



# Small Scale Business Management

## Module 2

Making the Business idea real



## **ACKNOWLEDGEMENTS**

This module is a product of many people who worked hard to see it ready for use by BOCODOL learners. BOCODOL wishes to acknowledge contributions of the following

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First Edition Published 2002

Revised Edition Published 2011

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ISBN 99912- 86 – 09 – 4

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# Introduction to Module 2

## Making the Business Idea Real

The title of the module is : Making the Business Idea Real. The two topics dealt with in this module are topic 1; Developing the Business Ideas and Topic 2; How Feasible is Your Idea.

Topic 1 helps us define the business idea more clearly and equips you with skills of assessing opportunities for business more accurately. You are introduced to some business concepts such as competition and politics in business.

Topic 2 asks an important question, namely how feasible is your idea? In this topic , you will be taken through skills required to carry out the feasibility study.

In addition, you will be introduced to the concept of SWOT analysis that serves as a guide to the advantages and disadvantages of the venture you will be running or you intend to set up.

# Topic 1

## Developing the Business Ideas

### Introduction

In Module 1 we examined some ideas that are helpful in ensuring that you start a business with minimum problems. You may recall that ideas on how to keep the business going were also raised. A business starts as an idea, and sometimes more than one idea. How can such an idea be developed so that when you start the business venture you will succeed and live happily ever after? This module is concerned with answers to this and other questions.

### Learning Objectives

After working through this module you should be able to:

- define your business idea more clearly and link it to opportunities around you
- assess business opportunities more accurately
- link important factors to your business.

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### 1.1 Identifying a business opportunity

Let me take this time to ask you this question. Are you already in business? If you are not, do you want to start one? This question may help us to answer the following questions, What is a business opportunity? How is this opportunity linked to your idea of a business?

We shall define an opportunity as: a favorable situation when it is appropriate to start a business. Not every person has the talent of seeing a business opportunity in the community.

Only the entrepreneur is able to do that. Remember what we said in Topic 1 about the qualities of an entrepreneur? At times you may have an idea about a business idea and it may take you, months or years before a suitable opportunity arises. Whenever an opportunity arises, you translate your business idea into action. A business opportunity presents itself to enable you to start a business. At the same time, when you are already in business it is the same opportunity which keeps you going.

An opportunity drives the entrepreneur to put together the three factors of production, namely, land, labour, and capital. This enables the entrepreneur to produce goods or services for sale at a profit. We often take these factors for granted, and at this point we should pause and reflect on how they are important to our businesses.

Let us do the following activity

### Activity 1A

(i) My type or the business I intend doing is: <hr/> <hr/>
(ii) I need land for the following reasons: <hr/> <hr/> <hr/>
(iii) I need labour for the following reasons: <hr/> <hr/> <hr/> <hr/> <hr/>
(iv) I need capital for the following reasons: <hr/> <hr/> <hr/>

*Your response will depend on the type of business you are running or are interested in. Also check suggested answers at the end of the topic.*

## 1.2 Assessing a Business Opportunity

In Module 1, we discussed about reasons for starting a business. The following are some of examples given by entrepreneurs on why they started businesses.

- (a) you may be employed and realise that your monthly income is not enough to meet the needs of your family.
- (b) You may also go into business because somebody you know very well got into business and became rich in a short time.
- (c) Some people set up businesses after listening to stories of success by people who had nothing but today are millionaires.

The question you may have to ask yourself is, is the business opportunity likely to be profitable? Remember that if you are limited to an academic background at times, your business ambitions may result in failure. This does not mean people with an academic or technical background cannot make it in business. The point is that there are other considerations when assessing an opportunity because it takes more than just good ideas to build a business. Here are some of them.

- How does your current employment help strengthen your idea?
- Does your previous employment strengthen the business idea?
- Does anything that you have done before suggest that it could form the basis of business?
- Have you contacted government agencies in Botswana to find out more about your business idea?
- Did you visit businesses similar to yours to learn more about the joys and problems they face?

## 1.3 Factors to Consider When Developing a Business Idea

Entering into business does not necessarily depend on a single idea. As an entrepreneur, you should have two or more alternative ideas, discuss these at length with other people, find out what they think about your ideas and give careful thought to your preferences. Experience shows that sometimes there is little joy in discussing your ideas openly. In most cases people discourage you, and that is for a good reason. They themselves may not be interested in business, so they can only give you negative comments. However both may help the entrepreneur to strengthen his/her idea.

Let us look at the factors entrepreneurship need to consider when developing a business idea

**Activity 1B**

(i) **Location:** The area and community where you are going to establish the business. Suggest **two** ways in which this factor affects your business.

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(ii) **Size of business:** Will the business remain small or does it have the potential to expand? In what **two** ways does this factor help you develop your business idea?

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(iii) **Standard of living:** Is your aim to get rich quickly or to start with a low initial income with a potential for higher income later? If your aim is to get rich quickly what steps can you take to achieve that?

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(iv) If you aim at a low initial income, suggest steps you will take to move on to higher income later.

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**Personal Strength:** To what extent can you draw on your skills, experience and education? Now what makes you feel you can make a meaningful contribution to the economy of Botswana through your business? Any **two** points will do.

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<p>(vi) <b>Capital requirements:</b> You will need capital to start business. This is in the form of cash and assets such as premises and equipment.</p> <p>How much money do you require either to start or to continue in business?</p> <hr/> <hr/> <hr/>
<p>(vii) Suggest <b>two</b> sources from which you will get the capital.</p> <hr/> <hr/> <hr/>

*When you take note of these factors, and ensure that you can easily keep control of them, the chances of success in business are high. Turn to the end of the topic for suggested responses to these questions.*

## 1.4 Competition and Your Business Idea

Many enthusiastic business persons fail before they start because they do not give themselves enough time to put their idea to the tests. The best test is to check what similar businesses in the environment are doing. Remember that if you want to manufacture chairs and tables, or if you want to start repairing radios, you may not be the first one to do it. Most likely, there are several entrepreneurs in that trade already doing that. You will therefore, have to define the scope of the business in terms of technologies, market boundaries, knowledge of consumer behavior, etc. An idea which does not have sufficient market potential and information about competitors is useless. Some of the information you need is:

- Obtain information from within the type of industry you want to enter.
- Approach potential customers to find out what their needs are.
- Establish how existing products can be improved and how favorably your own product is going to be better than that of competitors.
- Approach potential distributors for advice.

In other words, it is easier to improve on the existing provision by satisfying the customer’s needs a little better than competitors. In business terms, this is improved value for money.

**Activity 1C**

(i) Mention your type of business or the business you intend to establish.

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(ii) Give two suggestions on how you propose to improve your product or service in order to have an advantage over your competitors.

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(iii) Considering your type of business, suggest any two pieces of advice you can get from potential distributors.

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*Please note that this is meant to be a practical activity. The points you give should relate directly to the business. You will also benefit from suggestions by colleagues or family members. Refer to the end of the topic for suggested answers.*

**1.5 Politics and Your Business Idea**

At some point in your life, you have heard people talking about the political climate of a country. What is politics? How does politics affect business? Let me define politics before asking you to respond to these questions. Politics refers to the way the country is governed. If there are no wars, inter tribal fights, misuse of public funds, and corruption, people are free to choose how to occupy themselves without being forced into certain decisions, we say there is democracy. Normally in such a country, the economy is stable and the environment is suitable for setting up business. Now, use this information to work on the following activity.

**Activity 1D**

(i) Suggest any **three** political features of Botswana that make it a stable country.

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(ii) Specify in what way each of the features you cited above influences your business idea to become better.

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*A good business idea supported by a peaceful climate is likely to succeed. Responses from your colleagues, and feedback suggested at the end of topic are likely to confirm this.*

## 1.6 Age and Your Business Idea

What age group do you fall within, tick from the listed figures:

18 – 25,  26 – 35,  36 -45,  46 – 65,  over 65?

Is it important any way to consider age before starting a type of business? If you are running a business, is there a time when your age prevents you from continuing? These are very important considerations when developing the business idea. Experience should be your best guide here. Here are some contrasting situations.

**Entrepreneur X**  
 (25 years old). Has too much money. Too little knowledge about running the business. Has no relevant knowledge on running the hotel bought for 5 million Pula.

**Entrepreneur Y**  
 The retired school teacher is 70 years old. He has just bought two new commuter mini buses. Has a lot of interest in the type of business. He is no longer as energetic as he used to be.

**Entrepreneur Z**  
 This entrepreneur is 44 years old. The business of booking houses/lodges he/she is interested in will take 5 years to develop before it can pay back money invested. A capital of 3 million Pula is required. The entrepreneur is determined to go into business. He/she has only 1 million Pula.

**Activity 1E**

<p>(i) Which of the <b>three</b> entrepreneurs would you choose to be?</p> <hr/>
<p>(ii) Suggest two reasons why you would choose to be that entrepreneur.</p> <hr/> <hr/> <hr/>
<p>(iii) Comment on the relationship between the business idea and the age of the two entrepreneurs you would not like to be associated with.</p>
<p>Entrepreneur     1</p> <hr/> <hr/>
<p>Entrepreneur     2</p> <hr/> <hr/> <hr/>

*This interesting activity reminds us that when we have the energy and ideas about business, we may not have the money. Also, when we have the money, it may be at the time we may not have energy to run around and supervise business activities but this may not stop you from starting a business, you could hire someone to manage the business for you. Refer to the end of the topic for suggested answers.*

**1.7 What we have learnt**

In this part we focused mainly on how to develop the business idea. The guidelines depend on your qualities of entrepreneurship, which we discussed in Topic 1. To summarise the areas covered the following points will be helpful.

- An idea should be linked to opportunities in your community.
- There are more effective ways of assessing business opportunities you should be familiar with.
- In assessing a business opportunity, you should consider a number of factors.
- The business you engage in is influenced by competition around you.
- The political climate of a country, as well as your age have an effect on your business idea.

## 1.8 Self-Assessment Exercise

Answer **True/False**

1. A business idea is the opportunity or chance you come across in your community.  
\_\_\_\_\_
2. Land, labour, and capital are factors of production. \_\_\_\_\_
3. Labour includes people who are going to work for the business. \_\_\_\_\_
4. The only reason to start a business is to earn additional income to meet your family needs. \_\_\_\_\_
5. Success stories are one source of assessing business opportunity \_\_\_\_\_
6. Previous experience is a useful basis for developing a business idea. \_\_\_\_\_
7. The location of a business refers to how large or small the business is. \_\_\_\_\_
8. Capital refers only to the amounts of money required as start-up. \_\_\_\_\_
9. People running similar businesses help you to focus your idea. \_\_\_\_\_
10. Potential customers are the people who already come to buy from your business. \_\_\_\_\_
11. Political stability has a negative effect on the small business. \_\_\_\_\_
12. People who are in their 70's cannot succeed in business. \_\_\_\_\_

## 1.9 Glossary

<b>Academic background:</b>	Experience that is mainly based on school subjects without practice
<b>Competition:</b>	A business situation in which similar businesses fight to win customers.
<b>Democracy:</b>	A system of government which allows people freedom to choose what they want to do.
<b>Economy:</b>	The economy of a country refers to the way production of goods and trade are done.
<b>Expand:</b>	To expand a business is to make it grow by adding new buildings, or increasing the number of workers.
<b>Factors of production:</b>	Things required to run a business e.g. land, capital and equipment.
<b>Opportunity:</b>	A business opportunity refers to a favorable situation when it is appropriate to start a business.
<b>Politics:</b>	This refers to the way a country is run.

## 1.10 Suggested Answers to Activities

### Activity 1A

- (i) You can write the type of business you are in or the one you are interested in establishing.
- (ii) Farming
  - To grow crops
  - To graze cattle
  - To build worker's accommodation
- (iii) Working in the farm
  - Looking after cattle
  - Repairs fence

- (iv) Buy seed
- Buy insecticides
  - Pay workers

### Activity 1B

- (i) The two ways in which this factor affects business are
- if you are far away from people there will be no customers
  - If you are located where the road is poor, vehicles cannot reach you.
- (ii) The factor of business size helps me develop the business idea in these two ways:
- show the phases of development in the business plan.
  - decide on the number of employees needed at various phases.
- (iii) In order to get rich quickly I will
- attract many customers and sell larger quantities in a short space of time.
  - decide on the capital to be invested at different stages.
- (iv) To move from initial low income to higher income, I will
- invest more capital in stock.
  - start another branch in another location.
- (v) I can contribute to the economy of Botswana by:
- creating employment
  - producing quality products.
- (vi) I need enough money to cover costs of stock, premises, wages, transport and other costs incurred in running the business.
- (vii) The following are possible sources of capital
- personal savings
  - a rich friend
  - a commercial bank
  - a business finance house

### Activity 1C

- (i) It will depend on your business type or the one you want to start.
- (ii) Depends on the business type. If you sell food from a caravan you may have different reasons example:

- Provide a sun shade for clients
  - cover food instead of putting it in open containers.
  - Deliver food items for free.
  - Allow them to operate an account.
- (iii) Advice from potential distributors can be:
- Whether they can deliver food items for free
  - Whether they allow you to operate an account

### Activity 1D

- (i)
- You are free to choose a business type of your own.
  - The government offers start – up loans
  - There is peace in the country.
- (ii)
- You do not have to do business to please somebody.
  - You are assured of additional funding.
  - You can set up your business anywhere in the country.

### Activity 1E

- (i) The choice is up to the individual.
- (ii) If you choose Entrepreneur Z for example, two possible reasons are that:
- He/she is still young enough to carry out the venture
  - He/she has savings to which borrowing could be added
- (iii)
- Entrepreneur X perhaps lacks business experience at the age of 25. The lack of relevant knowledge can lead to failure
  - Entrepreneur Y is probably too old to start a transport business which requires him to run up and down. He no longer has the energy.

## 1.11 Answers to Self-Assessment Exercise

- |          |           |
|----------|-----------|
| 1. False | 7. False  |
| 2. True  | 8. False  |
| 3. True  | 9. True   |
| 4. False | 10. False |
| 5. True  | 11. False |
| 6. True  | 12. False |

## Topic 2

# How Feasible is your business idea?

### Introduction

After developing your business idea it seems quite straight that it should be feasible and therefore, ready for application. Although that appears logical enough, there are a number of important steps to follow. The next step is to work out whether the idea is likely to succeed. A feasibility study must be undertaken. That is the focus of this topic.

### Learning Objectives

After working through this topic you shall be able to:

- carry out a feasibility study about your business idea
- use critical factors to carry out the feasibility study
- determine advantages and disadvantages of your idea
- use the SWOT analysis.

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### 2.1 SWOT Analysis

At this stage you have to take final action by establishing competitive advantages, disadvantages, threats to your business, and available opportunities. Note that you have not yet started trading. However, for those already in the business, this type of analysis is an ongoing business practice especially when you carry out market research.

The practical survey is known as SWOT analysis in business terms. This is what it stands for.

<b>S</b>	=	<b>Strengths</b>
<b>W</b>	=	<b>Weaknesses</b>
<b>O</b>	=	<b>Opportunities</b>
<b>T</b>	=	<b>Threats</b>

Below is an example of SWOT analysis.

<p><b>STRENGTHS</b></p> <ul style="list-style-type: none"> <li>• Best recipe</li> <li>• Plenty of customers</li> </ul> <p>Good price</p>	<p><b>WEAKNESSES</b></p> <ul style="list-style-type: none"> <li>• Vulnerable to imitations</li> <li>• Lack of skills</li> <li>• Few customers</li> </ul>
<p><b>OPPORTUNITIES</b></p> <ul style="list-style-type: none"> <li>• Room for expansion</li> <li>• Mobile</li> <li>• Low set up costs</li> <li>• Availability of electricity, water</li> </ul>	<p><b>THREATS</b></p> <ul style="list-style-type: none"> <li>• Not getting license</li> <li>• Insecure location</li> <li>• Strict business laws</li> </ul>

Now apply this formula to your business honestly and objectively by doing Activity 2A.

**Activity 2A**

(i) Type of business.

\_\_\_\_\_

(ii) List your two strengths over competitors.

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

(iii) List your two weaknesses considering your competitors.

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

(iv) List two opportunities that make you better than your competitors.

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

(v) List two threats that your enterprise faces in the world of competition.

\_\_\_\_\_

\_\_\_\_\_

*It is important to have a list of these, but more importantly, it is necessary to decide how to deal with each point you listed. Make a record of such decisions by discussing with anybody who matters in making your business a success. By so doing you will be making the idea more feasible. Refer to the end of the topic for suggested answers.*

## 2.2 Critical Factors for Success

When dealing with factors for success, you are getting to practical implications of your idea. You are now addressing the question: What makes the difference between success and failure in the particular industry you are joining? To answer this question you must short –list points against each of these factors.

- Your share of the market
- Barriers to your entry into the market
- Your capital needs
- Satisfaction of customer needs
- Distribution networks
- Technological changes.

Limit your analysis to those critical factors that affect you most. In addition to the six listed above, add two more of your own that affect competitiveness in the context of where your business is located in Botswana.

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You now have eight critical factors. Look at them more closely bearing your business in mind then work on the next activity.

### Activity 2B

(i) Select **two** critical factors that put you at a disadvantage, and explain how you propose to turn each one into an advantage.

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(ii) Select **two** critical factors that put you at an advantage over your competitors. Suggest how you will use each one to improve chances of success.

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*Some of the critical factors are less permanent than others, so you should also try to predict future advantages and disadvantages based on the opportunities and threats in the market. For example, a business affected by drought in one year has the possibility of recovering if the next season turns out to be a good one. Refer to suggested answers at the end of the topic.*

## 2.3 How to Use Your Competitive Advantage More Effectively

In the following illustration you will probably notice that the way beans of the right are packaged, labeled is more appealing to customers. That gives the entrepreneur some advantage over competition.



Let these two words guide you in pursuing your advantages: ‘counter’, ‘neutralise’. You should counter and neutralise the advantages of your competitors. To have an advantage one needs to compete from a position of strength, and this leads to success that can be measured in Pula. What must you do before setting up a business? Here are a few suggestions, and I want you to add two of your own:

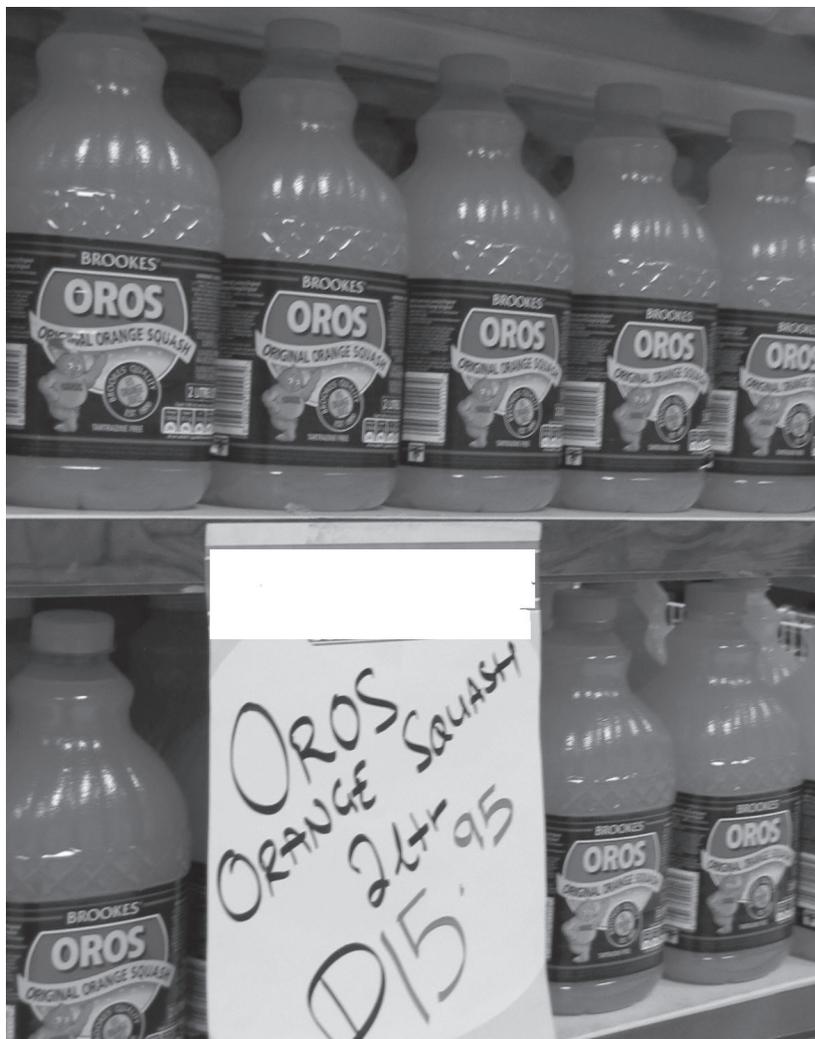
- Choose your (slice) of the market carefully
- Determine your manufacturing processes
- Decide on the packaging of your product
- Finalise your distribution channels
- Be more willing to take risks

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When you establish an advantage, it gives you a lead in your field while it protects you from negative economic, political and technological changes.

## 2.4 Ways of Gaining Competitive Advantage

Careful labeling, advertising and arrangement of goods are some of the ways of gaining advantage as shown in this illustration.



We are going to discuss several ways of achieving advantage, and it is important to note that you must plan for it. We are going to treat the discussion in the form of an activity. Work on each item as you read along.

### Activity 2C

Advantage can be gained through the following ways.

#### (i) Localisation

You should aim to develop a business that is indigenous to Botswana. Usually, a business that supports the aims and interests of the government is likely to receive financial and moral support.

Mention **four** types of businesses that are encouraged by the government of Botswana.

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Select **one** of those businesses and give a reason why the government supports it.

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**(ii) Closeness to consumers**

If you are the manufacturing business, you should manufacture products as near as possible to the area in which they are to be sold.

Why is it a disadvantage to manufacture products far away from consumers?

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**(iii) Financial stability**

Before starting the business you should have a stable budget. This helps you to cope with the unexpected changes in the cost of goods you sell. Some of these changes occur overnight and can upset your trading.

How do sudden changes in the cost of goods you trade in affect business?

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Over-borrowing of capital indicates financial instability. In what way does too much dependence on accounts affect business?

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**(iv) Introducing new products.**

If you are able to introduce a new product in addition to what you and your competitors already have, that provides you with the same initial benefits as being the first on the market.

In your type of business, suggest one or two products you could introduce.

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Explain how you are the only one able to obtain the products at that point in time.

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**(v) Pricing of goods**

Businesses selling the same commodities or services are known to have varying prices. If you can lower your prices without losing profitability, you will have an advantage over competitors. Suggest three business methods you can use to sell goods at lower prices than the competitors.

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(vi) Now suggest one way of gaining advantage you have used in your business. Write a brief explanation about it.

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*Before turning to the end of the topic for suggested answers, spend some time sharing your views with colleagues or other people in business. You will find some of the ideas of great help.*

Assuming that the proposal appears feasible by now, you need to know the specific goals, (the immediate and long term ones). Then you must decide who the workers are going to be to meet the goals. Finally, you should decide on your priorities and make the first move. The business can start.

Let us look at a checklist to assess feasibility of the business.

This checklist can be helpful just to ensure you have taken into account the crucial factors.

- Define the business
- List critical factors
- List your strengths and weaknesses
- List market opportunities and threats
- List competitive advantages and disadvantages
- Estimate costs and returns
- Define what must be done and when it must be done.

## 2.5 What we have learnt

In this part the main focus was on how feasible your business idea is. To explain that, we examined the following key areas.

- Using the SWOT analysis to determine feasibility
- Critical factors in establishing feasibility
- Using your advantage to enhance success
- How to cultivate advantage over competitors
- The advantages and disadvantages of the proposed business.

## 2.6 Glossary

- Barriers:** In business, barriers are the things that prevent you from running the business as you would like to.
- Commodities:** This term is used to refer to the items or products sold in your business.
- Counter:** When you counter competition it means you find different but more effective ways of running your business.
- Feasible:** A business idea is said to be feasible when it can be put into practice.
- Neutralise:** In business you neutralise competition by running the business better than your competitors..
- Threats:** In business threats refer to those things which are likely to cause problems for you e.g. a new supermarket opening next to you is a threat to your small shop.

## 2.7 Self-Assessment Exercise

Answer **True/False**

1. Once you have an idea it becomes feasible \_\_\_\_\_
2. Competitors can be a threat to the success of a business. \_\_\_\_\_
3. The SWOT analysis is useful to those who are starting new businesses only. \_\_\_\_\_
4. Distribution networks also include postal communication. \_\_\_\_\_
5. It is advisable to focus your attention on a specific market segment than to try and please everybody. \_\_\_\_\_
6. It is unnecessary to plan ways of achieving advantage in business. \_\_\_\_\_
7. Localisation also means creating employment for the citizens of a country. \_\_\_\_\_

8. A co-operative is a type of business supported by the Botswana government. \_\_\_\_\_
9. A successful business largely depends on credit accounts from suppliers. \_\_\_\_\_
10. Lowering of prices can result in competitive advantage. \_\_\_\_\_

## 2.8 Suggested Answers to Activities

### Activity 2A

Imagine someone who lives on a farm, about twelve kilometers from a town. She want to start lodges.

- (ii) Her two strengths are:
- The land on which to start the project.
  - The capital needed to start.
- (iii) Two possible weaknesses are:
- lodges will be far away from the population centre.
  - customers incur transport costs.
  - there could be security problems.
- (iv) Possible opportunities could be:
- you offer better quality facilities
  - the food prepared caters for various population groups.
  - you operate tours which competitors do not offer.
- (v) Possible threat
- Road not tarred
  - No electricity in the village
  - High crime rate

### Activity 2B

- (i) Two factors that could put you at disadvantages when operating lodges outside town are:
- negative publicity by competitors: mount effective adverts to attract customers.
  - distance from main road: if funds permit, buy a mini-bus to ferry customers.
- (ii) Factors that put the operator of lodges at an advantage.
- a lot of space on the farm: you can introduce game viewing and additional recreational facilities not possible in crowded spaces in town.
  - You can grow your own food, thus cut down on cost.

**Activity 2C**

- (i) Some of the business are:
- Tourism enterprises
  - Game farming
  - Market gardening
  - Dairy production
  - Poultry farming
  - Fabrics
- (ii) The government supports market gardening because it lessens food shortage in the country.
- (iii) It is a disadvantage to manufacture products far away from consumers because you incur high transport costs.
- Sudden changes in cost of goods imply you have to raise retail prices. That scares away your customers.
  - The profit you make goes to pay debts, and that does not improve your standard of living.
- (iv) You could introduce cheaper winter jackets in your remote rural shop where others sell more expensive jackets.
- You may be the only one able to obtain the jackets because you buy directly from source somewhere in South Africa, while your competitors are not able to do that.
- (v) Some of the methods are:
- Ordering directly from manufacturers, which is cheaper.
  - Covering up for lower prices in products that sell faster at a higher price.
  - Giving periodic discount so that the commodity sells faster to recover costs quickly.
- (vi) In nearly every business the idea of a suggestion box encourages customers to give their views about your business. If you act on these views, it is possible to improve business performance.

## 2.9 Answers to Self Assessment Exercise

- |          |          |
|----------|----------|
| 1. False | 6. False |
| 2. True  | 7. True  |
| 3. False | 8. True  |
| 4. True  | 9. False |
| 5. True  | 10. True |