Cambridge International College

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BUSINESS MANAGEMENT & ADMINISTRATION

(BUSINESS THEORY & COMMERCIAL PRACTICE)

STUDY GUIDE FOR MODULE ONE

(A full 'Study & Training Guide' will accompany the Study & Training Manual(s) you will receive soon by airmail post.)

This Study Guide - like all our Training Materials - has been written by professionals; experts in the Training of well over three million ambitious men and women in countries all over the world. It is therefore essential that you:-

- Read this **Study Guide** **carefully** and **thoroughly** BEFORE you start to read and study Module One, which is the first ***'Study Section'*** of a CIC Study & Training Manual you will receive for the Program for which you have been enrolled.
- Follow the **Study Guide** **exactly**, stage by stage and step by step - if you fail to do so, you might not succeed in your Training or pass the Examination for the CIC Diploma/Award.

* *STAGE ONE*

Learning how to **really STUDY** the College's Study & Training Manual(s) provided - including THOROUGHLY READING this Study Guide, and the full **'Study & Training Guide'** which you will soon receive by airmail post.

* *STAGE TWO*

Studying in accordance with the professional advice and instructions given

* *STAGE THREE*

Answering Self-Assessment Test Questions/Exercises

* *STAGE FOUR*

Assessing - or having someone assess for you - the standard of your answers to the Self-Assessment Test

* *STAGE FIVE*

Preparing for your Final Examination

* *STAGE SIX*

Sitting the Final Examination

CIC Member Mohamed Sarah Conteh, from Sierra Leone

Remember: your CIC Program has been **planned** by experts. To be certain of gaining the greatest benefit from the Program, it is **essential** that you follow precisely each one of the **SIX stages** in the Program, as described above.

STAGE ONE is your **thorough reading of this 'Study Guide'**

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ABOUT CIC STUDY & TRAINING MANUALS

A CIC Study & Training Manual (which comprises 4 or 6 Modules - the first Module of which follows) supplied by the College as part of your Course or Program is **NOT** simply a text book. It must therefore **not** be read simply from cover to cover like a text book or another publication. It MUST be **studied**, Module by Module, exactly as explained in the following pages. Each CIC Study & Training Manual has been designed and written by specialists, with wide experience of teaching people in countries all over the world to become managers, administrators, supervisors, sales and accounting personnel, business-people, and professionals in many other fields.

Therefore, it is in **your own best interests** that you use the Study & Training Manuals in the way CIC's experts recommend. By doing so, you should be able to learn easily and enjoyably, and master the contents of the Manuals in a relatively short period of time - and then sit the Final Examination with confidence. Every Study Manual & Training Manual is written in clear and easy to understand English, and the meanings of any "uncommon" words, with which you might not be familiar, are fully explained; so you should not encounter any problems in your Studies and Training.

But should you fail to fully grasp anything - after making a thorough and genuine attempt to understand the text - you will be welcome to write to the College for assistance. You must state the **exact** page number(s) in the Study & Training Manual, the paragraph(s) and line(s) which you do not understand. If you do not give full details of a problem, our Tutors will be unable to assist you, and your Training will be delayed unnecessarily.

Start now by reading **carefully** the following pages about Stages Two, Three and Four. Do **NOT**, however, start studying the first Study or Training Manual until you are **certain** you understand **how** you are to do so.

STAGE TWO - STUDYING A CIC MODULE

STEP 1

Once you have read page 1 of this document fully and carefully, turn to the first ***study section*** - called **Module One** - of ***Study & Training Manual One***. (Note: In some Manuals the term "Chapter" is used instead of "Module").

Read the whole of Module One at your normal reading pace, without trying to memorise every topic covered or fact stated, but trying to get "the feel" of what is dealt with in the Module as a whole.

STEP 2

Start reading the Module again from the beginning, this time reading more slowly, paragraph by paragraph and section by section. Make brief notes of any points, sentences, paragraphs or sections which you feel need your further study, consideration or thought. Try to absorb and memorise all the important topics covered in the Module.

STEP 3

Start reading the Module again from its start, this time paying particular attention to - and if necessary studying more thoroughly - those parts which were the subject of your earlier notes. It is best that you do **not** pass on to other parts or topics until you are **certain** you fully understand and remember those parts you earlier noted as requiring your special attention. Try to fix everything taught firmly in your mind.

Note: You may not wish to, or be able to, carry out Steps 1, 2 and 3 one after the other. You could, for instance, carry out Steps 1 and 2 and then take Step 3 after a break.

STAGE THREE - ANSWERING SELF-ASSESSMENT TESTS

STEP 4

When you feel that you have **fully understood and learned everything** taught in the whole Module (and if necessary after a further careful read through it) turn to the Self-Assessment Test set at the end of it, and read the Questions/Exercises in it carefully. You do not have to attempt to answer any or all of the Questions/Exercises in the Test, but it is **best** that you do so, to the best of your abilities. The reasons for this are:-

- By comparing your answers with the Recommended Answers printed in the Appendix at the end of the Module, you will be able to assess whether you **really have** mastered everything taught in the Module, or whether you need to study again any part or parts of it.

- By answering Questions/Exercises and then comparing your attempts with the Recommended Answers, you will gain experience - and confidence - in attempting Test and Final Examination Questions/Exercises in the future. Treat the Self-Assessment Tests as being *"Past Examination Papers".*

Professional Advice on Answering Self-Assessment Test (and Examination) Questions and Exercises

1. You may answer the Questions/Exercises in a Self-Assessment Test in any order you like, but it is best that you attempt **all** of them.

2. Read very carefully the first Question/Exercise you select, to be quite **certain** that you really **understand** it and what it requires **you to do**, because:

   - some Questions/Exercises might require you to give full "written" answers;

   - some Questions/Exercises (e.g. in English) might require you to fill in blank spaces in sentences;

   - some Questions/Exercises (e.g. in bookkeeping) might require you to provide "worked" solutions;

   - some Questions/Exercises (called "multiple-choice questions") might require you only to place ticks in boxes ☑ against correct/incorrect statements.

   In your Final Examination you could **lose marks** if you attempt a Question/Exercise in the wrong way, or if you misread and/or misunderstand a Question/Exercise and write about something which is not relevant or required.

3. Try to answer the Question/Exercise under ***'true Test or Examination conditions',*** that is, **WITHOUT** referring back to the relevant section or pages of the Module or to any notes you have made - and certainly **WITHOUT** referring to the Recommended Answers. Try to limit to about two hours the time you spend on answering a set of Questions/Exercises; in your Final Examination you will have **only two hours**.

4. Although you are going to check your Self-Assessment Test answers yourself (or have a friend, relative or colleague assess them for you) practise writing "written" answers:-

* in clear, easy-to-read handwriting;

and

* in good, grammatical language.

The Examiner who assesses your Final Examination answers will take into account that English might not be your national or main language. Nevertheless, to be able to assess whether you really **have** learned what we have taught you, he or she will need to be able to read and understand what you have written. You could lose marks if the Examiner cannot read or understand easily what you have written.

5. Pay particular attention to neatness and to layout, to spelling and to punctuation.

6. When "written" answers are required, make sure what you write is **relevant** to the Question/ Exercise, and concentrate on **quality** - demonstrating your knowledge and understanding of facts, techniques, theories, etc. - rather than on quantity alone. Write fully and clearly, but **to the point**. If you write long, rambling Final Examination answers, you will waste time, and the Examiner will deduct marks; so practise the **right** way!

7. When you have finished writing your answer, read through what you have written to see whether you have left out anything, and whether you can spot - and correct - any errors or omissions you might have made.
   Warning: some Questions/Exercises comprise two or more parts; make **certain** you have answered **all** parts.

8. Attempt the next Question/Exercise in the Self-Assessment Test in the same manner as we have explained in 1 to 7 above, and so on until all the Questions/Exercises in the Test have been attempted.

Note: There is no limit on how much time you spend on studying a Module before answering the Self-Assessment Test set on it, and some Modules are, of course, longer than others. You will, however, normally need to spend between twelve and fifteen hours on the thorough study of each Module - and that time may be spread over a number of days if necessary - plus approximately two hours on answering the Self-Assessment Test on each Module.

STAGE FOUR - ASSESSING YOUR ANSWERS

STEP 5

When you have answered all the Questions/Exercises set in Self-Assessment Test One to the best of your ability, compare them (or ask a friend, relative or a colleague/senior at work to compare them) with the Recommended Answers to that Test, printed in the Appendix at the end of the Module. In any case, you should thoroughly study the Recommended Answers because:-

* As already explained, they will help you to assess whether you have really understood everything taught in the Module;

and

* They will teach you how the Questions/Exercises in subsequent Self-Assessment Tests and in your Final Examination **should** be answered: clearly, accurately and factually (with suitable examples when necessary), and how they should be laid out for maximum effect and marks.

MARKS AND AWARDS

To assist in the assessment and grading of your answers, the **maximum number of marks** which can be earned for each answer to a Self-Assessment Test Question/Exercise is stated, either in brackets at the **end of each one**.

The maximum number of marks for any one Test is 100.

Your answers should be assessed fairly and critically. Marks should be awarded for **facts** included in your answer to a Question/Exercise, for presentation and for neatness. It is **not**, of course, to be expected that your answers will be identical to all those in the Appendix. However, your answers should contain the **same facts**, although they might be given in a different order or sequence - and any examples you give should be as appropriate to the Questions/Exercises as those given in the relevant "Recommended" Answers.

Add together the marks awarded for all your answers to the Questions/Exercises in a Self-Assessment Test, and enter the total (out of 100) in the *"Award"* column in the ***Progress Chart*** in the middle of the full ***'Study & Training Guide'*** when you receive it. Also enter in the *"Matters Requiring Further Study"* column the number(s) of any Question(s)/Exercise(s) for which you did not achieve high marks.

GRADES

Here is a guide to the grade your Self-Assessment Test Work has achieved, based on the number of marks awarded for it:

50% to 59%	PASS	60% to 64%	HIGH PASS
65% to 74%	MERIT	75% to 84%	HIGH MERIT
85% to 94%	DISTINCTION	95% to 100%	HIGH DISTINCTION

STEP 6

Study again **thoroughly** the section(s) of the Module relating to the Question(s)/Exercise(s) to which your answers did not merit high marks. It is important that you understand where or why you went wrong, so that you will not make the same mistake(s) again.

STEP 7

When you receive the complete Study & Training Manual One** from the College by airmail post, **'revise'** - study again - Module One printed in it, and then turn to **Module Two** and proceed to **study it thoroughly** in exactly the same way as explained in Steps 1, 2 and 3 in this ***'Study Guide'.***

When you have completed your **thorough study**, follow steps 4, 5 and 6 for the **Self-Assessment Test on Module 2**.

Continue in the **same way with each of Modules 3, 4, 5 and 6** until you have attempted and assessed your work to Self-Assessment Test 6, and have completed the study of Study or Training Manual One. But - and this is **important -** study the Modules **one by one**; complete Steps 1 to 6 on **each** Module **before** you proceed to the next one (unless during the course of your reading you are referred to another Module).

****Note:** When you receive Study & Training Manual One by airmail post, it will be accompanied by a detaile **'Study & Training Guide'** (containing a **'Progress Chart'**) which you **MUST read very carefully** before starting your study of Module Two.

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TRAINING ON

BUSINESS MANAGEMENT & ADMINISTRATION

(BUSINESS THEORY & COMMERCIAL PRACTICE)

Module One

CONTENTS

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PLANNING AND FORECASTING

Introduction

The study of business management/administration is of prime importance to two seemingly distinct groups of persons:-

- those who are already running or who propose to run their **own** businesses;

and

- those who are already running, or who have the ambition to run, businesses **on behalf of** others; that is, as salaried managers/administrators.

The distinction between the two "groups" is not always as clear-cut as it might seem to be at first sight. Many of those in the first group might already have been employed in managerial positions in businesses, whilst many of those already holding managerial posts in businesses might hope, one day, to establish their own businesses.

In many cases those who have held, or who still hold, managerial positions within businesses - whether they were promoted to the posts or whether they were employed specifically to fill the posts - have one thing in common. And that is **experience of working in established businesses**.

Those people might therefore lack the fundamental knowledge of **how** businesses are started and the factors which have to be considered by people involved in the ***'setting up'*** of a new business. Therefore, in the first three Modules we consider the factors concerned; not only because they are of interest to a prospective business owner/manager, but also because many of the factors do **not** simply "fade away" once a business is established, but remain "key factors" for consideration by managers and/or administrators of established businesses.

By definition, ***'a business'*** is a "commercial or industrial concern". Different businesses vary considerably in size and in the scope and range of their activities; and we examine some of those differences later in this Module. However, you should note that businesses might also be described - in general - as "enterprises", "organisations" or "concerns", or more specifically as "firms", "companies", "partnerships", and others.

In this Program we shall mainly use the terms "businesses" and "enterprises". When we use the word "organization" we shall be referring to the way in which a business is arranged, and how its component parts and activities are co-ordinated. Other, more specific, terms are used as necessary.

What is 'Management'?

In the context of this Program, ***'management'*** is an **activity** which involves the direction and running of an **'enterprise'** or a **'business concern'**, often called simply a ***'business'***. The activity of ***'business management'*** involves setting objectives or targets for a business, and laying down policies for their attainment, as well as the implementation - the putting into practice - of those policies. It crucially involves dealing with all those persons employed by the business: planning, organising and controlling their activities, and motivating them to give of their best. Of course, some businesses employ few, if any, people whilst others employ large numbers - with many variations in between.

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When we use the term ***'the management'***, we are referring to the person or the group of people - **'executives'** - with authority to make decisions which affect and control the operations of a business. Much depends on the type and size of a particular business. Just one person - its owner - comprises "the management" of a sole-proprietor business. Two or more people comprise "the management" of a partnership firm. "The management" of a limited company is, as you will learn later in this Module, its board of directors, and in particular its executive directors - whose number will depend on the size of the company.

Business Objectives

Basically, objectives are the **'goals'** which an enterprise aims to achieve; in fact the attainment of the set objectives is the principal reason for the very existence of that business! Before any enterprise is started or established, a person or a group of people has to decide **what** that enterprise is going to do. These are some examples:-

- Is it going to manufacture something - if so what?
- Is it going to buy and sell - if so what?
- Is it going to provide a service - if so what?

In some cases the "answer" to the particular question raised is fairly straightforward. For example, a person might decide to open a bookshop, or an experienced painter/decorator might decide to "set up" on his own instead of working for others.

However, in other cases considerable thought as well as "research", might be necessary before deciding to produce or to provide:

❖ something which is not already available;

or

❖ something which is likely to be able to compete successfully with similar goods or services already available.

Numerous factors, such as finance and resources available or which can be made available, the market potential, facilities which will be required and so on - might have to be considered before a decision on viable objectives of an enterprise is finally reached.

The Profit Motive

In what is called **'the private sector'**, the specific objectives of a business are combined with the objective of ***'profit'***; the result of achieving the specific objectives of the business must be that its owners **gain** money. It is therefore important that you understand what profit is and how it arises; after all, the performances of many managers are assessed by the profits earned by their businesses!

A simple example will help to make the concept clear to you:-

A shoemaker sells a pair of shoes he has made, and with the money he receives for it he buys food or clothing or buys materials or pays the rent of his workshop. What he has done is to **exchange** his materials and labour for the materials and labour of other people; money is only the medium which makes the exchange easier.

In order to produce his shoes, the shoemaker has to make use of three resources: land, labour and capital, which are called the ***'factors of production'***. Each is necessary, because:-

★ without land there would be no place or workshop in which the shoemaker could work;

★ without the shoemaker's labour no shoes would be made;

★ without capital there would not be the money which he needs to pay the rent of his workshop, to buy leather, tools, nails, etc., from which to produce more shoes, and to feed and clothe himself until the next shoes are made and sold.

The shoemaker must be sure in advance that his production will "bring back" the money he spends on materials, on labour, and on rent, and also bring a ***'return'*** on the capital employed; it is this **return** which is called **PROFIT**.

A ***'return on capital'*** in the form of profit **is** justified. For, in effect, capital is nothing more than the result of previous production; if the shoemaker works so well that he sells his products for more money than his immediate needs, he can use that extra money as capital to **'finance'** more production.

Policies and Policymaking

Hand in hand with the decision on the objectives of an enterprise, is the necessity to decide in broad terms **how** and **where** those objectives are to be achieved, that is, to lay down the basic ***policies*** of the business.

Let us consider a person who intends to establish a business dealing in books: a bookshop or bookstore. The businessman (or businesswoman) - the bookseller, in this case - must decide what type(s) of books the business is going to sell; for example, will its objectives be to sell novels, paperbacks and less expensive publications, etc., or to sell text books, technical publications or expensive books, etc? Will the business sell only new books and/or buy and sell second-hand books? The owner must then decide **how** the business is going to sell the books: by wholesaling, retailing (over the counter sales), in bulk, by mail-order, or by a combination of two or all.

Clearly the **'where'** is closely allied to the **'how'** and to the objectives. If the bookshop, it is going to sell novels and paperbacks the shop needs to be located in a busy street area where its window displays will attract the attention of many passers-by, who will probably buy single copies of books for cash. On the other hand, if the shop is going to sell mainly text books, it needs to be located in the vicinity of schools, colleges or a university, but it need not be in a busy thoroughfare.

If the shop is going to sell single copies of books to students, they will probably pay in cash. But if the business is going to sell in bulk to the schools, etc., space will be needed in which to hold large stocks, and the business will probably have to allow its customers a *"period of credit",* that is, it will have sell without receiving payment at once. (We deal with credit selling in Module 6).

The foregoing is, of course, a very simple - but clear - example of how objectives are determined and how basic policies are laid down. In practical business situations - and particularly with manufacturing businesses - the proceedings and decisions will be far lengthier and more complex.

Besides the matters of the type and size of premises which will be required and their location, it must be decided whether to rent or purchase them or have them specially built, and how much can be spent on them. Also, decisions must be reached on what methods of production are to be used, e.g. whether the latest technology and machinery are to be employed, or whether tried and tested methods and machinery will be used; what methods or "channels" for distributing the manufactured items will be used, and so on - the list is long. We consider many such important matters during this Program.

Of course, objectives might have to be modified in the light of experience, market trends, commercial viability, or other factors or circumstances which might arise, **after** a business has been established. A business (or indeed any enterprise) can only continue to exist for as long as there is a **need** for its products, or it can **create a need**.

Policies are really the **attitudes** of the management of an enterprise towards achieving its set objectives. Policies therefore can and need to be **flexible**,
to be adjusted or adapted to deal with prevailing circumstances and trading conditions, with problems which might arise in attaining the objectives, or as required by the operating position of the enterprise at a particular time. Any modifications of objectives and adjustments to policy are made by the owner(s)/partners of a business, or by the board of directors if it is a company.

The Interpretation and Implementation of Policies

Once the initial objectives and the basic policies of an enterprise have been decided upon, the actual achievement of those objectives is the responsibility of the members of the ***'management team'*** (which might, in practice, be just one person - its owner or manager).

In other words, management has to set in motion the various activities which will **actually gain those objectives** IN PRACTICE.

That involves two important factors:-

- Firstly the policies must be ***interpreted**.* This means that the policies must be examined carefully, and "broken down" to see clearly **what activities and tasks** will have to be undertaken.

- Secondly, once it is clearly understood what will be involved, it can be decided what steps must be taken to ***implement*** the policies - what actions are necessary to put them into practice.

In other words, the policies - the theory - have to be ***'translated' into action**.*

Unless an enterprise is very small, in addition having objectives for the enterprise as a whole, there should also be ***departmental objectives*** set by management, with policies laid down for their attainment. The objectives of a particular department will be narrower in scope than those of the enterprise as a whole. Nevertheless, unless **each** department attains its set objectives, the overall objectives of the entire enterprise might not be achieved.

Planning and Plans

Planning entails deciding how the predetermined **objectives** of a business, or of a section or department of it, should be achieved in the most efficient and economic way in accordance with policy. Planning is the activity concerned with making or formulating **plans**. Plans are really ***'routes to objectives'***.

Once the objectives of an enterprise have been set, planning is necessary to **work out how to achieve** the objectives **in practice**, within the framework of the policies formulated.

Although we are concerned here with planning as a managerial function, it must not be overlooked that planning is necessary in everyday living. Even a shopping expedition might need some planning:

what route to follow to get to the shops; what form or forms of transport to take and when/where to change from one to another; the order in which to visit shops, for instance to avoid purchasing the heavy items first and having to carry them around all the other shops to be visited; how to get back home with the parcels and bags of items bought, and so on.

★ In business, ***'top management'***, e.g. the board of directors of a company, is involved mainly with "long-term planning" which is often called ***'strategic planning'***. That is concerned primarily with deciding what the objectives of the business should be in two, four, five or even ten years ahead, and with the future policies of the business. Such planning is concerned mainly with the enterprise as a whole rather than with its individual departments or sections.

★ Senior management will be involved in ***'tactical planning'***, that is, planning how the overall strategies are to be achieved. This often entails devising and operating short-term plans, for up to a year ahead.

★ Other levels of management, including supervisors and/or foremen, are involved mainly in very short-term ***'activities planning'*** - sometimes called ***'operational planning'***. That involves planning the day to day running of departments or sections and individual assignments, for example planning how to meet a particular month's production quota, or deciding what each member of staff should be doing at any given time.

In practice, much depends on the size and type of a particular business, and the size of its management team. However, in general, a good deal of the planning which managers are called upon to perform involves making **routine decisions**, and is concerned with everyday matters - for example planning the work of a team of showroom sales staff - which will be similar week after week.

Flexibility in Planning

Plans must be **flexible** so that they can quickly and easily be modified in the light of events. For example, a business manager might have decided how his staff will cope whilst another member is on holiday, and has planned the rearrangement of the work. But the day after the implementation of the new plan, another member of staff falls ill - so he must **modify his plans**, and determine how the work can be rescheduled with two staff away.

Much of such ***routine planning*** is an automatic process, requiring little conscious thought on the part of the manager, because his or her plans and decisions will be based largely on **past experience** with similar - or even with identical - problems. Other planning, of perhaps a business trip or a training course, for example, might require far more conscious thought, investigation and research before decisions are reached.

Planning in a Practical Business Situation

On establishing a new enterprise or department or on the introduction of a new range of products - for sale or manufacture - much planning is necessary. Let us return to our example of the intended bookshop and see what planning and decision-making will be necessary by the owner-manager:-

❃ The layout of the premises secured will have to be planned so that there will be the correct amount of space allocated to each type or category of publication for sale (for example, different areas might be needed for different subjects: history, geography, science, management, accounting, etc, and some subjects might need more space than others).

❃ Decisions will have to be reached on the types and sizes of racks or shelving to be used in the shop to contain the books for sale, and how they will be affixed to the walls or otherwise, as well as on what kinds and sizes of display cabinets, counters, etc, will be needed.

- The layout of the store - to hold “reserve” stocks of books - will have to be planned, and decisions will need to be reached on the types and sizes of racks or shelving to be used. It is important to plan how new stocks can be supplied to the shop quickly to replace those books sold.

- The number of staff needed to sell in the shop itself, plus any others who might be needed to maintain the stores or to be involved in reordering and/or accounts work, must be estimated. Decisions must be reached on the calibre of staff needed, how to recruit them and, if necessary, how to train them.

- If books are to be sold wholesale, in bulk, then a delivery van driver might have to be employed (and a van purchased).

- It will have to be decided what equipment (e.g. cash registers and computers) will be required inside the shop, how much can be spent on them (can they be purchased second-hand for instance?) and/or what sales documents might have to be printed, and the layout of those items will have to be planned and designed, suitable printers found, quotations asked for, prices compared, orders placed, proofs checked, and so on.

- Vital decisions will have to be made on the publishers and/or wholesalers from whom stocks of books will be ordered, as well as on the sizes of the orders. The latter might require a prior knowledge of, or research into, the likely requirements of potential customers, as well as forecasts of expected sales, and information on the publishers’ prices, **credit terms** and **discounts** (that is, reductions in prices) offered - see Module 6.

- Plans will have to be made to combat possible pilfering (i.e. stealing or shoplifting) and the necessary precautions must then be instituted.

- Decisions will have to be made on what advertising/publicity will be undertaken; for example signboards and/or signs on the building or in windows, advertising in local newspapers, circulars to potential customers, etc. It will be necessary to decide whether to have special paper bags or wrapping paper - bearing the name and address of the shop - printed and, if so, they will have to be designed, and their printing arranged.

- Allied with the previous point, it will have to be decided whether to offer special price reductions (or to employ some other form of “sales promotion”) to attract customers to the new shop quickly.

- Many “accessories”, such as adhesive tape, string, pencils, pens, pads, and so on, will have to be purchased - and be available for use when needed - and the suppliers of them must be decided upon.

Many other plans and decisions will, of course, have to be made, particularly once stocks of books actually start arriving and have to be housed in the store or displayed in the shop or in its windows. Arrangements for banking and for services, including “utilities” needed: electricity, telephone, water, will all have to be made and, remember, **in advance** of business commencing.

The foregoing example is a relatively simple one, but it shows you what is involved in planning, that is - in this case - in working out **how** the objective of selling books will be put **into practice**. Think how wide-ranging and complex will be the planning necessary to set up, for example, a factory to produce a range of tinned food products, or even a motor car or automobile!

The necessity for such planning can also arise **after** the establishment of an enterprise. For example, at a later date it might be decided (by the owner or board of directors) to ***'diversify'*** the bookshop so that in addition to books, it will sell or rent recorded "talking" books, video tapes or CDs or DVDs; plans will then have to be formulated on how that will be done, how the new section will operate with, or independently of, the existing organization, and so on.

Forecasting

We have described plans as being "predetermined routes to the achievement of objectives", that is, they are the results of decisions taken on how the objectives previously set are to be achieved in practice.

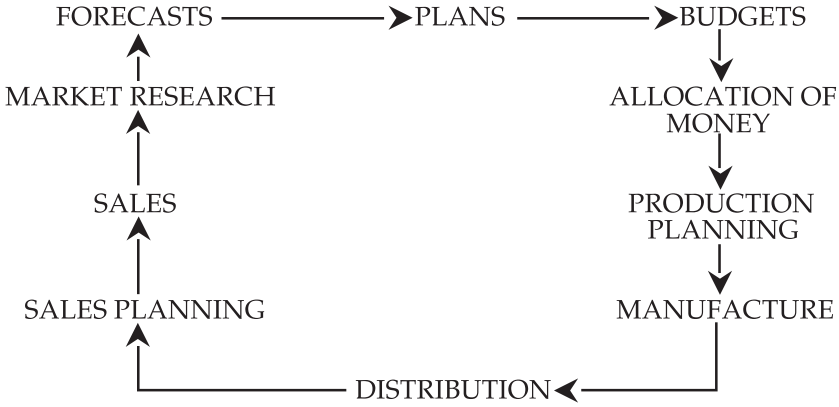
Planning is concerned primarily with activities in the **future,** whether that is the immediate future (e.g. a few minutes ahead or a day's work) or the more distant future (e.g. 2, 4 or more years ahead). Unless there is some guidance as to what might occur in the future, both short-term and long-term planning would be no more than mere guesswork. What is called **forecasting** is therefore essential if management is to be able to carry out effectively its planning function.

To forecast is to determine - as accurately as is possible - the **probable** course of **future events** which might affect the enterprise and its activities. A forecast, then, is an assessment of the expected pattern of future events and the ways in which it might have effects on the operations of the enterprise or sections of it.

It is not possible to anticipate or foresee the future exactly; but the more accurate the forecasting the lower will be the degree of uncertainty and the greater the possibilities of formulating reliable plans - and, in consequence, the greater will be the chances of achieving the objectives. Forecasting is therefore an essential adjunct, accompaniment, of planning; based on the forecast, plans can be formulated to deal successfully with expected future events, and to take steps to deal with any problems which are anticipated will arise in the future, or to avoid them before they arise.

A good example of the importance of forecasting is in anticipated sales. Sales are affected by many factors, which include the general economic situation of the country, political trends, competition and manufacturing costs. Management must consider all those factors before it can be sure that it can sell all it manufactures or has available for sale. Forecasts are also important in relation to the ***'budget'*** of a business. Forecasts of sales are needed to indicate the extent of effort needed to satisfy "the market" (the potential customers) and thereby indicate the amount of money required. Budgets of anticipated expenditure to be incurred in meeting the needs of the market can then be prepared and the money allocated (see Module 5).

Fig.1/1. A simple business cycle, indicating the places of forecasts, plans and budgets



Forecasting is an art, not a science, and no-one can predict the state of the economy, or the probable situation of an enterprise, in ten years time with any great degree of certainty, but the best attempt possible must be made, and many different methods can be used, depending on circumstances.

The accuracy of forecasts will frequently be influenced by certain considerations such as the extent of “unknown” factors as opposed to those factors which can fairly easily be predicted - because they are based on past performance, accounting records or statements, experience or published information.

Also, it cannot always be assumed that “known” factors will remain constant; for instance, future sales of a product might not be the same as past sales of it, because external influences (some of which might not be predictable) might increase or decrease sales.

In general, the further ahead the forecast must cover, the less reliable it is likely to be, because there are greater chances of “distorting factors” arising. It is, of course, vital that the data on which forecasts are made is as **accurate** or **valid** and **up to date** as possible. In addition, the forecast must be clear to those who will use it on which to base plans, so that they **will** use it, and the information in the forecast must be relevant to the planning to be undertaken.

Planning and Forecasting in a Practical Business Situation

To illustrate the importance of planning and forecasting in practice, consider as an example the manager of a footwear shop or store.

* First of all, the manager will know from past experience that certain types of footwear are in greater demand at certain times of the year than they are at others. For instance, in the summer or dry season lightweight, open-toed shoes and sandals will be in demand, whilst in the winter or rainy season heavier, closed shoes and boots will be what customers want. Therefore, the manager must plan his orders to the various manufacturers or suppliers of different types of footwear well in advance, so that they will be available in the shop ready for the appropriate season in which they are most likely to be sold.

* However, he must **not** simply order any footwear in any quantities or sizes. He must be certain that the shop will sell - and at a profit - the various types of footwear he orders. It is essential that he forecasts what types, sizes, colours and styles of footwear, and how many of each, the shop is likely to be able to sell in the season concerned. His experience of past sales will help guide him in his forecasts, as certain types are in demand year after year, and certain sizes are more popular than are others.

* Nevertheless, fashions - especially in women’s footwear - do change, sometimes frequently, and colours or styles which are popular one year or even one month might be replaced in popularity the next. Therefore, the manager must **‘research the market’** (see Module 3) and keep abreast of fashions and trends; trade magazines and manufacturers’ catalogues might provide good guides as to likely future fashions and trends, and even as to what colours are likely to be in mode two, three or more months ahead. At the same time he must pay attention to what types or styles of footwear are being heavily advertised or publicised by their manufacturers, as that is likely to increase demand - a demand which he must be able to fill if he is not to lose sales to his competitors.

* There are other factors which will have to be taken into consideration by the manager in deciding what footwear to order. If, for instance, the “economic climate” in the country or part of it in which his shop is located is not good, he is less likely to be able to sell expensive footwear, and will be

well advised to order less expensive or moderately priced footwear. Competition might also be a factor to be taken into account; it could be that a competitive shop nearby has recently closed, in which case his sales are likely to increase, whilst if the reverse has happened and another footwear outlet has recently opened nearby, his sales are likely to decline. Changes in population might also change demand; for example if a new housing development has recently been completed in the area, there might be an increased demand for more stylish footwear or for children's' footwear. On the other hand, if younger people have been drifting away from the area, the demand might be for more conservative styles.

* Having considered the factors relating to **demand** for the items sold by his shop, the manager must now consider **supply**. The manufacturers of footwear must also forecast what types, styles, etc, of their products are likely to be in demand at different seasons of the year and they will plan production well in advance of the different seasons, frequently based on advance orders received from their own customers. Therefore, the manager of the shop must place his orders sufficiently well in advance to ensure that they will be "filled", and that the various items will be delivered in good time. That is particularly important with popular types, styles and sizes of footwear, and those which have to be imported from other countries. Allowances have to be made for possible delays in production or delivery, and even for a particular season starting earlier than usual - or going on for longer than usual. The reliability of different manufacturers and/or wholesalers might have a bearing, but again previous experience might provide a guide.

* Once decisions have been reached as to what types, styles, sizes, etc, of footwear are to be ordered, and in what quantities, the cost of them will have to be calculated. The manager, the owner of the shop or the board will have to decide whether that much can be spent, or whether the money will be available at the time payment will become due - or what plans can be made to ensure that it **is** available when required. In all probability, the amount which can be spent on new stocks, on advertising, etc, will have been **budgeted** (see Module 5) and the manager will be expected to keep within that budget, unless circumstances change, e.g. if there is a likelihood of greatly increased sales.

* Of course, the manager or the board will have to decide the prices at which different footwear is to be sold. The selling prices must be sufficiently high to cover not only the total cost prices of the different footwear, but also to cover all the varied expenses - both fixed and overheads - involved in running the business and selling the goods, whilst still producing a profit. However, if the prices are too high, potential customers will refuse to buy or will not be able to afford to do so, and sales might then be lost to competitors who are not charging so much. In some cases retail prices are fixed or "recommended" by manufacturers, but in any case the shrewd manager, or his board, will have previous experience and sales statistics/information available to guide on ***'price determination'*** (considered in Module 5).

The foregoing example is by no means exhaustive, but highlights just some of the varied factors which might have to be taken into consideration by a manager or by the management of an enterprise **before** certain actions are taken. In this case, plans will still have to be made covering how to sell the footwear, and the other functions of management must play their parts in ensuring that the objectives of the shop - to sell footwear, and at a profit are achieved successfully. Consider the forecasting and planning which will have to go into the production of a new model of a motor vehicle!

Forecasting should be a continuing process, and forecasts should be available at regular intervals: monthly, quarterly, six-monthly or yearly, as circumstances require. That enables those members of management involved in planning to compare the latest forecasts with those on which their original plans were based, and allows them to determine whether any modifications to their plans need to be made in view of changed circumstances and in the light of experience.

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THE MODERN 'BUSINESS WORLD'

In order for you to be able to understand the work performed by managers and the importance of their work to any enterprise, an understanding of the environments in which they might be employed is necessary. And for that, an introduction to the subject called **commerce** is necessary.

Commerce is a subject about which all managers should have a basic working knowledge, and is concerned with the methods by which raw materials, goods and services are "transferred" - that is, are bought and sold, distributed - **to** consumers **from** those who produce the raw materials or goods or provide the services.

Materials and manufactured articles (goods) are **tangible** items, which are discernible by the human senses; that is, they can be seen and touched and often tasted and/or smelt. The range of such items is vast; from such raw materials as iron ore and crude oil, to manufactured articles of all shapes and sizes; from tiny microchips to huge oil rigs, ships, aeroplanes and satellites.

Services, on the other hand, are **intangible**, that is, they cannot usually be seen, touched, tasted or smelt because they generally consist of some work performed, only the **results** of which might be seen or felt.

All the many and varied enterprises which make up the modern, complex world of commerce are established to produce or to provide raw materials, manufactured goods or services of one kind or another. In most countries there are two distinct types of such enterprises.

The Public Sector

First there are the organizations controlled by the government; these organizations make up what is called the ***'public sector'*** and which are run for the benefit of the population as a whole, e.g. a national health service, or to provide security for the nation and its citizens, like the police force or the armed forces. Some public sector enterprises are set up by the state to provide services which might not have existed previously. Other public sector enterprises might be established to take over, for a variety of reasons, by a process called **nationalisation**, a number of existing similar organizations and to combine them under one "central authority".

The Private Sector

As the name implies, the enterprises in the **'private' sector** are privately owned, either by individuals or by small or large groups of people. Whereas the organizations in the public sector are run for the benefit of the community or the country as a whole, the organizations in the private sector - which are commonly referred to as ***'businesses'*** - are run with the aim of making profits for their owners. For political, national or ideological reasons, some countries might restrict the sizes of their private sectors, or virtually abolish them, whilst other countries provide incentives to encourage their private sectors to expand.

Whether an enterprise is in the public or the private sector, proficient management is still vital if it is to achieve its objective: which might be the production of raw materials or goods, the sale or distribution of them or the provision of an efficient service.

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Categories of Enterprises

Despite the huge variety of objectives, the many enterprises which collectively make up the modern commercial or business "world" can be broadly divided into three main categories.

✻ *Industrial Enterprises*

This is a category which contains enterprises of many different sizes and performing a wide range of different activities which result in the availability of products. We can distinguish a number of groupings according to the general type of activities in which they are involved.

- ***Extractive enterprises***. Into this grouping fall enterprises like mines, which **extract** raw materials such as oil, coal, iron, etc, which are in general sold to other enterprises for use as power or for use in manufacture. Agriculture and fishing are also classified as extractive.

- ***Processing or refining enterprises***. In this grouping are found the varied kinds of enterprises which "process" raw materials and, in so doing, alter their original form into more useful or saleable forms.

- ***Manufacturing enterprises***. Again in this grouping there is a wide variety of enterprises which are involved in using the raw or processed materials in the **manufacture** - in factories or in workshops - of the wide range of products available on the market today, or in producing components which will form part of the final products of other manufacturers.

- ***Construction enterprises***. There are many different enterprises which are involved in **building** or other types of **construction** and allied fields.

✻ *Trading and Distributive Enterprises*

The range of enterprises in this group is very wide, but the common activity is the buying and selling - the **'distribution'** - of raw materials, components and products produced by the industrial enterprises. Enterprises involved in trading and distribution range from small one-man shops and kiosks to huge supermarkets, departmental stores and hypermarkets.

- ***Wholesalers***: some trading enterprises are involved in the business activity called **wholesaling**; they purchase products from the producers of them in large quantities and then sell them in smaller quantities to **retailers**.

- ***Retailers*** - whose business activity is called **retailing** - in turn sell the products, generally in even smaller quantities, to their customers, who might or might not be the final **consumers**.

- Some larger trading concerns - which have huge "purchasing power" - might **eliminate** wholesalers - often called *"middlemen"* - by **buying direct** from the manufacturers or producers of products.

✻ *Service Enterprises*

Frequently the services provided involve the performance of some work, only the results of which might be seen, such as banking, finance, transport, maintenance of machinery, etc., or the provision of insurance cover. Besides those already mentioned, services are provided by such diverse businesses as estate agents, computer bureaux, travel agents, tailors, electricians, barbers, and many more.

Note that certain services are provided by persons who do not consider themselves to be "in business", such as accountants, doctors, lawyers, dentists, auditors, etc. They refer to themselves as being in "the professions", although their services are rarely provided without charge.

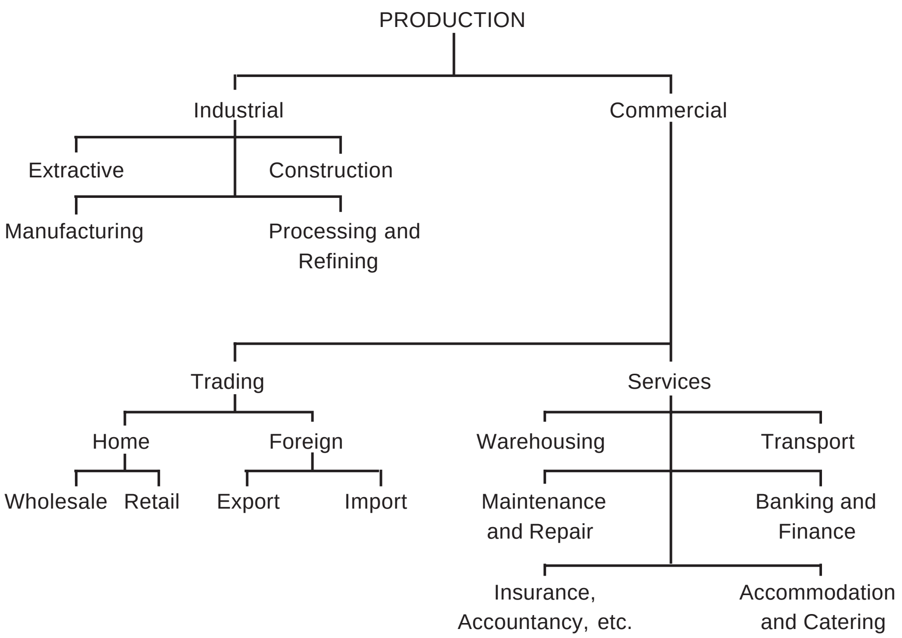
✻ *Multi-Activity Enterprises*

There are, of course, some enterprises which fall into more than one of the above groups; for example, a business might run a factory and sell the products of its factory from its own shop(s), and is thus both industrial and trading. Another enterprise might sell, say, office machines and also provide a maintenance service for those machines, and so is involved in both trading and in providing a service.

✻ *The Interdependence of Enterprises*

All three divisions of enterprises are dependent upon each other. For instance, if there were no industrial enterprises there would be no raw materials available, and there would be few, if any, goods for the trading businesses to buy and sell. At the same time, most industrial enterprises depend on trading businesses to buy - and sell to consumers - the raw materials, components or manufactured goods they produce. Few if any industrial enterprises could operate without services provided by service enterprises (and even most service organizations require services provided by other service organizations), and of course if there were no industrial enterprises or trading businesses there would be few if any customers for the services provided by the service organizations.

Fig.1/2. The modern business world



The Two Managerial 'Roles'

Whether an enterprise is classified as industrial, trading or service (or a combination of two or more of them) a manager's job will still comprise two distinct 'roles':

✦ The ***'technical' role,*** requiring a knowledge of the work of the enterprise or the department or section of it in which he is associated.

and

✦ The ***'human' role,*** concerned with the people through whom the objective of the enterprise or department or section of it will be achieved.

Types of Business Units

In the private sector, the range and variety of a manager's work, duties and responsibilities might depend on the type, size and ownership of the business unit by which he is employed or which he runs. The basic types of business units in the private sector are (a) sole-proprietors, (b) business partnerships, and (c) limited liability companies.

✱The Sole-Proprietor Business

As the name implies, the ownership of such a business is in the hands of just one person; alternative names are **'one-man business'** or **'sole trader'**. Generally the day to day management of the business is performed by the owner, although some ***'delegation of responsibility'*** (see Module 4) might be necessary, and in some cases the owner might employ a manager to run the business.

This type of business is usually fairly small, but is not always so. The range of activities of sole-proprietor businesses is wide: many are involved in trading, both in wholesaling and in retailing; some are engaged in small-scale manufacturing or in farming, fishing, etc; many are involved in technical or crafts fields, as motor mechanics, electricians, radio/TV engineers, painters and decorators, etc.; some provide services, for example estate agents, insurance agents, etc; yet other businesses are involved in running restaurants, guest houses, small hotels, and similar activities.

The owner of a sole-proprietor business might be assisted by members of his family and/or one or more employees, the number depending on the size of the particular business. The management of such a business is generally fairly simple because the owner or manager (frequently the same person, of course) will know personally each person working for the business, will generally be in close contact with each person and will be aware of the abilities, and possible shortcomings, of each person working for him.

The owner/manager will normally have a good knowledge of the work performed by each person - and, indeed, might actually have to perform the work in times of holidays, illnesses or other absences - although some specialists might have to be employed.

Other advantages of this form of ownership include rapid decision making as the owner does not usually have to consult anybody else, coupled with ease of control and 'personal' contact with customers or clients and suppliers. In addition, any ***'net profit'*** made by the business belongs solely to the owner.

There can, of course, also be disadvantages, which might include:-

- The indispensability of the owner, making it difficult for him or her to take holidays, and giving rise to loss of direction in times of illness, etc.

- One person might not possess all the attributes necessary to run a business successfully, or have the time available to carry out all the vital managerial functions necessary in even a small business.

- A sole-proprietor might experience difficulty in raising not only the initial **capital** or **'finance'** needed to start the business properly, but also funds for expansion or to see the business through "difficult times".

- The most serious disadvantage is that in the event of the business doing badly and becoming insolvent, the owner has **unlimited personal liability** for the debts of the business. This means that if he has insufficient funds his personal possessions - house, car, furniture, etc - could be seized - through due process of law - and sold to pay the creditors of the business.

Good management and supervision are both **essential** in a sole-proprietor business, because it is the owner's "pocket" which is affected by every decision and action!

Business Partnerships - Partnership 'Firms'

In most countries the law defines a business partnership as:

"That relationship which subsists between two or more persons carrying on business in common with a view to profit."

There are many reasons why two or more persons might get together to start (or take over) and/or run a business. It might be a matter of "pooling" skills, knowledge, experience, contacts, finance, assets, or a combination of any two or more of those factors. For example, one person might be a skilled radio/television technician, whereas another might have had experience in selling those items, whilst a third person might possess organisational/administrative ability. As individuals, they might not have sufficient knowledge, skill or finance to run a business, but by pooling their knowledge, talents and resources and by working as a partnership "team", they might well be able to run a successful business - or ***'firm'*** - selling and servicing radios, televisions, video or cd or DVD machines, etc.

In some cases, one or more of the partners might provide the skill, experience or technical know how, whilst one or more others might provide some or all of the finance or ***'capital'*** needed. Not all partners in a particular partnership firm necessarily work in, or are involved in, the management of the business. Some might provide all or part of the capital and leave the day to day running of the business to the "working" partners or to non-partner managers; non-working partners are commonly called "sleeping" partners.

All the partners in a partnership firm share in any profits made by the partnership business, but not necessarily in the same proportions. Any losses made by the business are shared by all the partners, generally in the same proportion(s) as they would share profits. But **each partner's liability** for the debts of their business is UNLIMITED. And in the event of **'insolvency'** (the lack of finance with which to pay creditors, to whom money is owed by the business) an affluent partner could be called upon to meet personally any of the debts of the business which the other partner(s) cannot afford to meet.

Advantages of partnership firms might include:-

- It might be possible to spread the workload and responsibilities, whilst at the same time often allowing for specialisation by different partners.

- The short absence of one partner due to holiday or illness might not be felt as seriously as in a one-man business, because one partner might be able to "cover" for another partner.

- There might be merit in consultations and discussions before decisions are made, so long as that does not entail lengthy delays and/or inaction.

Efficient management is as **important** in a partnership firm as in any other business. In firms in which the partners do not have management skill, ability or training, or in which they wish to concentrate on their specialist functions, non-partner managers might be employed, and might be directly responsible to one or more of the partners.

The disadvantages of partnerships often concern the relationships between the partners. Relations can become strained if the business is not doing well, or if there are personality clashes, if one partner is less honest or reliable or responsible or hard working than the other(s), or if one wishes to withdraw all or part of the capital he invested in the business. Problems can also arise if a partner wishes to retire from the business or to sell his share of it, or dies.

It is important for all the partners to enter into a written ***'partnership agreement'*** which is accepted and signed by each of them. Such a document should clearly state the duties and responsibilities of each partner, their contributions to the capital/finance of the firm, and the proportions in which they are to share profits and/or losses. The agreement should also set out what is to happen in the event of a partner leaving or selling his "part" of the business, a new partner joining the firm, and other important matters which could affect the smooth running and continuation of the business.

For efficient management, it is important for partners to **clearly define and keep to their areas of responsibility**, and although that can frequently be done successfully, it is not always easy for a non-partner manager if there is any friction between partners.

✱*Limited Liability Companies*

The capital and ownership of a limited liability company - commonly called a ***'limited company'*** or simply a ***'company'*** - are divided into 'shares'. The quantity and value of the shares in a particular company are generally a matter of convenience or commercial viability, and there is no fixed rule: for example, a company with a share capital of $50,000 could have, say, 100 shares of $500 each, or 1,000 shares of $50 each, or 50,000 shares of $1 each, and so on.

People who and/or organizations which purchase shares and **'invest'** in a company are called ***shareholders*** - or ***stockholders*** in some countries - or ***members***. They will generally "share" - in the form of **dividends** - in the profits made by the company in proportion to the number and value of shares owned by each. The shareholders elect a **board of directors** to run the business on their behalf and to protect their interests. In many cases, especially in small companies, the directors are themselves the shareholders.

The Advantages of Limited Liability

We return to a consideration of the board of directors of a limited liability company shortly, but we must first consider the **advantages** such a business unit has over the sole-proprietor and business partnership units.

- Before a new company can be formed, it must be registered with the appropriate authorities in the country concerned. Once the company has been registered - or ***'incorporated'*** - it becomes a **separate**, legal entity, quite distinct from its shareholders, directors or managers. A limited company is therefore permitted to own property, to enter into contracts and to take other actions in its "own right".

- It is often - but not always - easier for a company to "raise" additional finance, for example from a bank or another financial institution.

- The death or retirement of a shareholder does **not** affect the existence of a company.

- The transfer of shares from one person to another does not necessarily affect the management of a company, as it does a partnership.

- However, the most important advantage of this type of business unit is that implied in its name - **limited liability**. Put simply, limited liability means that a person who purchases shares in a company which does badly and fails, can lose no more than the amount of money which he paid, or agreed to pay, for those shares. His liability - his obligation - for any debts of the failed company is **limited** to the amount which he invested in it; he cannot be called upon to pay any more. But, as already explained, the sole-proprietor or the partners in a partnership have **un**limited liability for the debts of their respective business should it fail, and they can be called upon personally to meet those debts.

  Today there are two forms which companies might take:-

Private Companies

These are by far the most numerous, but many of them are relatively small concerns, frequently no larger in scope or activity than the sole-proprietor business or the business partnership. Indeed, many sole proprietors and partners transform their businesses - by ***incorporation*** - into companies to give themselves the protection of limited liability. In most countries a private company may be formed by just 2 or 3 people, and generally the maximum number of shareholders is limited. A private company may not "invite" the general public to purchase its shares, and there are generally restrictions on the right of shareholders to transfer or sell the shares they own.

Public Companies

There are fewer public companies than private companies, but they are generally far larger. The public at large is invited to purchase shares in a public company and there is no restriction on the right to sell and transfer ownership of shares at will. There is no legal restriction on the maximum number of persons or organizations who might hold shares in a public company.

There are, of course, other differences between private and public companies but they belong to the study of company law. It is common in most countries for companies to be required - by law - to include in their names the fact that they have limited liability. This is frequently done by adding the word **Limited** or the abbreviation **Ltd** at the end of a company name, or words/abbreviations with similar meanings, depending on the country concerned.

In some countries the fact that a company is private might have to be indicated by the inclusion of that word or an abbreviation such as **Pvt** or **Pte**, etc, or a local equivalent. The inclusion of the abbreviation **Plc** (public limited company) or the equivalent in other countries is also becoming common.

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Note:

We deal fully with the capital and financing of businesses and with working capital in Module 2.

The Board of Directors

A company, whether it is private or public, is governed by **a board of directors** - often abbreviated simply to ***'the board'*** - which generally comprises between 2 and 12 directors. The directors are elected by the shareholders - the owners - of a business to run the business on their behalf in such a way that satisfactory profits are most likely to be achieved by it. In smaller businesses the directors might themselves own many or all of the shares and, although not as common as at one time, there are still some large companies the majority of shares in which are owned by members of one family.

However, a large company might have hundreds or even thousands of shareholders, and it would therefore be impracticable, if not impossible, to consult each one every time that a decision has to be taken. In any case, most shareholders have little interest or knowledge of the day to day running of the company, and they are interested primarily in the **results** it achieves.

Duties and Responsibilities of 'the Board'

A board of directors has certain obligations and responsibilities - some towards its ***'stakeholders'*** (which include shareholders, employees, customers, suppliers, etc) - and some which are imposed by law, or by ***'statute'***:-

- The board is the **'watchdog'** of the shareholders' interests; it is trustee of the funds invested by them in the company and it is responsible for ensuring the proper and most effective "application" (spending) of those funds.

- The board is responsible for formulating the policy which will best enable the company to achieve its objectives, for ensuring that the laid down policy is implemented and adhered to, and for making any amendments to the policy which might be necessary from time to time.

- The board must be kept informed of all financial matters relating to the company, it must ensure that sufficient finance - called ***'working capital'*** - is available, and it must sanction capital expenditure.

- The board is responsible for appointing top executives and for maintaining a suitable organizational structure and effective management, whilst providing leadership for the company as a whole.

- The board is responsible for ensuring the company operates in accordance with the legal/statutory requirements of the country in which it is located.

The Managing Director

The appointed managing director is both a director and the chief executive of the company; he (or she) has a dual role.

As a director he is involved in the activities of the board, as listed in the previous Section. Because he is also chief executive, and therefore involved in the day to day running of the company, his views carry weight at board meetings. As the chief executive he is the "bridge" between the board and the other members of the management team.

The managing director is therefore not only involved in the formulation of policy by the board but is also responsible for ensuring that the management team implement that policy. Similarly, whilst his views are taken into consideration by the board, he must interpret and put into effect decisions reached by the board (whether he agrees with those decisions or not). At the same time he is able to bring to the attention of the board problems or other matters about which he becomes aware during the course of his managerial duties. (When the chief executive of a company is not a director, he is frequently known as the **'general manager'**).

Fig.1/3. The structure of modern management in many companies

THE SHAREHOLDERS	they collectively own the company and provide its capital; elect directors but may not participate in management
THE BOARD OF DIRECTORS	appointed by the shareholders to represent their interests
CHIEF EXECUTIVE OFFICER	most often the managing director, but need not be a director
SENIOR EXECUTIVE OFFICERS	divisional or departmental managers, some of whom may be directors
MIDDLE MANAGEMENT	sectional or junior departmental managers, possibly including their deputies, assistants, etc.
SUPERVISORS	including foremen and junior managers

Executive Directors

These officials work full-time for the company, and are therefore in day to day touch with the activities of their respective departments, in addition to being involved with the affairs of the board. Executive directors are subordinate to the managing director and, indeed, some of them might be appointed to the board on the recommendation of the managing director. As head of a department, an executive director is responsible for running that department and for implementing the policy and decisions of the board relating to it.

The advantages of having "specialist" executive directors readily available for discussion and consultation can be offset by the fact that they might be limited in their overall view or knowledge of the company. At the same time, an executive director has to work with the managing director and his other managerial colleagues and - to avoid unpleasant repercussions - he might be wary of pursuing an independent line, or going against their views.

Non-executive Directors

These officials are "part-time directors" who can usually take a more independent approach than can executive directors, as they are **not** involved in the day to day running of the company. Often they are appointed for their expertise or knowledge, interests or contacts; for example, accountants, lawyers, bankers, architects, politicians, ex-ministers, etc. In some cases a non-executive director might have to be appointed to "watch over" the interests of another party; for example, a financial institution such as a bank lending considerable funds to a company might wish to be represented on its board.

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The Chairman (often nowadays called the Chairperson)

The **'chairman of the board'** is a director elected to the post, in theory by the other directors and **not** by the shareholders. In practice the chairman might be a large or principal shareholder or have strong family shareholder connections or be elected because of his knowledge, experience, natural leadership abilities, popularity, seniority or for some other special qualities.

The chairman of the board of a large company might be called upon to "represent" the company in discussions, press conferences, etc. He is unlikely to hold an executive position, which enables him (or her) to devote his time and energies to matters which concern top management. In smaller companies the chairman might also be the managing director. The primary function of the chairman of any company is to regulate and control the proceedings of meeting of the directors, called ***'board meetings'***. However, as head of the enterprise the chairman should be able to lead the board members and the management team positively and to stimulate them.

THE DISTRIBUTIVE TRADE

No matter whether a business is very small or very large, and whether it is involved in industrial, trading or service-providing activities, it can survive ONLY if its products **reach** those who need those products and who are prepared to **pay** for them. In other words, a business's products must be ***'distributed'***. Businesses involved directly in the distribution of products are said to be in the ***'distributive trade'***.

All businesses involved in the distributive trade are engaged in both **buying** and **selling**. The success of any such business will depend on **both** those functions being carried out proficiently. For example, a sole-trader might, with the help of his or her spouse or another member of family, run a shop or store efficiently and lucratively. The trader must, however, buy the right kinds of products - the ***'stock in trade'*** or simply the ***'stock'*** of the business - at the right prices, and be able to resell them profitably within a reasonable time, so that both the stock and money are "turned over" as quickly as possible. Stock deteriorates with age, and money tied up in slow-selling stock decreases in value. Such money would be more gainfully employed if it was used to buy stock that could be sold more quickly.

The larger a business the more likely is it to need:-

- At least one trained, professional ***'buyer'*** responsible for negotiating with reliable suppliers for the supply of products of acceptable qualities at the best prices and "terms" obtainable. Large trading businesses might have separate buying or purchasing departments, controlled by a purchasing executive.

- At least one trained, professional ***'salesperson'*** - a salesman or a saleswoman - whose job it is to try to sell products to potential customers - often called "prospects" - and to existing customers. They might sell either to those who enter the shop or store premises of the business, or by calling on them at their homes or workplaces; the latter are often called "commercial travellers" or simply "travellers". When many sales personnel are employed, they are usually under the control of a sales manager or sales director. The terms ***'salesforce'*** and ***'sales staff'*** refer to the sales personnel - whether just one or two or many - employed by a business.

Channels of Distribution

The ways in which - or the ***routes*** by which - products reach consumers from the manufacturers, producers or providers of those products are called ***'channels of distribution'***.

There are many different channels of distribution. But the channel(s) suitable for one product might not be suitable for another, whilst in some cases a number of different channels can effectively be used to get the same product to different categories of customers. The success or failure of a business - or the profitable sale or otherwise of some or all of its products - can be greatly influenced by the decisions taken by its management on the channel(s) to be used for the distribution of its products.

What is often considered to be the **'traditional'** and probably best known ***'chain of distribution'*** is:-

manufacturer/producer ------➤ **wholesaler ------➤** retailer ------➤ consumer

A number of "links" form the "chain", which is still very widely used for a great variety of products, although it is not suitable for all products. In considering whether or not to use it, the role that can be played by **wholesalers** will have an important bearing. Let us first look at that.

✱The Wholesale Trade

Wholesale businesses - which are frequently called simply ***'wholesalers'*** - act as ***'middle men'*** between manufacturers or producers and retail businesses, which sell mainly to consumers. As a general rule, wholesalers purchase products **'in bulk'** - in large quantities - from the manufacturers or producers of them.

A wholesale business - like any other business - is established to make a **profit** from its activities. It is likely to be able to buy products from their manufacturers or producers at relatively **low** - or ***'discounted'*** - **prices** because:-

- It will buy from the manufacturer or producer in bulk - in large quantities, remember - giving it ***'purchasing power'***.
- It will pay the manufacturer or producer fairly promptly.
- It might collect the products from the manufacturer's or producer's factory or other premises.

The wholesale business will then resell the products, in smaller quantities, to its own customers - who are, you will recall, mainly retail businesses, or ***'retailers'*** (who in turn sell, in even smaller quantities, perhaps singly, to consumers). However, the prices charged to retailers will be **higher** than the prices paid to the manufacturers or producers concerned; we return to this matter in Module 6 in which we consider ***'trade discount'***.

Wholesalers seek products with **rapid turnovers**; well-advertised products, which are likely to be in demand, are preferred. Wholesalers do not alter the physical properties of the products they purchase. Although they resell in quantities of smaller sizes than those in which they buy, they do not want to have to ***'break bulk'***. For example, if retailers tend to purchase one dozen (12) of a particular product, a wholesaler will **not** want a manufacturer to pack 48 of the items in an "outer" package, because the wholesaler's staff would have to waste time and money opening the large package, and repacking the products in smaller quantities for resale.

Distribution Through Wholesale Businesses

Not all products are suitable for distribution through wholesalers, for example, a bakery producing "fresh" bread and cakes would need to get the products quickly **direct** to retailers and other customers. On the other hand, products such as a range of fruit drinks **could** be suitable for sale through wholesalers, who would be able to supply retailers in their respective areas of operations. Let us see why.

Having purchased a large number of cases of drinks, a wholesale business would store them in its own warehouse, so there would always be stock for resale to its customers. Sales of the products to retailers would probably be made by the wholesaler's own field salesforce, composed of "commercial travellers". Their customers - the retailers (small grocery shops, restaurants, cafes, bars, kiosks, etc, in this example) would probably buy in largish quantities - a number of cases at a time - and on ***'credit terms'*** (see Module 6) and will pay the wholesaler, not the manufacturer, for their purchases.

So, by having at least one wholesaler in each sales "area" of the country - or that section of it in which its products are marketed - the drinks manufacturer will "indirectly" be reaching very many sales outlets (retailers) whilst being in "direct" contact with relatively few large customers. That could well benefit the company manufacturing the drinks, because administrative and accounts work will be less (and less costly) than if many hundreds of "small" retail customers were supplied directly. Transport costs will also be lower because the manufacturer will need to make fewer deliveries and the size of the salesforce can be quite small.

The Retail Trade

Retail businesses, which are often called simply ***'retailers'***, sell products mainly to consumers - the "buying public". The term ***'to retail'*** means "to cut again". And that is exactly what a retail business does. It purchases largish quantities of goods - mainly from wholesalers or from marketing organizations - and then "reduces" them to quantities of a size acceptable to consumers, to whom it resells the products.

There is a wide range of retail businesses selling a wide variety of goods:-

- there are small kiosks, market stalls, corner and village shops/stores;
- there are shops/stores of many sizes in suburban shopping areas;
- there are "high street" town centre shops and stores of many sizes;
- there are huge department stores, supermarkets as well as "chains" of supermarkets, hypermarkets, shopping centres/malls, DIY centres, garden centres, and so on.

Whatever their size - from the smallest to the very largest - they are STILL ***retail businesses***, and most sell only or mainly to consumers.

Larger retail businesses - and especially large supermarkets or "chains" of supermarkets - might be able to purchase their large-scale requirements **directly** from manufacturers/producers; in other words, they "cut out" or bypass the middlemen, the wholesalers.

In general - and large supermarkets and chains are exceptions - retailers buy in smaller quantities than do wholesalers. But they can usually resell only in even smaller quantities to their own customers (mainly consumers) - perhaps just one or two at a time. They seek products with **rapid turnovers**;

well-advertised products, which are likely to be in demand, are preferred.

Distributing Direct to Retailers

The possible advantages of using wholesalers we described earlier might be outweighed by other factors, which might decide a manufacturer or producer to attempt to sell ***direct to retailers****,* using the company's own salesforce.

Consider again our manufacturer of fruit drinks. Although that business would benefit from fairly constant and regular bulk sales to wholesalers, it is possible for its management to become "out of touch" with the changing demands of consumers. Unless wholesalers "feed back" - via the commercial travellers - information they receive from retailers (about, for instance, changes in consumer preferences as to flavours, sizes of bottles/cans, cans as opposed to bottles or vice versa, low calorie drinks, and so on) the manufacturer might need to undertake regular and costly consumer and advertising research. If that were not done, the first indication that something was wrong might be a sharp **downturn in sales**.

The manufacturer's own travellers selling to retailers would, however, be able to keep the management of that business fully appraised of consumer and commercial buyer demands.

Furthermore, a wholesaler might "handle" a number of competitive brands of fruit drinks, whereas our manufacturer's own travellers would concentrate on selling only that company's products.

Bypassing Wholesalers

Large retail businesses - such as supermarket chains, multiple shops, and co-operatives - have large "sales turnovers". They therefore need to buy in bulk, and store the products they buy in their own warehouses or godowns. But they are unlikely to buy products from wholesalers. Because of their "massive buying power", large retail businesses are able to buy products **direct** from the manufacturer ***as cheaply*** - if not ***even more cheaply*** - than they could buy them from wholesalers. So they *"bypass"* wholesalers. What is more, large retailers often "pass on" part, or all, of such savings to their own customers - the consumers.

Some large retailers operate as supermarket "chains", and their sizes give them really massive buying power; they can buy in much larger quantities and at lower prices than can the majority of wholesalers. And in some cases they even operate large "cash-and-carry warehouses" from which they sell to small retailers at lower prices than those retailers could buy at from the wholesalers with whom they formerly dealt! Usually, smaller retailers who buy from wholesalers, sell at the prices "recommended" by the manufacturers; those are the prices on which **'trade discounts'** (see Module 6) are based.

'Groups' of Retailers and Wholesalers

Many wholesalers and small retailers have suffered severely in the face of competition from the growing number of large-scale retailers. Some small retailers have been able to survive only by providing specialist or personal services. Many wholesaling and retailing businesses have had to close, but others have survived by forming ***'groups'****.*

The wholesalers in a group **combine** their orders to manufacturers/ producers, thereby ***increasing the sizes of orders*** which thus attract **larger discounts** and/or other terms. The retailers in the group are expected to place all, or large proportions of, their orders with the associated wholesale group, and in return they can take advantage of the lower prices paid by the wholesale group. In addition to enabling retailers to obtain - and sell - goods more cheaply, some wholesale groups assist retailers with advertising and promotion under the "group name", with advice on merchandising, on layout and redesign of premises, with advice on increasing efficiency, and with guidance on stock ranges, stock levels and pricing policies.

Types of Large Retail Businesses

Specific types - and names - of large retail units might vary from country to country. However, we now look at the main types of large retail units found in modern day commerce.

Co-operative Enterprises

A ***'co-operative society'*** - often called simply a ***'co-op'*** - is owned by its "members", who are the people who produce and/or purchase the goods and/or services it sells. Producer co-operative societies exist in many countries, but here we are concerned with **consumer co-ops**. Any profits made by a consumer co-op are distributed to its members. But the proportions paid are **not** based on the amounts invested, as with dividends paid to shareholders of companies. Instead, they are based on the total values of purchases made by each member during a given period. In effect, co-op members purchase goods from their societies at "discounted" (reduced) prices.

Chain Stores or Multiple Shops

These are owned by large companies and have numerous branches within a country, and often in other countries - they are then "international". Usually - but not always - all branches trade under the same name so they are easily recognisable to consumers in whichever towns they shop; newspaper, television and other advertising can be undertaken on a country-wide basis instead of for individual shops or stores.

There is generally "centralised" management of all stores/shops. Each retail unit has its own "local" management team, but all buying is done through one central department to provide the enormous advantage of "bulk buying".

Some such businesses sell only one type of goods or related goods: for instance clothing or footwear or furniture or motor accessories; they are therefore often called "specialist" chain or multiple groups. Other groups sell a very wide range of different items from each shop or store, and are thus called "variety" chains or multiples.

Department Stores

Although in most circumstances department stores are operated on an "open plan" layout so that one department flows into another - or is partially separated by display counters or partitions - a department store can best be described as "housing a number of different small shops under one roof". The range of departments varies, of course, from store to store, but in general a very wide selection of goods is available.

In some cases all departments are managed by the store, whilst in others some or all departments might be "leased" to manufacturers or to other retailers who manage their "own" departments, in conjunction with the store's policies and procedures.

Supermarkets and Hypermarkets

In some countries the description "supermarket" refers to any shop selling a variety of goods - particularly foodstuffs - on a self-service basis, regardless of its size. In such countries "hypermarkets" are large supermarkets which, perhaps, sell a wider variety of products than do their smaller counterparts. However, for the purpose of this Module we refer to supermarkets as being retail outlets covering over 200 square metres of floor space, and hypermarkets as those with over 2,500 square metres of floor space.

The "basic" goods sold by supermarkets are groceries. However, they operate on the principle that a person visiting the shop to buy groceries is likely to purchase "related" items at the same time, such as meat, vegetables, wines and spirits, and so on. The range is usually extended to include kitchen utensils, household appliances, toiletries and cosmetics and any other relatively small items for which there is regular demand, such as linen, pet products, china and glassware, cutlery, books, writing paper and pens, some items of clothing, etc.

In general, only fast moving goods are stocked, and sophisticated, computerised stock-keeping ensures that minimum stocks are held (to save on storage space) whilst regular supplies are available. Sales are, in the main, on a "self-service" basis - although trained staff might be available at meat/ fish counters and for fruit and vegetables. Only relatively few staff, at cash desks or "check out points" and for the restocking of shelves, etc, are therefore required. Because of bulk buying, large volumes of sales, low salaries and operating costs, prices are usually lower than in smaller shops.

Not only are hypermarkets larger than supermarkets, but they aim to extend the "one-stop shopping" technique as far as possible. They aim to attract shoppers who own motor vehicles and who are happy to shop away from congested town/city centres, with their inherent crowds and parking problems. Hypermarkets are therefore located on the outskirts of large towns and cities, or not far from them, generally on major traffic routes, and they provide extensive parking facilities for customers.

Some hypermarkets are simply very large supermarkets, offering a wide variety of different types of goods. Others are really department stores. Yet others comprise a complete **'shopping centre'** or **'shopping mall'**, housing under one roof or in close proximity, numerous independently run shops and stores - including those of many of the large chain and supermarket groups; in other words, virtually a massive department store.

Do-it-Yourself (DIY) Businesses and Garden Centres

Shops and stores selling items for the amateur "handyman" have been in existence for many years, but the rising cost of employing skilled professionals for smallish jobs, in particular, has led to more and more people performing work on their houses, gardens, motor vehicles, boats, etc, themselves. The range of products which can be sold on the DIY principle is enormous, from nails, screws, etc, to tools, wallpaper, cement, timber, doors, tiles, kitchen units, electrical equipment, and much more. Many items, e.g. furniture in particular, may be sold in "kit-form" for assembly by the purchasers, with screws, bolts, etc, and full "assembly instructions" provided.

Smaller "personal service" DIY shops/stores still exist, but there are also larger businesses selling on a self-service basis (and many supermarkets, hypermarkets and department stores also have DIY sections) and even larger ***'DIY Centres'*** which sell very wide ranges of products. The latter, like hypermarkets, are usually located on the outskirts of large towns and cities and provide ample parking to attract motorist customers.

Many such centres also sell garden products - from seeds, flower plants and trees to garden equipment and garden furniture. Those which specialise in such products might be called ***'Garden Centres'***.

Many of the two types of centre are organised as chain stores in some countries; each centre, of necessity, covers a wide ground area, and many frequently stay open late in the evenings, over the weekends and on public holidays for customers who are probably working during the "normal" opening hours. Although the centres operate mainly on a self-service basis, there are generally experienced attendants on call to give advice and guidance to customers as required.

Franchising

Some franchising has been in existence for a long time, for instance, petrol or gas stations, motor vehicle distributors and - in Britain - public houses ("pubs"). However, it has spread to restaurants and other types of eating-places, printing, motor vehicle exhaust and tyre fitting and servicing, and "standard" repairs, home cleaning and many other activities.

Here is an example: A successful business called XXX Ltd, with a range of identifiable and well-known products, has been built up. In order to grow, to expand, and to increase profits from the business, the opening of numerous outlets might be necessary. However, the owner(s) of XXX Ltd might not wish to become involved in the establishment and running of those many outlets. Instead, others - individuals and/or groups of people - are found who are willing to establish and run those outlets as ***'franchisees'*** under the "trade name" of XXX Ltd, but as "semi-independent" businesses under "franchise agreements".

The owner of a franchise - the owner(s) of the "original" business, XXX Ltd in this example - is called the ***'franchisor'***. Franchise agreements vary, but in general the franchisor receives a set fee plus a proportion of each franchisee's income. For that "return", the franchisor supplies each franchisee with a well-known "trade name", certain products and/or equipment, general services (such as advertising and publicity), know-how and training and any contacts made in a franchisee's allocated territory.

Growth can therefore be achieved by the franchisor - and savings often made due to increased production or bulk buying - without heavy capital layout and the necessity to manage (and staff) numerous outlets. Each franchisee (which could perhaps be a one-man business or a partnership) has a degree of independence to run a business which it might be impossible to run completely independently, and with relatively little capital.

Mail Order Businesses

Products such as watches and low value items of jewellery, items of clothing and footwear, and small household gadgets, can be sent relatively cheaply through the post or by courier, and in countries with efficient postal and/or courier services articles despatched might be expected to reach purchasers within two or three days. This has led to "mail order" trade. Manufacturers, wholesalers, and retailers might participate in this kind of trade but, generally speaking, the more successful mail order businesses specialise in clearing fast-selling lines manufactured by **other** companies which have the capacity to produce more than they could otherwise sell.

Extra turnover, even with a lower margin of profit, helps a production business to keep its workforce fully employed. It also avoids costly machines lying idle for long periods of time, and enables the business to buy raw materials, etc, in greater bulk, thus reducing their prices. Overhead costs can also be reduced, resulting in increased profit overall.

Goods for sale are advertised in newspapers and in magazines. They are described briefly, usually with photographs or drawings, and an interested reader might need only fill in an attached coupon stating his/her name and address and send it to the mail order company. In return, the enquirer might receive a catalogue giving full information about, and illustrations of, the product(s) advertised and about many others.

Alternatively, the price of a product might be stated in the advertisement and enquirers might be asked to send money to cover the cost of the product desired, perhaps plus postage. In some cases, customers need only state their credit card numbers in order to have goods despatched to them (see section on credit cards in Module 6).

In most cases items ordered from mail order catalogues are supplied on a *"purchase or return"* basis. That is, the customer is sent the goods ordered for inspection and/or testing before having to pay for them. For instance, if a dress is ordered it can be tried on for size, and the woman can decide whether she likes the colour, style, etc. Similarly, a piece of equipment or an appliance can be used and tested before a decision is reached as to whether or not to purchase it. If any or all of the items received do not meet with approval, they must be returned to the mail order company by post or courier. Those items retained, that is, those not returned to the mail order business within a certain period, are charged for.

Selling on the Internet

The fastest-growing pool of information available today is via computer; we are referring to ***the Internet***, also known as the ***World Wide Web***. This vast pool of information and data is easily accessible via a computer and a modem using the telephone network. When a computer user "hooks up" to the Internet, a vast and overwhelming amount of information is available at the touch of a button. Various ***'search engines'*** make it possible for computer users to look (or "surf the net") for key words so that a search might be initiated and honed down until the required information is identified.

The Internet is not only a vast pool of information, it has become one of the most popular and far-reaching advertising and sales media for all types and sizes of businesses, selling both goods and services; from banks to bookshops, from insurance companies to motor vehicle manufacturers, from supermarket chains to hotels. A business "on the Internet" or "on-line" manages a ***'website'*** which provides information about it and its products. A unique ***'website address'*** is used to locate and then to "visit" a particular website (for example, CIC's website address is: www.cambridgecollege.co.uk). Computer users can "visit" any website and access the information they require directly. The facility might, for example, be provided for "visitors" to obtain information about products, to place orders for them - and even perhaps to pay a deposit or to pay in full by credit card for the product(s) required. Generally, "visitors" to a website also have the facility to print out - or "download" - any information they might need to read and refer to again, and/or an order form.

Specialists - whether as individuals, or employed by advertising agencies or other organisations - can create, build or construct and develop websites for businesses. Alternatively, a manager with computer experience - or "computer literacy" - can construct a website using sophisticated computer "software" (programs). A website can contain as much or as little information as the management of a business thinks is necessary, can be built in colour, can make use of static or moving logos, illustrations, photographs, or sound effects. When required, changes can be made quickly to an existing website, for example, descriptions of new products, price changes, details of special offers or other promotions, and so on.

Advantages to Businesses of Using Websites

The Internet provides a medium whereby prospective customers for products can obtain information about them - and perhaps to place orders for them - **from the comfort of their own homes or workplaces**, very quickly, easily and at relatively low cost. It can be compared to browsing through a mail order catalogue. "Visitors" to a website can easily "scroll" up or down or "move" around the site to find what they need; they can go "back" to see and read again anything as needed, or "skip" anything which is already known or is not of interest.

Of course, prospective customers must know:

- that the information they might want **is available**;

and

- **where** - at what website - they will find that information.

It is therefore becoming increasingly common for the website addresses of businesses to be included in other forms of advertising, especially in print media, and in their printed literature (letterheads, brochures, etc).

A website is likely to contain much - if not all - of the information contained in any printed literature the business distributes, but in different formats and making use of static and moving graphics. The website can be made very much more "dynamic" than printed literature can ever be. For example, an "aerial view" of a hotel and its environs - sectioned into "grids" - might be provided. A "click" by a mouse-operated pointer on a particular grid results in a "blow up" of that section, so that "close up views" of features of the hotel (for example, its beach, its gardens, its swimming pool area, its reception, its restaurants, various grades of bedrooms, etc.) can be clearly seen. So potential guests have a far better and clearer idea - **in advance** - of what they will be buying, and what they could expect if they were to book to stay at that particular hotel.

A website can be so designed that an order form can, if required, be "downloaded" and printed out on paper for completion and submission to the business by post or fax. In some cases order forms can be completed "on screen", and emailed "direct" - "online" - to the business; facilities for immediate payment of deposits and/or full prices by credit card might be provided by some businesses. Goods ordered are sent to customers by post or courier, or are delivered to their homes or workplaces.

Door-to-door Selling

A form of "direct selling" by manufacturers, wholesalers and some retailers, involves the employing salespeople to call on householders in their homes, to try to persuade them to buy the products they are selling. Some businesses are successful using this method of marketing their products. But there are drawbacks to this system because selling costs might be high. It is costly to train a large team of salespeople to the standard required, and many trained personnel might quickly become discouraged. When potential customers have a choice of products to buy and can look through an illustrated catalogue as in mail order business, or view products displayed in a website, they are already considering what they might buy. But with door-to-door selling householders are confronted by a "stranger", asking to be admitted to display, demonstrate and to try to sell an article they might not have heard of previously, nor realised they had need of.

Methods of Selling by Telephone

A salesperson might use a telephone directory and, starting at the beginning, over a period of time ring up some or all of the "private" and/or "business" subscribers in his or her local area. For instance, an insurance agent wishing to increase the number of clients in his area, might telephone householders in streets where he already has clients, in an attempt to persuade them to "buy" insurance from him, and make appointments to call on those interested.

Another type of telephone selling is to businesses which - once secured as customers - are likely to make fairly regular orders, but where the values of those orders do not justify the expense of having travellers make regular visits to the customers. Many more small customers can be "reached" or called on by telephone by a salesperson sitting in a comfortable office in one day than a traveller might be able to visit personally in a week or more, and the small sizes of their orders would not cover the costs of his journeys and visits. Products sold under this method might be fairly specialised and will not be readily available from shops or other wholesale or retail outlets.

The modern method of controlling a telephone sales team is by computer. Information about each sales team member's prospects (i.e. initially name of organization and, if available, name of the person who "buys" for it, and telephone number) is input to the computer to join information - the foregoing plus details of requirements, orders made, etc. - about that particular team member's existing customers. The computer "allows" a sales team member to make telephone calls **only** to prospects and customers in his or her allocated area.

Unsolicited Selling

In countries with efficient postal services and in which people enjoy high standards of living, another form of selling has become successful. Goods are sent through the post to householders **with** invoices for the costs of the goods. Recipients are exhorted in letters accompanying the products to buy them at the "special offer prices" quoted on the invoices. If a householder does not wish to retain the goods, he or she can return them by post, within a certain number of days. However, if the products are not returned, it will be assumed the householder wishes to buy them, and payment for the products will be expected by the sender; a "reminder" invoice will be sent.

Some publishers sell books in this manner. A new book might be sent to each of a number of addresses monthly. If someone in a household wishes to retain the book it may be purchased; if not, the book must be returned. Such selling - where buyers are **not** the "primary initiators" of sales, and approaches are made to them without prior invitation, by post, telephone or by a salesman at the door - is termed ***unsolicited selling***.

Clubs

The foregoing example of book sales should **not** be confused with a similar system used by some publishers or book distributors, under which customers join a *"Book Club".* Customers are usually offered the first few books at substantially reduced prices, provided they agree in writing to order a certain number of books during a 6 or 12 months period from catalogues to be sent to them at regular intervals. Generally the books forming the "introductory offer" are sent "on approval" and can be returned if not required after inspection; in such cases no payment has to be made.

This type of mail order selling to "Club Members" has been extended to records, recorded tapes, compact discs, and video tapes, and to many other products.

Own Brands or Private Labels

Whatever the channel(s) of distribution used to provide goods or services to buyers, one overriding principle must be observed. The product supplied must conform to the description given, and must fulfil the purpose for which it is intended. If ***'guarantees'*** or ***'warranties'*** (see Module 9) are given, the terms and conditions must be clearly stated so that no ambiguity exists.

Trade is built up on trust, and on the customers' ability to rely on the ***'brand names'*** of organizations which abide by the foregoing, and who supply good quality products at fair market prices.

Some large wholesalers and retailers sell products of other organizations under private labels or under their "own" brand names. Thus, a large chain of supermarkets might, for example, sell canned vegetables which are processed and canned by a manufacturer who supplies the cans bearing a label designed by the supermarket and bearing the name of the supermarket. The supermarket might sell its "own" labelled or branded cans of vegetables alongside, and in competition with, the normal labelled/branded cans of the same manufacturer! Customers thus have a **choice**: they can purchase the cans offered under the brand label of the supermarket, or the brand label of the manufacturer or, possibly, products of other - better or lesser known - manufacturers.

The same principle is extended to many other types of products: clothing, cosmetics and pharmaceuticals, stationery, etc. In some cases larger retailers are able to exercise control over the materials used in the manufacture, and the methods employed in the manufacture of the products which they will sell under their own labels or brand names; thus ensuring that the products meet the standards expected by their customers.

The major reasons for the development of private labelling or own brand names by wholesalers and retailers are:-

- A need to limit the control over prices, profit margins, etc, exercised by manufacturers of well-known brands of products.
- A need to create company or chain store "identity", which will lead to "customer loyalty".
- A need to provide wider variation in prices; private or own brands are frequently cheaper than those brands which are heavily advertised.

It can frequently be profitable for smaller manufacturers to supply their products - specially labelled or packaged to order - to large supermarket chains, etc. Larger manufacturers might also become involved in private labelling or own branding for large retailers or wholesalers (sometimes in competition with their own brand names) either to maintain production levels - and thus cover fixed costs, or to counter competition from other manufacturers who are prepared to sell competitive products labelled or packaged as required by wholesalers or large retailers.

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SELF-ASSESSMENT TEST ONE

Recommended Answers to these Questions - against which you may compare your answers - will be found on page 37. The maximum mark which may be awarded for each Question appears in brackets at the end of the Question. Do **NOT** send your answers to these Questions to the College for examination.

No.1. What is meant by the "objectives" of an enterprise? Why are policies laid down for an enterprise? (maximum 20 marks)

No.2. (a) What are plans and why are they essential in management? (maximum 15 marks)

(b) Explain what is meant by forecasting in management, and describe the relationship between planning and forecasting. (maximum 20 marks)

No.3. What advantages could accrue to the manufacturer of a range of canned fruits who distributed through wholesalers? (maximum 25 marks)

No.4. Place a tick in the box ☑ against the **one correct** statement in each set.

(a) *In relation to a company "limited liability" means that:*
1☐ it has few debts outstanding to suppliers or other creditors.
2☐ it must by law undertake certain repairs to any of its products found to be faulty.
3☐ in the event of its failure, a person who has bought shares in it can lose no more than what he paid or agreed to pay for those shares.
4☐ it is so organised that it can operate with a small number of staff.

(b) *Non-executive directors:*
1☐ are full-time employees of a company outside the control of its managing director.
2☐ do not have the authority to instruct or advise other employees.
3☐ are not elected to the board by the shareholders of a company.
4☐ are not involved in the day to day operations of the company on whose board they serve.

(c) *Channels of distribution:*
1☐ are used only by wholesale and retail businesses.
2☐ are routes by which goods reach consumers from the producers or manufacturers of the goods.
3☐ are used for transportation of goods by sea and inland waterways.
4☐ are routes by which water and electricity reach consumers.

(d) *Wholesalers and retailers form "groups":*
1☐ so they can hold regular social gatherings at clubs or hotels.
2☐ to run co-operative societies.
3☐ to operate under the same "trading name" and sell products under a common private label.
4☐ to combine and increase the sizes of their orders which will then attract larger quantity discounts.

(e) *In planning for sales, a business manager:*
1☐ must consider both the demand for products and their supply.
2☐ is most concerned with the demand for products.
3☐ is most concerned with the supply of products.
4☐ is interested only in those customers who will buy his products.

(4 marks for a statement correctly ticked - maximum 20 marks)

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RECOMMENDED ANSWERS TO SELF-ASSESSMENT TEST ONE

No.1. The "objectives" of an enterprise are the goals which it aims to achieve, and the attainment of those objectives is the reason for the existence of that enterprise. The objectives might the extraction of raw materials, the manufacture or construction of articles, the sale of items or the provision of services - or a combination of two or more. In the private sector, a prime objective is also profit. Policies are necessary to provide direction for an enterprise and are concerned with how (and where) the objectives of the enterprise will be attained.

No.2. (a) Plans are the "routes to objectives", and planning involves making decisions on what course(s) of action is/are to be taken. Plans are essential in management because management is concerned with ensuring that the objectives of an enterprise are attained, within the framework of the policy laid down. Without plans, what work is performed might be performed in a haphazard manner without regard to the objectives set, and might be based on guesswork and whims; only fully considered, predetermined plans can ensure that all operations proceed according to a set of guidelines leading to the objectives to be achieved.

(b) Forecasting is the process of determining as accurately as possible the probable course of future events which might affect an enterprise and its activities, whilst planning is primarily concerned with activities in the future, whether the immediate future or more further ahead. To avoid plans being no more than mere guesswork, the people involved in planning require guidance on the probable course of future events and their likely effects on the activities being planned. That guidance is provided by forecasting, which involves an assessment of the expected pattern of future conditions, and the ways in which they might affect the activities of the enterprise concerned.

No.3. The manufacturer of canned fruits would need to produce as much as possible during the periods that the various fruits were available and of the qualities required. Since the manufacturer's canned products are of a durable nature, management would not have any concern about their "keeping" qualities, but might have worries about the storing of such a huge quantity of goods - and about the enormous amount of money tied up in stock.

To overcome those problems the manufacturer would be likely to sell a large proportion of the canned fruits to wholesalers, who would have large warehouses in which to store what they bought. Since wholesalers buy in bulk, and pay promptly for what they buy, they are able to obtain trade discounts. But cash discounts and quantity discounts might also be offered to them to induce them to "stock up". That relieves the manufacturer of having to borrow money from the bank on which interest would have to be paid, and enables "forward purchases" of fruit for the following season's canning operations. Other advantages of selling through wholesalers would be that the manufacturer would deal with relatively few - but large - customers, instead of supplying possibly many hundreds of different retailers, restaurants, hotels, etc. Accounts and paper work could be kept to the minimum, as could the numbers of delivery vehicles and drivers.

No.4. The right statement from each of the sets selected and ticked:

(a) 3☑ (b) 4☑ (c) 2☑ (d) 4☑ (e) 1☑

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WHAT YOU WILL LEARN IN MODULES 2 TO 12 OF THE CIC BUSINESS MANAGEMENT & ADMINISTRATION PROGRAM

(BUSINESS THEORY & COMMERCIAL PRACTICE)

Module 2 - Capital and the Financing of Businesses

Commonly used terms explained:
- fixed assets and current assets
- liabilities
- debtors and creditors

The meaning of capital:
- working capital
- the funds forecast

Raising the capital for sole-proprietor businesses and partnership firms

The capital of companies:
- ordinary shares
- preference shares

Computing the initial capital requirements of a new business

Capital and revenue income and expenditure:
- direct expenditure
- overhead expenditure

Raising additional finance:
- bank loans and overdrafts
- mortgages and debentures
- leasing/contract hire/rental
- sale and lease back
- hire purchase (HP)

Depreciation

Module 3 - Factors to be Considered in Starting a Business

Initial capital:
- why it is needed
- expenditure which may have to be incurred before the business commences operations

Why a reserve of capital is essential:
- events over which management has no control which can disrupt business

The link between capital and ownership of a business:
- what is meant by - and is necessary - for control of a company
- dangers in surrendering control

Avoiding problems in business partnerships:
- partnership agreements

Assessing market potential:
- the meaning of the term "market" in business
- creating a market
- market research:
  - consumer research and market surveys
- necessities and luxuries
- consumer choice

The effects and dangers of competition:
- assessing its strength
- how some businesses still prosper despite competition

Using knowledge, experience, skills and abilities:
- dangers in lack of experience
- possible problems of relying on partners or skilled staff

Location of businesses:
types of businesses which rely on passing trade and
those which do not
location in relation to:
the natures of products and
the classes of customers
special facilities or needs of some businesses
The availability of premises in the right location:
their costs to buy or rent
compromising between favourable and adverse features of locations

Additional Factors to Consider in Taking Over a Business

Why existing businesses may be purchased
Ascertaining the real reasons why a business is for sale:
assessing its profitability and real value
The asking price of a business:
the meaning of goodwill and how it arises
Negotiating with the vendor on price, assistance, on
undertaking not to set up in competition
the sale agreement
The renting of premises:
the lease, the landlord and the tenant
what to look for in leases:
provisions for rent revisions, hidden extras

Module 4 - Business Organization

The delegation of responsibility:
meaning and need
delegating in the right way
benefits of delegation
How businesses expand:
the development of sections and departments
Planning the organizational structure of a new business
Reorganising the structure of an existing business
Spans of control
Types of organizational structure:
line, functional, line and staff
possible advantages and disadvantages of each
Organization charts:
types of representations
benefits in their use
dangers to avoid

Communication in Business

The meaning of communication
why effective internal and external communication
are essential for business success
Advantages/benefits to a business of effective communication
Internal communication:
vertical - upwards and downwards
horizontal - flow of information
Why management must ensure the smooth flow of communications
Dangers of not keeping employees fully informed:
the grape vine

rumours and speculations
The importance of good communication with external sources

Module 5 - Budgets and Budgeting, Pricing Policy

What budgets are:
why budgeting is important for business success
Benefits to management which can
accrue from budgeting
Budget preparation
Limiting factors;
what they might be
Sales budgets
Production budgets,
Purchasing budgets
Cash budgets,
with practical examples
The master budget
Budgetary control:
budget review statements
dangers of inflexible budgetary control
Standards in business:
how and why they are set
ideal standards
attainable standards
Factors which can determine or influence
the selling prices of products

Module 6 - Credit Control and Discounts

The meaning of credit
Common forms of credit:
the monthly account
fixed periods of credit
budget accounts
credit cards
The importance of credit to both vendors and customers
Using credit for purchases as well as to boost sales
Dangers in allowing credit
Methods of credit control for various forms of credit
Bad debts and accounting provisions for them
Discounts:
trade discount
quantity discount
regular custom discount
prompt payment discount
cash discount
when and why they are offered
Dangers in the offers of discounts
Taking advantage of discounts offered as well as allowing them

Module 7 - The Management of Personnel

Recruitment of personnel:
Internal recruitment:
advantages
avoiding problems

External recruitment:
    possible sources
Job descriptions
Job analysis
Employee specifications
Attracting suitable applicants:
    advertisements
    employment application forms
Selection:
Interviews:
    purposes
    preparation and planning
    conduct
    selection tests
Appointments and dealing with unsuccessful candidates
Induction:
    environment induction and job induction
    the trial period
Follow-up and establishing good relations
Advantages of training personnel
Principles of a good personnel policy
Attitudes necessary towards subordinates:
    the right approach to subordinates
Building respect and loyalty:
    setting good examples
Disciplinary action
Employee counselling
Resignations:
    exit interviews
    unintended resignations
    retirement
Remuneration policy:
    problems for management in formulating a balanced policy

Module 8 - Stock Control

The importance of good stock control and stores management
Relationships between the stores and other departments:
    production, sales, purchasing, etc.
Costs involved in maintaining stocks:
    why stocks have to be maintained despite the cost
The importance of setting the correct stock levels:
    consequences of holding excess or insufficient stocks
Factors to be considered in setting stock levels for different items
Different types of stock levels
Stock records:
    the need for accuracy
    information which may be contained in stock records and why
Why stocktaking is carried out and what it involves:
    periodic stocktaking
    continuous stocktaking
    spot checks
    stocktaking by independent auditors

Principles of Purchasing

Professional buyers:
- the importance of skilful buying

Obtaining information from suppliers:
- catalogues, price lists, quotations, estimates and tenders

Factors which influence the suppliers with whom orders are placed:
- price
- proven quality
- reliability and service
- discounts and credit terms
- advertising and publicity
- support
- manufacturers' guarantees and warranties

Sizes and frequencies of orders:
- influencing factors

Placing orders: orally, using order forms, by letter

Receiving procedure:
- checking incoming consignments
- goods received notes
- delivery notes

Module 9 - Sales and Marketing

The importance of salesmanship:
- the selling task

Filling wants or needs

Selling the benefits of products

The ingredients necessary for a sale to take place

Selling without the physical presence of sales personnel

Differences between consumers and commercial buyers:
- their differing buying motives

Retaining regular customers

The steps leading to a successful selling transaction

Responsibilities of sales and marketing managers

Advertising, publicity and sales promotion:
- indirect and direct advertising and publicity
- special offers
- the loss leader
- sales promotion campaigns

Window displays and interior displays:
- attracting favourable attention

The sales team:
- training
- differences between the work of sales assistants and commercial travellers

The importance of full product knowledge

Sales demonstrations:
- their importance
- common pattern of stages

Sales records:
- what they comprise and their value

compilation and interpretation
the sales office

Module 10 - Production Management and Industrial Administration

What production involves
Factors to be considered before production commences:
- the market
- design and technical considerations
- production resources
- support services

Production policy:
- matters encompassed -
- product range
- specialisation and diversification
- production levels
- unit cost at different levels of production
- financial resources
- expansion

Methods of production:
- job, batch and flow/continuous production

Factory location:
- the general area
- the site
- features which can influence selection

Types of buildings:
- custom built
- single-storey and multistorey,
- their uses
- advantages and disadvantages
- converting buildings from other uses

Factory layout and design:
- the most efficient and effective utilisation of space available
- positioning of machinery

Supervision of the workforce:
- work study
- the division or specialisation of labour

Machinery, plant and equipment:
- specific-purpose and general-purpose machines,
- maintenance
- factors to consider in buying/hiring plant and machinery

Materials handling:
- the need for a smooth flow
- manual and powered handling equipment
- accident prevention

Production planning and control:
- responsibilities
- progress control
- methods and types of inspection

Costing:
- costing terms
- the value of a well-designed costing system to management

Standard costing:
    advantages
types of standards
variances

Module 11 - Financial Accounting

The need for complete and accurate accounting records
    properly interpreted and used
Principles and rules of double-entry bookkeeping
The books of account:
    the ledger
    the cash book
    the sales book
    the purchases book
    the returns books
    the journal
Ledger accounts:
    debit and credit sides - what they record,
    posting and balancing
The trial balance
Accounting concepts:
    capital as a liability of the business
    the business as a going concern
    accounting for all income earned and expenditure incurred
    consistency
Manufacturing and trading accounts:
    why they are prepared
    the significance of gross profit to management
    ratios and comparisons
    the rate of stock turnover
Profit & loss accounts:
    why they are prepared
    ratios and comparisons with previous periods
Balance sheets:
    what they contain and why they are prepared
    comparisons with previous accounting periods
    the effects of the profit or loss made
Interpretation of final accounts
Computation of working capital
Accounting ratios:
    common ones used and their formulae
Studying the balance sheet of a business

Module 12 - Office Organisation and Control

The functions of the office:
    its concern with information
Centralisation and decentralisation of offices:
    clerical centres
Office location and planning:
    multi-room and open-plan layouts

  advantages and disadvantages of each
The avoidance of overcrowding in offices
Minimising staff movement:
  action which can be taken
  0 & M studies
The necessity for adequate lighting, ventilation, heating/
  cooling, toilets and cloakrooms
Supervision of different categories of office personnel
The prevention of accidents in the offices:
  action which can be taken by the office manager
Providing the right office environment:
  walls and ceilings
  floor coverings
  lighting
  ventilation
  heating/cooling
Office furniture and furnishings:
  utility and cost
  image and status symbols
  standardisation
Action necessary to ensure harmony amongst office personnel:
  possible causes of friction
Selecting office desks and chairs:
  desirable features
Office machinery and equipment:
  factors to consider in deciding what to buy or hire and what not to use
Computers in the office:
  their characteristics
  what they can and cannot do
  how they work
Computer programs:
  tailor-made
  applications packages
  database packages and systems
The organisation of data:
  records, files and fields
  master and movement data
  updating
  codes
  manual and computerised invoice production compared
Converting from manual to computerised systems
Word processing (WP):
  the advantages
  improving output and reducing typing time
Desktop publishing (DTP)