FAITH BIBLE COLLEGE

2 Timothy 2:15
"Study to show thyself approved unto God, a workman that needs not to be ashamed, rightly dividing the word of truth."

CHRISTIAN ENTREPRENEURSHIP

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Dear Student

Welcome to Faith Bible College
Our Vision is to Empower, Edify & Equip the Body of Christ in The Word of Truth, So that we can be Leaders of Today & Teachers for Tomorrow.

"Leaders are those whose aroma lingers long after they have completed the task and others who sniff it, wants to be like them"

"Leadership is not a title but a Function
& that Function pulls you to its Position
& the Position determines your Title"

Blessings & Graceful Studying
Professor Ronnie Moodley

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INTRODUCTION

In each one of us there is a desire to be successful and prosperous in life. The present truth that has been revealed in churches of late is that of "tithing and prosperity". We have been taught that through the tithe, God will supernaturally provide for us and we will receive His blessing for all our needs. Philippians 4:19 "And this same God who takes care of me will supply all your needs from his glorious riches, which have been given to us in Christ Jesus."

However we must not neglect that with the truth of tithing we also need to have the wisdom and knowledge of correct biblical principles of how to become successful business owners.

When Israel left Egypt, God provided the Israelites with manna every morning. They were always given enough for each day yet there was never any left over. God had met their needs just as He had promised in His Word – that He would supply the "need". However, there was no abundance. Abundance was not experienced by the people of Israel until they had entered into the promise land. It took the Israelites forty years before they were able to experience this. Forty years in which they had to change their wilderness mentality and learn important principles to living a successful life. As soon as they entered into the promise land the manna, the miraculous provision of God stopped and they began to eat of the fat of the land. Joshua 5:12 "No manna appeared that day, and it was never seen again. So from that time on the Israelites ate from the crops of Canaan." The Israelites were no longer able to walk outside their tents and expect the provision to be on the ground, but now they had to go and work for it. They needed to learn the principles of ploughing, planting and harvesting. If any of these were neglected, no provision was given. God was still going to bless their work but they had to work for it. The Promise land flowed with milk and honey but in order to receive these they needed to know how to milk the cow and they had to learn something about the crops.

In the same manner, we need to learn not only the principles of tithing and offerings, but we need to learn principles that will help us to cease opportunities in our Promise Land.

CAN YOUR BUSINESS BE CLASSIFIED AS A CHRISTIAN BUSINESS?

Although your business is a legal entity, being a corporation, partnership, or proprietorship, it can reflect the values that are biblical and therefore be classified as being a Christian business. One of the prime considerations in determining whether a business is being used to serve God is the policies governing the day-to-day activities. If a Christian is truly committed to Jesus Christ and to serving His purposes, the business will be run according to His principles and precepts.

Is your business a witness of Godly principles?

When people look at your business do they see biblical principles being operated or do they see principles of the world, for example, corruption, dishonesty etc. Your business can be a tool of evangelizing and sharing Christ's message of salvation with the lost. There is no tool more effective for evangelism than a business dedicated to the Lord. Not only can employees be won by a dedicated owner or manager but, similarly, so can suppliers, creditors, and customers

Does your business help the poor and the needy?

A business is the best tool ever created for funding God's work. A properly run business can generate excess capital and still continue its day-to-day operations. There are many creative ways to use these funds for example giving to your church and to ministries that reach the lost and the needy. For example: feeding schemes, AID clinics, orphanages and old age homes etc.

THE OBJECTIVES OF THIS COURSE

This courses' objective is to help you walk in the abundance of the promise land. Unlike the wilderness where there was only just enough, in the promised land there is more - there is an abundance. But in order to start to walk in this abundance we need to learn important business and spiritual principles that will place us at the door of opportunity of blessing and prosperity.

We will be studying this topic under three main sections:

PART ONE: LAYING THE FOUNDATION FOR RUNNING A BUSINESS GOD'S WAY.

In this section we will be looking at principles that we can live by as the owners of these businesses. We will be looking at the following:

- The clash of the two worlds
- The underlying secret to success
- Having a different perspective
- Having a different leadership model
- Having a different focus and goal
- Having a different attitude
- Having a different action
- Having the right view of money

PART TWO: BUSINESS MANAGEMENT

In this section we will be dealing with the following:

BUSINESS STRUCTURE

MANAGEMENT – THE SKILLS OF MANAGEMENT

- Planning strategically
- Setting Goals
- Decision making through looking at grid analysis, decision tree analysis, force field analysis and cost benefit analysis
- Delegation
- Communication of policies and procedures, in conflict management and performance management
- Control – Cost Control management, Cash control management, Stock and Asset management

PART THREE: STRATEGIC PLANNING

LESSON ONE

PART ONE: LAYING THE FOUNDATION - GODLY PRINCIPLES TO LIVE BY

Personal Assessment

1. When people think of you, do they focus on your business success first or your visible image as a disciple of Christ?
2. Do your employees and close business contacts know and respect your unwavering stand for the Lord and His principles?

Which principles are you using to live your life and to build your business? Are you using the principles of the business world or are you using the Godly principles given to us in God's love letter, the Bible.

THE CLASH OF THE TWO WORLDS

There will always be a clash between the principles taught in the business world and those that are taught in the Word of God. But which principles are you using in your business? Are you willing to let go of your ethics in order to clinch a deal? Are you willing to overlook love when you are disciplining an employee? Are you willing to do anything to make the profit / sale?

Personal Assessment

Take a careful look at the way that you have been running your business:

Are you able to acknowledge that you are a Christian Business?

Will you be ashamed if people knew you were a Christian because of the manner in which you run or manage your business?

In what areas do you feel you need to be challenged to change so that you can run your business in such a manner that you will bring glory to God?

There is a defined difference between the world's business principles and that which is taught to us in the Bible.

BUSINESS PRINCIPLES VERSUS GOD'S PRINCIPLE	
Business Rules: • Achieve results • What can I get? • Success = Rand • Work to please people • Fear of the unknown • Leadership is being first • Take charge, surrender means defeat • The end justifies the means – get to the outcome regardless of how you will accomplish it. • Short term gain • Slave to the urgent • You can never produce enough	**God's Principles**: • Serve a purpose • How can I give? • Significance = people • Work to please God • Living with a hope • Leadership is being last • Let go: surrender means victory • The means justify the end – do the right thing regardless of the outcome • Long term legacy • Freedom of choice • Unconditional love

In order for us to be able to run our business God's way we need to ensure that we replace those worldly principles, taught to us by society and in the educational lecture rooms, with those godly principles that will help us stand up with integrity. In the following lessons we will be looking at five different changes that we need to make in our business practices. We need to change

- Our perspective
- Our leadership roles
- Our focus and goals
- Our attitude
- Our actions

Regardless of how different God's thoughts and ways seem to be, the Word of God is just as applicable as it has ever been before. Isaiah 40:8 says, "The grass withers, the flowers fade, but the Word of our God stands forever".

Doing business God's way is not a shortcut to more profits and fewer difficulties. But honest profit, earned in a way that glorifies God, is essential to your business. Isaiah 48:17 says, "I am the Lord your God, who teaches you to profit, who leads you in the way you should go.

In order for us to walk in these godly principles within our business, we need to place more focus on our character as business owners. True success does not lie in what you have or what you can do, but in who you are.

WHAT IS CHARACTER?

Character can be defined as "the qualities built into an individual's life that determines how he responds, regardless of the circumstances. Character is the inward motivation to do what is right in every situation.

Make an effort to daily develop more character!

Character development takes place informally every day. You are able to place a new level of intention on your character development by the following three keys:

1. Emphasize: To emphasize good character, simply means to heighten the awareness of it. Study character qualities that you would like to exemplify in your life. Surround yourself with reminders to apply qualities like joyfulness, endurance, honour etc. to your life every day. The more you think in terms of good character qualities, the easier it becomes to make the qualities a part of your life.

2. Require: Good character is required by raising standards of good character and lowering acceptance of bad behaviour. Evaluate your attitudes, words and actions? Do you convey gratefulness to the customer? Do your actions illustrate your commitment to truthfulness?

3. Recognize: Everyone desires recognition and praise. Recognize what type of character you and your employees are exhibiting and communicate and encourage them.

Group Discussions / Assignment:

Break into small groups and discuss each of these questions:

1. What problems could your business face if it employs people with poor character?
2. What aspects of daily life have the power to shape and form our character?
3. What are some creative ways that you can help emphasize character in your business?
4. What standards in your business relate to good character?
5. How has another person's recognition of your character or efforts encouraged you?

Prepare a brief report to define your findings.

WHY IS CHARACTER IMPORTANT?

Character is important because it:

- Determines success: Personal joy and fulfilment are possible when we develop the inward motivation to do what it right.
- Build relationships: Character qualities like enthusiasm, compassion, tolerance etc greatly improve our relationships with our employees, co-workers and customers.
- Improves quality: Quality often depends on individual employees. As a result, an individual's character development often translates into improved products and services.

THE UNDERLYING SECRET TO SUCCESS:

Character is at the root of every achievement. The discipline and effort put into developing your character will result in the fruit of good achievement. Poor character however, will damage your work, family and future.

Although building a successful life is not as simple as fertilizing a tree, the same principles apply. To have good fruit, you must develop a healthy root system. To have the fruits of a good reputation, job promotion, good leadership, strong relationships and a healthy lifestyle, you need to ensure that your roots are grounded in truthfulness, loyalty, cautiousness, self-control, wisdom and diligence.

Character development needs to become a way of life. The most powerful motivation for developing character is the connection between your goals and the character qualities necessary to achieve them. You cannot experience true success without character. Therefore:

- Make a personal commitment: Be committed to seeing character being developed in your life. Allow the Holy Spirit to work in you (See Galatians 5:22-26 and Colossians 3:1-16)

- Assess your strengths and weaknesses. Step back and take a careful look at your life. What are your strengths and what are your weaknesses? List each character quality that targets the weaknesses. For example: Carelessness – Alertness; Fearfulness – Boldness; Covetousness – Contentment; Indifference – Compassion; Rudeness – Deference; Slothfulness – Diligence; etc.

- Implement a plan: Make a list of goals for yourself and set objectives in reaching these goals. For example: What steps can I take to change my slothfulness to diligence? Remember, if you aim for nothing, you will be guaranteed to hit nothing. Write out scriptures that will help you achieve these goals (Romans 12:2)

Personal Assessment

Complete the steps to character development in your life. Use one fruit that you would like to change at a time and begin to work it into your life. For example: Slothfulness – Diligence or Impatience – Patience etc.

LESSON TWO

HAVE A DIFFERENT PERSPECTIVE

World's perspective: What can I get?	**Godly perspective:** What can I give?

The whole focus of many men and women today has been to get and gather as much wealth as they possibly can. However this mentality has caused many people to become filled with greed and has given them an unsatisfied need to gain more.

THE PARABLE OF THE RICH FOOL – LUKE 12:13-21

Luke 12:15 "Then He said, "Beware! Don't be greedy for what you don't have. Real life is not measured by how much we own."

The term that is used for "greedy" means "a consuming desire to have more". It is the very opposite of the contentment that accompanies true godliness (1 Timothy 6:6). Greed, in Colossians 3:5 is seen as "idolatry".

What did Jesus reveal to us about this man?

- He was a fool and not a success: In the community's eyes he was a man to be envied but in God's eyes he was a man to be pitied. A fool (as described in the Old Testament) is someone who makes choices as if God doesn't exist and who lives without God's guidance.

- He was a servant and not a master: The rich man was convinced that he was in control of his own life. But Jesus revealed that he had no control over the present and the future (See Ecclesiastes 2:18-19).

- He was a pauper and not a rich man: Death stripes a person bare and reveals a person for who they really are (v21).

What was Jesus' instruction to His disciples?

- Do not worry! (v22-26).

- Remember that God is in control of your life (v27-30)

- Seek God's kingdom first (v31)

- Always keep your treasure in the right place as this will determine where your heart is (v34).

Where Do You Do Your Banking? *by Gordon MacDonald*

"Do not store up for yourselves treasures on earth, where moth and rust destroy, and where thieves break in and steal. But store up for yourselves treasures in heaven. For where your treasure is, there your heart will be also" (Matthew 6:19-21).

Most of us are forever collecting things—treasures, if you will. Children collect stuffed animals, toys, lucky stones, and special mementos. Teenagers collect music CDs, baseball cards and caps, celebrity pictures. And we adults? Money, expensive playthings, and trophy homes.

And why do we do this? Perhaps it has something to do with the attempt to add to our own personal sense of value. Or maybe it has to do with our perceived need for security. If I have this much at my disposal, I can protect myself from any catastrophe. Then again, having more than we really need may be bound up in the issue of power: The more I have, the more weight I can throw around.

Wherever Jesus went, he saw people acquiring wealth the way squirrels store up nuts for the winter. He saw the farmer (the rich fool?) build bigger barns to store greater volumes of crops. He knew of Pharisees who worked to find loopholes in their religious obligations--even denying their parents financial support to hoard away just a little more. One rich young community leader Jesus knew was afraid to part with what he had in order to follow Christ.

Jesus saw each of these individuals, and many more like them, storing up what they had: secreting it, protecting it, expanding it, bragging about it. However, this is not the kind of treasure Jesus encouraged his followers to store. His warning rings in our ears today: "Don't do it!"

Holding on to earthly treasure makes you increasingly vulnerable. By their very nature, these treasures are only temporal. For that reason, putting your main attention into acquiring these things is not a prudent investment. In the final analysis, God is our security, our provider, our judge.

Falling into the kind of perspective of which Jesus warns us is not difficult. Often it grows on us gradually, until one day all we can think about is, How can I get more? How can I protect what I've got? How can I make sure that everyone knows how much I'm worth? Not a good way to live, our Lord says.

In order to ensure that we maintain a biblical perspective, we need to ensure that we have a different drive. Our drive should be "what can I give?" instead of "what can I get?"

In the Bible giving is divided into two main sections:

- Giving to God through tithes and offerings
- Giving to those who are in need

Psalms 24:1 declares, "The earth is the Lord's and all it contains" and in 1 Corinthians 4:7, Paul asks, "And what do you have that you did not receive?"

God owns everything and all blessings come from Him. We are to be good stewards and managers of the many blessings for which we should be thankful. Money is not our possession; it is God's, which we merely hold in trust. Giving is an external testimony of God's ownership of everything in our lives.

THE TITHE

Genesis 28:20-22 "Then Jacob made this vow: "If God will be with me and protect me on this journey and give me food and clothing, and if he will bring me back safely to my father, then I will make the LORD my God. This memorial pillar will become a place for worshiping God, and I will give God a tenth of everything he gives me."

The tithe is not a quick fix to make you rich overnight. From the time of the commitment that Jacob made with God concerning tithing until the time where he was classed as being wealthy was a period of plus 20 years (See Genesis 31:10-13, 41). The commitment to pay the tithe did not make him wealthy overnight, yet it was at that moment that God took notice of his situation. In order for Jacob to be wealthy he had to work hard and trust and rely on the strategy of God.

- **The purpose of the Tithe**

A farmer in biblical times always knew that he had to do certain things with the harvest that he had in order to ensure another harvest for the next year. Firstly, he took the tithe, the first tenth into the storehouse (the Temple) and gave it to the Lord. This was an insurance that God would protect everything else that he owned. This tithe was the only thing that God required of Him. The tithe is not a seed, it is something that already belongs to God and therefore is just a means by which we give it back to Him. The second thing that he would do is give an offering to God (the seed).

- **Why should a business tithe?**

Any business generally reflects the values of its principle owners or managers. It is the reflection of these values that determines whether a business is labelled Christian or non-Christian. As a means of funding God's work, many Christian business owners or managers have chosen to give a tithe from the business.

The principle of tithing from a business is not dramatically different from tithing out of personal income. Actually, most Scriptures on giving in the Old Testament deal with business-generated income, since few people were actually employees in the sense they are today. The vast majority of people in Old Testament times were employed in agriculture. The precedent for tithing from a business is clear in God's Word: "Honour the Lord from your wealth and from the first of all your produce" (Proverbs 3:9). In the Old Testament the Hebrew people brought approximately 23 percent of their increase to the Lord's storehouse. The keepers of the storehouse, the Levites, in turn used what was given to care for the widows, needy foreigners in the area, orphans, and the Levites.

In the New Testament, no longer did the people bring their tithes and offerings to a physical storehouse. Instead they gave of their increase in tithes, offerings, and alms to the church body. In turn, the church used the tithe for spreading the Gospel. The offerings were used for the general and administrative support of the church, and the alms were used to care for the poor, widows, orphans, and otherwise needy.

- **Tithing on gross or net profit?**

Business tithes should be given from business profit after overhead expenses, employees' salaries, and creditors have been paid. Each employer should then tithe on the amount they receive as a salary.

- **What are the results of tithing?**

On the basis of the tithe, God rebukes the enemy so that he cannot touch anything that belongs to you (Malachi 3:11). This refers to the tithe as a spiritual insurance policy.

<u>OFFERINGS</u>

The offering is a means by which you plant seed in the Kingdom of Heaven. This amount could be anything over and above the tithe. This seed would produce a spiritual blessing that would cause multiplication. The offering is the seed that will multiply 30, 60 or 100 fold.

SCRIPTURES FROM PROVERBS:

Proverbs 3:9-10 "Honour the LORD with your wealth and with the best part of everything your land produces. Then he will fill your barns with grain, and your vats will overflow with the finest wine.

Proverbs 11:24 "It is possible to give freely and become more wealthy, but those who are stingy will lose everything."

Proverbs 28:27 "Whoever gives to the poor will lack nothing. But a curse will come upon those who close their eyes to poverty."

Assignment

Section One:

From your understanding of the above lesson, discuss the importance of both the tithe and the offering. In your discussion be sure to make note of the differences and the benefits of each.

Section Two:

Provide two ways in which your business can be effective in meeting the needs of the community (both that which is internal and that which is external). Discuss the reasons why you chose to give into these two areas?

Section Three:

By looking at the following figures, how would you decide as a business owner to pay your tithe – on the gross or on the net? Justify your answer by using a simple calculation.

Income: R50 000.00
Expenses: R35 000.00

Section Four:

Write out a testimony from yourself or someone who you know that proves the provision, abundance and multiplication which comes to those who pay their tithes and offerings.

LESSON THREE

HAVE A DIFFERENT LEADERSHIP MODEL

World's perspective:	**Godly perspective:**
Success = money / profits	Success = people
Leadership is being first	Leadership is being last

Mark 10:43-45 "But among you it should be quite different. Whoever wants to be a leader among you must be your servant, and whoever wants to be first must be the slave of all. For even I, the Son of Man, came here not to be served but to serve others, and to give my life as a ransom for many."

The Biblical principle of leadership that is set forth in the above scripture is that of servant leadership.

WHAT IS SERVANT-LEADERSHIP?

Servant leadership is a practical philosophy which supports people who choose to serve first. This type of leadership encourages collaboration, trust, foresight, listening and the ethical use of power and empowerment.

The concept of servant leadership can be traced back to the teaching of Jesus. He sought to teach his disciples that in order to be first they must "wash each other's feet" (John. 13:14). Jesus preached that people must seek to serve each other in order to be true leaders. And again, Jesus said that "many who are first will be last, and many who are last will be first" (Matthew 19:30). All these scriptures show that true leadership, according to Jesus, was leadership based in servant hood.

Robert Greenleaf, described servant-leadership in this way. "The servant-leader is servant first… It begins with the natural feeling that one wants to serve, to serve first. Then conscious choice brings one to aspire to lead. He or she is sharply different from the person who is leader first, perhaps because of the need to assuage an unusual power drive or to acquire material possessions. For such it will be a later choice to serve – after leadership is established. The leader-first and the servant-first are two extreme types. Between them there are shadings and blends that are part of the infinite variety of human nature. The difference manifest itself in the care taken by the servant-first to make sure that other people's highest priority needs are being served. The best test, and difficult to administer, is: do those served grow as persons; do they, while being served, become healthier, wiser, freer, more autonomous, more likely themselves to become servants? And, what is the effect on the least privileged in society; will they benefit, or, at least, will they not be further deprived?"

A SERVANT-LEADERSHIP WILL:

- Devote themselves to serving the needs of their employees
- Focus on meeting the needs of those they lead.
- Develop employees to bring out the best in them.
- Coach others and encourage their self expression.
- Facilitate personal growth in all who work with them.
- Listen and build a sense of community.

Servant leaders are felt to be effective because the needs of followers are so looked after that they reach their full potential, hence perform at their best. One of the strengths of this way of looking at leadership is that it forces us away from self-serving, domineering leadership and makes those in charge think harder about how to respect, value and motivate people reporting to them.

THE PRINCIPLES OF SERVANT-LEADERSHIP

Listening:

Traditionally, leaders have been valued for their communication and decision making skills. Servant-leaders must reinforce these important skills by making a deep commitment to listening intently to others. Servant-leaders seek to identify and clarify the will of a group. They seek to listen receptively to what is being said (and not said).

Empathy:

Servant-leaders strive to understand and empathize with others. People need to be accepted and recognized for their special and unique spirit. One must assume the good intentions of co-workers and not reject them as people, even when forced to reject their behaviour or performance.

Persuasion:

Servant-leaders rely on persuasion, rather than positional authority in making decisions. Servant-leaders seek to convince others, rather than coerce compliance. This particular element offers one of the clearest distinctions between the traditional authoritarian model and that of servant-leadership. The servant-leader is effective at building consensus within groups.

Commitment to the Growth of People:

Servant-leaders believe that people have an intrinsic value beyond their tangible contributions as workers. As such, Servant-leaders are deeply committed to a personal, professional, and spiritual growth of each and every individual within the business

Assignment: Case Studies

Section One:

By looking at Starbucks (www.strabucks.com), discuss the characteristics that they are showing in their training of staff and their mission statement that you feel characterizes the servant leadership principle.

Section Two:

By looking at one of the top 100 best companies to work for in America 2006, TD Industries (www.tdindustries.com), discuss what you believe their philosophy of leadership is.

Are You A Servant Leader?

Place a check in the box of each of the following questions that you would answer with a "yes." If you can check more than seven of these, you may be well on your way to becoming a servant leader.

- ☐ Do people believe that you are willing to sacrifice your own self-interest for the good of the group?
- ☐ Do people believe that you want to hear their ideas and will value them?
- ☐ Do people believe that you will understand what is happening in their lives and how it affects them?
- ☐ Do people come to you when the chips are down or when something traumatic has happened in their lives?
- ☐ Do others believe that you have a strong awareness for what is going on?
- ☐ Do others follow your requests because they want to as opposed to because they "have to"?
- ☐ Do others communicate their ideas and vision for the organization when you are around?
- ☐ Do others have confidence in your ability to anticipate the future and its consequences?
- ☐ Do others believe you are preparing the organization to make a positive difference in the world?
- ☐ Do people believe that you are committed to helping them develop and grow?
- ☐ Do people feel a strong sense of community in the organization that you lead?

WHAT YOU NEED TO KNOW ABOUT PEOPLE

Successful leadership is about 90% people knowledge and 10% product knowledge. Henry Ford once said, "You can take my factories, burn up my buildings, but give me my people and I'll build the business right back again.

You can have strong people skills and not be a good leader, but you cannot be a good leader without people skills. Successful leaders are able to discern the needs of their people instinctively and then take action to meet them. The following is a list of the most common needs of people and how to meet them effectively:

- **People like to feel special – Compliment them:**

The highest compliment a person can receive is one given by his or her leader. Mark Twain said, "One compliment can keep me going for a whole month." Take the time to notice your people's work and don't hesitate to tell them when they've done a good job. Make a habit of being generous and sincere with your compliments

- **People look for a better tomorrow – Give them hope:**

When your employees are having trouble seeing the light at the end of the tunnel, remind them of the purpose of their work and help them envision what their work will accomplish. With hope they will work harder and longer to see a task through to completion

- **People need to be understood – Listen to them:**

Don't judge what your employees want to tell you before they've told you. Take time to understand their point of view and listen to their suggestions. It's the best way to ensure that they've been listening to you and it opens the door to innovative ideas for improvement

- **People lack direction – navigate for them**

Part of your job as a leader is to help your employees figure out what they're most passionate about, then help them pursue it. Sometimes that may involve a position change within your business or even allowing a person to pursue another opportunity.

HAVE A DIFFERENT FOCUS AND GOAL

World's perspective: Work to please people	**Godly perspective:** Work to please God

As business owners, it is easy to be sucked into the trap of working such long hours that we neglect the time that we spend with God and the time that we use in His service. We can become so focused on making money that we lose sight of the fact that the money that we are making is not only for us, but that it is to further the kingdom of God. We should always maintain our priority of seeking God and obey His precepts. Often in the Bible, the link that is always seen with a prosperous man is one who has his priorities in seeking and obeying God right.

Deuteronomy 28:1-2 "If you fully obey the LORD your God by keeping all the commands I am giving you today, the LORD your God will exalt you above all the nations of the world. You will experience all these blessings if you obey the LORD your God:"

Psalm 34:9-10 "Let the LORD'S people show him reverence, for those who honor him will have all they need. Even strong young lions sometimes go hungry, but those who trust in the LORD will never lack any good thing."

Psalm 37:3-5 "Trust in the LORD and do good. Then you will live safely in the land and prosper. Take delight in the LORD, and he will give you your heart's desires. Commit everything you do to the LORD. Trust him, and he will help you."

Psalm 84:11 "For the LORD God is our light and protector. He gives us grace and glory. No good thing will the LORD withhold from those who do what is right."

SEEK GOD FIRST

"But seek first the kingdom of God and His righteousness and all these things shall be added to you" (Matthew 6:33)

The example of King Solomon exemplifies this principle to us. When Solomon was asked by God what it was that he desired his answer was not that of riches but of a wise and an understanding heart (having the ability to know the difference between what is right and that which is wrong). His answer showed God where his priorities were and therefore God honored him with great riches far above anything that he could imagine (1 Kings 3).

Jesus describes this same principle in John 15:7 "But if you stay joined to me and my words remain in you, you may ask any request you like, and it will be granted!"

Personal Assessment

1. Where have you been placing your priorities?

2. If you were to write out the time spent on work, family and with God and His Church, how would your priorities match up with those given to us by God?

3. When you have a problem in your business, what is your step of action – go to the bank and ask for more money? Go to God and ask Him for direction and guidance?

4. Do your priorities need adjusting in order to fit in with that learnt in this lesson?

5. What action steps will you make in order to ensure that you maintain your priorities from this point on?

WHEN IT COMES TO BIBLICAL BUSINESS VALUES, TRUETT CATHY IS NO CHICKEN (http://www.chick-fil-a.com)

Cathy, the Georgia native who founded Chick-fil-A in 1946 with his late brother, Ben, launched an ambitious expansion plan into the Western United States in 2003, adding four restaurants in Southern California. In early December, Cathy travelled to San Marcos in North San Diego County to help dedicate the chain's latest stand-alone restaurant, this one to be operated by his grandson, Mark.

The chain now has more than 20 restaurants in Southern California, with more planned for this year.

Serving is key: Mark and his wife, Amy, were joined by about two dozen corporate leaders from the Atlanta-based company, as they prepared for the December 6 opening. Mark Cathy joined his cousin, Andrew, in being the first among the family's third generation to join the paternal business. Mark's dad, Don "Bubba" is vice president of the company. Andrew's father, Dan is president. But with this company, titles are a general formality to distinguish the decision makers. When it comes to serving sodas and fries, both Bubba and Dan eagerly jump into action. A polite thank-you, prompts the Cathy family and their employees to offer a chorus of "It's my pleasure."

"It's been a God-calling ministry to me to serve the people," he said. The approach, well modelled by its founder, has become a signature of the southern influenced fast-food chain. "'You're welcome' means nothing," the family patriarch said in an interview prior to the opening. The difference between the two phrases might seem more of an exercise in semantics for some, but for Truett Cathy it symbolizes much, much more. It reflects a lifetime of putting his Maker and people first. His approach to life and business are steeped in a brand of Christianity that is more about modelling than speaking. As a result, he has garnered respect across the country and has been profiled in some of the nation's most prestigious publications. His expertise on business and ethics landed him an invitation to speak before a 2002 congressional hearing on "Oath Taking, Truth Telling and Remedies in the Business World," which was scheduled in the wake of the Enron scandal that wiped out the retirement earnings of thousands of stockholders.

"I believe no amount (of) business school training or work experience can teach what is ultimately a matter of personal character," he told the panel in a prepared a statement. "Businesses are not dishonest or selfish, people are. Thus, a business, successful or not, is merely a reflection of the character of its leadership. I'm deeply disturbed as you are, by the lack of character I see in the marketplace. In order to satisfy the increased pressure for greater profits, some business leaders are making bad choices, which ultimately hurt thousands of employees, stockholders, and the economy."

Cathy is also not shy in sharing what he believes is essential for a business built on integrity. With sales expected to top $2 billion this year, it appears a successful formula.

"There's really no difference between biblical principles and business principles," Cathy said during the recent restaurant opening, echoing similar comments he gave before Congress. "The Bible, which is a road map, tells a lot about how to operate a restaurant."

Putting the Lord first: With nearly 1,300 restaurants in 37 states, Cathy is known not so much for what's he done as a businessman, but for what he hasn't done: Opened up shop on Sundays. Once a mainstay of American retail, the Sunday-off concept has gone the way of the condor. Even national Christian bookstore chains are open on Sundays. Mention of the practice often invokes a confused, "huh?" Especially since research cited by Cathy has shown that 20 percent of all fast-food revenue comes on Sundays.

"I think the most important decision I ever made was to stay closed on Sunday," he said. "We all need a day off. We feel we've created the caliber of people who understand that."

As he's done his entire career, Cathy blends his faith and business without a seam, using his no-Sunday stand as an advertising advantage. "People get tired of eating at the same restaurant every day. We give them the privilege of eating somewhere else on Sunday," he pronounced in his best salesman delivery, his blue eyes twinkling. Spiritually, Cathy—who has taught a boy's Bible study on Sunday mornings for 51 years and now serves as an assistant teacher—acknowledged the Bible's call for meditation. It gives the Lord an opportunity to speak through you in many ways," he said. A consistent benefit to the practice has been to model the importance of family, in both quality and stability, to the thousands of young people who have worn the Chick-fil-A uniform over the years. Although multi-faceted, the legacy has been condensed into a brief mission statement for the company: "to glorify God by being a faithful steward of all that is entrusted to us and to have a positive influence on all who come in contact with Chick-fil-A."

"Those two sentences don't say anything about selling chicken," he said. "It's about influence to glorify God.

LESSON FOUR

HAVE A DIFFERENT ATTITUDE

World's perspective: Surrender means defeat	**Godly perspective:** Surrender means victory

How do you deal with circumstances that are beyond your control? Every day many business leaders try to control situations that they have no control over. However, it is only with surrendering control to God that things begin to come under control.

GOD IS THE OWNER OF YOUR BUSINESS!

Psalms 24:1 says, "The earth is the Lord's and all it contains". This is one of the many scriptures that identify the Lord as the owner of everything. After creating all things, He never transferred the ownership of His creation to people He merely gave them stewardship of it. Recognizing God's ownership is foundational to making Jesus Christ the Lord of your businesses.

GOD IS IN CONTROL OF YOUR BUSINESS!

Proverbs 3:5-6 "Trust in the LORD with all your heart; do not depend on your own understanding. Seek his will in all you do, and he will direct your paths."

The trust that you have in God will have a significant impact on the direction that you are heading. The more trust you have the more free you will be from the concerns of profits and success.

1 Chronicles 29:11 "Yours, O LORD, is the greatness, the power, the glory, the victory, and the majesty. Everything in the heavens and on earth is yours, O LORD, and this is your kingdom. We adore you as the one who is over all things."

Psalm 50:7, 9-12 ""O my people, listen as I speak. Here are my charges against you, O Israel: I am God, your God! But I want no more bulls from your barns; I want no more goats from your pens. For all the animals of the forest are mine, and I own the cattle on a thousand hills. Every bird of the mountains and all the animals of the field belong to me. If I were hungry, I would not mention it to you, for all the world is mine and everything in it."

<u>YOU DON'T HAVE TO WORRY!</u>

Because God is the owner and the controller of your life and your business, when circumstances come that may cause you to feel out of control, you do not need to worry or become anxious.

Why should we not spend our time worrying?

- It causes you to have a lack of sleep (Ecclesiastes 8:16, Psalm 127:2)
- It shows a distrust in God as being the Source of your provision (Matthew 6:31-32)
- It chokes the Word of God (the promises of blessings and prosperity) that have been planted in your heart by faith and therefore the fruits of the seed planted do not come forth (Matthew 13:7, 22, Luke 12:29).

<u>WHAT SHOULD OUR ACTIONS BE?</u>

Philippians 4:6 "Don't worry about anything; instead, pray about everything. Tell God what you need, and thank him for all he has done."

1 Peter 5:7 "Give all your worries and cares to God, for he cares about what happens to you."

When we attempt to control an uncontrollable situation we not only waste precious energy, we also create fearful thoughts. How do we know when we need to let go of controlling behaviour? When you are:

- Constantly complaining about something that can't be changed.
- Getting angry at others who are simply doing the best they can
- Obsessively worrying about the outcome of a situation

Cast your cares upon Him:

1 Peter 5:6,7 "Therefore humble yourselves (demote, lower yourselves in your own estimation) under the mighty hand of God, that in due time He may exalt you, casting the whole of your care (all your anxieties, all your worries, all your concerns, once and for all) on Him, for He cares for you affectionately and cares about you watchfully.

When things come our way that cause us to be concerned, we need God's help. How do we get it?

1 Peter 5:6-7 lists two important steps:

- Humble yourselves, and
- Cast your care on Him.

God wants us to place our trust in Him and enter into His rest, totally abandoning ourselves to His care.

Develop an attitude of faith and prayer:

When you give your problems to God, you must also decide to be satisfied with His answers. Trusting God to do what's best for us involves dying to self. Paul said, "...it is no longer I who live, but Christ (the Messiah) lives in me; and the life I now live in the body I live by faith in (by adherence to and reliance on and complete trust in) the Son of God, Who loved me and gave Himself up for me" *(Galatians 2:20)*. You can trust God to do what's best for you, so you don't have to worry about it. When you have a positive attitude and keep your faith in God, you can't be defeated.

We must stop trying to make things happen the way we want and get to the place where we desire to please God more than ourselves. The Christ in us has to supersede what we want. Faith and the Word of God will help you overcome worry. Worrying involves negative thoughts, but speaking positive things out of your mouth will interrupt those negative thought patterns. When we are full of the Word of God, we can speak it out of our mouths in faith. Faith is stronger than doubt, negativism and unbelief. Faith has a positive attitude that can overcome our past and lead us into a great future.

Another powerful force is prayer. When you're under pressure, it's always best to pray about it instead of talk about it. Prayer is the blueprint for a successful life. During His time on earth, Jesus prayed. He entrusted everything to God—even His reputation and life. We can do the same. We don't have to explain all the problems to Him; we can just give them to Him and ask Him to take care of everything.

Look at Paul's instructions in Philippians 4:6-7 "Do not fret or have any anxiety about anything, but in every circumstance and in everything, by prayer and petition (definite requests), with thanksgiving, continue to make your wants known to God. And God's peace (shall be yours, that tranquil state of a soul assured of its salvation through Christ, and so fearing nothing from God and being content with its earthly lot of whatever sort that is, that peace) which transcends all understanding shall garrison and mount guard over your hearts and minds in Christ Jesus.""

Allow God to give you peace and rest:

In Matthew 11:28 Jesus said, "Come to Me, all you who labor and are heavy-laden and overburdened, and I will cause you to rest. (I will ease and relieve and refresh your souls.) Jesus wants to ease our burdens and give us rest. The Message Bible says it this way: Are you tired? Worn out? Burned out on religion? Come to me. Get away with me and you'll recover your life. I'll show you how to take a real rest. Walk with me and work with me—watch how I do it. Learn the unforced rhythms of grace. I won't lay anything heavy or ill-fitting on you. Keep company with me and you'll learn to live freely and lightly" (Matthew 11:28-30).

We need to be humble enough to call out to God and say, "I need help!"

Business Assessment:

- What specifically is out of your control in your business at the moment?
- What are the things that are within your control that you can do to deal with this problem?
- What things are not within your control in dealing with this problem?
- What things can you relinquish to God?

Form groups of three to four people and pray about your business problems.

- What have been the results of your surrendering these problems to God? (this question should be answered after results can be seen)

LESSON FIVE

HAVE A DIFFERENT ACTION

World's perspective: The end justifies the means – get to the outcome regardless of how you will accomplish it	**Godly perspective:** The means justify the end – do the right thing regardless of the outcome

As a Christian business owner, you need to look to the Word of God to develop business virtues in your life.

EXCHANGE IDLENESS FOR DILIGENCE

Idleness and slothfulness are forbidden in the Word of God. In Romans 12:11, Paul tells us to not be slothful in business but to be fervent in spirit; serving the Lord. Hebrews 6:12 says "That ye be not slothful, but followers of them who through faith and patience inherit the promises."

Why is slothfulness forbidden?

- It produces apathy. Proverbs 12:27 "Lazy people don't even cook the game they catch, but the diligent make use of everything they find." Proverbs 26:15 "Some people are so lazy that they won't lift a finger to feed themselves."
- It leads to being wasteful: Proverbs 18:9 "A lazy person is as bad as someone who destroys things." In the KJV it says, "He also that is slothful in his work is brother to him that is a great waster."
- It is accompanied by conceit. Proverbs 26:16 "The sluggard *is* wiser in his own conceit than seven men that can render a reason."
- It will lead to:
  - Poverty. Proverbs 10:4 "Lazy people are soon poor; hard workers get rich." Proverbs 20:13 "If you love sleep, you will end in poverty. Keep your eyes open, and there will be plenty to eat!"
  - Want. Proverbs 20:4 "If you are too lazy to plow in the right season, you will have no food at the harvest." Proverbs 24:34 "and poverty will pounce on you like a bandit; scarcity will attack you like an armed robber.

- Hunger. Proverbs 19:15 "A lazy person sleeps soundly—and goes hungry."
- Bondage. Proverbs 12:24 "Work hard and become a leader; be lazy and become a slave."
- Disappointment. Proverbs 13:4 "Lazy people want much but get little, but those who work hard will prosper and be satisfied. Proverbs 21:25 The desires of lazy people will be their ruin, for their hands refuse to work.
- Ruin. Proverbs 24:30-31 I went by the field of the slothful, and by the vineyard of the man void of understanding; And, lo, it was all grown over with thorns, *and* nettles had covered the face thereof, and the stone wall thereof was broken down.
- Tattling and meddling. 1 Timothy 5:13 And withal they learn *to be* idle, wandering about from house to house; and not only idle, but tattlers also and busybodies, speaking things which they ought not.

Diligence is a requirement in our lives. It is required when we:

- Seek Him (1 Chronicles 22:19, Hebrews 11:6)
- Obey him (Deuteronomy 6:17, Deuteronomy 11:13)
- Listen to Him (Isaiah 55:2)
- Are cultivating Christian graces in our lives (2 Peter 1:5)
- Examine our hearts. (Psalms 77:6)
- Do business (Proverbs 27:23, Ecclesiastes 9:10)

The rewards of a diligent heart:

- Favour: Proverbs 11:27 "He that diligently seeks good procures favour: but he that seeks mischief, it shall come unto him."

- Prosperity. Proverbs 10:4 "He becomes poor that deals *with* a slack hand: but the hand of the diligent makes rich." Proverbs 13:4 "The soul of the sluggard desires, and *has* nothing: but the soul of the diligent shall be made fat." (See also Proverbs 13:11, 12:11)

- Honour. Proverbs 12:24 "The hand of the diligent shall bear rule: but the slothful shall be under tribute." Proverbs 22:29 "Do you see any truly competent workers? They will serve kings rather than ordinary people."

Hard work is a good thing. Just as we looked at the farmer – the tithe and the offering did not produce anything directly. In order for the farmer to receive his multiplication he had to take the rest of his seed and do something with it. He had to plant the seed and work it so that next year would produce a harvest. If he did not plant his seed then there would be nothing for God to multiply (0x0=0).

<u>EXCHANGE LYING FOR HONESTY</u>

In the Ten Commandments, we note that we are not to steal, neither deal falsely, neither lie to one another. Paul in writing Colossians 3:9 says, "Lie not one to another, seeing that ye have put off the old man with his deeds;" In Proverbs 6:16-19, Solomon places lying amongst the six things that God hates and seven things that are an abomination to Him. Proverbs 6:16-19 "There are six things the LORD hates—no, seven things he detests: haughty eyes, a lying tongue, hands that kill the innocent, a heart that plots evil, feet that race to do wrong, a false witness who pours out lies, a person who sows discord among brothers". Proverbs 12:22 "Lying lips *are* abomination to the LORD: but they that deal truly *are* his delight."

Why is lying so hateful to God?

- It separates us from God and therefore causes our prayers to be hindered. Isaiah 59:2-3 "But there is a problem—your sins have cut you off from God. Because of your sin, he has turned away and will not listen anymore. Your hands are the hands of murderers, and your fingers are filthy with sin. Your mouth is full of lies, and your lips are tainted with corruption.

- It identifies us with the devil, the father of lies John 8:44 "For you are the children of your father the Devil, and you love to do the evil things he does. He was a murderer from the beginning and has always hated the truth. There is no truth in him. When he lies, it is consistent with his character; for he is a liar and the father of lies."

We therefore need to ensure that:

- Our mouth only speaks the truth. Put away from you a deceitful mouth..." (Proverbs 4:24)

- Our actions are truthful. Leviticus 19:36 "Your scales and weights must be accurate. Your containers for measuring dry goods or liquids must be accurate. I, the LORD, am your God, who brought you out of the land of Egypt." Deuteronomy 25:15 "Yes, use honest weights and measures, so that you will enjoy a long life in the land the LORD your God is giving you.

Proverbs 11:1 "The LORD hates cheating, but he delights in honesty."

Proverbs 11:3 "Good people are guided by their honesty; treacherous people are destroyed by their dishonesty.

Proverbs 19:1"It is better to be poor and honest than to be a fool and dishonest.

Proverbs 20:7 "The godly walk with integrity; blessed are their children after them.

Romans 12:17 "Never pay back evil for evil to anyone. Do things in such a way that everyone can see you are honourable."

Personal Assessment / Group Discussion

How honest are you in your business practices?

1. Do you willingly pay your taxes, levies etc? Do you ensure that you always declare all your business even if it is a "cash" transaction?
2. Have you ever defrauded your client by offering them a good that is a "hoax", "scam" or a "con"?
3. Have you accepted bribery from your customers? Have you given a bribe in order to get the deal?
4. Where would you be willing to draw the line between a gift and a bribe?
5. Have you been honest with the use of the business' stock, property and finances or have you used any of these for your personal use?

God said to Solomon, "If you walk before me in integrity of heart and uprightness, as David your father did, … I will establish your royal throne over Israel forever" (1 Kings 9:4-5).

"He who walks in integrity walks securely, but he who perverts his ways will be found out" (Proverbs 10:9)

Integrity is the cornerstone of every thriving business--and the hallmark of every successful employee. If you want your career and your business to flourish, build on a foundation of honesty, dependability, and trust.

Personal Application:

1. How can you do the right thing when you are pressurized to do the wrong thing?
2. What are some of the most difficult situations that you are facing today?
3. Have you been tempted to take the easier route?
4. What will be the consequences of making the easier decision?
5. What do you believe is God's solution to the problem?
6. What will the implications and the consequences of making this decision be?

Assignment

Using the Bible answer the following questions:

1. As a business owner, having 20 employees under you, do you feel that you need to set an example by being diligent in the company? Motivate your answer using scriptures as well as any personal experience that you have. How would you exhibit this "diligence" to your employees (provide three practical ways)? What changes should you make in your current behaviour concerning slothfulness (e.g. Coming to work late and leaving early)?

2. Is it a biblical principle to pay your taxes and levies to the government? Provide adequate scriptures to justify your answer.

3. If you knew that you were one of two people who was going to win the 2010 contract to build the soccer stadium in Durban, would you be willing to offer "cash" or "alcohol" gifts to the awarders of these contracts" so that they would be favourable to your contract? Why did you answer in this manner? Is there biblical proof to justify this answer

SEEK OUT FINANCIAL WISDOM

"… my people are destroyed from lack of knowledge" (Hosea 4:6)

No one has been born with financial wisdom and therefore when we are faced with the countless financial decisions in a business situation, we do not always make the right ones.

Proverbs 1:7 "Fear of the LORD is the beginning of knowledge. Only fools despise wisdom and discipline.

Deuteronomy 8:18 "Always remember that it is the LORD your God who gives you power to become rich, and he does it to fulfill the covenant he made with your ancestors."

Proverbs 3:1 "My child, never forget the things I have taught you. Store my commands in your heart," Proverbs 3:13-17 "Happy is the person who finds wisdom and gains understanding. For the profit of wisdom is better than silver, and her wages are better than gold. Wisdom is more precious than rubies; nothing you desire can compare with her. She offers you life in her right hand, and riches and honour in her left. She will guide you down delightful paths; all her ways are satisfying."

LESSON SIX

PART TWO: BUSINESS MANAGEMENT

FORMS OF BUSINESSES

A business can be organized in four basic ways:

- Proprietorship: This is a business that is owned by an individual. This person has the rights to the profits generated by the business and is personally responsible for any debts that it incurs.

- Partnership: This is a business that is owned by two or more individuals, who enter into a formal agreement to contribute their funds, expertise and other resources into the business. They will share the profits as shown and agreed upon in the formal agreement. If a partner wishes only to contribute finances into the business, this person is usually called a silent partner. They do not make managerial decisions and do not participate in the normal business activity of the business. A general partner however, contributes financially, takes part in managerial decisions and participates in the running of the business. The partners will share in the profits as well as the debts incurred.

- Corporation: This is a legal structure in which the people (owners) are not personally liable for the financial obligation of the business. They can therefore only loose the money that they have invested into the company. A corporation is referred to as a "legal person" and therefore can own property.

- Company: A Company is a voluntary association of person formed for the purpose of doing some business. A company is a juristic person (in the eyes of law it is a person). The company can sue and it can be sued. It has its own name and a separate legal entity, distinct from its members who constitute it.

MANAGEMENT

Management has been defined as the "art and science of getting things done through people". Although there may be a variety of management positions, the similarity between all of them is that of having the "know how" on managing people so that they do the job that has been designated for them to do in the most efficient and effective manner.

MANAGING YOURSELF

GUIDELINES TO MANAGE YOURSELF:

- **Monitor your work hours:** The first visible, undeniable sign that things are out of hand is that you're working too many hours. Note how many hours you are working per week. Set a limit and stick to that limit.

- **Recognize your own signs of stress:** Different people show their stress in different ways. Some people have "blow ups". Some people get very forgetful. Some people lose concentration. For many people, they excel at their jobs, but their home life falls apart. Know your signs of stress.

- **Learn to delegate:** Delegating is giving others the responsibility and authority to carry out tasks. Delegation is a skill to learn.

- **Communicate as much as you can:** Hold regular meetings with staff -- all of them in one meeting at least once a month, and meet at least once every two weeks with each of your direct reports. One of the first signs of a business in trouble is that communications break down.

- **Recognize what's important from what's urgent -- fix the system, not the problem:** One of the major points that experienced manages make is that they've learned to respond to what's important, rather than what's urgent. Phone calls, sick employees, lost paperwork, disagreements between employees all seem to suddenly crop up and demand immediate attention. It can seem like your day is responding to one crisis after another. As you gain experience, you quit responding to the crisis and instead respond to the problem that causes the crises.

TIME MANAGEMENT

THE "EFF" WORDS:

- Effective - having a definite or desired effect
- Efficient - productive with minimum waste or effort
- Effortless - seemingly without effort; natural, easy

What is Personal Time Management?

Personal Time Management is about controlling the use of your most valuable (and undervalued) resource. The absence of Personal Time Management is characterized by last minute rushes to meet dead-lines, meetings which are either double booked or achieve nothing, days which seem somehow to slip unproductively by, crises which loom unexpected from nowhere. This sort of environment leads to inordinate stress and degradation of performance.

Personal Time Management is a set of tools which allow you to:

- eliminate wastage
- be prepared for meetings
- refuse excessive workloads
- monitor project progress
- allocate resource (time) appropriate to a task's importance
- ensure that long term projects are not neglected
- plan each day efficiently
- plan each week effectively

Steps to Time Management:

- List the activities that take up a lot of your time. If you are not sure you're including them all for the next day or two, log how you spend your time.
- Cross out any tasks that, in truth, needn't be done. The first step is a critical appraisal of how you spend your time and to question some of your habits. In your time log, identify periods of time which might have been better used. Look for time wasters for example telephone calls, friends dropping by, and conversations around the coffee machine. In your time log, look at each work activity and decide objectively how much time each was *worth* to you, and compare that with the time you actually spent on it. Another common source of waste stems from delaying work which is unpleasant. Check your

log to see if any tasks are being delayed simply because they are dull or difficult.

- Mark each remaining task as high, medium, or low priority.
- Mark each task as needing to be done perfectly or just adequately.
- Assign each task to yourself, to a person in your business, or to an outsider.
- Mark any tasks you sense could be done more efficiently. If you don't know how to do them more efficiently, ask someone for a suggestion.

Personal Assessment

Complete a logbook for one week on how you spend your time, at work and at home. After you have completed the logbook, analyze how you use your time:

1. Are there any areas where you waste time? Discuss these wastages and the ways in which you are going to rectify them.
2. Are you able to delegate some of your tasks to others?

LESSON SEVEN

THE SKILLS OF MANAGEMENT

There are several skills and tasks that a manager does. He:

- Plans
- Sets goals
- Makes decisions
- Delegates the work load
- Communicates to all the people involved
- Controls the plans and its outcome

SKILL ONE: PLANNING STRATEGICALLY

Proper planning prevents poor performance

Why do companies need to plan?

- To manage risks
- To identify and exploit current strengths
- To minimize and eliminate weaknesses
- To highlight opportunities
- To be warned early of possible threats
- To align and coordinate activities

The elements of a plan:

1. A goal and a measure of the distance from the goal

2. An assessment of the environment

3. An assessment of the company's strengths , weaknesses , opportunities and threats

4. A series of tasks that will move the company towards the goal

5. A mechanism for measuring the process.

(This will be discussed in more detail later in this course)

SKILL TWO: SET GOALS

The second skill that the manager or owner needs for his business, is having the ability to set goals according to the business plan and vision statement.

Definition: A goal is an objective or target, usually driven by specific future financial needs.

Goals can be stated in a variety of ways:

- Business goals
- Financial goals
- Marketing goals
- Individual goals

Each of these goals must exhibit the SMART rules.

THE 5 RULES OF SETTING OBJECTIVES: BE SMART!

SMART illustrates the 5 characteristics of an efficient objective; it stands for:

- **Be SPECIFIC!**

When it comes to business planning, "specific" illustrates a situation that is easily identified and understood. It is usually linked to some mathematical determinant that imprints a specific character to a given action: most common determinants are numbers, ratios and fractions, percentages, frequencies. Being "specific" means being "precise".

Goal objectives should address the five Ws… who, what, when, where, and why. Make sure the goal specifies what needs to be done with a timeframe for completion. Use action verbs… create, design, develop, implement, produce, etc. *Example: resolve accounting discrepancies within 48 hours.*

Example: When you tell your team "I need this report in several copies", you did not provide the team with a specific instruction. It is unclear what the determinant "several" means: for some it can be three, for some can be a hundred. A much better instruction would sound like "I need this report in 5 copies" – your team will know exactly what you expect and will have less chances to fail in delivering the desired result.

- **Be MEASURABLE!**

When we say that an objective, a goal, must be measurable, we mean there is a stringent need to have the possibility to measure, to track the action(s) associated with the given objective. We must set up a distinct system or establish clear procedures of how the actions will be monitored, measured and recorded. If an objective and the actions pertaining to it cannot be quantified, it is most likely that the objective is wrongly formulated and we should reconsider it.

Goal objectives should include numeric or descriptive measures that define quantity, quality, cost, etc. How will you and your staff member know when the goal has been successfully met? Focus on elements such as observable actions, quantity, quality, cycle time, efficiency, and/or flexibility to measure outcomes, not activities. *Example: secure pledges from ten new donors by the end of each week.*

Example: "Our business must grow" is an obscure, non-measurable objective. What exactly should we measure in order to find out if the objective was met? But if we change it to "our business must grow in sales volume with 20%", we've got one measurable objective: the measure being the percentage sales rise from present moment to the given moment in the future. We can calculate this very easy, based on the recorded sales figures.

- **Be ATTAINABLE!**

Every leader wants his business to give outstanding performances as this is the spirit of competition. However, when setting objectives, we should analyze first the factors determining the success or failure of these objectives. Think of your team, of your capacities, of motivation: are they sufficient in order for the objectives to be met? Do you have the means and capabilities to achieve them? Think it through and be honest and realistic to yourself: are you really capable of attaining the goals you've set or are you most likely headed to disappointment? Always set objectives that have a fair chance to be met: of course, they don't need to be "easily" attained, you're entitled to set difficult ones as long as they're realistic and not futile.

Goal objectives should be within the staff member's control and influence; a goal may be a "stretch" but still feasible. Is the goal achievable with the available resources? Is the goal achievable within the timeframe originally outlined? Consider authority or control, influence, resources, and work environment support to meet the goal. *Example: obtain the XYZ professional certification within two years*

Example: If you owned a new movers company and you set the objective of "becoming no. 1 movers within the province". The problem is you only have 3 trucks available, while all your competitors have 10 and up. Your goal is not attainable; try instead a more realistic one, such as "reaching the Top 5 fastest growing movers company in the province"

- **Be RELEVANT!**

Achievable business goals are based on the current conditions and realities of the business climate. You may desire to have your best year in business or increase revenue by 50%, but if a recession is looming and 3 new competitors opened in your market, then your goals aren't relevant to the realities of the market.

- **Be TIMELY!**

Any usable and performable objective must have a clear timeframe of when it should start and/or when it should end. Without having a timeframe specified, it is practically impossible to say if the objective is met or not. For example, if you just say "we need to raise profit by 500000 units", you will never be able to tell if the objective was achieved or not, one can always say "well, we'll do it next year". Instead, if you say "we need to raise profit by 500000 units within 6 months from now", anyone can see in 6 months if the goal was attained or not. Without a clear, distinct timeframe, no objective is any good. Goal objectives should identify a definite target date for completion and/or frequencies for specific action steps that are important for achieving the goal. How often should the staff member work on this assignment? By when should this goal be accomplished? Incorporate specific dates, calendar milestones, or timeframes that are relative to the achievement of another result (i.e., dependencies and linkages to other projects). *Example: check the fire alarms and emergency lighting in all buildings every six months.*

<u>GUIDELINE TO HELP YOU AVOID PITFALLS IN SETTING OBJECTIVES ARE</u>

- Adapt your objectives directly to business goals and strategic plans. Do not assume that they support higher level management objectives.

- Quantify and target the results whenever possible. Do not formulate objectives where attainment cannot be measured or at least verified.

- Test your objectives for challenge and achievability. Do not build in cushions to hedge against accountability for results.

- Adjust the objectives to the available resources and the realities of business life. Do not keep your head either in the clouds or in the sand.

- Establish performance reports and milestones that measure progress toward the objective. Do not rely on instinct or crude benchmarks to appraise performance.
- Put your objectives in writing and express them in clear, concise and unambiguous statements. Do not allow them to remain in loose or vague terms.
- Limit the number of statements of objectives to the key result areas (for your business). Do not obscure priorities by stating too many objectives.
- Review your statements with others to assure consistency and mutual support. Do not fall into the trap of setting your objectives in a vacuum.
- Modify your statements to meet changing conditions and priorities.
- Do not continue to pursue objectives that have become obsolete.

SKILL THREE: DECISION MAKING

Much of what managers and owners do is solve problems and make decisions. It is important to learn basic decision making principles to help approach and solve problems in your business.

1. **Define the problem:**

This is often where people struggle. They react to what they think the problem is. A business owner needs to seek to understand more about why they think there is a problem. In order to determine and define the problem ask the following questions:

- What can you *see* that causes you to think there's a problem?
- Where is it happening?
- How is it happening?
- When is it happening?
- With whom is it happening?
- Why is it happening?

Business Assessment:

In your business, define one of the major problems that you are facing. Follow the above steps and then write down a five-sentence description of the problem in terms of "The following should be happening, but isn't ..." or "The following is happening and should be: ..." As much as possible, be specific in your description, including what is happening, where, how, with whom and why.

2. Look at potential causes for the problem

In this phase, it's critical to get input from other people who notice the problem and who are affected by it. It's often useful to collect input from other individuals one at a time. Write down a description of the cause of the problem in terms of what is happening, where, when, how, with whom and why.

3. Identify alternatives for approaches to resolve the problem

At this point, it's useful to keep others involved (unless you're facing a personal and/or employee performance problem). Brainstorm for solutions to the problem. Very simply put, brainstorming is collecting as many ideas as possible, then screening them to find the best idea. It's critical when collecting the ideas to not pass any judgment on the ideas -- just write them down as you hear them.

4. Select an approach to resolve the problem

When selecting the best approach, consider: Which approach is the most likely to solve the problem for the long term? Which approach is the most realistic to accomplish for now? Do you have the resources? Are they affordable? Do you have enough time to implement the approach? What is the extent of risk associated with each alternative?

5. Plan the implementation of the best alternative (this is your action plan)

Carefully consider

- What will the situation look like when the problem is solved?
- What steps should be taken to implement the best alternative to solving the problem?
- What systems or processes should be changed in your business, for example, a new policy or procedure? Don't resort to solutions where someone is "just going to try harder".

- How will you know if the steps are being followed or not? (these are your indicators of the success of your plan)
- What resources will you need in terms of people, money and facilities?
- How much time will you need to implement the solution? Write a schedule that includes the start and stop times, and when you expect to see certain indicators of success.
- Who will primarily be responsible for ensuring implementation of the plan?

Write down the answers to the above questions and consider this as your action plan. Communicate the plan to those who will be involved in implementing it.

6. Monitor implementation of the plan

Monitor the indicators of success:

- Are you seeing what you would expect from the indicators?
- Will the plan be done according to schedule?
- If the plan is not being followed as expected, then consider: Was the plan realistic? Are there sufficient resources to accomplish the plan on schedule? Should more priority be placed on various aspects of the plan? Should the plan be changed?

7. Verify if the problem has been resolved or not

You should consider:

- What changes should be made to avoid this type of problem in the future? Consider changes to policies and procedures, training, etc.
- What did you learn from this problem solving? Consider new knowledge, understanding and/or skills.
- Consider writing a brief memo that highlights the success of the problem

LESSON EIGHT

METHODS FOR MAKING DECISIONS

There are many different methods that can be used in making decisions. We will be looking at the following:

- Grid analysis
- The Decision Tree
- Force Field analysis
- PMI
- Cost Benefit analysis
- Six thinking hats

GRID ANALYSIS

Grid Analysis helps you to decide between several options, while taking many different factors into account. To use the tool, lay out your options as rows on a table

How to use this tool:

- List your options and then the factors that are important to you in making the decision.

- Work out the relative importance of the factors in your decision. Show these as numbers. These are used to weight your preferences by the importance of the factor.

- The next step is to work your way across your table, scoring each option for each of the important factors in your decision. Score each option from 0 (poor) to 3 (very good).

- Now multiply each of your scores by the values for your relative importance. This will give them the correct overall weight in your decision.

- Finally add up these weighted scores for your options. The option that scores the highest wins!

Example: A windsurfing enthusiast is about to replace his car. He needs one that not only carries a board and sails, but also that will be good for business travel. He has always loved open-topped sports cars. No car he can find is good for all three things.

His options are: A four wheel drive (4x4), hard topped vehicle, a comfortable 'family car', an estate car or a sports car

Criteria that he wants to consider are:

- Cost,
- Ability to carry a sail board at normal driving speed,
- Ability to store sails and equipment securely,
- Comfort over long distances,
- Fun!
- Nice look and build quality to car

Firstly he draws up the table and scores each option by how well it satisfies each factor:

Factors:	**Cost**	**Board**	**Storage**	**Comfort**	**Fun**	**Look**	**Total**
Weights:							
Sports Car	1	0	0	1	3	3	
4x4	0	3	2	2	1	1	
Family Car	2	2	1	3	0	0	
Estate Car	2	3	3	3	0	1	

Next he decides the relative weights for each of the factors. He multiplies these by the scores already entered, and totals them.

Factors:	**Cost**	**Board**	**Storage**	**Comfort**	**Fun**	**Look**	**Total**
Weights:	**4**	**5**	**1**	**2**	**3**	**4**	
Sports Car	4	0	0	2	9	12	**27**
4x4	0	15	2	4	3	4	**28**
Family Car	8	10	1	6	0	0	**25**
Estate Car	8	15	3	6	0	4	**36**

This gives an interesting result: Despite its lack of fun, an estate car may be the best choice. If the wind-surfer still feels unhappy with the decision, maybe he has underestimated the importance of one of the factors. Perhaps he should weight 'fun' by 7!

THE DECISION TREE

Decision trees are excellent tools for helping you choose between several courses of action. They provide a highly effective structure within which you can lay out options and investigate the possible outcomes of choosing those options. They also help you to form a balanced picture of the risks and rewards associated with each possible course of action.

How to use this tool:

- You start a Decision Tree with a decision that you need to make. Draw a small square to represent this towards the left of a large piece of paper.

- From this box draw out lines towards the right for each possible solution, and write that solution along the line. Keep the lines apart as far as possible so that you can expand your thoughts.

- At the end of each line, consider the results. If the result of taking that decision is uncertain, draw a small circle. If the result is another decision that you need to make, draw another square. Squares represent decisions, and circles represent uncertain outcomes. Write the decision or factor above the square or circle. If you have completed the solution at the end of the line, just leave it blank.

- Starting from the new decision squares on your diagram, draw out lines representing the options that you could select. From the circles draw lines representing possible outcomes. Again make a brief note on the line saying what it means. Keep on doing this until you have drawn out as many of the possible outcomes and decisions as you can see leading on from the original decisions.

For example: The Property Company

A property owner is faced with a choice of:

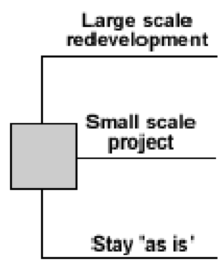
(a) A large-scale investment (A) to improve her flats. This could produce a substantial pay-off in terms of increased revenue net of costs but will require an investment of £1,400,000. After extensive market research it is considered that there is a 40% chance that a pay-off of £2,500,000 will be obtained, but there is a 60% chance that it will be only £800,000.

(b) A smaller scale project (B) to re-decorate her premises. At £500,000 this is less costly but will produce a lower pay-off. Research data suggests a 30% chance of a gain of £1,000,000 but a 70% chance of it being only £500,000.

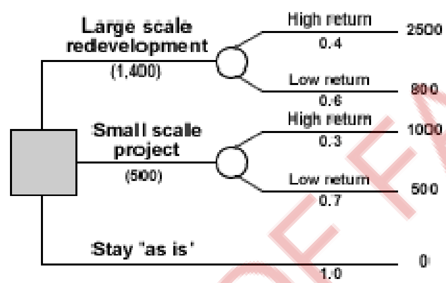
(c) Continuing the present operation without change (C). It will cost nothing, but neither will it produce any pay-off. Clients will be unhappy and it will become harder and harder to rent the flats out when they become free.

How will a decision tree help the taking of the decision?

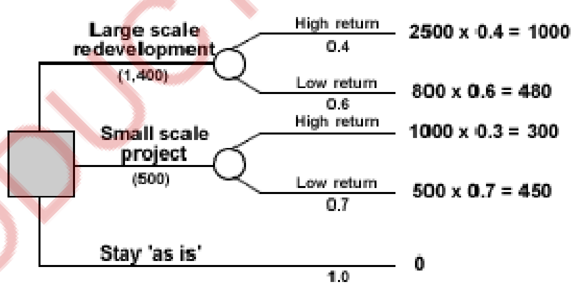
Step one:



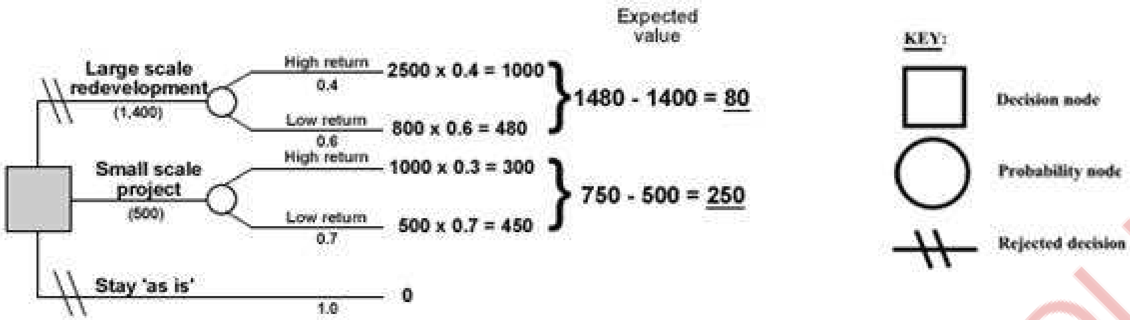
Step two: Add the chance nodes, the probabilities and the outcomes.



Step three: Calculate the expected values



Step four: Calculate the net expected value



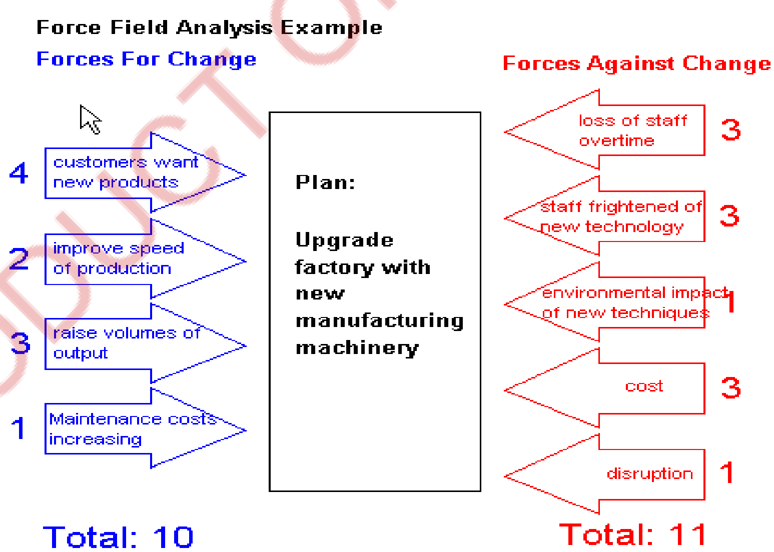
FORCE FIELD ANALYSIS

Force Field Analysis is a useful technique for looking at all the forces for and against a decision. In effect, it is a specialized method of weighing pros and cons. By carrying out the analysis you can plan to strengthen the forces supporting a decision, and reduce the impact of opposition to it

How to Use the Tool:

- Describe your plan or proposal for change in the middle.
- List all forces for change in one column, and all forces against change in another column.
- Assign a score to each force, from 1 (weak) to 5 (strong).

For example, imagine that you are a manager deciding whether to install new manufacturing equipment in your factory.



Once you have carried out an analysis, you can decide whether your project is viable. In the example above, you might initially question whether it is worth going ahead with the plan.

Where you have already decided to carry out a project, Force Field Analysis can help you to work out how to improve its probability of success. Here you have two choices:

- To reduce the strength of the forces opposing a project, or
- To increase the forces pushing a project

If you had to implement the project in the example above, the analysis might suggest a number of changes to the initial plan:

- By training staff (increase cost by 1) you could eliminate fear of technology (reduce fear by 2)
- It would be useful to show staff that change is necessary for business survival (new force in favour, +2)
- Staff could be shown that new machines would introduce variety and interest to their jobs (new force, +1)
- You could raise wages to reflect new productivity (cost +1, loss of overtime -2)
- Slightly different machines with filters to eliminate pollution could be installed (environmental impact -1)

These changes would swing the balance from 11:10 (against the plan), to 8:13 (in favour of the plan).

LESSON NINE

DECION MAKING TOOLS

PMI- PLUS / MIUS/ INTERESTING

PMI stands for 'Plus/Minus/Interesting'. This is similar to the 'weighing pros and cons' technique.

How to use it:

- In the column underneath 'Plus', write down all the positive results of taking the action.
- Underneath 'Minus', write down all the negative effects.
- In the 'Interesting' column write down the implications and possible outcomes of taking the action, whether positive, negative, or uncertain.

By this stage it may already be obvious whether or not you should implement the decision. If it is not, consider each of the points you have written down and assign a positive or negative score to it appropriately. The scores you assign may be quite subjective. Once you have done this, add up the score. A strongly positive score shows that an action should be taken, a strongly negative score that it should be avoided.

Example: A young professional is deciding where to live. Her question is 'Should she move to the big city?' She draws up the PMI table below:

Plus	**Minus**	**Interesting**
More going on (+5)	Have to sell house (-6)	Easier to find new job? (+1)
Easier to see friends (+5)	More pollution (-3)	Meet more people? (+2)
Easier to get places (+3)	Less space (-3)	More difficult to get own work done? (-4)
	No countryside (-2)	
	More difficult to get to work? (-4)	
+13	**-18**	**-1**

She scores the table as 13 (Plus) - 18 (Minus) - 1 (Interesting) = - 6

For her, the comforts of a settled rural existence outweigh the call of the 'bright lights' - it would be much better for her to live outside the city, but close enough to travel in if necessary.

COST BENEFIT ANALYSIS

Cost Benefit Analysis is a relatively simple and widely used technique for deciding whether to make a change. As its name suggests, you simply add up the value of the benefits of an action, and subtract the costs associated with it.

How to Use the Tool:

In its simple form, cost-benefit analysis is carried out using only financial costs and benefits. For example, a simple cost benefit ratio for a road scheme would measure the cost of building the road, and subtract this from the economic benefit of improving transport links. It would not measure either the cost of environmental damage or the benefit of quicker and easier travel to work. A more sophisticated approach to building a cost benefit models is to try to put a financial value on intangible costs and benefits.

Example: A sales director is deciding whether to implement a new computer-based management and sales processing system. His department has only a few computers, and his salespeople are not computer literate. He is aware that computerized sales forces are able to contact more customers and give a higher quality of reliability and service to those customers. They are more able to meet commitments, and can work more efficiently with fulfilment and delivery staff.

His financial cost/benefit analysis is shown below:

Costs:

New computer equipment:

- 10 network-ready PCs with supporting software @ R1,225 each
- 1 server @ R1,750
- 3 printers @ R600 each
- Cabling & Installation @ R2300
- Sales Support Software @ R7500

Training costs:

- Computer introduction - 8 people @ R200 each
- Keyboard skills - 8 people @ R200 each

Sales Support System - 12 people @ R350 each

Other costs:

- Lost time: 40 man days @ R100 / day
- Lost sales through disruption: estimate: R10,000
- Lost sales through inefficiency during first months: estimate: R10,000

Total cost: R57,000

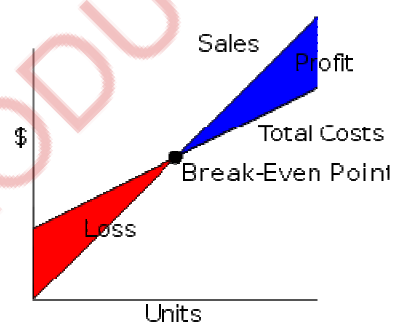
Benefits:

- Tripling of mail shot capacity: estimate: R20,000 / year
- Ability to sustain telesales campaigns: estimate: R10,000 / year
- Improved efficiency and reliability of follow-up: estimate: R25,000 / year
- Improved customer service and retention: estimate: R15,000 / year
- Improved accuracy of customer information: estimate: R5,000 / year
- More ability to manage sales effort: R15,000 / year

Total Benefit: R90,000/year

Payback time: R57,000 / R90,000 = 0.63 of a year = approx. 8 months

Tip: The payback time is often known as the breakeven point. Sometimes this can be more important than the overall benefit a project can deliver because the business has had to borrow to fund expansion etc. The breakeven point can be found graphically by plotting costs and income on a graph of output quantity. Breakeven occurs at the point the two lines cross.



SIX THINKING HATS METHOD

'Six Thinking Hats' is a powerful technique that helps you look at important decisions from a number of different perspectives. It helps you make better decisions by forcing you to move outside your habitual ways of thinking. As such, it helps you understand the full complexity of the decision, and spot issues and opportunities to which you might otherwise be blind.

How to Use the Tool:

- **White Hat:** With this thinking hat you focus on the data available. Look at the information you have, and see what you can learn from it. This is where you analyze past trends, and try to estimate a value from historical data.

- **Red Hat:** 'Wearing' the red hat, you look at problems using intuition, gut reaction, and emotion. Also try to think how other people will react emotionally. Try to understand the responses of people who do not fully know your reasoning.

- **Black Hat:** Using black hat thinking, look at all the bad points of the decision. Look at it cautiously and defensively. Try to see why it might not work. This is important because it highlights the weak points in a plan. It allows you to eliminate them, alter them, or prepare contingency plans to counter them. Black Hat thinking helps to make your plans 'tougher' and more resilient. It can also help you to spot fatal flaws and risks before you embark on a course of action.

- **Yellow Hat:** The yellow hat helps you to think positively. It is the optimistic viewpoint that helps you to see all the benefits of the decision and the value in it. Yellow Hat thinking helps you to keep going when everything looks gloomy and difficult.

- **Green Hat:** The Green Hat stands for creativity. This is where you can develop creative solutions to a problem. It is a freewheeling way of thinking, in which there is little criticism of ideas.

- **Blue Hat:** The Blue Hat stands for process control. This is the hat worn by people chairing meetings. When running into difficulties because ideas are running dry, they may direct activity into Green Hat thinking. When contingency plans are needed, they will ask for Black Hat thinking, etc.

Example: The directors of a property company are looking at whether they should construct a new office building. The economy is doing well, and the amount of vacant office space is reducing sharply. As part of their decision they decide to use the 6 Thinking Hats technique during a planning meeting.

- Looking at the problem with the White Hat, they analyze the data they have. They examine the trend in vacant office space, which shows a sharp reduction. They anticipate that by the time the office block would be completed, that there will be a severe shortage of office space. Current government projections show steady economic growth for at least the construction period.

- With Red Hat thinking, some of the directors think the proposed building looks quite ugly. While it would be highly cost-effective, they worry that people would not like to work in it.

- When they think with the Black Hat, they worry that government projections may be wrong. The economy may be about to enter a 'cyclical downturn', in which case the office building may be empty for a long time. If the building is not attractive, then companies will choose to work in another better-looking building at the same rent.

- With the Yellow Hat, however, if the economy holds up and their projections are correct, the company stands to make a great deal of money. If they are lucky, maybe they could sell the building before the next downturn, or rent to tenants on long-term leases that will last through any recession.

- With Green Hat thinking they consider whether they should change the design to make the building more pleasant. Perhaps they could build prestige offices that people would want to rent in any economic climate. Alternatively, maybe they should invest the money in the short term to buy up property at a low cost when a recession comes.

- The Blue Hat has been used by the meeting's Chair to move between the different thinking styles. He or she may have needed to keep other members of the team from switching styles, or from criticizing other peoples' points.

LESSON TEN

SKILL FOUR: DELEGATION

Delegation is one of the most important management skills. Good delegation saves you time, develops your people, grooms a successor, and motivates. Poor delegation will cause you frustration, will result in de-motivation, confusion and failure to achieve the task or purpose itself.

Effective delegation is crucial for effective succession. For the successor and for the manager too: the main task of a manager in a growing thriving business is ultimately to develop a successor. When this happens everyone can move on to higher things. When it fails the succession and progression becomes dependent on bringing in new people from outside.

LEVELS OF DELEGATION

Delegation isn't just a matter of telling someone else what to do. There is a wide range of varying freedom that you can confer on the other person. The more experienced and reliable the other person is, then the more freedom you can give. The more critical the task then the more cautious you need to be about extending a lot of freedom, especially if your job or reputation depends on getting a good result.

Examples of different delegation levels:

- "Wait to be told." or "Do exactly what I say." or "Follow these instructions precisely": This is instruction. There is no delegated freedom at all.

- "Look into this and tell me the situation. I'll decide": This is asking for investigation and analysis but no recommendation. The person delegating retains responsibility for assessing options prior to making the decision.

- "Look into this and tell me the situation. We'll decide together": This is has a subtle important difference to the above. This level of delegation encourages and enables the analysis and decision to be a shared process, which can be very helpful in coaching and development.

- "Tell me the situation and what help you need from me in assessing and handling it. Then we'll decide": This is opens the possibility of greater freedom for analysis and decision-making. This level is helpful in growing and defining coaching and development relationships.

- "Give me your analysis of the situation (reasons, options, pros and cons) and recommendation. I'll let you know whether you can go ahead": Asks for analysis and recommendation, but you will check the thinking before deciding.

- "Decide and let me know your decision, and wait for my go-ahead before proceeding": The other person is trusted to assess the situation and options and is probably competent enough to decide and implement too, but for reasons of task importance, or competence, or perhaps externally changing factors, the boss prefers to keep control of timing.

- "Decide and let me know your decision, then go ahead unless I say not to." Now the other person begins to control the action. The subtle increase in responsibility saves time. The default is now positive rather than negative.

- "Decide and take action - let me know what you did (and what happened)." This delegation level, as with each increase up the scale, saves even more time. This level of delegation also enables a degree of follow-up by the manager as to the effectiveness of the delegated responsibility, which is necessary when people are being managed from a greater distance, or more 'hands-off'. The level also allows and invites positive feedback by the manager, which is helpful in coaching and development of course.

- "Decide and take action. You need not check back with me." The most freedom that you can give to another person when you still need to retain responsibility for the activity. A high level of confidence is necessary, and you would normally assess the quality of the activity after the event according to overall results. Feedback and review remain helpful and important, although the relationship is more likely one of mentoring, rather than coaching per se.

- "Decide where action needs to be taken and manage the situation accordingly. It's your area of responsibility now." The most freedom that you can give to the other person, and not generally used without formal change of a person's job role. It's the delegation of a strategic responsibility. This gives the other person responsibility for defining what changes projects, tasks, analysis and decisions are necessary for the management of a particular area of responsibility, as well as the task or project or change itself, and how the initiative or change is to be implemented and measured, etc. This amounts to delegating part of your job - not just a task or project. You'd use this utmost level of delegation (for example) when developing a successor, or as part of an intentional and agreed plan to devolve some of your job accountability in a formal sense.

BENFITS OF DELEGATION

For the Leader
Allows time for planning and organizing Allows time for non-business pursuits Teaches valuable lessons in how to work with and develop others Builds trust Enables the leader to multiply self Enables the leader to work smart and not hard Allows communication
For the employees
Motivates Builds self esteem Encourages creative problem solving Stimulates initiative Trains future leaders Builds trust and morale Increase communication Stimulates creativity Allows significant contributions
For the business
Promotes perpetuation Opens new avenues of creativity Promotes an increase in productivity Improves efficiency and effectiveness Creates enthusiasm

OBSTACLES TO DELEGATION

Leaders will not delegate because
"I can do it better and faster myself." They do not know which tasks to delegate. They lack confidence in the member's ability. They fear a loss of control. They are unwilling to let members make decisions and be held accountable for those decisions. They enjoy doing the tasks themselves.
Members will not accept delegation because
It's easier to ask the leader than to make a decision They do not feel empowered to use their authority. They lack the resources and necessary information to do the job. They lack self-confidence. They feel the incentives are inadequate to motivate them

FIVE STEPS IN THE PROCESS OF SUCCESSFUL DELEGATION

- Policy guidelines must be clearly stated.
- Jobs must be defined.
- Members set and agree on the goals. "People support what they help to create."
- Establish two-way communication between the leader and the member.
- Create feedback systems through effective meetings.

THE STEPS OF SUCCESSFUL DELEGATION

- **Define the task:** Confirm in your own mind that the task is suitable to be delegated. Does it meet the criteria for delegating?
- **Select the individual or team:** What are your reasons for delegating to this person or team? What are they going to get out of it? What are you going to get out of it?
- **Assess ability and training needs:** Is the other person or team of people capable of doing the task? Do they understand what needs to be done? If not, you can't delegate.
- **Explain the reasons:** You must explain why the job or responsibility is being delegated. What is its importance and relevance? Where does it fit in the overall scheme of things?
- **State required results:** What must be achieved? Clarify understanding by getting feedback from the other person. How will the task be measured? Make sure they know how you intend to decide that the job is being successfully done.
- **Consider resources required:** Discuss and agree what is required to get the job done. Consider people, location, premises, equipment, money, materials, other related activities and services.
- **Agree on deadlines:** When must the job be finished? Or if an ongoing duty, when are the review dates? When are the reports due? And if the task is complex and has parts or stages, what are the priorities?

- **Support and communicate:** Think about who needs to know what's going on, and inform them. Involve the other person in considering this so they can see beyond the issue at hand. Do not leave the person to inform your own peers of their new responsibility. Warn the person about any awkward matters of politics or protocol.

- **Feedback on results:** It is essential to let the person know how they are doing, and whether they have achieved their aims. If not, you must review with them why things did not go to plan, and deal with the problems. You must absorb the consequences of failure, and pass on the credit for success.

Assignment

Section one: Draw a diagram of the delegation structure of your business. In your diagram list the people who have been given authority to make decisions and on what level this delegation is.

Section two: Discuss how you choose the people who you delegate authority to and how you review their performance.

Section three: Is there anyone in your employ who you are mentoring to be your successor? What are the advantages and the disadvantages to you personally of raising up a successor?

LESSON ELEVEN

SKILL FIVE: COMMUNICATION

Communication is one of the basic functions of management in any business and its importance can hardly be overemphasized. It is a process of transmitting information, ideas, thoughts, opinions and plans between various parts of a business. It is not possible to have human relations without communication. However, good and effective communication is required not only for good human relations but also for good and successful business.

Effective communication is required at various levels and for various aspects in a business such as:

For manager – employee relations: Effective communication of information and decision is an essential component for management-employee relations. The manager cannot get the work done from employees unless they are communicated effectively. Most of management problems arise because of lack of effective communication. Chances of misunderstanding and misrepresentation can be minimized with proper communication system.

For motivation and employee morale: Communication is also a basic tool for motivation, which can improve morale of the employees in a business. Inappropriate or faulty communication among employees or between managers and subordinates are the major cause of conflict and low morale at work. Managers should clarify to employees about what is to be done, how well they are doing and what can be done for better performance to improve their motivation.

For increase productivity: With effective communication, you can maintain a good human relation in the business and by encouraging ideas or suggestions from employees or workers and implementing them whenever possible, you can also increase production at low cost.

For employees: It is through communication that employees submit their work reports, comments, grievances and suggestions to their seniors or management. Businesses should have effective and speedy communication policy and procedures to avoid delays, misunderstandings, confusion or distortions of facts and to establish harmony among all the concerned people and departments.

COMMUNICATION WITH YOUR BUSINESS

- **EXPLAINING THE BUSINESS ETHICS OF THE BUSINESS**

The explaining of the business ethics of the company is usually done in the induction of the employee and in policy and procedure manuals that the business gives to their employees.

Staff induction activities are designed to provide new-starters with the information they need, as well as getting them up to speed on how the business works.

What is covered in the induction?

Staff induction often focuses on policies which are useful to the staff. This includes:

- Orientation (physical) - describing where the facilities are
- Orientation (business) - showing how the employee fits into the team
- Health and safety information - this is a legal requirement
- Explanation of terms and conditions
- Details of the business' history, its products and services, its culture and values
- A clear outline of the job/role requirements
- The values and the ethics of the company

Group Discussion / Assignment

Has your business got all the policies or procedures it needs to clearly communicate important facts to your employees?

Some of the policies that need to be communicated are:

- Staff Disciplinary procedure.
- Staff Grievance procedure.
- Staff Appraisal procedure.
- Staff expenses
- Staff loans (travel, cycle, car)
- Sick Leave Policy and procedure.
- Annual Leave policy and procedure.

Discuss the important issues that you would include in each of the above policies and procedures. Write up policies and procedures according to what has been discussed. (It is important in this exercise to know and understand the law concerning the employer and employee)

- **CONFLICT MANAGEMENT**

Conflict management is another area in which proper and effective communication is vital.

Definition: A conflict is defined as a disagreement through which parties involved perceive a threat to their needs, interests and concerns.

THE PURPOSE OF CONFLICT MANAGEMENT IS TO

- Understand the true threats and issues that the employees are facing (even if they are perceived)
- Develop strategies and solutions to these threats
- Manage the conflict by coming to an agreement between the conflicting parties.

Conflict management is the process of planning to avoid conflict where possible and organizing to resolve conflict where it does happen, as rapidly and smoothly as possible.

Business Assessment:

Consider your own work environment:

- What are some key sources of conflict in your workplace?
- When do they tend to occur?
- How do people respond to these conflicts as they arise?
- Who are the main people involved in the conflict?

COMMON CAUSES OF CONFLICT

Causes or sources of business conflict can be many and varied. The most common causes are the following:

- Scarcity of resources (finance, equipment, facilities, etc)
- Different attitudes, values or perceptions
- Disagreements about needs, goals, priorities and interests
- Poor communication
- Poor or inadequate business structure
- Lack of teamwork
- Lack of clarity in roles and responsibilities
- Unreasonable pressure and time limits
- Collective decision making (the greater the number of people participating in making a decision the greater the opportunity for conflict).
- Unreasonable policies and procedures
- Unmet expectations
- Unresolved and suppressed conflicts
- Leadership problems – e.g. missing in actions, too strong and inflexible etc.

Duffy Robbins, *Youth Ministry Nuts & Bolts*, mentions four levels of conflict,

Level 1: Facts or Data - This level of conflict occurs when two parties simply have different information. This is the easiest kind of conflict to resolve. To resolve this conflict leaders simply ensure that both parties have the same information.

Level 2: Processes or Methods - This level occurs when there is a difference of opinion over how things should be done. Because the issue here is "how do we get there?" rather than "where should we go?" compromise is usually a realistic option.

Level 3: Goals or Purpose - On this level parties cannot agree on a common goal. Negotiations at this level take patience and skill.

Level 4: Values - The deepest and most serious conflict relates to values - the parties disagree about basic meanings.

Defining the level of conflict can lead to the selection of appropriate responses to conflict resolution.

TWO TYPES OF DISPUTES

There are two main types of disputes that occur within a business. These are:

- "Disputes of right", where people or groups are entitled by law, by contract, by previous agreement or by established practice to certain rights. Disputes of right will focus on conflict issues such as employment contracts, legally enforceable matters or unilateral changes in accepted or customary practices. A dispute of rights is, therefore, usually settled by legal decision or arbitration and not by negotiation.

- "Disputes of interest", where the conflict may be a matter of opinion, such as where a person or group is entitled to some resources or privileges (such as access to property, better working conditions, etc). Because there is no established law or right, a dispute of interest will usually be solved through collective bargaining or negotiation.

SIGNS OF CONFLICTS

Signs of conflict between individuals: In your business, you should be alert to signs of conflict between colleagues, so that you can be proactive in reducing or resolving the conflict by getting to the root of the issue. Typical signs may include:

- Colleagues not speaking to each other or ignoring each other
- Contradicting and bad-mouthing one another
- Deliberately undermining or not co-operating with each other, to the downfall of the team

Signs of conflicts between groups of people: Similarly, you can also identify latent conflict between groups of people in the business and plan action before the conflict becomes open and destructive:

- Cliques or factions meeting to discuss issues separately, when they affect the whole business
- One group being left out of organizing an event which should include everybody
- Groups using threatening slogans or symbols to show that their group is right and the others are wrong

CONFLICT-HANDLING STYLE QUESTIONAIRE

Indicate how often you do the following when you differ with someone.

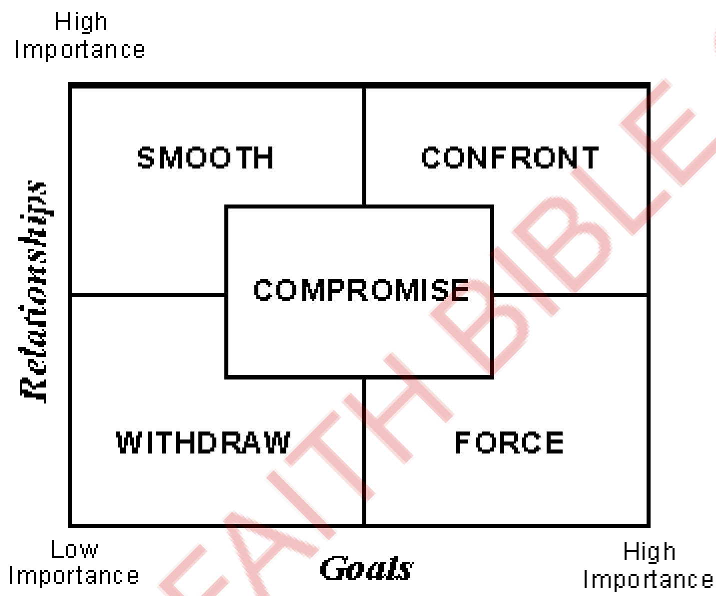
When I differ with someone	Usually	Sometimes	Seldom
I explore our differences, not backing down, but not imposing my view either			
I disagree openly, then invite more discussion about our differences			
I look for mutually satisfactory solutions			
Rather than let the other person make a decision without my input, I make sure I am heard and also that I hear the other person			
I agree to a middle ground rather than look for a completely satisfactory solution			
I admit I am half wrong rather than explore our differences			
I have a reputation for meeting a person halfway			
I expect to get out about half of what I really want to say			
I give in totally rather than try to change another's opinions			
I put aside any controversial aspects of an issue			
I agree early on, rather than argue about a point			
I give in as soon as the other person gets emotional about an issue			
I try to win the other person over			
I work to come out victorious no matter what			
I never back away from a good argument			
I would rather win than end up compromising			

CONFLICT STYLES

Five conflict handing styles:

When a manager becomes engaged in a conflict there are two major concerns to deal with: (a) achieving goals and (b) preserving the relationship.

The importance of goals and relationships affect how leaders act in a conflict situation. Given these two concerns the following five styles of managing conflict are found:



- **Withdrawing**

People with this style tend to withdraw in order to avoid conflicts. They give up their goals and relationships; stay away from the issues over which the conflict is taking place and from the people they are in conflict with; and believe it is hopeless to try to resolve conflicts. They believe it is easier to withdraw (physically and psychologically) from a conflict than to face it.

- **Forcing**

People in this category try to overpower opponents by forcing them to accept their solution to the conflict. Their goals are highly important but the relationship is of minor importance. They seek to achieve their goals at all costs; are not concerned with the needs of other people and do not care if other people like or accept them. They assume that conflicts are settled by one person winning and the other losing. While winning gives them a sense of pride and achievement, losing gives them a sense of weakness, inadequacy, and failure.

They try to win by attacking, overpowering, overwhelming, and intimidating other people.

- **Smoothing**

For those who fall into this category, the relationship is of great importance, while goals are of little importance. They want to be accepted and liked by other people; they think that conflict should be avoided in favour of harmony and believe that conflicts cannot be discussed without damaging relationships. They are afraid that if the conflict continues, someone will get hurt and that would ruin the relationship. They give up their goals to preserve the relationship.

- **Compromising**

People with this style are moderately concerned with their own goals and about their relationships with other people. They seek a compromise. They give up part of their goals and persuade the other person in a conflict to give up part of their goals. They seek a solution to conflicts where both sides gain something.

- **Confronting**

People in this category highly value their own goals and relationships. They view conflicts as problems to be solved and seek a solution that achieves both their own goals and the goals of the other person in the conflict. They believe conflict improves relationships by reducing tension between people. By seeking solutions that satisfy both themselves and the other person they maintain the relationship. They are not satisfied until a solution is found that achieves their own goals and the other person's goals and they want all tensions and negative feelings to be fully resolved.

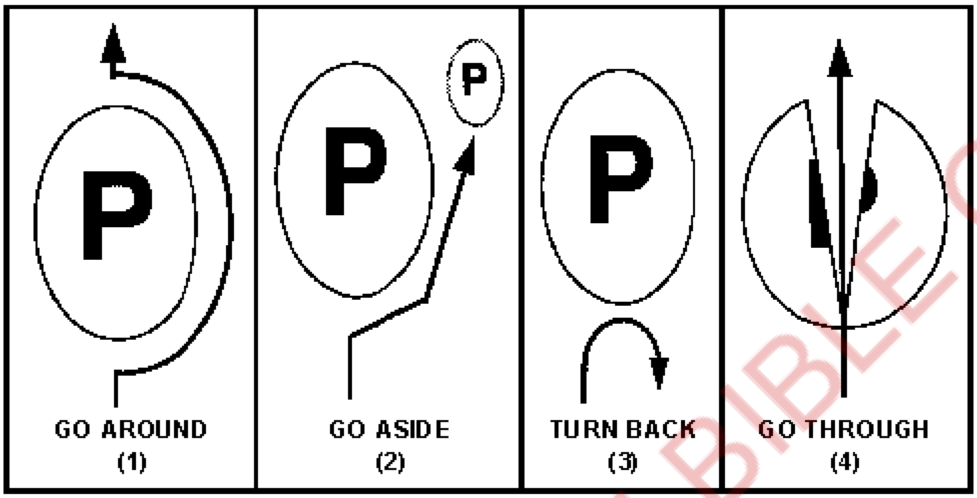
CONFLICT HANDLING

There are two dimensions to handling conflict: prevention and management.

Prevent Conflict: Applying good management principles in the business and building quality relationships with people will help to prevent or at least lessen conflict.

Manage Conflict: In spite of the best efforts at prevention, conflict does arise. The secret is to learn to cope positively with conflict, and not to see it as an enemy to peace, but an opportunity for growth in relationships.

Look at the illustration below: In 1-3 when a conflict is not dealt with the problem is left intact, while the leader's course of activity is changed. They adapt to the problem, ie the problem changes them! In 4 the problem is dealt with while the leader continues on the course that was decided upon (usually policies and procedures of the business. A problem should always be solved and not adapted to!



THE CONFLICT RESOLUTION PROCESS:

- **Clarify Goals:**

When people are in conflict they usually share many of the same goals in spite of their differences. Both sides usually want to see the conflict resolved in a way that will be mutually agreeable, beneficial to both, and inclined to enhance the relationship so that future communication will improve.

- **Reconcile Differences:**

In talking to his disciples, Jesus outlined a process for restoring relationships between Christians who are at odds with each other (Matthew 18:15-20).

- **Resolve Conflicts:**

When individuals or groups are in conflict, they have four main choices about the direction they will take. They may avoid conflict, maintain, escalate, or reduce it. Sometimes people do not want conflict resolution and may decide to go in different directions. However for the best of the business conflict should be resolved.

Four-step method in conflict resolution:

Step 1: Separate the people from the problem: This means treating one another with respect, avoiding defensive statements, name calling, or character judgments, and giving attention instead to the issues. Each side should be encouraged and helped to understand the other's fears, perceptions, insecurities and desires. Parties should think of themselves as partners in a side-by-side search for a fair agreement which is advantageous to each side.

Step 2: Focus on the issues, not the positions: When people identify the real issues and stop trying to defend rigid positions they are on their way to resolve their conflict.

Step 3: Think of various options that might solve the problem: Allow each side to make suggestions in a brainstorming session. After a number of creative and new alternatives have been proposed, each option can be evaluated.

- List options to the problem, considering possible positive and negative consequences of each.
- List the options in the order of priority.
- Depersonalize the options to avoid focus on the personalities of those involved.
- Develop a consensus for the option that most resolves the conflict, even if it involves compromise.

Step 4: Insist on objective criteria: Conflict is less likely to occur if both sides agree beforehand on an objective that they want to reach.

LESSON TWELVE

BUILD TEAMWORK MINIMISING THE POSSIBILITY OF CONFLICT

Teamwork and co-operation are essential in a business which aims to be effective and efficient, and not likely to be divided by conflicting factions. The best teamwork usually comes from having a shared vision or goal, so that everyone is committed to the same objectives and understands their roles in achieving those objectives.

"A team is a group organized to work together to accomplish a set of objectives that cannot be achieved effectively by individuals."

The Benefits of teamwork:

- Teamwork improves the working environment.
- Teamwork keeps communication consistent.
- Teamwork relieves stress.
- Teamwork reduces errors.
- Teamwork keeps communication lines open.

Business Assessment: Team Climate Survey

Take the following team climate survey, to see where your company stands as a team.

Purpose:	Do your employees share a sense of why the team exists and are invested in accomplishing the mission?
Priorities	Do your employees know what needs to be done next, by whom, and by when to achieve team goals?
Roles	Do your employees know their roles in getting tasks done and when to allow a more skilful member to do a certain task?
Decisions	Are authority and decision-making lines clearly understood?
Conflict	Is conflict dealt with openly and considered important to decision-making and personal growth?

Personal Traits	Do your employees feel their unique personalities are appreciated and well utilized?
Norms	Are group norms set for working together and are they seen as standards for everyone in the group?
Effectiveness	Do your employees find meetings efficient and productive and look forward to this time together?
Success	Do your employees clearly know when the team has met with success and share in this equally and proudly?
Training	Are opportunities for feedback and updating skills provided and taken advantage of by team members?

Team building must be:	**Team building must NOT be:**
A way of life	A short term, flavour of the month
The responsibility of every Team Member	Imposed without regard to peoples' feelings
A continuous process	Spasmodic
About developing a clear and unique identity	Reserved for only some members of the team
Focused on a clear and consistent set of goals	An excuse for not meeting personal responsibilities
Concerned with the needs and ambitions of each team member recognizing the unique contribution that each individual can make	A process where actions clearly contradict intentions
	Seen as a chore
An awareness of the potential of the team as a unit	

TEAMBUILDING LESSONS WE LEARN FROM GEESE – AUTHOR UNKNOWN

Fact #1 – As each bird flaps its wings, it creates uplift for the bird following. By flying in a "V" formation, the whole flock adds 71 percent greater flying range than if one bird flew alone. Lesson Learned – People who share a common direction and sense of community can get where they are going quicker and easier because they are travelling on the strength of one another.

Fact #2 – Whenever a goose falls out of formation, it suddenly feels the drag and resistance of trying to fly alone and quickly gets back into formation to take advantage of the lifting power of the bird immediately in front. Lesson Learned – If we have as much sense as geese, we will stay in formation with those who are ahead of where we want to go and be willing to accept their help as well as give ours to others.

Fact #3 – When the lead goose gets tired, it rotates back into the formation and another goose flies at the point position. Lesson Learned – It pays to take turns doing the hard tasks and sharing leadership.

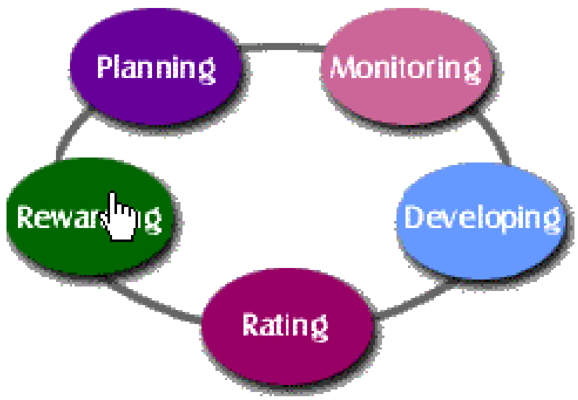
Fact #4 – The geese in formation honk from behind to encourage those up front to keep up their speed. Lesson Learned – We need to make sure our honking from behind is encouraging, and not something else.

Fact #5 – When a goose gets sick or wounded or shot down, two geese drop out of formation and follow it down to help and protect it. They stay with it until it is able to fly again, or dies. Then they launch out on their own, with another formation, or they catch up with their flock. Lesson Learned – If we have as much sense as geese do, we too, will stand by each other in difficult times as well as when we are strong.

Fostering teamwork is a top priority for many leaders. The benefits are clear: increased productivity, improved customer service, more flexible systems, employee empowerment.

LESSON THIRTEEN

PERFORMANCE MANAGEMENT



Performance management is usually a matter between the Management and the individual employees. During this process, communication is vital not only when appraisals and rewarding is taking place but throughout the five steps that are included in performance management.

PLANNING AND SETTING GOALS AND MEASURES

"Planning" means setting performance expectations and goals for groups and individuals to channel their efforts toward achieving the business objectives. It also includes the measures that will be used to determine whether expectations and goals are being met. During this process it is important for the communication of these goals and measures to be clearly understood by the employees. Involving employees in the planning process helps them to understand the goals of the business: what needs to be done, why it needs to be done, and how well it should be done. These plans are to be clearly written in a policy manual that is given to the employees on their induction clearly outlining the method of performance appraisal and the criteria appraised.

ESTABLISH A PERFORMANCE PLAN:

Criteria for employee performance plans:

When designing the policy manual on performance appraisals remember to consider the following:

- **Are the critical elements truly critical?** Would failure on the critical element mean that the employee's overall performance is unacceptable? Supervisors should assign critical elements carefully.

- **Is the meaning of acceptable performance clear?** Are the expectations established in the elements and standards quantifiable, observable, and/or verifiable?

- **Are the standards attainable?** Are expectations reasonable? Research has shown that setting expectations that are impossible or nearly impossible to achieve can actually cause performance levels to drop because employees tend to give up if they perceive the goal as impossible.

- **Are the standards challenging?** Does the work unit or employee need to exert a reasonable amount of effort to reach the *Fully Successful* performance level? Or do they merely need to show up to work in order to be considered *Fully Successful*?

- **Are the standards fair?** Are they comparable to expectations for other employees in similar positions? Do the standards allow for some margin of error? Requiring perfection is not fair in most instances.

- **Will employees understand what is required?** Elements and their standards should be written clearly and be specific to the job.

- **Are the elements and standards flexible?** Can they be adapted readily to changes in resources or objectives?

ESTABLISH PERFOMANCE STANDARDS:

While performance elements tell employees what they have to do, the standards tell them how well they have to do it.

Performance standards should be objective, measurable, realistic, and stated clearly in writing. General measurers used to measure employee performance include the following:

- Quality: This addresses how well the work is performed and/or how accurate or how effective the final product is. Quality refers to accuracy, appearance, usefulness, or effectiveness.

- Quantity: This addresses how much work is produced.

- Timeliness addresses how quickly, when or by what date the work is produced.

- Cost-Effectiveness: Cost-effectiveness standards may include such aspects of performance as maintaining or reducing unit costs, reducing the time it takes to produce a product or service, or reducing waste.

Employees must know what they need to do to perform their jobs successfully. Expectations of employee performance are established through the elements and standards contained in employee performance plans.

Business Assessment

- Do you have a set plan and policy by which you appraise your staff throughout the year (especially before increases) or do you have a general % which increases all the salaries?

- Do you feel that your appraisal system has been fair across the board or do you reward certain employees more than others?

- If you were to establish a set plan and policy for appraising your staff, what measures and performance standards would you implement? For example – Quantity of sales, Attitude towards job (appearance, discipline in time management etc), quality of work produced, willingness to learn new tasks etc?

MONITORING PERFORMANCE AND RECEIVING FEEDBACK

In an effective business, assignments and projects are monitored continually. Monitoring means consistently measuring performance and providing ongoing feedback to employees on their progress toward reaching their goals
.

Requirements for monitoring performance include conducting progress reviews with employees where their performance is compared against the plans and policies already decided upon. The purpose of this ongoing monitoring is to:

- Provide the opportunity to check how well employees are meeting pre-determined standards and to make changes to unrealistic or problematic standards.

- Identify unacceptable performance and address it rather than wait.

DEVELOPING AND IMPROVING PERFORMANCE

Developing in this instance means increasing the capacity to perform through training, giving assignments that introduce new skills or higher levels of responsibility and improving work processes. Providing employees with training and developmental opportunities encourages good performance, strengthens job-related skills and competencies, and helps employees keep up with changes in the workplace, such as the introduction of new technology.

Carrying out the processes of performance management provides an excellent opportunity to identify developmental needs. During planning and monitoring of work, deficiencies in performance become evident and can be addressed. Areas for improving good performance also stand out, and action can be taken to help successful employees improve even further

CAREER PLANNING AND SUCCESSION:

Career planning plays an integral role in succession planning of the business. In providing career planning for your employees, you are providing them with an opportunity to grow in:

- Experience
- Knowledge
- Economics and life style
- Authority
- Motivation

As an owner you can consult your employees as to where they feel their career is going. In the interview you can look at their strengths and their weaknesses in their work. The employee can therefore be placed in a training program that will help them in developing themselves for future promotions.

What is succession planning? Succession planning is a process whereby a business ensures that employees are recruited and developed to fill each key role within the company. Through your succession planning process, you recruit superior employees, develop their knowledge, skills, and abilities, and prepare them for advancement or promotion into ever more challenging roles. Through your succession planning process, you also retain superior employees because they appreciate the time, attention, and development that you are investing in them. To effectively do succession planning in your business, you must:

- Identify the business's long term goals.
- Hire superior staff.
- Identify and understand the developmental needs of your employees.

- Ensure that all key employees understand their career paths and the roles they are being developed to fill.
- Focus resources on key employee retention.

The real key in succession management is to create a match between the business's future needs and the aspirations of individuals. The only way to keep talented people is to provide them with growth opportunities that will keep them from finding more promising opportunities elsewhere.

Learn to lead your leaders - John Maxwell
"Some leaders want to make followers," says my friend Dale Galloway, "but I want to make leaders. Not only do I want to make leaders, but I want to make leaders of leaders. And then leaders of leaders of leaders!

Galloway understands that the key to the success of a business lies largely within the potential of the people. What type of people are you raising up within your business? Are you training leaders who will add value to your business? Or are you simply collecting followers?

As a leader it's your job not only to recognize the potential of your people but also to help them realize their full potential -- to empower them to become leaders.

Listed below are five keys to raising up leaders within your business. First, use this list to evaluate yourself. Ask: "Am I doing all I can to empower my people?" Then use it as a guide to help you create an environment for leadership growth in your business

VALUE PROCESS MORE THAN EVENTS. Understand that your people will not become great leaders overnight. Leaders develop daily, not in a day. It's your job to provide growth steps for your people on a regular basis, mentoring them throughout the process

GIVE YOUR BEST TO THE BEST. Good people are hard to find but even harder to keep. Spend 80 percent of your time with the top 20 percent of your people. When you give your best to anyone other than the best in your business, two things can potentially happen. Top people leave because they sense little opportunity for advancement or they become disheartened and begin to perform at a mediocre level.

UNDERSTAND AND MEET THEIR NEEDS. Your potential leaders have five basic needs. 1) They need opportunities to succeed. 2) They need to know what you expect from them. 3) They need to know how they're doing. 4) They need to be coached. 5) They need to know that their contributions are valuable to you and to the team. Are you consistent in meeting those needs for your future leaders?

EVALUATE THEIR PROGRESS. Explain their opportunities for advancement and lay out a path for their personal growth. Develop a means for regular accountability and a procedure to evaluate their progress at least twice a year. Record their progress throughout their development

GIVE PROMOTIONS WHEN DESERVED. Franklin Roosevelt imparted, "I discovered at an early age that most of the difference between average people and great people can be explained in three words . . . AND THEN SOME." Who is going the second mile? Who is influencing others? Who is providing solutions when problems arise? Make sure you're rewarding the potential leaders in the business who are making a difference. If you don't reward them, they'll find someone who will.

Begin empowering your people today. Your investment in the potential leaders around you will not only empower them with the tools for success but will also provide you with the means to set and achieve greater goals for yourself and your business.

RATING AND RECORDING PERFORMANCE

Written records of performance appraisals are to be placed within the employees file for future comparisons. These records can be when:

- Promoting employees
- Increases are being made
- Training opportunities come

REWARDING AND GIVING BENEFITS FOR GOOD PERFORMANCE

Rewarding means recognizing employees, individually and as members of groups, for their performance and acknowledging their contributions to the business's mission. Every company needs a strategic reward system for employees that addresses these four areas:

- **Compensation:** It's important to give a lot of consideration to your business's compensation structure because it ultimately reflects how employees are valued. Compensation packages can be linked to business structure, employee recruitment, retention, motivation, performance, feedback and satisfaction. Compensation is typically among the first things potential employees consider when looking for employment. Compensation is the equivalent not to how they are paid but, ultimately, to how they are valued. Bonuses and increases are means by which the employer can compensate good performance.

- **Benefits:** Employee benefits (also called fringe benefits, perquisites, or perks) are various non-wage compensations provided to employees in addition to their normal wages or salaries. Benefits can include:

    - housing,
    - Medical insurance (health, dental, life etc.),
    - Pension funds
    - Daycare,
    - Tuition reimbursement,
    - Sick leave,
    - Vacation
    - Profit sharing,
    - Discounts on products that are sold by company

The purpose of these benefits is to increase the economic security of employees.

- **Recognition:**

The Recognition and Performance Link:

Evidence suggests there is a strong link between non-cash incentives and improved job performance.

Many people in HR dismiss awards and incentives programs as "feel good" activities. But evidence suggests there is a strong link between non-cash awards and incentives and improved job performance. Bob Nelson's study, conducted from September of 1999 to June of 2000, is based on responses from managers and their employees in 34 business' ranging from Universal Studios to the U.S. Postal Service.

He says that several performance-related variables were found to have broad support from managers in the study, the majority of whom agreed or strongly agreed with the following items (listed with percentage of agreement):

- Recognizing employees helps me better motivate them. (90.5 percent)
- Providing non-monetary recognition to my employees when they do good work helps to increase their performance. (84.4 percent)
- Recognizing employees provides them with practical feedback. (84.4 percent)
- Recognizing my employees for good work makes it easier to get the work done. (80.3 percent)
- Recognizing employees helps them to be more productive. (77.7 percent)
- Providing non-monetary recognition helps me to achieve my personal goals. (69.3 percent)
- Providing non-monetary recognition helps me to achieve my job goals. (60.3 percent)

Nelson also found that 72.9 percent of managers reported that they received the results they expected when they used non-monetary recognition either immediately or soon thereafter, and 98.8 percent said they thought they eventually would obtain the desired results.

Of the 598 employees who reported to the managers in the study, 77.6 percent said that it was very or extremely important to be recognized by their manager when they do good work. Employees expected recognition to occur: immediately (20 percent), soon thereafter (52.9 percent), or sometime later (18.8 percent).

"If you look at companies employees love to work for, you'll find that they recognize their people and tell them they're doing a great job," says Nelson, whose books include the best-selling *1,001 Ways to Reward Employees* (Workman Publishing, 1994) and, most recently, *Please Don't Just Do What I Tell You!* "Non-cash awards and incentives lower stress, absenteeism, and turnover, and raise morale, productivity, competitiveness, revenue, and profit."

http://www.workforce.com/section/02/feature/23/20/04/232006.html

APPRECIATION: FORMS OF RECOGNITION

- Offer Praise: One of the easiest, most effective--and underutilized--forms of recognition is praise. Many supervisors seem to believe that lavishing praise on their employees regularly will somehow diminish the praise's value. This is misguided. It is extremely difficult to provide *too much* positive feedback to deserving employees.

- Gift certificates,

- Time-off awards

- Certificates For example:

EMPLOYEE RECOGNITION PROGRAM OF MACTEC.COM

In keeping with our commitment to recruit, retain and develop exceptional employees, MACTEC's five-tier employee recognition program enables us to recognize and reward our employees for their commitment and contributions, both to us and our clients.

Tier 1 – CEO Award. Monetary awards and CEO recognition for employees who provide outstanding client service and/or project management.

Tier 2 – Most Valuable Performer (MVP) Club. Recognition for exceptional performance in one or more of the following:

- Health and Safety
- Technical Competence, Professional Knowledge and Self-development
- Commitment, Initiative and Productivity
- Teamwork, Cooperation and Building Relationships

Tier 3 – Marketing Director Award. Monetary reward for top-performing office in each division/company, given quarterly, to advocate the importance of teamwork in achieving goals.

Tier 4 – Bravo! Cards. Formal acknowledgement for employees who go above and beyond for clients and coworkers.

Tier 5 – Service Anniversary Awards. CEO acknowledgement and gift selection for employees at milestone service anniversaries.

LESSON FOURTEEN

SKILL SIX: CONTROL

Controlling is directly related to planning. The controlling process ensures that plans are being implemented properly. Control is the process through which standards for performance of people and processes are set, communicated, and applied. Effective control systems use mechanisms to monitor activities and take corrective action, if necessary.

CONTROL PROCESS

The control process is a continuous flow between measuring, comparing and action. There are four steps in the control process:

- Establishing performance standards,
- Measuring actual performance,
- Comparing measured performance against established standards,
- Taking corrective action.

STEP 1: ESTABLISH PERFORMANCE STANDARDS:

A standard is any guideline established as the basis for measurement. It is a precise, explicit statement of expected results from a product, service, machine, individual, or business. It is usually expressed numerically and is set for quality, quantity, and time. Standards should be set for the following controls

- Time controls: This relates to deadlines and time constraints.
- Material controls: This relates to inventory and material-yield controls
- Cost controls help ensure cost standards are met
- Employee performance controls focus on actions and behaviours of individuals. Examples include absences, tardiness, accidents, quality and quantity of work
- Budgets control: Financial controls facilitate achieving the business's profit motive.

- Operations control: This assesses how efficiently and effectively a business's transformation processes create goods and services.

STEP 2: MEASURE THE ACTUAL PERFORMANCE.

This is the collection of data to measure actual performance to determine variation from standard. Computers are important tools for measuring performance.

STEP 3: COMPARE MEASURED PERFORMANCE AGAINST ESTABLISHED STANDARDS.

Comparing results with standards determines variation. Some variation can be expected in all activities and the range of variation - the acceptable variance - has to be established

STEP 4: TAKE CORRECTIVE ACTION.

Before you can take corrective action, you will need to find the cause of deviation from the standard.

<u>COST CONTROLS MANAGEMENT</u>

In order to control the variable costs (costs that change) of your business, you need to ensure that you are working within a budget.

DEFINITION OF A BUDGET:

In a financial planning context the word 'budget' (as a noun) strictly speaking means an amount of money that is planned to spend on a particularly activity or resource, usually over a trading year, although budgets apply to shorter and longer periods. It is a money plan which helps you to organize and control your financial resources, set and realize goals, and decide in advance how your money will work for you. A budget can be as simple as it is powerful. The basic idea behind budgeting is to save money up front for both known and unknown expenses.

A budget is a plan to:

- Control your finances
- Enable you to make confident financial decisions and meet your objectives
- Ensure you have enough money for your future projects

- Give you a visual description of the expected financial results of your business activities.

BENEFITS OF A BUSINESS BUDGET

There are a number of benefits of drawing up a business budget, including being better able to:

- Manage your money effectively
- Allocate appropriate resources to projects
- Monitor performance
- Meet your objectives
- Improve decision-making
- Identify problems before they occur - such as the need to raise finance or cash flow difficulties
- Plan for the future
- Increase staff motivation

WHAT IS TO BE INCLUDED IN YOUR BUDGET?

Projected cash flow:

Your cash budget projects your future cash position on a month-by-month basis. Budgeting in this way is vital for small businesses as it can pinpoint any difficulties you might be having. It should be reviewed monthly.

Costs:

Typically, your business will have three kinds of costs:

- Fixed costs - items such as rent, rates, salaries and financing costs
- Variable costs- including raw materials and overtime
- One-off capital costs -purchases of computer equipment or premises for example

Revenues:

Sales or revenue forecasts are typically based on a combination of your sales history and how effective you expect your future efforts to be.

Profits:

Using your sales and expenditure forecasts, you can prepare projected profits for the next 12 months. This will enable you to analyze your margins and other key ratios such as your return on investment.

CREATING A BUDGET

Begin by asking these questions:

- What are the projected sales for the budget period? Be realistic - if you overestimate, it will cause you problems in the future.

- What are the direct costs of sales - costs of materials, components or subcontractors to make the product or supply the service?

- What are the fixed costs or overheads? You should break down the fixed costs and overheads by type:

  - Cost of premises - rent, rates, service charge
  - Staff costs - wages, benefits
  - Utilities – electricity, water, telephone
  - Printing, postage and stationery
  - Vehicle expenses
  - Equipment costs
  - Advertising and promotion
  - Travel expenses
  - Legal and professional costs, including insurance

Once you've got figures for income and expenditure, you can work out how much money you're making. You can look at costs and work out ways to reduce them. You can see if you are likely to have cash flow problems, giving yourself time to do something about it.

REVIEW IS VITAL IN CONTROL!

Each major number in your budget should be reviewed each month. You should compare the actual results in each category against the projected results. The act of studying this each month will improve performance in that area.

Use your budget to measure performance:

If you base your budget on your business plan, you will be creating a financial action plan. This can serve several useful functions, particularly if you review your budgets regularly as part of your annual planning cycle.

Your budget can serve as:

- An indicator of the costs and revenues linked to each of your activities
- A way of providing information and supporting management decisions throughout the year
- A means of monitoring and controlling your business, particularly if you analyze the differences between your actual and budgeted income

Benchmarking performance:

Comparing your budget year on year can be an excellent way of benchmarking your business' performance - you can compare your projected figures, for example, with previous years to measure your performance. You can also compare your figures for projected margins and growth with those of other companies in the same sector, or across different parts of your business.

Key performance indicators:

To boost your business' performance you need to understand and monitor the key "drivers" of your business - a driver is something that has a major impact on your business. There are many factors affecting every business' performance, so it is vital to focus on a handful of these and monitor them carefully.

The three key drivers for most businesses are:

- Sales
- Costs
- Working capital

Any trends towards cash flow problems or falling profitability will show up in these figures when measured against your budgets and forecasts. They can help you spot problems early on if they are calculated on a consistent basis.

Example of sales to date analysis:

	Budget	Actual		
	2013	Jan	YTD	+/-
Sales				
Cost of goods				
Gross profit				
etc.				

If you had anticipated sales of R600,000 for 2013 and your sales for January were R42,000, then the top line would read:

	Budget	Actual		
	2013	Jan	YTD	+/-
Sales	R50,000	42,000	42,000	(8,000)

You will know at a glance whether you are over or under in any budget category, and then you can research the line items if necessary to identify and correct any problems.

EXAMPLE OF A BUDGET

Category	Actual	Budget	Difference
Inflows			
Net Sales	385,400	300,000	85,400
Cost of Goods Sold	182,500	132,000	50,500
Gross Profit	202,900	168,000	34,900
Interest Income	500	700	(200)
Total Income	**202,500**	**168,700**	**33,800**
Expenses			
Salaries	68,250	45,000	23,250
Utilities	5,800	4,500	1,300
Rent	23,000	23,000	0
Office Supplies	2,250	3,000	(750)
Insurance	3,900	3,900	0
Advertising	8,650	9,000	(350)
Telephone	2,700	2,300	400
Travel and Entertainment	2,550	2,000	550
Dues & Subscriptions	1,100	1,000	100
Interest Paid	2,140	2,500	(360)
Repairs & Maintenance	1,250	1,000	250
Taxes & Licenses	11,700	10,000	1,700
Total Expenses	**133,290**	**106,850**	**26,440**
Net Income	**R69,210**	**R61,850**	**(7,360)**

LESSON FIFTEEN

CASHFLOW MANAGEMENT

Cash is the oxygen that enables a business to survive and prosper, and is the primary indicator of business health. While a business can survive for a short time without sales or profits, without cash it will die. For this reason the inflow and outflow of cash needs careful monitoring and management.

WHAT IS CASHFLOW?

Cash flow is the measure of your ability to pay your bills on a regular basis. It depends on the **timing** and **amounts** of money flowing into and out of the business each week and month. Good cash flow means that the pattern of income and spending in a business allows it to have cash available to pay bills on time.

THE IMPORTANCE OF CASHFLOW

To make a profit, most businesses have to produce and deliver goods or services to their customers before being paid. Unfortunately, no matter how profitable the contract, if you don't have enough money to pay your staff and suppliers before receiving payment, you'll be unable to deliver your side of the bargain or receive any profit. To trade effectively and be able to grow your business, you need to build up cash balances by ensuring that the timing of cash movements puts you in an overall positive cash flow situation. Bear in mind, however, that having a lot of cash in your bank does not necessarily make good business sense. If you do not need to use it immediately, put spare cash in an account where it will earn high interest, or invest it in short-term investments. Get advice from your bank, accountant or financial adviser.

CASH INFLOWS AND CASH OUTFLOWS

Ideally, during the business cycle, you will have more money flowing in than flowing out. This will allow you to build up cash balances with which to plug cash flow gaps, seek expansion and reassure lenders and investors about the health of your business.

You should note that income and expenditure cash flows rarely occur together, with inflows often lagging behind. Your aim must be to speed up the inflows and slow down the outflows.

Cash inflows

- Payment for goods or services from your customers
- Receipt of a bank loan
- Interest on savings and investments
- Increased bank overdrafts or loans

Cash outflows

- Purchase of stock, raw materials or tools
- Wages, rents and daily operating expenses
- Purchase of fixed assets - PCs, machinery, office furniture, etc
- Loan repayments
- Income tax, corporation tax, VAT and other taxes
- Reduced overdraft facilities

Many of your regular cash outflows, such as salaries, loan repayments and tax, have to be made on fixed dates. You must always be in a position to meet these payments.

To improve everyday cash flow you can:

- Ask your customers to pay timeously
- Chase debts promptly and firmly
- Ask for extended credit terms with suppliers
- Order less stock but more often
- Lease rather than buy equipment

You can also improve cash flow by increasing borrowing, or putting more money into the business. This is acceptable for coping with short-term downturns or to fund growth in line with your business plan, but shouldn't form the basis of your cash strategy.

CASH FLOW EXAMPLE

Cash Flow Example Statement **Statement For the Month Ended_________**			
Cash Receipts	**Month 1**	**Month 2**	**Month 3**
Sales			
Loans			
Investments			
Total Receipts			
Disbursements			
Salaries			
Advertising			
Insurance			
Other			
Total Disbursements			
Total Receipts (Less)			
Total Disbursements			

Cash Flow From Operating Activities:
(+) Cash Received From Customers
(+) Other Operating Cash Receipts (if Any)
(-) Cash Paid To Suppliers (including Suppliers Of Inventory, Insurance, Advertising, Etc.)
(-) Cash Paid To Employees
(-) Interest Paid
(-) Income Taxes Paid
(-) Other Operating Payments, If Any
(=) Total Net Cash Provided (used) By Operating Activities

	2004	2005	2006	2007	2008
Source of Funds					
Beginning cash	0	-11,767	543,765	816,274	1,324,481
Sales	1,366,986	2,662,548	3,416,123	4,565,616	5,981,959
Loans	0	0	0	0	0
Contributed Capital	400,000	0	0	0	0
Available Cash	1,766,986	3,050,781	3,959,888	5,381,890	7,306,440
Use of Funds					
Salaries	1,355,000	1,676,000	2,044,000	2,557,000	3,355,000
Other operating expenses	423,753	759,933	900,245	1,187,340	1,533,432
Loan payments	0	24,910	99,640	99,640	99,640
Tax Payments	0	46173	99729	213430	277791
Total Cash Out	1,778,753	2,507,016	3,143,614	$4,057,410	5,265,863
Net Cash Flow	(11,767)	543,765	816,274	1,324,481	2,040,576

KEYS TO REDUCE THE TIME GAP:

Below are some of the key methods to help reduce the time gap between expenditure and receipt of income.

CUSTOMER MANAGEMENT:

Here are some ways in which you can manage your customer:

- Define a credit policy that clearly sets out your standard payment terms.
- Promptly and regularly chase outstanding payments. Use an aged debtor list to keep track of invoices that are overdue and monitor your performance in getting paid.
- Consider exercising your right to charge penalty interest for late payment.
- Consider offering discounts for prompt payment.

Cash management in action

The following example shows how a small, profitable business can run into unforeseen cash flow problems when it takes on a new large order.

XYZ manufacturer is a small but profitable gift designer and supplier with three full-time staff (including the two owners). It outsources production, but supplies the raw materials itself to save on costs. It then finishes and packages the final product on site. XYZ does not have any loans or overdrafts. It has a long-term customer base of small gift shops and visitor centres.

XYZ suddenly wins a large order to supply wall plaques for a chain of stores. The contract promises to double its turnover. The team takes on an additional employee and works flat out to meet the deadlines. It doesn't notice an impending cash flow crisis resulting from a fall in repeat orders from existing customers combined with a jump in raw material costs. To make matters worse, the new client keeps changing its mind about designs. A misunderstanding means the first run of goods is rejected, causing a delay in payment and increased production costs. XYZ orders additional materials to make up the shortfall in the run. By the time the order is complete, XYZ is running an expensive overdraft. Profit margins have been squeezed to the limit and it has lost several of its existing customers. A downturn in the fortunes of the retail chain means that it doesn't place any further orders. After a lot of hard work, XYZ finds itself back where it was five years earlier.

Tighter cash flow management would have highlighted the fall in repeat orders and rise in raw material costs. XYZ would also have benefited from a client contract that included:

1. Milestone payments and penalty provisions for changes such as those to designs - eg increased fees

2. Sharing the cost of additional materials with the new client or getting the client to pay for them

HOW TO GET PAID ON TIME:

- **Ensure that you have a written agreement with customers:** Many businesses supply goods and services on the basis of informal arrangements, and often disputes arise that could have been avoided if there had been clearly written terms from the start. It's important to get your terms and conditions right. If they're inadequate, it can be difficult to pursue or prevent bad debt. Your terms and conditions should cover:

    1. Price
    2. Arrangements for delivery
    3. Payment terms
    4. The right to charge interest on late payments and claim compensation for debt-recovery costs
    5. Quality

- **Make your terms binding:** Make your customer aware of your terms and conditions before providing them with goods or services. If possible, ask them to accept the terms and conditions in writing. Sort out any problems they have before you raise an invoice, and include your terms and conditions on each invoice that you raise.

- **Credit check potential customers:** When you're about to secure a deal, it can be tempting to skip vetting the customer beforehand. However, extending credit in this way can leave you exposed to the risk of not being paid. Conducting credit checks on new and existing customers can greatly reduce your vulnerability. It's a good idea to ask every new customer to complete a credit application (or trading application) form. This should include:

    1. Full name of the customer's business and whether it trades under a different name
    2. Registration number if it's a limited company
    3. How much credit is being asked for
    4. Full contact details for the person responsible for payment queries
    5. Delivery and invoice address if different
    6. Bank and bank account details
    7. Two trade references
    8. Consent to obtain bank and credit references
    9. Details of who owns - and who runs - the business

The key ways of checking a customer's credit worthiness include:

1. Checking bank references
2. Checking your customer's payment record with some of their other suppliers - make sure that you, not your customer, choose which ones to approach in order to get an independent view
3. Paying for an online credit rating from a credit reference agency
4. Looking at an existing customer's payment history
5. Getting feedback from your sales team and others who have contact with the customer
6. Checking with the Insolvency Service
7. Checking local newspapers

- **Reducing late payment risks:** There are a number of steps you can take to encourage customers to pay you promptly. These will boost your cashflow and reduce the potential for bad debts. For example, if you think a customer may be a high risk, you may want to use part payment - asking them for an advance before supplying goods or services. You then give them your normal credit terms on the balance. Or you could offer customers a discount for paying within the credit period.

Assignment

Complete the following:

1. Draw up a budget for your business for the next three months
2. Draw up a projected cash flow statement for next month

Once you have completed both of these statements, discuss the following:

1. Have you drawn up a budget for your business before?
2. Do you feel that you will be able to stick to the budget that you are given
3. Has your business got enough cash flow at present to fulfill all your expense obligations?
4. If not, how are you going to fulfill these obligations?

LESSON SIXTEEN

STOCK CONTROL AND INVENTORY MANAGEMENT

Stock control, otherwise known as inventory control, is about how much stock you have at any one time, and how you keep track of it. It applies to every item you use to produce a product or service, from raw materials to finished goods. It covers stock at every stage of the production process, from purchase and delivery to using and re-ordering the stock. Efficient stock control will mean you have the right amount of stock in the right place at the right time. It ensures that capital is not tied up unnecessarily, and protects production when there are problems with the supply chain.

TYPES OF STOCK

Everything you use to make your products, provide your services and run your business is part of your stock.

There are four main types of stock:

- Raw materials and components - ready to use in production
- Work in progress - stocks of unfinished goods in production
- Finished goods ready for sale
- Consumables - for example, fuel and stationery

HOW MUCH STOCK SHOULD YOU KEEP?

Deciding on how much stock to keep depends on the size and nature of your business, and the type of stock involved.

THE ADVANTAGES AND DISADVANTES OF KEEPING LARGE AMOUNTS OF STOCK

Advantages	Disadvantages
Easy to manage Low management costs You never run out	Higher stock, storage and insurance costs. Certain goods might perish Stock may become obsolete Your capital is tied up

Keeping a lot of stock on hand might suit your business if:

- Sales are difficult to predict (and it is hard to pin down how much stock you need and when),
- You can store plenty of stock cheaply,
- The components or materials you buy are unlikely to go through rapid developments or they take a long time to re-order.

STOCK LEVELS DEPENDING ON TYPE OF STOCK

Your stock levels will depend on the type of stock that you need to purchase.

Raw materials and components:

Ask yourself some key questions to help decide how much stock you should keep:

- How reliable is the supply and are alternative sources available?
- Are the components produced or delivered in batches?
- Can you predict demand?
- Is the price steady?
- Are there discounts if you buy in bulk?

Work in progress - stocks of unfinished goods:

Keeping stock of unfinished goods can be a useful way to protect production if there are problems down the line with other supplies.

Finished goods ready for sale:

You might keep stocks of finished goods when:

- Demand is certain
- Goods are produced in batches
- You are completing a large order

Consumables:

How much stock you keep will depend on factors such as:

- Reliability of supply
- Expectations of price rises

- How steady demand is
- Discounts for buying in bulk

STOCK CONTROL METHODS

There are several methods for controlling stock, all designed to provide an efficient system for deciding what, when and how much to order.

Minimum stock level - you identify a minimum stock level, and re-order when stock reaches that level. This is known as the Re-order Level (ROL).

Stock review - you have regular reviews of stock. At every review you place an order to return stocks to a predetermined level.

Just In Time (JIT) - this aims to reduce costs by cutting stock to a minimum. Items are delivered when they are needed and used immediately. There is a risk of running out of stock, so you need to be confident that your suppliers can deliver on demand. .

These methods can be used alongside other processes to refine the stock control system. For example:

Re-order lead time - allows for the time between placing an order and receiving it.
Economic Order Quantity (EOQ) - a standard formula used to arrive at a balance between holding too much or too little stock.

Batch control - managing the production of goods in batches. You need to make sure that you have the right number of components to cover your needs until the next batch.

Fixed quantity of stock: If your needs are predictable, you may order a fixed quantity of stock every time you place an order, or order at a fixed interval - say every week or month. In effect, you're placing a standing order, so you need to keep the quantities and prices under review.

First in, first out - a system to ensure that perishable stock is used efficiently so that it doesn't deteriorate. Stock is identified by date received and moves on through each stage of production in strict order.

ASSET MANAGEMENT

Create an asset register:

Asset management is another form of control. It is important for you as the owner of a business to ensure that you have some sort of an asset register to ensure that all assets are accounted for. Fixed asset registers must be kept in order to be in compliance with legislation governing corporations, companies, etc. It allows a company to keep track of details of each fixed asset, ensuring control and preventing misappropriation of assets. It also keeps track of the correct value of assets, which allows for computation of depreciation and for tax and insurance purposes.

SHOULD I BUY OR LEASE ASSETS FOR MY BUSINESS?

This decision depends on several factors, such as the cost of the asset, your cash and/or credit position, and the asset's value to you now and in the future.

Advantages:
In the short term, leasing an asset allows you to try out a product without making a lengthy commitment. If you find the item does not meet your needs, you are not stuck with it as you might be if you had bought it and had difficulty reselling it. For items that quickly become technologically obsolete (e.g., computers and communications equipment), successive leasing allows you the flexibility of upgrading. In most cases, a lessor (particularly of office equipment) will also provide maintenance support on the items you lease
Disadvantages:
Buying an asset provides you with equity. But it may also require a substantial cash outlay for an outright purchase or a down payment. Obtaining credit for a large purchase (e.g., an office building) may be difficult, and credit for leases is easier to obtain

In contrast, you will likely spend more money by leasing over the life of the asset than you would with a purchase, even if you consider the interest payments on a loan. This is particularly true with real estate. The interest you pay on loans to acquire real property may be tax deductible as a business expense, as may maintenance costs and depreciation on the asset. Also, even though most lease payments are fully deductible as business expenses for tax purposes, your purchase of the asset may provide greater tax relief in the long term

General rule: Buy the asset if it will increase in value over time and you plan to keep it more than five years. If the asset will decrease in value, lease it

PART THREE: STRATEGIC PLANNING

LESSON SEVENTEEN

We can define strategy as a term used in business planning that refers to the overall scheme of masterminding the future course or direction. Strategy implies careful selection and application of resources for the most advantageous position, in anticipation of future event. Strategy, originally a military term, in a business planning context strategy/strategic means/pertains to why and how the plan will work, in relation to all factors of influence upon the business entity and activity, particularly including competitors (thus the use of a military combative term), customers and demographics, technology and communications

WHAT IS STRATEGY?

- Strategy is a value-creating process: It includes making choices, acting on them and learning from what happens.

- Strategy is a decision-making process: It involves choosing when and how you will compete in your field.

STRATEGIC ANALYSIS

Before plans can be made to move a business forward, the management needs to strategically analyze both the business and the environment in which it operates.

There are seven factors that affect and influence your business:

- The environment – whether it is static, turbulent or placid

- Factors such as political or international situations that are affecting the industries in the market place

- The industry in which your business is

- Your business (its strengths and weaknesses)

- Your competitors

- Co-operators

- Customers

Therefore in order to complete a comprehensive analysis , you as the owner will need to look at:

- Internal matters of the business

- External matters such as the environment, competitors and the consumers

INTERNAL ANALYSIS OF THE BUSINESS

The internal analysis of a business includes looking at the following:

- Developing a mission statement
- Developing a vision statement
- Analyzing your business by using the SWOT acronym
- Looking at the tangible and intangible resources of the business
- Deciding on the capabilities of the business
- Defining your competitive advantage
- Finding out your core competences

MISSION STATEMENT

Step one in the strategic planning process involves defining the company's current business, mission, and vision. The company's business is defined by making an assessment of the business by asking some key questions regarding the reason for its existence.

A company's present mission is defined as what a company is currently seeking to do for its customers. A mission statement defines the company's purpose and answers the question "What is our business and what are we trying to accomplish on behalf of our customers?"

DEFINING YOUR CURRENT BUSINESS:

In defining your business you need to ask:

- "What customer needs do we feel deeply burdened by?"

- "What customer needs is our company uniquely qualified to meet?"

CRITERIA OF A GOOD MISSION STATEMENT

Changing the mission or creating the businesses first mission statement is a process of gathering ideas and suggestions for the mission and honing them into a short, focused phrase that meets specific criteria. An effective mission statement clearly defines who the customer is and what services and products the business intends to provide. It also serves as a guide for day-to-day operations and as the foundation for future decision-making.

The following are criteria for a good mission statement:

- The Mission Statement is focused on satisfying customer needs: A mission statement should focus on satisfying customer needs rather than being focused on the product. Products and technologies eventually become outdated, but basic market needs may last forever.

Market-Oriented Business Definitions		
Company	*Product-Oriented Definition*	*Market-Oriented Definition*
Amazon.com	We sell books, videos, CD's, toys, consumer electronics, and other products.	We make the Internet buying experience fast, easy, and enjoyable. We're the place where you can find and discover anything you want to buy online.
3M	We sell adhesives.	We solve people's problems by putting innovation to work for them.
Home Depot	We sell tools and home repair and improvement items.	We provide advice and solutions that transform ham-handed homeowners into Mr. And Mrs. Fixits.
Southwest Airlines	We provide air travel	We are dedicated to the highest quality of customer service delivered with a sense of warmth, friendliness, individual pride, and company spirit.
Wal-Mart	We run discount stores	We deliver value through low prices to Middle Americans.

- The Mission Statement tells "who" the customers are: Who is being satisfied? A company should define the type of customers it wishes to serve. Which customer groups it is targeting.

- The Mission Statement explains "what" customer needs are being satisfied. A company should define the particular needs of those customers groups it wishes to satisfy. A product or service becomes a business when it satisfies a need or a want.

- The Mission Statement explains "how" the company will serve the customers: How customers' needs are satisfied?

> Example of the "What, How and Who":
>
> McDonald's business mission is built around: serving a limited menu of hot, tasty food (what) quickly in a clean, friendly restaurant for a good value (how) to a broad base of fast-food customers worldwide (who).

- The Mission Statement fits the current market environment The Girl Scouts would not recruit successfully in today's environment with their former mission: "to prepare young girls for motherhood and wifely duties."

- The Mission Statement is based on the competitive advantage: Competitive advantage arises from leveraging a firm's unique skills and resources to implement value-creating strategy that competitors cannot implement as effectively. Your company should base its mission on a competitively superior internal strength or resource that the company performs well in comparison to its competitors.

- The Mission Statement is based on distinctive core competencies**.** A distinctive core competency is a competitively superior company resource that the company performs well in comparison to its competitors. It needs to stay focused on specific traits (i.e., quality, customer service) and on target or niche markets. McDonald's core competence is providing low-cost food and fast service to large groups of customers.

- The Mission Statement motivates and inspires employee commitment. Mission statements should be motivating. It should not be stated as making more sales or profits. A company's employees need to feel that their work is significant and that it contributes to people's lives.

- The Mission Statement is realistic: You should avoid making the mission too narrow or too broad.

- The Mission Statement is specific, short and sharply focused:

    1. Vague or generic mission statements lack resonance and meaning. They won't be remembered by anyone, and will likely be dismissed as too difficult to understand.

2 Too general - "We want to become the leading company in this industry by producing the highest-quality products with the best service at the lowest prices."

3 Very specific - Celestial Seasonings' mission statement is "Our mission is to grow and dominate the U.S. specialty tea market by exceeding consumer expectations with: The best tasting, 100% natural hot and iced teas, packaged with Celestial art and philosophy, creating the most valued tea experience."

It should be memorable. Describe the essence of the business in words your employees and customers can remember you by. Peter Drucker says the mission should "fit on a T-shirt," yet not be a slogan. Words should be chosen for their meaning rather than beauty, for clarity over cleverness. The best mission statements are plain speech with no technical jargon and no adornments.

Examples:

International Red Cross - "To serve the most vulnerable"

Merck (pharmaceutical company): "To preserve and improve human life."

Wal-Mart - "To give ordinary folk the chance to buy the same thing as rich people."

Walt Disney: "To make people happy."

- The Mission Statement is clear and easily understood**.**
- The Mission Statement says what we want to be remembered for**.**

MISSION STATEMENT EXAMPLES

The Coca-Cola Company: The Coca-Cola Company exists to benefit and refresh everyone who is touched by our business.

Home Depot: The Home Depot is in the home improvement business and our goal is to provide the highest level of service, the broadest selection of products and the most competitive prices. We are a values-driven company and our eight core values include the following:

- Excellent customer service
- Taking care of our people
- Giving back
- Doing the "right" thing
- Creating shareholder value
- Respect for all people
- Entrepreneurial spirit
- Building strong relationships

Nike: Our mission is to bring inspiration and innovation to every athlete in the world. If you have a body, you are an athlete.

Pfizer (Pharmaceuticals): We will become the world's most valued company to patients, customers, colleagues, investors, business partners and the communities where we work and live.

General Motors: We are working to create an environment that naturally enables GM employees, suppliers, dealers and communities to fully contribute in the pursuit of total customer enthusiasm.

ASSIGNMENT: WRITING A MISSION STATEMENT

Mission Statement = Definition of the business + meeting customer needs

After reading through the information provided on Mission Statements, write your business' mission statement.

- What single, solitary word is the focus for your business?
- What would be the 2 or 3 words that would explain why you exist?
- What one sentence would sum up what your business is about, in a very simple, clear, easy to understand way?

VISION STATEMENT

A strategic vision is a view of a business's future direction and business makeup. It is a guiding concept for what the business is trying to do and to become. Whereas the focus of the company's mission tends to be on the present, the focus of a strategic vision is on a company's future.

A vision statement answers the questions: "What will our business look like in 5 to 10 years from now?"

A strategic vision is a roadmap of a company's future - the direction it is headed, the customer focus it should have, the market position it should try to occupy, the business activities to be pursued, and the capabilities it plans to develop.

Forming a strategic vision of what the company's future business makeup will be and where the business is headed is needed:

- To provide long-term direction,
- Delineate what kind of enterprise the company is trying to become,
- Infuse the business with a sense of purposeful action.

Strategic vision charts the course for the business to pursue and creates business purpose and identity. Strategic vision spells out a direction and describes the destination. It is able to

1. Guide managerial decision making
2. Shape the company's strategy
3. Impact how the company is run.

CRITERIA FOR EVALUATION A VISION STATEMENT

- Future-casting: Does our vision statement provide a powerful picture of what our business will look like in 3 to 5 years from now? Is your vision statement a picture of your company's future?
- Audacious: Does our vision statement represents a dream that is beyond what we think is possible? Does it represent the mountaintop of where the company is headed?

- Motivating: Does our vision statement clarify the direction in which our business needs to move? Does it clarify the future direction the company is headed? Does it clarify the customer focus our company should have? Does it clarify the market position our company should try to occupy? Does is clarify the business activities our company it to pursue? Does is clarify the capabilities our company plans to develop?

- Purpose-Driven: Does our vision statement give employees a larger sense of purpose?

- Inspiring: Is our vision statement worded in engaging language that inspires and engages people? Does it create a vivid image in people's heads that provokes emotion and excitement? Does it create enthusiasm and pose a challenge that inspires and engages people in the company?

- Capitalizes on unique competencies: Does our vision statement build on our company's core competencies? Does it build on our company history, customer base, strengths, and unique capabilities, resources and assets?

Some examples are:

"We will put a man on the moon before the end of the decade." (President John F. Kennedy)

"A mortgage loan company sets a goal of a 15-minute loan. (The industry average is several days.)

"Breaking the four-minute mile (in track and field)."

BENEFITS OF A VISION STATEMENT

A vision is beneficial for some of the following reasons:

- It empowers people and focuses their efforts
- It focuses energy for greater effectiveness
- It raises the standard of excellence
- It establishes meaning for today
- It gives hope for the future
- It brings unity to community
- It provides a sense of continuity
- It raises commitment level
- It brings positive change

Personal Assessment

Visualize walking into a room three years from now and shaking hands with yourself:

- Who are you?
- What is your life like?
- What is your business like?

Write down what you saw. Don't let yourself wake up in three years and say, 'I'm three years older, and I just happened to get here.' Clarify your vision so that you can grow into it.

LESSON EIGHTEEN

SWOT ANALYSIS

Once you have rethought and readjusted your mission and vision statement to give new and fresh direction to your business, you need to continue in the analysis of your business, looking at both the strengths and the weaknesses of the business.

In both the internal and external analysis, the SWOT acronym is to be used. SWOT is an acronym used to describe the particular Strengths, Weaknesses, Opportunities, and Threats that are strategic factors for a specific company. A SWOT analysis should not only result in the identification of your core competencies, but also in the identification of opportunities that the firm is not currently able to take advantage of due to a lack of appropriate resources.

SWOT:

Internal Analysis	
Strengths This refers to core competencies that give the firm an advantage in meeting the needs of its target markets. Any analysis of company strengths should be market oriented/customer focused because strengths are only meaningful when they assist the firm in meeting customer needs.	**Weaknesses** This refers to any limitations a company faces in developing or implementing a strategy. Weaknesses should also be examined from a customer perspective because customers often perceive weaknesses that a company cannot see.
External Analysis	
Opportunities This refers to favorable conditions in the environment that would produce rewards for your business if it is acted on properly. For example: New market, new product, market growth, competitors weaknesses, social changes, economic upturn etc.	**Threats** Threats refer to conditions or barriers that may prevent the firms from reaching its objectives. For example: New competitors, substitutes, low market growth, economic slowdown, change in political climate.

The SWOT procedure looks both internally at the business and externally at the environment and the competitors. It assesses:

The market:

- What is happening externally and internally that will affect our company?
- Who are our customers?
- What are the strengths and weaknesses of each competitor?
- What are the driving forces behind sales trends?
- What are important and potentially important markets?
- What is happening in the world that might affect our company?
- What does it take to be successful in this market? (List the strengths all companies need to compete successfully in this market.)

Your company:

- What do you do best?
- What are your company resources - assets, property, and people?
- What are your company capabilities (functions)?

Your competition:

- How are we different from the competition?
- What are the general market conditions of our business?
- What needs are there for our products and services?
- What are the customer-market-technology opportunities?
- What are the customer's problems and complaints with the current products and services in the industry?
- What "If only…." statements do the customers make?

The Internal Analysis of strengths and weaknesses focuses on internal factors that give a business certain advantages and disadvantages in meeting the needs of its target market.

BENEIFTS OF SWOT

After you have completed the SWOT analysis you will be able to know:

- How you can use each strength to the advantage of the business
- How you can stop or overcome weaknesses
- How you can exploit opportunities
- How you can defend against any threats

TOOLS USED IN ASSESSING THE STRENGTHS AND THE WEAKNESSES OF THE BUSINESS

There are three tools that are used in assessing the strength and the weaknesses of the business:

- Resources
- Capabilities and Competitive advantage
- Core competences

STEP ONE: ASSESS THE RESOURCES

Analyzing the resources of a business involves not only exploring the role and contribution of the main resources, but also developing and understanding two main ideas:

- To explore how resources deliver profits
- To identify the resources which enable the business to be at a competitive advantage over the competitors?

When you are analyzing the resources of your business you need to look at both the:

- Tangible assets (those that are seen and quantifiable)

- Intangible assets (for example: business culture, family commitment, trademarks, brand names)

TANGIBLE RESOURCES

Tangible resources are the easiest to identify and evaluate: financial resources and physical assets are identified and valued in the firm's financial statements.

TANGIBLE RESOURCE: FINANCIAL

There are two types of financial resources that a business can use, those that are internal through profits and sale of assets and those that are external. These resources can be either short term, medium term or long term.

Short Term Finance: This form of finance is commonly called "working capital", required to fund the day-to-day running of the business. Working capital should not be used for long-term projects as it is generally more expensive (in terms of interest rate) than money paid back over a longer period. Some examples are:

- **Bank overdraft**: An overdraft can be used to cover cash flow shortfalls from day to day. The interest will be calculated on your daily outstanding balance. Depending on your financier, an overdraft facility may also incur other fees.

- **Debtor finance:** An arrangement where a finance company provides a cash advance to the business against sales made (invoices). The "loan" is repaid when the debtor pays the invoice.

- **Trade credit:** A short-term source of finance obtained by buying goods and services that do not require immediate payment. If managed carefully, this can reduce the capital investment required to operate the business.

Medium Term Finance: Usually required for a 3-10 year period, this is principally used to finance equipment, business expansion and development of new products. Examples are:

- **Term loans** :A loan paid back over an agreed period (term) where principal and interest rate are paid off in monthly repayments. It is commonly used by businesses wanting to structure their loan repayments to correspond with the income produced from equipment purchased or sales of new products. It may be for a five or 10 year period.

- **Personal loans:** Where it is not possible to arrange a loan in your business name you could consider arranging a personal loan. This can then be contributed as equity or as a loan to the business.

- **Leasing:** The financier purchases the equipment you require and then leases it to you in return for regular rental payments (usually monthly) for the duration of the lease period. At the completion of the lease term you are offered the option to purchase the equipment at an agreed residual value.

Long Term Loan: This type of finance is used to fund the purchase of assets such as the business itself, land, buildings, plant or machinery which will directly or indirectly contribute to profit over a period of years. Term loans would be the most common way to structure long-term borrowings.

HOW MUCH SHOULD THE BUSINESS BORROW?

In order to determine this, the owner needs to look at the debt ratio and the debt to equity ratio.

Debt Ratio:

This ratio gives the owner an idea to the leverage of the company along with the potential risks the company faces in terms of its debt load.

Debt ratio = Total Debt / Total Assets

A debt ratio of greater than 1 indicates that a company has more debt than assets. A debt ratio of less than 1 indicates that a company has more assets than debt.

Used in conjunction with other measures of financial health, the debt ratio can help the owner decide on whether or not they should increase or decrease their borrowing. The Debt Ratio shows the owner how much money a company should safely be able to borrow over long periods of time.

Assignment

If you make required payments every month that total R50000.00, and your gross income R15000.00 what is your debt ratio? With this ratio would you consider expanding your operation by borrowing more money?

If your debt ratio was 80%, and your income was R2000.00, what would your debt be?

A business with R22,375 in total assets and R25,000 in total debt would have a total debt ratio of what ? Would you suggest that this company receive any more debt?

Debt to equity ratio:

The debt to equity ratio (D/E) is a financial ratio indicating the relative proportion of equity and debts used to finance a company's assets. This ratio indicates what proportion of equity and debt the company is using to finance its assets.

Debt to equity ratio = total liabilities / owner's equity (capital)

A high debt/equity ratio generally means that a company has been aggressive in financing its growth with debt. This can result in volatile earnings as a result of additional interest expense. If a lot of debt is used to finance increased operations (high debt to equity), the business could potentially generate more earnings than it would have without outside financing. If this were to increase earnings by a greater amount than the debt cost (interest), then the owner will benefit by an increase in earnings. However the costs of this debt financing may outweigh the return that the company generated on the debt through investment and business activities and become too much for the company to handle. This can lead to bankruptcy.

The debt/equity ratio also depends on the industry in which the company operates. For example, capital-intensive industries such as auto manufacturing tend to have a debt/equity ratio above 2, while personal computer companies have a debt/equity of under 0.5.

Assignment

If a company has long-term debt of R30,000 and owner's equity of R120,000, what would the debt to equity ratio be? What do you understand from this information? How would bankruptcy in this case influence the owner of a CC?

TANGIBLE RESOURCE: ASSETS

An asset is a resource having economic value that an individual or business owns or controls with the expectation that it will provide future benefit. For example: plant equipment, stock, property etc. In the balance sheet this is representative of what the company owns. Assets are bought to increase the value of a business or benefit its operations. It is something that will help in generating cash flow.

RETURN ON ASSESTS:

This is an indicator of how profitable a company is relative to its assets. It provides an idea as to how efficient management is at using its assets to generate earnings. This is done by using the following formula:

ROA = Net income / Total Assets:

The higher the ROA number, the better, because the company is earning more money on less investment. For example, if one company has a net income of R1 million and total assets of R5 million, its ROA is 20%; however, if another company earns the same amount but has total assets of R10 million, it has an ROA of 10%. Based on this example, the first company is better at converting its investment into profit. When you really think about it, management's most important job is to make wise choices in allocating its resources. Anybody can make a profit by throwing a ton of money at a problem, but very few managers excel at making large profits with little investment.

Examining a business begins with P(rofit), S(ales), and A(ssets), or PSA:

- The first way to combine the concepts is to divide Profit by Sales, (P/S). This number will tell you how much of every rand you take in is available to you as profit. This is an important number for you to have at your fingertips as it quickly tells you how many cents of every rand that comes in the door are available to you to reinvest in the business or take out as an extra dividend to yourself.

- The second way to combine the concepts is to divide Sales by Assets (S/A), also known as "asset turnover." This measures how well you use your assets to generate sales. If, say, your ratio produces a 7, that means you generated R7 of sales for every rand of assets you have in the business.

- The third way is to look at Profits divided by Assets (P/A). P/A is a very powerful measure as it is your Return on Assets (ROA). For every rand of assets you have, what level of profit did you generate? ROA or P/A is the most widely accepted barometer of operating performance and it will rise or fall depending on how well you can manage profitability and asset efficiency.

MAXIMIZING RETURNS

The foundation stone of strategy development is the analysis of the resources of the business. Certain key concepts help managers determine the best ways to use resources to maximize returns. These concepts are:

Cost-benefit analysis:

This is the way of measuring the benefits expected from a decision, measuring the costs expected to be incurred in the decision and then see if the benefits exceed the cost. If they do then the analysis is in favor of going ahead with the planned course of action.

Cost benefit analysis is done to determine how well, or how poorly, a planned action will turn out. A cost benefit analysis finds, quantifies, and adds all the positive factors. These are the benefits. Then it identifies, quantifies, and subtracts all the negatives, the costs. The difference between the two indicates whether the planned action is advisable.

Should we hire an additional sales person or assign overtime? Is it a good idea to purchase the new stamping machine? Will we be better off putting our free cash flow into securities rather than investing in additional capital equipment? Each of these questions can be answered by doing a proper cost benefit analysis.

Example Cost Benefit Analysis

As the Production Manager, you are proposing the purchase of a R1 Million machine to increase output.

You itemize the benefits.

- With the new machine, you can produce 100 more units per hour.
- The three workers currently doing the stamping by hand can be replaced.
- The units will be higher quality because they will be more uniform. You are convinced these outweigh the costs.

Negatives:

- There is a cost to purchase the machine
- Cost per interest
- It will consume some electricity. Any other costs would be insignificant.

Purchase of Machine	-R20,000
Installation of Machine	-3,125
Increased Revenue	27,520
Quality Increase Revenue	358
Reduced material costs	1,128
Reduced Labor Costs	18,585
New Operator	-8,321
power consumption increase for new machine	-250
Insurance	-180
Net Savings per Month	R15,715

Your cost benefit analysis clearly shows the purchase of the stamping machine is justified. The machine will save your company over R15,000 per month, almost R190,000 a year.

Fixed costs and variable costs:

Fixed costs are those that remain the same regardless of the amount of product the company makes and sells. Variable costs are those which change depending on the production and sales volume. Try to keep fixed costs as low as possible because if sales decrease because of a recession or new competition, you can cut your variable costs and fight back. But if you are stuck with high fixed costs your business might go into bankruptcy during times of recession and new competition.

Economics of scale:

Many things are "cheaper by the dozen". Economics of scale makes volume discounts possible because the average cost of making a unit of product decreases with each additional one you make. A volume discount occurs when you pay less per item the more you buy. A business gives volume discounts in order to increase their sales. They take a lower profit on each item in order to make a greater total profit. An example of economics by scale is as follows:

Costs	500 items	1000 items
Variable costs	10000.00	20000.00
Fixed Costs	10000.00	10000.00
Total costs of production	20000.00	30000.00
Cost per product	R40.00	R30.00

Economics of scale mean that the more a company does something – the greater the scale of its operation – the more economically it can do it. This allows for a more competitive advantage.

Centralization and decentralization:

Centralization is an attempt to combine functions or operations. This yields more control, and more standardized results or decisions. The financial and administrative departments for a group of companies are usually centralized. Each company is then answerable to this central or head office (eg. Banks, Insurance companies etc).

Decentralization means allowing individual business units to handle functions and making decisions independently. Head Office merely provides guidelines on procedures and decisions are made by the managers of each decentralized company.

LESSON NINETEEN

INTANGIBLE RESOURCES

Intangible resources are largely invisible, but over time become more important to the firm than tangible assets because they can be a main source for a competitive advantage. Such intangible resources include reputational assets (brands, image, etc.) and technological assets (proprietary technology and know-how).

INTANGIBLE RESOURCE: BRANDING

The brand is increasingly the most important business asset, often accounting for anything from 5 to 50% of the overall market value of a company, and in some businesses (be they luxury goods, or not-for-profit, even more).

A product is defined as: *"Anything that is capable of satisfying customer needs"* This definition includes both physical products (e.g. cars, washing machines, DVD players) as well as services (e.g. insurance, banking, private health care).

The process by which companies distinguish their product offerings from the competition is called branding.

For most companies, brands are not developed in isolation - they are part of a product group. A product group (or product line) is a group of brands that are closely related in terms of their functions and the benefits they provide (e.g. Dell's range of personal computers or Sony's range of televisions).

There are two main types of product brand:

Manufacturer brands: Manufacturer brands are created by producers and use their chosen brand name. The producer has the responsibility for marketing the brand, by building distribution and gaining customer brand loyalty. Good examples include Microsoft, Panasonic and Mercedes, Nike.

Own-label brands: Own-label brands are created and owned by distributors. Eg. Pick n Pay branded products.

The main importance of branding is that, done well, it permits a business to differentiate its products, adding extra value for consumers who value the brand, and improving profitability for the company. Businesses should manage their products carefully over time to ensure that they deliver products that continue to meet customer wants.

A brand is a symbolic embodiment of all the information connected to a company, product or service. This often includes an explicit logo, font, colour scheme, symbol and sound which may be developed to represent implicit values, ideas and even personality.

WHAT IS THE PURPOSE OF A BRAND?

- Brands increasingly define the business, and in doing so what the overall business does for people. They connect the business to its customers. Strong brands connect companies with people, both emotionally and practically, and most importantly by ensuring the promises become realities over time.

- It overlaps and complements the business strategy and cultural values, and the business should ensure consistency and alignment between these.

A brand serves to create association and expectation among products that are made by your business. Internally, a brand stir emotions and energizes people internally and externally to reach for the higher-order benefits that they are working towards.

- For Nike - "to do your best"
- For Coke - "to refresh"
- For Microsoft - "to help realize your potential"

BENEFITS OF A BRAND:

Powerful brands have the ability to cut-through the noise and competitiveness of markets, and to engage and retain the best customers in a way that delivers superior financial results in both the short and long-term.

A POWERFUL BRAND IS ONE THAT:

- Defines a compelling purpose, a big idea that stands out, that goes beyond the product or industry, and really matters to people.

- Reflects the customer, builds an image and reputation in the mind of the customer.

- Engages customers in achieving the big idea, delivered in a style through which people say "this is my kind of company".

- Enables customers to do more, reinforcing the benefits, and supporting their application, but also enabling physically or emotionally to do even more.

Brands can typically help people to do more in four different ways:

Do what they seek to achieve better, through improved functionality or support

Be how they want to be perceived, through a strong identity that gives recognition and is admired by others

Belong to a community that they seek to be part of, through improved real or perceived connections

Become somebody more than they are, adding personal esteem or the capabilities and confidence to do what they couldn't otherwise achieve.

- Anchors customers around something familiar and important, whilst all else in the market, or in their personal world, continues to change.
- Evolves as markets and customers evolve, with the portability to move easily into new markets, and glue to connect diverse activities.
- Attracts the target customers, building preference, driving purchase behaviour and sustaining a price premium.
- Retains the best customers, building their loyalty, introducing new services, and encouraging advocacy.

Examples of branding to a group:

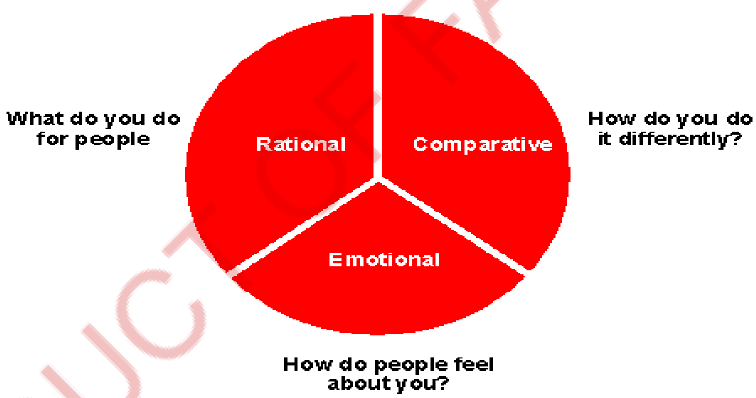
Graphic designers hang on to Apple, serious runners hang on to Nike, business leaders continue to rely upon McKinsey.

BRANDS ARE BASED ON THREE RELATED CRITERIA

- Confidence in a business, product or service doing exactly what the customer believes it will do.
- The emotional response of the customer to purchasing a product or a service. A brand builds a unique personality for a business, and therefore attracts a defined type of customer.
- Most importantly, branding is based on consistently rewarding the confidence and delivering the expected emotional response.

REFLECTING AND ENGAGING PEOPLE

If brands are about people rather than products, then the big idea around which they are formed is more to do with what it does for people rather than the business.



The brand idea is delivered through every possible medium that the business can utilize - from names and logos to leaders and buildings, products and services to advertising and brochures, colours and packaging to uniforms and interiors, culture and behaviour to training and rewards. Every aspect of the corporate or product "experience" can deliver the brand in tangible and intangible ways.

HOW IS A BRAND DEFINED?

A brand is defined by how it is received and perceived - the image and reputation that forms in people's minds.

- A corporate brand is the reputation of the company.
- A product brand is the reputation of the product. Whether you think you are more likely to achieve a personal best with Nike rather than Adidas, or whether you believe that Coke is more refreshing than Pepsi.

VIRGIN

Virgin is one of the most diverse brands in the world. Led by their founder, chairman, and owner Sir Richard Branson, Virgin believes in making a difference, standing for value for money, quality, innovation, fun and a sense of competitive challenge. Virgin began in the 1970s with Branson's first venture, a student magazine and small mail order travel company. Virgin searches for market opportunities where they can offer something better, fresher and more valuable, than others. They often move into areas where the customer has traditionally received a poor deal, and where the competition is complacent. With rapidly growing e-commerce activities, they often look to deliver 'old' products and services in new ways. They are pro-active and agile, leaving bigger and more cumbersome organizations in their wake. When Virgin starts a new venture, it is based on hard research and analysis. They put themselves in the customer's shoes to see how they could make it better. They ask some fundamental questions: is this an opportunity for restructuring a market and creating competitive advantage? What are the competitors doing? Is the customer confused or badly served? Is this an opportunity for building the Virgin brand? Can we add value? Will it interact with our other businesses? Is there an appropriate trade-off between risk and reward? Today Virgin's travel operations, led by 51%-owned Virgin Atlantic Airways, are among its biggest breadwinners. Virgin Atlantic is complemented by lower-priced cousins, Virgin Express in Europe, and Virgin Blue in Australia. The group also operates two UK rail franchises and sells tour packages, Virgin Holidays. Some of the group's 200 other businesses include retail stores, music, video, computer games, balloon flights, beverages, bridal stores, cosmetics, financial services, health clubs, Internet services, mobile phone services, publishing, and a record label.

DO I NEED A BRAND?

Every business has a brand even if you do not treat it as one. Your customers and potential customers already have a perception of what your business means to them. Building a brand just means communicating your message to them more effectively so that they immediately associate your business with their needs and requirement.

Here are the 5 levels of brand recognition and how you can build your business to improve it:

- **Brand rejection.**

If someone associates your brand with something negative, they will purposely avoid your product. Create a logo and slogan that is filled with great benefits to your customer and put that on everything. If public opinion is turning against you or your product, launch a campaign to alter it.

- **Brand non-recognition.**

This is where your customers simply don't recognize your brand, probably because it is not clearly differentiated from competitors. Boldly state your product or service's benefits. Always include the full trademark name whenever you refer to your product. Be willing to create brand names for your products or services, just like you've done for your own business. Find the differences in value between your product and your competitors and highlight that difference.

- **Brand recognition.**

This is a good stage to aim for if you don't have any recognition at all. Brand recognition will help people lean toward your product when given the choice between your product and one they have never heard of. At the same time, though remember that your competitors are also working on brand recognition, which means their brand could be more recognizable. Continue to differentiate yourself and be sure to add value to your product in order to get to the next stage.

- **Brand preference.**

This is where customers – given a choice between two brands – will choose yours over someone else's. It often is the result of a sense of differentiation and that your product or service uniquely serves their needs.

- **Brand loyalty.**

This is where customers will choose your brand time and time again, even if they experience the occasional poor service or if another product comes along that seems to be better suited to their needs. To achieve brand loyalty you need to provide a product that is highly differentiated, with plenty of value added, but also you need to offer them remarkable service at a level they will not get anywhere else. Providing this level of service will ensure that they will never switch.

Business Assessment

- How is your product or services perceived by your employees?
- How is your product or service perceived by your customer?
- What "brand" are you using in order to increase sales?
- Design a brand name and logo that you will be able to use for your business that expresses the values and needs of your customers.

Disney:

Think Disney. What immediately comes to mind? For me, it is family values, happiness, quality, a place where fantasies come to life. Disney is one of the world's most recognizable brands. The company started with a good product that had strong appeal: Wholesome entertainment that enables the young and young at heart to enter a world of fantasy. The company built, and continues to build, its brand through an integrated approach utilizing advertising, marketing and public relations. The 10-year exclusive marketing partnership Disney forged with McDonald's in 1995, enabling Disney to promote its brand and the products associated with it in 30,000-plus McDonald's restaurants.

INTANGIBLE RESOURCE: HUMAN CAPITAL

Human resources or human capital are the productive services human beings offer the firm in terms of their skills, knowledge and decision making abilities. Human capital refers to the stock of productive skills and technical knowledge embodied in labour. This often refers to the quality of service that you are able to provide your customers.

HOW TO IMPROVE SERVICE QUALITY AT YOUR BUSINESS

The key to improving service is motivated employees. Ensure that all the individuals in your business not only know what you expect of them, but also have a vested interest in the business. Your staff must know why you want to keep customers happy, how to do it and also be motivated by you to perform quality service.

Steps

1. Learn to *listen* to your customers first. Really listen to them - ask what you can do to help them. This is the most important step in preventing problems and the only way you can solve complaints if they come up.

2. Look at all complaints about your service as an opportunity to improve. Aim to resolve any complaint quickly and efficiently.

3. Establish an environment where great service is recognized and rewarded and poor service is challenged and rectified.

4. Have a fun staff meeting where good service elements are discussed and role played.

5. Ensure that your staff *feels* they are an important part of your success. Have fun team building days as well as formal meetings.

6. Lead by example - show respect for every person at every level in your company.

7. Do things regularly to improve the workplace - this does not have to be an expensive exercise. For instance, if you have a small group, order pizzas one day for lunch for no particular reason, put a candy jar on the reception desk for anyone to access, put a new coffee pot in the staff room or buy some gourmet coffee. Little things get noticed and mean a lot. Happy staff = happy customers.

8. Give your staff a reason to come to work with a big smile on their face and a great attitude. Paying them competitive wages so they can live comfortably is a good start.

> There's a story about a man who worked in a toll booth, one of the most boring jobs in the world. Yet the man made his job fun. He took pleasure in smiling at the people in their cars and made it part of his job to make their day, while taking their money. The line for his booth was always much longer than the lines for the other toll booths. Drivers took the time to go through his line because he made them feel good. It's this sort of enthusiasm you want to inspire in your employees. Their enthusiasm will naturally pass on through their service.

<u>Business Assessment</u>

- Is human resources a strength or a weakness to your business?
- What changes are you able to make in your business in order to improve the strength of your human capital?
- Do you train and equip your staff with all the information that they need in order to do their job effectively and efficiently?
- Do you provide higher salaries in your industry in order to obtain the "cream of the crop" in employment?

INTANGIBLE RESOURCE: TECHNOLOGY AND INNOVATION

<u>Business Assessment:</u>

- Is technology and innovation a strength to your business?
- How have you included the latest technology in your business in order to increase your profitability?

LESSON TWENTY

STEP TWO: CAPABILITIES

Resources are not productive on their own. The most productive tasks require that resources collaborate closely together within teams. The term "business capabilities" is used to refer to a firm's capacity for undertaking a particular productive activity. A functional classification identifies business capabilities in relation to each of the principal functional areas.

MANAGEMENT CAPABILITIES:

- **Business structure**: Does the business structure hinder or facilitate a free flow of information?
- **Planning:** Have feasible long and short-term plans been made, involving staff, product, competition and customers?
- **Coordination:** How well do different departments of your business cooperate and coordinate with each other?
- **Staffing:** Are staff roles clear? Does staff have consistent training and feedback to ensure high performance?
- **Supervision:** Do all staff meet regularly with a supervisor? Does staff view the supervisor's role as one of guidance, assistance, and support?
- **Training:** Do you regularly assess training needs of staff?
- **Management Information System:** Do managers have accurate information on the progress made toward the objectives of the program?

PROGRAMMING CAPABILITIES:

- **Capacity:** What is the potential capacity of your program to provide services? Does the current level of activities match this capacity?

- **Quality:** How can you improve quality of care in your program? What is the level of client satisfaction?

FINANCING CAPABILITIES:

- **Self-financing:** What is your current level of self-financing?

- **Outside funding sources:** What are your current sources of financing? How stable are these sources?

Capability represents the identity of your firm as perceived by both your employees and your customers. It is your ability to perform better than competitors using a distinctive and difficult to replicate set of business attributes. Capability is a capacity for a set of resources to perform a task.

DISTINCTIVE AND REPRODUCIBLE CAPABILITIES

The opportunity for your company to sustain your competitive advantage is determined by your capabilities of two kinds – distinctive capabilities and reproducible capabilities - and their unique combination you create to achieve synergy.

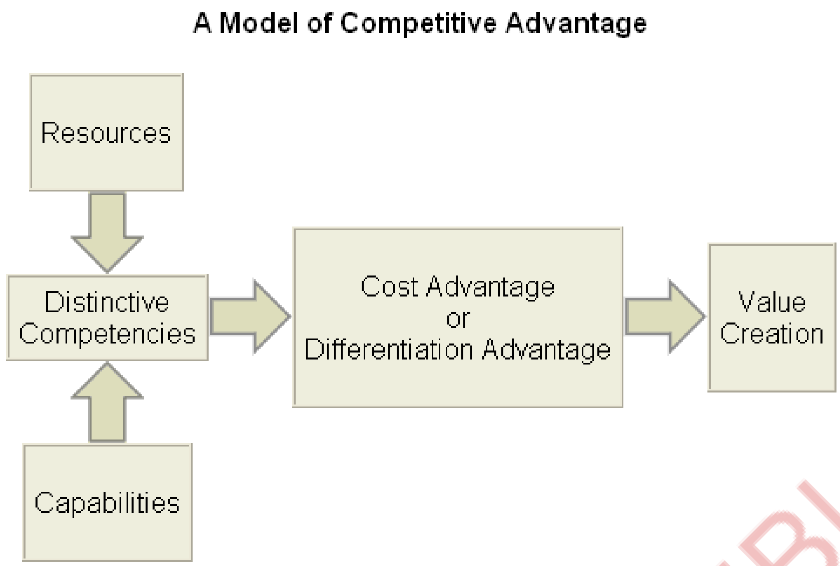
Distinctive Capabilities:

Your distinctive capabilities – the characteristics of your company which cannot be replicated by competitors, or can only be replicated with great difficulty - are the basis of your sustainable competitive advantage. Distinctive capabilities can be of many kinds: patents, exclusive licenses, strong brands, effective leadership, teamwork, or knowledge.

Reproducible Capabilities:

Reproducible capabilities are those that can be bought or created by your competitors and thus by themselves cannot be a source of competitive advantage. Many technical, financial and marketing capabilities are of this kind. Your distinctive capabilities need to be supported by an appropriate set of complementary reproducible capabilities to enable your company to sell its distinctive capabilities in the market it operates.

THE COMPETITVE ADVANTAGE



A competitive advantage is an advantage over competitors gained by offering consumers greater value, either by means of lower prices or by providing greater benefits and service that justifies higher prices.

POSSIBLE SOURCES OF ADVANTAGE CAN BE:

- Cost leadership
- Differentiation
- Niche marketing
- High performance and technology

Cost leadership

Cost leadership is a strategy to have the lowest costs in a market, this means that you should be best placed should a price war occur and make the highest margins if a cost war does not occur. By producing high volumes of standardized products, the firm hopes to take advantage of economics of scale. This product is usually a product that can be produced at relatively low costs to a very large customer base. Maintaining this strategy requires a continuous search for cost reductions in all aspects of the business.

How Did Wal-Mart Attain a Cost-Leadership Position?

Wal-Mart has pursued many strategies over the decades to achieve and then maintain a cost-leadership position. These include:

An innovative warehousing system: One of the biggest innovations that Wal-Mart has introduced was in having a flexible regional warehouse system. Most Wal-Mart stores are within a six hour drive of a Wal-Mart warehouse. To make the most money, the business should have the fewest number of warehouses supporting the most number of stores for efficiency. Further, to be responsive to store needs, each warehouse should be as close as possible to the actual stores. Getting the contrast between a lower number of warehouses coupled with short distances can be hard. However, Wal-Mart solved this problem early on and continues to benefit from it. The warehouse system reduces overhead for Wal-Mart significantly reducing production costs. This then has been translated into lower prices for consumers.

An emphasis on everyday low prices: A second strategy that Wal-Mart has pursued has been everyday low costs for customers. While many businesses have attempted to make this claim, few have delivered like Wal-Mart. Rather than have a few loss leaders on sale every week, Wal-Mart attempts to keep all items in the store cheaper than competitors. This then allows Wal-Mart to avoid costly weekly advertising in newspapers. Customers know that all Wal-Mart items are always on sale.

Basing store design on consumer studies: A third area that Wal-Mart has used to maintain a cost leadership has been designing stores based on consumer studies. Looking at consumer research, Wal-Mart has built stores with wide aisles, warm colored carpeting, and smiley faced store displays. The stores are known for having friendly greeters. Further, Wal-Mart uses brown papers bags rather than plastic bags in some instances. All of these store designs have resulted from Wal-Mart heeding consumer studies. This is important as these store features have been identified with Wal-Mart by customers. This has translated into higher sales. Hence, the good use of research has helped Wal-Mart attain and keep their cost leadership position.

Effective use of superstores: A fourth strategy that Wal-Mart has pursued has been building superstores. Wal-Mart is not alone in this approach (K-Mart, Home Depot for example) but has been successful in doing it. The large 100,000 to 300,000 square feet buildings merge the general merchandise sales approach with a warehouse model. This allows for a reduction in operating expenses which then translates into further price reductions for consumers. It also has allowed Wal-Mart to branch into the grocery business. In addition to having warehouses close to store, many stores also now have a larger inventory of goods to sell on hand. As Wal-Mart knows what items sell in large quantities, they can have them at hand reducing transportation costs and making more sales if there is a run on an item. At the same time, there is a warehouse close by if they need to have additional merchandise delivered.

Using size to negotiate for the best price on brand-name items: The fifth strategy is perhaps Wal-Mart's most controversial way of maintaining a cost-leadership position. Wal-Mart has used both its large size and geographical diversity to directly bargain with brand-name product producers. This saving could be passed on to Wal-Mart customers. As the nation's largest retailer and in many geographic areas the dominant distributor, it exerted considerable influence in negotiation for the best price. Delivery terms, promotion allowances, and continuity of supply. Many of these benefits could be passed on to consumers. Few retail chains have the ability to negotiate the same low prices that Wal-Mart has been able to do. This has been a huge advantage for Wal-Mart.

An industry leading inventory control system: The final strategy is the Wal-Mart inventory system. A computer network connects all of the stores to Wal-Mart headquarters. Every product is recorded as it is scanned when purchased. When a particular product is selling well, Wal-Mart headquarters can send a message to a warehouse to immediately ship the product to a store. In this way, Wal-Mart never runs out of a product which is selling well. Wal-Mart can respond to consumer demand almost immediately. How can most local businesses and even other national chains compete with this? In most cases, they can not and Wal-Mart has benefited.

Differentiation:

Differentiation is doing something different. Differentiation in marketing usually means that a company has adopted a strategy of avoiding direct like for like competition with its enemies and instead is trying to provide a different offering which they hope will better satisfy the needs of their particular customers. Using such a strategy may help to reduce the need to compete mainly on price.

Differentiation involves creating a product that is perceived as unique. The unique features or benefits should provide superior value for the customer if this strategy is to be successful. Because customers see the product as unrivaled and unequaled, the price elasticity of demand tends to be reduced and customers tend to be brand loyal.

Differentiation primarily impacts performance through reducing directness of competition: As the product becomes more different, categorization becomes more difficult and hence draws fewer comparisons with its competition. A successful product differentiation strategy will move your product from competing based primarily on price to competing on non-price factors (such as product characteristics, distribution strategy, or promotional variables).

Differences can be in:

- Quality (usually accompanied by differences in price)
- Functional features and design
- Ignorance of buyers regarding the essential characteristics and qualities of goods they are purchasing
- Sales promotion activities of sellers and, in particular, advertising
- Availability (e.g. timing and location).

3 SIMPLE RULES FOR CREATING AN EFFECTIVE UNIQUE SELING PROPOSITION

There is something unique about your business; you just have to discover what it is. Most business owners don't understand how to create a truly unique selling proposition (USP).

Define Your Uniqueness - Just as the name suggests, a "unique" selling proposition must explain how your company or offer is unique. It's easy if you have a product that's new to the marketplace. Everything about it is unique. But what about those companies that have been around for quite a while? Or products that have a great deal of competition? Uniqueness might be more difficult to define.

Internet access, for example, is very ordinary. The most recognized features are price and speed. But the world leader in Internet access, AOL, has built its reputation based on ease of use. Starting in its earliest days, AOL landed and kept millions of users because they were spoiled. Everything they needed was in one place. No need to have an Internet service provider (ISP) and use a separate email program and a separate browser and a separate instant messaging program. It was all included. Forget that AOL charged twice as much as everyone else, was famous for dropping the connection and had pitiful customer service. They made it easy and that's what early surfers wanted

Be Specific: One company's mission statement was "Helping people live better, healthier lives more efficiently." The mission statement defined their uniqueness in a very specific way.

Keep It Short - USPs are not introductory paragraphs. They are generally a short sentence or two. The more concise you are, the better your results will be.

To give you a good idea of what works, let's look at a few examples.

Good Unique Selling Propositions

Practically everybody knows the M&Ms' USP, which also happens to be their marketing slogan: "Melts in your mouth, not in your hands."

How about Scooters Pizza? They took the pizza delivery industry by storm with a guaranteed delivery time. Their USP is to deliver the pizza within an allotted time otherwise it's free.

If you've created a new product or service, ask yourself why. Was it to fulfil needs customers were voicing? Was it to plug a niche nobody else was giving attention to? Those can be the basis for strong USPs.

Make a list of features and benefits. Ask customers what they like best about your company, your product or your service. Compare your offer to what the competition has available. All of these can be excellent brainstorming techniques that may jumpstart your thinking. Before long, lots of unique aspects will come to mind, giving you the basis for writing a strong, descriptive, specific USP.

Niche Marketing

Achieving focus is when a business sets out to be the best in a segmented market. In this strategy the firm concentrates on a select few target markets. It is also called a focus strategy or niche strategy. It is hoped that by focusing your marketing efforts on one or two narrow market segments and tailoring your marketing mix to these specialized markets, you can better meet the needs of that target market. The business typically looks to gain a competitive advantage through effectiveness rather than efficiency. It is most suitable for relatively small firms but can be used by any company. As a focus strategy it may be used to select targets that are less vulnerable to substitutes or where a competition is weakest to earn above-average return on investments.

How to Identify and Reach Niche Markets for Your Business

Niche markets are core groups of people within your larger target audience who have similar occupational and/or lifestyle characteristics that you can target with excellent results. To identify niche markets, break your demographic audience into as many subcategories as you can and see if you find specific subgroups with similar needs and interests.

For example, if you manufacture products for babies, new mothers would be a niche market within the larger parenting market. In marketing a product to new mothers, you would look to have your product information available in birthing and early childhood classes, paediatrician's offices, stores that sell baby supplies, and even in photography studios. You might survey new mothers first and find out where they shop and what attracts their attention. The better you know your niche market, the easier you can reach them.

Once you have identified your niche market, you need to grab their attention by highlighting what is beneficial and important about your product or service. All marketing materials need to use appropriate language, while avoiding lingo. In this case, you might share the joy of new motherhood alongside mentioning its inherent new responsibilities. You could demonstrate, for example, how your product might give the new mother more time to focus on her baby.

Creating a Market Niche

Starbucks and McDonald's were able to do this. They carved themselves a successful business niche. When Starbucks came on the scene, it raised coffee from a mere beverage to a culture in its own right. Before McDonald's, fast food was slow.

In today's competitive business climate, you've got to separate yourself from the pack — you've got to create a niche. By offering something no one else has and by targeting your business to a few select markets, you protect yourself not just from the competition, but also from the twists, turns, and plunges of the economy.

Questions You Should Ask Yourself:

Finding your own niche is often a matter of putting a new spin on what you already do. Ask yourself, how can I differentiate my business from others? How can I create the perception that my market simply cannot live without me. What do I have to offer?

Define Your Niche: Decide who you want your customers to be. Carefully choose your focus. If you have trouble, then examine the needs of your customers. Match what you're selling to what the customers want to buy. Make sure your niche is special, unlike anything else out there. Make sure your niche is viable. Is there a market? Is it a strong one?

Assignment:

Define a niche market for each of the following and discuss how you would advertise and sell this product to this niche group:

1. A new health milkshake
2. Educational toys and books
3. Carpet cleaners
4. Sporting equipment

Warnings and potential pitfalls:

Despite the many potential advantages, becoming a niche player may present a number of difficulties:

- The niche strategy can limit the company's future growth prospects as the market may be relatively small.

- The market niche may dry up. Consider if it is defensible or if it will inevitably disappear.

- The niche may grow to the point where it attracts larger more powerful competitors.

- It is becoming more common for large companies, or sections of large companies, to become niche players and therefore compete directly with the established niche operators.

LESSON TWENTY ONE

EXTERNAL ANALYSIS

The External Analysis examines opportunities and threats that exist in the environment. Both opportunities and threats exist independently of the firm. The way to differentiate between a strength or weakness from an opportunity or threat is to ask: Would this issue exist if the company did not exist? If the answer is yes, it should be considered external to the firm.

The factors involved in an external analysis:

- The environment
- The competitors
- The consumer

Activity	**Sub Activity**	**Description**
Define market		This refers to having a concrete description to which market you are going to analyze.
Trend Analysis	Political trend analysis	Determine those political factors/changes that can have impact on the business.
	Economical trend analysis	Identify economical factors/trends that can have impact on the business.
	Social trend analysis	Identify social factors/trends that can have impact on the business.
	Technological trend analysis	Identify technological factors/trends that have impact on the business.
	Demographic trend analysis	Identify those demographic factors/trends that have an impact on the business

Competitor Analysis	Determine competition levels	Determine for each of the four competition levels how the business competes opposed to its competition.
	Analyze competitive forces	For each competitive force determine how the level of competition is within the industry.
	Analyze competitor behaviour	Analyze how the competition's offense and defence tactics are.
	Determine competitor strategies	Determine out of the two strategies (low-cost and differentiation) how to compete with the competition.
Define opportunities and threats		Based on the trend analysis and the competition analysis determine the opportunities and threats the business faces with regard to the market.
Business Analysis	Conduct internal analysis	Analyze the internal environment of the business. Identify the business' strengths and weaknesses
	Conduct competence analysis	Analyze the business and identify its competences.
Create SWOT-I Matrix		Create a matrix which depicts the strengths, weaknesses, opportunities and threats identified previously.
Develop strategic plan		Based on the SWOT-I matrix compare the strengths, weaknesses, opportunities and threats identified with the identified competences and determine a strategic plan.

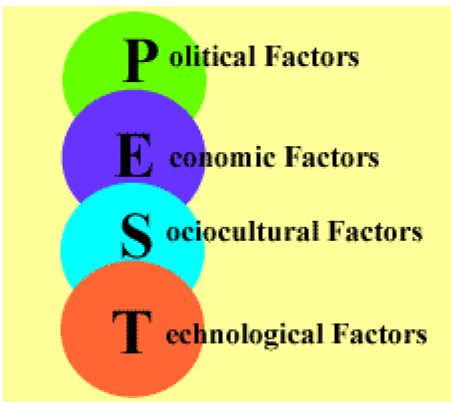
When an issue is detected, there are generally six ways of responding to them:

- Opposition strategy: try to influence the environmental forces so as to negate their impact.
- Adaption strategy: try to turn the new influence into an advantage – quick responses can give you a competitive advantage
- Redeployment strategy: redeploy your assets into another industry

- Contingency strategies: determine a broad range of possible reactions – find substitutes

- Passive strategy – no response is made

ANALYSIS OF THE ENVIRONMENT : PEST ANALYSIS



PEST analysis involves identifying the:

P Political Future

- Political parties and alignments at local, national and international levels
- Legislation, e.g. taxation and employment law
- Government ownership of the industry and the attitude to monopolies and competition

E Economic Future

- GDP
- Inflation
- Consumer expenditure and disposable income
- Interest rates
- Currency fluctuations and exchange rates
- Unemployment
- Energy costs, transport costs

S Socio-cultural Future

- Shifts in values ad culture
- Changes in lifestyle
- Attitudes towards work and leisure

- "Green" environment issues
- Demographic changes
- Distribution of income

T Technological Future

- Identified new research initiatives
- New patents and products
- Speed of change and adoption of new technologies

KNOW ESSENTIAL ECONOMICS

Why do we need to study the economy of the country? Because the growth or the lack of growth in an economy will affect the business decisions that you and your management team will make.

If an economy is growing it means: The population is growing and new people have needs that must be met. Because the population is growing there will be more need for products and services. There will be a rise in the standard of living for most people. This means that there is an increase in the availability and quality of jobs, housing, food, education, sanitation etc.

OUR NATIONAL ECONOMY:

The national economy is the total of all the financial transactions that go on in the nation. An economy includes every exchange of money that takes place in a city, a nation or a region. Business decisions, those of the consumer and the government effects the economy.

The gross domestic product (GDP) measures the size of the nation's economy. The formula for this is:

GDP = C (total household spending by consumer) + I (total investment – spending of businesses) + G (total spending of the government) + (EX – IM) (exports – imports)

The government has only two sources for the money that it spends – taxes or debts. The government wants to ensure that it has minimal inflation (rapid price increases that erode the value of the rand). It wants low unemployment and it wants sustained growth.

The implication of exports and imports on the economy:

When a country exports goods to other countries those exports bring money into the country therefore increasing the GDP. However when the country imports goods, it buys them from foreign producers and therefore causes money to leave the country thereby decreasing the GDP. The term net exports assumes that exports are greater than imports. The objective of every country is to ensure that they have a positive balance of trade as this will result in the economy being bigger rather than smaller. Negative trade balance occurs when imports are much greater than the exports of the country. To prevent a negative trade from happening the government can impose certain tariffs (taxes and surcharges) on imported goods.

KEY INDICATORS OF THE ECONOMY

ECONOMIC GROWTH RATE:

The economic growth rate is the major indicator to watch. When the economic growth is speeding up too quickly it means that consumers are spending more freely. When this occurs in the economy be sure to gear up for expansion and investment into your business as the income will follow. This requires hiring more people and expansion. The economic growth can clearly be seen during and leading up to the Christmas season. It is therefore for this reason that business' increase their stock holding during this period of time.

Assignment:

How would your business prepare for seasons of economic growth? Will it increase investments in plants and machinery? Will it increase stock so that sales will increase?

When employing people during these seasons of growth, what type of employment would you offer – full time or temporary? What proportions of employment would you have for each type? Would you only consider temporary? Would you only consider permanent? What would be the reasoning behind this?

What would your policy be regarding extension of business hours during this season of growth? How long would you expect your employees to sustain these hours? How would you reward them for this increase in work hours?

PRICES AND INFLATION – BUYING POWER:

Inflation refers to the overall increase in the price of goods and services when demand exceeds supply. Inflation can also represent a decrease in the buying power of a currency. In times of inflation, prices rise more quickly than wages so the buying power of consumers decreases.

Inflation is a rise in the general price level and is reported in rates of change. Essentially what this means is that the value of your money is going down and it takes more money to buy things. Therefore a 4% inflation rate means that the price level for that given year has risen 4% from a certain measuring year. The inflation rate is determined by finding the difference between price levels for the current year and previous given year. The answer is then divided by the given year and then multiplied by 100. To measure the price level, economists select a variety of goods and construct a price index such as the consumer price index (CPI). By using the CPI, which measures the price changes, the inflation rate can be calculated. This is done by dividing the CPI by the beginning price level and then multiplying the result by 100.

During times of high inflation your business needs to decrease its supply of a product or service.

Causes of Inflation

There are several reasons as to why an economy can experience inflation:

- One explanation is the *demand-pull theory*, which states that all sectors in the economy try to buy more than the economy can produce. Shortages are then created and merchants lose business. To compensate, some merchants raise their prices. Others don't offer discounts or sales. In the end, the price level rises.

- A second explanation involves the deficit of the government. If the Reserve Bank expands the money supply to keep the interest rate down, the deficit can contribute to inflation. If the debt is not monetized, some borrowers will be crowded out if interest rates rise. This results in the deficit having more of an impact on output and employment than on the price level.

- A third reason involves the cost-push theory which states that labor groups cause inflation. If a strong union wins a large wage contract, it forces producers to raise their prices in order to compensate for the increase in salaries they have to pay.

- The fourth explanation is the wage-price spiral which states that no single group is to blame for inflation. Higher prices force workers to ask for higher wages. If they get their way, then producers try to recover with higher prices. Basically, if either side tries to increase its position with a larger price hike, the rate of inflation continues to rise.

- Finally, another reason for inflation is excessive monetary growth. When any extra money is created, it will increase some group's buying power. When this money is spent, it will cause a demand-pull effect that drives up prices. For inflation to continue, the money supply must grow faster than the real GDP.

Effects of Inflation

The most immediate effects of inflation are:

- The decreased purchasing power of the rand and its depreciation. Depreciation is especially hard on retired people with fixed incomes because their money buys a little less each month. Those not on fixed incomes are more able to cope because they can simply increase their fees.

- A second de-stabilizing effect is that inflation can cause consumers and investors to change their spending habits. When inflation occurs, people tend to spend less meaning that factories have to lay off workers because of a decline in orders.

- A third destabilizing effect of inflation is that some people choose to speculate heavily in an attempt to take advantage of the higher price level. Because some of the purchases are high-risk investments, spending is diverted from the normal channels and some structural unemployment may take place.

- Finally, inflation alters the distribution of income. Lenders are generally hurt more than borrowers during long inflationary periods which means that loans are repaid later in inflated rands.

INTEREST RATES:

The interest rate is the price of money. Low interest rates generate demand because "easy money" prompts people to borrow and then buy.

Why are Interest Rates Important?

Interest rates control the flow of money in the economy. High interest rates curb inflation, but also slow down the economy. Low interest rates stimulate the economy, but could lead to inflation. Therefore, you need to know not only whether rates are increasing or decreasing, but what other economic indicators are saying.

- If interest rates are increasing and the Consumer Price Index (CPI) is decreasing, this means the economy is not overheating, which is good.
- But, if rates are increasing and GDP is decreasing, the economy is slowing too much, which is bad.
- If rates are decreasing and GDP is increasing, the economy is speeding up, and that is good.
- But, if rates are decreasing and the CPI is increasing, the economy is headed towards inflation.

How Interest Rates Affect the Economy:

Interest rates affect the economy slowly. It may take a few months before the effect of the change affects the entire economy. As rates increase, banks slowly lend less, and businesses slowly put off expansion. Similarly, consumers realize they aren't as wealthy as they once were, and put off purchases.

UNEMPLOYMENT:

The unemployment rate measures the percentage of people in the work force who are out of work. The higher the unemployment rate is the lower the demand for a better wage because the worker knows that he may not be able to get work elsewhere.

Unemployment is a macroeconomic phenomenon that directly affects people. When a member of a family is unemployed, the family feels it in lost income and a reduced standard of living.

The Costs of Unemployment

Because most people rely on their income to maintain their standard of living, the loss of a job will often directly threaten to reduce that standard of living. This creates a number of emotional problems for the worker and the family. In terms of society, unemployment is harmful as well. Unemployed workers represent wasted production capability. This means that the economy is putting out less goods and services than it could be producing. It also means that there is less money being spent by consumers, which has the potential to lead to more unemployment, beginning a cycle.

The Causes of Unemployment

There are four basic causes of unemployment in a healthy, working economy. These reasons for unemployment are: minimum wage laws, labour unions, efficiency wages, and job search. In the real world economy all four of these forces work together to create the unemployment that is reflected in the unemployment rate.

- Minimum Wage Laws
- Labour Unions
- Efficiency Wages
- Job Search

CONSUMER CONFIDENCES: SAFETY AND SECURITY

The consumer confidence is a measure of how consumers feel about the economy and their prospects in the current and future economy. If there is an increase in the confidence of the consumer they will be willing to plan major purchases such as heavy appliances and cars.

Housing starts and sales: Buying of a house does not just represent a major purchase but it also represents the need for other smaller purchases (furniture, curtains, linen etc) as well as the use of services (plasterer, painter, landscapers). This definitely shows the strength of the economy. Increasing in the sales of houses indicates a robust economy. People build and buy houses when they expect the economy to remain strong.

Retail sales and new car sales: When retail sales are strengthening it is important to be able to meet consumer demands. This is a time when businesses can increase the size of their sales and production staffs. Be careful that you do not over expand so always maintain a balance.

Assignment:

Complete a Pest analysis specific for your market / business. Be sure to comment on the following:

- The effects of inflation on your business
- The current innovations and research that will affect your business
- The unemployment decline / increase in your business
- The tax laws, special tariffs etc that are affecting your business / industry
- Evidences of corruption which causes price "wars"
- Affect that changes in the distribution of wealth will have on your business. Will it increase sales?

Be specific for your business as this is one of the first steps to making strategic plans for your business.

LESSON TWENTY TWO

COMPETITIVE ANALYSIS

No business is an island. For success, the business will need to deal with customers, suppliers, employees, and others. In almost all cases there will also be other organizations offering similar products to similar customers. These organizations are competitors and their objective is the same as yours - to grow, make money and succeed. Effectively, the businesses are at war - fighting to gain the same resource and territory: the customer**.** And like in war, it is necessary to understand the enemy:

- how he thinks;
- what his strengths are;
- what his weaknesses are;
- where he can be attacked;
- where the risk of attack is too great

WHO IS A COMPETITOR IN BUSINESS?

Business competitors are:

- Other organizations offering the same product or service now.

- Other organizations offering similar products or services now.

- Organizations that could offer the same or similar products or services in the future.

- Organizations that could remove the need for a product or service.

WHY MONITOR COMPETITORS?

By knowing our Competitors we may be able to predict their next moves, exploit their weaknesses and undermine their strengths. Customers usually know the differences between companies - their good points and bad points. They know that company A is cheaper than company B and that company C has a better after-sales service. For a business to operate in a market and not know the same, and more, is tantamount to giving up the battle without even starting. Competitor Analysis is an important part of the strategic planning process.

WHY BOTHER TO ANALYSE COMPETITORS?

Some businesses think it is best to get on with their own plans and ignore the competition. Others become obsessed with tracking the actions of competitors (often using underhand or illegal methods). Many businesses are happy simply to track the competition, copying their moves and reacting to changes. Competitor analysis has several important roles in strategic planning:

- To help management understand their competitive advantage/disadvantages.

- To generate understanding of competitors' past, present (and most importantly) future strategies

- To provide an informed basis to develop strategies to achieve competitive advantage in the future

- To help forecast the returns that may be made from future investments (e.g. how will competitors respond to a new product or pricing strategy?

QUESTIONS TO ASK!

What questions should be asked when undertaking competitor analysis? The following is a useful list to bear in mind:

- Who are our competitors?
- What threats do they pose?
- What is the profile of our competitors?
- What are the objectives of our competitors?
- What strategies are our competitors pursuing and how successful are these strategies?
- What are the strengths and weaknesses of our competitors?
- How are our competitors likely to respond to any changes to the way we do business?

SOURCES OF INFORMATION FOR COMPETITOR ANALYSIS

• **Recorded data:** this is easily available in published form either internally or externally. Good examples include competitor annual reports and product brochures; press releases, newspaper articles, government reports and speeches and presentations. Most information can be found on the internet

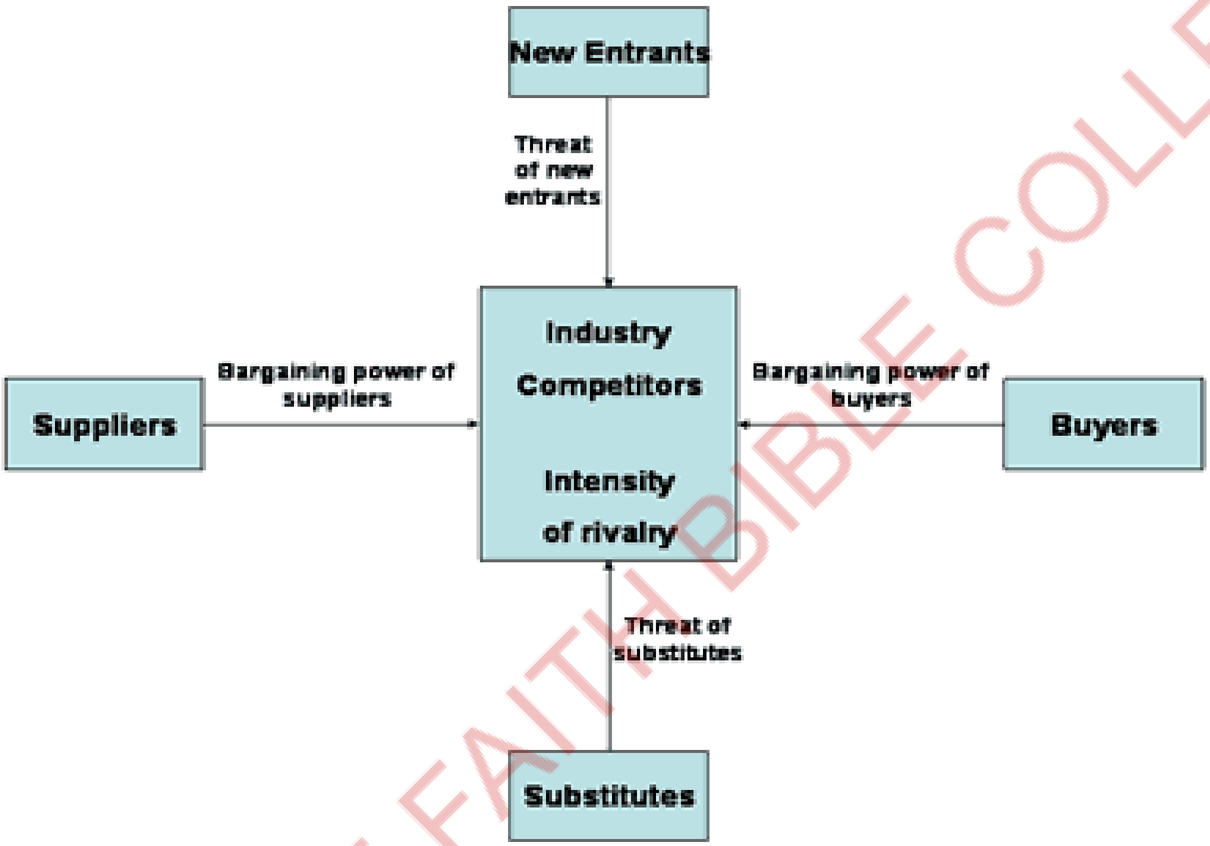
• **Observable data:** this has to be actively sought and often assembled from several sources. A good example is competitor pricing; advertising campaigns, promotions, tenders and patent applications

WHAT BUSINESSES NEED TO KNOW ABOUT THEIR COMPETITORS

What businesses probably already know their competitors
Overall sales and profits
Sales and profits by market
Sales by main brand
Cost structure
Market shares (revenues and volumes)
Organisation structure
Distribution system
Identity / profile of senior management
Advertising strategy and spending
Customer / consumer profile & attitudes
Customer retention levels
What businesses would really like to know about competitors
Sales and profits by product
Relative costs
Customer satisfaction and service levels
Customer retention levels
Distribution costs
New product strategies
Size and quality of customer databases
Advertising effectiveness
Future investment strategy
Contractual terms with key suppliers
Terms of strategic partnerships

PORTER'S FIVE FORCES MODEL:

The most influential analytical model for assessing the nature of competition in an industry is Michael Porter's Five Forces Model, which is described below:



Porter explains that there are five forces that determine industry attractiveness and long-run industry profitability. These five "competitive forces" are

- The threat of entry of new competitors (new entrants)
- The threat of substitutes
- The bargaining power of buyers
- The bargaining power of suppliers
- The degree of rivalry between existing competitors

THREAT OF NEW ENTRANTS:

New entrants to an industry can raise the level of competition, thereby reducing its attractiveness. The threat of new entrants largely depends on the barriers to entry. High entry barriers exist in some industries (e.g. shipbuilding) whereas other industries are very easy to enter (e.g. estate agency, restaurants). Key barriers to entry include

- Economies of scale
- Capital / investment requirements
- Customer switching costs
- Access to industry distribution channels
- The likelihood of retaliation from existing industry players.

THREAT OF SUBSTITUTES:

The presence of substitute products can lower industry attractiveness and profitability because they limit price levels. The threat of substitute products depends on:

- Buyers' willingness to substitute
- The relative price and performance of substitutes
- The costs of switching to substitutes

BARGAINING POWER OF SUPPLIERS:

Suppliers are the businesses that supply materials & other products into the industry. The cost of items bought from suppliers (e.g. raw materials, components) can have a significant impact on a company's profitability. If suppliers have high bargaining power over a company, then in theory the company's industry is less attractive. The bargaining power of suppliers will be high when:

- There are many buyers and few dominant suppliers
- There are undifferentiated, highly valued products
- Suppliers threaten to integrate forward into the industry (e.g. brand manufacturers threatening to set up their own retail outlets)
- Buyers do not threaten to integrate backwards into supply
- The industry is not a key customer group to the suppliers

BARGAINING POWER OF BUYERS:

Buyers are the people who create demand in an industry. The bargaining power of buyers is greater when

- There are few dominant buyers and many sellers in the industry
- Products are standardized
- Buyers threaten to integrate backward into the industry
- Suppliers do not threaten to integrate forward into the buyer's industry
- The industry is not a key supplying group for buyers

INTENSITY OF RIVALRY:

The intensity of rivalry between competitors in an industry will depend on:

- The structure of competition - for example, rivalry is more intense where there are many small or equally sized competitors; rivalry is less when an industry has a clear market leader

- The structure of industry costs - for example, industries with high fixed costs encourage competitors to fill unused capacity by price cutting

- Degree of differentiation - industries where products are commodities (e.g. steel, coal) have greater rivalry; industries where competitors can differentiate their products have less rivalry

- Switching costs - rivalry is reduced where buyers have high switching costs - i.e. there is a significant cost associated with the decision to buy a product from an alternative supplier

- Strategic objectives - when competitors are pursuing aggressive growth strategies, rivalry is more intense. Where competitors are "milking" profits in a mature industry, the degree of rivalry is less

- Exit barriers - when barriers to leaving an industry are high (e.g. the cost of closing down factories) - then competitors tend to exhibit greater rivalry.

KEY COMPETITIVE FATORS ANALYSIS

Factor	Strength	Weakness	Competitor A	Competitor B	Importance to Customer
Products					
Price					
Quality					
Selection					
Service					
Reliability					
Stability					
Expertise					
Company Reputation					
Location					
Appearance					
Sales Method					
Credit Policies					
Advertising					
Image					

Assignment:

- Complete a competitive analysis with your business and at least two competitors.
- Write a short paragraph stating your competitive advantages and disadvantages.

MAKE THE COMPETITION IRRELEVANT

Create Differentiation:

Create differentiation within your own products or services. If you have an assortment of products or services to offer, you may have identified your differentiation already.

Differentiation on products	Differentiation in service
Common examples of differentiation for products may be based on size, speed, colour, components, combinations or accessories	Common examples of differentiation for services include speed, performance, quality, responsiveness, availability, ease and integration

Focus on the Moment of Truth:

The moment of truth is the moment that the customer has an option to make a purchase decision, to buy your products, invest in your services or hire you. This is the moment that you need to put your good, better and best foot forward.

Focus on the moment of truth, the place or position that your products or services will be offered to the customer. In a retail environment this may be the end-cap, a wall display, shelf space or a counter display. On the Internet this may be an on-line store, e-bay or your personal web site. It may be in a catalogue or a brochure. It could even be part of an email communication.

Good, Better and Best:

Give your customer three options. Show them something good, show them something better and show them your best. It is a simple formula that takes a little care and creativity in crafting your message. The three offers should be based on the foundation of a consistent theme, the single most important underlying reason to invest in your products or services.

The 'good' product or service should be the lowest cost option but still demonstrate your inherent value and differentiation from the competition. You should be able to clearly define your value, the features, advantages and benefits of what you have to offer.

Show them the better: Using the foundation established with your 'good' offer, add something more for a slightly higher price. The customer value should be easily distinguished and highlighted as more significant than the slightly increased price. Make a clear comparison to the "good" product or service. This should be a preferred alternative for the potential customer. The option should be slightly more expensive, but worth it. Some examples may include, "with additional 1GB memory", "includes six months of Satellite Radio", "bundle package includes download of 50 songs", "50% faster than the original", and similar comparisons.

Show them your best. The third option should be the best that you have to offer, the cream of the crop. This is the most expensive option and will only be selected by the most exclusive of customers. It should also have something in common with the original "good" option and the "better" option, but the third and final option should be recognizable the best you have to offer. The price may be significantly higher than the other two options. Do not expect large volume of sales on the best offer. Rather, use this to demonstrate competitive advantage and differentiation with the "wow" factor.

The Value Proposition:

For each option that you present to the potential customer, provide a value proposition. Your value proposition should be something that can be conveyed in three to five bullet points, three to five sentences, or spoken in thirty seconds or less. You should be precise and succinct. Present the value proposition from the customer point of view. For example, rather than say "we ship in three to five days", you could say "the product will typically arrive at your door in three to five days". Rather than say "we have the fastest process", you could say "our process is fast, so you get results faster".

A value proposition typically contains the essential elements of feature, advantage, benefit, image and offer:

- This is a reference to a specific important feature of your offer,

- The advantage as compared to the competition, and the benefit to the customer.

- The Image refers to a photograph or diagram. The Image is an important element of your value proposition, as people will generally remember an image more readily than words. Images convey feeling, and typically depict a lifestyle example of the customer enjoying the benefits of the feature's advantage.

- The Offer is a call to action. Give your customer an offer to buy, and let them know specifically how to conduct the purchase. Examples of the order call to action are "buy now", "limited time discount" or a number to call to place the order by phone.

Plan, Do, Measure and Adjust:

Carefully plan your three offers and the value proposition for each. Once you introduce your three offers, measure the success rate of each option by the corresponding sales attach rate.

Typically the "good" offer should be about 25% of your sales, and the "best" offer is normally only 15% of your sales. Some customers will want the lowest cost option, and some will want to be exclusive and purchase the best option regardless of price. The middle of the road "better" offer is customarily the lion share at 60% of your total sales. Most customers are willing to pay a little more for quality, speed or convenience associated with the "better" offer if presented properly, even if they do not want to pay the high price of the "best" option. The "better" alternative gives customers a chance to do a little better than "good", but still feel that they saved money as compared to the high priced "best" option.

CUSTOMER ANALYSIS

Your customers are a vital part of your business planning and strategy. They provide the finances for the operation of the business as well as the reason for its existence. It is for this reason that you need to look at the customers that you are providing a service or a product for.

Because your business or service is not going to be able to satisfy all the needs of the people in your city/region you need to decide who your customers are and begin to focus your attention and your resources on them. Customer definition is a basic business task. When analyzing your customer, you must:

- Identify the target customer
- Convey the needs of these customers
- Show how the products and services satisfy these needs

1. **STEP ONE: DEFINE THE CUSTOMERS:**

The first step of the Customer Analysis is to define exactly which customers the company is serving. This requires specificity. It requires customer profiling and market segmenting. It is not adequate to say the company is targeting small businesses, for example, because there are several million of these types of customers. Rather, the plan must identify precisely the customers it is serving, such as small businesses with 10 to 50 employees based in the city.

Once the business has defined the target customers, it is necessary to explain the demographics of these customers. Questions to be answered include:

- How many potential customers fit the given definition? Is this customer base growing or decreasing?
- What is the average revenues/income of these customers?
- Where are they geographically based?

Who are my best customers?

Many business think they know who their best customers are but unless you actually analyze your customer base, you may be mistaken. The word "best" depends on your business objectives. You can define "best" in many different ways:

- Lifetime value: This can be done by calculating the total rand amount of a customer over the years.
- Tenure with company: Look at how long the customer has been buying from you. This can be done best when you are offering a renewable product or service.
- Products purchased: Your best customers may be those who have purchased the highest-value product or service.
- Profit generated: This is similar to lifetime value, but looks at the total profit from each customer as opposed to total sales generated.

RFM ANALYSIS:

While each of the above methods can be used to find out who your best customers are, RFM analysis considers three factors in determining which are your best customers:

- Recent purchase: This is defined by the number of days or weeks since the customer has performed the action (purchase, visit, etc.). The more recently a customer has engaged in an action, the more likely they are to repeat the action, especially when encouraged to repeat by some kind of promotional effort.
- Frequency of purchase: A visitor or buyer who repeats their behaviour is more likely to continue repeating it, meaning their future value to the business is high.

- Monetary value: This quantifies the amount of money that your consumer spent

The process:

RFM helps you to pinpoint your best customers easily and accurately. In order to do this analysis, you will need to follow the following process:

Step one:

Create three databases, one for:

- Recency – this table is to be sorted in descending order by last date of purchase.
- Frequency: sort another in descending order by frequency. That is the number of purchases within a given period of time
- Monetary Value – sort this table in descending monetary value. That is the average money spent in the year.

Recency	
ABC	1 day
DEF	3 days
IKL	4 days
MNO	5 days
XYZ	1 month

Frequency	
JKL	10 purchases
XYZ	8 purchases
ABC	6 purchases
DEF	4 purchases
MNO	2 purchases

Monetary	
XYZ	100
MNO	75
JKL	50
ABC	25
DEF	10

Step two:

Assign a numerical ranking to each customer on each list between 1 and five. Assign a "5" to the top 20% on each list. Assign a "4" to the next 20% etc.

Step three:

Add up the total RFM scores for each of the customers. For example:

JKL = R + F + M = total RFM value
JKL = 3+ 5 + 3 = 11

Use this score to compare it with your other customers.

What can you learn from this analysis:

- Customers who purchase recently are more likely to buy again versus customers who have not made a purchase in a while
- Customers who purchase frequently are more likely to buy again versus customers who have made just one or two purchases
- Customers who have spent the most money in total are more likely to buy again. The most valuable customers tended to continue to become even more valuable.

CUSTOMER PROFILING:

It is essential to truly understand customers to develop a successful business and marketing strategy. Customer profiling aids to help you to market your product and service to target market and therefore your money is not wasted on marketing to those who probably would never buy your product or pay for your services. For example: A lady who has started a home bake at home would like to advertise. She can either place an advert in a school magazine which is at a low cost or place it in the local newspaper at a higher cost. Her expertise is making fun birthday cakes. Because she knows who normally buys her cakes, moms for birthday parties, she can easily decide where she should invest her marketing budget – in the school magazine. By doing this she has not only saved money but she will be reaching the right target market.

A customer profile provides a clear picture of the type of person or business you are currently serving or planning to serve. This information helps drive your marketing strategy, promotional design and sales tactics.

Step one: Identify your major customer group

Generally you will be able to group your customers into a broad category that represents the majority of your buyers.

Step two: Develop a customer profile.

Customers can typically be described through demographics variables (for example, age, gender, geographic location), psychographic variables (why they buy) and buying behaviour (where, when, what and how they buy). For example:

Demographics (age, gender, geographic location)	
Customers	**Businesses**
Age Gender Profession Education Level Household income level Marital status Number of children Geographical location Other	Number of employees Business structure Location of headquarters Types of producer and services they provide Annual revenue Number, size and location of branches Year founded Other
Psychographics (why they buy)	
Customer	**Businesses**
Conservative, Liberal Conformist, Experimental Environmental friendly, Socially conscious Fun Loving Cutting Edge Trend follower Fashion forward Family orientated Other	Market leader Innovative and cutting edge Liberal Conservative Environment-friendly Employee / family friendly Fast growing / adopting new ideas Stable / set in their ways Other
Buying behavior	
Customer	Business
What benefit is the customer looking for? How often will they purchase it? What is their decision making process? What factors are most important to them: Price Quality Brand name recognition Customer service Discount and sales Attractiveness of packaging Convenience of store location Convenience of product / service Guarantees / Warranties Technical support Flexible payment terms Financing	What benefits is the business looking for? How often will they purchase it? What is their decision making process? What factors are most important to them: Price Quality Brand name recognition Customer service Variety in service Discount and sales Attractiveness of packaging Convenience of store location Store appearance Convenience of product / service Guarantees / Warranties Technical support

Step three: Identify research needed on major customer groups:

Additional research regarding your customers will help determine the size of your target market, how to reach potential customers and how to best sell your products and services.

2. **STEP TWO: DETAIL THE NEEDS OF THE CUSTOMERS:**

Maslow's hierarchy of needs:

Physiological needs are the basic needs like food, shelter, air, sleep and water. Examples of marketing focused on this level would be retail stores, supermarkets etc.

Safety needs are important for feeling secure in a chaotic world. This is a desire for order, law, and security. Marketing to safety needs are insurance companies, alarm companies and car companies.

Love needs are belonging needs. We want to receive and give love. This attracts us to groups, families and relationships. Love needs are marketed by showing belonging. Marketing to this area would be adverts that focuses on family, clubs, memberships or romance.

Esteem needs for both self-esteem and recognition from others fall here. This level requires achievement, status, prestige and recognition. Many categories target the esteem need consumer - from cars to clothes, alcohol to home improvements. Many purchases are made to satisfy the esteem needs, so you will find lots of marketing here.

Self-Actualization is the need to become more then what you are. Here you seek peace, knowledge and self-fulfilment. Many colleges and universities have this as their target market.

WHY IS MASLOW'S HIERARCHY IMPORTANT TO YOUR BUSINESS?

Motivation is an activated state within a person that leads to goal-directed behaviour. Needs occur when a perceived discrepancy exists between an actual and a desired state of being. If you become familiar with the "needs" that you are there to satisfy in your customers, you will be able to motivate them in buying your product or using your services.

Example of Maslow's hierarchy in purchasing:

Many tyre advertisements will tell you about the quality of their tyre, how they grip the road and won't let your car roll over. This is a basic 'safety need' commercial.

Michelin tyres now go one step higher by now saying that their tyres provide safety for your babies. "Because so much is riding on your tyres", and a little diapered baby is sitting in a Michelin. They went beyond the safety level and incorporated the love level as a motivating factor.

Maslow's theory in a nutshell is that the basic needs of a human must be met before the other needs become motivating factors. The general needs, starting from the bottom up, of physiological, safety, love and esteem must be met for a person to grow up the Hierarchy. For example, someone who doesn't have shelter, food and water, doesn't worry so much about self-esteem needs, for they are higher on Maslow's Hierarchy of Needs. Once levels are achieved, higher needs become dominant, and when these in turn are satisfied, again a new and higher need emerges, and so on. People are on all different levels of the Hierarchy. Just because someone meets a higher level, like love, doesn't mean that they quit worrying about safety, it just becomes less of a concern, thus less of a motivating factor.

Assignment:

- What needs are your product / services providing?
- How high on the hierarchy is it? How big will your customer base be on this "level"?
- Look at your marketing plan and decide on which other level you can meet a need in order to reach your customers
- Would inviting customers at a different level of Maslow's hierarchy benefit your company?
- Discuss your options in trying to reach people on the different levels and the impact that it will make on your sales / profits.

Case Study:

In the early days of cell phones, Vodacom and MTN believed their customer to be those people who were able to pass a credit check. This however placed a constraint upon their business and therefore they made available to those who were not credit worthy, the ability to buy prepaid airtime. By doing this they were able to expand their customer base. They saw the need and changed their marketing strategy

THE DRIVERS OF CUSTOMER DECISION MAKING

What influences consumers to purchase products or services? The consumer buying process is a complex matter as many internal and external factors have an impact on the buying decisions of the consumer.

When purchasing a product there are several processes, which consumers go through.

- **Problem/Need Recognition:** How do you decide you want to buy a particular product or service? It could be that your DVD player stops working and you now have to look for a new one, all those DVD films you purchased you can no longer play! So you have a problem or a new need.
- **Information search:** So we have a problem, our DVD player no longer works and we need to buy a new one. What's the solution? You go out and

purchase a new one, but which brand? Shall we buy the same brand as the one that broke? Consumers often go on some form of information search to help them through their purchase decision. Sources of information could be family, friends, neighbours who may have the product, alternatively they may ask the sales people, or dealers, or read specialist magazines to help with the purchase decision. You may even actually examine the product before you decide to purchase it.

- **Evaluation of different purchase options:** So what DVD player do we purchase? Consumers allocate attribute factors to certain products, almost like a point scoring system which they work out in their mind over which brand to purchase. This means that consumers know what features from the rivals will benefit them and they attach different degrees of importance to each attribute. For example sound maybe better on the Sony product and picture on the Toshiba, but picture clarity is more important to you than sound. Consumers usually have some sort of brand preference with companies as they may have had a good history with a particular brand or their friends may have had a reliable history with one, but if the decision falls between the Sony DVD or Toshiba then which one shall it be? It could be that the review the consumer reads on the particular Toshiba product may have tipped the balance and that they will purchase that brand.

- **Purchase decision:** Through the evaluation process discussed above consumers will reach their final purchase decision and they reach the final process of going through the purchase action Purchase of the product can either be through the store, the web, or over the phone.

WHAT ARE THE FACTORS INFLUENCING THE BEHAVIOUR OF BUYERS?

Consumer behaviour is affected by many uncontrollable factors.

- Culture is one factor that influences behaviour.
- Reference groups are particular groups of people some people may look up to that have an impact on consumer behaviour.
- Opinion leaders are those people that you look up to because your respect their views and judgements
- The economical environment also has an impact on consumer behaviour; do consumers have a secure job and a regular income to spend on

goods? Marketing and advertising obviously influence consumers in trying to evoke them to purchase a particular product or service.

- People's social status will also impact their behaviour. What is their role within society? Being parents affects your buying habits depending on the age of the children, the type of job may mean you need to purchase formal clothes, the income which is earned has an impact. The lifestyle of someone who earns R250000 would clearly be different from someone who earns R25000.

TYPES OF BUYING BEHAVIOUR

There are four typical types of buying behaviour based on the type of products that intends to be purchased.

- Complex buying behaviour is where the individual purchases a high value brand and seeks a lot of information before the purchase is made.

- Habitual buying behaviour is where the individual buys a product out of habit e.g. a daily newspaper, sugar or salt.

- Variety seeking buying behaviour is where the individual likes to shop around and experiment with different products. So an individual may shop around for different breakfast cereals because he/she wants variety in the mornings

- Dissonance reducing buying behaviour is when buyer are highly involved with the purchase of the product, because the purchase is expensive or infrequent. There is little difference between existing brands an example would be buying a diamond ring, there is perceived little difference between existing diamond brand manufacturers.

LESSON TWENTY THREE

PRICE

WHAT INFLUENCE CAN YOU HAVE ON THE CONSUMER TO BUY YOUR PRODUCT?

ASSIGNMENT:

What influences your customers to use your products or services? Do customers find price to be more important than the quality of the product or service? Are customers looking for the highest level of reliability, or will they have their own support and just seek a basic level of service? Will the customer consult others in their business/family before making a decision?

Customers use three criteria to make buying decisions:

- Function: What does this service or product do for me? What needs is it meeting
- Price: What will it cost me altogether? This requires looking not just at the initial outlay of the product or service but at later instalments, services, training, support, resale, disposal
- Friendliness: How easily can I get it and use it? Availability, packaging, assembly, clarity or instructions, time to get started

PRICING QUESTIONS:

Pricing involves asking questions like:

- How much should I charge for the product or service?
- How much do my customers value my product/ services?
- What are my pricing objectives? Do we use profit maximization pricing?
- How should I set the price? Cost plus pricing, demand based or value based pricing?
- Should there be a single price or multiple pricing?
- Should pricing change in various geographical areas?

- Should there be quantity discounts?
- What prices are my competitors charging?

HAVE THE BEST PRICE FOR THE VALUE OF THE ITEM/ SERVICE:

Business Assessment:

- Does your pricing strategy fit with what was revealed in your competitive analysis?
- Compare your prices with those of the competition. Are they higher, lower, the same? Why?
- How important is price as a competitive factor? Do your intended customers really make their purchase decisions mostly on price?

HOW ARE PRICES SET?

Having the lowest price is not a strong position for small business. Larger competitors with deep pockets and the ability to have lower operating costs will destroy any small business trying to compete on price alone. Avoiding the low price strategy starts with looking at the demand in the market by examining three factors:

- **Competitive Analysis:** Don't just look at your competitor's pricing. Look at the whole package they offer. Are they serving price-conscious consumers or the affluent group? What are the value-added services if any?
- **Ceiling Price:** The ceiling price is the highest price the market will bear.
- **Price Elasticity:** If the demand for your product or service is less elastic, you can then have a higher ceiling on prices. Low elastic demand depends on limited competitors, buyer's perception of quality, and consumers not habituated to looking for the lowest price in your industry. Price elasticity of demand describes the relationship between changes in quantity demanded of a good and changes in price for that good. When prices fall, the quantity consumer demand normally rises – if it costs less, consumers buy more.
- **Price-Value Matrix:** While developing your pricing strategy, it is important to remember that there is an implicit relationship between price and value. We expect to pay more for gourmet food than for fast food and for a luxury car than for an economy model. At the same time, value is a matter of opinion,

not fact. Given that there is a relationship between price and value and that value is a matter of opinion, price your products and services by triangulating three factors: what you want or need to earn, my costs, and what the market would bear.

EXPLORE PRICING METHODS:

Use a variety of ways to arrive at your price:

Method No. 1 -Costing out a price

This first method takes into account your costs, your desired profit, and then totals these into a price. To find your business's total costs, you have to account for two types; direct costs and indirect costs. Direct costs are those you incur when delivering your service and typically include labour and materials. Indirect costs are all the other costs not accounted for in your direct costs, and include things like rent, insurance, phone and utility bills and office supplies. These indirect costs cover everything you need to keep your business operating every day, whether or not you make any sales.

Exercise:

Work out the lowest price that you can sell the goods: If all your direct and indirect costs came to a total of R10,000 annually and you can sell 2,000 t-shirts in a year. Work out what the breakeven price would be. This will be lowest cost that you will be able to sell the t-shirts for.

Work out the profit that you would like to make: The next step is to ask yourself what profit you want. If you would like to have R20,000 to live on during the year what would your profit need to be on the t-shirts in order to get your profit?

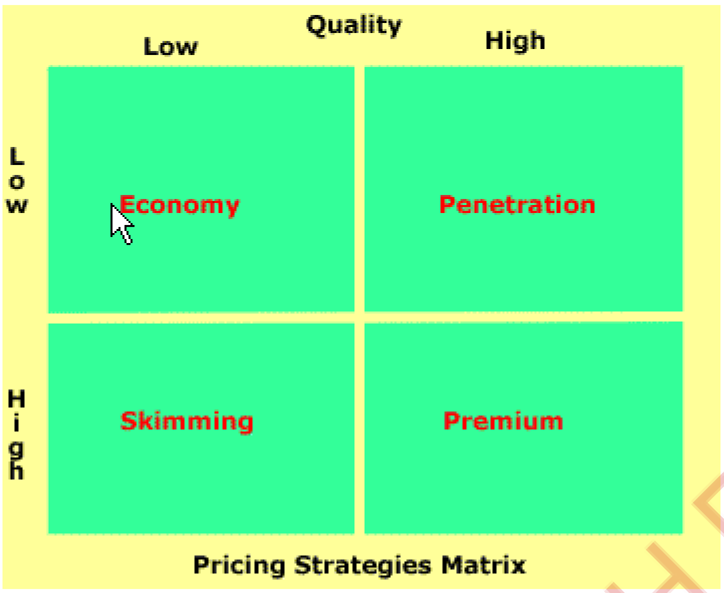
Method No. 2 - Pricing competitively

After you've established your cost-based price, you want to compare this price against market prices. These are prices your competitors are already getting, and are a key determinant of your own pricing.

Method No. 3 - Pricing by position

Ask yourself this question "How do I want to be perceived in my market?" This is an important question because your price positions your service (or product) in your prospects' minds. If you want your service to be positioned as higher-end you will choose a price point towards the higher end of the price ranges already found in your market. If, on the other hand, your service will be more workmanlike, sacrificing additional features and the finer touches, you'll price lower.

For example:



Economy Price: The cost of marketing and manufacture are kept at the minimum. Supermarkets often have an economy brand for example: Spar and Pick n Pay

Penetration Price: This is setting an initial low price at the state of deployment of the product in order to attract initial customers. The price is likely to rise later as the product gains a market share.

Skimming: Selling a product at a high price, sacrificing high sales to gain a high profit, therefore skimming the market. This type of pricing is used to reimburse the cost of an investment in making the product (usually technology). These prices attract the "early adopters" who are less price sensitive because of either their need for the product is more than others or they understand the value of the product. This strategy is employed only for a limited duration to recover most of the investment made to build the product.

Premium Price: This is to use a high price where there is a uniqueness about the product or service. This approach is used where a substantial competitive advantage exists. Such prices are charged for luxuries such as flights, cars, hotels etc.

In this highly competitive marketplace, it can be difficult to persuade customers to buy from you when you offer a similar product to your opposition but with a higher price tag. Using a value-pricing strategy is a better proposition because it attracts loyal customers. Why do customers buy designer-labelled clothes and luxury cars? Why are those items more expensive when they don't cost so much more to make? The answer lies in the perceived value. Value is not an inherent attribute of the product but it commands a higher price.

REDUCING PERCEIVED RISKS:

For new customers, there is always an element of risk in purchasing from a new business. These are examples of value-pricing strategies to boost confidence and credibility:

- A professionally designed website
- Free trials or samples
- Extended warranty option
- Free after-sales service
- Guarantees of satisfaction "100% satisfaction guarantee"
- User-friendly privacy, security and refund policies
- Testimonials, endorsements, reviews
- Special packaging e.g. recyclable containers, gift wrapping with card
- Package deals (for convenience) e.g. bundles, "all inclusive" value pack
- Fulfilment options e.g. "white glove" delivery service, instant download
- Payment options e.g. monthly and yearly plans
- Free training material e.g. online manual, video, audio
- Personalised service e.g. "I oversee each account"
- Free product updates
- Bonus offers

LESSON TWENTY-FOUR

CUSTOMER SERVICE

Broadly speaking, customer service can be defined as the way organisations look after their customers. The provision of a high standard of customer service is a vital ingredient in the overall performance of an organisation. There are few organisations in the modern business environment that can claim to operate in the absence of competition. This means that the vast majority of customers will have the option to go elsewhere if the quality of customer service is lacking in any way. On the other hand, those organisations that do succeed in delivering excellent customer service on a continuous basis can gain an important competitive edge in the markets in which they operate.

Customer service is a very broad term. The activities required in order to deliver good customer service also vary from industry to industry.

Typical day-to-day activities may include:

- Presenting an appropriate image of the organisation – the importance of a positive public image is vital in retaining existing customers and attracting new ones. An organisation's image is an integral part of its marketing mix, and may well be the focus of what distinguishes it from its rivals and gives its competitive edge. It is, therefore, important that the actual experience of customers when they deal with the organisation and/or use its products matches up to this image – customers using a firm that promotes itself as a high quality, premium priced service provider will be dissatisfied if the actual service they experience is anything less!

- Ensuring that customer needs are met – customer needs are many and varied but, ultimately, organisations need to ensure that customer needs and expectations are met if they are to stand any chance of attracting these customers again in the future

- Providing information – customers need accurate and comprehensive information in order to select the products that best suit their needs. This may include information on product features, price, delivery times, directions, store opening times etc.

- Taking and relaying messages – there are many situations where staff may be required to take messages, such as when customer phone and a particular member of staff is not available or a complaint is made. Failing to record details accurately or ensuring that the message is passed on to the intended recipient can have a harmful effect on customer service.

- Keeping records – recording the contacts made with existing customers plays an important role in creating and maintaining customer satisfaction. It is important that a firm knows who its customers are, what their needs are and how these needs have been satisfied in the past. Having access to this information will not only help to maintain a relationship with existing customers, but help in attracting new ones.

- Providing assistance – certain customers may have specific needs and may, therefore, require assistance in order to access products or services effectively. Providing assistance may range from having car parking that is reserved for disabled customers and shoppers with young children.

- Dealing with problems and handling complaints – customers with problems or complaints will often be stressed, anxious and sometimes angry and aggressive. It is important that staff bear this in mind when dealing with such customers, even though the source of the problem may not involve them directly, or even the organisation itself. Such customers require reassurance and tactful handling if a solution that is satisfactory to both the customer and organisation is to be found

CUSTOMER SATISFACTION:

Good customer service leads to customer satisfaction. Satisfied customers are more loyal and profitable. Dissatisfied customers take their money elsewhere – and tell their friends about the poor service they have received. Customer satisfaction is a difficult concept to define. However, the following ideas are usually considered to be fundamental in achieving customer satisfaction:

- **The product** or **service** must meet customer needs, wants and expectations for quality and functionality. It doesn't matter how much advertising is done or after-sales support provided. A shoddy product that doesn't work or falls apart will disappoint. Service delivered by an unenthusiastic, moody employee will leave the customer feeling let down

- **Sales and promotional activities** need to create a positive experience for the customer. For example, the attitudes of employees who make contact with customers should be positive and professional

- **After-sales service** should also be positive and appropriate (e.g. user training, help lines, servicing). Customers often need reassurance after they have bought something that they have made the right choice, or help in using a product properly

Ideally, if customer service procedures were always effective, customers would never need to complain. Realistically, however, problems with customer satisfaction are likely to arise from time to time, which can be resolved effectively as long as appropriate systems are in place and staff follow them correctly.

The most common categories of complaints are:

- Availability of goods or services – e.g. a product is not in stock or a service has been withdrawn or cancelled
- Quality of goods or services supplied – e.g. products that have been supplied are damaged or do not work
- Systems and/or procedures within an organisation – e.g. customers with enquiries are put on hold for excessive lengths of time, or goods are delivered late
- Attitude or behaviour of individual members of staff – e.g., staff may not perform their tasks to an acceptable standard, or they may be rude to or overly familiar with customers

CRITERIA USED TO ASSESS THE QUALITY OF CUSTOMER SERVICE:

Key customer service criteria will change from business to business, and depend on the nature of the product provided and the image of the firm. Typical criteria used to assess the quality of customer service provided might include:

- **Price/value for money** – although price and value for money are closely related concepts, they do not mean the same thing. All customers, whether or not they can afford and are willing to pay premium prices for products, will have expectations as to what they will receive in exchange for their money, and will be dissatisfied if reality does not match these expectations. It is important, therefore, that organisations succeed in offering value for money, especially if they hope to retain existing customers

- **Customer retention** – given that the majority of businesses operate alongside some degree of competition, customer retention or loyalty can be seen as an indication of customer satisfaction. If customers are dissatisfied, they can choose to go elsewhere. In the unlikely event of no other competition, customers may simply choose to not spend their money at all, unless the product is an absolute necessity.

- **Consistency/accuracy** – consistency means ensuring that each customer receives the same level of quality or standard of service, no matter when or where the purchase is made. Thus, in theory a Wimpy burger purchased from a Wimpy restaurant in Sandton should look and taste the same as a Wimpy burger purchased in Ballito.

- **Reliability** – an organisation can claim reliability if its customers are confident that quality and service will be of the same high standard every time they use that organisation and its products

- **Staffing levels/qualities** – sufficient numbers of appropriately trained staff are crucial in delivering high levels of customer service, especially in terms of passing on accurate information, giving advice and dealing with problems quickly and effectively. In many situations, businesses are legally required to employ a certain level of suitably qualified employees.

- **Enjoyment of experience** – customers purchase goods and services for a variety of reasons, but the motivation for doing so is clearly linked to some perceived benefit in owning, using or experiencing the service. If the customer's actual enjoyment fails to live up to his/her expectations, they are unlikely to repeat their purchases in the future, and possibly pass on their poor experience to other potential customers, discouraging sales further

- **Health and safety** – close attention to health and safety issues is an essential requirement for all businesses. The Health and Safety at Work Act (1974) requires firms to have a duty of care in terms of the health, safety and welfare of employees and external individuals such as customers. Accidents and injuries that result from negligence on the part of the organisation can lead to costly compensation and publicity that may have a long-term harmful effect on sales.

- **Cleanliness/hygiene** – apart from the obvious links to health and safety, the personal appearance and hygiene of the staff employed by an organisation (especially those dealing directly with the public) can enhance or harm the public image of that organisation. The appearance of showrooms, offices and buildings in general will also have an influence here.

- **Accessibility/availability** – both of these terms are concerned with making it as easy as possible for customers to buy products or use services. Adequate parking, courtesy buses and facilities for customers with special needs come under this category, along with internet banking and the ability to buy products on-line.

METHODS OF OBTAINING FEEDBACK FROM CUSTOMERS

It is important for organisations to obtain as much feedback as possible from customers. It is worth remembering that feedback can be positive as well as negative, and it is just as useful to know what an organisation is getting right as it is to know what it is doing wrong!

- **Formal interviews** – these may be on a group or one-to-one basis. Interviews are often based around a questionnaire or it may be the responsibility of the interviewer to obtain the necessary information by skilful questioning.

- **Focus groups** – this is where small groups of customers (normally between six and ten) are invited to participate in an in-depth discussion, giving their thoughts and opinions on the quality of customer service provided by an organisation.

- **Street surveys** – as the name implies, these involve researchers approaching suitable participants 'on the street' to gather their opinions on an organisation and its products/services.

- **Email/ Telephone surveys** – These are both a quick method of gathering information making them, at least in theory, cheaper. The main problem with telephone surveys is that people often resent being contacted at home and this may have a negative effect on the rate of participation.

- **Service calls** – these involve making unprompted calls to customers to seek feedback, e.g. a garage may ring customers after a car has been serviced.

- **Comments/suggestion boxes** – these are commonly used by organisations to gather basic information and are typically left on restaurant tables, in hotel rooms and near to tills for customers to fill in while they wait. They act like mini-questionnaires - usually made up of a small number of closed-ended questions, in order to encourage a higher completion rate.

TRAINING STAFF FOR QUALITY SERVICE:

Training involves investing in staff to help them acquire particular skills and abilities in order to develop professionally and, hopefully, become more productive as a result. There are a variety of potential training methods available to organisations to help develop and maintain customer service skills. On the job training methods do not require the member of staff to leave the workplace, so are less disruptive to production (and often cheaper), whereas off the job methods involve training away from the workplace (e.g., at a college, university or training agency), allowing the worker access to experts in the field. In order to make an appropriate choice of method the organisation needs to decide what it hopes the training process will achieve, how the effects of training on the performance of staff will be measured, and whether the likely benefits of training will outweigh the costs involved.

Common methods of training include:

- Training Courses/Workshops
- Customer Service Consultants
- Professional Qualifications
- Work shadowing
- Personal Development and Action Plans

Business assignment

How would you implement a training programme in your company?
In what areas do you feel your staff need to be trained?

THE BENEFITS OF OFFERING GOOD CUSTOMER SERVICE:

The potential benefits to the firm from providing a consistently high level of customer service include:

- Satisfied customers
- Customer loyalty
- More customers
- Increased sales
- Enhanced public image
- More effective workforce

It should be evident from the points made above that the benefits of good customer service are interrelated, i.e. Satisfied customers will lead to more sales from their own repeat business and from the new customers generated by their recommendations. A positive public image will generate more sales by attracting new customers. Staff who deliver good customer service receive their customers' appreciation and are further motivated to offer good customer service and so on.

THE TEN COMMANDMENTS OF GREAT CUSTOMER SERVICE

Know who is boss. You are in business to service customer needs, and you can only do that if you know what it is your customers want. When you truly listen to your customers, they let you know what they want and how you can provide good service.

Be a good listener. Take the time to identify customer needs by asking questions and concentrating on what the customer is really saying. Listen to their words, tone of voice, body language, and most importantly, how they feel. Beware of making assumptions - thinking you intuitively know what the customer wants. Do you know what three things are most important to your customer? Effective listening and undivided attention are particularly important on the show floor where there is a great danger of preoccupation - looking around to see to whom else we could be selling to.

Identify and anticipate needs. Customers don't buy products or services. They buy good feelings and solutions to problems. Most customer needs are emotional rather than logical. The more you know your customers, the better you become at anticipating their needs. Communicate regularly so that you are aware of problems or upcoming needs.

Make customers feel important and appreciated. Treat them as individuals. Always use their name and find ways to compliment them, but be sincere. People value sincerity. It creates good feeling and trust. Think about ways to generate good feelings about doing business with you. Customers are very sensitive and know whether or not you really care about them. Thank them every time you get a chance.

Help customers understand your systems. Your business may have the world's best systems for getting things done, but if customers don't understand them, they can get confused, impatient and angry. Take time to explain how your systems work and how they simplify transactions. Be careful that your systems don't reduce the human element of your business.

Appreciate the power of "Yes". Always look for ways to help your customers. When they have a request (as long as it is reasonable) tell them that you can do it. Figure out how afterwards. Look for ways to make doing business with you easy. Always do what you say you are going to do.

Know how to apologize. When something goes wrong, apologize. It's easy and customers like it. The customer may not always be right, but the customer must always win. Deal with problems immediately and let customers know what you have done. Make it simple for customers to complain. Value their complaints. As much as we dislike it, it gives us an opportunity to improve. Even if customers are having a bad day, go out of your way to make them feel comfortable.

Give more than expected. Since the future of all companies lies in keeping customers happy, think of ways to elevate yourself above the competition. Consider the following:

- What can you give customers that they cannot get elsewhere?
- What can you do to follow-up and thank people even when they don't buy?
- What can you give customers that is totally unexpected?

Get regular feedback. Encourage and welcome suggestions about how you could improve. There are several ways in which you can find out what customers think and feel about your services.

- Listen carefully to what they say.
- Check back regularly to see how things are going.
- Provide a method that invites constructive criticism, comments and suggestions.

Treat employees well. Employees are your internal customers and need a regular dose of appreciation. Thank them and find ways to let them know how important they are. Treat your employees with respect and chances are they will have a higher regard for customers. Appreciation stems from the top. Treating customers and employees well is equally important.

Business Assessment:

My firm matters to my customers because …

- We have chosen to focus on the following customers …
- We have changed or improved our value proposition (from the customer's viewpoint) by doing the following …
- We intend to change and improve our value proposition by …
- We will endeavour to reduce costs of the product by …

LESSON TWENTY-FIVE

HAVING A BUSINESS PLAN

A business plan can only be written once all the strategic analysis (both internal and external) has been done. Why? This information aids in making the best business plan for the company and also helps in portraying a well thought through plan.

What is a business plan?

A plan is a statement of intent - a calculated intention to organize effort and resource to achieve an outcome - in this context a plan is in written form, comprising explanation, justification and relevant numerical and financial statistical data. In a business context a plan's numerical data - costs and revenues - are normally scheduled over at least one trading year, broken down weekly, monthly quarterly and cumulatively.

A business is an activity or entity, irrespective of size and autonomy, which is engaged in an activity, normally the provision of products and/or services.

Therefore, a **business plan** is the planned activities and aims of any entity, individual group or business where effort is being converted into results. The business plan is a document that specifies the components of a strategy with regard to the business mission, external and internal environments and problems identified in earlier analyses.

Here are five good reasons why you should write a business plan:

- **To test the feasibility of your business idea:** Writing a business plan is the best way to test whether or not an idea for starting a business is feasible, other than going out and doing it. In this sense, the business plan is your safety net. Writing a business plan can save you a great deal of time and money if working through the business plan reveals that your business idea is untenable. Often, an idea for starting a business is discarded at the marketing analysis or competitive analysis stage, freeing you to move on to a new (and better) idea.

- **To give your new business the best possible chance of success:** Writing a business plan will ensure that you pay attention to both the broad operational and financial objectives of your new business and the details, such as budgeting and market planning. Taking the time to work through the process of writing a business plan will make for a smoother start-up period and fewer unforeseen problems as your business becomes established.

- **To secure funding, such as bank loans:** You're going to need both operating and start-up capital to start a new business and you have no hope of getting any money from established financial institutions such as banks without a well developed business plan. Established businesses often need money, too, to do things such as buy new equipment or property, or because of market downturns. Having a business plan gives you a much better chance of getting the money you need to keep operating or to expand.

- **To make business planning manageable and effective:** A business plan is essential if you're thinking of starting a business, but it's also an important tool for established businesses. Viable businesses are dynamic; they change and grow. The company's original business plan needs to be revised as new goals are set. Reviewing the business plan can also help you see what goals have been accomplished, what changes need to be made, or what new directions your company's growth should take.

- **To attract investors**: Whether you want to shop your business to venture capitalists, or attract angel investors, you need to have a solid business plan.

WHAT SHOULD BE INCLUDED IN YOUR BUSINESS PLAN?

Your business plan should include:

- a persuasive introduction and request for funds
- a statement of the purpose of your business
- a detailed description of how the business will work (including what your product or service will be, whether you'll have employees, who will supply your goods, and where you will be located)
- an analysis of your market (who your customers are)
- an evaluation of your main competitors
- a description of your marketing strategy (how your business will reach plenty of customers and fend off your competitors)
- a résumé setting forth your business accomplishments, and
- detailed financial information, including your best estimates of start-up costs, revenues and expenses, and your ability to make a profit.

HOW TO WRITE A BUSINESS PLAN

Every company should address and include the following when developing their plan:

PART ONE: THE EXECUTIVE SUMMARY

The executive summary is the most important section of your business plan. It provides a concise overview of the entire plan along with a history of your company. This section tells your reader where your company is and where you want to take it. It's the first thing your readers see; therefore it is the thing that will either grab their interest and make them want to keep reading or make them want to put it down and forget about it. More than anything else, this section is important because it tells the reader why you think your business idea will be successful.

The executive summary should be the last section you write. After you've worked out all the details of your plan, you'll be in a better position to summarize it - and it should be a summary (not more than 4 pages)

Contents of the Executive Summary

- The Mission Statement - The mission statement briefly explains the thrust of your business. It could be two words, two sentences, a paragraph, or even a single image. It should be as direct and focused as possible, and it should leave the reader with a clear picture of what your business is all about.
- Date business began
- Names of founders and the functions they perform
- Number of employees
- Location of business and any branches or subsidiaries
- Description of plant or facilities
- Products manufactured/services rendered
- Banking relationships and information regarding current investors
- Summary of company growth including financial or market highlights (e.g. your company doubled its worth in 12-month period; you became the first company in your industry to provide a certain service)
- Summary of management's future plans - With the exception of the mission statement, all of the information in the Executive Summary should be highlighted in a brief, even bulleted, fashion. Remember, these facts are laid out in-depth further along in the plan

If you're just starting a business, you won't have a lot of information for some areas mentioned above. Instead, focus on your experience and background as well as the decisions that led you to start this particular enterprise. Include information about the problems your target market has and what solutions you provide. Show how the expertise you have will allow you to make significant inroads into the market. Tell your reader what you're going to do differently or better. Convince the reader that there is a need for your service or product, then go ahead and address your (the company's) future plans.

To assist the reader in locating specific sections in your business plan, include a table of contents directly following the executive summary.

PART 2: MARKET ANALYSIS

The market analysis section should illustrate your knowledge about the particular industry your business is in. It should also present general highlights and conclusions of any marketing research data you have collected; however, the specific details of your marketing research studies should be moved to the appendix section of your business plan. This section should include:

- **Industry Description and Outlook**:

This overview section should include: a description of your primary industry, the current size of the industry as well as its historic growth rate, trends and characteristics related to the industry as a whole (i.e., What life cycle stage is the industry in? What is its projected growth rate?), and the major customer groups within the industry (i.e., businesses, governments, consumers, etc).

- **Identifying Your Target Market**:

Your target market is simply the market (or group of customers) that you want to target (or focus on and sell to). When you are defining your target market, it is important to narrow it to a manageable size; many businesses make the mistake of trying to be everything to everybody. Often times, this philosophy leads to failure. In this section, you should gather information which identifies the:

- Distinguishing characteristics of the major/primary market you are targeting. This section might include information about the critical needs of your potential customers, the degree to which those needs are (or are not) currently being met, and the demographics of the group. It would also include the geographic location of your target market, the identification of the major decision-makers, and any seasonal or cyclical trends which may impact the industry or your business.

- Size of the primary target market. Here, you would need to know the number of potential customers in your primary market, the number of annual purchases they make in products or services similar to your own, the geographic area they reside in, and the forecasted market growth for this group.

- The extent to which you feel you will be able to gain market share and the reasons why.

- Your pricing and gross margin targets. Here, you would define the levels of your pricing, your gross margin levels, and any discount structures that you plan to set up for your business, such as volume/bulk discounts or prompt payment discounts.

- Resources for finding information related to your target market. These resources might include directories, trade association publications, and government documents.

- Media you will use to reach your target audience. These might include publications, radio or television broadcasts, or any other type of credible source that may have influence with your target market.

- Purchasing cycle of your potential customers. Here, you will need to identify the needs of your target market, do research to find the solutions to their needs, evaluate the solutions you come up with, and finally, identify who actually has the authority to choose the final solution.

- Trends and potential changes which may impact your primary target market. Key characteristics of your secondary markets. Just like with your primary target market, here you would again want to identify the needs, demographics, and the significant trends which will influence your secondary markets in the future.

- **Market Tests** :

When you are including information about any of the market tests you have completed for your business plan, be sure to focus only on the results of these tests. Any specific details should be included in the appendix. Market test results might include: the potential customers who were contacted, any information or demonstrations that were given to prospective customers, how important it is to satisfy the target market's needs, and the target market's desire to purchase your business' products or services at varying prices.

- **Lead Times**:

Lead time is the amount of time between when a customer places an order and when the product or service is actually delivered. When you are researching this information, determine what your lead time will be for the initial order, reorders, and volume purchases.

- **Competitive Analysis**:

When you are doing a competitive analysis, you need to identify your competition by product line or service as well as by market segment; assess their strengths and weaknesses, determine how important your target market is to your competitors, and identify any barriers which may hinder you as you are entering the market. Be sure to identify all of your key competitors for each of your products or services. For each key competitor, determine what their market share is, then try to estimate how long it will take before new competitors will enter into the marketplace. In other words, what is your window of opportunity? Finally, identify any indirect or secondary competitors which may have an impact on your business' success.

The strengths of your competitors are also competitive advantages which you, too, can provide. The strengths of your competitors may take many forms, but the most common include:

- An ability to satisfy customer needs
- A large share of the market and the consumer awareness that comes with it
- A good track record and reputation
- Solid financial resources and the subsequent staying power which that provides
- Key personnel

Weaknesses are simply the flip side of strengths. In other words, analyze the same areas as you did before to determine what your competitors' weaknesses are. Are they unable to satisfy their customers' needs? Do they have poor market penetration? Is their track record or reputation not up to par? Do they have limited financial resources? Can they not retain good people? All of these can be red flags for any business. If you find weak areas in your competition, be sure to find out why they are having problems. This way, you can avoid the same mistakes they have made.

If your target market is not important to your competition, then you will most likely have an open field to run in if your idea is a good one - at least for a while.

However, if the competition is keen for your target market, be prepared to overcome some barriers. Barriers to any market might include:

- A high investment cost
- The time it takes to set up your business
- Changing technology
- The lack of quality personnel
- Customer resistance (i.e., long-standing relationships, brand loyalty)
- Existing patents and trademarks that you can not infringe upon

- **Regulatory Restrictions** :

The final area that you should look at as you're researching this section is regulatory restrictions. This includes information related to current customer or governmental regulatory requirements as well as any changes that may be upcoming. Specific details that you need to find out include: the methods for meeting any of the requirements which will affect your business, the timing involved (i.e., How long do you have to comply? When do the requirements go into effect?), and the costs involved.

PART 3: COMPANY DESCRIPTION

This section should include a high level look at how all of the different elements of your business fit together. The company description section should include information about the nature of your business as well as list the primary factors that you believe will make your business a success.

- When defining the nature of your business (or why you're in business), be sure to list the marketplace needs that you are trying to satisfy; include the ways in which you plan to satisfy these needs using your products or services. Finally, list the specific individuals and/or business that you have identified as having these needs.

- Primary success factors might include a superior ability to satisfy your customers' needs, highly efficient methods of delivering your product or service, outstanding personnel, or a key location. Each of these would give your business a competitive advantage

PART 4: BUSINESS & MANAGEMENT

This section should include: your company's business structure, details about the ownership of your company, profiles of your management team, and the qualifications of your board of directors. Who does what in your business? What is their background and why are you bringing them into the business as board members or employees? What are they responsible for? These may seem like unnecessary questions to answer in a one- or two-person business, but the people reading your business plan want to know who's in charge, so tell them. Give a detailed description of each division or department and its function.

Business Structure:

A simple but effective way to lay out the structure of your company is to create an business chart with a narrative description. This will prove that you're leaving nothing to chance, you've thought out exactly who is doing what, and there is someone in charge of every function of your company.

Ownership Information:

This section should also include the legal structure of your business along with the subsequent ownership information it relates to: How you have formed your business? Important ownership information that should be incorporated into your business plan includes:

- Names of owners
- Percentage ownership
- Extent of involvement with the company
- Forms of ownership (i.e., common stock, preferred stock, general partner, limited partner)
- Outstanding equity equivalents (i.e., options, warrants, convertible debt)
- Common stock (i.e., authorized or issued)

Management Profiles:

Experts agree that one of the strongest factors for success in any growth company is the ability and track record of its owner/management, so let your reader know about the key people in your company and their backgrounds. Provide resumes that include the following information:

Name
Position (include brief position description along with primary duties)
Primary responsibilities and authority
Education
Unique experience and skills
Prior employment
Special skills
Past track record

Industry recognition Community involvement Number of years with company Compensation basis and levels (make sure these are reasonable)

PART 5: MARKETING AND SALES STRATEGIES

Marketing is the process of creating customers, and customers are the lifeblood of your business. In this section, the first thing you want to do is define your marketing strategy. There is no single way to approach a marketing strategy; your strategy should be part of an ongoing self-evaluation process and unique to your company. However, there are steps you can follow which will help you think through the strategy you would like to use.

An Overall Marketing Strategy would include a:

- Market penetration strategy
- Strategy for growing your business. This growth strategy might include: an internal strategy such as how to increase your human resources, an acquisition strategy such as buying another business, a franchise strategy for branching out, a horizontal strategy where you would provide the same type of products to different users, or a vertical strategy where you would continue providing the same products but would offer them at different levels of the distribution chain.
- Channels of distribution strategy.
- Communication strategy. How are you going to reach your customers? Usually some combination of the following works the best: promotions, advertising, public relations, personal selling, and printed materials such as brochures, catalogues, flyers, etc. Once you have defined your marketing strategy, you can then define your sales strategy. How do you plan to actually sell your product?

Your Overall Sales Strategy should include:

- A sales force strategy. If you are going to have a sales force, do you plan to use internal or independent representatives? How many salespeople will you recruit for your sales force? What type of recruitment strategies will you use? How will you train your sales force? What about compensation for your sales force?

- Your sales activities. When you are defining your sales strategy, it is important that you break it down into activities. For instance, you need to identify your prospects. Once you have made a list of your prospects, you need to prioritize it. Next, identify the number of sales calls you will make over a certain period of time. From there, you need to determine the average number of sales calls you will need to make per sale, the average dollar size per sale, and the average dollar size per vendor.

PART 6: SERVICE OR PRODUCT LINE

What are you selling? In this section, describe your service or product, emphasizing the benefits to potential and current customers. For example, don't tell your readers which 89 foods you carry in your "Gourmet to Go" shop. Tell them why busy, two-career couples will prefer shopping in a service-oriented store that records clients' food preferences and caters even the smallest parties on short notice.

Focus on the areas where you have a distinct advantage. Identify the problem in your target market for which your service or product provides a solution. Give the reader hard evidence that people are, or will be, willing to pay for your solution. List your company's services and products and attach any marketing/promotional materials. Provide details regarding suppliers, availability of products/services, and service or product costs. Also include information addressing new services or products which will soon be added to the company's line

Overall, this section should include:

- A detailed description of your product or service (from your customers' perspective). Here, you would need to include information about the specific benefits of your product or service. You would also want to talk about your product/service's ability to meet consumer needs, any advantages your product has over that of the competition, and the present development stage your product is in (i.e., idea, prototype, etc.).

- Information related to your product's life cycle. Be sure to include information about where your product or service is in its life cycle, as well as any factors that may influence its cycle in the future.

- Research and development activities you are involved in or are planning to be involved in.

PART 7: FUNDING REQUEST

In this section, you will request the amount of funding you will need to start or expand your business. If necessary, you can include different funding scenarios, such as a best and worst case scenarios, but remember that later, in the financial section, you must be able to back up these requests and scenarios with corresponding financial statements.

You will want to include the following in this section: your current funding requirements, your future funding requirements over the next five years, how you will use the funds you receive, and any long-range financial strategies that you are planning that would have any type of impact on your funding request.

When you are outlining your current and future funding requirements, be sure to include the amount you want now and the amount you want in the future, the time period that each request will cover, the type of funding you would like to have (i.e., equity, debt), and the terms that you would like to have applied.

How you will use your funds is very important to a creditor. Is the funding request for capital expenditures, working capital, debt retirement, acquisitions?

PART 8: FINANCIALS

The financials should be developed after you've analyzed the market and set clear objectives. The following is a list of the critical financial statements to include in your business plan packet.

Historical Financial Data:

If you own an established business, you will be requested to supply historical data related to your company's performance. Most creditors request data for the last three to five years, depending on the length of time you have been in business. The historical financial data you would want to include would be your company's income statements, balance sheets, and cash flow statements for each year you have been in business (usually for up to 3 to 5 years). Often creditors are also interested in any collateral that you may have that could be used to ensure your loan, regardless of the stage of your business.

Prospective Financial Data:

All businesses, whether startup or growing, will be required to supply prospective financial data. Most of the time, creditors will want to see what you expect your company to be able to do within the next five years. Each year's documents should include forecasted income statements, balance sheets, cash flow statements, and capital expenditure budgets. For the first year, you should supply monthly or quarterly projections. After that, you can stretch it to quarterly and/or yearly projections for years 2 through 5. Include a short analysis of your financial information. Include a ratio and trend analysis for all of your financial statements (both historical and prospective). Since pictures speak louder than words, you may want to add graphs of your trend analysis (especially if they are positive).

PART 9: THE APPENDIX

The appendix would include:

Credit history (personal & business)
Resumes of key managers
Product pictures
Letters of reference
Details of market studies
Relevant magazine articles or book references
Licenses, permits, or patents
Legal documents
Copies of leases
Building permits
Contracts
List of business consultants, including attorney and accountant

<u>WHAT MAKES "GOOD" STRATEGY?</u>

There are at least three tests which can be used in assessing whether your strategy is good:

- The value-added test: A good strategy will deliver increased value added in the market place. This can be seen in profit, an increase in the market share, innovation and the satisfaction of your employees.

- The consistency test: A good strategy will be consistent with the circumstances that surround the business at any point in time.

- The competitive advantage test: A good strategy will increase the sustainable competitive advantage of the business.

Assignment

Choose one of the following two scenarios:

1. You have done research into expanding your business but need capital in order to buy the equipment that is required for this expansion. Draw up your business plan using the criteria mentioned above for your bank manager.

2. You are drawing up your business plan for a small business that you want to start within the next three months. Complete this assignment with all the information that has been mentioned in this lesson

Remember: Throughout the course so far, we have designed assignments and business assessments that will help you in drawing up your final business plan. Use this information and research to write your business plan.

LESSON TWENTY-SIX

IMPLEMENTING YOUR STRATEGY

Successful implementation is no accident. The two primary issues that need to be considered in the final implementation process are:

- Communication:

Successfully implementing a plan depends on effective communication. Employee resistance often can be reduced, if not eliminated, if plans are openly presented and concerns are dealt with up front. In addition, to carry out new policies and procedures effectively, employees need to have a clear understanding of what is happening and what is expected of them. Better informed employees are more likely to do as you instruct them, thereby reducing the need for complex and costly control systems. One key element in effective communication is involving your employees -- those who must carry out the plan -- as much as possible in the actual planning process. People who are involved in planning will have a solid grasp of the plan and their part in it when it is implemented. If employees are genuinely involved in the process, they are more likely to accept the result as a plan they helped develop. This result is often referred to as ownership.

- Scheduling:

Successful implementation also depends on a realistic schedule for the transition. It is too easy to assume away the difficulties of a major change and to anticipate that everything will be on track and running smoothly. Realistic schedules require that you factor in training time, periods of low productivity, increased error rates and slowdowns as you correct business oversights. Schedules also should include planned checkpoints for carefully assessing progress toward full implementation.

HELPING YOUR BUSINESS MAKE THE NECESSARY CHANGES

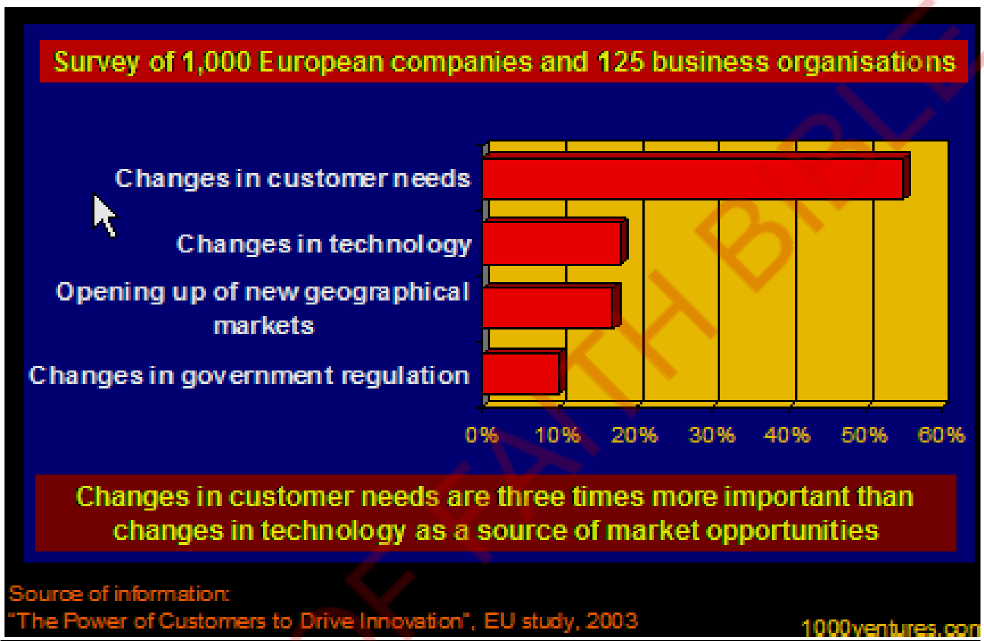
Why is change important?

Change is inevitable, necessary, and important. Products, services, and technology are constantly changing and that is what creates opportunity for businesses and individuals. Embracing the change, driving the change, or creating the change in your industry, business, or role can be the biggest and most important investment you can make in your business.

Change needs to be made in your business because of:

- A change in your customers needs
- A change in technology and innovation
- A change in your business strategy as a result of strategic analysis
- A change in government regulations and policies.

In a survey of 1000 European companies, www.1000.com were able to show why change is vital.



The rate of change in today's world is constantly increasing. Everything that exists is getting old, wearing out and should be replaced. Revolutionary technologies, consolidation, well-funded new competition, unpredictable customers, and a quickening in the pace of change all add to the need of your business to embrace change. One of the keys to dealing with change is understanding that change is never over. "Change brings opportunity to those who can grasp it, and the discontinuities of the new economy offer unlimited opportunities.

Amazon.com: Amazon.com broke the rules of the book business by using the Internet rather than conventional distribution channels. The company was founded by Jeff Bezos, a computer science and electrical engineering graduate from Princeton University. Bezos had moved to Seattle after resigning as a Senior Vice-President at D.E.Shaw, a Wall Street investment bank. He didn't know much about the Internet. But he came across a statistic that the Internet was growing at 2300%, which convinced him that it was a large growth opportunity. Not knowing much more, he plunged into the world of e-commerce with no prior retailing experience.

Jack Welch, the former CEO of GE, encouraged colleagues to never stop thinking about the need for change. He advised his managers:

1. Start each day as if it were your first day on the job.
2. Make whatever changes are necessary to improve things.
3. Re-examine your agenda constantly. Rewrite it, if necessary. In that way you avoid falling back on old habits.

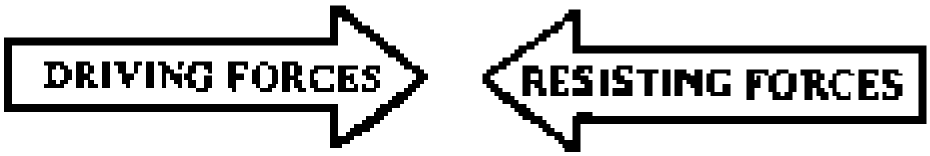
BUSINESS ASSESSMENT:

	Yes	No	Not Sure
1. Can you identify the special competencies that have contributed to your success to date?			
2. Will these competencies continue to ensure success for next 3 years?			
3. Do you, or your managers, frequently have to put off important work because 'bushfires' take priority?			
4. Are decisions to allocate funds, people and technology within your organisation truly driven by corporate objectives, values and strategies?			
5. Have you identified all the financial, human and technological resources that are available to you to develop your business?			
6. Do you and your management team share an inspirational Vision of your organisation's future over the next 3 years?			
7. Will your current employees' values and attitudes hinder achievement of your vision?			
8. Can you list your critical stakeholders (the people or organisations that can make or break your business) and their critical needs?			
9. Do your critical stakeholders agree with your assessment of your current competencies and values?			
10. Have you missed an opportunity for developing your business in the past 6 months because you did not anticipate emerging customer needs?			
11. Have you lost sales to a competitor over the last six months?			
12. Have you identified corporate outcomes or objectives that will enable you			

to achieve your vision?			
13.Do you have a short prioritised list of strategies for achieving these objectives or outcomes?			
14. Will these strategies enable you to capitalise on those opportunities that offer the highest return at the lowest risk for your organisation?			
15. Have you measured your success at achieving corporate objectives and strategic goals within the last 3 months?			
16. Do critical staff members find their work intrinsically satisfying?			
17. Have you missed an opportunity for developing your business in the past 6 months because appropriately skilled resources were unavailable?			
18.Have you missed an opportunity for developing your business in the past 6 months because you could not respond quickly enough?			
19. When your business has a big success, do your employees share the excitement?			
20. Do your employees accept that continual change is a necessary condition for organisational survival?			
21. Does your vision motivate your employees to perform beyond the call of duty?			
22. Do business unit managers understand the relationship between their unit's performance and the achievement of corporate objectives?			
23. Do business units usually satisfy their internal or external customers?			
24. Do business units usually deliver the contribution expected of them or operate within the budget allocated to them?			
25. Is change more difficult to achieve in some parts of your organisation than others?			
26. Do your employees understand the relationship between their own performance and the achievement of corporate objectives?			
27. Are business unit managers held accountable for implementation of business plans via an objective performance management system?			
28. Do appropriate consequences always follow the achievement (or not) of these managers' performance goals?			
29. Are line managers regularly assessed for strategic and people management skills?			
30. Do managers lead (as well as manage) implementation of strategic change?			
31. On average, do more than 75% of projects and programs achieve their intended outcomes or objectives?			
32. Are more than 75% on time and within budget?			

FORCES FOR CHANGE

Change in a business is influenced by two opposing forces: One that drives for change and one that resists.



Driving forces initiate change and keep it going. They may be external or internal.	Resisting forces act against the driving forces for change. They are usually internal.
• Your source of funding is being reduced or increased.	• Your business fears new ideas and prefers to do things the way they have always been done.
• The interests and needs of the people in your community are changing.	• Your business functions the same way it did 20 years ago, out of habit.
• Government support is increased or diminished.	• Your business performs activities just for the sake of keeping busy.
• There is pressure to use modern technology.	• Your business has very few changes or low turnover.
• Membership is increasing or dropping.	
• Members have different views of the group's purpose.	
• When projects or programs are evaluated, a need to change is identified.	

HOW TO BRING ABOUT A SUCCESSFUL CHANGE

RECOGNIZE THE NEED FOR CHANGE:

When a business has not been fully successful in developing the internal systems it needs at a given stage of growth, it begins to experience "growing pains." Growing pains are symptoms that your business needs to make a transition.

The Ten Most Common Business Growing Pains are:

People Feel That "There Are Not Enough Hours in the Day."One of the most common growing pains is the complaint that there is never enough time. Employees feel that they could work twenty-four hours per day, seven days a week, and still not have sufficient time to get everything done. They begin to complain about "overload" and excessive stress. The effects of these feelings can be far reaching.

- First, employees' belief that they are being needlessly overworked may bring on morale problems. Complaints may increase.
- Second, employees may begin to experience physical illnesses brought on by excessive stress. These psychological and physical problems may lead to increased absenteeism, which can decrease the company's productivity.
- Finally, employees may simply decide that they can no longer operate under these conditions and may leave the business. This will result in significant turnover costs and replacement costs related to recruiting, selecting, and training new people.

People Spend Too Much Time "Putting Out Fires." A second common growing pain shows itself in excessive time spent dealing with short-term crises—"putting out fires." This problem usually results from a lack of long-range planning, and, typically, the absence of a strategic plan. Individual employees and the business as a whole live from day to day, never knowing what to expect. The result may be a loss of business productivity, effectiveness, and efficiency.

Examples of the "putting out fires" problem are easy to find:

- In one company, a lack of planning caused orders to be needlessly rushed, resulting in excessive pressure on employees. Drivers had to be hired on weekends and evenings to deliver orders, some of which were already overdue.

- In other companies, lack of planning can produce other short-term crises. For example, lack of planning can result in shortages of salespeople. Because of these shortages, a company may be forced to hire new people and put them to work almost immediately, sometimes without adequate training. This, in turn, can contribute to short-term productivity problems because the new people do not possess the skills necessary to be good salespeople.

People Are Not Aware of What Other People Are Doing. Another symptom of growing pains is that the employee are increasingly unaware of the exact nature of their jobs and how these jobs relate to those of others. This creates a situation in which people do whatever they want to do and say that the remaining tasks are "not our responsibility." Constant bickering between employees may result. These problems typically result from the lack of a business chart and precise role and responsibility definitions as well as effective team building.

People Lack Understanding About Where the business Is Headed. When insufficient communication is combined with rapid changes, as is often the case in growing firms, employees may begin to feel anxious. To relieve this anxiety, they may either create their own networks for obtaining the desired information or come to believe that they know the company's direction even though management has not actually communicated this information. If anxiety increases to the point where it becomes unbearable, employees may begin leaving the firm. Turnover of this kind can be very costly to a firm.

There Are Too Few Good Managers. Although a firm may have a significant number of people who hold the title of "manager," it may not have many good managers. Managers may complain that they have responsibility, but no authority. Employees may complain about the lack of direction or feedback that their managers provide. The problem may be that the company has promoted successful "doers" (salespeople, office workers, and so on) to the role of manager, assuming that they will also be successful in this role. These two roles require significantly different skills, however. Thus, without proper training, many "doers" will fail in the manager's role. Their tendency to continue "doing" will show itself in poor delegation skills and poor coordination of the activities of others.

People Feel That "I Have to Do It Myself If I Want to Get It Done Correctly." Increasingly, as people become frustrated by the difficulty of getting things done in a business, they come to feel that "if I want to get something done correctly, I have to do it myself." This symptom, like lack of coordination, is caused by a lack of clearly defined roles, responsibilities, and linkages between roles.

Most People Feel That Meetings Are a Waste of Time. Recognizing that there is a need for better coordination and communication, the growing business may begin to hold meetings. Unfortunately, at many firms these meetings are nothing more than discussions between people. They have no planned agendas, and often they have no designated leader. As a consequence, the meetings become a free-for-all, tend to drag on interminably, and seldom result in decisions. People feel frustrated and conclude that "our meetings are a waste of time."

When Plans Are Made, There Is Very Little Follow-Up, So Things Just Don't Get Done. Another sign of an entrepreneurship with growing pains is a lack of follow-up after plans are made. Recognizing that the need for planning is greater than in the past, an entrepreneur may introduce a planning process. People go through the motions of preparing business plans, but the things that were planned just do not get done. In one amazing case, there was no follow-up simply because the plan, after being prepared, merely sat in a drawer for the entire year until the next year's planning process.

Some People Feel Insecure About Their Place in the Firm. As a consequence of other business growing pains, employees begin to feel insecure about their places in the firm.

The Firm Continues to Grow in Sales But Not in Profits. In some instances, sales continue to increase while profits remain flat, so that the company is succeeding only in increasing its workload.

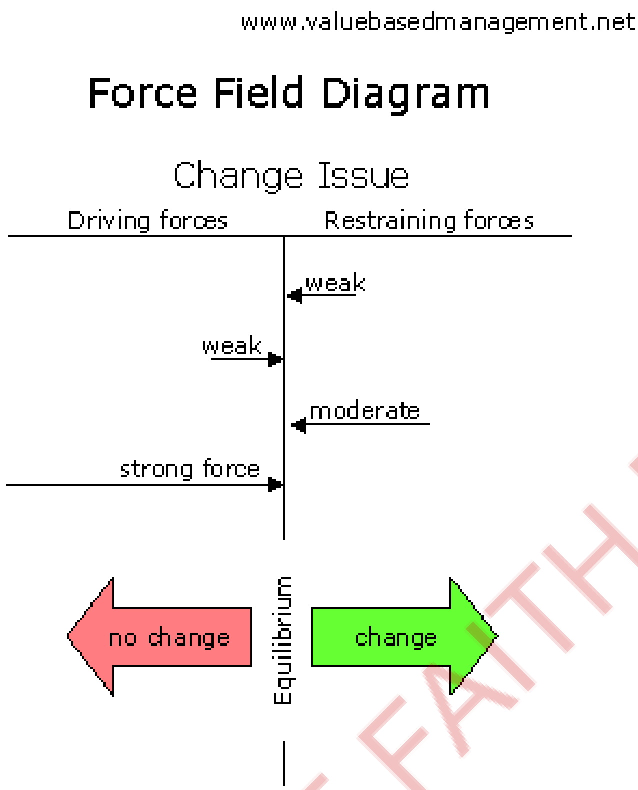
MAKE A LIST OF ALL THE AREAS THAT NEED TO BE CHANGED

Analyse the change in terms of the present and future by getting a clear picture of your business without the change (present) and with the change (future). Visualize the success of your business if changes were implemented in these areas. Consider what you believe would be the advantages and the disadvantages for this change.

Force Field Analysis is a method for listing, discussing, and evaluating the various forces for and against a proposed change. When a change is planned, Force Field Analysis helps you look at the big picture by analyzing all of the forces impacting the change and weighing the pros and cons. By knowing the pros and cons, you can develop strategies to reduce the impact of the opposing forces and strengthen the supporting forces. Forces that help you achieve the change are called "driving forces." Forces that work against the change are called "restraining forces."

Force Field Analysis can be used to develop an action plan to implement a change. Specifically it can

1. Determine if a proposed change can get needed support
2. Identify obstacles to successful solutions
3. Suggest actions to reduce the strength of the obstacles



The Process

- Start with a well-defined goal or change to be implemented.
- Draw a force field diagram.
    a. At the top of a large sheet of paper write the goal or change to be implemented.
    b. Divide the paper into two columns by drawing a line down the middle. At the top of the left column, write "Driving Forces." Label the right column "Restraining Forces."
- Brainstorm a list of driving and restraining forces and record them on the chart in the appropriate column.

- Once the driving and restraining forces have been identified, ask the following questions: Are they valid? How do we know? How significant are each of them? What is their strength? Which ones can be altered? Which cannot? Which forces can be altered quickly? Which ones only slowly? Which forces, if altered, would produce rapid change? Which only slow change in the situation? What skills and/or information is needed and available to alter the forces? Can we get them?

- Assign a score to each force, from 1 (weak) to 5 (strong). The score is based on (a) the strength of the force and (b) the degree to which it is possible to influence this force.

- Calculate a total score for each of the two columns.

- Decide if the goal or change is feasible. If so, devise a manageable course of action which:

    - Strengthens positive forces

    - Weakens negative forces

    - Creates new positive forces

REALISE THAT YOU WILL RECEIVE RESISTANCE

Resistance to change is a natural response because each of us prefers stability and feels comfortable with routine. Resistance to change is the action taken by individuals and groups when they perceive that a change that is occurring is a threat to them. Key words here are 'perceive' and 'threat'. The threat need not be real or large for resistance to occur. Resistance may take many forms, including active or passive, overt or covert, individual or organized, aggressive or timid.

Top Ten Reasons People Resist Change:

- The risk of change is seen as greater than the risk of standing still
- People feel connected to other people who are identified with the old way
- People have no role models for the new activity
- People fear they lack the competence to change
- People feel overloaded and overwhelmed
- People have a healthy skepticism and want to be sure new ideas are sound
- People fear hidden agendas among would-be reformers
- People feel the proposed change threatens their notions of themselves
- People anticipate a loss of status or quality of life
- People genuinely believe that the proposed change is a bad idea

<u>Dealing with resistance</u>

Facilitation:

The best approach to creating change is to work with them, helping them achieve goals that somehow also reach to the goals of the change project. When you work with people, they will be happier to work with you. This is a good practice when people want to collaborate but are struggling to adjust to the situation and achieve the goals of change.

Education:

When people are not really bought into the rationale for the change, they may well come around once they realize why the change is needed and what is needed of them. In particular, if new skills are required, you can provide these via a focused course of education.

Involvement:

When people are not involved physically or intellectually, they are unlikely to be involved emotionally either. One of the best methods of getting people bought in is to get them involved.

The pull principle:

Principle: Lead them such that they choose to act.

How it works: Pulling a person in motivation means creating conditions that they chose themselves. It means showing them how something else will be beneficial to them. It means them deciding rather than just you deciding. Most methods of persuasion are based on creating pull rather than push, which is generally coercive in nature. Pull creates desire. It is about making the other person want what you are offering. It is subtly changing how they perceive the world such that they see what you have and want it. Once you have created desire, then the internal tension set up in the other person will lead them in the right direction.

Push principle

Principle: I force you to act, whether you want to do it or not. You feel no option but to obey.

How it works: No choice = Many forms of persuasion seek to change what people believe such that they act through their own free will. In a *push* approach, although physical force may not be used, the people feel they are obliged to comply even though may be against their better judgment.

Non-physical push: For non-physical pushing, you need power or authority that impacts the needs that the other person. The level of threat needs to be high enough that they feel obliged to comply with your request. In a company this can be the power to dismiss, demote or sideline them. In business, pushing appears when managers tell their subordinates what to do

COMMUNICATE EFFECTIVELY

You cannot over-communicate when you are asking your business to change. Effective communication requires four components interworking perfectly for "shared meaning."

- The individual sending the message must present the message clearly and in detail, and radiate integrity and authenticity.

- The person receiving the message must decide to listen, ask questions for clarity, and trust the sender of the message.

- The delivery method chosen must suit the circumstances and the needs of both the sender and the receiver.

- The content of the message has to resonate and connect, on some level, with the already-held beliefs of the receiver.

Communicate consistently, frequently, and through multiple channels, including speaking, writing, video, training, focus groups, bulletin boards, Intranets, and more about the change. Communicate all that is known about the changes, as quickly as the information is available. Provide significant amounts of time for people to ask questions, request clarification, and provide input. Clearly communicate the vision, the mission, and the objectives of the change management effort. Help people to understand how these changes will affect them personally. Recognize that true communication is a "conversation." It is two-way and real discussion must result. It cannot be just a presentation.

PREPARE FOR THE INVOLVEMENT OF OTHERS:

Change must involve the people - change must not be imposed upon the people. Whenever a business imposes new things on people there will be difficulties. Participation, involvement and open, early, full communication are the important factors.

KOTTER'S EIGHT STEPS FOR LEADING BUSINESSAL CHANGE

Although the need for change is widely recognized and acknowledged, the reality of creating that change, and more importantly, making the change "stick" are extremely difficult. Kotter details eight common errors in business change efforts:

1. Allowing too much complacency
2. Failing to create a sufficiently powerful guiding coalition
3. Underestimating the power of vision
4. Undercommunicating the vision
5. Permitting obstacles to block the vision
6. Failing to create short term wins
7. Declaring victory too soon
8. Neglecting to anchor changes firmly in the corporate culture.

Kotter has developed, through his experience in observing change efforts in many business an eight stage model for implementing change. Each stage is associated with one of the eight fundamental errors that undermine transformation efforts (listed above).

The first four steps help to defrost a hardened status quo. They are:

- Establishing a sense of urgency: Create a compelling reason why there is a need for change
- Creating the guiding coalition – create a cross functuional, cross leveled group of people with enough power to lead the change.
- Developing a vision and strategy: Plan a vision and a strategy to guide the change process.
- Communicating the change vision

The next stages then introduce many new practices:

- Empowering a broad base of people to take action – eliminate barriers to change. Encourage risk taking and creative problem solving.
- Generating short term wins - recognize and reward people who contribute to the change
- Consolidating gains and producing even more change

The final stage is required to ground the changes in the corporate culture, and make them stick:

- Institutionalizing new approaches in the culture

WHAT MAKES FOR A SUCCESSFUL BUSINESS?

Success involves three distinct phases:

- Preparation (Strategizing and planning)
- The transaction (Implementing the plans and the strategies
- Fulfilment (Comparing the success or failure with the plan and strategy)

ASSIGNMENT

What changes do you feel you would need to implement in your business? How do you perceive that these changes will be taken by your staff? How will you overcome this resistance?

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