

BUSINESS STUDIES BUSINESS ENVIRONMENTS



GRADE 11 CORE NOTES (2020)



**Western Cape
Government**

TOPIC 1: INFLUENCES OF BUSINESS ENVIRONMENTS

TERM	DEFINITION
Business Environments	All the internal and external factors that affect the functioning of a business, e.g. micro, market and macro environments.
Micro Environment	This environment is the business itself, it consists of all the elements inside the business.
Market Environment	This environment exists immediately outside the business.
Macro Environment	This environment exists outside the micro and the market environments.
Extent of Control	The amount of influence that a business has on the business environments.
PESTLE Analysis	An acronym used for the elements to identify challenges posed by the Macro environment: Political, Economic, Social, Technological, Legal, Environmental.
Independently	Working free from outside control or influence on their own.
Fluctuations in foreign currency	Changes in the value of international money. Dollars/ Euro/Yen/ Pound
Profit margins	The amount of profit made by the business such as 25%
e-commerce	Commercial transactions conducted electronically on the Internet.
Time- consuming	Taking a lot of or too much time. "an extremely time-consuming process"
Accessible market	Market that is easy to reach. Makes buying and selling easy.

Outline components of the micro-environment (Recap)

- Business mission and objectives
- Management structure
- Organisational resources
- Organisational culture

Outline components of the market environment (Recap)

- Customers
- Suppliers
- Competitors
- Regulators
- Strategic allies
- Unions

Outline components of the macro environment (Recap)

- Political
- Economic
- Social
- Technological
- Legal
- Environment

Description of the term 'CONTROL'

The power to influence or direct the behaviour of other organisations and institutions

Explain the reasons why businesses have MORE CONTROL over the MICRO environment

- All six components of the micro environments can be controlled by the management of the business.
- A business decides on the culture and goals by compiling a vision, mission statement, goals and objectives.
- Resources are organised by employing and managing staff.

Explain the reasons why businesses have LESS CONTROL over the MARKET environment

- All components of the market environment work independently of the business.

Explain the reasons why businesses have NO CONTROL over MACRO environment

- This environment operates outside of the influence of the business.
- Management of a business has absolutely no control over the components of the macro environment.

Discuss/Explain/Describe how businesses can control the business environments.

- Business has **full control** over the micro environment.
- Management of the business therefore has **no direct control** over any of the components in the market environment but **may influence** the components.
- Management of a business has absolutely **no control** over the components of the macro environment.

Discuss/Explain the benefits/advantages of businesses that are involved in the MACRO environment.

- It helps the management to have a complete understanding of the external or bigger environment.
- It helps identify opportunities and threats that would affect the business.

Recommend/Suggest ways in which businesses can be involved in the macro environment (PESTLE ANALYSIS)

Describe/Discuss/Explain the challenges of the MACRO environment.

MACRO ENVIRONMENT	INVOLVEMENT OF THE BUSINESS	CHALLENGE
POLITICAL	<ul style="list-style-type: none"> • Business need to work within all the laws & regulations set up by Government. • Regulation of industries control trade with other countries & protect local industries, customers and employees. • If a business is fully aware of all the regulations, it can ensure that it sets up appropriate trading channels. 	<ul style="list-style-type: none"> • Some government policies may affect businesses. • Consumer rights organisations may prevent businesses from selling products if they do not meet certain requirements. • Trade agreements may prevent businesses from importing some medicine/products.
ECONOMIC	<ul style="list-style-type: none"> • This environment is subject to constant change. • Exchange rates changes constantly during the course of a day. • Business can take advantage of changes in exchange rates, seasonal price changes, and government tax concessions if they have the requisite information. 	<ul style="list-style-type: none"> • Inflation/Interest rates may negatively impact on business. • Loans may be expensive due to high interest rates. • Fluctuations in foreign currency may restrict import. •
SOCIAL (cultural and demographic)	<ul style="list-style-type: none"> • These environments can offer useful information to the business • Business must ensure that they have all the information they can find about the people they are dealing with. • Information will allow the business to: <ul style="list-style-type: none"> - project an image appropriate to the target market; - compete effectively, because it understands the competition; - attract investors effectively and - negotiate successfully with suppliers. 	<ul style="list-style-type: none"> • Customers may not be able to afford products due to low income levels. • Businesses may not be conversant with the local language of their customers.

MACRO ENVIRONMENT	INVOLVEMENT OF THE BUSINESS	CHALLENGE
TECHNOLOGICAL	<ul style="list-style-type: none"> • This environment constantly develops and improves. • Business need to keep up with the latest technologies. • To stay ahead of its competitors, the business just uses the latest most efficient methods of production. • The latest technology must also be used to promote products and services. 	<ul style="list-style-type: none"> • May not keep up with/be aware of the latest technology. • Employees may not be skilled to operate / maintain new technology / equipment. • Businesses may not be able to afford new technology. • May not be able to cater for / afford online transactions / e-commerce
LEGAL	<ul style="list-style-type: none"> • Information about these environments is essential if the business wants to prosper. • Business needs to comply with various laws, both domestically and internationally. • Business must know which policies, laws and regulations exist that govern businesses and particular industries 	<ul style="list-style-type: none"> • Consider certain Acts that may have a direct impact on a business, e.g. the CPA/BCEA. • Legal requirements for operating certain types of businesses time-consuming. • High legal costs involved in obtaining a licence/trade mark / patent may prevent some establishments. • Legalities of business contracts may limit business operations
ENVIRONMENTAL Physical or Natural	<ul style="list-style-type: none"> • Work with the natural environment to put measures in place to prevent environmental damage. • Business being sustainable and environmentally aware. • Many new businesses have become successful by providing more environmentally friendly products or services. 	<ul style="list-style-type: none"> • Chemicals/ ingredients in business' products may be harmful to customers. • Measures to dispose of business waste may be expensive. • Packaging of some products may not be environmentally friendly may not be recyclable.
Global / International	<ul style="list-style-type: none"> • The internet has made the world a very accessible market. • It is possible to sell Products internationally within days, thanks to the emergence of the internet and social networks. • Business using the internet can increase their markets tremendously. 	<ul style="list-style-type: none"> • Language and cultural barriers hamper communication • If you expand into new territories, you'll inevitably come into conflict with local competition / some new businesses. • Dealing with taxes, fees, and tariffs for international trade can be a major obstacle for a lot of companies – especially smaller businesses.

TOPIC 2: CHALLENGES OF THE BUSINESS ENVIRONMENT

TERM	DEFINITION
Managing styles	Different ways to manage a business. Different leaders use different styles (ways). They can be strict or more lenient.
Negotiations	Discussions aimed at reaching an agreement.
Political stability	When the government is stable – no rioting.
Repo rate	The rate at which the central bank of a country lends money to commercial banks
Interest rate	A proportion of a loan that is charged as interest to the borrower. Example 10% extra on the amount.
Insufficient skills	When people don't have the necessary skills that businesses needs
Cybercrime	Criminal activities carried out by means of computers or the Internet.
Bad image	When a business has a bad image, it could happen due to poor service, poor publications of poor management. This can lead to a decrease in selling of products, because public don't want to support the business.
International trade	To do trading across the world (global)
Consumer loyalty	When customers are coming back to buy from your business of keep on using your services. They don't support other competitors.
Acceptable employment practices	Fair hiring of workers and workplace conditions.
Non-compliance	Failure to act accordance to a command/ law
Penalties	Punishment for breaking the law or non-compliance of the law/acts
Skills programs	Training programs to upskill workers
Nepotism	The practice among those with power favouring relative or friends especially by given them jobs.

Description of the term 'CHALLENGE'

- A **challenge** is something new and difficult which requires great effort and determination.

Name the challenges of the MICRO environment.

- Difficult employees
- Lack of vision and mission
- Lack of adequate management skills

Outline/Discuss/Explain the challenges of the MICRO environment.

Challenges in the MICRO environment		
1.	Difficult employees	<ul style="list-style-type: none"> • The micro environment involves people with diverse lifestyles, values and ideas who work together in a confined space. • Challenges are bound to arise out of such circumstances. • Employees create a number of different challenges: <ul style="list-style-type: none"> – They cannot work in a team. – They create conflict with other employees. – They have a poor work ethic and low productivity. – They leave the organisation after being trained.
2.	Lack of vision and mission	<ul style="list-style-type: none"> • A clear focussed vision and mission statement is essential for the success of a business. • Sometimes business owners do not spend enough time formulating a clear vision and mission. • The business then lacks direction and can easily fail. • Lack of vision can affect the productivity of the employees.
3.	Lack of adequate management skills	<ul style="list-style-type: none"> • The management of a business has a major impact on the success of the business. • Different managing styles can be a source of enormous conflict with other managers and with staff. • Ineffective management can affect the productivity and profitability of a business. • Managers who lack skills must be guided to acquire these skills and put them into practice.

Industrial Analysis Tool for the MARKET ENVIRONMENT:

SWOT ANALYSIS

<p style="text-align: center;">STRENGTHS</p> <ul style="list-style-type: none"> • What advantages does your organisation have and what do you do better than anyone else? • What unique or lowest-cost resources can you draw upon that others can't? • Do you have skilled employees and a strong customer base? • Do you provide high quality product? • Do you have sufficient resources? • What is your core competency? 	<p style="text-align: center;">WEAKNESSES</p> <ul style="list-style-type: none"> • High cost infrastructure • High employee turnover • Weak brand portfolio • High debts level • What are people in your market likely to see as weaknesses? • What factors cause loss of sales • Are your competitors doing any better than you?
<p style="text-align: center;">OPPORTUNITIES</p> <ul style="list-style-type: none"> • Market growth for the business product. • New technology that will enhance quality services and products • Changing customer habits. • Disposable income level will increase. • Government's incentives for 'specific industry • Growing number of people buying on line (electronic marketing) • What good opportunities can you spot? 	<p style="text-align: center;">THREATS</p> <ul style="list-style-type: none"> • Corporate tax may increase • Rising pay levels. • Intense competition. • Increasing fuel price. • Aging population. • Stricter laws regulating environment pollution • Currency fluctuations. • Changing technology

Name the challenges of the MARKET environment.

- Competition
- Shortage of supply
- Changes in consumer behaviour
- Unions
- Demographics and psychographics
- Socio-cultural factors

Outline/Discuss/Explain the challenges of the MARKET environment.

Challenges in the MARKET environment		
1.	Competition	<ul style="list-style-type: none"> • Competition seriously challenges the success of business. • This is especially true if there are too many competitors in a limited market.
2.	Shortage of supply	<ul style="list-style-type: none"> • Shortage of goods or raw materials necessary for production can destroy the business.
3.	Changes in consumer behaviour	<ul style="list-style-type: none"> • Consumers are fundamental to the success of a business. • Business must realise that the consumer's behaviour does not remain constant.
4.	Unions	<ul style="list-style-type: none"> • Dealing with trade unions is a challenge for business. • Often it involves complicated agendas that could become very tense.
5.	Demographics and psychographics	<ul style="list-style-type: none"> • Business must know the demographics of the market in which they operate. • Demographic statistics change all the time; so the business must use current and accurate information. • Psychographics refers to the study of attitude, tastes and desires of the market. • These change quickly and the business has to change as quickly if it wants to retain its customers.
6.	Socio-cultural factors	<ul style="list-style-type: none"> • The society in which a person is raised shapes how they think. • Business must understand the socio-cultural influences at play in the target market.

Recommend ways in which businesses can overcome COMPETITION in the MARKET

- Management must be proactive and ensure that the business differentiates itself from its competitor in order to gain a competitive advantage.
- Put emphasis on setting the business apart from its competitors.

Industrial Analysis Tool for the MARKET ENVIRONMENT:

PORTERS' FIVE FORCES MODEL

The main aim of Porter's Five Forces model is to analyse the business position in the market. This is more of a research study done by businesses.

1. Power of SUPPLIERS

- The smaller the number of suppliers, the more powerful they may be as the choice of suppliers may be limited.
- The more powerful the suppliers, the less control the business has over them.

2. Power of BUYERS

- Buyers buying in bulk can bargain for prices in their favour.
- If a business is dealing with a few powerful buyers, they are often able to dictate their terms to the business.

3. Power of COMPETITORS/COMPETITIVE RIVALRY

- Competitive rivalry refers to the number of competitors and their ability to influence / control the market.
- If competitors have a unique product/service, then they will have greater power.

4. Threat of SUBSTITUTION/SUBSTITUTES

- If the business's product can be easily substituted, it weakens the power of the business in the market.
- Unique products will not be threatened by substitute products.

5. Threat/Barriers of NEW ENTRANTS to the market

- New competitors can quickly/easily enter the market, if it takes little time/ money to enter the market.
- If there are a few suppliers of a product/service but many buyers, it may be easy to enter the market.
- If the barriers to enter the market are low, then it is easy for new businesses to enter the market/industry.

Name the challenges of the MACRO environment.

- Political changes
- Economic factors
- Socio-economic issues
- Technological factors
- Legal factors
- Environmental (Globalisation / International challenge)

Explain / Discuss how contemporary legislation affects (impacts) business operations

1. CONSUMER PROTECTION ACT (CPA)

PURPOSE: Promote and protect the economic interests of consumers by providing access to information.

ADVANTAGES	DISADVANTAGES
<ul style="list-style-type: none">• Businesses may build a good image if they ensure that they do not violate consumer rights.• May gain consumer loyalty, if they comply with CPA.• Businesses may be safeguarded from dishonest competitors.• Prevents larger businesses from undermining smaller ones.	<ul style="list-style-type: none">• Businesses have to replace/repair faulty items/refund money if the fault occurs within six months after purchase.• They have to disclose more information about their products and processes / services.• Confidential business information may become available to competitors.

2. LABOUR RELATIONS ACT (LRA)

PURPOSE: Provides a framework/structure for labour relations between employers and employees.

ADVANTAGES	DISADVANTAGES
<ul style="list-style-type: none">• Protects the rights of businesses in labour related issues• Labour disputes are settled quicker and are less expensive.• Prevents unfair discrimination in the workplace as it promotes equal opportunities for all employees.• Protect employers who embark on lawful lock-outs when negotiations between parties fail.	<ul style="list-style-type: none">• Productivity may decrease if employees are allowed to participate in the activities of trade unions during work time.• Costs of labour increases because of legal strikes.• Reduced global competitiveness due to lower productivity.

3. COMPENSATION FOR OCCUPATIONAL INJURIES & DISEASES ACT (COIDA)

PURPOSE: Provides a comprehensive protection to employees who injured in the course of performing their duties.

ADVANTAGES	DISADVANTAGES
<ul style="list-style-type: none"> • Promotes safety in the workplace. • Creates a framework for acceptable employment practices and safety regulations. • Supply administrative guidelines/mechanisms for dealing with/processing claims. • Eliminates time and costs spent on lengthy civil court proceedings. 	<ul style="list-style-type: none"> • Claiming processes can be time consuming. • Procedures required by this Act may be costly as paperwork places an extra administrative burden on businesses. • Implementation processes/procedures required by the Act may be expensive.

4. BASIC CONDITIONS OF EMPLOYMENT ACT (BCEA)

PURPOSE: Provides clear terms and conditions of employment for employers and employees.

ADVANTAGES	DISADVANTAGES
<ul style="list-style-type: none"> • Creates a framework of acceptable employment practices e.g., work hours, leave, etc. • Promotes fair treatment of employees in business. • Encourages consultation between employers and employees. • Outlines minimum requirements that forms the basis of employment contracts. • Work hours are specified so that the employer cannot exploit employees. 	<ul style="list-style-type: none"> • Developing/Drafting a formal/legal employment contract may be time consuming/costly. • Businesses may regard employment contracts negative and may not implement it, which result in noncompliance/penalties. • No employer may force an employee to work more than 45 hours in a week. This may result in reduced productivity

5. THE SKILLS DEVELOPMENT ACT (SDA)

PURPOSE: Develops skills of people in South Africa in order to improve productivity.

ADVANTAGES	DISADVANTAGES
<ul style="list-style-type: none"> • Increases the number of skilled employees in areas where these skills are scarce. • Improves productivity in the workplace. • Increases global competitiveness • Increases investment in education and training in the labour market. • Encourages ongoing skills development and learning. 	<ul style="list-style-type: none"> • Increases cost as the process requires a large amount of paper work. • Implementation of the SDA can be difficult to monitor and control. • Skills programmes may not always address training needs of employees

6. EMPLOYMENT EQUITY ACT (EEA)

PURPOSE: This Act states that employees who do the same work (work of equal value) must be paid equally (equal pay).

ADVANTAGES	DISADVANTAGES
<ul style="list-style-type: none"> • Promotes equal opportunity and fair treatment in the workplace. • Ensures the implementation of affirmative action measures to redress the imbalances in employment. • Encourages diversity in business by employing people from various racial backgrounds. • Encourages consultation between employer and employees. • Prevents unfair discrimination against employees. 	<ul style="list-style-type: none"> • Increased administration burden, as businesses must compile/submit employment equity reports every two years. • Expensive to train/employ someone who knows little about the Act. • Fines/Penalties for non-compliant businesses may be expensive for the business.

7. BROAD BASED BLACK ECONOMIC EMPOWERMENT (BBEE)

PURPOSE: Enable wealth to be spread more broadly across all population groups.

ADVANTAGES	DISADVANTAGES
<ul style="list-style-type: none"> • Encourages businesses to address the demands for redress/equity directly. • Provides a variety of business codes to improve employment equity. • A good BEE rating improves the image of the business. • Promotes enterprise development, by developing entrepreneurial skills 	<ul style="list-style-type: none"> • Businesses that want to do business with the government must have their BEE status assessed annually. • Processes may lead to corruption/nepotism if not monitored properly. • Investment/Ownership issues can cause unhappiness amongst existing shareholders/owners.

8. NATIONAL CREDIT ACT (NCA)

PURPOSE: Promotes the social and financial interest of consumers.

ADVANTAGES	DISADVANTAGES
<ul style="list-style-type: none"> • The whole credit process is transparent e.g. both businesses and customers know their responsibilities. • Lower bad debts resulting in better cash flow. • Increases cash sales as credit can only be granted to qualifying customers. 	<ul style="list-style-type: none"> • Businesses can no longer carry out credit marketing. • Leads to loss of sales as many consumers may no longer qualify to buy on credit. • The paperwork and administrative processes required by the Act are costly.

Industrial Analysis Tool for the MACRO ENVIRONMENT:

NOTE: You need to **NAME** the PESTLE factor, **IDENTIFY** challenges of each factor and **RECOMMEND WAYS** businesses can deal with the identified challenges as explained in the table below:

FACTOR	CHALLENGE	RECOMMENDATIONS
POLITICAL	<ul style="list-style-type: none"> i. Some government policies may affect businesses ii. Consumer rights organisations may prevent businesses from selling products if they do not meet certain requirements. iii. Trade agreements may prevent businesses from importing some medicine/products. 	<ul style="list-style-type: none"> i. Research recent government policies ii. Network and lobby with the NGOs and all consumer rights organisations. iii. Trade only with countries that have favourable trade agreements with the government.
ECONOMIC	<ul style="list-style-type: none"> i. Inflation/Interest rates may negatively impact on business. ii. Loans may be expensive due to high interest rates. iii. Fluctuations in foreign currency may restrict import. 	<ul style="list-style-type: none"> i. Consider decreasing profit margins rather than increasing product prices. ii. Borrow money from financial institutions when interest rates are favourable. iii. Consider exchange rates when trading with other countries
SOCIAL	<ul style="list-style-type: none"> i. Customers may not be able to afford products due to low income levels. ii. Businesses may not be conversant with the local language of their customers. 	<ul style="list-style-type: none"> i. Sell substitute/generic products at lower prices. ii. Learn local languages/Hire employees who are well conversant with the local language.
TECHNOLOGICAL	<ul style="list-style-type: none"> i. May not keep up with/be aware of the latest technology. ii. Employees may not be skilled to operate/maintain new technology/ equipment. iii. Businesses may not be able to afford new technology. iv. May not be able to cater for/ afford online transactions/e-commerce. 	<ul style="list-style-type: none"> i. Continuous research on the latest available technology/equipment in the market. ii. Train existing/appoint new employees to maintain/use new equipment. iii. Compare prices/Select suitable suppliers for new equipment at reasonable prices. iv. Businesses must be geared for online trading/e-commerce

FACTOR	CHALLENGE	RECOMMENDATIONS
LEGAL	<ul style="list-style-type: none"> i. Consider certain Acts that may have a direct impact on a business, e.g. the CPA/BCEA. ii. Legal requirements for operating certain types of businesses time-consuming. iii. High legal costs involved in obtaining a licence/trade mark/patent may prevent some establishments. iv. Legalities of business contracts may limit business operations 	<ul style="list-style-type: none"> i. Comply with all relevant legislation that may impact on businesses. ii. Comply with the legal requirements for operating businesses, e.g. licence/trade mark registration/patents. iii. Budget for high legal establishment costs. iv. Businesses must know the legalities of business contracts so that they comply with all the requirements.
ENVIRONMENTAL	<ul style="list-style-type: none"> i. Chemicals/Ingredients in business' products may be harmful to customers. ii. Measures to dispose of business waste may be expensive. iii. Packaging of some products may not be environmentally friendly may not be recyclable. 	<ul style="list-style-type: none"> i. Chemicals/Ingredients should be clearly indicated on labels/packaging to inform customers about possible side effects/correct use of products. ii. Implement cost effective measures to dispose of medical waste. iii. Implement recycling measures to prevent pollution of the environment/Use packaging that is re-usable/recyclable.

TOPIC 3: ADAPTING TO CHALLENGES OF THE BUSINESS ENVIRONMENT

TERM	DEFINITION
Mergers, takeover, acquisitions	This involves the process of combining two companies into one, also known as the Integration Strategy
Integration strategy	This involves taking over or merging with other businesses to increase growth potential.
Horizontal integration	Businesses takes control of other businesses selling / providing the same products/services (competitor). E.g. Checkers merged with Shoprite.
Backward Vertical Integration	A business combines/takeover/merge with their supplier to reduce dependency. E.g. A farmstall takes over a farm.
Forward Vertical Integration	A business combines/takeover/merge with the seller/retailer/distributor of their products. E.g. An apple farm bought Juicy Stores
Social responsibility	An ethical view point that says every individual/organisation has an obligation to benefit society as a whole.
Adaptation to challenges	To be willing to make changes when the business faces problems/ challenges
Ethical	To do the right thing: avoid activities that do harm to people or the environment
Stakeholders	Any person with a concern in the business
Responsibility	A true leader takes responsibility for their team. Individuals have a responsibility to control their behaviour. Employees must show responsibility and do what is required by their job
Different perspective	A different view or outlook on the same thing

Explain/Discuss/Recommend ways in which businesses can adapt to challenges of the MICRO ENVIRONMENT.

- Businesses can deal with difficult employees by revisiting the recruitment & induction policies
- Management can easily adapt to the challenges involved in the day to day running of a business.
- Problems in the micro environment must be analysed, solutions identified and implemented.

Define/Explain/Discuss/Describe the following WAYS in which businesses can adapt to challenges of the MACRO ENVIRONMENT:

<p>A. Information management</p>	<ul style="list-style-type: none"> • Information is an essential management tool to deal with the challenges. • Information must be found, recorded, stored, easily retrieved and effectively used. • Management must implement an effective information system, which is accessible and useful to all staff.
<p>B. Strategic responses</p>	<ul style="list-style-type: none"> • Strategic responses must be designed for the various challenges. • This is done by analysing all the information, identifying all the stakeholders involved and getting a clear picture of each stakeholder's viewpoints and requirements.
<p>C. Mergers, takeovers, acquisitions and alliances</p>	<ul style="list-style-type: none"> • Business facing economic challenges, can respond by increasing their market share. • Methods of increasing market share: <ul style="list-style-type: none"> - merger with another similar organization; - the acquisition of an existing business by the shares buy out until your business has a controlling stake; - acquire another business; - forming an alliance with another organization. form an alliance with another organisation.

Types of business strategies

1. INTEGRATION STRATEGIES

1.1. Forward integration

- The business combines business with or take over its distributors.
- Involves expansion of business activities to gain control over the direct distribution of the products.
- **EXAMPLE:** *Jonny's Pizza Hut forms an alliance with Zpeedy Bike Deliveries to deliver the pizzas of all 10 branches of Jonny's Pizza Hut.*

1.2. Backward integration

- The business combines business with or take over its suppliers.
- The aim is to decrease the business's dependency on the supplier.
- **EXAMPLE:** *Jonny's Pizza Hut buys Doug's Dough (Pty) Ltd - a small business that supplies dough for the pizza bases.*

1.3. Horizontal integration

- A business takes control of/ incorporates other businesses in the same industry/which produce/sell the same goods/services.
- The aim is to reduce the threat of competition /substitute products/services.
- **EXAMPLE:** *Jonny's Pizza Hut takes over Snoekie's Fish & Chips.*

2. INTENSIVE STRATEGIES

2.1. Market penetration

- New products penetrate an existing market at a low price, until it is well known to the customers and then the prices increases.
- It is a growth strategy where businesses focus on selling existing products to existing markets.
- Focuses on gaining a larger share of the market by reducing prices to increase sales/increasing advertising and promotion.

2.2. Market Development

- It is a growth strategy where businesses aim to sell its existing products in new markets.
- This strategy involves finding new markets and new ways to distribute product.

2.3. Product Development

- It is a growth strategy where businesses aim to introduce new products into existing markets/modifies an existing product.
- Businesses generate new ideas and develop new products/services

3. DIVERSIFICATION STRATEGIES

3.1. Concentric diversification

- The business adds a new product or service that is related to existing products and which will appeal to new customers.
- Occurs when a business wants to increase its product range and markets.
- **EXAMPLE:** *Jonny's Pizza Hut introduces a new product called Pizza Balls, with the ingredients traditionally on top of the pizza, inside the dough.*

3.2. Horizontal diversification

- The business adds new products or services that are unrelated/ different to existing products, but which may appeal to existing/current customers.
- Occurs when a business acquires or merges with a business that is at the same production stage, but it may offer a different product.
- **EXAMPLE:** *Jonny's Pizza Hut is also starting to sell burgers.*

3.3. Conglomerate diversification

- The business adds new products or services that are unrelated to existing products which may appeal to new groups of customers.
- Conglomerate diversification means that a business grows into new products, services and markets.
- Occurs when a business wants to increase its product range and markets.
- **EXAMPLE:** *Jonny's Pizza Hut adds Sushi takeaways to its menu.*

4. DEFENSIVE STRATEGIES: Types of defending strategies

4.1. Divestiture/ Divestment

- The business disposes / sells some assets / divisions that are no longer profitable / productive.
- Businesses may sell off divisions/product lines with slow growth potential.
- The business sells ownership by decreasing the number of shareholders.
- Unproductive assets are sold to pay off debts.
- Process used to withdraw its investment in another business (divesting).

4.2. Retrenchment

- Terminating the employment contracts of employees for operational reasons.
- Decreasing the number of product lines/Closing certain departments may result in some workers becoming redundant.

4.3. Liquidation

- All assets are sold to pay creditors due to a lack of capital/cash flow.
- Selling the entire business in order to pay all liabilities/close down the business.
- Companies in financial difficulty may apply for business rescue to avoid liquidation.
- Creditors may apply for forced liquidation in order to have their claims settled.

D. Organisational design and flexibility	<ul style="list-style-type: none">• To adapt to changes, business need to be flexible in their organisational design and strategies.• When designing the organisation the needs and goals of the organisation must be assessed.• Systems must then be developed to meet the needs and goals as effectively as possible
E. Direct influence of the environment	<ul style="list-style-type: none">• Businesses are directly and indirectly influenced by the changing environment.• Business must therefore be aware of the changes and ensure that they do not add to the changes.• They must also know the risks and opportunities that these changes hold.• Business must adopt environmental friendly policies because consumers do not want to support businesses that are not environmentally friendly.

<p>F. Social responsibility</p>	<ul style="list-style-type: none"> • Businesses have become more aware of their responsibility towards the communities in which they operate. • Many are actively taking part in projects that uplift the local communities. • Example: Telkom Foundation provides schools in disadvantage areas with IT laboratories, computer hardware and software. • The project serves as a marketing tool for the business, as people are impressed when business makes a positive contribution. • Positive externalities of businesses contributing to the social upliftment of communities are the effects it has on staff morale and job satisfaction of employees.
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Define the term 'LOBBYING'

- Lobbying means persuading individuals or groups with decision-making power to support a position you believe is right.
- Lobbying is any attempt by individuals or private interest groups to influence the decisions of government

Discuss/Explain the REASONS why businesses LOBBY

- Individuals / Organisations lobby people with power to act in support of the needs and interests of those who do not have direct power and influence.
- Lobbying can be used to influence anyone with power, **For example:** *Trying to influence decisions made by officials in the government or members of regulatory agencies.*
- Lobbying is done by various people or groups who have similar motives, beliefs or commercial positions.
- **Example:** *The taxi industry successfully lobbied government against being charged toll fees on certain roads in Gauteng.*

Explain/Discuss/Describe HEDGING AGAINST INFLATION as a type of lobbying.

- Inflation is an economic reality and businesses cannot do very much to stop it.
- Business can try to insure against inflation through hedging.
- Hedging is where a business tries to invest its money in such a way that its value grows at a faster rate than inflation.
- Hedging can be used to protect the capital of the business from the effects of inflation.
- This can be done by buying shares, property or precious metals like gold and platinum.

Explain/Discuss/Describe bargaining sessions between MANAGEMENT and UNIONS

- Businesses need to have bargaining sessions with the unions of which their employees are members.
- This requires excellent negotiating skills on the part of businesses.
- Businesses and trade unions generally have complicated power relationships.
- Essential for the business to be fair, transparent, establish trust and good communication with the union representatives.

Explain/Discuss/Describe INFLUENCING SUPERVISORY BODY / REGULATORS

- A regulatory body is a public organization or government agency that is set up to exercise a regulatory function.
- Rules state which conditions must be met by a company to produce valid results or goods of a guaranteed level of quality
- This involves imposing requirements, conditions or restrictions, setting the standard for activities, and enforcing in these areas or obtaining compliance.

Explain the meaning and the importance of 'NETWORKING'

- Refers to the interaction with other to exchange ideas and information, to develop professional contacts and to give and get advice from other business people.
- Networking allows management to build new business relationship and to generate new business opportunities.

Describe / Explain / Describe the ADVANTAGES OF NETWORKING

- Strength business connections.
- Get fresh ideas.
- Advance your career.
- Get access to job opportunities.
- Interconnected business contacts = more knowledge.
- Get career advice and support.
- Build confidence.
- Gain a different perspective.

Define the meaning of 'POWER RELATIONSHIPS'

Business can gain some control of the macro-environment by establishing power relationship with powerful or influential people.

Discuss / Explain / Describe WAYS BUSINESSES CAN FORM POWER RELATIONSHIPS

Strategic alliance agreements	<ul style="list-style-type: none">• These are agreements between two or more firms to engage in an activity on a shared basis.• The alliance is designed to build on the expertise of each partner.• Also built on the way in which they complement each other.• Business must ensure that what they want to gain from the alliance is similar to the objectives of their partners.
Persuasion of large investors	<ul style="list-style-type: none">• If a business has large and powerful investors, it can benefit from the relationship by gaining credit more easily and get better deals from suppliers.• Businesses also invite powerful, influential people to sit on their board of directors to get advice from that person.• Association with such people has a positive influence on the reputation and image of the business.
Company representative's influence	<ul style="list-style-type: none">• A company representative is a person who acts on behalf of the company.• He or she represents the company's belief, policies, products and services.• People rate a business based on the representative's personality, communication style and intelligence.• The representative should therefore be selected very carefully.

TOPIC 4: CONTEMPORARY SOCIO-ECONOMIC ISSUES

TERM	DEFINITION
Contemporary socio-economic issues	Current societal and economic factors that impact on the business, e.g. HIV, poverty and unemployment.
Ethical behaviour	Acting in ways consistent with what society and individuals think are good values.
Professionalism	Describes the internationally accepted standards/expectations that society has of people's conduct and levels of competence in the workplace.
Labour Relations Act/LRA	This Act was introduced to promote simple procedures for the resolution of labour disputes in the workplace.
Diversity	The dimensions of race, culture, gender, age, physical abilities, religious beliefs in the workplace
Population growth	The increase of the amount of people in a country
Illiteracy	The inability to read or write
Renewable resources	Renewable resources such as solar and wind power and water are unlimited in supply
Non-renewable resources	The sustainability of the supply of some natural resources is non-renewable such as gas Most fossil fuels, minerals, and metal ores are non-renewable resources.
Personal gain	To use things from the business for yourself and not for the business
Fair dismissal procedures	The removing of someone from employment/discharge must be done according to the law
Dispute	A disagree between management and employer
Grievance	A real cause for complaint like unfair treatment

Overview of important socio-economic issues

- Business must come up with possible solutions and strategies to deal with the issues.
- Socio economic issues have a huge impact on businesses.
- It is in the interest of the business to try to lessen the impact by understanding each of the issues and the challenges they create.

List/Name/Give examples of contemporary socio-economic issues that pose a challenge to businesses

- Income inequality
- Inflation
- Social, cultural & demographic issues
- Economic crime
- Corruption and mismanagement of funds
- Population growth
- Illiteracy

Discuss the impact of contemporary socio-economic issues on business operations.

<p>Income inequality</p>	<ul style="list-style-type: none"> • There are huge inequalities in the income levels of people in South Africa. • With a large portion of the people of the country living in poverty, the buying power of the people is low and businesses are unable to grow and prosper.
<p>Inflation</p>	<ul style="list-style-type: none"> • As the value of money is reduced due to inflation, consumer's buying power decreases and sales of the businesses decreases. • Reduced sales figures, could lead to the business implementing cost saving methods. • Staff retrenchment is often the result, leading to higher unemployment figures and further reduction in the buying power of the consumers.
<p>Social, cultural & demographic issues</p>	<ul style="list-style-type: none"> • South Africa's population is made up of diverse cultures, languages and religions. • Business must use diversity as an asset in making the business work because different people all provide different perspectives customers will have in the real world.
<p>Economic crime</p>	<ul style="list-style-type: none"> • Crimes committed for economic gain, involving deception and fraud. • <u>Examples</u>: Identity theft, credit card fraud and money laundering. • Huge problem for businesses, especially those that market their products via the internet.
<p>Ethical misconduct (Sexual harassment, Corruption and Mismanagement of funds)</p>	<ul style="list-style-type: none"> • Refers to dishonest activities in which a person entrusted with authority in a business, acts contrary to the interest of the business. • Abuses his or her position of trust in order to achieve some personal gain. • Undermines business and negatively influences investment. • Businesses need to have policies and procedures in place to prevent these crimes.

Population growth	<ul style="list-style-type: none"> • Population in South Africa continues to grow. • The high population growth puts vast strain on the natural resources of the country. • Also puts a huge strain on the economy of the country
Illiteracy	<ul style="list-style-type: none"> • Illiteracy makes it impossible for people to fully participate in the economic life of a country. • Makes it difficult for people to get a decent job or learn a new skill. • Strong link between unemployment and illiteracy. • Businesses are reluctant to employ someone who is illiterate.
Lack of skills	<ul style="list-style-type: none"> • Unskilled employees could spend considerable time seeking help to perform their jobs or they could perform tasks to their understanding, to the detriment of the work process. • This could lead to errors and work needing to be repeated or corrected. • When more experienced employees spend time monitoring unskilled workers, it detracts from their work and affects their production as well.
Unavailability of natural resources	<ul style="list-style-type: none"> • Shortage of natural resources. • Nature: Certain of the earth's resources, such as oil and coal, are non-renewable and sooner or later will be completely exhausted. • There are limits to the extent to which we can draw on these resources; if these limits are exceeded, this will destroy the capacity of resource renewal.
Inefficiency in the use of resources	<ul style="list-style-type: none"> • Producing less than the maximum possible output of goods and services, from its resources
Dumping	<ul style="list-style-type: none"> • It's when a country or company exports a product at a price that is lower in the foreign importing market than the price in the exporter's domestic market.
Exhaustion of natural resources	<ul style="list-style-type: none"> • Increased resource use is linked to a number of other environmental issues, such as air pollution and population growth. • Over time, the depletion of these resources will lead to an energy crisis, plus the chemicals emitted by many natural resources are strong contributors to climate change.
Strikes	<ul style="list-style-type: none"> • Employment relationships between both parties could become strained and this could affect teamwork and profitability. • Businesses suffer production and financial losses and consumer confidence is adversely affected.

Discuss / Explain / Describe types of ethical misconduct

TYPES OF ETHICAL MISCONDUCT	EXPLANATION
Sexual harassment	<ul style="list-style-type: none"> • Involves unwanted and unwelcome attention of a sexual nature from someone at work. • The attention causes discomfort, is humiliating and interferes with the job.
Corruption	<ul style="list-style-type: none"> • The abuse of power or position for personal gain. • Giving or obtaining advantage through means which are illegitimate, immoral, and/or inconsistent with one's duty or the rights of others.
Mismanagement of funds	<ul style="list-style-type: none"> • Refers to instances where a person fails to observe laws or guidelines when handling finances for another person or organization. • Most mismanagement lawsuits involve some form of negligence or neglect on the account of the liable party.

Discuss the impact of piracy on business operations

- Piracy is the unauthorized use or reproduction of another's work.
- Big losses of income to the business
- Illegal copying and streaming of movies and television shows also leads to substantial losses

Suggest ways that businesses can deal with piracy

	DEFINITION	DEALING WITH PIRACY
Copyright	This a law that gives the owner of a work (for example, a book, movie, picture, song or website) the right to say how other people can use it.	<ul style="list-style-type: none"> • Copyright laws make it easier for authors to make money by selling their works. • With copyright, a work can only be copied if the owner gives permission.
Patent	This is a government authority or licence conferring a right or title for a set period, especially the sole right to exclude others from making, using, or selling an invention.	<ul style="list-style-type: none"> • A patent gives an inventor the right to stop other people making or using their invention. • If someone makes or uses that invention without being allowed to, the inventor can sue that person in court to make them stop

(continued)	DEFINITION	DEALING WITH PIRACY
Trademark	This is a symbol, word, or words legally registered or established by use as representing a company or product.	<ul style="list-style-type: none"> The overall purpose of trademark law is to prevent unfair competition by protecting the use of a symbol, word, logo, slogan, design, domain name, etc. that uniquely distinguishes the goods or services of a firm.

Define / Explain the meaning of INDUSTRIAL RELATIONS

- Industrial relations refer to the relations between management and workers in industry.
- The term industrial relations explain the relationship between employees and management which stems directly or indirectly from union-employer relationship.
- Major losses of revenue to the industry

Discuss the CAUSE of strikes and the EFFECT it has on businesses & the society

- Strikes occur when a group of employees withhold their labour in the production process.
- The demands of striking workers can be about wages or salaries, conditions of employment, possible retrenchment or dissatisfaction with management.
- When negotiations between management and representatives of trade unions break down, trade unions usually call on their members to go on strike.
- A strike is a protected (legal) strike if it takes place when the requirements of the Labour Relations Act (LRA) are met.
- Employees may not be dismissed or retrenched during a protected strike.
- The principle of no work, no pay is applied by businesses during a strike.
- Strikes have a negative effect on the economy.
- Strikes will lead to loss in production time, and employees have less disposable income.
- Businesses recover increases paid to striking workers by including the cost of the increases in the price of the goods and services, thus leading to higher inflation.

Define the term “GO SLOWS”

- Go-slows are a form of industrial action in which work or progress is deliberately delayed or slowed down as a form of protest.
- The goal is to reduce business productivity or efficiency.
- The go-slow is often used by essential services industries where strikes are not allowed.

Define the term “LOCKOUTS”

- Lockouts refer to the right of employers to prevent striking employees from entering the business premises.
- A lockout is legal if it complies with the requirements of the LRA.
- The employer must give the employees at least 48 hours written notice if it intends locking the employees out.
- Employers often resort to a lockout to ensure the safety of their property, equipment, and those workers or substitute workers who are not on strike.

Differentiate between STRIKES and GO-SLOWS

STRIKES	GO-SLOWS
<ul style="list-style-type: none"> • Strikes occur when a group of employees withhold their labour in the production process. • When negotiations between management and representatives of trade unions break down, trade unions usually call on their members to go on strike. • Strikes will lead to loss in production time, and employees have less disposable income. 	<ul style="list-style-type: none"> • Go-slows are a form of industrial action in which work or progress is deliberately delayed or slowed down as a form of protest. • The goal is to reduce business productivity or efficiency. • The go-slow is often used by essential services industries where strikes are not allowed.

Discuss / Explain / Describe the purpose of the Labour Relations Act

NATURE	<ul style="list-style-type: none"> • Sets out the rules and regulations employers, employees and for labour unions and the settling of disputes. • LRA deal with matters like: <ol style="list-style-type: none"> 1. hiring and firing procedures; 2. disciplinary processes; 3. rights and responsibilities of trade unions; 4. negotiations; 5. strikes; and 6. disputes.
PURPOSE	<ul style="list-style-type: none"> • Provides a framework/structure for labour relations between employers and employees. • Promotes collective bargaining at the workplace. • Promotes workplace forums to accommodate employees in decision making. • Establishes Labour Courts and Labour Appeal Courts. • Promotes fair labour practice between the employers and employees. • Establishes the Commission for Conciliation, Mediation and Arbitration (CCMA) for dispute resolutions. • Clarifies the transfer of employment contracts between the existing and new employers.

Define the term "TRADE UNIONS"

- Refers to an employee organisation, controlled, managed and paid for by its members
- Trade union members elect shop steward and committees to represent them.

Outline / Discuss / Explain the ROLE OF TRADE UNIONS

- Addressing poverty reduction
- Job creation challenges
- The role of trade unions in South Africa was shaped by the political struggle of the apartheid years.
- Although the main objective of the trade unions is to represent employees in the workplace, trade unions have also taken on the role of changing the economy.
- Trade unions support the notion that the economy should favour the working class and the poor.
- Trade unions are involved in social dialogues about ways to address poverty reduction, job creation and the pursuit of creating a more equitable distribution of income.

Outline / Discuss / Explain the FUNCTIONS OF TRADE UNIONS

- Negotiate with employers for decent working conditions, remuneration and benefits for employees in order to improve their standard of living.
- Represent the employees in meetings and disputes with employers.
- Protect employees from discrimination and abuse.
- Protect employees from unfair labour practices and unfair dismissals.
- Educate employees about their rights and how to enforce these rights.
- Take legal action on behalf of members when necessary.

TOPIC 5: BUSINESS SECTORS

Term	Description	Examples of industries
Business Sector	<ul style="list-style-type: none"> All the internal and external factors that affect the functioning of a business, e.g. micro, market and macro environments. A business sector is a sub division/subset of the economic activities. 	<ul style="list-style-type: none"> Primary Secondary Tertiary.
Outsource	To obtain goods or services by contract from an outside supplier	

Explain the meaning of the primary, secondary and tertiary sectors.

PRIMARY SECTOR	<ul style="list-style-type: none"> This sector deals with <u>extraction</u> of raw materials and natural resources. It makes use of natural resources direct from nature, such as <u>gold</u>, <u>coal</u>, <u>fish</u> and <u>livestock</u> Natural resources are sold to the secondary sector as raw materials. 	<ul style="list-style-type: none"> Mining Fishing Agriculture Forestry Farming
SECONDARY SECTOR	<ul style="list-style-type: none"> This sector <u>processes</u> raw materials into finished goods. It comprises of <u>manufacturing factories</u>, <u>construction</u> and <u>energy generation</u>. 	<ul style="list-style-type: none"> Manufacturing Building & construction Clothing Food processing
TERTIARY SECTOR	<ul style="list-style-type: none"> This sector <u>renders services</u> to the public and businesses/provides auxiliary services. The services range from <u>transport</u>, <u>banking</u> and <u>health</u> It is also known as the services industry. 	<ul style="list-style-type: none"> Distribution Transportation Banking Insurance Retail Entertainment Tourism

Discuss / Explain / Describe the link/relationship between the primary, secondary and tertiary sector

- Primary, secondary and tertiary sectors are interrelated and cannot function without each other.
- Cotton is planted and harvested in the primary sector, because it is going to be used in the secondary sector to manufacture linen or clothing.
- The linen or clothing is manufactured because there are retailers in the tertiary sector who are prepared to sell the products to the consumers.
- Some businesses carry out all three processes and are therefore involved in all three sectors.
- Other enterprises may skip some aspects of a specific sector.
- **EXAMPLE:** A fisherman may take his freshly caught fish straight to the market and not use the secondary sector.
- Many businesses are interdependent and rely on other businesses to perform some of their functions for them.
- Usually these functions are not the core strength of the business itself.
- **EXAMPLE:** A fisheries may outsource the management information system of the business to another organisation that may specialise in this area.
- Some businesses rely on other businesses in their own sector to perform certain functions.
- **EXAMPLE:** A shop in the tertiary sector relies on another tertiary sector service for the communication infrastructure of the business.

Enterprises that operate in all three sectors		
OLIVES	PRIMARY	Olives are grown on farms and picked from trees.
	SECONDARY	Olive oil is extracted from the olives.
	TERTIARY	Olive oil is used in a restaurant to serve as a salad dressing.
COFFEE BEANS	PRIMARY	Coffee beans are grown and picked.
	SECONDARY	Coffee beans are ground into coffee powder.
	TERTIARY	Coffee powder is sold in shops and supermarkets.