

Case Study Analysis



IB Business Management

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Critical Thinking



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IB BUSINESS MANAGEMENT – PRE-RELEASED CASE STUDY MAY 2018: CRITICAL THINKING

Below is a list of all key terms as they appear in the IB Business Management May 2018 pre-released case study for SL and HL Paper 1 examinations.

- The terms and concepts are **defined**
- They are then considered in the context of the case study.

Term	Line	Definition	Critical thinking
Business	1	Any organisation that uses resources to meet the needs of customers by providing a product or service that they demand. They identify the needs of consumers or other firms. They then purchase resources, which are the inputs of the business or factors of production, to produce output. The 'outputs' of a business are the goods and services that satisfy consumers' needs, usually with the aim of making a profit.	AS is a start-up company, and as such it will have many challenges to become operational, to survive and to grow. Most new businesses fail.
Input	4	A resource (factor of production) used in the production process (e.g., labour, raw materials, etc.) to produce an output – a good or a service.	Making strategic decisions regarding and then managing those inputs in operations management is relatively complex in large manufacturing companies.

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			Cell production methods are likely to be more labour intensive than mass automated production, which will be more capital intensive.
Strategic decision making	4	<p>The decision-making of senior management about setting and achieving strategic objectives – broadly defined targets that a business must reach to achieve its overall aim.</p> <p>COMMON OBJECTIVES:</p> <ul style="list-style-type: none"> ▪ Profit maximisation ▪ Profit satisficing ▪ Growth ▪ Increasing market share ▪ Survival ▪ Corporate social responsibility (CSR) ▪ Maximising short-term sales revenue ▪ Maximising shareholder value 	<p>The strategic decision making at AS will be centred on strategies to achieve one of the following objectives:</p> <ul style="list-style-type: none"> ▪ Survival – AS is a new business and new businesses have a very high failure rate in the first one-three years of operation. This objective aligns with the three-year cashflow forecasts that have been prepared. ▪ Growth – While AS is a for-profit business it has at its heart a mission to improve the lives of Afghans by bringing them electricity. The larger it grows, the more solar system sales it will make, and the more lives in Afghanistan it will help improve.
Project	7	<p>An individual or collaborative enterprise that is carefully planned to achieve an aim.</p>	<p>Su (Suchenlin) is looking for a project that allows her to give back to society. Of all the possible new and existing projects that she could initiate or collaborate with, is this the best one for allowing Su to maximise returns to society?</p>
For-profit	8	<p>An organisation operated to make a profit, where profit is the positive residual value of sales and other income less expenses incurred in the operating and marketing/sales expenses.</p>	<p>For some microfinance providers, like AS, the way to keep down the interest rate is to take deposits from clients to fund loans. That is all well and good for AS but financial regulations in many countries stop microfinance providers taking deposits and the capital must come from somewhere else. And, given the limited supply of the sort of philanthropic donations that may help AS get started, the only plentiful supply of capital is for-profit investors.</p>

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Microfinance	9	<p>A type of financial or banking service targeted at individuals and groups that would otherwise have no means of accessing credit. The aim of microfinance is to allow impoverished groups and individuals the opportunity to become self-sufficient.</p> <p>It is believed small amounts of microcredit will facilitate large improvements in the standard of living of those most in need.</p>	<p>Microfinance is a key part of PRICE in AS's marketing mix. If AS cannot successfully provide and manage its microfinance systems, poor and rural Afghans could not hope to purchase the solar power systems.</p>
Microfinance provider	9	<p>An organisation that enables qualifying individuals to borrow small amounts money to finance self-sufficiency, for example: a very basic business (e.g. to purchase a sewing machine or a goat), provide health treatment facilitating a return to work or a cheap motorcycle enabling transport to a job.</p>	<p>AS aims to allow poor Afghani households in remote areas to purchase solar power systems. These power systems could then be used to operate small businesses (e.g., to run a computer, charge a cell phone, operate a sewing machine) and generally improve the lives of families purchasing such a system (e.g., light to read by and do homework at night).</p>
Finance	10	<p>To provide funding for (a person or enterprise).</p>	<p>AS aims to provide small amounts of finance to individuals or households to purchase the solar power systems. Without this finance poor rural Afghans would never be able to afford the upfront price.</p>
Commissioned	11	<p>To order or authorise the production of (something).</p>	<p>In this context, and with the specific use of the word "commissioned" it is unlikely that AK Bank has established its own production facilities and operations to manufacture and supply solar power systems. AK Bank is "very successful". If this is the case, why would Su decide to manufacture the solar power systems with her own company?</p> <p>The least cost option to providing solar cells is to commission them from a low-cost provider, i.e., a company that has significant economies of scale such as a global manufacturer.</p>

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			It is hard to reconcile Su's goal of "allowing her to give back to society" with selling a more expensive product, which in turn with its higher price, makes it more difficult for poor households to afford.
Manufacture	16	To make (something) on a large scale using machinery, along with other inputs.	<p>Again, this is a surprising strategic decision to take based on the available information. Purchasing the solar systems from a low-cost manufacturer would enable the company to use the finance it has set aside for capital expenditure for other uses – including warehousing and distribution.</p> <p>Additionally, where tariffs (a tax on imports) could make the import of solar cells, etc. from a low-cost supplier such as China prohibitively expensive. No such tariffs exist according to the latest Afghanistan Customs Tariff (2014) schedule. The closest match in the tariff schedule is a 2.5% tariff on electrical generating sets.</p>
Social enterprise	18	An organisation that applies commercial strategies to maximise improvements in financial, social and environmental well-being – this may include maximising social impact alongside profits for external shareholders.	Despite being a for-profit business, AS is a true social enterprise as it aims to maximise the social well-being of rural Afghan households. If it did not have a social objective AS could embark on a much less daunting business venture.
Private limited company	19	A small to medium sized business that is owned by shareholders who are often members of the same family. This company cannot sell shares to the public.	<p>This business structure makes sense. It provides the most flexibility. Private limited companies are by no means compelled to operate with the goal of maximising profits.</p> <p>Other business structures that Su could have considered are:</p> <ul style="list-style-type: none"> ▪ Non-governmental organisations (NGOs): a legally constituted body with no participation or representation of any government.

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			<ul style="list-style-type: none"> Charities: An organisation set up to provide help and raise money for those in need. <p>Be prepared to evaluate the advantages and disadvantages of each type of organisation with the context of the organisation's goal.</p>
Volunteers	20	A person(s) who freely offers to take part in an enterprise or undertake a task.	Volunteers are likely to be intrinsically motivated as they are not rewarded with pay or benefits.
Employees	20	A person(s) employed for wages or salary, especially at non-executive level.	Unlike volunteers, employees engage in their job tasks for remuneration. Here, some of HH employees are also AS volunteers working on the project. There is unlikely to be a conflict of interest in the two roles, but volunteers are usually unable to commit fulltime to a project due to the need to earn an income.
Market research	21	The process or set of processes that links the producers, customers, and end users to the marketer through information used to identify and define marketing opportunities and problems; generate, refine, and evaluate marketing actions; monitor marketing performance; and improve understanding of marketing as a process. Marketing research specifies the information required to address these issues, designs the method for collecting information, manages and implements the data collection process, analyses the results, and communicates the findings and their implications.	<p>Limited market research is presented, and the conclusions drawn have little justification. How extensive and reliable are the conclusions?</p> <p>One real strength to the initiative that has been identified is the strategic partner Arif Koomar who runs AK Bank and is successful and experienced in this business model, albeit in Bangladesh.</p> <p>The two most interesting conclusions are firstly, to differentiate themselves in terms of price: "Enable a very low price to be charged for the units". And second, the means to achieve this: cellular manufacturing.</p> <p>To achieve the lowest unit price for the solar systems economies of scale must be achieved. Solar systems are produced at the lowest cost by mass production methods, which is producing large quantities of a standardised product often using specialised,</p>

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			<p>automated and capital-intensive production lines.</p> <p>There are global solar energy companies that produce for a mass global market and would achieve unit output costs significantly lower than AS could hope to achieve.</p>
Product	22	<p>Any good or service that serves to satisfy the needs or wants of customers. Some products are tangible (e.g., a physical product such as a magazine), others are intangible (e.g., a service such as a haircut).</p>	<p>In the marketing mix, PRODUCT provides a solution to a customer problem. The same product could be a solution to different problems identified.</p> <p>Thus, microfinance is designed to specifically allow impoverished groups and individuals the opportunity to become self-sufficient. However, households (customers) wishing to purchase the product may be doing it for entirely different reasons – such as being able to watch the television at night or surf the internet.</p>
Produced	22	<p>To make or manufacture from components or raw materials.</p>	<p>As previously outlined above, this is an interesting strategic decision regarding operations management.</p>
Cellular manufacturing	23	<p>A form of flow production, but instead of each worker performing a single task, the production line is split into several self-contained, mini-production units - known as cells. Each individual cell produces a complete unit of work, such as a complete washing machine motor and not just a small part of it.</p> <p>Each cell has a team leader and below that a single level of hierarchy made up of multi-skilled workers. The performance of each cell is measured against pre-set targets (output levels, quality and lead times, etc).</p>	<p>Cells are responsible for the quality of their own complete units of work. This has implications for total quality management, job enrichment and teamworking – all of which should be able to be discussed.</p> <p>The cell production method has led to:</p> <ul style="list-style-type: none"> ▪ Increased worker commitment and motivation ▪ Job rotation within the cell ▪ Increased productivity <p>However, this production method would not result in the lowest average unit cost. Solar power systems are a relatively undifferentiated product. Price is all important with an undifferentiated product. Su must consider outsourcing</p>

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			<p>the solar power system in total and not just certain components even though Salima does not want to, without justification in the case study.</p> <p>Students must be able to evaluate outsourcing and insourcing.</p>
Team	23	<p>A group of people with a full set of complementary skills required to complete a task, job, or project.</p> <p>These members (1) operate with a high degree of interdependence, (2) share authority and responsibility for self-management, (3) are accountable for the collective performance, and (4) work toward a common goal and shared rewards(s). A team becomes more than just a collection of people when a strong sense of mutual commitment creates synergy, thus generating performance greater than the sum of the performance of its individual members.</p>	<p>Teamworking is an important non-financial method of motivation.</p> <p>Teamworking: production is organised so that groups of workers undertake complete units of work.</p>
Purchase	23	<p>Acquire (something) by paying for it; buy.</p>	<p>The purchase of raw materials is a critical operations management decision. Considerations include:</p> <ul style="list-style-type: none"> ▪ How reliable is the supplier? ▪ At what price and quantities can components be supplied? ▪ What quality are the components? Higher quality components will likely cost more, lower quality components will cost less but have higher failure rates.
Raw materials	23	<p>The basic material from which a product is made; e.g., the silicone needed to manufacture solar cells.</p>	<p>A few considerations in the decision of where to source raw materials would include:</p> <ul style="list-style-type: none"> ▪ How reliable is the supplier?

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			<ul style="list-style-type: none"> ▪ At what price and quantities can the raw materials be supplied? ▪ What quality are the raw materials? Higher quality raw materials will likely cost more, lower quality raw materials will cost less but do not perform as well and/or result in higher failure rates and/or need added processing in production.
Resources	23	The factors of production used in the production process (i.e. land, labour, capital and enterprise).	Cell production methods are likely to be more labour intensive than mass automated production, which will be more capital intensive.
Efficiently	24	Greatest output per unit of input.	Achieving economies of scale would allow AS to produce the most efficient solar power systems. However, the most efficient and lowest cost producer would likely be an existing global manufacturer.
Very low price	24	Price is the amount paid by consumers for a product.	<p>Price is a vital component of the marketing mix as it impacts on the consumer demand for a product.</p> <p>The pricing level will also:</p> <ul style="list-style-type: none"> ▪ Determine the degree of value added by the business to bought-in components ▪ Influence the revenue and profit made by the business due to its impact on demand ▪ Reflect the marketing objectives of the business and identity of a product. <p>Get the pricing decision wrong and much hard work in market research and product development can be put at risk.</p> <p>The very low price is essential for low income Afghan households to become AS customers.</p>

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			The payment plans and credit terms associated with the microfinancing the solar power systems are associated with PRICE in the marketing mix.
Units	24	An individual good or service produced for sale.	The unit of output for sale at AS will be the solar power systems. The decision to manufacture them rather than purchase them from a massive, low cost global manufacturer is likely to result in higher unit costs.
Suppliers	25	An organisation that provides something needed such as a product or service.	The decision to manufacture the solar power systems means that AS will be heavily reliant on its key suppliers of components and raw materials. Operations management will need to carefully select each of these key external stakeholders by considering such things as reliability, quality, quantities that can be produced, and how quickly materials and components can be delivered to meet production needs.
Strategic partner	26	A relationship between two commercial enterprises, usually formalised by one or more business contracts, but this will usually fall short of a legal partnership entity, agency, or corporate affiliate relationship.	One real strength to the initiative that has been identified is the strategic partner Arif Koomar who runs AK Bank and is successful and experienced in this business model, albeit in Bangladesh. Arif will be key to how successful the project will be, especially as the business seeks to set up operations and then become an established seller of solar power systems and microfinance provider.
Leadership	28	The art of motivating a group of people towards achieving a common objective.	Su is an established leader as she was a successful CEO with High-end Holidays, before delegating day-to-day control to the current management team. She has input into the strategic decision making at High-end Holidays and she provides the inspiration for the business.

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			<p>Her leadership style would be classified as 'democratic' which means that:</p> <ul style="list-style-type: none"> ▪ Participation is encouraged ▪ Two-way communication used, which allows feedback from staff ▪ Workers given information about the business to allow full staff involvement <p>We know this because she “empowers her managers at HH to make day-to-day decisions.” (line 29)</p> <p>It is well suited to the new business venture for the following reasons:</p> <ul style="list-style-type: none"> ▪ Most likely to be used in businesses that expect workers to contribute fully to the production and decision-making processes, thereby satisfying their higher-order needs. ▪ An experienced and flexible workforce will be likely to benefit most from this style. ▪ In situations that demand a new way of thinking or a new solution, the staff input can be very valuable. <p>The only issue is that this is a completely new venture and the two business models are vastly different. The management at High-end Holidays who will transfer to AS will have a steep learning curve. Therefore, at least in the initial stages, a more decisive, top-down leadership role may be better suited. Hopefully, Su can adapt and employ a more 'situational leadership' style.</p>
<p>Leadership role</p>	<p>28</p>	<p>The leadership function assumed, or part played by a person in a particular situation.</p>	<p>Su will need to decide how actively she will be engaged as a leader at AS. Will she assume a more inspirational role again to motivate her team to achieve their objectives as she currently does at HH and empower her team? Or will she take a more active, hands-on</p>

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			<p>leadership role as AS seeks to establish operations and find the most suitable marketing mix? It could easily be argued that a more hands-on and active leadership role may be more suitable in the early stages of the start-up. Subordinate managers are likely to be less experienced and confident about their new roles.</p>
Empowers	29	To give someone the authority or power to do something.	<p>Empowerment is a non-financial motivator which involves a line manager giving her subordinates some autonomy in their job and the authority to make various decisions.</p> <p>Empowerment is an intrinsic motivator, a motivation that is especially powerful because it is driven by an interest or enjoyment in the task itself and exists within the individual rather than relying on external pressures or a desire for consideration.</p> <p>Therefore, empowerment leads to an engaged and productive workforce.</p>
Managers	29	A person responsible for controlling or administering an organisation or group of staff.	<p>As has, in addition to Su, the need for four senior managers, two of which have been identified already.</p> <p>The first of these managers is David who has experience in marketing in Afghanistan. The advantage of this is that he knows the country and the people. The disadvantage is that marketing luxury high-end holidays to affluent Afghani customers is going to be exceptionally different to marketing solar powered systems to poor, rural villagers. The market segments could hardly be any more different!</p> <p>Salima has management experience in industry more aligned to that of AS – manufacturing., and because she is an Afghani it is assumed that this experience was gained in Afghanistan. Having a senior manager who is</p>

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			experienced in Afghani manufacturing should prove to be a key strength of AS. The only possible issue that could limit Salima's effectiveness would be gender discrimination. According to World Bank data, less than five percent of Afghani firms have top female managers.
Organizing	29	A key management task that involves assembling required resources to attain organisational objectives.	A manager that is effective in this role will increase the productivity of AS – a better output to input ratio; i.e., more output can be achieved with the same inputs, or the same output can be achieved with less inputs. Either way, management at AS that excels at organising will lead to a more efficient business with lower average unit costs.
Directing staff	30	Giving employees) an official order or authoritative instruction in line with achieving an objective.	Management who provide effective direction to subordinates will ensure that staff are on task and more likely to achieve goals and targets.
Coordinating	30	Bringing the different elements of a complex activity or organisation into a harmonious or efficient relationship.	Managers who effectively coordinate resources will increase the efficiency and productivity of AS. There will be less wastage of resources. For example, effective coordination between key suppliers and the production process could lead to more timely deliveries of components and raw materials as and when needed. This would reduce storage costs and wastage, ultimately decreasing the costs of production and increasing the profitability of AS.
Tactical decisions	30	These are medium term, less complex decisions made by middle managers. They follow on from strategic decisions and aim to meet the objectives stated in any strategic decision. For example, to become the market leader, a firm may have to launch new products/services or open new branches.	As a start-up firm, AS will have clear strategic objectives. It is important to have clear, well thought through and well researched tactical decisions to meet these strategic objectives. For example, if a strategic objective is to become a low-cost provider of solar power systems, then what tactical

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			decisions could AS use to facilitate the achievement of such an objective?
Teamwork	31		<p>Teamworking is an important non-financial method of motivation.</p> <p>Teamworking: production is organised so that groups of workers undertake complete units of work.</p> <p>Teamworking is an intrinsic motivator, a motivation that is especially powerful because it is driven by an interest or enjoyment in the task itself and exists within the individual rather than relying on external pressures or a desire for consideration.</p> <p>Therefore, teamworking leads to an engaged and productive workforce.</p>
Working practice	32	The way that work is usually done in a company or organisation.	<p>A commonly used definition of organisational culture is 'the way we do things around here', so working practices can provide important insight into the organisational culture at AS. This means how people within the organisation view the world and respond to it in trying to achieve certain goals.</p> <p>It is widely understood that different organisations have distinctive cultures. For example, the culture of a steel company will be very different to that of a leading independent IB girls' school. The culture of an organisation gives it a sense of identity and is based on the values, attitudes and beliefs of the people who work in it, especially senior management.</p> <p>Values, attitudes and beliefs have a very powerful influence on the way staff in a business will act, take decisions and relate to others in the organisation. They define what is 'normal' in an organisation, so it is possible for the same person to act in different ways in</p>

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			<p>different organisations. What we do and what how we behave - in society in general and business in particular - are largely determined by our culture.</p>
<p>Quality issues</p>	<p>32</p>	<p>An important problem with the standard of something as measured against other things of a similar kind; the degree of excellence of something is lacking.</p>	<p>Quality is about making organisations perform for their stakeholders – from improving products, services, systems and processes, to making sure that the whole organisation is fit and effective.</p> <p>Managing quality means constantly pursuing excellence: making sure that what your organisation does is fit for purpose, and not only stays that way, but keeps improving.</p> <p>There's a lot more to quality than just manufacturing solar power systems without any defects or getting these to customers on time – although those things are certainly part of the picture.</p> <p>What quality means for your organisation is ultimately a question for your stakeholders. And by stakeholders it is meant anyone who has an interest in the success of what AS does.</p> <p>Customers will be the most important group of stakeholders for AS, but investors, employees, suppliers and members of our wider society are stakeholders too. Delivering quality in AS means knowing who its stakeholders are, understanding what their needs are and meeting those needs (or even better, exceeding expectations), both now and in the future.</p> <p>It is believed that this comes down to three things: strong governance to define AS's aims and translate them into action, robust systems of assurance to make sure things stay on track and a culture of improvement to keep getting better.</p>

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Responsibility	34	The state or fact of having a duty to deal with something or of having control over someone.	The main difference between responsibility and accountability is that responsibility can be shared while accountability cannot. Being accountable not only means being responsible for something but also ultimately being answerable for your actions.
Motivated	34	Enthusiastic and determined to achieve success.	<p>Well-motivated workers will help AS achieve its objectives as cost effectively as possible. Motivated workers will also be trying to reach their own personal goals by satisfying their own needs. AS, as an employer needs to be aware of extrinsic needs, such as pay, which can provide motivation even if the job itself does not. Intrinsic motivation stems from the nature of the job itself.</p> <p>Unmotivated or demotivated staff will not perform effectively, offering only the minimum of what is expected. Motivation levels have a direct impact on productivity levels and the competitiveness of AS. Highly motivated workers have high productivity and this reduces unit costs. Motivated staff will be keen to stay with AS, reducing costs of labour turnover. They will be more likely to offer useful suggestions and to contribute in ways other than contractual obligations. They often actively seek promotion and responsibility.</p>
Conflict	35	A state of opposition between ideas, interests, etc; disagreement or controversy.	Unresolved conflict in the workplace has been linked to miscommunication resulting from confusion or refusal to cooperate, quality problems, missed deadlines or delays, increased stress among employees, reduced creative collaboration and team problem solving, disruption to work flow, decreased customer satisfaction, distrust, split camps, and gossip.

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			<p>Conflict is not always destructive. When it is destructive, however, managers need to understand and do something about it. A rational process for dealing with the conflict should be programmed. Such a process should include a planned action response on the part of the manager or the organisation, rather than relying on a simple reaction or a change that occurs without specific action by management.</p>
Mission	37	<p>An organisation's core purpose and focus that normally remains unchanged over time.</p>	<p>Managers at AS and HH say that they have a clear understanding of Su's mission. However, more subordinate employees may not, and Su should consider crafting a mission statement for the company.</p> <p>Mission statement: A statement of the business's core aims, phrased in a way to motivate employees and to stimulate interest by outside groups.</p>
Fundraising	39	<p>Seeking to generate financial support for a charity, cause, or other enterprise.</p>	<p>Although fundraising typically refers to efforts to gather money for non-profit organisations, it is sometimes used to refer to the identification and solicitation of investors or other sources of capital for for-profit enterprises, as would be the case with AS.</p>
Government organizations	39	<p>A state agency, often an appointed commission, which is a permanent or semi-permanent organisation in the machinery of government that is responsible for the oversight and administration of specific functions, such as the oversight of microfinance providers.</p>	<p>Afghani government organisations are likely to be external stakeholders in AS. There would be government organisations interested in assisting and/or overseeing AS where their objectives were aligned. For example:</p> <ul style="list-style-type: none"> ▪ Better national electricity supply ▪ Improving the lives of rural Afghanis ▪ The provision of microfinance
Non-governmental	40	<p>Any non-profit, voluntary citizens' group which is organised on a</p>	<p>One characteristic these diverse organisations share is that their non-</p>

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<p>organizations (NGOs)</p>		<p>local, national or international level.</p>	<p>profit status means they are not hindered by short-term financial objectives. Accordingly, they can devote themselves to issues which occur across longer time horizons, such as alleviating poverty, improving health outcomes, education access, empowering women, etc.</p> <p>There would be numerous NGOs at work in Afghanistan, at least in areas where it is safe for them to operate. These organisations would provide valuable local knowledge and be an important source of advice for AS as they role out their business plan.</p> <p>Public surveys reveal that NGOs often enjoy a high degree of public trust, which can make them a useful – but not always sufficient – proxy for the concerns of society and stakeholders; i.e., an NGO may have established a degree of trust in certain villagers which AS, newly arrived, would not necessarily have.</p>
<p>Marketing</p>	<p>43</p>	<p>The management task that links the business to the customer by identifying and meeting the needs of customers profitably. It does this by getting the right PRODUCT at the right PRICE at the right PLACE with the right PROMOTION.</p>	<p>Marketing exists to address people's needs and wants. It is all about making customers want to buy the products of a business rather than those of rival businesses. It therefore looks at the reasons behind people's decisions, because ultimately marketing must serve to meet the needs and wants of a customer – essential if AS is aiming at both making a profit and providing maximum benefit to poor rural households.</p>
<p>Marketing department</p>	<p>43</p>	<p>The functional business unit that has responsibility for the activities of a company associated with buying and selling a product or service. It includes advertising, selling and delivering products to customers and potential customers.</p>	<p>David is the senior manager in charge of marketing at AS.</p> <p>David who has experience in marketing in Afghanistan. The advantage of this is that he knows the country and the people. The disadvantage is that marketing luxury high-end holidays to</p>

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			<p>affluent Afghani customers is going to be exceptionally different to marketing solar powered systems to poor, rural villagers. The market segments could hardly be any more different!</p> <p>As such, David must have members on his team that help negate such inexperience.</p>
Manufacturing	45	<p>Making (something) on a large scale using machinery, along with other inputs.</p>	<p>Again, this is a surprising strategic decision to take based on the available information.</p> <p>Students should verse themselves in evaluating the strength and weaknesses of outsourcing and insourcing, in the context of the case study.</p> <p>Purchasing the solar powered units from a low-cost supplier would be outsourcing the manufacturing function. Manufacturing the solar power systems itself is insourcing.</p>
Production director	45	<p>A person from a group of managers who leads or supervises the operations of a company, program, or project. Companies that use this term often have many directors spread throughout different business functions or roles.</p>	<p>Operations management is concerned with supervising, designing and controlling the procedures of the production process. It is closely involved in all aspects of the production process which is why the term operations management is used interchangeably with that of 'production'. In addition, operations management is involved in the redesign of the business operations that have as their centre of focus, the production of goods and/or the provision of services. Operations management is concerned with the responsibility of guaranteeing that business operations are efficient in that the processes are using as few resources as needed and are effective in terms of meeting customer requirements. Finally, operations management is concerned with managing the process that converts inputs (in the forms of materials,</p>

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			<p>labour, and energy) into outputs (in the forms of goods and/or services).</p> <p>The production or operations director is the senior operations management at AS. This role is seen as being pivotal in the success of AS. AS is a manufacturing company where the product is technologically sophisticated, and distribution and supply chain management could be very challenging in Afghanistan, particularly rural Afghanistan.</p>
Senior managers	45	<p>A team of individuals at the highest level of management of an organisation who have the day-to-day tasks of managing that organisation.</p>	<p>Senior management is both a strength and a weakness. The strength is that Su is an experienced and successful business leader.</p> <p>However, at its inception, AS has a senior management team that is relatively inexperienced in terms of the peculiar characteristics of its business model. This could cause significant problems until experience and knowledge is gained.</p> <p>For example, very few of the senior management team, has any experience in solar power systems, manufacturing, microfinance, Afghanistan, and with the particular market segment AS is targeting.</p>
Selecting	46	<p>In the staff recruitment process, this involves carefully choosing the best or most suitable candidate.</p>	<p>Recruitment is the process of searching the candidates for employment and stimulating them to apply for jobs in the organisation, whereas selection involves the series of steps by which the candidates are screened for choosing the most suitable persons for vacant posts.</p>
Junior employees	46	<p>Ordinary employees or those with less important jobs in an organisation, rather than managers or high-level specialist staff.</p>	<p>Very few of the current management team has any experience in solar power systems, manufacturing, microfinance, Afghanistan, and with the particular market segment AS is targeting. The</p>

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			recruitment and selection of additional staff would ideally identify employees who bring skills and expertise specific to the peculiar characteristics of the business.
Outsource	48	A practice used by different companies to reduce costs by transferring portions of work to outside suppliers rather than completing it internally.	<p>Solar power systems are a product that is relatively undifferentiated, especially when it comes to the low-end technology that is required to bring power to a rural house in a country that basks in sunshine.</p> <p>AS has as one of its objectives, to supply these systems to its poor, rural Afghani customers at a “very low price”.</p> <p>The lower the price it can bring the solar power systems to market, the more demand there is going to be for its product. And the more demand there is for it, the better AS is going to be at fulfilling Su's intention – “giving back to society”.</p> <p>AS cannot possibly manufacture these solar power systems at the lowest price. This product is suited to mass, flow production lines that are highly automated and produce vast quantities of the product in order to achieve economies of scale.</p> <p>By choosing to manufacture the systems itself, AS will increase the price to consumers, reducing the uptake of the product and limiting the benefits such a product brings to its consumers.</p> <p>Outsourcing the production of the solar systems must be a very viable proposition.</p>
Production facility	48	A factory or manufacturing plant is that is an industrial site, usually consisting of buildings and machinery, or more commonly a complex having several buildings, where workers manufacture goods	The capital expenditure needed to build a production facility capable of producing solar power systems at scale is prohibitive.

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		or operate machines processing one product into another.	We can see that in the first year of operations, only \$200,000 is allocated for purchasing, renovating or building such a facility. This implies that the production facility is small in scale which, in turn, makes it unlikely that economies of scale can be achieved. Thus, the solar power systems will not be “very low cost” when compared to outsourced alternatives.
Location	51	The geographical position of a business; i.e., where it is sited.	<p>Deciding on the best location for a new business - or relocating an existing one – is often crucial to its success. Location decisions – choosing new sites for expansion or relocation of the business – are some of the most important decisions made by management teams. Selecting the best site will have a significant effect on many departments of the business and, ultimately, on the profitability and chances of success of the whole firm.</p> <p>There are three key characteristics of AS's location decision:</p> <ol style="list-style-type: none"> 1. This decision will be undertaken by the highest levels of management (Su will not delegate this decision). 2. Due to the costs of relocating, the location will be difficult to reverse. 3. It is a decision that is strategic in nature – it will have a long-term impact on the whole business.
Developed economy	Table 1	A sovereign state that has a highly developed economy and advanced technological infrastructure relative to other less industrialized nations.	<p>In terms of locating the production facility to a developed country, the main advantages to AS identified in the case study:</p> <ul style="list-style-type: none"> ▪ Generally high skills level in the labour force ▪ Stable currency ▪ Good infrastructure for supply chain management and export

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			<ul style="list-style-type: none"> ▪ Stable political and regulatory environment ▪ Low levels of corruption ▪ Ease of doing business will be relatively high ▪ Part of large free trade agreement <p>The main disadvantages to AS would include:</p> <ul style="list-style-type: none"> ▪ Labour more expensive ▪ Further from its market which complicates distribution and adds to distribution expense ▪ Reduces the social benefit of the company; e.g., bringing employment and improving human capital to an impoverished country ▪ High rent for production facilities
<p>Developing economy</p>	<p>Table 1</p>	<p>A nation or a sovereign state with a less developed industrial base and a low Human Development Index (HDI) relative to other countries.</p>	<p>In terms of locating the production facility to a developing country, the main advantages to AS identified in the case study:</p> <ul style="list-style-type: none"> ▪ Labour is inexpensive ▪ Closer to its market which facilitates distribution and reduces distribution expense ▪ Increases the social benefit of the company; e.g., bringing employment and improving human capital to an impoverished country ▪ Low rent for production facilities <p>The main disadvantages to AS would include:</p> <ul style="list-style-type: none"> ▪ Generally low skills level in the labour force ▪ Unstable currency ▪ Poor infrastructure for supply chain management ▪ Unstable political and regulatory environment

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			<ul style="list-style-type: none"> ▪ High levels of entrenched corruption ▪ Ease of doing business will be relatively low ▪ Not part of any significant free trade agreement
Skills level	Table 1	The level of human capital development in a country or geographic region.	<p>High skill levels will increase productivity and reduce costs of production; however, wages will be relatively high.</p> <p>Low skill levels will reduce productivity and increase costs of production; however, wages will be relatively low.</p> <p>Solar power systems will be technically sophisticated, and it is likely that AS will need staff with relative high skill levels. Further, the relatively small scale of the production facility indicates that the production process will not be especially capital intensive. The technical aspects of manufacturing are unlikely to be automated.</p>
Government assistance	Table 1	Any centrally or federally administered programme, project, service, or activity provided by the government that directly assists domestic governments, organisations, or individuals in the areas of education, health, public safety, public welfare, and public works, among others.	<p>Favours production facilities to be located in the developing economy where grants are made available for investment from overseas. This will go some way to mitigating the disadvantages associated with AS locating in the eloping country.</p> <p>Government assistance could also provide valuable advice, knowhow and connections <i>if</i> the developing country was to be identified as being Afghanistan.</p>
Free market economy	Table 1	An economic system where the government does not interfere in business activity in any way. The forces of supply and demand determine what goods and services are produced, in what quantities and at which price.	It will be much easier for AS to do business in a free market economy. Red tape and compliance costs will be relatively low. All things being equal, businesses are more productive the less government control and regulations there are.

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			<p>However, businesses that are successful in rent-seeking activities can be highly profitable and it can be a source of competitive advantage to be favoured by a government.</p>
Investment	Table 1	<p>To allocate money in the expectation of some benefit in the future – for example, investment in factories for manufacturing, in product development, and in research and development.</p>	<p>In purely financial terms, the investment that is required to establish and maintain operations at AS carries much risk.</p> <p>It is highly unlikely that the venture would be pursued on commercial terms alone. Large scale manufacturing is a difficult proposition, the target market has low disposable income, and the vagaries of doing business in Afghanistan would require a highly experienced team on the ground. Afghanistan ranks an extremely poor 183 out of 190 countries in the global 'ease of doing business' rankings.</p> <p>Therefore, the social good that the business aims to achieve must be credited – a qualitative factor in the investment decision.</p>
Grants	Table 1	<p>A sum of money given by a government or other organisation for a particular purpose.</p>	<p>The possibility of receiving a government grant favours AS establishing production facilities in the developing country. Grants and tax breaks can be very influential in the location decisions. However, this usually applies to multinational corporations, and it is uncertain at how much influence AS would have when it comes to such rent-seeking.</p> <p>Rent-seeking: Engaging in or involving the manipulation of public policy or economic conditions as a strategy for increasing profits.</p>
Wage costs	Table 1	<p>The sum of all wages paid to employees, as well as the cost of employee benefits and payroll taxes paid by an employer. This</p>	<p>Often the single biggest cost to firms. AS is not opting to purchase the entire solar power systems from a supplier, and they are too small to achieve the economies</p>

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		cost is broken into direct and indirect (overhead) costs.	of scale necessary for an automated, mass flow production line. Therefore, compared to other low cost solar providers, AS will likely be relative labour intensive. This could favour Country B, where wage costs are low.
Stable currency	Table 1	A system of money which successfully performs its functions as a means of exchange, unit of account and a store of value because its purchasing power is stable.	A stable currency will reduce the risk associated with international marketing. Risk needs to be factored into investment decisions. All things being equal, the greater the risk, the greater the return is needed to justify an investment decision. It is easier to plan operations, in particular supply chain management. Imported components and raw materials will cost AS more if the currency of their current location depreciates.
Falling currency	Table 1	The loss of value of a country's currency with respect to one or more foreign reference currencies, typically in a floating exchange rate system in which no official currency value is maintained.	<p>A depreciating currency has advantages and disadvantages.</p> <p>Advantages:</p> <ul style="list-style-type: none"> ▪ It will be less expensive to set up operation facilities, as the US dollar will be able to purchase more of the local currency as it depreciates. ▪ It can enable AS to reduce its prices and maintain profitability (at least in the local currency). Low price solar systems are a key feature of their proposed marketing mix. <p>Disadvantages:</p> <ul style="list-style-type: none"> ▪ Imported raw materials and components become increasingly expensive as the local currency depreciates. This will push up the costs of production to AS significantly. Higher prices may need to be charged to maintain profit

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			margins in the face of rising average unit costs.
Facilities	Table 1	A factory or manufacturing plant is that is an industrial site, usually consisting of buildings and machinery, or more commonly a complex having several buildings, where workers manufacture goods or operate machines processing one product into another.	<p>The capital expenditure needed to build a production facility capable of producing solar power systems at scale is prohibitive.</p> <p>We can see that in the first year of operations, only \$200,000 is allocated for purchasing, renovating or building such a facility. This implies that the production facility that has been favoured in the later cashflow analysis is that of the developing country. \$200,000 could never be enough to finance new production facilities.</p>
High rent	Table 1	A tenant's regular payment to a landlord for the use of property or land that is relatively expensive.	High rent payments will increase the average fixed cost associated with each unit. If cost-plus pricing is used, then high rents will increase the final price of the solar power systems to the consumer. One of AS's objectives is to achieve a very low price for their customers.
Low rent	Table 1	A tenant's regular payment to a landlord for the use of property or land that is relatively inexpensive.	Low rent payments will decrease the average fixed cost associated with each unit. If cost-plus pricing is used, then low rents will decrease the final price of the solar power systems to the consumer. One of AS's objectives is to achieve a very low price for their customers.
Transport links	Table 1	How people or goods are moved from one place to another; e.g., rail and sea.	Transport links will be factored into the location decision because it will be important in terms of costs (and opportunity costs) and reliability in the management of AS's supply chain.
Complex transport links	Table 1	Where people or goods are moved with considerable difficulty and increased planning from one place to another; e.g., rail and sea.	If transport links are relatively complex, then this will increase the variable costs associated with transport of raw materials and components as well as

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			<p>the delivery of the final product to customers.</p> <p>This will increase the final price of the solar power systems to the consumer. One of AS's objectives is to achieve a very low price for their customers.</p> <p>The supply chain will become less reliable with increasing complexity of transport. For example, delivery of the solar systems may be delayed in Afghani customs.</p>
Straightforward transport links	Table 1	Where people or goods are moved with considerable ease and reduced planning from one place to another; e.g., rail and sea.	<p>If transport links are relatively straightforward, then this will decrease the variable costs associated with transport of raw materials and components as well as the delivery of the final product to customers.</p> <p>This will decrease the final price of the solar power systems to the consumer. One of AS's objectives is to achieve a very low price for their customers.</p> <p>The supply chain will become more reliable the more straightforward transport is in the supply chain. For example, suppliers will be readily able to deliver components and raw materials when they are needed in the production process. This, in turn, would reduce the need for the warehousing of stock as a contingency.</p>
Political environment	Table 1	Government actions which affects the operations of a company or business. These actions may be on local, regional, national or international level. Business owners and managers pay close attention to this to gauge how government actions will affect their company.	<p>In A PEST or STEEPLE analysis, political factors are basically how the government intervenes in the economy. Specifically, political factors have areas including tax policy, labour law, environmental law, trade restrictions, tariffs, and political stability. Political factors may also include goods and services which the government aims to provide or be provided (merit goods) and those that the government does not want to be provided (demerit</p>

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			goods). Furthermore, governments have a high impact on the health, education, and infrastructure of a nation.
Stable political environment	Table 1	<p>In general:</p> <ul style="list-style-type: none"> ▪ The members of the government can change without violence, either by democratic election or some other means of succession. ▪ Policies don't change radically between successive governments. ▪ Institutions like the legal system, the public service, the police force, and the judiciary don't change (much) when the government changes. ▪ Sections of the population don't may not like a change of government, but they don't fear they will be shot, jailed or lose their jobs or property if it happens. Life and economic activity can continue normally for most people. 	<p>A stable political environment will reduce the risk associated with operations and investment decisions. Risk needs to be factored into investment decisions. All things being equal, the greater the risk, the greater the return is needed to justify an investment decision.</p> <p>Property rights and contracts will be enforceable. This means, firstly, that investment is safeguarded (i.e., the company and its production facilities cannot suddenly be nationalised as has happened recently to many foreign firms operating in Venezuela.</p> <p>Secondly, suppliers and contractors can be held to account for contractual arrangements made between them and AS. This will reduce the cost and increase the reliability of supply.</p>
One party state	Table 1	<p>A form of government where the country is ruled by a single political party, meaning only one political party exists and the forming of other political parties is forbidden.</p>	<p>This is less likely to be a stable political environment and will increase the risk associated with operations and investment decisions. Risk needs to be factored into investment decisions. All things being equal, the greater the risk, the greater the return is needed to justify an investment decision.</p> <p>Property rights and contracts will not be easily enforceable. This means, firstly, that investment is not safeguarded (i.e., the company and its production facilities could suddenly be nationalised as has happened recently to many foreign firms operating in Venezuela.</p>

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			Secondly, suppliers and contractors cannot be held to account for contractual arrangements made between them and AS. This will increase the cost and decrease the reliability of supply.
International trade	Table 1	The exchange of capital, goods, and services across international borders or territories.	International marketing refers to the marketing of a firm's products in foreign countries. International marketing is more difficult for AS because they need to deal with external factors and constraints such as tariffs, quotas and non-tariff barriers (such as red tape and bureaucracy).
Trading agreement	Table 1	The product of negotiations between two or more sovereign nations that dictate the terms of the acceptable exchange of goods and services between the parties.	<p>Usually a key advantage in terms of international marketing. However, this may not be as significant or important to AS because Afghani tariffs on imported solar systems are low.</p> <p>Additionally, where tariffs (a tax on imports) could make the import of solar cells, etc. from a low-cost supplier such as China prohibitively expensive. No such tariffs exist according to the latest Afghanistan Customs Tariff (2014) schedule. The closest match in the tariff schedule is a 2.5% tariff on electrical generating sets.</p> <p>However, being part of a free trade agreement can enable goods, people and capital to move quickly between the respective countries, making supply chain management relatively less difficult.</p>
Commercial marketing	53	The process of creating, communicating, and delivering value to the customers to retain the benefit of the organisation and stakeholders.	<p>The commercial marketing of solar power systems by AS to its target market does not seem a good fit.</p> <p>Commercial marketing aims to maximise sales and profitability to the company. There are several issues with this:</p>

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			<ul style="list-style-type: none"> ▪ The target market is poor, rural Afghan households – this will not be a lucrative market for AS. ▪ It can be argued that the product is market orientated because there has been a clear need in this target market that has been identified and product and price (especially the microfinance aspect of the business plan) have been specifically adapted to meet this need. ▪ Su has a vision to give back to society, and the solar systems are her way of doing this – bettering the lives of poor, rural Afghans. This clearly suits a social marketing approach.
<p>Social marketing</p>	<p>53</p>	<p>Seeks to develop and integrate marketing concepts with other approaches to social change. Social marketing aims to influence behaviours that benefit individuals and communities for the greater social good.</p>	<p>In purely financial terms, the investment that is required to establish and maintain operations at AS carries much risk. It is highly unlikely that the venture would be pursued on commercial terms alone.</p> <p>Therefore, the social good that the business aims to achieve must be credited – a very important qualitative factor in the investment decision.</p> <p>The USP of the solar power systems is their ability to bring social change by bringing affordable electricity to poor, rural households. Family incomes can be elevated as new businesses can be established with electricity. Communication with people outside of villages becomes possible. Reading and homework is no longer confined to daylight hours. In other words, AS would be looking to influence behaviours that benefit individuals and communities for the greater social good – social marketing</p>

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Product orientated	54	A business that has its primary focus on its product and on the skills, knowledge and systems that support that product.	AS is more likely to be market orientated. From the outset it has organised its activities, products and services around the wants and needs of its customers – poor, rural Afghanis in desperate need of affordable electricity.
Market orientated	54	A business that organises its activities, products and services around the wants and needs of its customers.	<p>The activities of AS are focussed on this need – this is its mission.</p> <p>The product is tailored to meet this need. Sunny Afghanistan makes solar systems effective and efficient.</p> <p>The product is being produced at a “very low price” to make it affordable to the target market.</p> <p>Microfinance is an essential service provided by AS to meet the needs of its customers – affordable electricity. An upfront payment would make the solar systems prohibitively expensive to poor Afghanis.</p>
Customers	55	A party that receives or consumes products (goods or services) and can choose between different products and suppliers.	The customers AS is targeting are poor, rural Afghanis. These customers have comparatively low financial value to the company, even though AS will be run as a for-profit company. However, the ‘heart’ of AS is to be able to influence behaviours that benefit individuals and communities for the greater social good. And this, in many respects, makes AS’s customers ideal.
Customer finance	56	A business that offers payment terms and plans to make the purchase of its products easier; for example, repayment plans and buy now, pay later.	Microfinance is a key part of PRICE in AS’s marketing mix. If AS cannot successfully provide and manage its microfinance systems, poor and rural Afghanis could not hope to purchase the solar power systems.
Pricing	57	The amount paid by consumers for a product. Price is a vital component of the marketing mix	AS has an objective of making its product affordable to its target market. It is looking at a “very low price” for its

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		as it impacts on the consumer demand for a product.	<p>product AND microfinancing its purchase.</p> <p>The very low price is essential for low income Afghan households to become AS customers.</p> <p>The payment plans and credit terms associated with the microfinancing the solar power systems are associated with PRICE in the marketing mix.</p>
Promotion methods	57	The part of marketing that specifically involves communicating company or product information to targeted customers. This is a key component of the broader marketing system, because it is what usually makes customers aware of a business, attracted to its brand, interested in buying and ultimately, loyal customers. Advertising, social network marketing, public relations and personal selling are staple methods of promotion.	<p>Considering AS's target market – poor, rural Afghans without electricity – the company will have to rely heavily on direct selling. At least initially, salespeople and agents will have to promote the product directly to households in small, isolated villages.</p> <p>It is then essential that the company and its product receives good word-of-mouth promotion from satisfied customers, because direct selling is one of the most expensive forms of promotion and AS has a low-priced product.</p>
Opportunity cost	59	The next best alternative forgone when making a choice.	<p>"[customers] may have other priorities." Poor, rural Afghans do not have much in the way of disposable income. Low income households are very conscious of every Afghani (the unit of currency in Afghanistan) they have and how it is spent. The purchase of a solar power system will mean that other goods and services will have to be given up. Other important priorities could include transport, farm equipment, food and education, for example.</p> <p>AS will need to persuade potential customers that its product is an important priority for them.</p>
Distribution	60	The movement of goods and services from the source through a distribution channel, right up to the	AS has identified distribution to be a problem, specifically, getting the product to likely customers. The market

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		<p>final customer, consumer, or user, and the movement of payment in the opposite direction, right up to the original producer or supplier.</p>	<p>AS is targeting are in remote, rural locations with poor infrastructure. Rail, air and sea links would be inadequate in these locations. Poor quality roads would be the only possible method of distributing the product to customers.</p> <p>In 2018, the BBC estimates that the Taliban is active in 70 per cent of Afghanistan. In remote, rural villages this number would be even higher. Security would be a key issue, and therefore it would be essential to use local agents and transport operators.</p>
Remote locations	60	<p>A place that is located far away from populated areas; for example, an Afghan village that is a five-hour drive from the nearest township.</p>	<p>In a SWOT analysis, the location of its target market is probably the single biggest threat to AS.</p> <p>Remote Afghani locations complicate the marketing and distribution of the solar power systems enormously.</p> <p>It would be relatively expensive to rely on local agents and transport operators for distribution, but there would be little viable alternative. Agents would take a significant percentage and transport operator would demand fat fees to deliver limited product over a long and difficult route to traverse. This would invariably inflate the variable cost component associated with each unit of output.</p> <p>If a cost-price pricing system is used by AS, would this then put the price of product out of reach of its target market? More market research is essential before investment is made.</p>
Infrastructure	61	<p>The basic physical and organisational structures and facilities (e.g. buildings, roads, power supplies) needed for the operation of a society or enterprise.</p>	<p>Construction of regional and provincial roads is ongoing throughout Afghanistan. Roads are of varying quality, but for most Afghans, aside from the Kabul Ring Road, roads are unpaved. Afghan officials and business</p>

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<p>Poor infrastructure</p>	<p>60</p>		<p>leaders note that the lack of paved roads and poor quality of existing roads contribute to highway security problems, increase transport times, and hamper commercial activity in general.</p> <p>“Provincial roads are a priority of the local population and their leaders and in generally dismal shape. The poor state of roads makes travel time consuming and punishing for both vehicles and passengers. The 100-mile drive from Kabul to Bamyan took about eight hours. The main routes to Kabul and Herat through the central provinces were single lane, dirt tracks that are in extreme states of disrepair.” – Global Security</p>
<p>Local agents</p>	<p>61</p>	<p>A person or firm authorised to act on behalf of an organisation in a particular community and usually paid by commission.</p>	<p>Probably an essential and expensive part of AS’s distribution channel.</p> <p>In 2018, the BBC estimates that the Taliban is active in 70 per cent of Afghanistan. In remote, rural villages this number would be even higher. Security would be a key issue, and therefore it would be essential to use local agents.</p>
<p>Local distribution</p>	<p>61</p>	<p>The movement of goods and services from the source through a distribution channel, right up to the final customer, consumer, or user, and the movement of payment in the opposite direction, right up to the original producer or supplier using subcontractors hailing from the general area.</p>	<p>The real difficulty here for AS is that they cannot ship large quantities of their product to the same place, and that transport of the product will take a long time and bribes will likely have to be paid to ‘local security forces’.</p> <p>“protection payments for safe passage are a significant potential source of funding for the Taliban.”</p> <p>How can AS have a sustainable business model where, in all probability, single power systems need to be transported securely, across long distances characterised by roading that is “in extreme states of disrepair”, AND where the price of its product must be kept</p>

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			very low due to the peculiar characteristics of its target market?
Share capital	64	The part of the capital of a company that comes from the issue of shares.	<p>\$200,000 of share capital will come from Su. This is 80% of the start-up capital for the company which is \$250,000 in total (the rest coming from an HH loan).</p> <p>In all reality, \$250,000 seems rather inadequate when it comes to financing manufacturing facilities of a product that is technologically sophisticated.</p> <p>Further, this limited capital is going to provide limiting manufacturing capabilities for AS. The firm will not be able to achieve the economies of scale other solar system providers can. Higher average unit prices will inflate the price for some of the poorest customers imaginable.</p> <p>AS must determine the cost to buy (CTB) and cost to make (CTM) for the product before such an investment is made.</p>
Loans	64	A borrowed sum of money, specifically intended for business purposes that is expected to be paid back with interest. As with all such finance, it involves the creation of a debt, which will be repaid with added interest.	The commercial terms of the \$50,000 loan from Su's company HH are not stated. It is likely that this loan will be made to AS on favourable interest and repayments terms. This is not 'free' money from Su. If the loan cannot be repaid, then the value of Su's other company will be reduced by the amount of the bad debt. Further, the \$50,000 could be used by HH to pursue other investment options to grow and expand the company, and ultimately, Su's wealth.
Stakeholders	65	People or groups of people who can be affected by, and therefore have an interest in, any action by an organisation.	Stakeholders here, both internal and external, are mentioned in terms of whether they "might want to support the project through some kind of financial assistance."
Internal stakeholders	65	Members of the organisation who can be affected by, and therefore	It is unlikely that any internal stakeholders other than Su herself would

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		<p>have an interest in, any action by an organisation; i.e.:</p> <ul style="list-style-type: none"> ▪ The employees ▪ The shareholders (who own the business) ▪ Managers and directors of a business 	<p>be able to contribute financially to the project. Su is the only shareholder, and the managers and directors seem unlikely to be able to contribute significantly. In fact, it is likely that in this social enterprise that managers and directors are taking below-market remuneration for their services.</p>
External stakeholders	65	<p>People or groups that do NOT form part of the organisation but have a direct interest or involvement in the actions of the organisation. Examples include:</p> <ul style="list-style-type: none"> ▪ Customers ▪ Suppliers ▪ The government ▪ Competitors ▪ Special interest groups 	<p>There would be limited external stakeholders who would be able to contribute financially to the project. Governments and special interest groups may provide sources of finance.</p> <p>The Afghani government received some \$2.6 billion in overseas development aid in 2017. Some of this money could be used to target electricity distribution in rural areas. It is unlikely that the government would disburse such funds to an organisation like AS which is unproven in delivering such a service.</p> <p>Similarly, NGOs operating in Afghanistan are unlikely to have surplus cash to invest in an unproven, for-profit company.</p> <p>AS has a 'chicken and egg' problem with being able to source financial assistance from external stakeholders. Yes, it may be able to find government and NGO financial assistance if the company had proven credentials to effectively bring electricity to remote villages, yet without the financial support of such entities, will AS have enough finance to make this a reality?</p>
Cash-flow	Table 2	<p>The total amount of money being transferred into and out of a business, especially as affecting liquidity.</p>	<p>Cash is often referred to as the 'lifeblood' of a business. AS needs finance to pay for everyday expenses such as wages and the purchase of stock.</p>
Cash-flow forecast	Table 2	<p>A plan that predicts the net cash flows of the business over a future period. It estimates what the cash</p>	

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		<p>inflows into the bank account and outflows out of the bank account will be.</p> <p>The result is an estimate of the bank balance at the end of each period covered (normally this is for each month).</p>	<p>According to the prepared cash-flow forecast AS will be insolvent within its first year of operation.</p> <p>Without sufficient cash flow or working capital AS will be illiquid – unable to pay its immediate or short-term debts. Either the AS raises finance quickly, such as a bank loan, or it may be forced into liquidation by its creditors, the firms it owes money to.</p> <p>This cash flow forecast does not provide us with much information as to the timings of inflows and outflows, nor a specific breakdown on the business's costs. It is unusual to see a biannual cashflow forecast and not a month-by-month account. However, AS is a start-up without any established pattern of expenditure and sales.</p> <p>While profit is very different to cashflow, this cashflow forecast does give us information on AS's estimated profitability. This is because we have sales, cost of sales, and other costs (= overheads?).</p> <p>If this is indeed the case, then AS is forecasted to profitable in 2019, its first full year of operation.</p> <p style="text-align: right;">Sales turnover = \$100,000 <u>less Costs of goods sold = \$55,000</u> Gross profit = \$45,000 <u>less Overheads = \$20,000</u> Net profit = \$25,000</p>
<p>Capital expenditure</p>	<p>Table 2</p>	<p>Money spent by a business or organisation on acquiring or maintaining fixed assets, such as land, buildings, and equipment.</p>	<p>Whereas, revenue expenses are shorter-term expenses required to meet the ongoing operational costs of running a business.</p> <p>According to the cashflow forecast, AS quickly becomes insolvent. Its revenues are projected be greater than its sales costs and other costs combined, so</p>

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			<p>capital expenditures in each half of each year is a significant drain on the company's finances.</p> <p>Additional finance is required to meet the capital expenditure planned by AS.</p> <p>Capital expenditure is too low to finance the development of production facilities in country A.</p>
Sales costs	Table 2	Expenses directly related to creating the goods or services being sold (like the cost of raw materials, salaries of persons turning raw materials into sellable goods, depreciation of equipment); but these costs exclude other important expenses, like R&D, marketing, and interest payments on debt.	<p>The cost of goods sold presented in the cashflow analysis have been estimated before product distribution has been decided on.</p> <p>It is anticipated that significant agent fees and transport costs will be incurred in the distribution of the product to customers. Will this increase the cost of goods sold to AS and reduce its profitability and place a further drain on its already precarious cashflow?</p>
Other costs	Table 2	Likely to be classified as overheads. Overheads are those expenses associated with running a business that can't be linked to producing a product or service and getting that product to market. Rent, managers salaries and R&D expenses are all examples.	<p>With just \$20,000 in other costs in the first year growing to \$50,000 in the second year we can tell that salaries at AS are going to be very low.</p> <p>In addition to these salaries, other significant overhead expenses must be accounted for in these figures. Expenses such as:</p> <ul style="list-style-type: none"> ▪ Accounting and legal expenses. ▪ Administrative salaries. ▪ Depreciation. ▪ Insurance. ▪ Licenses and government fees. ▪ Property taxes. ▪ Rent. ▪ Utilities. <p>There are four senior managers to be employed as well as their subordinates and their salaries will need to be set at a very low rate to make sense of the forecasted figures.</p>

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			Pay is a hygiene factor in Herzberg's theory, and should be analysed as such.
Risks	69	A probability or threat of damage, injury, liability, loss, or any other negative occurrence that is caused by external or internal vulnerabilities, and that may be avoided through pre-emptive action.	<p>In finance, risk is the probability that an actual return on an investment will be lower than the expected return.</p> <p>The greater the degree of risk the lower the discounted flows will be, and the higher the rate of return must be to account for the elevated risk.</p> <p>In purely financial terms, the investment that is required to establish and maintain operations at AS carries much risk.</p> <p>It is highly unlikely that the venture would be pursued on commercial terms alone. Large scale manufacturing is a difficult proposition, the target market has low disposable income, and the vagaries of doing business in Afghanistan would require a highly experienced team on the ground. Afghanistan ranks an extremely poor 183 out of 190 countries in the global 'ease of doing business' rankings.</p> <p>Therefore, the social good that the business aims to achieve must be credited – a qualitative factor in the investment decision.</p>
Contingency plan	74	A plan designed to take account of a possible future event or circumstance.	<p>Contingency planning helps with crisis management – being prepared with a series of procedures to put into effect if an emergency occurs, the organisation will be better able to manage most crisis situations.</p> <p>Effective contingency planning allows a business to take steps to minimise the potential impact of a disaster - and ideally prevent it from happening in the first place.</p> <p>Students should be able to evaluate the advantages and disadvantages of</p>

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			contingency planning within the context of running a business in Afghanistan and supplying customers in remote, rural Afghanistan.
External environment	75	This is composed of all the outside factors or influences that impact the operation of business. The business must act or react to keep up its flow of operations.	The student would be very remiss to have not prepared a PESTLE analysis for AS with the external environment being explicitly mentioned!
Marketing planning	76	The systematic process of devising marketing objectives and appropriate marketing strategies to achieve these goals. It requires the collection and analysis of information about a particular market, such as market research data on existing and potential consumers. The typical marketing process involves a marketing audit, marketing research and marketing objectives.	<p>The current marketing mix of AS as it now stands is:</p> <ul style="list-style-type: none"> ▪ PRODUCT: A solar power system to provide power to a single household in sunny Afghanistan. ▪ PRICE: A “very low price” combined with microcredit to make the product affordable for low income Afghans. ▪ PLACE: Remote, rural Afghan villages. It is unlikely that the target market travels much. ▪ PROMOTION: Undecided. <p>We know that solar power systems would bring social benefits to its intended consumers, yet commercial marketing is being pushed by David, rather than social marketing which seems to be a better fit.</p> <p>Further, we have no indication of just how important a priority electricity is in the target market.</p> <p>A very low price seems to be inconsistent with AS's plans for manufacturing the product themselves. The lowest price would be achieved by purchasing the systems off a large, low cost global manufacturer that had economies of scale. This would result in the lowest unit cost to AS, the lowest price to its customers, a greater uptake of the product, and the greatest social good being achieved.</p>

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			<p>Effective marketing in remote, rural Afghan villages seems almost impossible. First, distribution costs are going to be very high, and in a cost-plus pricing system, such high variable costs inflate the price of the product and appears incongruent with PRICE. Second, promotion of the product is something that needs to be carefully considered. Local agents and personal selling will be expensive, again conflicting with PRICE. However, it would seriously need to be considered as above the line promotion would be all but impossible in rural villages without electricity, and literacy rates are astonishingly low.</p>
<p>Human resource planning</p>	<p>76</p>	<p>The process of analysing and forecasting the number of workers and the skills of those workers that will be required by the organisation to achieve its objectives (Workforce Planning). The people a business employs and how it invests in them are some of the most important decisions an organisation can make.</p>	<p>Human resource planning is a process that identifies current and future human resources needs for an organisation to achieve its objectives. Human resource planning should serve as a link between human resource management and the overall strategic plan of AS.</p> <p>Two senior managers have been identified. Concerns could be raised about both.</p> <p>David the marketing director/manager. This manager seems to be confused about commercial and social marketing, and whether the business is product or market orientated.</p> <p>Salima the operations director/manager appears insistent that AS should be a manufacturing business. This seems at odds with the social objectives of AS, where the lowest priced solar power systems will bring about the maximum social good.</p> <p>Su is either selecting current managers or promoting juniors from HH to take leadership roles at AS. HH is a completely different company to AS. It is</p>

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			highly unlikely that the recruitment and selection of staff for AS from HH would result in the most desirable skill sets and experience needed for a startup manufacturing venture in Afghanistan being selected for.
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Source: BusinessManagementIB.com