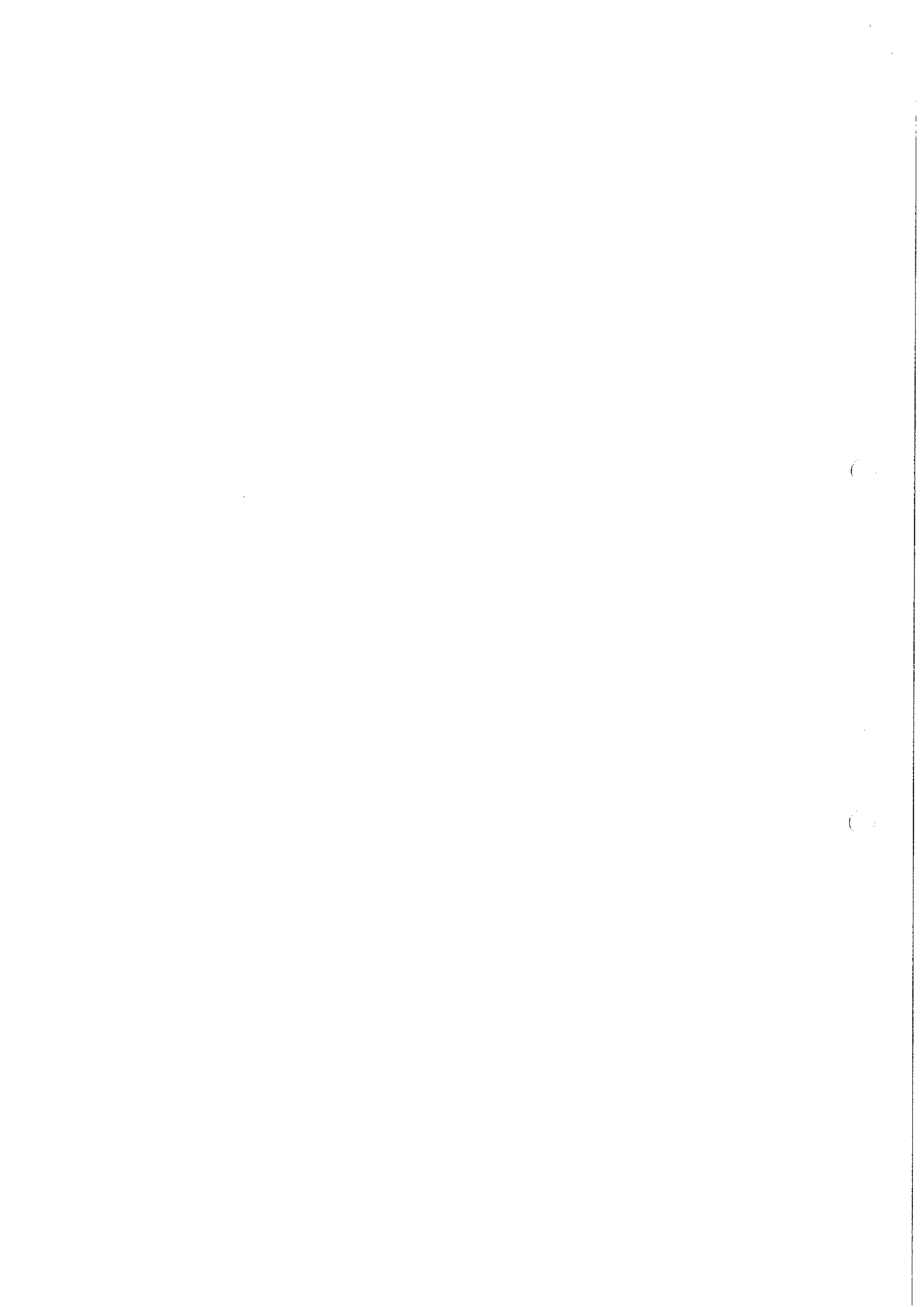
A budget is a financial plan that allocates resources in the most efficient manner. A purchasing budget also co-ordinates the activities of this type of department and those of other functional areas. Two types of budgets are common in the purchasing department, namely an administrative and a materials budget.

3) **Purchasing policy and procedures manual**

A purchasing policy is a written directive from top management to the purchasing and supply function to act in a certain manner. The purchasing policy comprises sub-policies, the most common of which are as follows:

- Ethical purchasing practices
- Internal purchasing matters
- Supplier policy

**COMPLETE AND STUDY ALL ACTIVITIES
IN THE STUDY GUIDE**



TOPIC 5
STUDY UNIT 11
SOURCING ACTIVITIES

Overview

The main purchasing activities are purchasing the right quality goods, at the right price, in the right quantities, at the right time from the right supplier.

Such activities do not exist separately, but rather form an interdependent set of activities.

1. **The purchasing and supply cycle**

Some steps of the purchasing cycle take place simultaneously while others are left out in certain cases. The steps in the purchasing cycle can be divided into **three main categories**, namely the **notification phase** (purchase/supply function informed of a need), the **order phase** and the **post-order phase** (sorting out discrepancies).

The steps are as follows: (See diagram pg 565)

- Develop and describe the need
- Choose suppliers
- Determine prices
- Place an order or sign a contract
- Expedite and follow up
- Receipt, inspect and distribute
- Identify handling errors and discrepancies
- Pay for the order
- Close the order

2. **Quality decisions as a purchasing and supply activity**

The FOUR main factors in purchasing decisions are quality, supplier service and price. Quality is the most important factor in the purchasing activity.

It rests on various considerations, such as determining the right quality for a given product, describing it so that both buyer and seller understand it clearly and controlling it to ensure that requirements are met.

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

A balance between availability and cost determines the right quality for a specific purpose. The end user and the marketing department generally input

into this process.

Example

Volkswagen, the makers of a Chico would not seek the best quality materials for interior fittings. The most common method of describing quality is to use specifications. This is a description of non-standard materials that are able to perform a certain function.

Standardisation is a further method of describing quality and is the process of making identical products.

Example

Other forms of quality description are grades of fruit, brands, SABS, samples and so on. Control over quality can be undertaken in a variety of ways. The first is inspection of measurement, design, job performance and so on.

Inspection is the normal process used to control quality

Supplier certification is one method of completing such a task.

Another pro-active approach is to incorporate quality assurance in forms such as SABS, ISO 9000 and so on. These are locally and internationally recognised quality standards and promote confidence in a product.

3. **Determining purchasing and supply quantities**

Purchase quantities are determined by inventory holding. The reasons for this are that inventory is held to ensure uninterrupted production and to utilise cost savings through longer production runs.

The purchase of large quantities of stock pushes up certain costs. These costs must be identified in order to arrive at an optimal inventory quantity. The first type is **inventory-carrying costs**. These include the costs of storage, salaries of warehouse staff, insurance theft and so on. The second type is **inventory-ordering costs**.

These are the cost of placing an order and include items such as the salaries of purchasing and dispatch personnel, stationary and so on. The third type is **total inventory costs** and are the sum of the above two types.

The lowest inventory cost is the point of intersection of TCC and TOC on the EOQ graph. There are four common ways of controlling inventory ordering, as follows:

a) **Fixed ordering**

This is based on the idea of ordering the same fixed quantity every time.

b) **Cyclical ordering**

An order is placed after fixed interval checks of stock. This results in orders that meet demand. It is commonly used for seasonal products to meet demand.

c) **MRP (Materials requirements planning)**

This is a computer-assisted system that seeks to maintain minimum inventory levels by calculating total demand for a certain period of time. It also takes into account lead time and plans delivery for a time when the buyer requires it most.

d) **JIT (Just-in-time)**

This is actually a production scheduling system that ensures that delivery occurs just before stocks run out. It eliminates the need to hold extensive inventory and reduces costs accordingly.

Example

Toyota SA is one of the country's leading exponents of JIT. It determines local demand and places orders with its Japanese parent company weeks before delivery. This helps it to maintain the JIT system and to ensure stock of spares for sale and for vehicle assembly. It only works when suppliers are extremely reliable and are integrated into the company's production system.

4. **The selection and management of suppliers**

This is one of the most important tasks in the purchasing function. All other considerations are based on selection of the right supplier. The process begins with the compilation of a list of sources (e.g. the Yellow Pages).

- This is then reduced to a short list based on factors such as location, reputation and financial and technical ability.
- Suppliers on shortlist are required to give a quote.
- The next step is to select the supplier and then evaluate performance. Various methods can be used. The most common is the weighted point method.
- The method involves allocating weights to each factor of importance. For example, the most important factor in a business may be the purchase of a computer system. This can be allocated a four or 40%. Less important may be after-sales service and this is allocated a two or 20%.
- The weightings are then multiplied by a rating of managers and a value finalised. The supplier with the highest rating is the best.
- The final choice of supplier is based on considerations such as past performance, quality, price, delivery, etc.

Evaluating supplier performance is important for the following reasons:

- Ineffective or unreliable suppliers are identified
- Leads to improvement in supplier performance
- Serves as a guideline for development of suppliers

5. Pricing decisions

Price has traditionally been the deciding factor in purchasing. The following are sources of price information:

- Published price lists
- Market information
- Quotes and tenders
- Open tenders
- Negotiations

Inflation is one factor that impacts on prices in South Africa. In cases where prices increase it is prudent to conduct a cost price analysis to ascertain whether or not it was justified.

6. Timing of purchases

The right time to buy often determines the price paid. In the same way, time and price determine the quantity to be purchased.

The aims of buying at the right time are:

- To ensure that the business has materials to maintain uninterrupted production
- To reduce the risk of price fluctuations
- To hold optimum inventory levels

A number of internal and external factors influence the time at which purchases are made. Internal business policy may prevent speculative buying. Alternatively, **external factors** such as during recessions and booms influence the timing.

It is likely that buyers will purchase during times of recession due to low prices and be more careful during periods of expansion. **Lead times** and **reliability** are other factors that impact on the timing of a purchase.

Buyers make purchases in Stable Markets (prices are not sensitive to fluctuations in demand and supply). Unstable markets (major fluctuation in response to changes). Structured or commodity markets are designed to standardise trade.

Example

Markets such as those for coffee, copper and so on are described as commodity markets. It is worth noting that commodity markets are divided into two parts, namely spot and futures markets. Crude oil is commonly traded in a spot market while almost all others trade at least partly in futures markets.

7. The outsourcing decision

It is the process of transferring a business activity, including the relevant assets, to a third party. The organisation concentrate all their efforts and resources on core activities or competencies, and buy all non-core activities from outside institutions or experts specialising in the specific activity or function.

Insourcing is the opposite - for strategic reasons – organisation performs the activity themselves. Cost will play a major role on decisions on outsourcing and/or insourcing.

8. Purchase and supply research

Purchasing research comprises the systematic collection and processing of information regarding the purchasing function. This is conducted both externally and internally before a purchase decision is made. It allows better decision-making and reduces risk. The following are types of research that can be conducted:

a) Research on materials

Many companies in high-tech industries focus on this aspect.

Example

The plastics industry pays close attention to developments in the US Space Program since most of the innovations have originated from that source.

b) Research on the supplier market

Information on production capacity, progressiveness and supplier performance would be of great benefit to Pepsi on its re-launch in South Africa.

c) Research on the purchasing system

Design of documents, prices indices and performance appraisal would be the focus of such activity.

9. Negotiations in purchasing and supply

Negotiation in purchasing is about reaching a common understanding about a series of transactions with a mutually beneficial purpose.

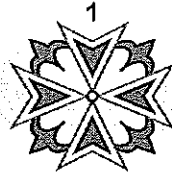
The negotiation process is used in the following cases:

- a) Where materials are complex or purchased for the first time
- b) The supplier is in a strong position in the market
- c) There are few suppliers
- d) There is price collusion between suppliers
- e) Buying is accompanied by a maintenance or service contract
- f) Price increases are requested

General negotiating tactics in purchasing are:

- Negotiate where the buyer is in control
- Collect more information by letting the supplier do the talking
- Show self-confidence with figures and assumptions
- Do not react to a large concession
- Factual reasoning must rule the negotiations
- Prepare a calm reaction to a verdict

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THE GRADUATE ACADEMY
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REVISION QUESTIONS &
MEMO

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1. Which of the following for part of the geographic criteria for market segmentation?

- a. lifestyle
- b. size of city or town
- c. density
- d. climate

- 1. a b c
- 2. b d
- 3. a c
- 4. b c d**
- 5. a b c d

2. Which of the following are individual factors in the decision-making process?

- a. motivation
- b. opinion leaders
- c. perception
- d. learning ability

- 1. a b c
- 2. a b d
- 3. a c d**
- 4. b c
- 5. a b c d

3. Which of the following types of sales forecasting are used in practise?

- a. Estimates made by a panel of experts
- b. Estimates based on consumer's reaction in test marking situations
- c. Estimates based on the results of the previous year
- d. Estimates based on the intuition of marketing management

- 1. a b c d
- 2. a b c**
- 3. a b
- 4. a d
- 5. b c d

4. Which one of the following is not a requirement for meaningful market segmentation?

1. **It should be possible to subdivide the total consumer market segmentation groups**
2. The segments should be big enough to make profitable exploitation possible.
3. It should be possible for marketing management to service its chosen segment.
4. It should be possible to compare segments with one another.

5. Which of the following statements on target market selection are correct?

- a. The objectives and resources of the business have to be carefully considered before a target market can be selected
- b. A market offering is developed for each target market chosen
- c. Target market selection can reach numerous individual target markets
- d. A business does not own target markets

1. a b
2. a d
3. a c d
4. b c d
5. **a b c d**

6. Which of the following statements on product offering, range and line are correct?

- a. A product offering consists of various product items
- c. A product range consists of various product lines
- d. A product line consists of various product ranges

1. a b c
2. a
3. **b**
4. c

7. Which of the following statements are correct?

The advantages which brands offer the consumer are that they.....

- a. facilitate the identification of products
- b. assure a quality standard
- c. serve as a warning against products not meeting certain requirements ,
- d. make product differentiation possible

1. **a b c**

2. b d
 3. a c d
 4. b c
 5. a b c d
8. A very small profit is made on..... products.
1. **leader price**
 2. skimming price
 3. bait price
 4. market price level
9. Which of the following statements on marketing communication are correct?
- a. Sponsoring a big sports event is considered to be advertising
 - b. Billboards and posters are two popular methods of advertising
 - c. Marketing communication is aimed solely at persuading customers to purchase the product
 - d. Sales promotions like diaries, calendars and T-shirts, are usually aimed at complementing other marketing communication efforts
1. a c
 2. a b d
 3. **b d**
 4. b c d
10. Which of the following statements on publicity are correct?
- a. Publicity is more credible than advertising
 - b. Marketing management has no direct say in formulating the publicity message
 - c. Publicity can also have a negative effect
 - d. Publicity is not always free
1. a c
 2. b d
 3. a b d
 4. **a b c d**
11. Which of the following statements on the marketing concept are correct?
- a. The first principle of the marketing concept is the maximisation of profitability
 - b. Sales do not necessarily maximise profits
 - c. Maximisation of profits is the primary goal of marketing management
 - d. The primary goal of marketing management is the maximising of sales

1. a b
2. c d
3. b c d
4. a b c d

12. Which of the following statements are correct concerning the product's life cycle?

- a. The sales curve ascends during the introductory phase
- b. The profit curve rises later in the product development phase owing to the high costs of new product development
- c. Costs must first be recovered before a profit can be made
- d. In the maturity phase, the sales curve declines sooner than the profit curve owing to competition

- 1 a b
- 2 c d
- 3 a b c
- 4 a b c d

13. Which of the following statements concerning the integrated marketing strategy in the declining phase are correct?

- a. The objective should be to maintain the market share
- b. The target market should consist of conservative consumers who resist innovation
- c. Product decisions require no modification of the existing product
- d. The product price should be reduced and the product offered on sales

1. a c
2. b d
3. a b c d
4. b c d

14. Which of the following statements about marketing warfare are correct?

- a. In the struggle against competitors, marketing management uses the four marketing instruments as weapons
- b. Marketing is merely a civilized form of warfare
- c. This warfare intensifies as the product proves successful in the market
- d. A competitor's entry to the market can be rendered difficult by patenting a successful product

1. a b c
2. b d
3. a c
4. b c d

5. a b c d

15. Which of the following attacks will a business launch against competitors to defend its position in the market?

- a. Frontal attack
- b. Flanking attack
- c. Strategic withdrawal
- d. Encirclement
- e. Guerrilla attack

- 1. a b c d
- 2. a b d e
- 3. a c d e
- 4. a b c e
- 5. b c d e

16. Which of the following options in strategic market planning may be considered in competitive decision-making?

- a. Differentiation
- b. The status quo strategy
- c. Harvesting
- d. The focus strategy

- 1. a b d
- 2. a d
- 3. b c
- 4. a c d

17. Which of the following are tasks of the public relations department?

- a. To create a positive image for the public
- b. To create a positive image for own employees
- c. To communicate with suppliers to clear up misunderstandings
- d. To motivate employees to do their work

- 1. a b c
- 2. a b
- 3. c d
- 4. b c d
- 5. a b c d

18. Which of the following statements on public relations are correct?

- a. Public relations is a deliberate activity
- b. Public relations is not a planned activity
- c. Public relations is a communications process
- d. Public relations is pre-eminently concerned with the external environment

1. ac
2. b d
3. **a c d**
4. b c d
5. a b c d

19. Which of the following are public relations objectives?

- a. Promoting a positive image of the business
- b. Bringing about mutual esteem and understanding between the business and external groups
- c. To ensure that goodwill of external groups is obtained and preserved
- d. To prevent the image of the business from being harmed

1. a b
2. a d
3. a c d
4. b c d
5. **a b c d**

20. Which of the following can be regarded as communication channels for a business?

- a. Sales records
- b. Crisis
- c. Financial statements
- d. Cocktail parties
- e. Factory tours

1. a d
2. a b c
3. b c d e
4. **a b c d e**

21. The decision to give coverage of a news release in a newspaper depends on the.....

1. **newspaper editor**
2. head of public relations
3. executive manager
4. reporter

22. In compiling a code of conduct, which of the following points pertaining to ethical conduct should be considered?

- a. The general social norms and values of the community in which the organisation operates should provide the basis of the code of conduct

- b. Management ,should ensure that employees adhere to the code of conduct when necessary
- c. Employees should be held accountable for their behaviour
- d. Vague generalisations about ethical conduct are meaningless

- 1. a c
- 2. b d
- 3. a c d
- 4. b c d
- 5. **a b c d**

23. The acquisition of funds is known as.

- 1. **financing**
- 2. financial management
- 3. investment

24. Which of the following statements on cost are correct?

- a. Fixed costs are that portion of total costs which remains unchanged within the boundaries of a fixed production capacity regardless of an increase or decrease in production
- b. Variable cost per unit is that portion of the total costs which changes according to a change in the volume produced
- c. Variable costs per unit remain more or less constant irrespective of the quality' produced
- d. The total costs involved in the production of a specific number of products produced in a particular period consist of the total fixed costs and the total variable costs incurred in their production

- 1. a c
- 2. a d
- 3. c d
- 4. b c d
- 5. **a b c d**

25. Which of the following options are correct?

Shareholders' interest consists of.....

- a. owners' equity
- b. long-term debt
- c. preference share capital
- d. net working capital

- 1. a b c d
- 2. **a c**
- 3. a b
- 4. b c d
- 5. c d

26. The..... reflects all the possessions of the business, together with their respective values as at the balance sheet date.

1. asset structure
2. balance sheet
3. income statement
4. **asset side**

27. Which one of the following options from the income statement correctly completes the following statement?

Net income (sales) less..... is gross profit.

1. returns and cash discount
2. **cost of goods sold**
3. operating costs
4. interest
5. reserves

28. Calculate the total present value of the following cash flow amounts received at the end of each year. The interest rate is 10%.

<u>Year</u>	<u>Cash flow</u>
1.	R3000
2.	R2000
3.	R5000

Periods (n)	Future value factors		
	5%	10%	15%
1	1,0500	1,1000	1,1500
2	1,1025	1,2100	1,3225
3	1,1576	1,3310	1,5209
4	1,2155	1,4641	1,7490
5	1,2763	1,6105	2,0114

Periods (n)	Discounting factors		
	5%	10%	15%
1	0,9524	0,9091	0,8696
2	0,9070	0,8264	0,7561
3	0,8638	0,7513	0,6575
4	0,8227	0,6830	0,5718
5	0,7835	0,6209	0,4972

1. **R8137**
2. R7409
3. R7513
4. R8990

29. Given the following information, which of the following calculations are correct concerning cost-volume-profit relationships?

Selling price per unit	=	R20
Total variable costs	=	R1000
Fixed costs per unit	=	R3

	Total fixed costs	=	R600
a.	Number of units sold	=	200 units
b.	Total profit generated	=	R2400
c.	Number of units to break even	=	50 units
d.	Marginal income per unit	=	R15

1. a b
2. **a b d**
3. c d
4. b c d
5. a b c d

30. Calculate the total present value of the following cash flow amounts at the end of the second year at an interest rate of 10%. (Calculate to the nearest R1)

Year **Cash flow**

1. R 4000
2. R 6000
3. R 5000

Discounting factors

Periods (n)	5%	10%	15%
1	0,9524	0,9091	0,8696
2	0,9070	0,8264	0,7561
3	0,8638	0,7513	0,6575
4	0,8227	0,6830	0,5718
5	0,7835	0,6209	0,4972

1. R12351
2. **R 8 594**
3. R 3 757
4. R4958

31. Use the following information to calculate owners' equity.

Fixed assets

Motor	R 90 000
Land and buildings	R100 000 (cost price)

Accumulated depreciation on land and buildings must be calculated at 10% of cost price.

Current assets

Debtors	R80 000
Inventory	R40000

Shareholder's capital

Ordinary share capital	R300000
------------------------	---------

Distributable reserves

Capital reserves	R100000
Undistributed profit	R150 000

Long term debt

Mortgage bond	R500 000
---------------	----------

Current liabilities

Creditors	R50000
Bank overdraft	R60 000

1. R 190 000
2. **R 550 000**
3. R 50000
4. R 250 000

32. The..... implies that the business must be able to capitalise on good opportunities.

1. transaction motive
2. precautionary motive
3. **speculative ,motive**
4. profit motive

33. Credit extended to another firm is referred to as.....

1. enterprise
2. credit consumer
3. **credit trade**
4. credit surplus credit

34. Which of the following statements on the profit objective when managing stock are correct?

The profit objective is to.....

- a. keep the lowest possible supply of stock

- b. keep the stock turnover as high as possible
- c. keep as much stock as possible to ensure that the business is never without stock
- d. ensure that production interruptions never occur

- 1. a b
- 2. a c
- 3. a b c
- 4. a b d
- 5. c d

35. Which of the following are uses of cash in a business?

- a. An increase in assets
- b. Dividend payments to shareholders
- c. A decrease in liabilities
- d. Investment income

- 1. a b c
- 2. a b d
- 3. c d
- 4. b c
- 5. a b c d

36. Identify the four C's of credit.

- a. Credit terms
- b. Character
- c. Capacity
- d. Capital
- e. Conditions

- 1. a b c d
- 2. a b c e
- 3. a b d e
- 4. b c d e

37. The terminal cash flow is the expected..... after tax, which is related to the termination of the project.

- 1. project profit
- 2. total cost
- 3. profit
- 4. **net cash flow**

38. Which statements about cash flow are correct?

- a. The annual net cash flows are the net cash flows after tax
- b. The initial investment is the net cash outflow at the commencement of the project

- c. The life of the project also means the economic life of the project
d. The terminal cash flow is the expected net cash flow after tax
1. a b
 2. a c d
 3. b d
 4. b c d
 5. **a b c d**
39. is the process through which financial institutions pool the funds obtained from surplus units and make these funds available to those requiring finance.
1. Financial markets
 2. Financial institutions
 3. **Financial intermediation**
40. The..... is the market in which financial instruments of a short-term maturity are traded.
1. primary market
 2. secondary market
 3. **money market**
 4. capital market
41. As a source of short-term funds, which of the following advantages does trade credit provide?
- a. It is readily available
 - b. It is informal
 - c. It is less flexible than other forms of short-term financing
 - d. It does not require security
1. a b c d
 2. a b c
 3. **a b d**
 4. c d
 5. b d
42. Which of the following are characteristics of ordinary shares?
- a. The liability of the ordinary shareholder is limited to the amount of capital which the shareholder contributed to the business
 - b. The shareholder has no certainty that the money paid for the shares will be refunded
 - c. Ordinary shares in a listed company are tradable on the stock exchange
 - d. A business has no legal obligation to reward ordinary shareholders in the form dividends'

1. **a b c d**
2. a b c
3. a b d
4. a c
5. c d

43. You are given the following information on the cost of capital of MNB Co Ltd:

	Amount	Cost
Share capital	R500000	15%
Preference share capital	R300000	5%
Long-term debt (after tax)	R200000	9%

Use the information of MNB Co Ltd to calculate the company's weighted average cost capital.

1. **15,0%**
2. 18,5%
3. 10,8%
4. 23,2%

44. Which of the following are positive results obtained by the application of operations management guidelines?

- a. Higher quality
- b. Lower costs
- c. Longer lead time
- d. Greater adaptability
- e. Better service

1. a b c
2. **a b d e**
3. a c d e
4. b c d e
5. a b c d e

45. Which of the following characteristics relate to project systems?

- a. Output volume is low
- b. Output volume is high
- c. Product variety is high
- d. Projects may have different designs

1. a b e d
2. **a c d**
3. b d
4. b c

46. Operations management in the business is important for which of the following reasons?
- It can improve productivity
 - It can help the business to satisfy the needs of its clients more effectively
 - It can be decisive for the general reputation of the business
 - It will ensure financial success for the business
- a b c
 - a b
 - c d
 - b c d
 - a b c d
47. Match the operations management guideline in Column A with the corresponding positive result in Column B.

Column A**(Operations management guideline)****Column B****(Positive result)**

- | | | | |
|----|--------------------------------|-------|----------------------|
| a. | Do things right the first time | (i) | Lower variability |
| b. | Do things cost effectively | (ii) | Higher quality |
| c. | Do things fast | (iii) | Lower cost |
| d. | Change things quickly | (iv) | Shorter lead time |
| e. | Do things right every time | (v) | Greater adaptability |

- a - (i) b - (ii) c - (iii) d - (iv) e - (v)
- a - (ii) b - (iii) c - (iv) d - (v) e - (i)
- a - (iii) b - (ii) c - (i) d - (iv) e - (v)
- a - (iv) b - (i) c - (ii) d - (v) e - (iii)
- a - (v) b - (iv) c - (iii) d - (ii) e - (i)

48. Which of the following statements are correct concerning the classification of operation processes in manufacturing businesses?
- Project systems represent operations processes which are highly individual
 - Jobbing systems normally represent operations processes conducted on a small scale
 - Continuous or repetitive systems represent operations systems in which the output volume is low
 - Job-lot systems are a combination of a repetitive system and a jobbing system
- a b c d
 - a b c

3. **a b d**
4. **b c d**
49. Which of the following characteristics are correct concerning products that are manufactured as against services provided?
- a. Physically tangible
b. Low client contact
c. Long response time
d. Capital intensive
1. **a b c**
2. **a b**
3. **c d**
4. **b c d**
5. **a b c d**
50. A jeweller is an example of a..... system?
1. project
2. **jobbing**
3. job-lot
4. repetitive
51. Arrange the steps for the layout and flow of the manufacturing/service provision facility in the correct order.
- a. Selecting the basic layout type
b. Detail design of the layout
c. Selecting of the process type
1. **a b c**
2. **a c b**
3. **b a c**
4. **b c a**
5. **c a b**
52. Which of the following types of layout form the four basic layout types which depict the general form and arrangement of operations facilities?
- a. The fixed position layout
b. The network layout
c. The product layout
d. The cellular layout
e. The process layout
1. **a c d**
2. **a b c**
3. **a b d e**
4. **a c d e**

5. b c d e
53. Which of the following activities are performed in order to reconcile the volume and timing dimensions?
- a. Execution of tasks
 - b. Loading of tasks
 - c. Sequence of tasks
 - d. Scheduling of tasks
- 1. **a b c d**
 - 2. b e
 - 3. a d
 - 4. b c d
54. Arrange the first five steps of quality planning and control in the correct order.
- a. Defining the quality characteristics of the product and service
 - b. Measuring the quality characteristics of the product and service
 - c. Setting standards for each quality characteristic of the product and service
 - d. Controlling quality against the set standards
 - e. Identifying and rectifying the causes of poor quality
- 1. b d e c a
 - 2. c a b d e
 - 3. **a b c d e**
 - 4. d c a e b
 - 5. e a b c d
55. Which performance standards are generally used to measure operational improvement
- a. Historical standards
 - b. Target performance standards
 - c. The performance standards of competitors
 - d. Absolute performance standards
 - e. The performance of suppliers
- 1. **a b c d**
 - 2. a b d e
 - 3. a c d e
 - 4. b c d e
 - 5. a b c d e
56. Which of the following failures are typical failures occurring in operations processes?
- a. Facility failures

- b. Design failures
c. Staff failures
d. Customer/client failures
1. a b
2. a d
3. b c d
4. a b c d
57. Which of the following statements on purchasing planning are correct?
- a. Purchasing is a service function
b. Purchasing planning is subordinate to business planning
c. Purchasing objectives are subordinate to business objectives
d. Purchasing planning should be conducted in consultation with other functions
1. a b
2. b d
3. a c d
4. b c d
5. a b c d
58. Which of the following are criteria for gauging the effectiveness of the execution of purchasing activities?
- a. To investigate purchasing cost
b. To calculate the production capacity
c. To compare costs with those of previous periods
d. To investigate the number of orders and requisitions
1. a d
2. a c d
3. b c d
4. a b c d
59. The purchasing function should perform which of the following activities?
- a. Choosing suppliers
b. Comparing the prices of the business with those of competitors in the same field
c. Warehousing of products purchased
d. Determining the quality of materials
1. a
2. a c d
3. a b c
4. b d

60. Which one of the following is not a purchasing management function?
1. Supplier selection
 2. **Negotiation**
 3. Transportation inwards
 4. Materials handling
61. Which of the following are sub-policies of the purchasing policy?
- a. Policy in respect of ethical purchasing practices
 - b. Policy in respect of internal purchasing matters
 - c. Production policy
 - d. Supplier policy
1. a b c
 2. **a b d**
 3. b c d
 4. a b c d
62. A is particularly suited to a business comprising of geographically dispersed plant a where purchases are made from a variety of geographically dispersed suppliers?
1. centralised purchasing structure
 2. **decentralised purchasing organisation**
 3. combination of centralisation and decentralisation
63. Which of the following are disadvantages of too much inventory?
- a. Operating capital is tied up
 - b. Losses in terms of depreciation
 - c. More urgent orders
 - d. Bigger insurance premiums
1. a b
 2. **a b d**
 3. a c d
 4. c d
 5. a b e d
64. A buyer is likely to obtain the most favourable price by.
1. using post-tender negotiations
 2. **conducting negotiations**
 3. obtaining quotations
 4. comparing price lists
65. Place the last four basic steps in the purchasing cycle in the correct order.

- a. Receipt, distribution and inspection
- b. Handling errors and discrepancies
- c. Closing the order
- d. Paying for the order

- 1. a b e d
- 2. a c b d
- 3. **a b d c**
- 4. b a e d

66. The steps in the purchasing cycle can be divided into certain phases. Identify these phases.

- a. The notification phase
- b. The order phase
- c. The post order phase
- d. The paying phase

- 1. **a b c**
- 2. a b d
- 3. c d
- 4. a b c d

67. Which of the following statements on determining quality as a purchasing activity are correct?

- a. Specification may be used in the description of quality
- b. Quality does not influence inventory holding
- c. Inspection is the task of the purchasing department
- d. Standardisation of products and their quality increase competition in the market

- 1. **ad**
- 2. a b c
- 3. b c d
- 4. a b c d

68. Which of the following are areas in which purchasing research can be conducted?

- a. Research on materials and services
- b. Research on negotiations in purchasing
- c. Research on a suppliers market
- d. Research on the purchasing system

- 1. a b
- 2. a c d
- 3. b d
- 4. **a b c d**

69. Which one of the following statements regarding economic growth is wrong?
1. The higher the level of employment, the higher will economic growth be
 2. Economic growth will cause unemployment to decline
 3. **Economic growth does not depend on curbing the population growth rate**
 4. Economic growth will cause higher living standards
70. Which one of the following actions should the government avoid in attempting to influence productivity improvement positively?
1. The creation of training facilities
 2. **General increase of tax rates to provide the required funds**
 3. Productivity improvement which supports wage and salary increases
 4. Making training subsidies available
71. Which one of the following statements is wrong?
1. The selection process can vary from a short interview to an intensive assessment process
 2. **The selection process for lower management posts can be divided into three phases**
 3. Intensive assessment involves psychological testing and diagnostic interviewing
 4. Psychological testing cannot accurately predict which applicant will be successful
72. Which of the following statements about selection and induction are correct?
- a. Some human resource managers do not attach much value to references
 - b. When the job is offered, the applicant usually has to undergo a medical examination
 - c. The new employee must go through a process of socialisation
 - d. An induction programme must indicate which communication channels are available to a new employee
- 1 a b
2 **a c d**
3 b c d
4 a b c d
73. Tommy Thompson is the owner of a small bookshop consisting of 4 employees. His assistant has recently resigned and he needs to appoint another assistant. What are the reasons for Tommy appointing someone internally?

- a Current employees are familiar with the business
- b Current employees' careers are advanced
- c Current employees are suitably qualified
- d Current employees can bring new ideas to the business

- 1 a b
- 2 a b c
- 3 b c d
- 4 a b c d

74. The process whereby new employees are informed, among other things, of the enterprise's policy, procedures, remuneration and incentive schemes is referred to as

- 1 employment
- 2 **induction**
- 3 development
- 4 training

75. The receptionist was rated as "very poor" in terms of her friendliness. In response she could argue that friendliness should not be regarded as a performance criterion because it

- 1 is not relevant to a receptionist's job
- 2 **is not measurable**
- 3 is not accepted by managers and employees as a performance criteria
- 4 does not distinguish between good and poor performers

76. The "shotgun" approach to training refers to

- 1 **sending as many employees as possible for training**
- 2 using various sources (eg educational institutions, in house training programmes and professional training colleges) to present training
- 3 regarding any training as valuable
- 4 linking training initiatives with employees' career objectives

77. Which of the following three factors are the main determinants of employee performance in organisations?

- 1 **motivation, ability, work environment**
- 2 desire to do the job, willingness to do the job, resources to do the job
- 3 salary, motivation, work environment
- 4 capability, willingness to do the job, resources to do the job

78. The crux of the Equity Theory of Motivation is that
- 1 **employees compare their efforts and rewards with other employees and are motivated by the desire to be equitably treated**
 - 2 a state of equity exists when an employee changes the person he/she compares him/herself with and when they change their outputs
 - 3 when outcomes are more than inputs inequity exists and the employee's motivation will be influenced only by absolute rewards
 - 4 to produce a state of equity after equity tension has been experienced, the employee will prefer relative monetary rewards to absolute monetary rewards

79. John has just been appointed as a cashier at a medical clinic. The financial department of the clinic employs the following people: five cashiers, two debtor's clerks, three creditor's clerks, a supervisor for the cashiers, a supervisor for the debtors and creditor's clerks and an accountant who is also the financial manager.

Identify the correct descriptions of job design methods that can be used in John's job.

- 1 To help his training, John works as a cashier for three months, then as a debtor's clerk for three months and a creditor's clerk for three months (*job rotation*). After a year, John is the most senior cashier working there and he has to act as cashier supervisor while his supervisor is on maternity leave (*job enlargement*). After two years, John is promoted to cashier supervisor (*job enrichment*).
- 2 To help his training, John works as a cashier for three months, then as a debtor's clerk for three months and a creditor's clerk for three months (*job rotation*). Another cashier is on sick leave for a month and John has to do her work as well as his own for that month (*job enrichment*). After a year, John is the most senior cashier working there and he has to act as cashier supervisor while his supervisor is on maternity leave (*job enlargement*).
- 3 To help with his training, John works as a cashier for three months, then as a debtor's clerk for three months and a creditor's clerk for three months (*job rotation*). Another cashier is on sick leave for a month and John has to do her work as well as his own for that month (*job enlargement*). After a year, John is the most senior

cashier working there and he has to act as cashier supervisor while his supervisor is on maternity leave (job enrichment).

- 4 After one year, John has to alternately work as supervisor of the cashiers and supervisor of the debtors and creditors clerks (*job rotation*). After two years, John is promoted to supervisor. After six months of being a supervisor he has to supervise both the cashiers and the debtors and creditors clerks while the clerk's supervisor is off sick for two months (*job enlargement*). After two years, John is promoted to supervisor (*job enrichment*).
80. Peter is learning to be a train driver. At present he does not get a very high salary because he is still in training, but he enjoys the work and does not want to do anything else.

His elder brother David left home in Grade 10 to go and work on the mines. David hates working underground but knows that working on the mines is the most well-paid job he will be able to find, given his low level of education.

Choose the correct combination:

- 1 Both Peter and David's motivation is external
- 2 **Peter's motivation is internal and David's motivation is external**
- 3 Peter's motivation is external and David's motivation is internal
- 4 Both Peter and David's motivation is internal
81. There are certain variables, known as marketing instruments, about which marketing management has to make 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
82. How many of the following are reference groups against which a person can evaluate his or her behaviour patterns?

- a The age group to which the person belongs
 - b The yuppie group to which the person does not wish to belong
 - c The tennis club to which the person belongs
 - d The golf club to which the person would like to belong
-
- 1 One
 - 2 Two
 - 3 Three
 - 4 **Four**

Read the following scenario and then answer questions 83 to 86 below:

Rebecca Molefe is the marketing manager of a large ladies clothing enterprise called Fashion Wear. A new range of fashionable clothing has just been designed and after market segmentation has been done, Rebecca Molefe describes the selected/identified market segment at which the clothes will be marketed as follows: *"unmarried, liberal women between 18 and 28 years of age, with an income of more than R130 000 per year, and who live in the Western Cape"*. Rebecca and her marketing team decide to sell the new range of clothing at a high price and to distribute it through two outlets, namely Boutique 4U and Boutique Michelle.

83. Which of the following segmentation criteria were used to identify this market segment?
- 1 demographic, psychographic and behavioural
 - 2 **geographic, demographic and psychographic**
 - 3 demographic, behavioural and geographic
 - 4 psychographic, geographic and behavioural
84. The new range of clothing can be classified as products.
- 1 shopping
 - 2 convenience
 - 3 range
 - 4 **speciality**
85. Which type of pricing is Rebecca using?
- 1 Penetration pricing
 - 2 Leader pricing
 - 3 **Skimming pricing**
 - 4 Bait pricing
86. Which type of market coverage has Rebecca chosen?
- 1 Intensive

- 2 **Exclusive**
- 3 Speciality
- 4 Selective

87. Which of the following statements concerning target market selection are correct?

- a The objectives and resources of the enterprise have to be carefully considered before a target market can be selected
- b A market offering is developed for each target market chosen
- c Target market selection can reach numerous individual target markets
- d An enterprise does not own target markets

- 1 a b
- 2 a d
- 3 a c d
- 4 b c d
- 5 **abcd**

88. Which of the following statements are correct?

The advantages that brands offer the consumer, are that they

- a facilitate the identification of products
- b assure a quality standard
- c serve as a warning against products not meeting certain requirements
- d make product differentiation possible

- 1 **abc**
- 2 a b
- 3 a c d
- 4 cd
- 5 abcd

89. 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 abc
- 2 **ac**

- 3 b c d
4 cd

90. The decision to give coverage of a news release in a newspaper depends on the

- 1 **newspaper**
2 head of public relations
3 executive manager
4 news reporter

91. Calculate the Net Present Value of the following cash flow amounts received at the end of each year, given an interest rate of 10%.

Year	Cash Flow
1	R3 000
2	R2 000
3	R5 000

Period	Future value factors		
	5%	10%	15%
1	1.0500	1.100	1.1500
2	1.1025	1.2100	1.3225
3	1.1576	1.3310	1.5209
4	1.2155	1.4641	1.7490
5	1.2763	1.6105	2.0114

Period	Discounting factors		
	5%	10%	15%
1	0.9524	0.9091	0.8696
2	0.9070	0.8264	0.7561
3	0.8638	0.7513	0.6575
4	0.8227	0.6830	0.5718
5	0.7835	0.6209	0.4975

- 1 R469
2 R1469
3 **R8136**
4 R9 000

The following information was gathered by an analyst from RMB about Timbuktu Ltd. Make use of this information to answer questions 2 and 3.

Capital structure	Cost
30% Equity	17%
70% Debt	12%

92. Assuming a tax rate of 35%, what is Timbuktu's after tax cost of debt?

- 1 5,00%

- 2 **7,80%**
- 3 11,05%
- 4 12,00%

93. What is Timbuktu's weighted average cost of capital (WACC)?

- 1 **10,56%**
- 2 11,12%
- 3 12,50%
- 4 13,50%

Use the following information to answer questions 4 and 5 below:

Teba Ltd, a soccer ball manufacturing company, produced 2 500 units at R17 per unit. At the end of their financial year, their financial statements reflect the following costs.

Salaries	R10 000
Rent of factory	R15 000
Materials	R 7 500
Depreciation	R 5 000

94. Which one of these costs is classified as variable cost?

- 1 Salaries
- 2 Rent of factory
- 3 **Materials**
- 4 Depreciation

95. What is the profit/loss of Teba Ltd?

- 1 R35 000
- 2 R27 500
- 3 R12 500
- 4 **R5 000**

Use the following information to answer questions 96, 97 and 98 below:

The following balances are reflected in Success Ltd's financial statements at the end of their financial year.

Cash	R123 800
Accounts receivable	R746 200
Inventory	R250 000
Current liabilities	R747 700
Net fixed assets	R1 695 000

96. What is the net working capital of Success Ltd?

- 1 R122 300
- 2 **R372 300**
- 3 R575 000
- 4 R747 700

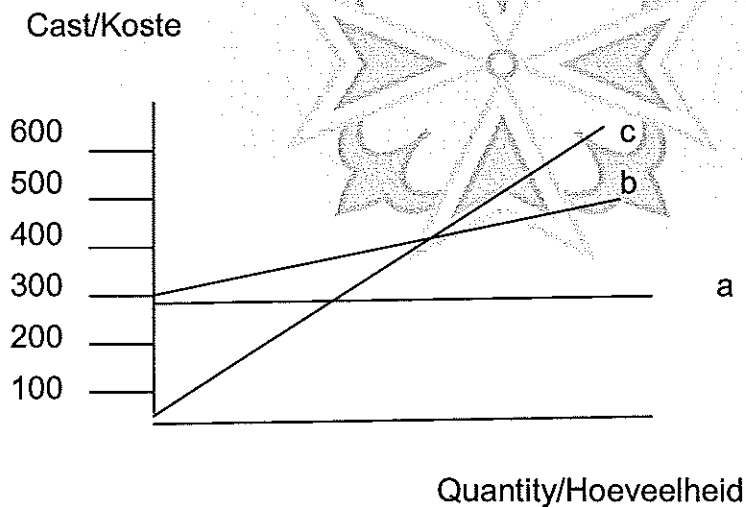
97. The current ratio of Success Ltd is equal to

- 1 1,30:1
- 2 1,40:1
- 3 **1,50:1**
- 4 1,60:1

98. The acid test ratio of Success Ltd is equal to

- 1 1,17
- 2 **1,16**
- 3 1,15
- 4 1,14

Study the graph below and then answer questions 9 and 10.



99. In the above graph, (a) represents and (b) represents

- 1 Total fixed cost; total variable cost
- 2 Total variable cost; total fixed cost
- 3 Total cost; total fixed cost
- 4 **Total fixed cost; total cost**

100. What amount in the graph constitutes total fixed cost?

- 1 R200
- 2 **R300**
- 3 R500

4 R600

101. For which of the following reasons is operations management important in the enterprise?

- a It can improve productivity
- b It can help the enterprise to satisfy the needs of its clients more effectively
- c It can improve planning within the purchasing function It can be decisive for the general reputation of the enterprise

- 1 a b
- 2 b d
- 3 a b d**
- 4 b c d

102. Which of the following are positive results obtained as a result of applying operations management guidelines?

- a Higher quality
- b Lower costs
- c Longer lead time
- d Greater adaptability
- e Better service

- 1 a b c
- 2 a b d e**
- 3 a c d e
- 4 b c d e
- 5 a b c d e

103. Which of the following statements on operations management strategies and objectives are correct?

- a Customer/client requirements are often referred to as "competitive priorities"
- b The lead time should be lengthened
- c High reliability emphasises the ability of the business to meet specifications continuously in the short term
- d Doing things better is closely connected with the concept of TQM

- 1 a b c
- 2 b c d
- 3 a d**
- 4 b e

104. Which of the following characteristics relate to project systems?

- a Output volume is low
- b Output volume is high
- c Product variety is high
- d Projects may have different designs

- 1 a b c d
- 2 a c d
- 3 b d
- 4 b e

105. Which one of the following statements is wrong? All these statements are about the classification of operations processes in manufacturing enterprises.

- 1 Project systems represent highly individual operations processes
- 2 Jobbing systems normally represent operations processes conducted on a small scale
- 3 **Continuous or repetitive systems represent operations systems in which the output volume is low**
- 4 Job-lot systems are a combination of a repetitive system and a jobbing system

106. Arrange the steps involved in the designing of products and services in the correct order.

- a Idea/concept generation
- b Preliminary design
- c Screening process
- d Prototype design
- e Evaluation and improvement

- 1 a b c d e
- 2 a c b d e
- 3 b a c d e
- 4 a c b e d

107. Which of the following statements concerning the basic layout types in the design of operations processes are correct?

- a The fixed position layout is used where the product cannot be shifted on account of its size, shape or location
- b The process layout is used where the different operations are arranged in consecutive order
- c The product layout is used where similar operations are grouped together into sections
- d The cellular layout is used where certain processes are placed in a cell and the particular cell is then arranged according to either a process or a product layout.

- 1 ad
- 2 be
- 3 a b d
- 4 a c d
- 5 a b c d

108. Which of the following statements concerning the design of products and services are wrong?

- a The design of a product or service begins and ends with the customer/client
- b The implicit advantage in a package relating to products and services is a psychological advantage
- c Peripheral services supplement the core service
- d The financial function is also involved in the screening process of designing products and services
- e The preliminary design specifies the components to be included in the product or service package

- 1 b d
- 2 de
- 3 a b c d
- 4 ace
- 5 none

109. Which one of the following statements about operations improvement is wrong?

- 1 **All areas marked for improvement are equally important**
- 2 Priorities for improvement depend partly on the performance and activities of competitors
- 3 Business process re-engineering (BPR) is an example of breakthrough improvement
- 4 In the case of continuous improvement, more regular but smaller incremental changes occur in the operations process

110. Which of the following failures are typical failures that occur in operations processes?

- a Facility failures
- b Design failures
- c Staff failures
- d Customer/client failures

- 1 a b
- 2 ad
- 3 b c d
- 4 **a b c d**

Study the following scenario and then answer questions 111 to 115:

Swisschoc is a Swiss chocolate manufacturing company that was started ten years ago by a South African who got his training in Switzerland at a chocolate academy. He started his business with 10 people, but extended his operations and he currently employs 450 people of which six are purchasing personnel.

Swisschoc targets mainly the upper-middle class South African. However, Swisschoc export 25% of their production to England. Swisschoc purchase most of the raw materials (sugar and fat) locally, but the cocoa is imported from South America and some of the packaging material from Europe. Swisschoc's plant is situated in Gauteng. They sell some of their products through large chains such as Woolworths and smaller upper class food speciality stores.

Swisschoc manufactures a standard range of chocolates in a variety of packaging. The market for this standard range is quite stable. However, there are seasonable upswings during Valentine's Day, Easter and Christmas. For these periods, besides their standard range and reliable transporters, Swisschoc's clients require special lines, unique products and unique packaging. The planning for these special product lines requires close cooperation between the marketing, operations

111. Which one of the following statements is correct?

- 1 Price, quality and delivery are equally important in the purchasing of the raw materials
- 2 The purchasing of the sugar and cocoa is equally import
- 3 **The quality of the raw materials is more important than the price of these materials**
- 4 The quality of the content of the final product is more important than the packaging material

112. The inventory control method most likely to be used by Swisschoc for the control of sugar is

- 1 the cyclical system
- 2 the "just-in-time" system
- 3 the efficient consumer response system
- 4 **the fixed order quantity system**

113. Which of the following is the most important in the purchasing of packaging materials for the special product lines?

- 1 Quality
- 2 **Timing**
- 3 Service
- 4 Price

114. Which of the following role-players form/forms part of the normal supply chain of Swisschoc?
- a Woolworths
 - b A sugar mill
 - c Transporter
 - d Final customer
- 1 a b c
2 a b
3 c d
4 **abcd**
115. Swisschoc incurs a number of different inventory costs. The opportunity costs, insurance costs and depreciation of inventory are examples of
- 1 **inventory carrying costs**
 - 2 administrative costs
 - 3 inventory ordering costs
 - 4 inventory ordering shortage costs
116. Which of the following refer to a centralised organisation structure?
- a Management authority is vested in one person
 - b Different plants maintain their autonomy
 - c Greater buying power as a result of increased quantities
 - d Closer contact and liaison between suppliers and the purchasing and supply department
- 1 a b
2 c d
3 **ac**
4 b d
117. You are the new purchasing and supply manager of Dairy Belle Cheese & Butter Ltd. You are requested by top management to clarify the activities of purchasing and supply management by writing a report. Which of the following issues should be included in your document?
- a Selecting suppliers
 - b Advertising products to customers
 - c Expediting and receiving materials
 - d Controlling warehousing and inventory holding
- 1 a c
2 b c d
3 a b d

4 a c d

118. Dairy Belle Cheese & Butter Ltd uses the "just-in-time" system. Which one of the following would be most valuable to them while they are in the process of investigating possible suppliers?

- 1 Quoted price
- 2 Technical capability
- 3 **Timeous delivery**
- 4 General reputation

119. The purchasing and supply cycle must be done in sequential order. Which of the following combinations is the correct sequential order?

- a Handling errors and discrepancies
- b Selecting suppliers
- c Receiving, inspecting and distributing
- d Following up and expediting

- 1 a d c b
- 2 **b d c a**
- 3 c a d b
- 4 d c b a

120. Which of the following are the main policies that affect the scheduling or timing of purchases?

- a Scheduling purchases according to needs
- b Advance purchasing
- c Speculative purchasing
- d Minimum purchases

- 1 **a b c d**
- 2 b c d
- 3 a c
- 4 d

Read the case study below and then answer questions 121 to 125.

Sally has just been appointed as the human resource manager of a medium-sized company that manufactures farming equipment. On her first day at the office, the CEO of the company tells her that the company will run on a fully automated basis within eight months. Sally's first responsibility is to ensure that the company will be able to meet the challenges that accompany the new plant machinery.

121. Sally realises 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**
122. 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
123. 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
124. 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**
125. 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 126 to 129.

Sipho 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.

126. 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 emphasise the things in us that motivate our behaviour, whereas process theories focus on why people choose certain behavioural options and how they evaluate their satisfaction following goal achievement**
- 2 Process theories emphasise the things in us that motivate behaviour, whereas content theories focus on why people choose certain behavioural 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

127. 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
- 128 Siphos 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
129. Another theory Siphos 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

130. 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
132. 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

133. 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**

134. 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

135. A very small profit is made on products.

- 1 **leader price**
- 2 skimming price
- 3 bait price
- 4 market price level

136. 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

137. 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 138 to 140.

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.

138. 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

139. The samples of cosmetics that will be distributed to consumers refer to.....
- 1 **Sales promotion**
 - 2 Advertising
 - 3 Publicity
 - 4 Personal selling
140. 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**

FINANCIAL MANAGEMENT

You have been given the following information extracted from the balance sheet of Madiba Ltd.

Cash	R60 000
Marketable securities	R30 000
Inventory	R40 000
Trade creditors	R20 000
Arrear expenses	R50 000

141. The **net working capital** is....
- 1 **R0**
 - 2 -R60 000
 - 3 R60 000
 - 4 R130 000
142. The **acid-test ratio** is....
- 1 1,86:1
 - 2 **1,29:1**
 - 3 0,78:1
 - 4 0,54:1
143. Donald made the following deposits into an account that pays 10% interest annually:
- R1 000 at the beginning of year 1
 R2 000 at the beginning of year 2
 R800 at the beginning of year 4
 How much will Donald have at the end of year 5?

- 1 R5 506,70
- 2 R5 201,78
- 3 R4 691,28
- 4 R6 119,90

144. You have been given the following information about project X and project Y. The discount rate for both projects is 10%.

		Project X	Project Y
	Initial investment	R100 000	R180 000
Year	Time	Net cash flow	Net cash flow
1	T=1	R20 000	R90 000
2	T=2	R30 000	R150 000
3	T=3	R50 000	R60 000
4	T=4	R10 000	R30 000

The NPV for project X and project Y is

- 1 -R10 000 and -R150 000
- 2 R86 748 and R269 484
- 3 R89 484 and -R13 252
- 4 **-R12 631 and R91 347**

145. Based on your answer, it is advisable to....

- 1 accept both projects
- 2 accept project X and reject project Y
- 3 **accept project Y and reject project X**
- 4 reject both projects

146. Suppose you have been given the following information:

Initial investment: R400 000
 Net cash flow per ton: R60

It is envisaged that the net cash flows will be received for the next five years and the discount rate is 10%. By how much will the **annual demand, V**, change to make the project **marginal**?

- 1 1 978,53 tons
- 2 **1 758,69 tons**
- 3 1 659,23 tons
- 4 none of the above

Read the following case study and then answer questions 147 and 148.

Cartridge Man Pty (Ltd) manufactures and supplies ink cartridges to printer manufacturers throughout South Africa. Management would like some insight on the relationship between their sales volumes and prices in order to make informed strategic decisions. In addition, you have the following information:

Selling price: R100 per unit
 Variable costs: R50 per unit
 Total fixed costs: R200 000

147. How many units does Cartridge Man have to sell in order to **break even**?

- 1 3 000
- 2 **4 000**
- 3 2 000
- 4 6 000

148. After market research it was established that the demand for cartridges for the next financial year will be 20 000 units.
 What **profit** will Cartridge Man make if they sell the 20 000 units?

- 1 **R800 000**
- 2 R1 200 000
- 3 R2 000 000
- 4 R2 800 000

149. The following information is given:
 Bid Best Ltd has a marginal tax rate of 30% and the following book values for its capital structure:

Capital components	
Owners' equity	R400 000
10% preference shares	R100 000
Long-term debt [10% debentures]	R300 000

The cost of owners' equity is 15 % and the cost of debentures is before tax.

The **WACC** is....

- 1 11,7%
- 2 12,5%
- 3 7%
- 4 **11,4%**

150. The financial manager of B Boost Ltd would like to employ more long-term funds to finance current assets of his company. The appropriate approach would be....
- 1 a conservative approach
 - 2 an aggressive approach
 - 3 a matching approach
 - 4 a long-term funding approach

OPERATIONS MANAGEMENT

151. Match the operations management guideline in column A with the corresponding positive result in column B.

Column A (Operations management guidelines)	Column B (Positive result)
a Do things right the first time	(i) Higher quality
b Do things cost effectively	(ii) Lower cost
c Do things fast	(iii) Shorter lead time
d Change things quickly	(iv) Greater adaptability
e Do things right every time	(v) Lower variability
<ol style="list-style-type: none"> 1 a - (i) b - (ii) c - (iii) d - (iv) e - (v) 2 a - (ii) b - (iii) c - (iv) d - (v) e - (i) 3 a - (iii) b - (ii) c - (i) d - (iv) e - (v) 4 a - (iv) b - (i) c - (ii) d - (v) e - (iii) 5 a - (v) b - (iv) c - (iii) d - (ii) e - (i) 	

Answer is 1

152. Which of the following characteristics are correct with regard to the service which a hairdressing salon renders?
- a High client contact
 - b Short response time
 - c Labour intensive
 - d Small service provision facility
- 1 a b c
 - 2 a b d
 - 3 a c d
 - 4 b c d

5 a b c d

153. Which of the following inputs are used by Telkom in the transformation process to convert inputs to outputs?

- a Material
- b Clients
- c Information
- d Personnel
- e Technology

- 1 a b c d
- 2 a b c e
- 3 b c d e
- 4 **a b c d e**

154. A power station is an example of a system?

- 1 project
- 2 jobbing
- 3 job-lot
- 4 **continuous**

155. Abram Phenya from BMX motors is the operational manager of the plant. Which of the following activities are his responsibility?

- a To design the operations process
- b To plan and control the operations process
- c To determine the operations profit
- d To improve the operations process

- 1 a b c d
- 2 a b c
- 3 **a b d**
- 4 b c d

156. Which of the following steps are correct when Abram Phenya from BMX motors plans capacity?

- a Determine the total demand and required capacity
- b Identify a capacity plan
- c Choose a particular capacity planning and control approach

- 1 a
- 2 b c
- 3 **a b c**
- 4 none

157. Which one of the following quality characteristics is not a characteristic used by Abram Phenya from BMX motors in quality planning and control?

- 1 Functionality
 - 2 Appearance
 - 3 **Price**
 - 4 Durability
 - 5 Contact
158. Which performance standards are used by Abram Phenya from BMX motors to measure operational improvement?
- a Historical standards
 - b Target performance standards
 - c The performance standards of competitors
 - d Absolute performance standards
 - e The performance of suppliers
- 1 **a b c d**
 - 2 a b d e
 - 3 a c e
 - 4 b c d e
 - 5 a b c d e
159. Which one of the following statements on operations improvement is wrong?
- 1 **All areas marked for improvement are equally important**
 - 2 Priorities for improvement depend in part on the performance and activities of competitors
 - 3 Business process re-engineering (BPR) is an example of breakthrough improvement
 - 4 In continuous improvement, more regular but smaller incremental changes take place in the operations process
160. Which of the following failures are typical failures occurring in operations processes?
- a Facility failures
 - b Design failures
 - c Staff failures
 - d Customer/client failures
- 1 a b
 - 2 a d
 - 3 b c d
 - 4 **a b c d**

PURCHASING AND SUPPLY MANAGEMENT

Read the following case study and then answer questions 161 to 165.

Distell Ltd is a big organisation with its head office in Stellenbosch. It was established 10 years ago when Distillers and Stellenbosch Farmers Winery merged. It is now known as Distell Ltd. The market is characterised by intense competition from international competitors. Distell Ltd has managed to penetrate the local market sufficiently and show a constant growth in the business. Distell have depots in all the provinces and therefore they have the advantage of being close to the South African end-consumer. They try to keep up to date with trends in the local consumer market. They purchase some of their raw material from local farmers in South Africa. Due to the seasonality of some of these materials (eg grapes), they import these from overseas countries to keep the production facility running at full capacity. The packaging material (tins, bottles, etc) is purchased from large national suppliers. The final products are distributed through a national chain of liquor stores and wholesalers.

161. Identify the inventory control method that Distell will most probably use to control the seasonal raw materials.
- 1 Fixed order quantities
 - 2 **Cyclical ordering system**
 - 3 Just-in-time
 - 4 Materials requirements planning system
162. Which one of the following purchasing and supply structures is Distell making use of?
- 1 Decentralisation
 - 2 Centralisation
 - 3 **Combination of centralisation and decentralisation**
 - 4 Supply chain networks
163. The planning of the purchasing and supply function takes place at different levels. The middle management of Distell will be involved in the planning of.....
- 1 negotiation, outsourcing decisions and contracting
 - 2 interface development, supplier alliances and pricing decisions
 - 3 outsourcing decisions, enquiries/quotations and returns and recycling
 - 4 **total quality management, systems integration and human resource development**
164. Suppose you are the new purchasing and supply manager of Distell. You are requested by top management to write a procedures manual, including an outline of the activities of purchasing and supply management. Which of the following activities should be described in your document?
- a Select suppliers
 - b Advertise products to customers

- c Expedite and receive materials
- d Control of warehouses and inventory

- 1 a
- 2 b c
- 3 a b c
- 4 **a c d**

165. How will Distell Ltd most probably go about to determine the purchasing prices of the packaging materials?

- a Published price lists and available market information
- b Quotations
- c Open tenders
- d Negotiation

- 1 a c d
- 2 a d
- 3 c b
- 4 **a b d**

166. The cost of handling inventory, insurance costs and depreciation of inventory are all examples of costs.

- 1 **inventory-carrying**
- 2 administrative
- 3 ordering
- 4 warehouse

167. The reasons for holding inventory include:

- a Continuous production
- b Economical purchasing quantities
- c Reduced ordering costs
- d Warehouse capacity utilisation

- 1 a c d
- 2 b d
- 3 **a b c**
- 4 a b c d

168. Which one of the following statements is incorrect?

- 1 Supply chain management is primarily concerned with optimising the flows within the organisation
- 2 Suppliers can be included in cross-functional teams for certain tasks, such as new product development
- 3 Benchmarking is a process whereby enterprises compare their performance in certain activities, processes, costs and service with other enterprises

- 4 The purchasing and supply policy gives direction to an organisation

Read the following table regarding supplier performance evaluation and then answer questions 169 and 170.

SUPPLIER		A		B		C		D	
Factors considered	Weight	Rating	Value	Rating	Value	Rating	Value	Rating	Value
1. Price	10	5	50	6	60	4	40	9	90
2. Delivery	8	7	56	9	72	3	24	3	24
3. Quality	6	10	60	9	54	8	48	3	18
Supplier value			166		186		112		132

169. Which supplier is the most suitable supplier if the price is most important?

- 1 Supplier A
- 2 Supplier B
- 3 Supplier C
- 4 **Supplier D**

170. Which supplier is the most suitable supplier according to the supplier qualification value?

- 1 Supplier A
- 2 **Supplier B**
- 3 Supplier C
- 4 Supplier D

