NASCA

Economics, Business and Finance

Section 2

**SECTION 2: ESTABLISHING A BUSINESS**

The purpose of **Introduction**

completing the previous section (The Economy) was to give you an idea as to how different economies in the world function and which one applies to South Africa.

A further breakdown enabled you to see how this is divided into the sectors and what they each contribute. All this so that you will be able to see the importance as well as the opportunities each one holds for you.

By now you should have an idea where you personally can fit into the picture. You should examine your skills and abilities to work out how you can become a contributor to the economy rather than only relying on the economy to give you a livelihood. SIn other words, you should think of opening a business and provide jobs instead of looking for a job!

To help you get going we will be approaching this aspect as follows:

|  |  |
| --- | --- |
| **Topic Heading** | **Topic (with Approximate Instructional Time)** |
|  Unit 1: Entrepreneurship18 hours  | 1.1 Qualities of an Entrepreneur1.2 Acquiring a business1.3 Business plans  |
| Unit 2:Forms of ownership 18 hours  | 2.1 Forms of ownership2.2 South Africa’s ownership statistics  |

### UNIT 1: ENTREPRENEURSHIP

**Introduction**

Entrepreneurship involves starting off a business venture to take advantage of an opportunity that may have arisen, for example, identifying a shortage of baby clothing. The person who starts off this venture is called an entrepreneur. He or she provides the capital (money) to open and run the business and takes the following decisions:

* What to produce
* How to produce
* How much to produce.

He will control and monitor the progress of the venture. In almost all cases, he does this for **profit.**

**Profit:**

Extra income after subtracting expenses**.**

We will approach this topic as follows:

**1.1 Qualities of an entrepreneur**

**1.2 Acquiring a business**

**1.3 Business Plans**

After completing this section you should be able to:

1.1.1. Describe each of the qualities required to become successful as an entrepreneur.

NOTE that at the end of this section there are some suggestions for templates to use for a business plan if you are seriously thinking about starting your own business. Keep this in mind whilst you are working through the theory, as it will help you to think through the important aspects of being an entrepreneur and this will need to be included in your business plan.

**1.1.1 Qualities of an entrepreneur**

**Vision**

Before starting a business, you need to have a clear picture of what you intend to do, for example, plant tomatoes, make shoes, manufacture school desks and so on. You will also have to have some idea as to where you want to take this idea to, that is: how big do you want to become in a few years? You could be a small business in your local town or you could become a large producer with **export** markets.

Export: overseas markets that is, markets in other countries.

Furthermore, you need to be able to monitor changes in market conditions, that is, be aware when there are *more* opportunities and the factors that affect your demand, for example, during summer there will be a bigger market for air conditioners than in winter.

Why do you think this is so?

**Taking Risks**

All entrepreneurs commence business knowing that there is always the possibility of failure and this will result in losses. For this reason we say they should take **calculated** risks, that is, make informed decisions. This should, however, not discourage him as he must trust his own ability in overcoming any challenge. Biggest………..

**Creativity:**

This is the ability to think out of the box, come up with new ideas and to be different from your competitors. The successful entrepreneur needs this in order to:

* Find new products to satisfy needs and wants (where there are none)
* Change or modify existing products
* Find better ways of making or marketing existing products.

**Responsibility:**

An entrepreneur needs to take responsibility – to be in charge of the business and to take blame for any failures. Some examples are:

* Be responsible for the safety of an electrical product for example safety around the cabling for the machinery.
* Be responsible for taking business decisions for example increasing production.
* Be responsible for the safety of employees.

Can you think of any other examples?

**Energetic**

This is closely related to hard work. There will be many challenges and you need to be strong in your determination to not give up. Being positive and energetic is the only solution.

**Committed**

Hard work is absolutely necessary and he needs to remain committed to his goal. This may mean working long hours under difficult circumstances; he should not lose this determination.

**Integrity**

In this quest for profit, you need to realise that there is a need to be honest in all your dealings. You may not mislead the public and make claims that are not true, for example claiming that your product will relieve all pain and this will last forever. It could also apply in pricing for example not disclosing the final cost of a product.

**Adaptable**

This requires the entrepreneur to be able to make changes when the need arises; this my mean making changes to his plans because circumstances change, for example, when there is load shedding, when a new competitor enters the market, when technology changes.

Integrity : believing in honesty and morality.

**Professional**

He must display behaviour which can be regarded as professional that, knows his job well, competent at his job, responsible in his work and dealings with outsiders and conducts himself with integrity.

**Well informed**

The need to keep yourself well informed is absolutely essential. The market conditions are constantly changing for example:

**Legislation:**  laws passed in order to regulate trading

* The interest rate may change
* Better methods of production are available
* Newer products enter the market
* **Legislation** may be introduced regarding the product

**Have Interpersonal Skills**

As an entrepreneur, you need to be able to get on with people. You will have to be able to interact with various people in the course of business example:

* Workers – you need to motivate them (yet not lose control)
* Your suppliers – you may need special favours from them
* Your customers – they may complain about the product or service
* Your bank – you may need a loan or extension

**Organising Ability**

Entrepreneurs need to make things happen; he has to see to it that the correct amount of goods are bought without landing the business into difficulty and sold in good time. If producing, then he must ensure that :

* the correct amount of raw material must be bought

Calibre: right quality of workers that is, mix of skilled, semi skills and unskilled workers.

* at the right price
* at the right time and
* he must use the use the right **calibre** of workers

**Activity 2.XX Managing Cash Flow**

**Purpose:**

The purpose of this activity is to identify the challenges of setting up and managing a business, especially from a cash flow perspective. It is important to work with your bank, as they are the experts in this area. The following advice comes from a bank working with entrepreneurs and small businesses:

**Suggested time**: 1 hour

**What you need:**

* Economics, Business and Finance Workbook
* Pen and paper and a notebook to write your answers
* The adapted newspaper article below

**What you will do**

Read the adapted version of the article below and answer the questions that follow in your notebook:

When times get tough, the tough get credit



Adapted from **:** *Entrepreneurship “Advice” Sunday Tribune Business 1 May 2016*

Questions:

1. What, according to the article, does basic business consist of?

2. Loyalty programmes:

2.1 What do you understand by “loyalty programmes”?

2.2 Name one that you are familiar with and explain how it works.

2.3 How could an entrepreneur use these in the business to improve their cashflow?

3. What tips does the article give in maintaining a healthy cash inflow in terms of the following aspects? Choose two which you think are important for each aspect.

 3.1 The product

 3.2 Working with money

**Guided Reflection:**

This exercise will help you realise that there is always advice available and you need to know where to look and whose advice to take. In fact, it is worth keeping for future reference if you ever want to be an entrepreneur.

Do you have experience with loyalty programmes? If not, it is something worth investigating as you can save a lot of money by accumulating points which lead to discounts.

Market Research…..needs theory before article.

Textbox on respondents.

Franchise textbox

**Activity 2.2: Entrepreneurship - Market Research**

**Purpose:** This activity will highlight the need for market research in order to be successful in business and give you an opportunity to apply in practically.

**What you need:**

* Economics, Business and Finance Workbook
* Pen and paper and a notebook to write your answers
* The insert on “Five Market Research Tips for Entrepreneurs” below

**Suggested time:** 30 minutes.

**What you will do**:

Examine the tips below concerning market research and answer the questions in your Workbook.

1. What do you understand by the term “market research”?

2. What research would you conduct for the following types of businesses?

* + Furniture outlet dealing in low cost household items in a township.

FIVE MARKET RESEARCH TIPS FOR ENTREPRENEURS

* 1. **Invest time in market research – it will ensure that you focus both your product and advertising in the right direction.**
	2. **Use the type of format that your customers are comfortable with – online forms are more suitable for the tech-savvy generation, but personal interviews may be more appropriate for shoppers who are too busy to fill in forms.**
	3. **Keep it short and simple – prioritise the information you need and ensure that you don’t waste your respondents’ time.**
	4. **Ensure that you capture data and information correctly, or it will not be reliable.**
	5. **Define your goals for each market research campaign – do not try and cover every aspect in one campaign.**
	+ A computer repair shop
	+ A new coffee shop franchise

3. What is for you, the most important piece of advice included in the article? Give a reason for your answer.

 **Guided Reflection:**

Market Research enables an entrepreneur to keep in touch with clients as well as their needs and wants. You can have the best product or service on the market, but if no-one is prepared to buy it, you will not have a business.

In looking at the different types of businesses, did you consider the type of target market they have and align the market research to suit them?

Each person will have different feelings about market research. It is always important to put yourself in the shoes of your customers and how they will respond to being asked to participate in market research. Your choice of which one of the tips is the most important should reflect this.

**1.2 Acquiring business:**

**Introduction:**

This section explores the various ways you are able to acquire a business.

Now that you have studied the first step, that is, deciding what type of business you will like to run, the next step will be for you to enquire how you will be able to action this. You could decide to do this in many ways as described above, each with its own merits.

After completing this section you should be able to:

1.2.1 Describe the process of starting a business from scratch

1.2.2 Describe the process and advantages of purchasing an existing business

1.2.3 Describe the process of franchising

1.2.4 Explain the concepts of : Leasing, Outsourcing and Labour Broking.

**1.2.1 Starting from Scratch.**

There are more and more opportunities for entrepreneurs to start their own businesses. If you are thinking along these lines, then the first task would be for you to draw up a business plan. This would ensure that you have given sufficient thought to most of the important things that you should take into account.

(Note: The business plan will be handled in the next section in detail.)

**1.2.2 Purchasing an existing business.**

If you do not prefer starting from scratch, then you may consider purchasing a business that is already in existence for some time and is up for sale, as with the example below:

**BUSINESS FOR SALE**

**TAKE AWAY FOODS**

Situated opposite central bus terminal.

Will suit serious, hard working individual prepared to work long hours.

Also catering for functions.

Excellent prospects for profit.

Current turnover: R10 000 monthly.

WALK IN, WALK OUT.

Asking price: R200 000 (negotiable)

Email iwannabuyit@takeaways.co.za

This is an established business that is up for sale.

Why would you be willing to purchase it? Some of the considerations may be:

* The business is already established – there is no need to start from scratch.
* The current owner claims that the business is doing well and that there is the opportunity for growth.
* You do not have to build up a customer base – it is already there due to the bus passengers.

**Activity 2.3 Buying an Existing Business**

**Purpose:** This activity willexpose you to the decisions that have to be made in terms of buying an existing business, or starting your own from scratch.

**What you need:**

* Economics, Business and Finance Workbook
* Pen and paper and a notebook to write your answers
* The advertisements given below

**Suggested time:** 45 minutes,

**What you will do:**

Examine the advertisements below and answer the following questions in your Workbook:

**Advert A:**



Source: <https://www.businessesforsale.co.za/southafrican/fresh-produce-food-store-in-maboneng-for-sale.aspx> [Accessed: 23 August 2018]

**Advert B:**



Source: <https://www.businessesforsale.co.za/southafrican/established-mobile-sweets-treats-and-candy-business-for-sale.aspx> [Accessed: 23 August 2018]

Assuming that you are an entrepreneur wanting to go into the food business:

1. Would you prefer to buy the business in Advert A or the one in Advert B?
2. List some of the points about the one you chose that you consider would make it a good buy.
3. Can you find any negative aspects, that would make it not suitable for you?
4. In contrast, would you rather start a business from scratch? Whether you answer yes or no, motivate your answer.

**Guided Reflection**

This activity is personal, and your answers would differ from everyone else’s as your circumstances and prioritise are different.

When you compared the two businesses for sale, did you consider the following aspects: Type of business, price, location, potential revenue, cashflow? Factors such as potential target markets, your own preferences, skills, knowledge and experience as well your ability to raise the necessary cash and availability to run these businesses would also be considerations.

In looking at starting a business from scratch you may have considered something that is more in your line of interest, i.e. not food related, or something that would be more suitable in your area – you may not live in Maboneng, but a similar type of shop in your area is a gap in the market.

**1.2.3 Franchising**

**Definition and examples.**

In franchising, there are already a number of stores, well known, selling a particular kind of product or offering a service. All stores will have the same range of products and will follow the same design in the building (e.g. colour) the advertising and the pricing.

There are two parties involved in this type of ownership:

*The franchisor* – who sells the right to trade.

*The franchisee* - who buys the right to trade.

The franchisee obtains the right to sell the product/service under the trade mark for a fee (percentage of sales). In addition to the products that are made available, the franchisee also gets assistance in many other aspects for example training, finance, corporate advertising and so on.

Some of the important points the agreement covers are:

* The duration of the franchise agreement e.g. 10 years
* The area allocated to the franchisee
* The investment (capital) the franchisee is required to make
* The support the franchisor will make available
* How the advertising will be shared
* What royalties the franchisee will have to pay and when
* Transfer or sale arrangements

Some of the *Advantages* of Franchising are:

* Assistance with establishment – the franchisor assists with setting up the business as well as running it.
* Assistance with Management – assistance with all aspects of management.
* Financial assistance- the franchisor assists with acquisition of finance.
* Training – provided for recruiting and training staff.
* Promoting sales – advertising can be undertaken for the entire operations.
* Product Control – the advertiser supplies and controls the product.

*Disadvantages*:

* The franchisor has a large degree of control over the operation
* It is expensive to set up because of the large initial amount required
* The franchisor is entitled to a share of profits.

**Activity 2.4: Franchising**

**Purpose:** This activity introduces you to the world of franchising and the working of such an agreement.

**What you need:**

* Economics, Business and Finance Workbook
* Pen and paper and a notebook to write your answers
* The article given below
* Independent research on other franchises

**Suggested time:** 1 hour

**What you will do:**

Look at the information given below and answer the questions that follow in your Workbook:

1. Look at the logos below:

|  |  |  |
| --- | --- | --- |
| https://encrypted-tbn2.gstatic.com/images?q=tbn:ANd9GcSon5K2cJRhLveBjKzyHtIWgGred3NzFIEMcFes7POda-MBUp4eVQ | C:\Users\yruss\AppData\Local\Microsoft\Windows\INetCache\Content.MSO\8EA954D6.tmp |  |

1.1 Would you consider these brands to be franchises? Why?

1.2 The pizza market is very competitive. Give some examples of how brands can differentiate themselves in order to stay profitable.

Add branding question if it is covered………….

2. Examine the article below

|  |  |  |
| --- | --- | --- |
| **Franchises Good for Economy**Staff ReporterThe regional manager of Business Partners has made the following observations of the franchising activity in the economy:* International brands are entering the market and this indicates the opportunities our country is offering them. This is good news. Some of the new brands are:
	+ Burger King
	+ Starbucks
	+ Domino’s Pizza
	+ Pizza Hut
	+ Dunkin’ Donuts
* There has also been an increase in the number of franchises in the child education and entertainment industries.
* The fast food industry is by far the leader in the fields – almost 25% of the franchise industry.

He offers the following advice to both Franchisors and Franchisees:

|  |  |
| --- | --- |
| **For the Franchisor**Ensure staff and systems are in place Don’t franchise too early  | **For the Franchisee**Understand the conceptMatch your skills to that required |

Source: Sunday Tribune 1 May 2016 |

2.1 Why do you think overseas brands are attracted to South Africa?

2.2 Research and give at least one example of a franchise in:

* child education
* the entertainment industry

2.3 Why do you think the fast food industry dominates this market?

2.4 Look at the advice given to both the franchisor and the franchisee. Assume your friend is wanting to buy a franchise and does not understand what these means. Take each one and explain it in more detail.

Guided Reflection:

**1.2.4 Leasing, Outsourcing and Labour Broking.**

When you require an asset you will be using in your business, for example, a photocopier, you can decide to purchase it if you have the funds available. The asset will be yours for as long as it lasts but if you do not have sufficient funds to do this, or you may decide to keep the funds for some other purpose, then you can lease the asset. In this case, you will be known as a **lessee.**

In leasing there is a monthly fee applicable. Depending on the terms of the lease, the **lessor** will be responsible for the maintenance that is servicing, breakdowns and so on.

You can also lease equipment as in the above example or premises for your business. The terms and conditions are contained in a lease agreement.

**Activity 2.5: Lease Agreement- Basics**

**Purpose:** This activity will help you understand how leases work in practice. You will also have an opportunity to examine a typical lease agreement.

To become familiar with the concept “lease” you need to look at an agreement; you can also learn more at [*www.investopedia.co./terms/l/lease.asp*](http://www.investopedia.co./terms/l/lease.asp) .

**What you need:**

* Economics, Business and Finance Workbook
* Pen and paper and a notebook to write your answers
* Any lease agreements you may have in your possession or may access through research.

**Suggested Time:** 1 hour.

**What you will do:**

Answer the following questions

1. What are lease agreements used for?
2. What are the most important aspects to include in lease agreement?

Guided Reflection:

Outsourcing missing LO <https://www.youtube.com/watch?v=7qeehDLYa8g> option??

**Labour broking**

Labour broking (brokering) is a term used in South Africa to describe the process of hiring workers through labour brokers. The labour broker is the person who sources the **prospective** worker, interviews him and handles most of the other Human Resource functions like administration, wages, transport and others.

As a result workers are classified as “casual” workers. This is very unpopular to the workforce as the wage is usually lower than permanent workers. There has been much opposition to this practice and quite a few demonstrations by unions to voice the concerns. I think it needs more info here before activity – maybe a video??? Not sure we need an activity here.

*Currently labour broking accounts for about 30% of workers hired in S Africa.*

**1.3 Business plans**

**Introduction:**

A business plan is a detailed summary of all aspects of the business you are intending to start. It states what would you like to achieve and how you intend doing this. Good planning is one of the basic requirements for success.

The amount of detail in a business plan will depend on the type and complexity of the business you are starting. A larger business would have many components, but a smaller business would concentrate on the core aspects that are relevant to them.

**(Note: You will study more detail on the Marketing-, Human Resources- and Financial Management Functions in Section 3)**

**Possible components of a business plan**



The advantages of having a business plan are:

* Raising finance becomes easier with a well thought out plan
* you are able to forsee any problems that may arise
* you can use the plan as a checklist to measure progress, and deviations from it
* you are able to see the entire business in one picture and can structure it accordingly

After completion of this section you should be able to describe the following components of the business plan:

1.3.1 The business activity

1.3.2 Operations plan

1.3.3 Marketing Plan

1.3.4 Financing Plan

1.3.5 Management Plan

1.3.6 – Business Plan for a proposed venture (activity).

**1.3.1 The Business Activity:**

The first decision you may have to make is to decide on which sector, industry and product or service you want to do.

From Section 1 you will remember that there are the following sectors from which you can choose:

* Primary sector: agriculture, fishing mining, forestry. (Raw materials)
* Secondary sector: manufacturing of goods (converting raw materials into usable goods for consumption)
* Tertiary sector: services that help bring goods to the consumers – wholesalers, retailers, banking, insurance, transport and so on.

Thereafter, you need to have worked out exactly what you will be engaged in for example:

* I will transport tomatoes from the farm to the grocer (service: transportation)
* I will manufacture office furniture (manufacturing: product)
* I will provide advertising services (service: advertising)
* I will operate a vehicle repair centre. (service: vehicle repair)

Note: you can only decide on the venture after conducting some kind of **market research.**

**Market research:**

Investigating the state of business, number of existing businesses and the chances of success.

Once you have a specific goal in mind, you can start working on HOW you are going to achieve this by looking at specific aspects of the business plan.

**1.3.2 Operational plan:**

This plan will detail the following:

* The product or service details – how is it going to be better than other products in order to compete with them?
* Where will the premises are situated?
* Details of the type of production that will take place.
* What types of premises, machinery and equipment will be used in the process?
* How and from where you intend to get the materials to produce (if you are engaging in this branch of activity)

**Activity 2.10 Manufacturing Concern – Observations**

Visit a manufacturing concern in the neighbourhood. Have a discussion, if you can, with the manager/owner.

Find out as much details as you can about how the business operates.

*(Remember he/she may not be too willing to discuss these matters. Can you suggest why*?)

**1.3.3 Marketing Plan**

The marketing plan should include at least the following sections:

* Details of the product (size(s), trade mark, special features etc
* Details of competing products
* The competitive advantage of your product or service
* Details of advertising and promotions to market the product
* How you arrived at the price (pricing structure)
* Details of cash or credit sales
* How you intend to distribute the product (wholesaler, direct marketing)

**1.3.4 Financing Plan:**

This plan details the financial aspects including:

* How you will raise the capital (money to start)
* How you will manage these monies (cash flow plans)
* Credit granting and control
* Costing and accounting policies

**1.3.5 Management Plan:**

This plan will detail how the enterprise will be managed. To a large extent, this will depend of the type of ownership. (Covered in the next section)

Details included are:

* Who will manage (e.g. owner, partner, manager etc).
* What his/her powers will be
* Organisation chart (who will be in charge of whom)
* Reporting system

**1.3.6 Business Plan Application**

**Activity 2.XX Business Plan Application**

**Purpose:** This activity will assist you ininteracting with some components of the business plan in relation to your interests as an entrepreneur.

**What you need:**

* Economics, Business and Finance Workbook
* Pen and paper and a notebook to write your answers

**Suggested time**: 1 hours

**What you will do:**

The following questions cover “What if….?” situations, so it will give you an opportunity to dream and think about entrepreneurial options that may be applicable to your life and your specific situation. Motivate your answers.

Answer the following question in your Workbook:

1. What are you passionate about? Consider things such as sport, hobbies, exercise, cooking…any interest that you enjoy spending your free time on.
2. Taking this passion, write down at least three businesses in that industry.
3. List the skills that you possess under the following headings:
	1. Organisational skills: Time-management, planning, etc.
	2. General skills: Creative thinking, working well with people, good leadership etc.
	3. Specific skills: Work related skills which could be anything such as woodwork, cleaning, administrative, sewing etc.
4. Is there a specific family member or friend that you would like to go into business with? What skills or assets could they bring to the partnership?
5. If you won R100 000 in a competition that had to be invested into a business, what type of business would you start with it?
6. If you had the opportunity to start a part-time business, what would it be?
7. Is there any specific franchise that you would buy into if you had the opportunity and money available?

**Guided Reflection:**

This activity should make you think about some of the entrepreneurial options that you could possibly pursue in the future. If you battled to answer some of the questions, make a mental note to think them through – you may think of other skills you have, or be more aware of the business opportunities around you.

If you are interested in starting a real business (either part-time or full-time), then you can use these ideas as a starting point. The best way to do a business plan is to use a template as that will give you the steps to follow and guide you to ensure that you cover everything.

<http://www.eiu.edu/youtheducators/HS_workbook.pdf> Business plan workbook if......

**SUMMARY OF LEARNING UNIT ONE**

Let us summarise what this unit has taught us.

In the first part, you were introduced to the qualities that successful entrepreneurs should have. You may not have all of them, as we are all born with different skills, but you may have some of them. This should have indicated to you what you will be suitable for, and also where you may be short of. If you want to be successful, you need to work on those where you fell short.

The second part dealt with different ways in which you can achieve your goal - starting a business you were dreaming of, that is, either from scratch, or purchasing an existing one, or choosing to be part of a franchise. Each had it advantages and disadvantages.

This part also took you one step further by showing you some easy ways to get started with the essentials and introduced you to leasing, outsourcing and labour broking. The idea was to show you that you can find some quick solutions at the beginning.

The third aspect you were introduced to was the Business Plan. Here you dealt with various aspects that you should have given thought to, so that you do not learn by failure. These were the important ones; you can add more to it.

**SUMMARY ASSESSMENT UNIT ONE**

**Question 1**

 Explain the following qualities of successful entrepreneurs and its importance:

Risk taking

Interpersonal skills

Creativity 12

**Question 2**.

2.1 Identify a franchise in your area. Then answer the following questions:

2.2 How do you know this is a franchise? 2

2.3 What is the main business activity? 2

2.4 When you compare this outlet with another in the area, what would you expect to find? 4

2.5 Why do you think the owner decided to settle for this line of ownership?

 4

**Question 3** .

Explain the following terms:

 Royalty 2

Franchisor 2

Franchisee 2

**Question 4.**

Would you consider leasing as an alternative to buying? Explain your answer.

 5

**Question 5.**

What is your opinion on Labour Broking? How does it differ from a Recruitment Agency? 5

**Question 6**

Identify some practical examples of work that has been outsourced by your local municipality. Then answer the following questions:

How do you know it was outsourced?

Why do you think this was done? 8

**Suggested sources of additional information**

[www.investopedia.com/terms/l/lease.asp](http://www.investopedia.com/terms/l/lease.asp)

Wikipedia – the free encyclopaedia

**My Notes**

Use this space to write your own questions, comments or key points.

* Leave this blank for students to fill in their own comments

**UNIT 2: FORMS OF OWNERSHIP.**

**Introduction:**

This unit will explain one of the key aspects of business – *the form of ownership*. This is one of the major concerns and will affect the profitability and running of the business. This decision needs to be taken very seriously as it will have consequences for many other aspects, for example:

* Management – who will be in control of the operation
* Profits – how profits will be shared
* Liability – who will be responsible for the debts of the business when it

gets into difficulties

* Transfer – how to handle the situation when one of the owners retires or dies.

There are many other issues that will need to be settled. Therefore, by understanding each one of these types of ownerships and the advantages and disadvantages of each one, the entrepreneur will find the most suitable one

We will be studying the following types of ownership:

Forms of ownership

2.1 Forms of ownership

2.1.1 Sole trader- characteristics, advantages and disadvantages

2.1.2 Partnership- characteristics, advantages and disadvantages

2.1.3 Companies – private and public companies - characteristics, advantages and disadvantages

2.1.4 Other forms –

a) CC’s - purpose of; future of ;

b) Co-ops – purpose of; workings of co-ops.

2.2 South Africa’s Ownership Statistics

Remember though, that by starting off as a sole trader, (one man ownership), it does not mean that one has to remain such for the entire duration of the business; you can, for example, commence as a sole trader and thereafter consider taking on a partner and becoming a partnership, and thereafter changing to a private company.

**2.1 Forms of Ownership**

**2.1.1.The sole trader**

In this section, we will be looking at the characteristics, advantages and disadvantages of this type of ownership.

The sole trader (one man business) is the simplest way to start a business. Most small businesses prefer to operate as sole traders.

Characteristics:more discussion on characteristics please and then adv and diasd can be pointform……on all the FOO’s

* There is only one owner
* There is no difference between the owner and the business – no separation
* When the owner dies, the business has to be closed down
* The owner has close links with the customers

**Liability:** responsibility for paying off the creditors when the business is insolvent.

* Capital is usually limited
* **Liability** is limited.

Advantages:

* Few legal formalities to complete- easy to start
* The owner gets good experience as manager
* Owner takes all the profits himself- no sharing
* Owner is close to his customers – they are loyal to him.
* He can take decisions quickly.

Disadvantages:

* Capital is usually limited
* If the owner dies or falls ill, the business may have to close down
* The owner is personally liable for the debts of the business- if he cannot pay, his personal assets will be sold to settle the debts.
* He bears all the losses himself.
* He has to rely on his own expertise.

**2.1.2 The Partnership**

We will be looking at the characteristics, advantages and disadvantages of this type of ownership.

The partnership is that type of ownership where there are more than one owners – from two to twenty. They combine their money and skills and conduct business for their mutual benefit.

Characteristics:

* There is a minimum of two; no maximum number

(*the new companies act does not prescribe a maximum- previously 20)*

* The partnership is not a legal person (entity)
* The relationship between partners is determined by a partnership agreement.
* There is no continuity in a partnership
* Each partner acts on behalf of the partnership
* There is unlimited liability – that is, partners are liable personally for the debts of a partnership.

Advantages of partnerships:

* Few legal requirements to commence
* More capital is available
* Each partner can specialise and concentrate on his field of expertise
* There is personal contact between partners and customers

Disadvantages:

* There is joint and several liability – partners personal assets can be sold to pay for debts if the business gets bankrupt.
* One partner’s negative action can have consequences for the business.
* There is no continuity- when a partner dies or retires, the partnership is dissolved and a new one established.
* Decisions cannot be made easily- partners have to be consulted.

**Activity 2. XX Partnerships**

**Purpose:**

This activity will help you to understand how a partnership works in more detail.

**Suggested time**: 30 minutes

**What you need**:

* Economics, Business and Finance Workbook
* Pen and paper and a notebook to write your answers

**What you will do**:

Answer the following question in your workbook:

1. How are profits shared?

2. How is the capital raised?

3. How is the partnership managed?

4. How is the partnership taxed?

5. What is meant by unlimited liability?

6. What is meant by joint and several liability?

7. How can a partnership be dissolved?

Guided reflection?

**2.1.3 Companies – Private and Public**

In South Africa, companies follow the *Companies Act 71 of 2008* which was implemented in May 2011. Although the Act allows for varies types of companies, we will only be looking at the two different types of Profit Companies in this Section.\

The company is a more formal, but also more complicated form of ownership than the previous forms of ownership that you have just studied. As it is a lot more expensive to set up, with many legal requirements to continue running it, it is usually suitable for medium to enterprises. The CIPC (Companies and Intellectual Property Commission) and is a good source of additional information if you require more than is provided here.

|  |
| --- |
| Source: <http://www.cipc.co.za/index.php/about/our-functions/> [Downloaded: 25 August 2018] |

When you study this section, you need to distinguish between **profit companies** and **non-profit companies**. Non-profit companies work for the good of the company, that is, profits are ploughed back in and not paid out to the owners. They usually have social aims such as charities, schools and churches. In this course you will only study the profit companies and separate them into:

* Private companies
* Public companies.

**The Registration of Companies:**

The following documents have to be submitted to the CIPC in order to register a company:

1. **The Memorandum of Incorporation (MOI) (form CoR 15.1.A)**

It indicates:

* Details of incorporators (People who want to register the company)
* Directors

**CIPC** – Companies and Intellectual Properties Commission

* Shares
1. **Notice of Incorporation:**

It details:

* Name of company
* Type of company
* Date of incorporation
* Financial year end
* Registered address
* Directors
1. **The Prospectus:**

This document invites the public to buy shares and thereby contribute to the capital of companies. It is registered first and then issued.

Prospective shareholders will apply for shares and thereafter, when allocated, become **shareholders**.

**Shareholder:** an investor who bought shares from a company. He is entitled to a share of the profit, called dividend.

**The Characteristics of Companies.**

**The Private Company**

* Membership of a company extends from a minimum of one with no upper limit.
* Name ends in “(Pty) Ltd”
* Cannot offer shares to the public
* Founders buy the shares in the company and become shareholders
* Shareholders need to agree before shares are transferred.

**The Public company**

* Name ends in “Ltd”
* Membership ranges from one to any number. (Previously minimum was 7)
* The public is invited to buy shares
* Shares are easily transferable
* Liability is limited (as above).

**Advantages of Private and Public Companies**

* Easier to raise capital – banks more willing to lend to these businesses.
* The liability of shareholders is limited – shareholders lose only their investment in the case of bankruptcy – private assets are not attached.
* There is continuity – company does not close when a shareholder dies
* The Business Rescue plan allows the business to get more time in case of difficulty

**Disadvantages of Private and Public Companies**

* Establishment procedure complicated and costly
* Companies Actcan impose many restrictions in operating
* Directors may not be so personally involved as other forms of business.
* Shares restricted for private companies

**Activity where they have to fill in the table. Take out some answers, and maybe leave in a few. This would then be memo.**

**Differences between private and public companies**

Let us make a comparison between the private and public company.

|  |  |  |
| --- | --- | --- |
|  | **Private company** | **Public company.** |
| Share Offering | May not offer its shares to the public | Can offer shares to the public. |
| Minimum number of Directors | Requires one director | Minimum of three directors |
| Is an AGM required? | Not compelled to have an AGM | Required to have an AGM |
| Legal requirements for a name | Name ends in “(Pty) Ltd” | Name ends in “Ltd” |
| Must financial statements be audited? | Financial statements may be audited or independent review  | Financial statements have to be audited |
| Must a company secretary be appointed? | Does not have to appoint a company secretary  | Must appoint a company secretary |

**2.1.4 Other forms of ownership**

**2.1.4 (a) The Close Corporation**

**Purpose of establishment**

Because of the lengthy establishment procedures to register a company, and because of the danger of personal loss with sole proprietorships and partnerships, the new type of ownership the Close Corporation was introduced.

**Note: from May 2011 no new CC’s could be registered**

Very briefly, the close corporation:

* Has between 1 to 10 members
* The name ends in the letters “CC”
* Has limited liability
* Has “members” and not partners
* Members have an “% interest” in the business

Advantages:

* Comparatively easy to establish
* The limited liability protects its members when the business gets into difficulties and becomes insolvent

**Future of CC’s**

Close corporations came into existence to make establishment easier and to enjoy the protection of limited liability. This process will no longer apply. From May 2011, those close corporations in existence will continue to exist for an indefinite period or until it is deregistered or dissolved. No new close corporations can be registered and companies cannot be converted into close corporations. Close corporations may be converted into companies. The fact that no new registrations can be done, implies that they are gradually fade out over time.

**Some new provisions after 2011:**

* Previously the Close Corporation Act was independent from the Companies act, whereas now, CC’s are treated more as companies.
* They may also be required to prepare audited financial statements.

**2.1.4 (b) Co-operatives**

Purpose of Co-operatives

The cooperative is a form of ownership which focuses on the mutual benefit of its members rather than profit. It can be described as “a group of people acting together to meet the needs and aspirations of its members.” They share ownership and make decisions democratically.

We can briefly distinguish between:

* An agricultural cooperative
* A consumer cooperative

Workings of a co- operative

The members come together to buy or sell goods or provide services to its members.

The main objective of the cooperative is the *mutual benefit* of the group. The members come together and run the cooperative together.

Characteristics of a cooperative:

* The name ends with cooperative
* Liability of members is limited
* All members have a say in the running of the cooperative
* Profits are shared according to business done.

Advantages of a cooperative:

* Members gain more because of the “mutual interest” principle
* Members liability is limited
* The lifespan of the cooperative is unlimited.

Disadvantages of a cooperative:

* Members commitment and support determines the success of the undertaking
* Limited capital
* Being service oriented, there is lack of management skills
* Shares cannot be easily transferred.

**2.2 South Africa’s Ownership Statistics**

This section will give you an idea of the makeup of the South African economy. Now that you have studied the various types of ownership you need to have an idea of the current position of the South African economy. This will give you an idea where you can find your space.

We do this by looking at :

* The percentage contribution by small business
* The percentage contribution by medium business
* The percentage contribution by large business

Stats provided by the DTI are as follows:

Contributions by

|  |  |
| --- | --- |
| Micro enterprises  | 89% |
| Small Business | 9,5% |
| Meduim Business  | 0,44% |
| Large business | 0,43% |

Source https://www.dti.gov.ph/businesses/msmes/msme-resources/msme-statistics

Before commencing with a comparison, let us understand the term “Informal Economy”.

(Also known as Grey Economy)1

This term describes that part of the economy that is not taxed or monitored by any form of government. Although it makes up a significant part of the economy, it is usually described as “unmanageable”. However, it provides critical economic opportunities to the poor.

Some of the characteristics of this type of economy are:

* Easy entry
* Small scale of operation
* Uses skills not usually gained from formal education
* Self employment or unpaid family labour is common
* No formal trading hours apply
* No formal wage policy
* Not taxed

Our examples are:

* Taxi operators
* Spaza shops
* Taverns
* Casual construction work
* Hawkers
* Informal contractors

)1 *Source: Wikipedia*

*South Africa’s small business contributes 45% to the GDP. The norm is 50% for developed countries. It provides 50% of the employment. The target set by the government is 90% by 2030.*

**South African economy:**

Let us examine how different sectors contribute to the country’s economy: (in 2013)

*Agriculture: slowly decreased from 9% in 1960 to 2.2% in 2013*. (Maize, wheat sugar cane and sunflowers)

 This implies that the secondary and tertiary sectors have slowly become more important.

*Manufacturing: contributed 15,5%*

South Africa has developed a diversified manufacturing sector. This is the third largest contributor; gives rise to other opportunities like services. Mainly processing of agricultural products, automotive, chemical, ICT, electronics, metals, textiles.

There is a *National Automotive Production and Development Plan* to encourage components and assembly. Located mainly in Gauteng and the Eastern Cape.

In gas based liquid fuels, South Africa is world leader.

*ICT* - most advanced in Africa particularly mobile software and electronic banking. South Africa leads in prepayment, revenue management and fraud prevention measures. The DTI (Department of Trade and Industry) supports these industries and encourages growth

*Metals –* South Africa has a well-developed metal industry with vast natural resources of iron ore and steel, nonferrous metals, and metal products; it ranks 21st in the worlds and produces 1% of the worlds requirements.

*Textiles, Clothing and Footwear* – accounted for 14% of manufacturing; technology has made it **capital intensive** and this has lead to a decline in jobs.

*Mining -* South Africa is the world’s largest producer of gold and platinum and holds the world’s largest deposits of gold.

*Communication –* accounts for 10% of the GDP in 2016; it is the fastest growing sector of the economy. Telkom was the only fixed line operator. the cell phone market has grown substantially with Vodacom, MTN, Cell C (and Virgin Mobile) being the providers .

*Tourism –* this is a large export earner and earmarked as a growth industry

*Wholesale and Retail –* have shown the largest increases

*Finance and Business –* South Africa has a sophisticated financial services sector. Finance and real estate account for 22%, comparing favourably with the rest of the world, the Financial Services Board oversees financial markets. The banking system is well developed.

 ***Source: wwwmediaclub.southafrica.com/economy***

**At a Glance:**

|  |  |
| --- | --- |
| **Sector** | **% contribution**  |
| Agriculture | 2,2 |
| Mining | 4,9 |
| Manufacturing | 15,2 |
| Electricity, Gas and Water | 1,8 |
| Construction  | 3 |
| Wholesale and Retail | 12,5 |
| Transport and Storage  | 9 |
| Finance and Business | 21,5 |
| Government Services | 13,7 |
| Personal Services  | 5,4 |
| Taxes | 10,8  |

 *Source: wwwmediaclub.southafrica.com/economy*

**Suggested sources of additional information**

1. [*www.cipc.co.za*](http://www.cipc.co.za)

*2. Business, Commerce and Management Subjects : Grade 10-12 Department of Basic Education Teachers Guide 2012*

*3.* [*www.mediaclubsouthafrica.com/economy*](http://www.mediaclubsouthafrica.com/economy)

**SUMMARY OF KEY LEARNING: UNIT 2**

This unit focussed on different ways of owning businesses, so that you will know what is available to you. We discussed the following types;

* The sole trader
* The partnership
* The company (profit company only)
* The close corporation
* The co operative

You learnt that the smaller business undertakings use the sole trader forms of ownership while larger ones use the company. There were a number of changes brought about by the introduction of the new Companies Act 2008, which removed most of the complication associated with companies previously.

The close corporation,, you learnt, was still in existence but no new ones could be established from 2011.. This type of ownership is gradually being phased out.

Each type has implications, for example, capital considerations are important for start ups, which may cause the entrepreneur to begin small and later convert to a company for.

Liability played an important part in this decision as the owner(s) personal assets could be at risk.

The second part focussed on the South African economy for you to be able to find your space. A brief discussion of the Informal Sector was included to show the reality of the situation, and the government’s targets.

The unit closed with a brief look at the contribution of various sectors of the economy. You noticed that the contributions showed changes which goes to explain the challenges being faced by South African businessmen.

**ASSESSMENT UNIT 2**

**Question 1:**

Match the descriptions in column A with the terms in Column B. Write only the number of the question and the Letter e.g. 1.9 N

|  |  |
| --- | --- |
| **Column A** | **Column B** |
| 1.1 This type of ownership shares profits and losses according to the business done. | A Sole trader |
| 1.2 The owner pays tax in his personal capacity  | B. Close corporation |
| 1.3 Joint and several liability apply here  | C. Partnership  |
| 1.4 May commence business with one director  | D. Co-operative  |
| 1.5 Name ends in “LTD”  | E. Public company  |
|  | F. Private company |
|  |  G. Public Utility company  |
|  |  |

 (10 )

**Question 2**

State whether the following statements are TRUE of FALSE. If the statement is true, then write TRUE only. If the statement is false, then write FALSE and correct the underlined word/words to make it true.

2.1 Shareholders are owners.

2.2 The Partnership pays tax.

2.3 The sole trader has unlimited capital

2.4 From 2011, no new CC’s could be registered.

2.5 The co-operative is formed for mutual benefit. (14)

**Question 3:**

Tabulate FIVE differences between an ordinary partnership and a private company. (10)

**Question 4**

The companies Act has undergone changes during the last few years resulting in the Companies Act 71 of 2008.

Briefly describe the following areas where the change took place.

Name

No of members

Directors

Financial statements

Auditing (20)

**Question 5**

Raymond Mtolo and four of his friends want to change their form of ownership from a partnership to one where their private assets are protected and can be established relatively easily. What can you suggest? Explain to them why you think it is the best solution. (20 )

**References Texts consulted: Section 2**

**Texts**

Business, Commerce and Management Subjects: Grade 10-12 Teachers’ Guide Department of Basic Education 2012

Bounds et al Focus *on Business Studies* Grades 10-12 Maskew Millar Longman 2012

**Newspapers:**

Sunday Tribune I May 2016

Sunday Tribune 31 July 2016

**and the following sites:**

[www.investopedia.com/terms/l/lease.asp](http://www.investopedia.com/terms/l/lease.asp)

[www.cipc.co.za](http://www.cipc.co.za)

wwwmediaclub.southafrica.com/economy

Wikipedia – the free encyclopaedia

**SOLUTIONS TO ACTIVITIES SECTION TWO**

**Activity 2.1**

**Answers:**

1. Ensure that you know what the customers need rather than what you like.

2. Use the internet to compete with larger companies.

3. Open a new sales channel through the internet.

4. Look to existing clients and offer them loyalty programmes.

5. Ensure employees are trained on the benefits of the products.

**Activity 2.2**

**Answers:**

Market research refers to investigation of a market to determine the tastes and habits of consumers in that area.

Research Into:

a.

The earnings of the target market

Existing suppliers of high quality furniture

Existing suppliers of low quality furniture

The prevailing market prices

Future plans for increasing the target market (if any) for example building another township nearby.

b.

The computer literacy of existing population

The schools offering IT in the neighbourhood

Existing suppliers

Market prices

c.

Availability of electricity in the township

Average electrical appliance ownership in the area

Existing suppliers

Market prices.

3. Learners will give their own choice. Personally the simple advice “accept you have to work hard” is the most practical.

**Activity 2.3**

**Answers:**

You could start a business from scratch if your research reveals that there are no existing businesses and that there are very good prospects for your envisaged venture. You may also have notices that existing businesses are neglecting some aspect you consider to be important and you want o capitalise on this and want to be different.

**Activity 2.4**

**Answers:**

**1.**

Situation – opposite busy terminus;

Other possibilities – catering

Turnover figures if true.

2.

Long hours – will not suit everyone.

3.

The owner leaves everything in the shop and you take over.

4. Depends on learners experience. Market related.

**Activity 25.**

**Answers:**

**Note:** Not every learner may have been exposed to this chain.

1. It is very likely most learners will have been exposed to this outlet. They should know it is.

2. Making and delivery of Pizzas and sides to go with.

**Activity 2.6**

**Answers:**

1. Kentucky Fried Chicken

2. Yes it is a franchise-

There aremany identical outlets and they are all in the same line of business.

3. Franchisee-

Understand the system

Match you skills and personality to the business

 Franchisor –

Don’t franchise too early

Ensure there are sufficient tools and systems in place to manage franchisees needs without micro managing them.

**Activity 2.7.**

**Answers:**

For immoveable property, the following should be included:

* Names and addresses of tenant and landlord
* Lease period
* The description of the dwelling to be leased
* The rent, allowing for escalation
* The frequency of the rental payments (e.g. monthly)
* The amount of the security deposit
* Notice period

**Activity 2.8**

**Answers:**

1. Labour brokers advertise for workers, conduct the interviews, and handle other administrative work like wages, and benefits. They do more than a recruitment agency, whose job finishes when the person is placed.

**2.** The South African workforce does not like the process as the wage is usually lower and it is viewed as exploitation.

3. There have been many recent protests and marches to indicate this dissatisfaction. The matter is still receiving attention . (2016). Some specific protests have yielded results.

**Note:** Learners may have detailed knowledge of such developments. You can have class discussions or even a project based on this topic.

**Activity 2.9**

**Answers:**

Market research refers to research to find out details of the target market for example:

What is the age range of the inhabitants in your target market?

What do they earn?

What are the goods they purchase?

What are the existing businesses in the area?

What are the chances of your success?

2.

How many people would be interested in your services? (Support you)

Are there other businesses operating already?

Where can your business be an advantage? Can you do something others are not doing?

What is the best locality for your business

How much capital would you require?

Do you have reliable workers you have earmarked?

Do you yourself have the expertise required in this line of business?

**Activity 2.10**

**Answers:**

This is a practical exercise.

Learner will find out for himself the business operations .

However, business operations are confidential and there may be some “secrets” that the owner is unwilling to disclose. The learner should respect this.

If he is able to find out anything at all, it would be an achievement.

**Activity 2.11**

**Answers:**

This a practical application of the points made above. Typical would be:

Shampoo:

Different variants e.g. shampoo, shampoo and conditioner etc

Sizes available : e.g. 100 ml, 150ml,200ml etc.

Advertising schedule – those that have been completed- radio advrts, TV or press adverts

Promotions- at shopping centres involving demonstrations.

The Pricing Strategy – cost of competing products.

Costing procedure how the price was arrived at.

Distribution decisions – what system to use. Direct or indirect. How it arrives at the store?

Sales details – to track trends and decide cash/credit policy.

**Activity 2.12**

**Answers:**

This is a practical exercise. Learners will draw up their own plan. A number of sample plans can be obtained from:

***www.bplans.com***

**Activity 2. 13**

**Answers:**

1. Profits are shared according to the agreement – what they have agreed on. For example equally, according to capital or any other ratio mentioned in the agreement.

2. Partners contribute capital according to what they can afford.

3. The agreement will dictate how the business is managed. Example, a partner can be nominated to run the business for a salary.

4. The partnership is not taxed but the partners are taxed in their personal capacities.

5. If the business goes bankrupt, then partners will have to sell their personal assets in order to meet the shortfall.

6. Partners are jointly held responsible for the debts of the partners unless they can prove otherwise. (joint) However, should the creditor wish, he can demand the amount from the one partner. (several)

7.

* The Partnership Agreement could have stated the time for which the partnership will run e.g. 5 years.
* The partner can give notice of his intention to exit
* One of the partners dies
* The business goes bankrupt.

**Activity 214.**

**Answers:**

|  |  |  |
| --- | --- | --- |
|  |  |  |
|  | **Companies Act 1973** | **Companies Act 2008** |
| *Documents Required*  | Memorandum of Assn, Articles of Assn,  | Memorandum of Incorporation Rules  |
| *Process* | Detailed Admin process | Simplified Registration process |
| *Types of Companies*  | Share capitalLimited by Guarantee | Profit and non profit  |
|  | Share capital- Public, Private  Section 21 | Profit –Public, Private, SOC, Personal Liability, Non profit  |
| *Members* | 7 persons (Min)Public 7 to unlimitedPrivate 1 to 50 | Profit companies:Public, Private & PL - 1 minSOC –no minimumNon Profit – no Minimum |
| *Name*  | Ltd and Pty LtdSection 21 company  | Pty Ltd and LtdSOC – SOC LimitedNon Profit - NPC |
| *Directors*  | Private – 1 minPublic – 2 min  | Private – 1 minPublic – 3 minP Liability – 1 minNon Profit – 3 min |
| *Remuneration Disclosure*  | Directors in aggregate | Individual – Remuneration +Pension+securities+ interest in service contract  |
| *Shares* | Par value, No par value | Share premium abolished |
| *Financial statements* | Prepared for AGM,PublishedCopy to shareholders  | Use IFRS standardsApproval by board Summary to shareholders |
| *Auditing* | Public Must be audited  | Public, SOC must be auditedSome private and P Liability – optional  |
| *Social and ethics committee* | Not required  | Must have social and ethics committee |
| *Quorum* | Public - 3 voting members Private 2 Voting members  | 25% of all voting rights  |
| *Registers*  | MembersDirectorsDebenture holdersInterest in contracts  | DirectorsAuditorsCompany SecretarySecurities register |
| *Business rescue*  | Judicial manager with limited shareholder inv | Self administered to rehabilitate the company  |

[*www.corporateaccounting.co.za*](http://www.corporateaccounting.co.za)

**SOLUTIONS TO ASSESSMENT**

**SECTION 2**

**UNIT 1**

**Question 1**

Qualities of an entrepreneur:

**Taking Risks**

All entrepreneurs commence business knowing that there is always the possibility of failure and this will result in losses. For this reason we say he should take **calculated** risks, that is, he should make informed decisions. This should, however, not discourage him as he must trust his own ability in overcoming any challenge. ✓✓✓✓

**Have Interpersonal Skills**

As an entrepreneur, you need to be able to get on with people. You will have to be able to interact with various people in the course of business example:

* Workers – you need to motivate them (yet not lose control)
* Your suppliers – you may need special favours from them
* Your customers – they may complain about the product or service
* Your bank – you may need a loan or extension ✓✓✓✓ (max)

 **Creativity:**

This is the ability to think of new ideas and to be different. The successful entrepreneur needs this in order to:

* Find new products to satisfy wants (where there are none)
* Change or modify existing products
* Find better ways of making or marketing existing products. ✓✓✓✓ (max)

**Question 2**

The answers to this question will be personal to the learner and the area where he comes from. In general the following answers may be expected:

2.1 Expect a fast food outlet e.g. Kentucky FC or Steers etc. ✓✓

2.2 There are other outlets and they supply the same product/service and they are branded in the same way. Prices are also usually same at all the outlets. ✓✓

2.3 Learner’s own observation e.g. fast food, clothing, retailing, motor spares, etc.

2.4 You will expect:

* The same line of business
* The same range of products/ service
* The same quality
* The same prices
* The same branding

2.5

The reasons could be any of the following:

* Assistance with establishment – the franchisor assists with setting up the business as well as running it.
* Assistance with Management – assistance with all aspects of management.
* Financial assistance- the franchisor assists with acquisition of finance.
* Training – provided for recruiting and training staff.
* Promoting sales – advertising can be undertaken for the entire operations.
* Product Control – the advertiser supplies the product and controls the quality.

**Question 3**

Royalty – is a payment made by the franchisee to the franchisor to trade under a particular brand/trade mark.

Franchisor – the person who developed the business idea and owns the right to trade under the specific trade name.

Franchisee – the person who buys the right to trade under the name.

**Question 4**

If you say YES.

Leasing has certain advantages :

* Lower deposit and instalments
* You can change the asset after the lease
* You pay only for the loss due to depreciation
* Leasing charges are allowed as a business expense
* You gain if you purchase the asset at the end of the lease.

 If you say NO

* You own the asset and can change/modify it at will
* More cost effective than continually paying leasing charges for each asset
* You can dispose of the asset at any time

**Question 5**

Labour brokers advertise for workers, conduct the interviews, and handle other administrative work like wages, and benefits. They do more than a recruitment agency, whose job finishes when the person is placed.

**Question 6**

Learners will report on their municipality

A municipality usually outsources services for which they do not have sufficient or qualified personnel:

* Electricity faults and repairs
* Grass cutting
* Meter reading
* Water and waste – maintenance

UNIT 2

Question 1

1.1 D

1.2 A

1.3 C

1.4 F

1.5 E

Question 2

2.1 True✓✓

2.2 False ✓✓ Partners pay tax✓✓

2.3 False ✓✓Liability ✓✓

2.4 True ✓✓

2.5 True ✓✓

Question 3

|  |  |
| --- | --- |
| PARTNERSHIP | PRIVATE COMPANY |
| Unlimited Liability  | Limited liability  |
| Partners 1 to 20  | 1 to any number (prev 50) |
| Not a legal person  | Legal person  |
| No continuity  | Members may change  |
| Limited capital  | More capital |
| Any other acceptable difference  | Any other acceptable difference |
|  |  |

Question 4

|  |  |  |
| --- | --- | --- |
|  |  |  |
|  | **Companies Act 1973** | **Companies Act 2008** |
| *Members* | 7 persons (Min)Public 7 to unlimitedPrivate 1 to 50 | Profit companies:Public, Private & PL - 1 minSOC –no minimumNon Profit – no Minimum |
| *Name*  | Ltd and Pty LtdSection 21 company  | Pty Ltd and LtdSOC – SOC LimitedNon Profit - NPC |
| *Directors*  | Private – 1 minPublic – 2 min  | Private – 1 minPublic – 3 minP Liability – 1 minNon Profit – 3 min |
| *Financial statements* | Prepared for AGM,PublishedCopy to shareholders  | Use IFRS standardsApproval by board Summary to shareholders |
| *Auditing* | Public Must be audited  | Public, SOC must be auditedSome private and P Liability – optional  |

Question 5

The new format would be that of a Private Company. ✓✓

Establishment is relatively easy ✓✓

Assets are protected. ✓✓ 6

Characteristics of Private companies

* Membership from one to any number (previously 50) ✓✓
* Name ends in “ (Pty) Ltd” ✓✓
* Cannot offer shares to the public ✓✓
* Founders buy the shares in the company and become shareholders✓✓
* Shareholders need to agree before shares are transferred. ✓✓ Max 8

Advantages of Private companies

* Easier to raise capital – banks more willing to lend to these businesses.
* The liability of members is limited –lose only their investment in the case of bankruptcy – private assets are not attached.
* There is continuity – company does not close when a member dies max 4

Conclusion:

Any suitable conclusion 2

Total 20