

# GRADE 9 BUSINESS STUDIES TEACHER'S GUIDE

## Chapter 1: Economic Systems

### Activity 1:

1 Name the four Factors of Production

Capital, Land, Labour and Entrepreneurship

2 Using your own words, provide a definition of a Planned Economic System.

A Planned Economic System exists when a government controls and regulates all aspects of the planning and production of resources, as well as the manufacture, distribution and pricing of approved goods.

3 Do you think a Planned Economic System would suit a Democratic or a Communist Political System? Motivate your answer.

A planned economy would suit a Communist Political System, because all aspects of the economy is controlled by the government. Decisions about which products are produced, quantities and for whom, are all taken by the government; the citizens have no choice but to comply.

4 Design a bumper sticker that is either in favour of or against a Planned Economic System.

Learners may exchange work with friends to assess one another's work.

	Poor (1)	Average (2)	Good (3)	Excellent (4)
Easy to read from far on a car				
Use of colour and space on the sticker				
Creativity and originality				
The message was clear, creative and informative				
Spelling, grammar, capitalisation, or punctuation				

Write a short comment for your friend: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

### Activity 2:

1 Why is the Market System also referred to as the Free Market system?

The Free Market System is guided by the freedom of choice exercised by businesses and consumers which influences the supply of and demand for industrial / consumer goods as required by businesses and/or consumers. The government aims not to interfere in the running of the economy, relying rather on market forces to regulate the economy.

2 Provide another name for the Market System or the Free Market System.

Capitalism

3 With which political system would you associate / link a Free Market system? Motivate your answer.

A capitalist system - as it allows businesses and consumers the freedom to choose the goods, services and quantities to produce and pricing thereof. Consumers have the freedom to choose which goods and services they desire, and at an acceptable price.

4 Provide two possible advantages of a Planned Economic system as opposed to a Market Economy from a poor person's perspective. **Hint: Think of the services that the government will not provide in a pure Free Market System.**

- Basic medical care
- Affordable public services such as trains, buses and libraries
- More affordable accommodation as rent / accommodation is government regulated
- Gap between rich and poor greatly reduced as government aims for equality between citizens.
- Government controls all factors of production so the likelihood of monopolies occurring is very slim.

### Activity 3:

1 Discuss one advantage of a Mixed Market economy when compared to:

- A Planned Economy does not encourage consumer choice as the government focuses on its needs rather than on consumer wants.
- With a Market-driven economy the government does not create employment, whereas with a Mixed Market economy, the government creates work opportunities because certain goods and services need to be provided.

- 2 Discuss one disadvantage of a Mixed Market economy when compared to:
- A Planned Economy aims to have all citizens employed, whereas with a Mixed Market economy, unemployment (as in South Africa) could be very high.
  - A Market-driven economy encourages private ownership of resources, which often creates a wide gap between rich and poor; whereas, a Mixed Market system while discouraging complete private ownership, does not always manage state-owned entities efficiently.

3 If this picture below suggests a Mixed Market Economy, what do you think the two people on the man's shoulders are saying to him?

The person on his left shoulder?

Avoid a Mixed Market Economy as it is inefficient and bureaucratic.

The person on his right shoulder?

A Mixed Economy prioritises social services, supplies schools, hospitals and provides for the safety of its citizens.

How is the man going to react to each person's advice if he decides to implement a Mixed Market system?

He would have to deliver a plan for improved government systems and efficiency, while still continuing with social services, and he should actively encourage greater social responsibility from entrepreneurs.



#### Activity 4:

Consider the characteristics given below and decide, which of the criteria apply to South Africa:

First World country / Developed Economy	Does South Africa meet the criteria?
Political stability	✓
Democracy	✓
Economic stability	✓ According to International Rating Agencies BBB negative – with poor outlook
The main economic focus is on the secondary sectors (manufacturing) and tertiary sectors (provision of goods and services)	✓ & x (farming & mining still a large part of economy)
Standard of living is high and health care is good	x & ✓ (Depends on income levels)
Literacy levels are high	x (mostly for upper incomes)
Infant mortality is low	x (rural and low income high)

Low unemployment	x (too high – 26.7%)
Poverty levels are low	x (too high especially among low income earners)
Strong infrastructure (roads, schools, hospitals, airports and harbours)	✓ (Depends on government maintenance)
Basic services like running water and sanitation	x & ✓ In cities, wealthy areas, yes – but not in rural / poor areas
Good communication systems are readily available (e.g. landlines, internet and email)	✓

### Activity 5:

- 1 Which one of the three economic systems contributes most to globalization? Motivate your answer. **The Free Market System**
- 2 Explain the term *Global economy*.  
**Globalization is the worldwide international trading of goods and services**
- 3 Another name for a First World country is a **Developed** country.
- 4 Another name for a Third World country is a **Developing** country.
- 5 Use three advantages of Globalisation and explain why these advantages could also be regarded as disadvantages.

- Globalization has advantages such as:
  - businesses no longer need to trade exclusively within their own country
  - importing and exporting occurs worldwide which has resulted in a greater variety of products
  - greater capital and skills, and quicker production of goods from resources occurs
  - First World Governments also subsidise industries, resulting in lower production costs per unit
  - First World Governments with established economies have stronger exchange rates which are profitable in terms of trade
  - People have the freedom to work in most countries in the world
  - Capital moves more freely enabling investment and opportunities for profit
- Globalization has disadvantages such as:
  - Greater international competition is not always beneficial to all countries, especially in those with developing economies, as they often have an unfavourable exchange rate
  - Some countries have less capital, fewer skills and slow production of goods which prevent them from effectively competing internationally.

- Few developing economies have the financial resources to subsidise industries, which means their production costs are higher and unfavourable for international competition.
- Large numbers of people seek better lives in developing countries, only to find that as they lack essential skills they are mostly employed as lower paid workers.
- Developing countries often do not have the financial freedom to invest in Developed Markets, as they are intensely competitive, requiring vast sums of capital.

**Additional activities....**

- 1 Which three questions are used to differentiate between the characteristics of the various economic systems?
  - **WHAT is being produced?**
  - **HOW (quantity and by whom) is production taking place?**
  - **FOR WHOM is it being produced?**
  
- 2 Name the three economic systems.
  - Planned Economy
  - Mixed Market Economy
  - Free Market Economy
  
- 3 Compile a list of EIGHT services that the South African government delivers / provides.
  - Hospital and clinic services
  - Railway and harbour services
  - Postal services
  - Water and sanitation services
  - Policing services
  - Electricity
  - Defence
  - Air Travel (SAA)
  - Education
  - Human settlements
  - Judicial system

4 Complete the following table:

	<b>Planned Economic System</b>	<b>Free Market System</b>	<b>Mixed Market System</b>
<b>WHAT is being produced?</b>	Mostly industrial goods and services	Any type / style of items / goods / services required	A combination of what consumers are prepared to pay and what the government regards as important
<b>HOW (quantity and by whom) is production taking place?</b>	Government decides the quality and quantity of products requiring production	Businesses that compete with one another to make profitable products to sell	Both the Government (Public Sector) and entrepreneurs (private sector) decide on this – it all depends on the product or service under discussion.
<b>FOR WHOM is it being produced?</b>	Government decides who/what receives goods and services	For those able to afford the products and/or goods / services	Both the Government and private consumer needs are taken into consideration.

5 What economic system states that the government owns all businesses?

A Planned Economic System

6 In a Planned Economic System, prices are determined by the government.

7 In a Free Market system, businesses try to maximize their profits.

8 Choose the correct option: South Africa has a developing / developed / dualistic economy.

9 In a Free Market system prices are determined by supply and demand.

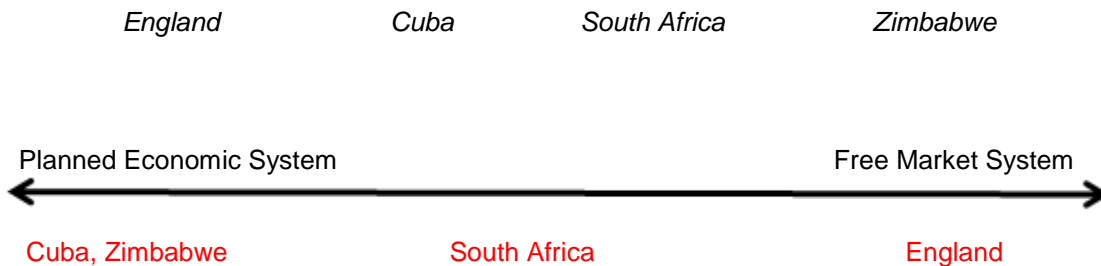
10 Provide another name for Capitalism is the Free Market System.

11 We have a Mixed Market economy in South Africa:

- Consider the advantages and the disadvantages of the different systems
- Then, consider the scenarios below and decide which one of the other economic systems could solve the given problems better than our current economic system.
- With each situation explain what you think and why you think that way.

- You are trying to study for a test and there is load shedding.  
Probably a Free Market System because with greater investment and innovation, provision of electricity could be greatly improved.
- Your brother breaks his leg in a rugby match and requires hospital treatment for his injury. The ambulance takes him to the nearest hospital. As you arrive, you notice it is a government hospital. The doctor on duty says, "There is a waiting period of four hours. Make yourselves comfortable and read a couple of magazines, while you wait. We cannot operate anyway as there is no anesthetist on duty."  
Probably a Free Market System as hospitals would be run more efficiently, although treatment would be much more expensive.

12 Use the continuum below, write down the names of the following countries in the appropriate place on the continuum:



13 Write a few notes for a speech that you want to deliver to your followers at a forthcoming political meeting / rally to convince them why a Planned Economic System will be the best way forward.

A Planned economic system has many positive attributes, especially for South Africa:

- Those opponents who challenge a Planned Economy level the criticism that, "theoretically speaking, there should be no unemployment because the Government will be employing all citizens to create goods and services for the country. In reality, this is not the case."  
According to the March 2016 figures provided by Stats SA, the unemployment rate is 26.7%, which is very high – under a Dual Economy System! With a Planned Economy, the Government would purposefully employ more people, with the goal of ending as much unemployment as possible
- Under a Planned Economy, more could be done to alleviate the problems of the poor, since the wealthier citizens would have money to see to their own needs.

- The government would ensure that all citizens have access to basic / essential services like health care and although the quality may not always be of a very high standard, many agree that it is better than nothing. In a Free Market System, these services would be beyond the reach of the poor as they are too expensive and unaffordable.
- Presently, SA has a Mixed Economy; there are some partially state-owned (parastatal) entities such as ESKOM, SAA etc., which are inefficiently managed. If these were placed under full state control in a Planned Economy, more focused and resolute management of the country's resources would occur, thereby greatly benefiting the country.
- A Planned Economy is the better solution for South Africa's problems of inequality and underdevelopment. With systematic planning, accountability and the support of the people, SA would progress.

14 You assume that your strongest opponent is going to suggest a Free Market System.

How are you going to react?

Would you be able to reach a compromise?

What will be the outcome? Explain in detail.

Reaction to a Free Market System:

This system, while very progressive is not necessarily the solution for most developing economies

because:

- It relies on a highly skilled workforce as the technology is continuously upgraded.
- There is an unfair distribution of wealth. People with limitless resources get richer and those people with limited resources often become poorer as they have inadequate means of actively participating in the economy. The rich often get richer and the poor get poorer.
- Monopolies are often formed where there is only one supplier of a product and/or service. In these situations, there is limited competition and this leads to higher prices and there is no initiative / drive to improve the quality of these goods and/or services.
- There is little motivation for people to provide public services, as there is very little money to be made from them, for example, which business would finance the Police Force or the Army?
- Often, due to intense competition, businesses become unsuccessful and this leads to bankruptcy, resulting in job losses

Possible compromise:

- A compromise would be to acknowledge the best and worst characteristics of each system and then to incorporate elements from each system that would best serve SA's needs and development plans.
- Outcome:



Desirable Characteristics	<u>Planned Economy</u>	Undesirable Characteristics
Employment for all		Possible inability of or continual delays by Government to create sufficient employment to eliminate joblessness.
Basic healthcare and education		Providing basic care does not accommodate advanced treatment for complicated diseases and long-term care.
Better and fairer control and use of natural resources Reduction of wide gap between rich and poor		Government may not have resources or expertise to run everything well. Government alone may be unable to reduce inequalities and wealth gap.
State control of parastatals to ensure profitability and service delivery		May prove too difficult for government to control and provide service delivery

Desirable Characteristics	<u>Free Market Economy</u>	Undesirable characteristics
Greater entrepreneurship with a wide range of businesses / industries		Monopolies are often formed where there is only one supplier of a product and/or service, with limited competition, higher prices.
Wider and freer choice of jobs and opportunities		Jobs often very stressful and competitive, with few opportunities for semi- or unskilled labour. Also, companies restructure which leads to job losses.
There is a variety of products / services available that people can choose from to satisfy their needs.		This does not necessarily translate into sufficiently affordable products for poorer consumers. Often prices are artificially high.
Resources are privately owned and people are therefore motivated to use resources like capital, land and labour effectively.		People with unlimited resources get richer and those people with limited resources often get poorer as they have a limited means of actively participating in the economy. The rich often get richer and the poor get poorer.
Less government interference in the way business is conducted		This often results in big corporations manipulating and or speculating with markets

	to the detriment of especially the poor
People have the opportunity to create and accumulate vast wealth	This has resulted in a wide gap between the wealthy and the poor, with the rich doing almost anything to ensure their privileged status.

**Compromise between Planned Economy strategy and Free Market principles:**

- State-controlled parastatals would benefit from skills, capital and business models of entrepreneurs to provide the most advantageous solutions for the SA Government to provide optimal service delivery performance.
- Cooperation between government and private enterprise to create more jobs is vital. Businesses could benefit from government initiatives, with the overall aim of employing more people.
- Government should continue to provide basic services, but could, with the help of medical entrepreneurs, establish specialist centres which would financially accommodate poorer patients that required specialist treatment and care.
- With the country's natural resources, it would be prudent for the state not to sell these resources to private corporations, especially as many do not have a good track record. Rather, cooperation in terms of harnessing the resources to benefit both the country and the investors should be sought.

15 Explain three reasons why First World countries are in a position of power when trading with Developing countries.

Reason 1:

First World countries are more competitive, better skilled, and generate greater quantities of finished products for export.

Reason 2:

Most of these countries have more developed economies and more favourable exchange rates, which benefit them but which do not necessarily help Developing countries.

Reason 3:

First World countries have the resources to subsidise industries ensuring a competitive advantage.

## Chapter 2: The Economic Cycle

### Activity 6:

1 Explain the *Basic Economic problem* that we all have to deal with:

Every person has unlimited needs and wants, but the means and solutions - required to achieve these needs and wants - are limited because **money** is limited.

2 Another name for the Economic Cycle is **Circular flow of money**

3 What is wrong with this picture?

Products sold this way are either manufactured or home-made. The kiosk is advertising fresh air – this is not a product that is for sale; the air we breathe is free and cannot be sold for R10.



4 You have been appointed as the training official of your business. You have R80 000 in your budget (limited resources) and you have to decide who in the business will qualify for training. You have already previously advised the staff of the need to inform you of any courses they would like to attend. However, it will be up to you to decide how the R80 000 will be utilised, because there is insufficient money to oblige all the employees regarding their choice of course (unlimited wants). After careful consideration of each of the options below, state your choices of who will be sent for training and explain which factors motivated your decisions:

- John works in the Marketing Department and wants to attend a course that will teach him how to design advertisements on a computer. The course will cost R35 000, but will also reduce the business's advertising expenses. John is quite irritating and thinks highly of himself. You also know that John will tell everybody how clever he is once he has completed the course and that this will irritate people even more.
- Michele is the owner's sister... She is the receptionist and also wants to attend the same course as John.
- Sarah is your best friend. She is actually the business's second receptionist and wants to attend a Pastel Course to learn how to do the business's books on the computer. This course costs R18 000. However, you are aware that once she completes this course, she will resign and work from home.
- Mary has just completed matric and recently joined the business. She aims to do a degree part-time, while working. The business really needs someone who is prepared to stay in the Administration department (for at least five years) to develop much-needed systems. Mary would rather study for a BA Law degree (it won't help her to do Admin work), but she is prepared to sign

a contract stating that she agrees to work in the organisation (doing admin) for the next five years. The first year of the degree will cost the organisation R20 000.

- Peter is 63 years old and retires in two years' time. He would like to attend three different courses each costing R6 500. He wants to learn more about Labour Law, as there have been several changes in Labour Legislation. He is currently working in the business's Human Resources Department.
- Frank is the business's cleaner and he is illiterate. He would really like to attend evening classes in order to learn how to read and write. This course will cost R9 000.
- One of the business's delivery men, Sam, often gets traffic fines because he drives too fast. He has also crashed the delivery vehicle twice. He would like to do an Advanced Driving course that will cost R17 000.
- Anna is a distant relative of your family. Your mom has asked you to make certain she goes on a course to master Excel. The course costs R8 000, but Anna will probably only use her new skills for about two weeks of the year. You already have those skills, but are not keen to do that work anymore, as it is not part of your job description.
- You would also like to attend a course to learn about time management, as you battle to complete your work in the time assigned to you, which means taking tasks home and working for an hour or so. This course will cost R7 500.



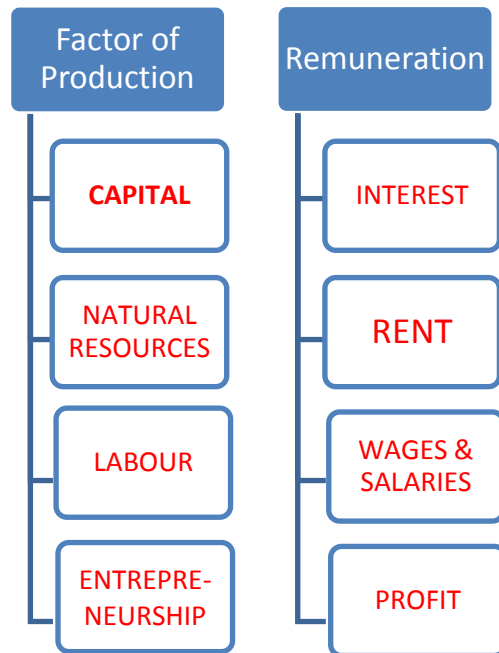
**The learners' responses could differ; this is a suggested answer:**

- John – his mannerisms are inconsequential to the benefits of training him for the business.  
Doing the course will ensure he will be able to do the take care of the business's advertising needs and he is being developed in his field.
- Mary – she has committed herself to a five-year contract to do admin work – during this time she does the business's books, and can also continue with her private studies. During the five years she could also train someone to replace her once her contract is up.
- Frank – it is good for the business's profile to uplift staff. Once Frank is literate, he could be promoted, he could better help his family.
- Yourself – time management is a valuable skill which will help you and others in the business with whom you can share the skills.
- Peter – this is a possibility which would have several benefits for the business:
  - Although 63 and near retirement, Peter is clearly a motivated employee
  - Acquiring the Labour Law skills would benefit the business as he would have knowledge of the current practices
  - In two years he could also pass on knowledge to a younger colleague
  - If he does well, the business could retain him on a contractual basis

- Cost breakdown:  
 John R35 000  
 Mary R20 000  
 Frank R 9 000  
 Self R 7 500  
Peter R 6 500 (initially, one course only)  
  
 TOTAL: R78 000

**Activity 7:**

- 1 Name the four factors of production as well as their remuneration.



- 2 Explain the function of the entrepreneur in relation to the other factors of production.
- The entrepreneur provides the capital to begin a new business or to expand an existing one.
  - The entrepreneur develops natural resources to realise a return on his/her investment.
  - The entrepreneur employs and pays labour for work done.
  - The entrepreneur engages in entrepreneurship for profit.
- 3 Explain the role that *households* play in the Economic Cycle.
- Households sell their labour or skills to entrepreneurs for wages or salaries
  - With salaries / wages earned, households satisfy their needs and wants
  - Purchases of goods and services by households, create new demands

- Entrepreneurs manufacture and supply new goods and services

4 Explain **THREE** characteristics of needs AND give a **practical example** to illustrate your answer.

- Characteristic 1: **Different people have different needs**

Practical example of characteristic 1: **A baby needs different clothing (Babygro and nappies and food (milk formula / baby cereal) as opposed to children or adults, who would need whole foods (cooked meal / fruit) and different items of clothing (underwear, shirt, jeans etc.)**



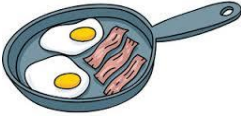


- Characteristic 2: **Geographical location often determines people's needs:**

Practical example of characteristic 2: **People living in the Namib Desert (hot and dry) would wear different clothes to those living in metropolitan areas in South Africa.**

- Characteristic 3: **Needs change over time**

Practical example of characteristic 3: **A young family with three children would need a larger house than an elderly person, living alone, who would probably need a smaller flat.**

5 Classify each of the following items either as a need or a want. Just place a ✓ in the correct column.

Product/service	Need	Want
Shoes 	✓	
 A visit to the theatre		✓
Breakfast 	✓	
Rugby togs for a professional rugby player 		✓
An I-pad 		✓

### Activity 8:

Explain the role played by *businesses* in the Economic Cycle.

Businesses buy the factors of production (resources, labour etc.) and manufacture goods and/or services to sell at a profit to household or to other businesses.

Businesses manufacture a wide range of products or offer services such as physiotherapy, doggy parlours etc.

### Activity 9:

Explain the role that the *Government* plays in the Economic cycle.

The Government's role in the economic cycle centres on two key aspects:

- The taxes it receives from households and businesses which is revenue used to create an infrastructure in order to promote economic activities in the country.
- Government's interactions with the economy take place in the public sector.

### Activity 10:

1 What is the difference between an open and closed economy?

An open market exists where goods and services are imported from other countries (purchased) and exported (sold) to other countries

2 Explain the role of the foreign sector in the economic cycle.

The foreign sector engages only in an open market where goods and services are imported from other countries (purchased) and exported (sold) to other countries.

3 State (in full sentences) FIVE advantages of international trade.

Advantage 1: International trade helps to boost economic development, it could reduce poverty by generating economic growth through commercial opportunities and investment.

Advantage 2: International trade helps to stimulate greater competitiveness in local and international markets by encouraging higher standards of production for locally made products.

Advantage 3: International trade also encourages exchanges of business expertise, technology even new research.

Advantage 4: International trade enables export diversification by allowing developing countries to access new markets and materials.

Advantage 5: International helps to expand consumer choices by making available a broader range of products and services, thereby boosting local markets and creating more jobs.

4 State (in full sentences) THREE possible problems that could occur because of international trade.

Problem 1: For the producers of certain perishable goods, the vast distances between countries may make it very costly or difficult to access new markets.

Problem 2: Fluctuating exchange rates or a weak currency may make it risky for local investors



to trade internationally.

Problem 3: Uncontrolled foreign competition (monopolies) and unrestricted imports may undermine local industries, which may threaten jobs or the sustainability of local industries.

### Activity11:

- 1 What do the following acronyms stand for?
  - 1.1 SADC Southern African Development Community
  - 1.2 NEPAD New Partnership for Africa's Development
  - 1.3 AU African Union

- 2 Explain the four goals of SADC and why each one is important in the context of South Africa

- SADC aims to focus on the economic development of member countries. This is important because when developing countries work together and support one another, it encourages better trade and political relations.
- By promoting the alleviation of poverty and the improvement of living conditions in SADC countries, the standard of living of people improves. This helps to create more stable countries / economies, which are able to trade and exchange ideas.
- Regional integration to create stronger trade bonds between countries allows for the freer movement of people and goods. It may become a catalyst for democracy and the rule of law even in countries with historically autocratic societies and political cultures.



- 3 What is meant by *Infrastructure*? Infrastructure comprises, for example, the road and rail networks, communications networks, and power supplies; everything that enables the functioning of a country or an enterprise.

- 4 Name the FIVE countries that form part of BRICS.

Brazil, Russia, India, China and South Africa

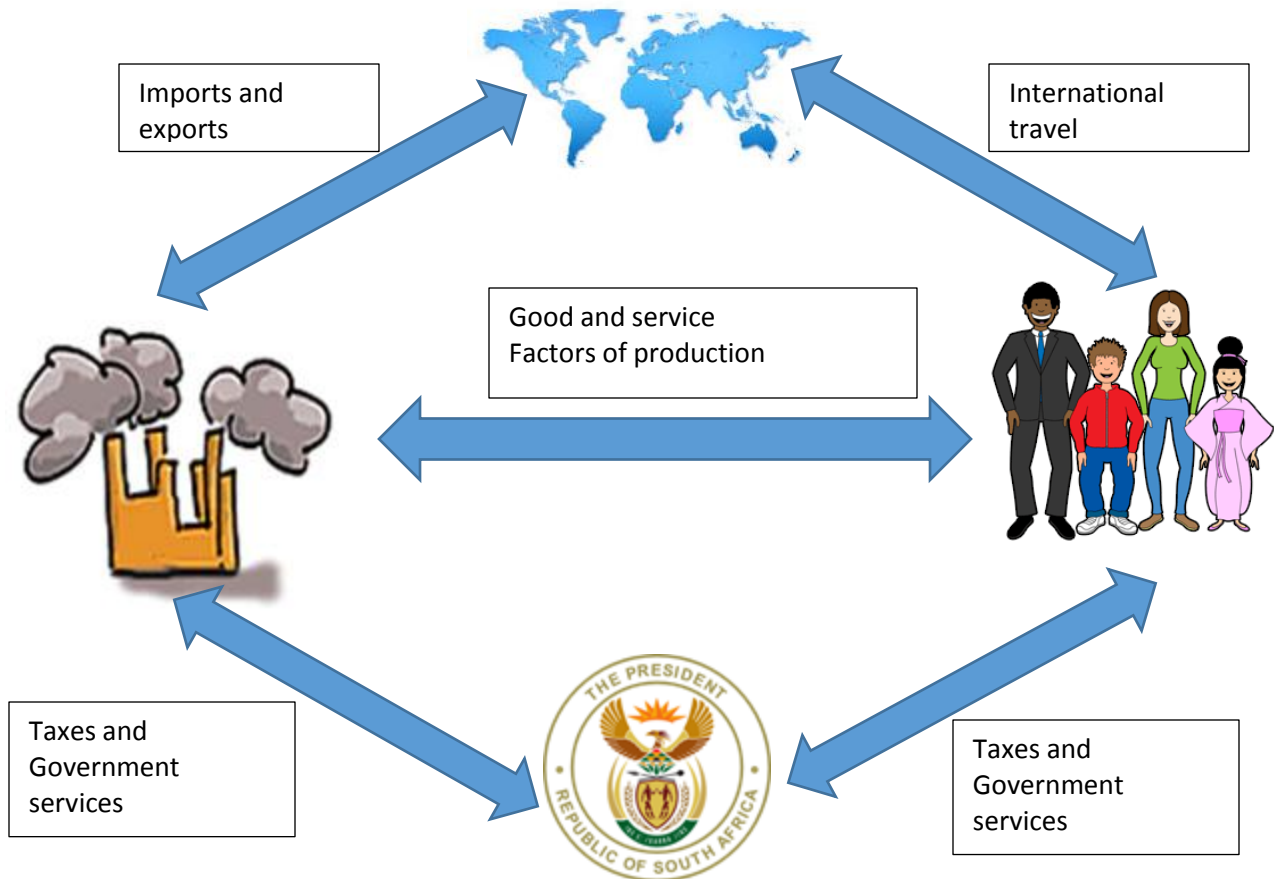
### Additional Activities ...

- 1 Explain the Economic Cycle in your own words.

The Economic Cycle, also known as the Circular flow of money, involves a continuous two-way movement where goods / services are exchanged for money so that needs / wants may be satisfied. The cycle works when goods and services flow in one direction and cash flows in the opposite direction.



- 2 Draw arrows on the diagram below to illustrate the circular flow of money. Use captions to explain what the arrows mean.



- 3 How does South Africa benefit from international trade?

South Africa benefits from international trade as follows:

- The economy benefits as investment by foreign businesses helps to create jobs, and stimulates economic growth.
- South Africa lacks certain business and technology skills; with international trade there is an exchange of expertise and commodities.
- It affords South Africa access to many markets, for export of our goods and imports of products we don't have.
- International trade is very competitive: for South Africa to participate, we need to meet international standards just as we would also not accept inferior products.
- International trade also promotes good relations between countries. South Africa has forged beneficial links with many countries.

4 Name FOUR products that are imported from other countries and specify from which country they come.

Product 1: **Samsung cell phones** which country? **South Korea**

Product 2: **Rolex watches** which country? **Switzerland**

Product 3: **Caterpillar machines** which country? **USA**

Product 4: **Volvo cars & buses** which country? **Sweden**

5 Explain the concept *Exchange rate*.

The Exchange rate is the value of one country's currency against another country's currency when an exchange of currency occurs. For example: When one SA Rand is exchanged for one USD, it equates to R15, 00 being exchanged for 1 USD or 0.07 USD being exchanged for R1, 00.



6 What does it mean when a country's exchange rate depreciates?

Exchange rate depreciation means that the value of a currency in relation to other currencies continues to weaken or lose value compared to other currencies. For example: The Rand in relation to many currencies has depreciated or weakened - South Africans increasingly have to pay more for international currencies.

7 Complete the table below: State the country or currency and what the current exchange rate is for each:

Country	Currency	Exchange rate
Japan	Yen	0.0098 to USD 1 Yen exchanges for R6.70
Botswana	Pula	0.091 to USD 1 Pula exchanges for R1.38
Namibia	Namibian Dollar	0.066 to USD 1 ND exchanges for R1
United Arab Emirates	Dirham	0.27 to USD 1 Dirham exchanges for R4.123
People's Republic of China	Renminbi	0.15 to USD 1 R/Y exchanges for R2.28

France	Euro	0.168355 to USD 1 Euro exchanges for R16.73
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8 Fill in next to each factor of production what inputs are used to produce the text book you are using at the moment.

- Natural resources: wood (paper pulp), water
- Capital: Entrepreneur's capital, loan from a bank
- Labour: SAPPI workers, printing and binding workers, editing staff, authors
- Entrepreneurship: Writing of the book, Binder and Printer, Publisher & Distributor and SAPPI

9 Where does the government get money to create an infrastructure?

Taxes paid to the government that are made up as follows:

Secondary tax on companies / dividends (1.2%)

Specific excise duties (3.5%)

Customs duties (4.8%)

Fuel levy (4.9%)

Other direct and indirect taxes (5.3%)

Company income tax (19.8%)

VAT (26.4%)

Personal income tax (34%)

10 True or false?

10.1 Needs can become habits. True

10.2 Advertisements can lead to needs becoming wants. False

10.3 Advertisements can create new wants. True

10.4 Upgrading technology creates needs. False

10.5 Needs and wants are the same for all people. False

10.6 The economic problem means that it is impossible to satisfy all wants, but all needs will be met. False

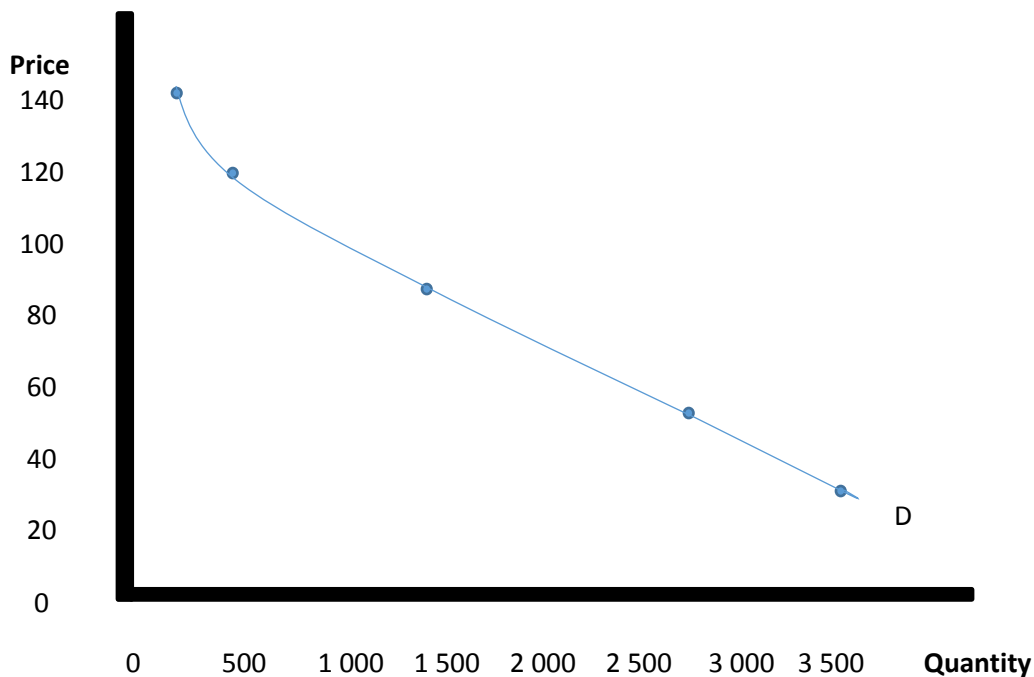
## Chapter 3: Micro Economics

### Activity 11:

- 1 Explain the relationship between demand, supply and price.  
The relationship between demand, supply and price is governed by the availability of products. Thus if a product is popular, but the supply does not increase, the product's price will increase. Alternatively, a product's price will decrease even if the supply remains constant; the demand then continues to decrease.
- 2 Refer to the Economic problem (discussed in the previous chapter) and explain why consumers want to pay the least amount possible for goods and services.  
Consumers want to pay the least amount of money possible for goods and services because money is limited.

### Activity 12:

Let us draw a demand curve using the information provided in the demand schedule. Please note that the demand curve has a negative gradient.



Explain why the demand curve has a negative gradient / slope.

The demand curve has a negative gradient / slope because at the lowest cost per pizza (R30), more pizzas may be sold, but a lower total value will be achieved (R105 00), which is no longer viable.

### Activity 13:

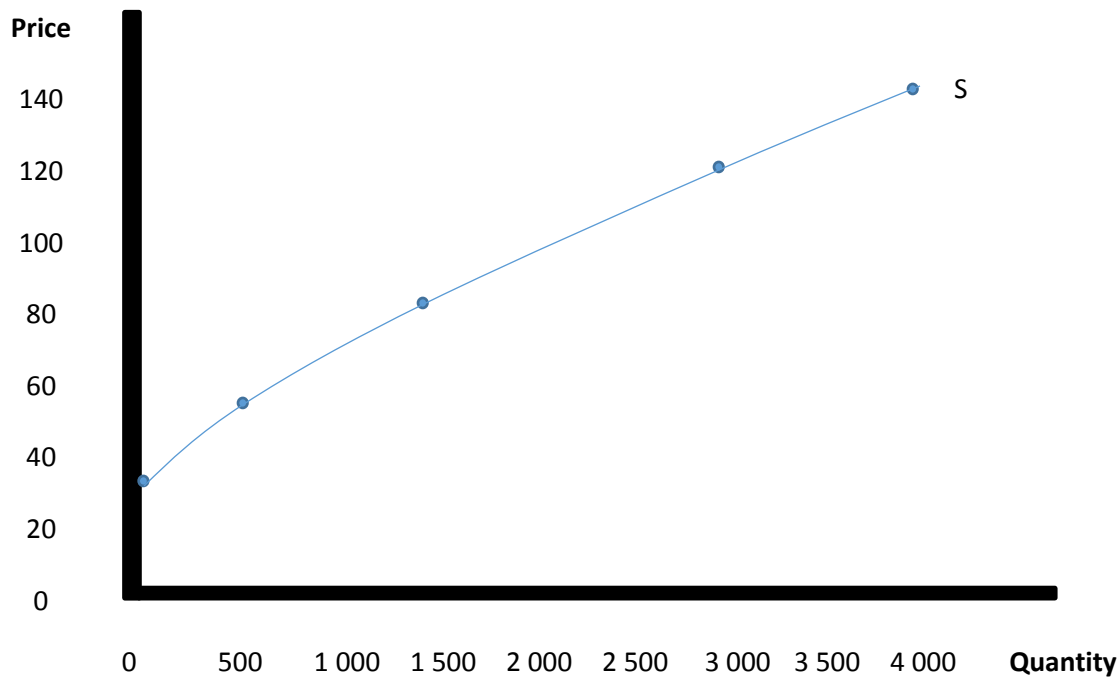
- 1 Explain THREE instances where the price of one product affects the demand for another product. Use the key words provided to explain your answer and include actual products in your discussion.
  - Complementary products may increase demand for a product, for example: a 5kg pack Sunlight washing powder includes a 500ml Staysoft sachet in the total price. Separately each costs more, but together the cost is less.
  - A substitute product is one that satisfies the same need for a consumer as another would, for example: chocolates reduced in price would be in greater demand than other sweet types.
  - Another brand name - if the price of Kentucky chicken fell then more people would buy this brand rather than Nandos.
  
- 2 Explain how each of the following factors may affect the demand for a product:

Price - if the price of a product is competitive, more consumers would want to buy it. More consumers could then afford it, and  
More consumers would be prepared to pay for it – therefore the demand for the product increases.

  - Negative economic expectations – would depress demand for products, which would adversely impact on` and affect production and availability of products, especially luxury goods.
  - Advertisements – mostly have a positive effect on the demand for products as they inform consumers of key selling points, price and availability.  
Repetitive advertising could turn consumers against a product because the adverts become annoying and tedious.

### Activity 14:

Let us draw the supply curve using the information from the table provided.



Explain why the Supply curve has a positive gradient.

The higher the price, the more suppliers will be prepared to supply

### Activity 15:

Factor 1: Change in prices: higher prices result in greater supply, while lower prices result in smaller supply.

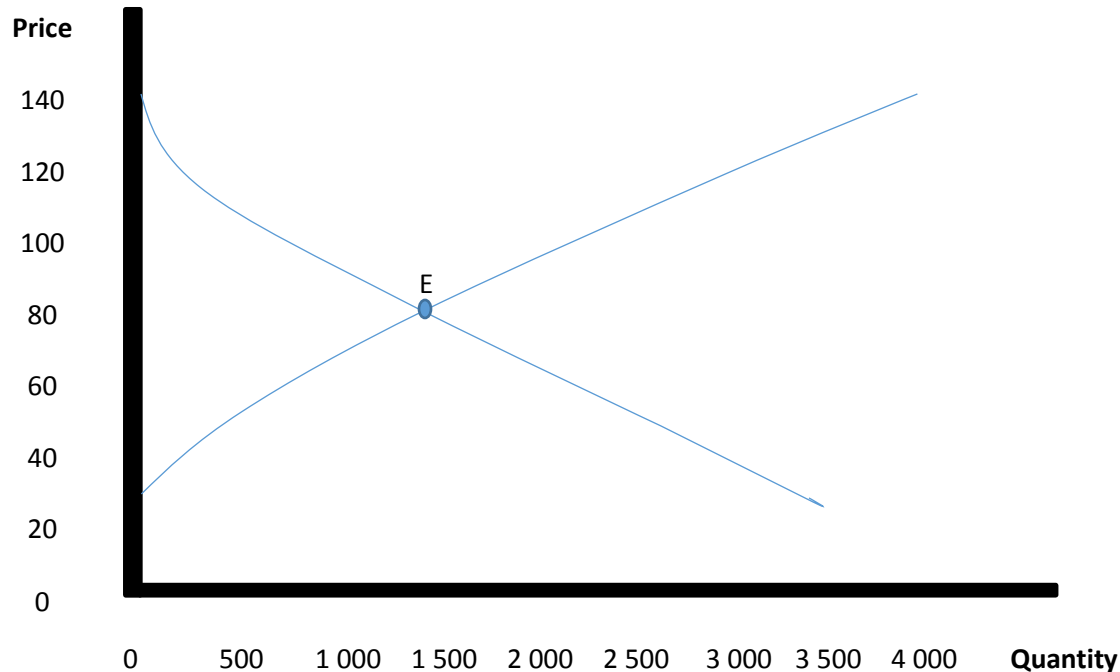
Factor 2: Changes in production methods may result in lower production costs that may generate a larger supply of goods. In addition, new competitors entering the market increases competition between businesses resulting in a larger supply of goods.

Factor 3: Natural disasters like droughts and floods will lead to a lower supply of certain products available for sale.

Factor 4: International occurrences such as war could mean that products from a specific country cannot be imported, which contributes to fewer products being available for sale.

### Activity 16:

Take the information as it is given to you in the table above and plot both the Demand curve and the Supply curve on the same graph and indicate the point of equilibrium.



Explain the concept Equilibrium price.

The equilibrium price refers to the volume (or a point on the graph) where both the consumer (buyer) and the supplier (suppliers) are satisfied with the quantity and the price.

### Additional activities....

- 1 The exchange value of an article is the same as the price of an article.
- 2 The cost of goods and services are determined by supply and demand.
- 3 If the demand for a product increases, the price would increase.
- 4 An advantage of competition in the market place is that the price is usually low and the demand increases.
- 5 An increase in demand causes a supply curve to shift to the right.
- 6 A decrease in demand causes the demand curve to shift to the left.
- 7 Using the picture provided, explain the price theory.

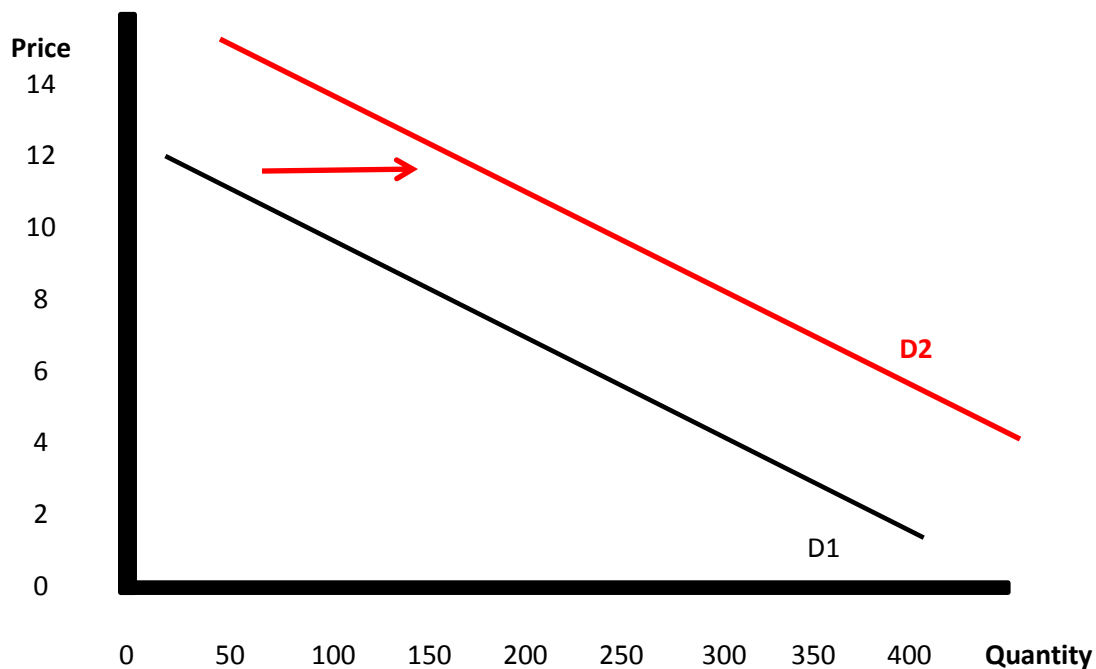
The picture shows that there is a tension or struggle between demand and supply, which works in tandem with price. The consumer, represented by Demand, desires to pay as little as possible for products / services, whereas Supply (the Business) wishes to generate as much profit as possible. Hence there will always be this competition between demand and supply.

- 8 Look at the Demand schedule provided and explain at which point the business has to decrease the price in order to stimulate demand. Why would a business NOT be prepared to drop the price further than this?

As soon as the price falls below R8 500, the total income generated becomes less. It is not worthit for the business to drop the price below this point.

Price per laptop	Quantity sold	Total income
R11 400	900	10 260 000
R10 200	1 100	11 220 000
R8 500	1 500	12 750 000
R6 250	1 700	10 625 000
R5 000	2 200	11 000 000

- 9 Assume that the demand for cool drinks suddenly increases from the original curve given because of a heat wave. Indicate what would happen to the demand curve. It does not matter by how much you increase the demand. **What is important is that you realise that there is an increase in the demand, BUT that it was NOT as a result of the change in price.**





- 10 Use the price theory to explain why red roses are suddenly very pricey just before Valentine's Day. An artificial demand is created by an annual event - Valentine's Day). There is an increased demand for red roses, but the supply is limited – hence demand outstrips supply which results in high prices.
- 11 Use the price theory to explain why oranges are cheaper in winter. Oranges are cheaper in winter because of plentiful local supply and demand. Summer is not the season for oranges (in South Africa), which if supplied, would most likely be imported and therefore, much more expensive.

## Chapter 4: Trade Unions

### Activity 17:

- 1 Provide a definition of a Trade Union in your own words.  
Negotiations between organised workers and employers to determine pay, working hours, rules, and working conditions.
- 2 Explain the concept of *Freedom of Association*.  
Freedom means citizens have the right to mix or socialize with any other person anywhere in the country. In terms of Trade Unions, workers have the right to join, be part of, organise and support a Trade Union without fear of negative action by an employer.

### Activity 18:

Write the acronym of the following Trade Unions/Trade Union organisations I full.

- COSATU Congress of South African Trade Unions
- SACA South African Cricketers Association
- SADTU South African Democratic Teachers Union
- FEDUSA Federation of Unions of South Africa
- AMCU Association of Mine Workers and Construction Union
- NACTU National Council of Trade Unions
- POPCRU Police and Civil Rights Union
- SARPA South African Rugby Players Association
- NUM National Union of Mineworkers
- SATAWU South African Transport and Allied Workers Union

### Activity 19:

- 1 What does the term *Collective bargaining* mean?  
Collective bargaining means when workers who are members of a Trade Union, negotiate as a group, with their employer about pay, leave, and working conditions.
- 2 Why do employees join a union? Discuss FOUR reasons for this occurring.  
Reason 1: Job security: employees need a trade union to protect their rights – from employers who might want to dismiss workers as and when it suits them.  
Reason 2: Certain industries exploit workers by expecting them to work in unsafe environment, Trade Unions protect workers from abusive employers.

Reason 3: It is often difficult for one or a few workers to bring about changes in their work environment, Trade Unions offer workers a strong voice and means to engage with employers.

Reason 4: When a company restructures its workforce and retrenches workers, Trade Unions help workers to negotiate fairer retrenchment packages.

### Activity 20:

1 Why are trade unions important within the economic context in South Africa?

Trade unions play an important role by being responsible for ensuring that businesses invest sufficient capital in the development of Human capital (labour force) so that they have the necessary resources to make a productive contribution to the economy of the country.

2 Explain the following concepts in connection with industrial action:

- Strikes are industrial action which results in workers stopping work to force an employer to address work-related problems.
- Go-slows occur when workers try to pressure employers before declaring a strike. By working at a slower pace and decreasing production levels, workers hope to convince the employer to listen to their grievances.
- Picketing occurs when a registered Trade Union organises workers, as part of their strike action, to demonstrate outside the premises of the employer (in view of the public) to attract greater attention to their grievances.

### Activity 21:

1 What does the acronym NEDLAC stand for? National Economic Development and Labour Council

2 Which role players get together at NEDLAC to discuss changes in labour legislation?

The government, Trade Unions (organised labour) and employers

### Additional activities ...

1 Who is Zwelinzima Vavi?

Zwelinzima Vavi is the former General Secretary of the Congress of South African Trade Unions, and Vice-Chairperson of the Millennium Labour Council.

2 Rearrange the following letters to form words:

- caendl NEDLAC
- aterd nnoiu trade union
- sgowol go slow
- gipcetikn picketing

3 What are possible consequences of a strike with reference to the economy of a country?

Explain THREE issues.

Number 1: When too many strikes occur, businesses and workers suffer. If businesses falter, more people become unemployed, and investors avoid investing in South Africa.

Number 2: Too many strikes create an environment of conflict and fear. Often strikes become violent, people are harmed, and businesses and public property are damaged. This costs the economy millions of rands.

Number 3: Workers are not paid while on strike; many workers lose a lot of income, which could have been used to buy food for their families.

4 Would you join a Trade Union the day you start working? Motivate your answer fully.

NO – I would not join a Trade Union upon starting to work because:

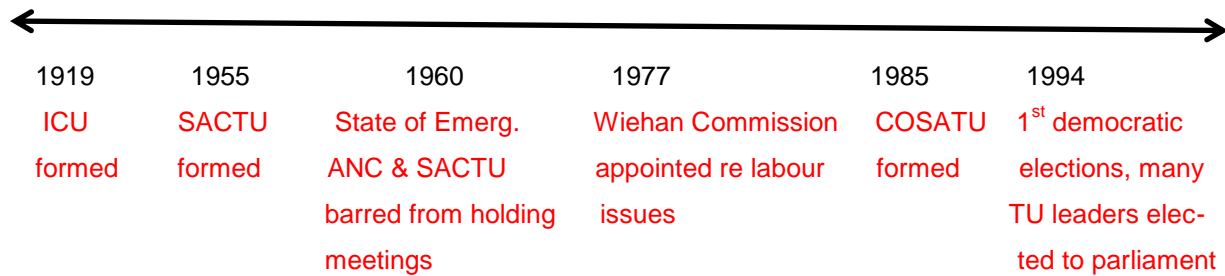
- I do not really have any experience, getting a job is often very hard, so I need to acquire experience of the job situation first, before considering a trade union.
- Job contracts have changed a lot and as a first time worker, I would be able to discuss any aspect of my new job with my employer, so removing the need to join a union.

YES – I would definitely join a union as South Africa is not Europe. Conditions of employment for many South Africans are still not ideal. Daily, there are reports of companies still taking advantage of workers. Until the work environment in South Africa is both fair to workers and employers, the fight goes on, and I need to be part of it.

5 If you become an entrepreneur and you start your own business, will you allow your employees to belong to a union? Motivate your answer.

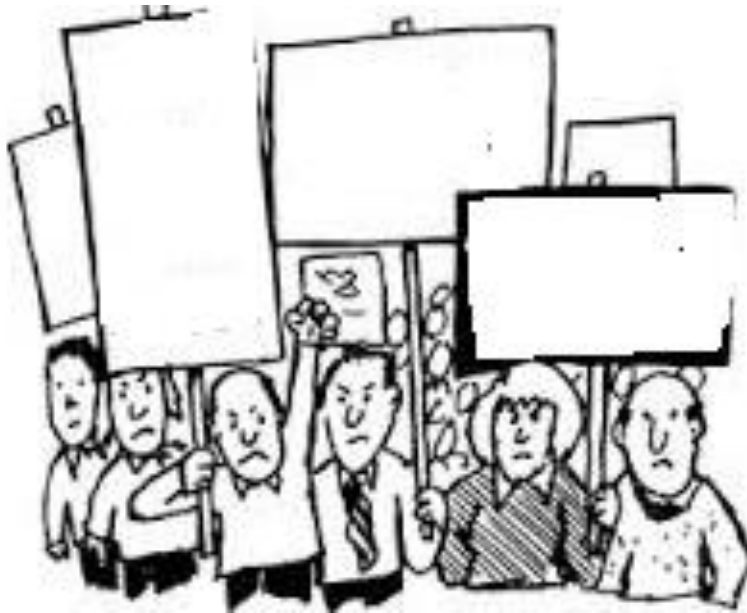
YES – I would allow employees to join a union. We live in a constitutional democracy; people must be allowed to exercise their rights. I believe it would be more advantageous for both employer and workers to be honest and open about labour issues.

- 6 Complete the following timeline by filling in the important events with regard to labour legislation and trade unions in South Africa.



- 7 What is the difference between a *protected* and an *unprotected* strike?  
Protected strike: A strike is regarded as protected when the correct procedures are followed. The strike is then also regarded as legal. The opposite is true for an **unprotected strike**. Neither the correct procedures were followed, nor is it considered a legal strike.
- 8 Why do you think the law forbids people, who are involved in essential services, from striking?  
Essential services employees are SAPS, doctors, nurses, medical staff of state hospitals and MPs and are state employees and as such are not allowed to strike because they provide important and often lifesaving services for the public. Should they strike, lives could be endangered. These employees, though deserving of fair remuneration, nevertheless, work in the service of the country.
- 9 Which THREE essential services may not strike?  
The South African Police Service (SAPS)  
Doctors, nurses and medical personnel of state hospitals  
Members of parliament (MPs)
- 10 What is a strike?  
It is a refusal to work by two or more employees, as a result of common work-related issues. It has been variously described as “downing tools” and “work stoppage”

- 11 You are the Shop Steward in a business that specialises in manufacturing toys. You have organised a strike because the employees are unhappy with their salaries and working conditions. Employees have arrived at the strike with their picket boards, but they are still blank. Think of a few striking messages that you could write on these picket boards.



The learners' responses could differ; this is a suggested answer:

Toys4us – pay US a living wage!

Fair wages for all NOW!

Can you live on R2000 pm?

## Chapter 5: Economic Sectors

### Activity 22:

- 1 Name the economic sectors and briefly explain what happens in each sector:

**Primary, Secondary and Tertiary Sectors**

What happens here? **Extraction of raw materials such as agriculture, forestry and fishing, mining, and extraction of oil and gas comprise the Primary Sector**

What happens here? **This is primarily the production processes such as manufacturing, electricity generation, and construction that make up the Secondary Sector**

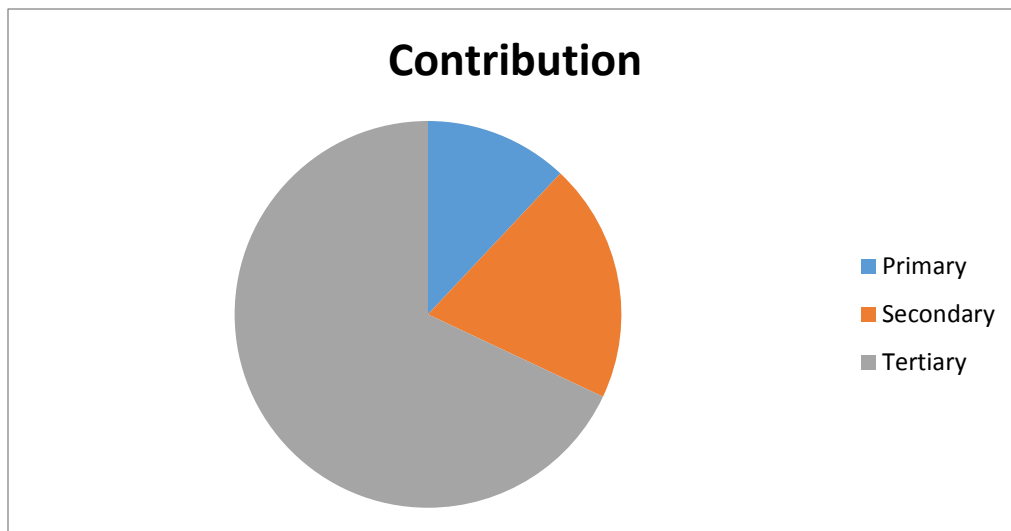
What happens here? **The Tertiary Sector involves the retail and wholesale operations, government services, real estate and finance and service industries.**

- 2 Which sector contributes the most to the South African economy? **The Tertiary Sector – 66%**

- 3 Do you think that the sector you mentioned in number 2 contributes the most in all countries?

Motivate your answer. **No the Tertiary Sector does not contribute the most in all countries as all country's economies are not all similarly developed. Some economies are very small and are primarily based on the primary or secondary sectors. Most developed economies, however, are based on the Tertiary Sector.**

- 4 Divide the following circle into an accurate pie chart showing the contributions made by the various sectors in 2011.



### Activity 23:

Explain why natural resources are important within the context of South Africa's economy.

Refer to various examples in your answer.

Mining, one of the vital natural resource components of the SA economy, contributes the following to SA's economy according to the Chamber of Mines:

- Creates one million jobs (500 000 direct and 500 000 indirect).
- Accounts for about 18% of GDP (8.6% direct, 10% indirect and induced).
- It is a critical earner of foreign exchange at more than 50%.
- Accounts for 20% of investment (12% direct).
- Attracts significant foreign savings (R1.9-trillion or 43% of value of JSE).
- Accounts for 13.2% of corporate tax receipts (R17-billion in 2010) and R6-billion in royalties.
- Accounts for R441-billion in expenditures, R407-billion spent locally.
- Accounts for R78-billion spent in wages and salaries.
- Accounts for 50% of volume of Transnet's rail and ports.
- Accounts for 94% of electricity generation via coal power plants.
- Takes 15% of electricity demand.
- About 37% of the country's liquid fuels via coal.

The chamber says total mining expenditure in 2010 was R441-billion, of which:

- R228.4-billion was spent on purchases and operating costs (timber, steel, explosives, electricity, transport, uniforms, etc).
- R78.4-billion went on salaries and wages for mine employees.
- R49-billion on Capex (the lifeblood of mining).
- R17.1-billion in tax.
- R16.2-billion in dividends (only 3.7% of total).
- R38-billion on depreciation and impairments.
- R13-billion on interest to the banks.

Other natural resources, such as fishing and farming also make a noticeable contribution to the economy. If SA did not have the assets, we would have to import much more to meet the demands of the economy.

Read more: <http://www.southafrica.info/business/economy/sectors/mining.htm#economy#ixzz4Els2Mwv8>

### Activity 24:

1 Why is it important to manage resources carefully?

Natural resources are FINITE, which means there is a fixed quantity that can be utilised by people. If SA did not manage its fish resources, and allowed unlimited quantities of fish to be caught daily, we would soon not have any fish left because the fish are being caught faster than they can breed. If stocks are not managed and not allowed to regenerate through breeding, then fish will become extinct – **which is forever...**

2 How can businesses and individuals ensure that natural resources will still be available for future generations? Provide an explanation that would be worth at least FIVE marks.



Both businesses and individuals can make a huge contribution to preserving our natural resources:

- Businesses can avoid engaging in practices that exploit the environment or our resources for short-term gain.
- Businesses can avoid trading with companies that engage in harmful practices.
- Businesses can provide training for employees so that they too do not engage in harmful practices. This applies especially to the fishing and wildlife industries.

Individuals can avoid doing the following:

- Supporting companies that over harvest fish and do not adhere to fishing quotas
- Should not order types of fish that are on the orange and red data lists, for example, kingklip lobster, sole etc. <https://www.aquarium.co.za/blog/entry/sassi-updates-its-sustainable-seafood-guide-may-2016> Downloaded 24 July 2016



Illegal mining should be reported as SA loses a lot of income because of illegal mining and Fishing. Any activity that robs the country of revenue or harms our natural resources should be reported and fought. If good people do nothing, crime will thrive!

### Activity 25:

Provide TWO reasons why the secondary sector is so important for South Africa's economy.

Reason 1: The manufacturing industry is vital for SA's economy, as many products are sold to the tertiary sector.

Reason 2: Construction, another component of the secondary sector, builds infrastructure, creates hundreds of jobs and provides employment for skilled and semi- / unskilled labour.

### Activity 26:

Name TWO types of activities that take place in the tertiary sector.

Activity1: Wholesale businesses that purchase from factories and resell goods to retailers.

Activity2: Many service-orientated businesses form part of the tertiary sector, namely doctors, schools, banks, tourism etc.

### Activity 27:

Explain how the skills required in the three sectors, differ from each other.

#### Primary sector

The range of skills varies from highly skilled farm managers to mining managers to fish factory ship captains to miners who work underground, farm workers and factory workers.



**A Sea Harvest fish factory ship**

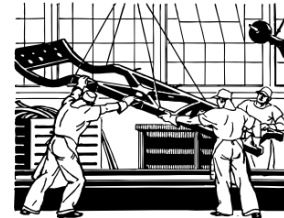
Also, coal must be extracted from the ground, rubber tapped from trees, foodstuffs farmed, processed and packaged for markets. A lot of the work done in the primary sector requires physical labour. Although more of these tasks are increasingly performed with the help of machines, workers still need to operate these machines and these workers require some training. Planning, to organise the necessary resources, to provide leadership roles, to ensure smooth running and that everybody works according to a plan is vital.

The people that have to oversee these activities are the managers and we find that they are highly skilled with a high level of formal education.

### Secondary sector

In this sector as in the primary sector, there are many workers who have either not been to school or have only spent a few years at school. Sometimes employees receive specific or specialised training in order to operate the machinery required to do their work.

There is often a large degree of repetition (of the same task) in this sector – for example: placing a plastic teaspoon into a tin of baby milk powder or someone mounting wheels on a car all day. These activities can become quite monotonous and frustrating. There are, however, also many workers

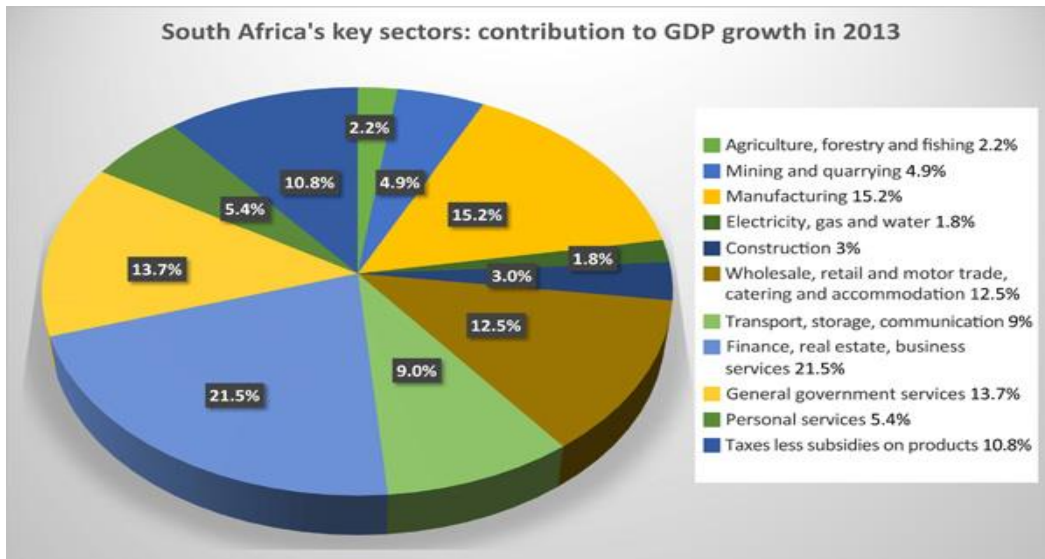


who have a good education that are employed in the secondary sector. Think of plumbers and electricians who are involved in the construction of buildings. There are also engineers who build aeroplanes and sub-marines and computers. Secondary sector jobs also include metal working and smelting, vehicle production, textile production, chemical and engineering industries, aerospace manufacturing, energy utilities, engineering, breweries and bottlers, construction, and shipbuilding.

### Tertiary sector

- Creative thinking and problem-solving skills
- Computer literacy and the ability to use other technological tools

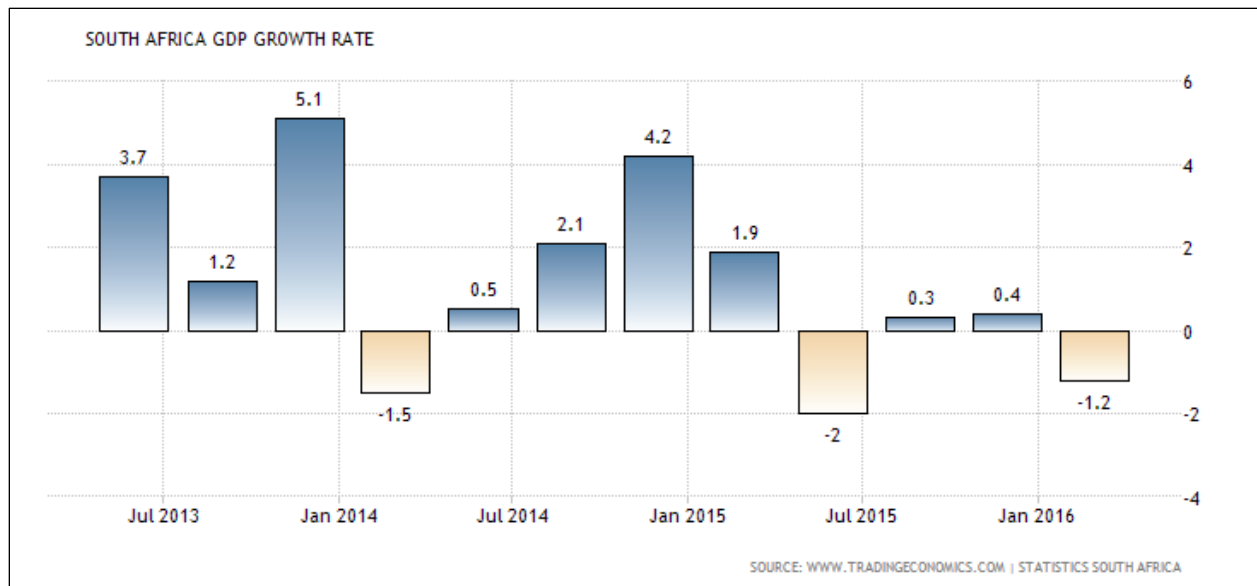
Teamwork, tolerance with regard to cultural diversity and emotional intelligence (EQ). EQ is important when it comes to interaction with people. This is vitally important as the tertiary sector consists of buying and selling products as well as service delivery – all of which means there is continuous interaction between people especially in hotel and catering, call centres. Technical skills are required for communications (telephone, internet and broadband networking. Medicine and legal services and education are also highly skilled disciplines.



<http://www.mediaclubsouthafrica.com/africa/37-economy/economy-bq/111-sa-economy-key> Downloaded 24 July 2016

**Activity 28:**

- 1 Explain the concept GDP – refers to the Gross Domestic product which means all the completed products and services produced in South Africa in a year.
- 2 What is the real GDP and why is it important to calculate it? To determine real GDP, it is important to consider the effect inflation has on prices and goods, which in turn results in an artificial increase in GDP. In effect, it means that not more goods and services were produced, but because of inflation, the value of the goods and services increased. Calculating real GDP removes the impact of inflation on goods and services thus reflecting the true value of the goods and services.



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- 3 What does *per capita mean*? It is a Latin term which means per person (individually) or per head of the population. For example: The *per capita* earnings of South Africans rose in comparison with other developing countries, meaning **each working person's** income increased.
- 4 Define *Economic growth*:  
Economic growth is synonymous with GDP because it reflects the increase in the number of goods and services produced per head of the population over a period of time (usually a year).
- 5 What is *Economic development*? Economic development usually reflects the improvement of long-term growth in the economy, jobs and income growth. It also involves sustainable increases in the productivity of individuals, businesses and people, and maintaining and even enhancing quality of life.
- 6 Write out the following acronyms in full:
  - PPP Private Public Partnerships
  - IDC Industrial Development Corporation
  - DBSA Development Bank of Southern Africa
  - SBDC Small Business Development Corporation
- 7 Name FOUR strategies that can be implemented to ensure economic growth takes place in South Africa.  
Strategy 1: **People (Human Capital)** are fundamental to stimulating economic growth. People affect and interact with every facet of economic growth. Essential to this interaction are education and skills. It is imperative that population levels do not exceed economic growth. Crippling diseases (TB, AIDS, malaria etc.) that retard economic growth also need to be arrested.

**Strategy 2:** Preservation of our natural resources is central for continued economic growth. Also crucial, is that South Africa develops the required secondary industries to process the raw materials to facilitate production of manufactured goods for export. This will require technical, entrepreneurial and financial skills which should be a priority for the government in terms of the educational system meeting these critical needs.

**Strategy 3:** People are also vital in effecting a fine balance between SAVING and spending. More **saving**, rather than spending, creates valuable capital for banks to have funds available to lend to businesses in the different sectors to facilitate growth. A culture of SAVING should be fostered. Foreign investment in various sectors must be made as attractive as possible so that job creation can occur.

**Strategy 4:** Several institutions (SBDC, IDC, DBSA) already exist that endorse economic growth and development and make use of partnerships between the private sector and the public sector. These institutions facilitate the granting of loans / capital and assist with new projects, such as eco-tourism. Furthermore, entrepreneurial skills required for all three sectors are promoted, as well as workshops to help new entrepreneurs gain a fuller understanding of the sector and industry in which they work. In addition, the aim is to develop South Africa and its southern neighbours economically to ensure resources are optimally utilised and in doing so, increasing the standard of living of the people in the region is improved.

### Activity 29:

1 Differentiate between the *Private Sector* and the *Public Sector*.

**The Private Sector** pertains to all forms of private ownership of companies, including public companies. It is also inconsequential whether the business is in the formal or informal sector.

**The Public Sector**, comprises government departments, which includes such services as the police, military, roads, public transport, basic education and healthcare for the poor.

2 Why is a *Public Company* part of the Private Sector?

A Public Company is part of the private sector because the public hold shares in the company and it trades on the JSE. Examples of South African public companies are – Transnet, SAA and Telkom.

3 Why is the *Informal Sector* also referred to as the unrecorded part of the economy?

Economic activities not included in the GDP, such as the informal sector, are referred to as the unrecorded part of the economy, because unlike in the formal sector, informal economic activities do not pay tax like formal businesses. Informal businesses may pay VAT on goods purchased from a wholesaler, for example, but thereafter no tax is paid.

- 4 Provide a critical analysis of the informal sector in South Africa. **Important: If a critical analysis is asked for, you are expected to provide advantages and disadvantages.**

Advantages:

The informal sector helps to **offset unemployment** as unemployed people create small businesses and employment as a means to earn a living and to survive.

Some informal sector businesses develop good **entrepreneurial skills** and may transform to becoming a formal sector business, such as the process with the taxi industry.

**Start-up capital** for informal businesses ranges from very low (pavement fruit seller) to a moderate-high (pavement barber shop), making it relatively easy for many poorer people to start their own business. These informal traders also attract customers by keeping their prices below what formal shops / cafés would charge.

As some informal businesses grow, they **employ more unemployed people**, so helping to uplift their communities.

Informal businesses do not need to comply with **conventional business hours and practices** as they work and operate as it best suits each individual trader. Traders can “set up shop” anywhere as long as local by-laws are not contravened.

Disadvantages:

A shortage of skilled entrepreneurs often leads to businesses failing.

Goods and services are often of a **low quality** and there is nothing a customer can do if he/she is dissatisfied, as there are no guarantees on the products purchased.

**Illegal activities** are hugely disadvantageous for the community as crime is encouraged because a market for stolen goods is created, such as cars which have been through a *chop shop* and communications, power and transport which are continually being disrupted by ongoing theft of copper cabling.

Other disadvantages include little or **no job security, lack of adequate protection** for traders from labour laws, no pension, medical aid etc., difficult for traders or their employees to make any **savings due to low wages**, and any **injury or sustained illness** could spell the end of the informal business for the trader.

### ***Additional activities ...***

- 1 Businesses that belong to the government form part of the **Public** sector.
- 2 If a business belongs to a private entrepreneur, it will be found in the **Private** sector.
- 3 Explain why natural resources are important in the development of a country's economy.  
Natural resources provide essential raw materials for a country which it could use to export in exchange for other resources / goods the country requires. The raw materials may also be processed by a country into manufactured articles for export, which would earn the country

greater exchange. Natural resources, such as timber, fishing, natural beauty, if managed correctly, could be a sustainable source of income for a county. South Africa has unique and spectacular natural beauty and fauna and flora which earn the country billions in tourism dollars, pounds and euros.

4 How can *human capital* in South Africa be better managed to ensure economic development?

Human capital can be better managed in South Africa if a change in mind set occurs, which values the worth of people. A human is an extremely valuable resource providing he/she is able to make a contribution to the advancement of his/her country. People making a contribution is contingent upon conditions in the country that would energise people into being productive such as:

- Fair opportunities to be meaningfully and usefully educated
- Fair opportunities to be gainfully employed
- A secure environment in which to live, work, be entertained and to travel etc.
- Freedom from fear, exploitation and poverty
- A fair opportunity to find suitable housing / accommodation
- A fair opportunity to access good health and related services

If these so-called ideals could be fulfilled, a more stable, educated, happy and content human capital force would be available to take on the challenges faced by South Africa. Neglect of the population has resulted in a demoralised and discontent human capital force.

5 Write out in full:

- RDP Reconstruction and Development Program
- GEAR Growth and Employment Redistribution
- NGP New Growth Path
- NDP New Development Plan
- COSATU Congress of South African Trade Unions
- GDP Gross Domestic Product

6 Do you think that that the government has achieved its aims though the RDP, GEAR, NGP, and NDP? Motivate your answer.

Since 1994, the government has through five different plans aimed to improve the wellbeing of all South Africans. Certain clearly undesirable issues needed to be addressed and reduced, if not eliminated altogether. Whilst RDP homes were built, democracy and a focus on basic human rights were achieved, the reality of South Africa's huge housing backlog has thwarted attempts to reduce it, let alone eradicate it. Furthermore, many of the RDP houses delivered with great fanfare have since collapsed or become unsafe due to poor construction. Also the houses are

very small, which does not really help to accommodate the huge numbers waiting for homes. The RDP did, however, have successes with better services for the aged, the disabled and orphans. Free healthcare is standard for children and pregnant mothers. The school feeding scheme has also been able to deliver one meal daily to about 3.5 – 5 million primary children. Yet, the question arises why these unfortunate children need to be fed in the first place – their parents are probably unemployed, which points to the failure of government efforts to help the poor.

The GEAR economic policy of 1996 ran into trouble soon after its implementation. It was not well received by the unions, notably, COSATU. It was criticised as being too capitalist and lenient with the levying of taxes. All South Africa's shortcomings apropos housing, healthcare, education etc., remained a priority for the government, although in reality, not a great deal had changed. In 2005 ASGISA replaced GEAR; again its five year aims focused on the needs of the poorer people, without delivering any significant improvements.

By 2010, the NGP was announced as the new way forward. The government's aims were focused on the following:

- Unemployment
- Poverty
- Inequalities of the past (that was perceived to be getting worse as opposed to getting better).

In 2013 the NDP was introduced as South Africa's development plan to address socio-economic problems in the long term. The basic aim of the NDP is that, amongst others, by 2030 a more inclusive economy is created and the resources in the country are utilised better to ensure economic growth takes place. It does appear as if the government is unable to meet the challenges facing South Africa and that the policies of the past 22 years have seen some successes, but still too many failures.



## Chapter 6: Business Functions

### Activity 30:

- 1 Name the three business environments. **Micro, Market and Macro Business Environments**
  
- 2 Name SEVEN issues, found in the macro environment, that have an impact on the business, and over which the business has no control.
  - **Political factors**
  - **Economic factors**
  - **Ethical issues**
  - **Socio-economic factors**
  - **Technology**
  - **Legal factors**
  - **Physical environment**
  
- 3 Which FIVE elements in the Market environment could impact on the business?
  - **Competitors**
  - **New competitors**
  - **Substitute goods**
  - **Suppliers**
  - **Consumers**
  
- 4 Name the EIGHT internal business functions.
  - **Production Function**
  - **Financial function**
  - **Human Capital function**
  - **Marketing function**
  - **Public Relations function**
  - **Administrative function**
  - **General Management function**

### Activity 31:

- 1 Explain the reasons why the *Purchasing function* is so important in a business.

The Purchasing function is important in business because it buys goods and services that are required by **all** the functions within the business, for example, products purchased for the business's own use; products that are purchased so that they can be re-sold and products that are purchased with the aim of processing them to manufacture other products

2 Discuss *risk management* in the Purchasing function.

Risk management functions to ensure that the purchasing procedures are carried out correctly and that the proper follow up apropos orders, delivery, quality control occur and that consistent and reliable suppliers guarantee sufficient quality stock as required.

### Activity 32:

1 Explain the reasons why the *Production* function is important in a business.

Although not all businesses make use of this function, the Production function, nevertheless, is important because its aim is to create value by changing raw materials into a form that will satisfy customers' needs and wants. This means that the Production function is where the factors of production (natural resources, labour, capital and entrepreneurship) all work together in order to produce goods and services.

2 Discuss *risk management* in the Production function.

Risk management minimises risks by ensuring the following:

- Maintaining low manufacturing costs without compromising quality
- Production of the correct quantities, time, place and price to suit the consumer
- Regular consultation between production function and Marketing function to obviate dated designs and to keep abreast of consumer demands
- Maintaining up to date technology to speed up production and save costs.
- A contingency plan is in place in the event of unforeseen circumstances which might affect the business adversely

### Activity 33:

1 Explain why the *financial function* plays an important role in a business.

The financial function is important because apart from developing all budgets within the business, it aims to ensure maximum profits, increase profitability, safeguard liquidity and maintain solvency.

2 Discuss *risk management* in the financial function.

Since risk management in the financial function is closely tied to profit and profitability, it is vital that debtor accounts are paid on time, sound monitoring of interest rates occurs to manage fluctuations advantageously and that risk of theft is thwarted by efficient stock, assets and cash monitoring systems.

Risk management must protect the business from real or imagined threats to ensure stability, profitability and productivity.

3 Provide ONE word/phrase for the following:

3.1 Liquidity - **cash flow**

3.2 Assets < Liabilities **insolvency**

3.3 The amount that is added to the cost price to calculate the selling price - **markup**

- 3.4 The money used by the owner to start a business - **capital**
- 3.5 The Statement of Comprehensive income - **Income statement**
- 3.6 The Statement of Financial Position – **Balance sheet**

**Activity 34:**

- 1 Explain the reasons why the Human Capital department is important in a business.

The Human capital department is important because it is responsible for putting programmes in place to ensure that workers are happy and motivated, otherwise the business's productivity and profitability could suffer. Also, it determines the number of worker and types of skills required by the business, conducts recruitment, interviews, determines salary structures and ensure suitable candidates appointed. Furthermore, it plays a crucial role in negotiations with unions, monitors staff morale, promotes and rewards expertise and productivity. Lastly, the department is tasked with ensuring compliance with labour legislation.

- 2 Discuss Risk Management in the Human Capital function.

The Human Capital department faces several challenges and judicious implementation of policy is required. Careful recruitment and selection of potential employees to ensure new recruits suit culture of the business. A progressive relationship with trade unions is vital to ensure a happy and productive workforce to obviate strikes and disgruntled employees. HC should also address employees' skills to avoid a decline in productivity. A key function is to ensure mutual respect and recognition of employee diversity, respect for cultural and social differences to minimise potential conflict. Systems to motivate employees, prevent high staff turnover and to limit unnecessary expenses all form part of the HC department's functions. Lastly, HC has to keep an eye on any changes in legislation and advise the business to adapt accordingly, to prevent possible fines and even potential labour unrest.

**Activity 35:**

- 1 Explain the reasons why the *Marketing function* is important in a business context.

The Marketing function is important because it promotes the business by identifying the **target market** and determining which **products** are in demand, what **price** the consumer is willing to pay, **where (place)** product should be sold and how this information should be made known to the consumer. In addition, the marketing function creates a winning trademark which serves as a constant reminder to consumers to buy the business's products

- 2 Discuss *Risk Management* in the Marketing function.

A great risk for the Marketing function is failing to communicate the business's product message and failing to anticipate the needs of its target market. The marketing function should also remain within budget and to monitor the marketing activity of all competitors to








ensure the business maintains its competitive advantage. The marketing function should also have adequately trained staff to analyse all data pertaining to sales and the projected outcomes of the business.

3 What is the difference between a logo and a slogan?

**A logo** is a name, emblem, or trademark of a business or organisation. It may comprise a picture or symbol with / without words, which is immediately identifiable as belonging to a specific company / business / commercial or trade enterprise.

**A slogan** is a short, catchy, easy to remember, arresting phrase that is immediately identifiable as synonymous with a particular brand or product, and which is used in advertising to communicate a company's, product's or corporate entity's identity.

4 Complete the following table. Where necessary, cut out logos from magazines or newspapers and stick them on the table.

Favourite brand name for the following:	Logo	Slogan
Fast food: 		THE FLAVOR OF NOW.
Clothes: 		
Motor vehicle: 		THE ART of PERFORMANCE

5 The four marketing instruments are ...

- A Product, price, place, promotion
- B Product, price, distribution, communication
- C Product, price, publicity, advertising
- D Advertising, personal selling, sales promotion, publicity,

- 6 The following are all characteristics of a good advertisement:
- i It must attract attention
  - ii It must create an image of the consumer enjoying the product
  - iii It must lead to action
  - iv It must create an interest
  - v It should create a desire to own the article/item

Choose the correct combination:

- |   |                   |   |               |
|---|-------------------|---|---------------|
| A | i, ii, iii and iv | B | i and iii     |
| C | i iii, iv and v   | D | iii, iv and v |

- 7 Use the criteria that signify a good advertisement and evaluate the following advertisements:  
(downloaded from <http://www.creativeblog.com/inspiration/print-ads-1233780> on 30 April 2014)

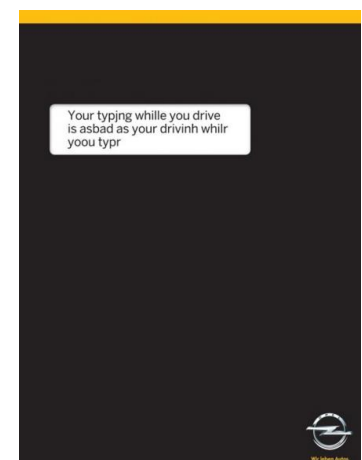


The advert is clever in the way it attracts one's **attention** to the novel packaging idea. It encapsulates both the convenience of fast food together with the message that potato is healthy as suggested by the peel packet.

It also creates **interest** as no other brand has used this idea.

There is no problem with stimulating **desire** as the presentation is very attractive and inviting – one just wants to rush and buy... which leads to **action**. The advert has achieved its objective!

This is an amazing advert as it advertises the Opel car brand as well as communicating a very important message apropos texting while driving. By making the message quite small, the reader is forced to take a closer look – so succeeds in attracting **attention**. It also stimulates **interest** as one is forced to look carefully to read the message, which serves two purposes – that of sending a message about not driving and texting simultaneously, and then drawing the reader's attention to the logo of Opel. It couples the brand with being a responsible driver. The **action** the advert generates would ideally have



a twofold response: buy the car and the **desire** to be a good driver by not texting while driving.



Penguin Books advertise their audio range

This is a brilliant advert – as it uses the master of English literature – William Shakespeare - which immediately attracts one's **attention**. Most readers would realise that the two Shakespeare figures form the halves of a headset. This would awaken a renewed **interest** in Shakespeare's works which would be easier to enjoy in an audio format. The two heads (earphones) would be like listening to the bard himself, which would stimulate a **desire** to purchase, therefore resulting in the **action** of buying the audio books.

### Activity 36:

1 Explain the reasons why the *Public Relations function* is important in a business context.

The Public Relations function is important because it is a crucial link between the business, the public and key stakeholders. The PR department deals with issues that may positively or negatively affect the business, such as, the business making a donation as part of a charity drive or its Corporate Social Responsibility Program, or deflect bad publicity owing to an embarrassing situation within the business. A business must relate constructively to a large number of entities, namely the public, the media, in some instances the government, charities and schools etc. The PR department is the link between the business and the world outside.

2 Discuss *Risk Management* in the Public Relations function.

A business may face many pressures from within and outside. The Public Relations function must protect the business, by overseeing business practices to avert unethical actions. Sometimes a business could deal with a supplier which may be obtaining stock from a less than desirable source. This could damage the business's profile and reputation. Public support for the business may decline. A situation like this could cost a business dearly, especially if people do not change their negative opinions of the business. Clearly, the Public relations department plays a pivotal role in protecting the interests and image of the business.

- 3 Ethics can be described as “*to do what is right and moral in the eyes of the society in which one operates*”. Discuss the importance of ethical behaviour from a Public Relations point of view. Credibility is synonymous with ethical behaviour. Public Relations must maintain the highest standards and values and be beyond reproach in all respects. If PR fails in its functions, it fails in respect of the following values: honesty, openness, loyalty, fair-mindedness, respect, integrity, and forthright communication. PR cannot overlook, ignore or obfuscate illegal, unethical or irresponsible practices. PR has the responsibility to adhere to the Code of Ethics of a business and to ensure the business upholds its own code of ethics.

**Activity 37:**

- 1 Explain the reasons why the *Administration Function* is important in a business context. The Administrative Function is important as it deals with all the record-keeping and paperwork in the business. Data is collected and collated to ensure that vital records and information is properly stored and secure.
- 2 Discuss *Risk Management* in the Administration function. The Administrative function is to ensure compliance with legislation especially regarding financial information and tax records. It is a SARS requirement that these records are kept for five years. This is a big responsibility, especially to safeguard this information against loss, theft or damage. These requirements also apply to the safekeeping of customers’ personal information. There have been many instances of company’s computers having been hacked and leaked.

**Activity 38:**

- 1 Explain the reasons why the *General Management function* is important in a business context. The General Management function is important because it is the planning, decision-making, organising and controlling hub of a business and communicates with employees, oversees disciplinary action and delegates task to subordinates. The General Management function drives planning for the future hence top management formulate the vision, mission, goals and strategies of the business.
- 2 Discuss *Risk Management* in the General Management function. If General Management do not communicate successfully with employees, people will not know in which direction the business plans to move or how they are expected to perform and this could undermine the success of the business. GM must facilitate the smooth cooperation and interdependency between the different business functions. All GM must adhere to the principles and code of ethics of the business, failure to comply would have repercussions for

the entire business, and could lead to business failure if the wrongdoing is too big, as with the Enron scandal in America and the Tiger Brands price-fixing scandal in South Africa. Tiger Brands had to pay a huge fine, which was a financial loss for the company.

<http://mg.co.za/article/2007-11-12-tiger-brands-slapped-with-r98m-cartel-fine> Downloaded - 21 July 2016

- 3 The process where actual results are compared with what was planned during the planning process is known as....
- A control  
B report backs  
C communication  
D development gap
- 4 This leadership style is used when a crisis occurs and there is no time for discussions.
- A free reign  
B Autocratic  
C Democratic  
D Laissez faire
- 5 An advantage of the 'laissez-faire' leadership style is that ....
- A employees work at their own pace and use their own initiative without the manager interfering.  
B employees get given too much direction to reach their goals.  
C employees are not allowed to use creative problem-solving techniques in difficult situations.  
D employees are often given training and are required to work under observation to ensure that new skills are adapted in unfamiliar situations.

**Additional activities ...**

- 1 A factor over which management has no control:
- A Economic climate  
B Competitors  
C Customers  
D All the above
- 2 If a manager tells employees what to do, but not how to do it, we refer to that person as having a ... management style.
- A transformational  
B laissez-faire  
C autocratic  
D democratic



- 3 Which one of the following concepts is not one of the tasks of General Management?
- A To lead the employees in the business
  - B To control the resources
  - C To motivate employees to reach goals
  - D To be present at all meetings in the department
- 4 John is the manager at a shoe manufacturing plant. He continuously encourages employees to add their opinions and ideas to situations. John follows a ... leadership style
- A transactional
  - B situational
  - C laissez-faire
  - D democratic
- 5 If the business does research to find out about the demand for a product, this is referred to as...
- A collection of secondary data
  - B market research
  - C demand stimulation
  - D unethical advertising
- 6 When there are favourable reports in the media that the business did not have to pay for, this is known as...
- A Sales promotion
  - B Advertising
  - C Publicity
  - D Personal selling
- 7 The ... buys goods from the manufacturer and sells these to the final user.
- A retailer
  - B wholesaler
  - C commission agent
  - D none of the above
- 8 A design that the manufacturer places on a product to inform the purchaser who made the product is known as the ...
- A Logo
  - B Trade mark
  - C Brand name
  - D Identifier

# Chapter 7: Business Plans

## Activity 39:

1 What is a Business plan?

A business plan is an official statement of a business's objectives, how and why they are attainable, and strategies for achieving them. The plan enables a more defined picture of the potential costs and weaknesses the business might have and to assist the planners to modify as desired before implementing the business plan.

Read more: [Business Plan Definition | Investopedia](http://www.investopedia.com/terms/b/business-plan.asp#ixzz4FENR1PRh) <http://www.investopedia.com/terms/b/business-plan.asp#ixzz4FENR1PRh>

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2 Provide FOUR principles that should be kept in mind when formulating a business plan.

- Is logically set out and easy to follow
- Includes all relevant details and excludes unnecessary details
- Is neat and free of errors
- Includes, where possible and applicable, information in schematic format (diagrams, tables, graphs), as it is often easier to understand diagrams as opposed to reading lengthy explanations.
- 

3 Discuss THREE reasons why a Business plan is important.

The entrepreneur has to identify all possible issues (strengths and weaknesses of the business, but also possible opportunities and threats from outside) that may have an impact on the business. The business plan will then hopefully enable the entrepreneur to consider different strategies to create and maintain a competitive advantage in the market place. It forces the entrepreneur to give careful consideration to all the aims and objectives for each section of the business and to write these down in a logical way.

- It is a tool that can be used to obtain financial assistance from investors when they are convinced to contribute capital to become co-owners. Banks may also be convinced to lend money to the business based on a well-structured business plan.

4 See how many words concerning a Business plan can be found in the word search below:

V	T	L	F	C	G	C	T	S	P	L	S	B	C	P	G	L	H	S	D
J	C	U	I	R	S	O	M	Z	P	O	V	G	H	F	W	K	H	E	M
J	D	V	F	G	U	I	P	T	J	K	E	Z	Z	V	I	I	V	B	Q
P	P	Y	I	Q	H	W	D	X	T	Z	F	K	F	A	M	B	I	U	B
Y	B	N	C	E	N	D	V	S	Y	R	R	S	J	J	Z	W	A	N	P
C	E	H	X	Z	Q	Z	J	L	B	M	P	R	X	Q	R	M	H	M	I
W	T	N	K	O	F	T	R	S	A	E	D	I	Q	M	V	V	T	J	U
L	R	O	T	U	Y	S	E	S	B	Q	S	B	L	M	P	J	T	V	S
R	B	M	S	R	O	T	S	E	V	N	I	I	M	W	R	C	F	Z	W
L	V	O	L	E	E	J	E	N	T	A	E	R	H	T	Q	P	S	H	R
G	O	J	A	V	Y	P	A	K	M	L	W	A	O	O	E	R	X	X	B
R	J	L	O	T	R	O	R	A	E	P	W	O	T	L	D	P	L	G	J
E	B	R	G	S	L	N	C	E	F	S	L	D	T	L	O	U	T	Q	M
R	O	G	X	X	M	U	H	W	N	S	P	J	S	J	K	O	Q	Q	Y
O	V	K	Q	L	W	O	N	U	T	E	J	B	Q	H	V	K	J	A	D
M	G	Z	L	E	X	I	C	O	A	N	U	M	F	P	S	D	J	E	O
F	H	Y	L	C	N	C	C	E	J	I	P	R	M	O	A	L	V	E	G
N	L	A	T	D	L	P	M	R	U	S	U	M	L	S	T	R	T	F	H
H	L	X	J	C	J	C	S	G	N	U	F	C	E	V	F	J	U	Y	N
D	Y	M	A	J	E	G	O	O	P	B	F	G	X	D	W	Q	X	Z	A

**Activity 40:** Answer all the following questions, regarding the Business Plan, refer to a new restaurant that sells takeaway chicken.

1 Design a cover page that can be used for the Business plan of the new business venture.

The learners' responses will differ: This is a suggested answer:



- 2 Explain the location you are considering for your business namely, i.e. where are you going to establish your business? Motivate your answer.

The **Chickaroo** fast food eatery would be located in the suburb of Gardens, Cape Town. The location is very central, there is a dense concentration of people, housed mostly in blocks of flats. This would be advantageous, as apart from some other fast food outlets, **Chickaroo** is unique in its style of chicken meals catering, which would serve the Gardens residents very well.

**Activity 41: Continue with the new restaurant idea that sells takeaway chicken and answer the following questions:**

- 1 Explain FIVE strengths of your business. The strengths that you identify will not be the same as those of your friends, because you will decide for yourself what good qualities your business has – based on your inputs. **REMEMBER: Strengths form part of the internal aspects of your business.**

Strength 1 and why?

Access to financial assistance: This business has not been started on a shoestring budget. It is backed by **sufficient private capital**, thus the business would not be dependent on loan capital, as borrowed capital is costly.

Strength 2 and why?

Novel / unique product: Unlike other fast food outlets that either deep fry, grill, flame grill or roast chickens, **Chickaroo** has adopted the **Banting** method of food preparation as a vital health alternative.

Strength 3 and why?

Business culture: The Banting diet plan is steadily gaining ground as an alternative for Type 2 diabetics, who need to minimise carbohydrate intake. Thus **Chickaroo** is aiming to fill a specific niche in the market and generate a different business culture.

Strength 4 and why?

Location: In generating an alternative business culture, **Chickaroo** will engage employees who will uphold and foster the Banting philosophy and build on the **vibe of the Gardens area**, where people are generally more health conscious and would welcome Banting-style food.

Strength 5 and why?

Employees' skills: Before **Chickaroo** opens for business, the Banting food preparation methodology will have been mastered by the employees, thus ensuring they have the **required skills**. Success of the business will depend on being meticulous in this regard and would have to please and convince the most ardent critics / sceptics.

- 2 Explain FIVE weaknesses of your business. The weaknesses that you identify will not necessarily be the same as those of your friends. You will have to decide for yourself what weaknesses your business has – based on your inputs. **REMEMBER: Weaknesses form part of the internal aspects of your business.**

Weakness 1 and why?

Competitive pricing: Acquiring and maintaining competitive pricing may prove difficult at first. The Banting method is not run of the mill fare; it requires skilful preparation, quality free-range products and specialised ingredients, which are not cheap to start with. The eatery does, however, provide take-away meals upon request.

Weakness 2 and why?

Product patent: The **Chickaroo** brand is a registered trademark, but as yet, **Chickaroo** is not a patented business product, thus its approach could easily be copied by established or new food outlets.

Weakness 3 and why?

Operational efficiency: Owing to private capital being used to start the business, the size of the eatery, is somewhat smaller than conventional restaurants or fast food outlets. Hence, the maximum number of patrons that could comfortably be accommodated would be 15. There are plans, once approval has been given by the City Council, to expand onto the pavement to attract more customers.

Weakness 4 and why?

Access to other resources: Given that chicken and accompaniments are prepared as per the Banting method, food would need to be freshly-made daily. Thus if the supply of free-range chicken remains steady, food can be made. In the event of a shortage free-range chicken or other unforeseen problems, it may prove to be difficult to maintain a steady supply of meals.

Weakness 5 and why?

Employee absenteeism: Given that staff need to be well-trained and committed to the Banting philosophy, problems may arise if more than two employees are absent per day. It would prove too costly to train staff who are on stand-by, in the event of employees being absent from work.

**Activity 42: Continue with the new restaurant idea that sells takeaway chicken and answer the following questions:**

- 1 Explain FIVE OPPORTUNITIES (choose from the market and macro environment) for your business. Your business's opportunities will not be the same as those identified by your friends, because you will decide for yourself what plan to use to outsmart your competitors based on the macro and/or market forces. **REMEMBER: Opportunities are external: You may be able to grab the opportunity, but you cannot create the opportunity, because you have no control over it.**

Opportunity 1 and why?

Social opportunity: **Chickaroo** would offer a good opportunity to spread the Banting philosophy. Many children and adults suffer with Type 2 Diabetes. **Chickaroo** would actively engage with the Gardens community and the vegetable growers of Philippi to motivate people to be more health conscious.

Opportunity 2 and why?

Consumers: Many consumers are discerning diners and are on the constant look out for new and exciting food choices. **Chickaroo** would offer such an opportunity by filling a niche in the market for quality Banting-style chicken and accompaniments.

Opportunity 3 and why?

Ethical: **Chickaroo** would strive to maintain the highest ethics in implementing the Banting philosophy, which would entail fair trade practices, and authentic products (must be free-range and organic products).

Opportunity 4 and why?

Economic: The South African economic outlook is not very positive at present, nevertheless, people need to eat. Since the **Chickaroo** eatery is offering a very different style of chicken meals, new customers could comprise those who are genuinely supporters of the eatery's philosophy, or those customers who are tired of conventional fast foods and looking for a healthier option.

Opportunity 5 and why?

Technological: Technology for catering purposes has improved dramatically, this would enhance the efficiency and production of meals. Also, cleaning and sterilising equipment is also more advanced. Computer programs that facilitate effective and accurate bookkeeping, can also be used to endure efficient business practices

- 2 Explain FIVE THREATS (choose from the market and macro environment) for your business. Your business's threats will not be the same as those identified by your friends. Every business will (often) have different elements from the external environment that will impact upon it. **REMEMBER: Threats are external and the business will react to them, but the entrepreneur cannot control them.**

Threat 1 and why?

Possible new competitors: Often when a new product is launched, it does not take long before similar eateries appear or fast food outlets include choices in their product range. This would be a significant threat for **Chickaroo**, especially in the start-up phase.

Threat 2 and why?

Substitute products: This could be a significant threat as unscrupulous competitors could offer Banting-style food, without it actually being authentic. Consumers who buy such a product might believe that **Chickaroo's** products are of the same low standard, and therefore, not support the eatery.

Threat 3 and why?

Current competitors: They may adopt similar offerings to that of **Chickaroo**, but without maintaining similarly high standards, quality and presentation, thus posing a risk for the eatery, which might be judged accordingly.

Threat 4 and why?

Suppliers: There are not many suppliers of free-range chicken and organic vegetables in the Cape Metropole. If the current suppliers (in Philippi and Grabow) are unable to meet **Chickaroo's**, requirements, the business would be forced to look further afield, meaning the end product would be more expensive, which would not be good for business initially.

Threat 5 and why?

Environmental: South Africa has barely begun to recover from a major drought period, which has had devastating consequences for farming. The Western Cape was not spared the ravages of the drought. If chicken farmers and vegetable growers are too negatively affected by environmental factors, they may be forced to stop farming. This would be a disaster for **Chickaroo**, which is heavily dependent on these suppliers.



**Activity 43: Continue with the new restaurant idea that sells takeaway chicken and answer the following questions:**

Complete each part given below as the sections / answers should be included in the ***Financial component*** of the business plan:

- What is the total capital amount required to start the business? **R800,000**
- How much own capital will be provided? **The full amount of R800,000**
- How much borrowed capital will be needed and where will this be obtained?  
**In the start-up phase no capital will be borrowed. Should it become necessary, however, the business will be offered as surety to obtain additional funds from a bank.**
- How much of the capital will be used for non-current assets and what non-current assets are needed?  
**Learner's opinion**
- How much of the capital will be used as working capital and how will this be utilised?  
**Working Capital = Current Assets - Current Liabilities**
  - How much will be used for Trading Stock? **Learner's opinion**
  - How much will be kept in the form of cash? **Learner's opinion**
  - Will the business purchase on credit? What percentage of the stock will be purchased in this way and from whom will it be purchased? How long will it take for the business to pay its creditors? **Yes, the business will purchase certain goods on credit, amounting to 20% of stock, obtained from catering wholesalers. 30 days will be negotiated.**
  - Will the business be selling goods on credit? What percentage of the sales will be sold on credit? (Think about it: Is it a good idea to allow takeaway food to be sold on credit?) How long would the business grant a debtor before his/her account must be paid? **No, the business is unable to offer goods on credit as it is not feasible.**
- Calculate how much start-up capital the business will require by completing the following table:

<b>Item needed/expense:</b>	<b>Amount:</b>
<b>Rented premises - deposit</b>	<b>R12,000</b>
<b>Rent for first six months</b>	<b>R72,000</b>
<b>Catering equipment</b>	<b>R251,000</b>
<b>Staff uniforms</b>	<b>R30,000</b>
<b>Computers</b>	<b>R60,000</b>
<b>Furniture</b>	<b>R100,000</b>
<b>Utilities deposit</b>	<b>R10,000</b>
<b>Telephone / internet</b>	<b>R5,000</b>
<b>Bank card machine</b>	<b>R5,000</b>
<b>Food packaging</b>	<b>R20,000</b>

Advertising	R100,000
<b>TOTAL:</b>	<b>R650,000</b>

- At what price will each chicken be sold? R160,00
- What is the projected mark-up for the business's products? R228%

**Activity 44: Continue with the new restaurant idea that sells takeaway chicken and answer the following questions:**

Complete each question given below as it should be included in the **Production component** of the business plan:

- Who will be the suppliers of the various items needed by the business?
  - Specify in detail by looking at what equipment will be required.
    - Bosch gas and electric ovens
    - Omni Catering Suppliers for all cutlery, crockery, kitchen utensils etc.
    - Greenhome food packaging (fully biodegradable) for packaging of take-away orders
    - Philippi Vegetable and Fruit Producers for the daily vegetable and fruit requirements
    - Elgin Free-range Chicken Producers for all chicken products
    - Natural Nutrition Organic Condiment Suppliers for all spices, sauces, marinades etc.
    - Earthshine Organic Food Suppliers - coconut and almond flour, coconut oils, and nuts etc., requirements as per Banting diet
    - Eco Smart and Greenworx for organic cleaning materials
  - What ingredients are necessary to cook the chickens and any other items on the menu?
    - Coconut oil,
    - Spices and fresh herbs
    - Nuts and seeds
    - Butter
    - Organic vegetables such as mushrooms, onions, garlic, tomatoes, leeks, kale, spinach, ginger, chillies, cauliflower, limes, spring onions, celery etc.
    - Yoghurt
    - Variety of cheeses and cream and full-cream milk
    - Variety of powdered mustard and readymade mustard

- Estimate how many chickens will be sold during the first month. **About 60**
- How will quality control be implemented in the restaurant?  
 Since all the employees will be fully trained in the Banting methodology and will be working according to fixed prescribed recipes, quality control will be a group effort, as all have a huge stake in ensuring compliance and the success of the business.
- Specify the business's fixed and variable costs. Each item will either be a fixed cost or variable cost – not both.

Item needed/expense:	Fixed cost amount	Variable cost amount
Rent	R6000	
Salaries	R25,000	
Telephone & internet	R1,500	
Utility account	R2,500	
Insurance	R1,000	
Chicken products		R6,000
Vegetables and fruits		R3,000
Crockery breakages		R500
Cleaning materials		R600
Essential ingredients		R1,300
Other		R900
<b>TOTAL:</b>		<b>R 60,000</b>

**Activity 45: Continue with the new restaurant idea that sells takeaway chicken and answer the following questions:**

Complete each question given below, because all of these details should be included in the **Marketing component** of the business plan:

- Who is your target market for the takeaway chicken?  
 People who are looking for a genuine, well-priced health food option.
- How much are they prepared to pay for the chicken? **From R35 to R200**
- How will the chicken be packaged? **In Bio-degradable packaging**
- Design a Trade mark and slogan for your product.

# Chickaroo

## Only the best for you!



- How does the business plan to communicate with the target market? For example: TV, newspaper, radio, pamphlets, etc.?

The business plans to reach its target market through *Cape Talk* and *Fine Music Radio*, pamphlets, and *The Cape Times*, *The Cape Argus* and *Die Burger* and local community newspapers such as *The Tygerburger* and *TableTalk*.

### **Additional activities ...**

- 1 True or false? The Break-even point is that point where the business makes neither a profit nor a loss. **True**
- 2 Explain the importance of market research to an entrepreneur that wants to start a new business.  
**Market research is essential because it enables the business to identify problem areas. It also helps the business to understand the needs of the customer and new trends in the market. It is valuable to identify new opportunities as well as new threats. It facilitates better planning and utilisation of resources, capital and labour.**
- 3 At this point, all the sections of your Business Plan should be complete. Write the executive summary of your Business Plan for the chicken restaurant and takeaway business.  
**Chickaroo is a new concept in fast food as it will be serving people who are more health conscious and want to eat better but still affordable fast food. The business will be actively involved and partnering with the Philippi Vegetable and Fruit Growers Association – a community-based organisation which aims to improve the lives of poor and disadvantaged people, who do not have sufficient skills to enter the formal labour market. By focusing the communities' energies**

on self-sustaining projects like fruit and vegetable cultivation, much needed income has been generated. In addition, the business aims to use only free range chickens, organic spice and herb products and organic packaging. As the business grows, there is the vision that with more investment **Chickaroo** will become a one hundred percent green business.