

SECTION 2 : ESTABLISHING A BUSINESS

Introduction

The purpose of 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 can fit into the picture. You should examine your skills and abilities and work out how you can become a contributor to the economy rather than relying on the economy to give you a livelihood. Simple put 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 : Entrepreneurship 20hours	1.1 Qualities of an Entrepreneur 1.2 Acquiring a business 1.3 Business plans
Unit 2 : Forms of ownership 16hours	2.1 Forms of ownership 2.2 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 shortage of baby clothing . the person who starts off this venture is called an entrepreneur. He 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**.

We will approach this topic as follows:

1.1 : Qualities of an entrepreneur

1.2 Acquiring a business

1.3 Business Plans

Profit:

Extra income after subtracting expenses.

After completing this section you should be able to:

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

1.1.1 Qualities of an entrepreneur

Vision

At the beginning, you need to have a clear picture of what you intend to do, for example , plant tomatoes, make ladies 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 you want to become in a few years. You could be a small business in the township or you could become a large producer with **export** markets

Further, you need to be able to see changes in market conditions, that is, when there is *more* opportunity and when this could change, for example, during summer there will be a bigger market for air conditioners than in winter.

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

Why do you think this is so?

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.

Responsibility:

An entrepreneur needs to become responsible – 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 ironstone.
- Be responsible for taking business decisions for example increasing production
- Be responsible for the safety of employees.

Can you find other examples?

Energetic

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

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.

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.

Have 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 may 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.

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.

Integrity : believing in honesty and morality.

Well informed

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

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

Legislation: laws passed in order to regulate trading

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

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

Activity 2.1

Below is an article from a newspaper. It indicates to you that there are many success stories and lessons to be learnt from them.

In the first article, (when times get tough....) the entrepreneur highlights' what can be done when facing cash flow difficulty.

She makes reference to some issues that you will be studying in the next unit (leasing).

Question :

In your own words, write down five tips that she gives to avoid cash flow problems.

Re - Insert newspaper article that is included. Original enclosed.

When times get tough, the tough get credit

THE economic downturn and interest rate increases will have an impact on small businesses, but these need not signal the end of growth.

Ethel Nyembe, head of small enterprise at Standard Bank, says that at its most basic, business is all about managing cash flows and ensuring you understand the market you serve.

"Achieving a balance between the cash in and out can be challenging if stock has to be bought and held before it can be sold," she said. "A good example is the clothing industry where buying takes place a season ahead of sales."

But, says Nyembe, cash flow can be optimised. These are some of the steps you can take:

- Ensure the product or service is based on what customers want rather than what you like. Effective marketing and business development demand that stock is sold as quickly as possible so that cash comes into the business.

- A crucial time for marketing is when times get tough. Using the internet, small companies can compete with much larger corporations.

- Open a new sales channel via the internet.

- Look to existing clients – offering them special discounts, a loyalty programme or deliveries could boost sales.

- Use a customer database to keep loyal customers up to date on offers. An e-mail newsletter or website keeps everybody informed and encourages foot traffic.

- Ensure employees are trained on the benefits and selling points of products. If customers are well informed about your products, interest can be turned into sales.



Ethel Nyembe

Nyembe gave this advice to ensure money is flowing into rather than out of a business:

- Work to a realistic budget.
- Constantly review costs. Cut costs with an early payment to suppliers who offer a discount for payments made in less than 30 days. Where you can, negotiate discounts with suppliers.
- Minimise your stock holding – stock on shelves is idle money.
- Check to see what sells well and what doesn't. Reduce stocks of slow sellers items and buy good

sellors in bulk. In this way you can benefit from bulk discounts and increase your margins.

- Pay carefully by choosing which bills to pay. Pay employees first, then crucial suppliers next. Regularly review when you expect to receive money and pay it.

- Know when your customers pay you and when they fall behind so that you can take action to get money in.

- Considering discounts for early payments.

- Ask for deposits before ordering the goods required. You can put the money to good use while you fulfil the order.

- Examine supplier and customer credit terms. For example, it doesn't make sense to pay suppliers in 90 days and offer customers 30 days' credit.

- Send out invoices as soon as the job is completed rather than at the end of the month.

- Consolidate loans. Review the rate and terms of each loan and, if you can, consolidate them into a lower-interest account.

- Compare leasing and financing options. You might also be able to save on maintenance costs if you lease rather than buy equipment.

Ultimately, your people hold the key to better sales. Devising a rewards and incentive programme based on sales volumes for employees can work wonders.

Creating sales targets and linking them to personal input that is rewarded with prizes can keep the workplace happy and sales ticking over in difficult times.

Activity 2.2

Examine the tips below

1. The suggestion refers to “Market research”. What do you understand by the term “market research?”
2. What research would you do for the following businesses?:
 - Furniture outlet dealing in low cost household items neighbouring a township.
 - A computer repair shop
 - Electrical spares shop
3. What is for you, the important piece of advice included in the article?

FIVE TIPS FOR ENTREPRENEURS

Invest time in market research

Use online information to that were not available previously, especially the reasons why some businesses fail

Take an on line course in marketing

Accept the fact that you will need to work harder and long hours

Giving up is not an option. Never quit. Make it work!

Sunday Tribune 31 July 2016

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 young 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 you should take into account .

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

Activity 2.3

When would you think of starting from scratch? List the circumstances that would probably lead to such a decision.

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. (see illustration below)

BUSINESS FOR SALE

TAKE AWAY FOODS

Situated opposite busy bus terminus.

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

Catering for functions also.

Excellent prospects.

Turnover XXXXX monthly.

WALK IN, WALK OUT.

Asking price Rxxxxxx (negotiable)

Phone 11111111 during business hours.

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 established – there is no need to find a market for yourself.
- The business is doing well – so the owner claims.
- You do not have to build up a customer base – it is already there.

Activity 2.4

Examine the advert above:

1. List some of the points about it, you consider make it a good buy.
2. Can you find any negative aspect(s)?
3. Explain “Walk in Walk out”
4. What would you be prepared to pay for it?

1.2.3 Franchising

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 advertising and so on.

Some of the important points the agreement covers are:

- The duration of the franchise 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 2.5 :

Examine the advertisement below:



1. Is this a franchise? List the reasons for your answer.
2. What is the main activity it is involved in?

Re- Insert the article. Original enclosed.

2 FRANCHISING

SUNDAY TRIBUNE MAY 1 2016

One of the most instantly recognisable and widespread franchises in the country, is KFC. Fast food accounts for almost a quarter of the franchising market. The entry of new franchises signals confidence in South Africa's economy, according to Jeremy Lang of Business Partners.



Franchises good for economy

THE number of international retail brands entering the market is a positive indicator and highlights the opportunity that South Africa offers to international investors, despite many negative perceptions around the economy.

This is according to Jeremy Lang, regional general manager of Business Partners Limited, who says the franchise sector continues to grow steadily.

Speaking in light of May being Franchise Month, he says there are a number of opportunities emerging from the three major trends in the local franchise industry.

The first is the influx of international franchisors into South Africa, such as Burger King, Starbucks, Domino's Pizza and Pizza Hut, which is re-entering the market.

Dunkin Donuts will also launch here soon.

"The launch of such large international brands in South

TIPS FOR THE FRANCHISEE:

Understand the system, concept and agreement, in its entirety:

Entrepreneurs looking to buy a franchise must perform due diligence on all aspects of the business, sector, location and franchising agreement. This may include talking to other franchise owners in the same sector and even of the same franchise, examining the budgets, start-up costs, as well as the rights and obligations which may form part of the agreement.

Match your skills set and personality to the business:

When buying a franchise, business owners should consider a franchise that suits their character and skills set. For example, if the individual is not comfortable with long hours, a franchise in the restaurant industry would not be suitable. It is also important to consider a sector in which you have some experience and are familiar with operations and possible challenges.

Africa highlights the long-term investor confidence in the market, as well as the franchise sector," says Lang.

The second trend is the establishment of franchises with smaller set-up cost requirements.

With access to capital remaining a challenge, franchise systems with lower set-up costs provide a good opportunity for franchisees to enter the market,

where it otherwise would not have been possible.

Set-up costs typically range between R500 000 and R2 million.

Lang says the third trend – the growth of various child education and entertainment franchises – is attributed to an increased demand for safe, fun and educational environments for children.

While the sector as a whole is showing strong growth, the fast

TIPS FOR THE FRANCHISOR:

Ensure there are sufficient tools and systems in place:

Franchisors must be prepared to manage and support a host of franchisees, as well as cater to their needs effectively, but without micro-managing the franchisee.

All the risks that could affect the brand should be identified, and measures should be put in place to protect the business from these risks. This is important as problems that affect one franchisee can easily affect the entire brand.

Don't franchise too early:

This is one of the most common mistakes made by business owners. Before franchising a business, there should be a proven business concept and model in place, and all the flaws should have been ironed out.

food and retail industry remains the strongest player.

Pointing to recent figures from the Franchise Association of South Africa, Lang says the fast-food franchise sector comprises about 24 percent of the total franchise activity in the country.

He says the significant growth of the country's middle class is driving this, with consumers seeking faster, more efficient ways

of going about their daily lives.

"Workers are experiencing increased pressure from both their work and personal lives and, as a result, more people are seeking quick and convenient solutions for life's menial tasks, such as cooking, cleaning and shopping.

"It is in these sectors where we are seeing significant growth as franchisors capitalise on this demand." – Staff Reporter

Activity 2.6

Read the article above and answer the following questions:

1. What is the well known brand depicted?
2. Would you consider this to be a franchise? Why?
3. What advice does the article give to both the franchisor and the franchisee?

1.2.4 Leasing, Outsourcing and Labour Broking.

When you require an asset you will be using in your business, like, 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, or you may decide to keep the funds for some other purpose, then you can lease the asset.

There will be 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 2.7 : Lease Agreement

To become familiar with the concept “lease” you need to look at an agreement; you can learn more at www.investopedia.co/terms/l/lease.asp

Question :

What do you think are included in the lease agreement? List them.

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.

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

Activity 2.8

You will need to consult newspapers and take note of developments on news media to answer the following question:

Question:

1. How does the practice of employing labour brokers differ from that of recruitment agencies?
2. What is the general attitude of the South African public to this practice? What are your views on this matter?
3. List any recent developments in this matter.

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 where you are heading that is, what would you like to achieve and how to intend doing this. This is one of the basic requirements for success.

Why do we need plans?

- Raising finance becomes easier with a well thought out plan
- you are able to foresee 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 Operation 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:

This is the primary decision you may have had to make:

Which sector I want to belong to, for example:

- 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.

Activity 2.9

1. Explain *market research* in your own words.
2. If you were thinking of opening a hair dressing salon in one of the suburbs of Johannesburg, what type of information would you be looking for?

1.3.2 Operation plan:

This plan will detail the following:

- The product details – how is it better than other products
- Where the premises are situated
- Details of the type of production that will take place
- What types of machinery will be used in the processing
- How and from where you intend to get the materials to produce (if you are engaging in this branch of activity)

Activity 2.10

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

(Note: You will study the Marketing function in detail later)

The marketing plan includes the following, essentially:

- Details of the product (size(s), trade mark, special features etc)
- Details of competing products and how yours is superior
- 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)

Activity 2.11

This is a practical exercise.

Take any product in the home e.g. shampoo.

From your knowledge and observations, during your purchase of the product prepare the details that you think would have appeared in your marketing plan if you were the manufacturer of this product. .

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 Drawing up a Business Plan.

Activity 2.12

Now that you are aware of the most important components of a business plan, put one together for an undertaking you were dreaming of. Include all the aspects mentioned above and any other important information you think should be added for example,

- What your research has indicated(What made you choose this particular business)
- Your choice of location and why

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. 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 its 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.

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 the municipality. Why do you think this was done? 8

Suggested sources of additional information

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:

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

<p>Liability : responsibility for paying off the creditors when the business is insolvent.</p>

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 actions 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 2.13

The details above describe a **general partnership**.

Answer the following questions:

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 is a partnership dissolved?

2.1.3 Companies – Private and Public

In South Africa, companies follow the *Companies Act 71 of 2008*.

The old Companies Act (Act 61 of 1973) was replaced by the new act which was approved in 2008 but implemented in May 2011

The company is a more complicated form of ownership; compared with the other forms of ownership you have studied, it is a more expensive business to set up. It is usually suitable for large business. There have been a number of developments regarding the company and we shall deal with them very briefly later.

More information can be obtained from :

www.cipc.co.za

When we study this section, we need to distinguish between **profit companies** and **non profit companies**. We study only the profit companies and separate them into:

- Private companies
- Public companies.

There are another two types of companies which we will not study, they are:

Personal Liability Company

State owned companies

You will also be able to obtain information on them at the same address:

www.cipc.co.za

Registration of Companies:

The registration of companies (public and private) is complicated. We will mention some of the documentation here:

The documents have to be submitted to the CIPC:

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

It indicates:

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

Notice of Incorporation :

It details:

- Name of company
- Type of company
- Date of incorporation
- Financial year end
- Registered address
- Directors

CIPC – Companies and Intellectual Properties Commission

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 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.

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 Act can impose many restrictions in operating
- Directors may not be so personally involved as other forms of business.
- Shares restricted for private companies
- Tax implications

Differences between private and public companies

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

Private company	Public company.
May not offer its shares to the public	Can offer shares to the public.
Requires one director	Minimum of three directors
Not compelled to have an AGM	Required to have an AGM
Name ends in “(Pty) Ltd”	Name ends in “Ltd”
Financial statements may be audited or independent review	Financial statements have to be audited
Does not have to appoint a company secretary	Must appoint a company secretary

The Companies Act – old and new. A brief comparison

There are significant differences between the two Companies Acts mentioned above. As mentioned previously, the new act was meant to make it easier to establish and run companies and remove some of the restrictions previously included.

We shall mention only a few of the important differences (not detailed).

Changes were made to:

- The *types of companies*
- The *categories of companies*
- Formation procedures
- Rules for the company names
- Membership requirements
- Number of directors
- Disclosure of remuneration

- Shares and buyback
- Business Rescue
- Financial Statements and Auditing requirements
- Appointing a “Social Ethics” committee
- Registers to be kept.

Activity 2.14

Using the above as a guide, compare the old (1973) and new companies act (2008). Include the important differences only.

2.1.4 Other forms:

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 can 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 describes 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 make up 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
- The percentage contribution by informal business

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 , non ferrous 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 worlds 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 cellphone 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 :www.mediaclub.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 :www.mediaclub.southafrica.com/economy

Suggested sources of additional information

1. www.cipc.co.za
2. *Business, Commerce and Management Subjects : Grade 10-12 Department of Basic Education Teachers Guide 2012*
3. www.medioclubsouthafrica.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 co, 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.

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 or 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

www.cipc.co.za

www.mediaclub.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 to 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 are many identical outlets and they are all in the same line of business.

3. Franchisee-

Understand the system

Match your 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 immovable 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
<i>Documents Required</i>	Memorandum of Assn, Articles of Assn,	Memorandum of Incorporation Rules
<i>Process</i>	Detailed Admin process	Simplified Registration process
<i>Types of Companies</i>	Share capital Limited by Guarantee	Profit and non profit
	Share capital- Public, Private Section 21	Profit –Public, Private, SOC, Personal Liability, Non profit
<i>Members</i>	7 persons (Min) Public 7 to unlimited	Profit companies: Public, Private & PL - 1 min

	Private 1 to 50	SOC -no minimum Non Profit – no Minimum
<i>Name</i>	Ltd and Pty Ltd Section 21 company	Pty Ltd and Ltd SOC – SOC Limited Non Profit - NPC
<i>Directors</i>	Private – 1 min Public – 2 min	Private – 1 min Public – 3 min P Liability – 1 min Non Profit – 3 min
<i>Remuneration Disclosure</i>	Directors in aggregate	Individual – Remuneration +Pension+securities+ interest in service contract
<i>Shares</i>	Par value, No par value	Share premium abolished
<i>Financial statements</i>	Prepared for AGM, Published Copy to shareholders	Use IFRS standards Approval by board Summary to shareholders
<i>Auditing</i>	Public Must be audited	Public, SOC must be audited Some private and P Liability – optional
<i>Social and ethics committee</i>	Not required	Must have social and ethics committee
<i>Quorum</i>	Public - 3 voting members Private 2 Voting members	25% of all voting rights
<i>Registers</i>	Members Directors Debenture holders Interest in contracts	Directors Auditors Company Secretary Securities register
<i>Business rescue</i>	Judicial manager with limited shareholder inv	Self administered to rehabilitate the company

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
<i>Members</i>	7 persons (Min) Public 7 to unlimited Private 1 to 50	Profit companies: Public, Private & PL - 1 min SOC –no minimum Non Profit – no Minimum
<i>Name</i>	Ltd and Pty Ltd Section 21 company	Pty Ltd and Ltd SOC – SOC Limited Non Profit - NPC
<i>Directors</i>	Private – 1 min	Private – 1 min

	Public – 2 min	Public – 3 min P Liability – 1 min Non Profit – 3 min
<i>Financial statements</i>	Prepared for AGM, Published Copy to shareholders	Use IFRS standards Approval by board Summary to shareholders
<i>Auditing</i>	Public Must be audited	Public, SOC must be audited Some 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