GCSE BUSINESS STUDIES

9-1 Revision Guide

WJEC SPECIFICATION

WJEC Business Studies (9-1)

Your qualification will be a 9-1 GCSE in Business Studies following the WJEC Exam Board. For this qualification you will have 2 exams to take at the end of Year 11 in the Summer. This page will show you how the course is split up over the exams.

Unit 1: Business World Written examination: 2 hours 62.5% of qualification	100 Marks
A mix of short answer and structured questions based on stimulus material covering all of the specification content	
Unit 2: Business Perceptions Written examination: 1 hour 30 minutes 37.5% of qualification	60 Marks
Data response questions covering all of the specification content	

The content/course is split into 6 distinct topics:

- ☐ Business activity
- ☐ Influences on business
- ☐ Business operations
- ☐ Finance
- ☐ Marketing
- ☐ Human resources

Tick the boxes above when you have completed revising these units.

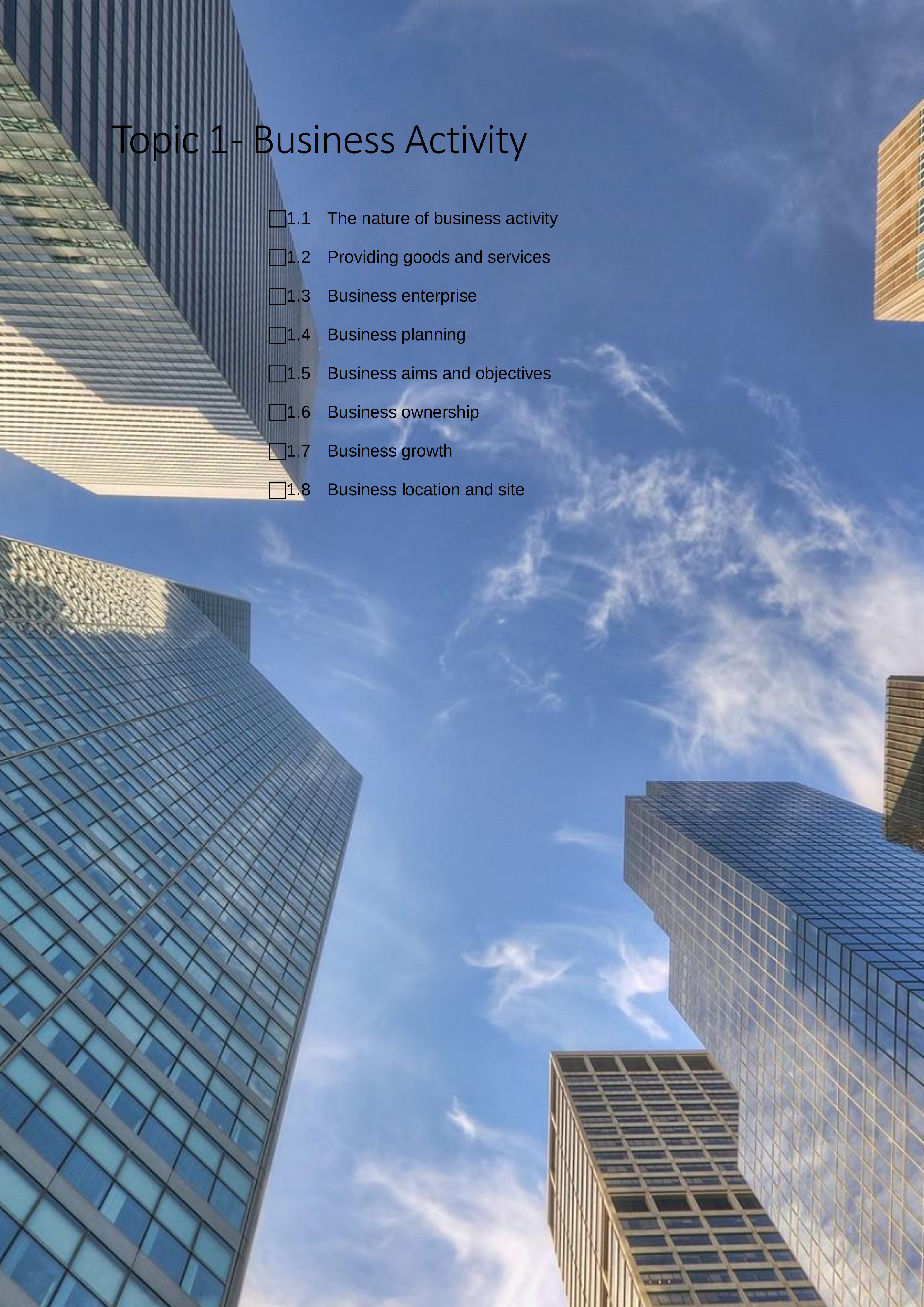
Both units assess content from all six topic areas, so you will be required to draw together knowledge, skills and understanding from across the subject content in each assessment.

In this revision guide, each of the 6 topics will be covered in as much depth as possible however this is not an exhaustive resource- you must use your notes as well.

At the back of the book, a list of mathematical skills, and glossary will be provided. These are vital for the exam.

Good luck!

Contents



Topic 1- Business Activity

- 1.1 The nature of business activity
- 1.2 Providing goods and services
- 1.3 Business enterprise
- 1.4 Business planning
- 1.5 Business aims and objectives
- 1.6 Business ownership
- 1.7 Business growth
- 1.8 Business location and site

The Nature of Business Activity

Businesses have to compete in a competitive environment. This means that they are not the only business providing a particular good or service (product). Consumers usually have a choice on what they spend their money on, for example if you wanted to buy a new mobile phone you would have a number of different models made by different manufacturers to choose from. Normal consumer behaviour predicts that if the product is identical or very similar you will choose the cheapest.

However, consumers are normally prepared to pay a higher price if they think that the quality of the product is higher, or if the product has a unique selling point (USP) that makes the product stand out from the rest. When choosing your mobile phone, if the price is not a concern then you will consider the functions and features of the phone and also which one will impress your friends!

Products are sold to consumers in markets. In early societies there was only one kind of market where producers and traders would go from town to town to sell their products. Today these physical markets still exist, but there are many other places where consumers can buy their products – market stalls, shops, online, catalogues, etc.

A market is any place that brings buyers and sellers together so that an exchange of goods or services can take place.

The business world does not stand still, business activity is constantly changing, in other words, it is dynamic. Businesses have to respond to these changes to remain competitive. The business world can change in many different ways; a successful business must recognise these changes and make sure they are not left behind. To remain profitable a business cannot just stand still, what made the business successful yesterday will not automatically make the business successful tomorrow.

The dynamic business environment should be seen by most businesses as an opportunity and not a threat.

In addition to adapting the actual product, businesses can also respond to change by adapting the way in which they carry out their business activity, for example;

- Production methods can change
- The use of different materials and suppliers
- Using different promotional activities
- Changing how they distribute their products
- Changing the location of their business
- The way in which they communicate with their customers
- Selling the same products in different markets
- Changing recruitment and employment practices

The dynamic business environment is affected by changes in:

- Economic factors – such as changing levels of consumer income, unemployment, interest rates and the price of important resources such as oil and steel.
- Technological factors – such as new inventions, use of robotics, the expansion of information and communications technology and reduced cost of technology.
- Society factors – such as demographic, social and cultural changes, new tastes and fashions.
- Market factors – such as new competitors, change in strategy of existing competitors and new markets (the global market).
- Environmental factors – such as needing to source alternative materials, reducing pollution in the manufacturing of products and using renewable energy.
- Political factors – such as new regulation on business activity and change in political policy.

Local Scale

A business that operates at a local level is often small, limited in size, the number of people it employs and the revenue it creates. (Revenue is different from profit. Revenue is the number of sales made multiplied by the price charged to customers. Profit is revenue minus the costs.)

A small-scale business is often owned and run by the same person and may employ a small number of workers. The business activity is based in a local area focusing on customers who live, or visit, the area.

Characteristics of local and small-scale businesses include:

- Ownership – small number of owners, usually one person, the ownership structure is simple with clear communication.
- Finance - relatively low amounts of money invested in the business (low start-up costs), generates lower amounts of revenue with lower costs than larger businesses. Low levels of money are available for marketing activities, technological improvements and business growth.
- Market – a much smaller market than larger businesses, often serving local communities. However, many small businesses sell to customers across the world through the internet. Because of the low quantity they sell and the other characteristics present, these businesses are still considered to be small scale.
- Locations – usually focusing on a single area, many are run from home and do not have multiple outlets.
- Production – small scale, making small numbers.
- Employees – usually very few, owners will often staff the business themselves and may
- employ workers at busy times.
- Flexible – owners have to be willing to do what it takes to be successful, they will often have to be prepared to change the way they do things in order to react to challenging situations.
- Community based – attract loyal customers who see the business as a vital part of the local community.
- Technology – the growth of social media and blogs have been utilised by many small businesses due to its effectiveness and low cost.

National Scale

A national business will operate all over one country. It may have multiple factories or retail outlets throughout the country and a distribution network to make sure it can distribute its products to where they are being sold. A national business will offer the same products or services, usually at the same prices, to customers all around the country or over a large area of the country.

Compared to a local business, a national business will have more resources to use in carrying out its activities, including greater amounts of capital (money available to invest in the business), more and different types of employees with a wider range of skills.

This extra capital can be spent on more technical and efficient production processes, superior marketing activities, such as national TV adverting campaigns and attractive sales promotions, employing highly skilled workers and efficient support systems such as IT, legal services and transport.

The ownership of national businesses is more complicated than a local business, often having multiple owners and a separate management structure.

The market size of a national business is much greater than a local business so there is a great opportunity to attract a greater number of customers to obtain a high level of sales. The population of the UK is 65 million, for a national business these are all potential customers.

When this total population is divided into cities, towns and districts it is clear to see the benefits of operating on a national scale.

Global Scale

A global business will operate internationally and throughout the world. This includes businesses trading with customers in one or two countries and businesses that trade with many countries across the world. The factors of trading at a global scale include:

- A much bigger market. The UK population is 65 million; the world population is over 7 billion. The population of Europe is over 740 million; the population of the USA is over 320 million. The potential to sell products to more people across the globe is an obvious attraction to businesses who wish to increase their sales.
- Manufacturing or sourcing products from different countries at lower costs. Some
- UK businesses may not have the necessary raw materials to produce in the UK or other
- countries may be able to produce some goods and services more efficiently than we can.
- Improved communications. The world is now a smaller place, the use of the internet makes it possible to trade efficiently across the globe. Service industries such as insurance services and customer help centres have made use of these developments. Improved transportation systems have also led to cost effective transportation of materials and products across large distances.
- Global brands. These are products and services that are recognised throughout the world.

Business Functions

A business has a number of different functions, these include:

- Purchasing - responsible for buying anything required by the business, for example, the raw
- materials for production, finished products to sell or equipment for administration.
- Logistics - how the materials and finished products are transported and stored.
- Production - responsible for all aspects of producing goods, from the input of raw materials
- through to the finished product.
- Marketing - responsible for managing all aspects of marketing including the products to sell, advertising, promotion, the prices to charge, where to sell the product and market research. In other words, it is concerned about meeting customer needs and wants.
- Sales - responsible for finding new customers and looking after existing customers who have
- ordered and received goods.
- Personnel or Human Resources - responsible for all aspects of the relationship between the business and its workers including, recruitment, training and motivation.
- Finance or Accounts - responsible for all money-related aspects of the business, including paying the bills, receiving payments, keeping records and drawing up accounts.

Providing Goods and Services

Goods are products which can be seen, handled, turned on, lived in, eaten, driven and so on. A good is a physical (tangible) object which can be purchased. There are thousands of different goods that businesses make and sell to customers.

Goods can be divided into two kinds:

Consumer Goods	Producer Goods
• Goods that are used directly by consumers to satisfy their needs and wants. • The goods are used (consumed) by the consumer. • These goods are normally bought in shops, online, catalogues etc. • Examples include cars, chocolate bars and furniture. • This is sometimes referred to as B2C (business to consumer)	• Goods that are used by businesses to make other goods or help them run their business. • The goods are used by businesses (producers) to produce consumer goods. • These goods tend not to be available in shops, but from a specialist supplier. • Examples include steel, robotics and barley. • This is sometimes referred to as B2B (business to business)

Consumer and producer goods can themselves be divided into two types:

Durable Goods	Non-durable Goods
• These are goods that tend to have a long life. They will be used until they break or are replaced. • There is no fixed time on durable goods, but they are expected to last at least 3 years. • Examples of consumer durable goods include televisions, shoes and kettles. • Examples of producer durable goods include car engines, oil tankers and cash registers.	• These are goods which are only used or consumed for a single time or only once. • They are often used immediately by the user. • The expected lifespan is three years or less. • Examples of consumer non-durable goods include milk, vegetables and ice cream. • Examples of producer non-durable goods include oil, fertilizers and chemicals.

Services

Services are activities that other businesses do for you. A service is a non-physical item that can be purchased. Examples of services include retailing, hairdressing, dentists, hotels, pubs, restaurants, computer and IT services, banks, transport and holidays.

Services are sometimes referred to as intangible, which means that you can't touch or handle them.

The service market employs more people and creates more profit than the goods market in the UK. It is likely that you will work in the service market when you leave school. Many small-scale businesses in your local area will provide a service rather than produce goods.

Services can be divided into two kinds:

Personal or Direct Services	**Commercial Services**
• These are aimed at consumers. • Consumers use a wide range of personal services on a regular basis. • Increasingly more consumers are spending a higher percentage of their income on these services.	• These are aimed at businesses. • Services are used by businesses that do not have the workers or expertise within the business to perform the activity. • Typical commercial (or B2B) services include accountancy, marketing, market research, call centres and website support.

The businesses we have concentrated on so far all want to make a profit and are owned by private individuals. They are in the private sector. Most private sector businesses aim to make a profit.

Public Sector	**Private Sector**
• Includes organisations that are owned by the government. • They are run for the benefit of everyone. • They are financed through government income such as income tax, council tax, and value added taxes (VAT). • Includes services such as military, police, roads, education, health, parks and leisure services.	• Includes all the businesses owned by private individuals. • They are run for the benefit of the people • who own them. • Usually want to make as much profit as • they can. • Includes charities who want to raise money or awareness for a particular cause.

Business Enterprise

Business enterprise is the action taken by individuals to start a business. Enterprise requires initiative from the individual to start the business; however, it also carries an element of risk. Initiative is the ability to identify a business opportunity and do something about it. Starting a business is risky, there is no guarantee it will work. Starting a business will involve investing money, as there is no assurance that the business will work it is possible that this money will be lost.

An individual who has this initiative and is willing to take the risk is called an entrepreneur

The key characteristics of an entrepreneur include:

- Being a risk taker – entrepreneurs risk money and their own time to try and create a business and make a profit. They may remortgage their house or take out other loans or give up well paid jobs to try and make a success out of their business idea.
- Taking initiative – entrepreneurs are often proactive and are willing to change or make important decisions when required.
- Making decisions – when running a business there are many decisions to be made, successful entrepreneurs can make crucial decisions quickly to make sure the business can take advantage of business opportunities.
- Organising the business – an ability to be an effective organiser is crucial when running a business. The entrepreneur may need to carry out a number of different activities, running a business can be a complicated activity and there are only so many hours in the day.
- Being creative and innovative – creativity in business means the ability to come up with innovative concepts and ideas or developing a better way of doing things. Competing with other businesses often means that a new business has to offer something new or introduce a new product that is not already being provided.
- Hardworking – successful entrepreneurs are generally hard working. This is essential if the business is to be successful, especially in the early days of the business. On average entrepreneurs work for 52 hours per week, compared to 38 hours for an employed person.
- Being determined – this is key to many entrepreneurs. New businesses have low success rates, entrepreneurs have to keep going even if the business is struggling at first. A new business will face difficult challenges and not all ideas initially work, many famous entrepreneurs admit that it took them some time to get the right idea and make a profit.

Entrepreneurs have a number of key motives for starting their own business:

- To gain a profit – the motive is financial, this is considered the key motive for many entrepreneurs. The reason entrepreneurs risk losing personal savings or take out a loan is the possibility of making a decent income from their business.
- To use redundancy money – some entrepreneurs are forced into starting their own business as they may have lost their job, or maybe cannot get a job.

However, in addition to this financial motive there are also other non-financial key motives:

- To turn a hobby or pastime they enjoy into a business – creating a business out of something you enjoy gives great satisfaction and can be enjoyable. If this is the key motive then an entrepreneur may decide not to maximise profits but to have an enjoyable experience, just working enough to give them a decent living.
- Control – often people just want to be their own boss, in control of their working life. Working for someone else is not always rewarding and some people get fed up being just another worker in a large organisation. Entrepreneurs are often people who want to lead rather than being told what to do. Running your own business also gives the owner flexibility, setting your own goals and working your own hours.
- To help the community – some entrepreneurs start with a vision to help certain people within society. These are often referred to as social enterprises and promote ethical, environmental and moral business activities. Entrepreneurs who want to help the community will want to make a living out of the business, but the profit is either reinvested to improve the business or used to promote a particular issue.
- Making a difference in the world – some innovate entrepreneurs start as they believe

The main risks in starting a business are financial. Profits are not guaranteed and losses are common for new businesses. Many new businesses don't manage to last more than a year and close down due to the low levels of revenue they make. Research has shown that 90% of new businesses don't make it past their second year of trading.

When starting a business an entrepreneur will estimate the sales needed to be profitable, however, often these sales are lower than expected as trying to establish a new business in a competitive market is not easy. Why should people start buying from a new business when they are happy and loyal to an existing business?

In addition, it is difficult to estimate the costs the business will face when they start trading, often these costs can change during the year or unexpected costs can occur. Inexperience may mean that the costs have been incorrectly estimated. Having increased costs will reduce profit and may even result in making a loss. The profit margins for new businesses (the difference between revenue and costs) are usually very low, so having extra costs will result in lowering the profit margin even further.

Some risks are non-financial, the entrepreneur may not have the full set of skills to run the business effectively and may make mistakes that result in losing customers and revenue. Due to the long hours needed to establish the business and levels of stress involved in making all the decisions, the entrepreneur may become ill or disillusioned with the business, especially if all the hard work is not resulting in a decent profit.

Business Planning

It is very important that a business has a clear idea of what it is going to do, effective business planning can make the difference between success and failure.

A business plan will help a business to plan its future activities. Business plans are used by businesses to:

- secure finance
- show the future vision of the business
- prioritise what is needed to be done in the business to make a profit
- consider opportunities and risks
- organise business activities in a logical and structured way
- help the business make decisions
- map out the actions needed to achieve business success
- make sure the business has the necessary resources
- help the owner(s) measure the progress of the business

Business plans are used by new start-up businesses, the plans will differ in size and content, depending on the scale of the business and if extra finance is needed. For example, an entrepreneur who wishes to start a small online website to sell jewellery, who has enough money from their savings to finance the business, may produce a brief business plan that they will just use for their own purpose. The business plan will briefly summarise the key targets and the actions needed to make the business a success. However, if an entrepreneur was starting a business on a larger scale that required finance from an investor then a more detailed plan would need to be written.

There are no strict rules about what should be included in a business plan, and the content will differ depending on the type of business and the market they will compete in. However, in general plans need to include information on:

- Business description – this should include details about the owners and what the business will sell. It may also include information on the vision of the owners, how much money is needed to start the business, what their goals are and the owner's background (CV).
- Products and services – what will the business sell? This should include the full range of products and services. Are patents or trademarks needed?
- The market – who are the customers and competitors? This should include information on who are the intended customers for the business (target market), and the strengths and weaknesses of competitors.
- Market research – what research has been carried out to find information about the
- market and customers?
- Market strategy – this should be based on the market research. How will the business communicate (advertise) with customers? What advertising media will be used? How will the business distribute its products and services? What prices will be charged?
- Operational strategy – how will the business work on a day to day basis? This should include information on how the product will be produced or sourced. Where will the business be located? What equipment is needed? What suppliers will be needed? When and how will customers pay? Are there any legal requirements? Will the business need transport?

Business Aims and Objectives

Aims and objectives are goals that the business will set itself. These are used to measure the success of the business.

Businesses are not the only organisations that have aims and objectives, your school or college, football teams, the police service and government all have aims and objectives.

Individuals also have aims, although these are personal to the individual, the concept is the same as it is for businesses, we all need targets in our life to challenge us and make us put the effort in to achieve those targets.

Business objectives are more specific and measurable targets the business will set to achieve its aims.

Business aims can be grouped into the following main categories:

- Survival
- Profit maximisation
- Growth
- Increase market share
- Customer satisfaction
- Ethical and environmental

To survive a business has at least to break even. This means that it makes neither a profit nor a loss. If a business continually makes a loss it will almost certainly go out of business. During times of economic recession (when sales can be low) larger businesses will have to adjust its aims, they may be able to cope with making a loss for a short while, but eventually they will have to carry out actions to turn this around, this can involve making workers redundant or closing a number of outlets or factories.

Business objectives are the measurable targets set to achieve business aims. Objectives will give the business a clearly defined target. These can then be used to plan activities that can be carried out to meet the objectives and aims of the business. Specific objectives can be

used to measure business progress and also to give clear direction to employees on what the business wants to achieve.

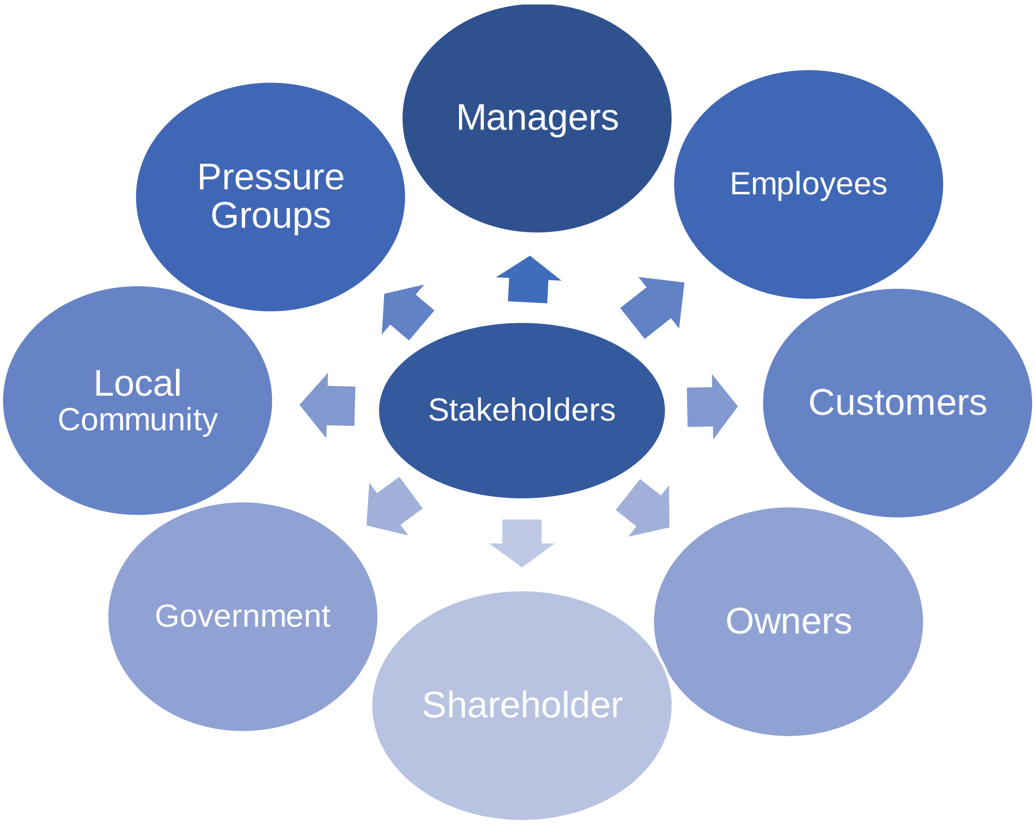
Objectives should be written using the SMART model, in order to make them clearer and more meaningful to understand and achieve:

- Specific – objectives should specify what the business wants to achieve. They should be clear so that all stakeholders understand what the objective is.
- Measurable – objectives should be measured to make sure the objective has been achieved. This measurement should be numeric.
- Agreed – by all those concerned in trying to achieve the objective. The objectives have to be achievable and attainable. There is no point in setting an unrealistic target, this can be demotivating.
- Realistic – is the business likely to achieve the objectives with the resources available?
- Timed – a timescale needs to be set for achieving the objectives.

Stakeholders

Stakeholders are groups that have an interest in the success of a business. They affect and can be affected by business activity. There are many stakeholders in a business and each may have different reasons for being involved.

The main stakeholders in a business are:



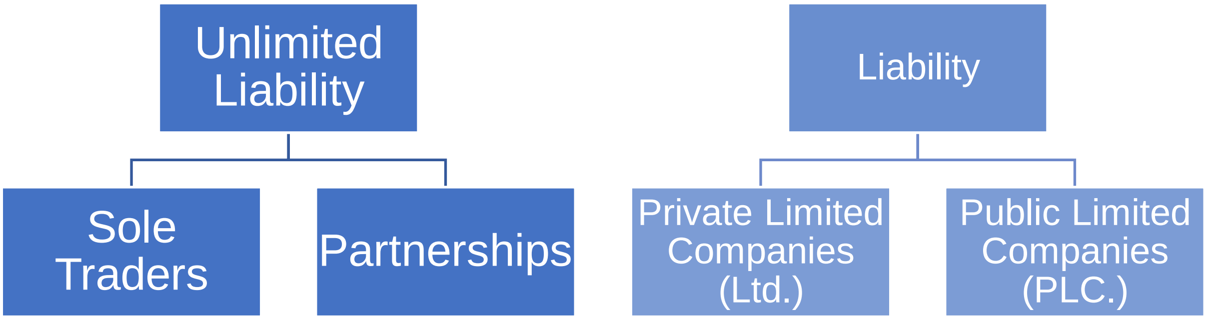
Pressure groups are groups of people who get together to express their objections to a particular government policy, business decision, or the effects of an organisation's actions. An example of a pressure group would be an environmental organisational established to complain about the high pollution levels caused by industry. Pressure groups can persuade businesses to change their actions.

Businesses rely on suppliers to provide them with the materials they require to provide their customers with goods and services. Suppliers will want businesses to be successful so that they will continue to receive orders. It is important that a business has a good relationship with its suppliers so that they can rely on them to deliver good quality supplies, on time and at a good price. Lenders will expect the business to repay its debts.

Businesses provide employment and facilities for the local community. Sometimes the actions of the business may inconvenience the local community through pollution, traffic congestion or business closure. Large businesses will have a greater impact on the local community than smaller ones.

Business Ownership

Businesses in the private sector range from those which are owned and run by one person to multinationals which employ thousands of people in many countries. They differ in ownership and control and their legal status. Businesses are classified in the following way:



Unlimited Liability

Sole traders and partnerships do not have a separate legal existence from the business. In the eyes of the law, the business and the owner(s) are the same.

As a result, the owners are personally liable for the business' debts. If a sole trader or partnership makes a loss and if things go wrong then they are responsible for all the debts.

This is called unlimited liability. The owner(s) have a legal obligation to settle (pay off) all the debts of the business. Worse still—there is no distinction between the assets (money invested in the business, including property, equipment and stock) and debts of the business and the personal assets and debts of the owner. For example, if your business can't repay its loans or gets sued, the owner is responsible. If the business' assets aren't enough to cover the debt or damages then the owner will have to pay the rest of the debts from personal bank accounts, investments, car or even their home.

Limited Liability

Private limited companies and public limited companies are so called as their owners have limited liability, this means that people who invest in the business only risk losing the amount they have invested.

If the company goes out of business, leaving debts, the owners will only lose the money that they have put into the company (the value of their shares/investment). The owners will not be forced to sell their own personal possessions, like a house, to pay the company's debts.

For example, if an entrepreneur invested £100 000 into a limited liability company and a creditor sues the company to recover money it loaned to the company, the creditor can only get the assets of the company. So, you could lose your £100 000 investment, but you couldn't lose any of your personal assets. Not good news for the creditor!

Having limited liability is the main advantage of forming a company.

Sole Trader

A sole trader is a business that is owned and run by one person.

Although a sole trader is owned by only one person, the owner can employ people to work for them.

Advantages:

- Decision making is straight-forward, the sole trader being able to make instant decisions without checking with someone else.
- The sole trader is their own boss and does not need to follow the instructions of somebody else.
- A sole trader business is easy to set up because there is no complicated paperwork to complete as there may be with other types of business.
- Some sole trader may be able to operate the business to suit their lifestyle with more flexible working hours.
- Any profit is kept by the sole trader and does not need to be shared.

Disadvantages:

- It can be difficult to raise the required capital, as only one person is investing in the business.
- Banks are not keen to lend money to sole traders due to their high rate of failure.
- A lack of the necessary skills and experience required owning a business can increase the risk of failure.
- Fewer ideas are put into the business as there is only one owner.
- The sole trader doesn't have an opportunity to share ideas with any business partners, family and friends are often relied upon for advice.
- The owner may need to work long hours as there may be no one to share the workload.
- It may be difficult to take time off.
- Unlimited liability is the main disadvantage of this type of business, it can be very risky for the owner - a failing business could cost them their savings and their personal possessions.

Partnerships

A partnership is an agreement between two or more people to take joint responsibility for the running of a business, to share the profits and to share the risks.

By law a business can have between 2 and 20 partners.

Advantages:

- Partnership are cheap and easy to set up. There is no complicated paperwork to complete in order to set up the business.
- Extra capital is available, as more than one person is investing into the business.
- The workload is shared between the partners.
- There is less stress for the owners as decisions and workload are shared.
- Each owner will bring their own skills and ideas to the business, meaning that more expertise is available within the business.
- Partner can specialise in particular areas of the business.

Disadvantages of Partnerships:

- Profits must be shared among partners.
- There may be disagreements between partners when making decisions or over workload.
- Partners have to share the control, and work as a team, they will not be their own boss.
- Partners still have unlimited liability.
- If a partner dies or becomes bankrupt, the partnership must come to an end

Deed of Partnership:

- It is advisable for partners to draw up a special agreement, called the Deed of Partnership which will outline the following:
    - How profits or losses will be shared amongst the partners.
    - How much money each partner invests.
    - Voting rights and the number of votes each partner has.
    - Arrangements for ending the partnership due to the leaving or death of a partner.
    - The details of each partner's duties and responsibilities – who does what?

Private Limited Companies

Owned by shareholders approved by the other owners, they are sometimes family businesses, and has limited liability.

Advantages:

- The owners have limited liability.
- Additional capital can be easily raised by selling more shares.
- The company can keep trading even if a shareholder dies, shareholder's shares can be transferred to someone else.
- The private limited company has its own legal status, separate from the shareholders, it can sue and be sued.
- A private limited company can also own property.
- Private limited companies are relatively cheap to set up in comparison with Plcs.
- Private companies cannot be taken over, as shareholders must agree the sale of shares to others.
- Private limited companies are usually run by the major shareholders and so there are few arguments regarding the aims of the business

Disadvantages:

- Are more expensive to set up than sole traders or partnerships.
- The company has to publish its accounts every year.
- These are available for the general public and competitors to see.
- There is separation of ownership and control, directors are elected to run the business, which means that the owners no longer make all the decisions.

Public Limited Companies

A public limited company (Plc) is usually a very big business with a large number of employees, this type of business is owned by members of the general public and other businesses who have invested their money into the company by buying shares on the stock exchange.

People buy shares in the hope that the business will perform well, leading to an increase in the value of their shares.

Advantages:

- Similar to private limited companies, Plcs have limited liability, this means that shareholders personal assets are protected and they only risk losing the money they have invested in the business in the form of shares.
- Additional capital can be easily raised by a Plc; more shares can be sold as there is no upper limit to the number of shareholders.
- This makes it easier to grow and expand. Public limited companies are usually well-known organisations with a good reputation that makes it easier for them to raise finance.
- Banks are more willing to lend to large, established companies. A public limited company can keep trading even if a shareholder dies, shareholder's shares can be transferred to someone else.
- A public limited company has its own legal status, separate from the shareholders, it can sue and be sued, and it can own property.
- A public limited company can take advantage of its size to benefit from economies of scale (find out about this later).

Disadvantages:

- It is expensive to set up a Plc, at least £50 000 of share capital has to be available and legal paperwork needs to be produced.
- The company has to publish its accounts every year, and these are available for the general public and competitors to see.
- Unwanted takeovers are possible as shares can be bought by anyone; the shareholder who owns more than half the shares controls the business.
- There is separation of ownership and control as directors are elected to run the business, this means that the owners no longer make all the decisions

Franchising

The owners of the established business (the franchisor) sell the rights to their business logo, name, and model to another business (the franchisee).

Franchisor Advantages:

- Low costs compared to other expansion methods – the franchisees pay most of the costs, including the premises and employee wages.
- The number of outlets and sales for the business can grow without the need for much capital or needing to request financing from banks or investors.
- Minimises risk.
- Franchising can generate high financial returns for relatively little risk.
- A franchisor can earn high royalties from sales from franchisees.

- These profits can be greater than what could have been earned if the business opened and ran the outlets themselves.

Franchisee Advantages:

- There is a good chance of success and less risk for the franchisee because of the well-known name, format and product.
- The franchisee benefits from a ready-made reputation because the franchisor controls the quality of all franchises.
- The franchisor provides sound financial advice and support, so that cash low and management problems can be avoided.
- The franchisor is responsible for costly activities such as market research and product development.

Franchisee Disadvantages:

- The franchisee will never feel that the business is theirs - for example the business cannot be sold without permission from the franchisor.
- The franchisee cannot make many decisions, all franchises must be run according to the rules of the franchisor.
- The franchise could be withdrawn at any time without any explanation or compensation.
- Fees, royalties and expensive stock make franchising a costly way to run a business.
- Royalties must be paid by the franchisee, even if the business makes a loss.
- If franchises are set up as sole traders or partnerships they still face unlimited liability.

Social Enterprises & Charities

Charities are organisations that aim to raise money in order to support a cause, such as cancer research or wiping out poverty in third world countries.

Social Enterprises: These are set up by entrepreneurs specifically to help the community and promote ethical environmental and moral business activities.

Charities:

- Charities are set up to support a number of different causes, these include:
    - The prevention or relief of poverty the advancement of human rights, equity and diversity, education, religion, health, community support, arts, heritage and culture, sport participation, animal welfare and environmental issues.
- Most Charities that have an income of more than £5 000 must register with the Charity Commission for England and Wales.
- Charities can receive tax relief and exemptions (they don’t pay a tax on their profits the same way a private business will).

Co-Operatives

A co-operative is an organisation that is owned and controlled by a group of people who have an equal say in the running of the business and receive a share of any profits the business makes.

The share they receive is called a dividend.

Key Values:

- Membership is open and voluntary – anyone can join Members are always in control – no matter how many shares a member has, they only get a single vote at society meetings Members contribute to capital and decide how to spend it
- They are committed to education and training of their members and employees
- They are committed to promoting the development of communities
- Profits are passed on to the members fairly.
- There are a few types of co-operatives

Consumer Co-Op:

- A consumer co-operative is where a group of local consumers get together for mutual benefit.
- They buy produce together and sell it for a fair price.
- The co-operative is owned and managed by members, who are also customers.
- Consumer co-operatives have 3 main principles:
    - Each member has only one vote, regardless of the shares they have.
    - Anyone may buy a share and become a member, regardless of race, creed or religion.
    - Goods and services are sold at reasonable prices.
    - After business costs have been paid, the profits are returned to members in the proportion that they have spent.

Worker Co-Op:

- A worker cooperative is a business that is owned and controlled by the whole workforce.
- People who work within the business are in control rather than outside shareholders and it is the most democratic type of business; everybody plays a part in the decision-making process.
- There are around 1 500 worker co-operatives in the UK, most of them are small, with only a dozen or so members.
- Worker co-operatives may involve workers buying out the business for which they currently work as an employee, or workers may form a cooperative to start their own business with the aim of sharing all risks, profits, decisions etc.
- Worker co-operatives give a great deal of job satisfaction because the members are working for themselves.

Business Growth

To increase profits

Bigger businesses make larger profits. The owners of small businesses want to earn more to improve their own lifestyles. Think of some of the owners of the businesses mentioned above, they are now very rich themselves. Larger businesses will grow to provide better returns on investment for shareholders.

To improve market share

Market share is the proportion of the market that you control. For example, Tesco controls about 28% of the market of goods sold in supermarkets. Sainsbury's was once the market leader but at one stage the owners and managers of Tesco wanted to grow faster to overtake Sainsbury and take their place as the market leader. This can lead to increased profits.

To reduce competition

As some businesses grow their competitors are unable to keep up, in terms of the goods supplied or the price charged, and so they drop out of the market. Think of how the number of specialist greengrocers and butchers has fallen with the growth of supermarkets. This will lead to increased market dominance for the business that grows, with larger sales and profits.

To secure the market

Strength in the market means that as businesses become bigger they become better known and are more likely to keep their customers. Their reputation is all-important.

To Secure Supplies

Bigger businesses are also likely to have the trust of their suppliers and so they will always have goods to sell or materials to produce. Large companies can even control the suppliers by determining the prices they pay for goods, owning the sources of materials or by having goods made for them (own brand goods).

To spread risks

Bigger businesses can operate in a number of markets in terms of where they sell or what they produce. A fall in sales in one market can be offset by continued sales in another. This is called diversification. For example, a manufacturer of garden furniture expands into manufacturing bicycles, or a hotel chain buying a chain of clothes shops. This can be a risky method of growth as the business is likely to have limited knowledge of the new market.

To benefit from internal economies of scale

The more a business produces or sells, the less it costs to produce or sell each good. This means that a business has lower unit costs because of its large size. They can buy raw materials cheaply in bulk and also spread the high cost of marketing campaigns and

overheads across larger sales. Reduced unit costs can charge lower prices and/or increase profit margins. For example, a large business can produce a pair of shoes for £18 while it will cost a smaller competitor £30, this will give the larger business a £12-unit cost advantage.

Economies of scale can be defined as:

The reduction in average costs of production that occur as a business increases its scale of production.

There are different types of internal economies of scale that are achieved as a result of increasing internal efficiencies of the business:

- Purchasing
- Marketing
- Technical
- Financial
- Administrative/Managerial.

A business can grow through:

- Internal (organic) growth - the business grows by selling more of its products, hiring more staff and equipment and increasing advertising, promotion and investment.
- External growth (integration) - the business merges with or takes over another business.
- Franchising - where a business leases its idea to other businesses (franchisees).

Internal (organic growth)

This involves using resources from within the business to expand in steady stages. Organic growth takes place when a business expands its own operations. This can be done by:

- Producing more of its current products in existing markets
- Producing more of its current products in new markets
- Developing new products
- Increasing production capacity (being able to make more products) through investing in new machinery or moving to new location or site
- Increasing the number of customers who buy its products through increased advertising and promotion.

External growth

External growth involves a business buying or joining existing businesses, this is also referred to as integration. There are two ways in which this can be achieved:

- Merger
- Takeover (acquisitions).

Merger	**Takeover**
• Two or more businesses join together to form a new business. • The businesses tend to be of similar size.	• One business buys another business by acquiring control. • This can involve the business buying the whole business or buying part of a business.

Horizontal Integration:

- This is when two businesses in the same industry at the same stage of production become one business.
- In other words, they make the same product or provide the same service.
- Examples include a car manufacturer takes over another car manufacturer or two hotel chains merge

Vertical Integration:

- This is when two businesses in the same industry but at different stages of the supply chain become one business.
- In other words, it is when a business joins with another business that operates at a different stage of production.
- For example, a shoe manufacturer buys a factory producing the leather or a chain of shoe-selling shops.

Forward Vertical Integration:

- Is when a business merges or takes over a customer.
- For example, a manufacturer merges with a retailer or a brewery buying a chain of pubs.
- This gives the business greater access to customers and gives the business a greater control of the supply chain, reducing costs and improving distribution chains.

Backward Vertical Integration:

- Is when a business merges or takes over a supplier.
- For example, a retailer buys a food processing business or a steel producer buying a coal mine.
- This gives a business greater control of its supplies which can reduce costs and improve the quality and delivery of raw materials and components.

Conglomerate integration:

- This is when two businesses that are unrelated join together.
- The businesses operate in different markets and have no connection with each other.

Reasons to stay small:

- Many small businesses either make a decision to stay small scale or are unable to expand.
- Some business owners decide not to grow as they are content with the profit the business gives them; they don't want the extra pressure and risk that expansion can bring.
- The aims of these business owners are to keep the business at the same scale, having similar sales revenue and profit year after year, enough to keep them in the lifestyle they have chosen.

Business Location and Site

Business location refers to the geographical area of location such as a certain town, city, region or country.

Siting a business is concerned with the more specific factors within a location such as

accessibility, footfall and size.

For small businesses, the owners will normally locate in the area that they live. However, larger businesses will consider a number of key factors to decide where they locate either their whole business or different factories and outlets of the business.

Every business is different so they will have to consider different factors. A small business may only need to think about a few, whilst other larger businesses may have to consider and balance a complex mixture of location factors:

- The market
- Materials and raw materials
- Labour supply
- Cost of land
- Infrastructure
- Government assistance
- Other factors such linkages, historical factors and climate

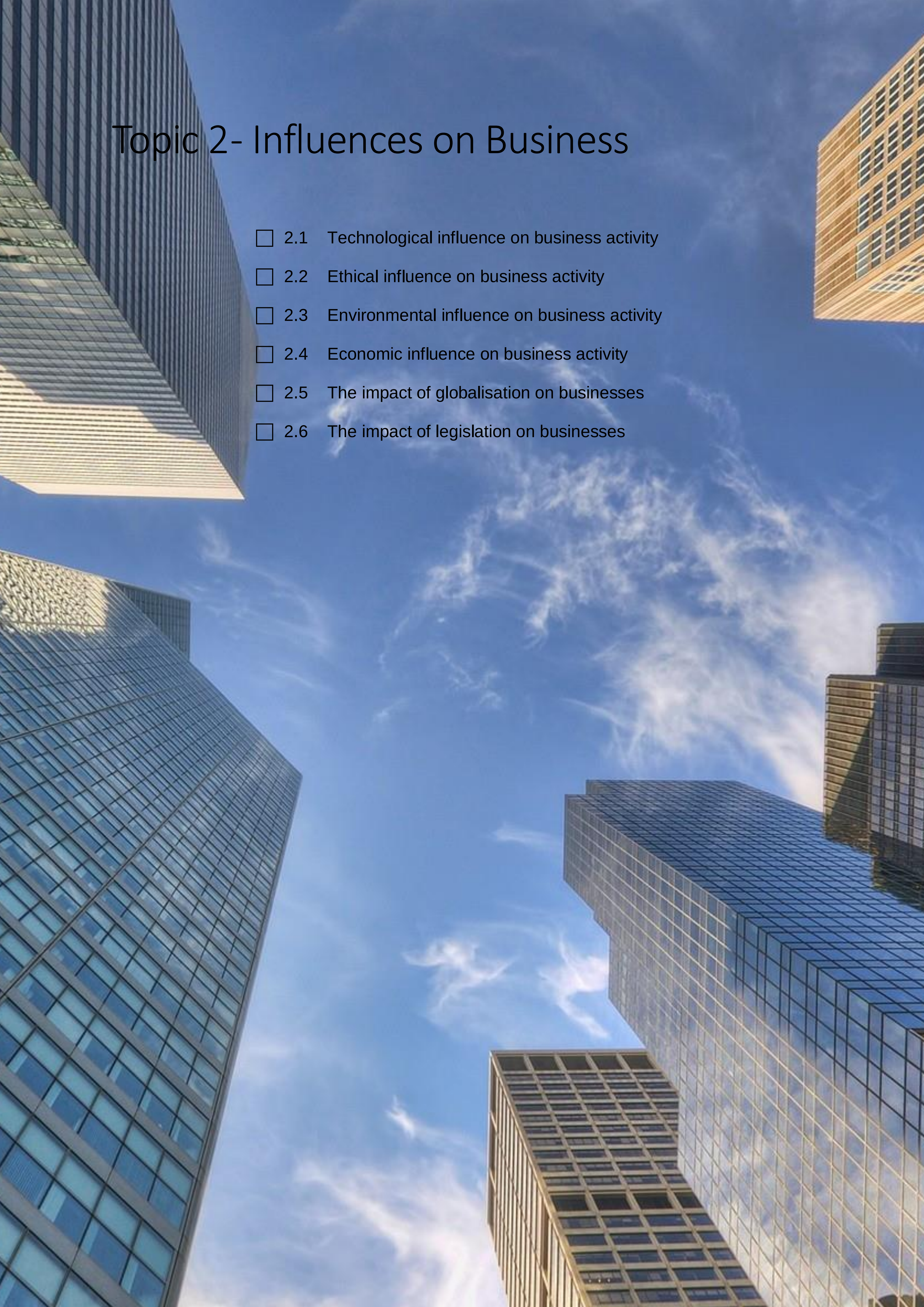
Siting factors need to be considered after a business knows what location they will select. For example, a multinational manufacturer has decided to locate along the M4 corridor, it will now look for a specific site, an entrepreneur from Liverpool who wants to open a hairdresser will look for suitable property in the Liverpool area or a large retail chain wishes to open a new store in London, will look at the possible sites in and around London. The following factors will need to be considered.

- Cost of site
- Size of site
- Footfall
- Accessibility
- Closeness to competitors
- Personal reasons

Businesses are so varied that it is impossible to give a definitive list of the most important location and site factors for all businesses. The choice of where to locate and site a business will depend on so many different factors; what will be a good location and site for one business will be a poor location and site for another.

Topic 2- Influences on Business

- [ ] 2.1 Technological influence on business activity
- [ ] 2.2 Ethical influence on business activity
- [ ] 2.3 Environmental influence on business activity
- [ ] 2.4 Economic influence on business activity
- [ ] 2.5 The impact of globalisation on businesses
- [ ] 2.6 The impact of legislation on businesses



Technological Influence on Business Activity

Technology is used exclusively by businesses. No matter what the business activity, some form of technology will be used. This can include communicating with customers using smart phones, using EPOS (electronic point of sale) in retailing or using robotics in manufacturing.

Computer packages

- Word processing – used to create documents that can be stored and edited. A range of documents are needed in a business, for internal and external use, and the use of word processing software has greatly improved the quality of presentation in these documents.
- Databases – used to store information. Businesses need to store a vast amount of information and before the introduction of electronic databases, this information was often stored on paper and information could easily be lost or take a long time to find. Databases have search facilities that allow users to find the information they need quickly and accurately. Spreadsheets – used to keep accounting (financial) records and to carry out calculations. The amount of quantitative data used in business activity is vast, this data has to be recorded and used to produce financial and stock records for the business.
- A spreadsheet presents data in a constructive format that allows easy interpretation of the data. In addition, spreadsheets use of formulas allows for the efficient calculation of data. This data can also be presented in graphs and charts.
- Video conferencing – used to connect people at different geographical locations. The connection is a live, visual and audio connection to allow for meetings to be held between locations anywhere in the world. Video conferencing can be used to hold meetings for employees located in different areas, or for communicating with customers
- Presentational software – used to create presentations. The software allows the user to create professional and multimedia (text, pictures, video and sound) presentations, often through a series of slides.
- Computer graphic packages – used to create graphical documents such as adverts, promotional material, logos and artwork. When marketing the business, or products and services of the business, computer graphic packages allow a business to create its own high-quality material used to attract customers to the business. These can range from small businesses creating leaflets or business cards (desktop publishing software), to large businesses creating a suite of material that could include brochures, catalogues and magazines.
- Website design – used to create and maintain websites. The importance of the internet in the current business environment is crucial. Whatever their size, most businesses today have some form of platform on the internet, ranging from a simple website
- for information to a fully interactive website allowing for e-commerce and instant interaction with online support personnel.

Automation

Automation is likely to be seen more and more in the following areas:

- Retailers – for retailers, automation has become one of the key issues in business efficiency. Whether it is automated ordering or the more visible self-checkouts.
- Banks – bank clerks are disappearing to be replaced by machines. The bank staff that are visible are often there to help customers use the automated systems and to sell new products.
- Warehousing – staff functions are being replaced by robots that can do more and more tasks. Robots are not yet capable of removing all goods from shelves but can transport and pack goods.
- Online services – whole systems will be automated; mathematical analysis will determine which products are marketed, where they will be placed and what prices are charged.
- Utilities (gas and electricity) – smart meters will replace the need for a manual meter reading; switching to the cheapest provider may become automatic.
- Delivery of products – businesses are looking onto the use of drones to deliver items ordered online.

Computer-aided design (CAD)

Computer-aided design is a process whereby designs are displayed digitally, often in 3D, and can be viewed from all angles. CAD allows the design team to edit and test their design on the computer with minimal cost and correct any problems before they arise in the production process. Modifications or changes can be easily made, without having to go back to the 'drawing board'. CAD also allows an infinite variation on design themes, allowing all possibilities to be tested. CAD can also be used to estimate production costs for the final product.

Computer-aided manufacture (CAM)

Computer-aided manufacture is a process whereby designs are input into a computer system and the computer then controls the production of the item through automation and robotics. The use of CAM in production is widespread and is used in a number of ways, but mainly in the control of machinery – for example robotic welders in vehicle production. These machines always produce welds of the same quality, day in day out.

The advantages of using CAM compared to manual machines include:

- Production is completed quicker
- Greater accuracy
- Greater consistency of finished product
- Greater quality of product
- Greater efficiency as machines don’t need breaks
- Human error is minimised.

E-commerce and m-commerce

Online shopping, which is also referred to as e-commerce and e-tailing, is a form of electronic commerce which allows consumers to directly buy goods or services from a seller over the internet. The internet has changed buying habits and e-commerce is now a very important part of the retail industry and is continuing to grow. More recently there has been an increase in sales from wireless hand-held devices; this is referred to as m-commerce.

M-commerce is the buying and selling of goods and services through wireless handheld devices such as mobile phones and tablets. This means 'having your retail outlet in your consumer's pocket'. Through mobile technology, it is now possible to reach customers 24 hours a day. M-commerce does not just mean buying: it is about providing customers with product information and promotions. Consumers use m-commerce to compare prices online, take photos for future reference and research their potential purchases online.

Digital media

The advancement in digital media has been one reason for the rapid growth of online shopping and social media websites. Digital media includes a wide range of computer software including imagery, videos, audio, webpages, games and e-books that can be communicated via the internet and computer networks.

The development of digital media has impacted on traditional media such as print and analogue media, for example the sales of newspapers and music through CDs, have declined as a result of consumers purchasing these digitally.

Digital media is used by a wide range of businesses of all sizes and digital methods of communication and marketing are faster and more versatile than traditional methods.

Social media

Social media has drastically changed in the way in which a business can communicate with its customers. These interactive platforms are used by over 2 billion people in the world; most internet users use a social media website on a regular basis. The most popular of these social websites have become a huge source of information for businesses and a new platform to target consumers.

Ethical Influence on Business Activity

Ethics is about what is right and what is wrong.

In business, ethics are the moral values that direct business behaviour. An ethical business is one that considers the needs of all stakeholders when making business decisions. An ethical business, when setting objectives, takes into consideration its social responsibilities. Ethical businesses consider the moral rights and wrongs of any decisions that are made.

Acting ethically involves being:

- Honest
- Trustworthy
- Fair
- Caring
- Respectful
- Lawful
- Accountable

Ethical considerations include:

Employees

Businesses should treat employees as their most valuable asset. This means taking care of their health and safety and conditions of work and also paying a living wage. Their ethical responsibilities should not stop with their own employees. Those working for suppliers are equally as important. It cannot be regarded as ethical if a business claims to pay its own employees a living wage if workers further down the supply chain, in perhaps a less developed country, earn the equivalent of 40p an hour.

Suppliers

Suppliers should also be treated fairly, this means sticking to agreed contracts, and not forcing renegotiation upon suppliers. It means paying on time and not putting pressure upon suppliers' cash flow. Fair trade claims should be backed by positive action, for example, it is not fair trade to charge a customer an extra 30p for fair trade chocolate or tea or coffee and then pass on only a fraction of the 30p price increase to the supplier.

Customers

Customers want a quality product or service at a fair price. Businesses which act unethically fail to fulfil this moral commitment to customers. For example, the PPI scandal was a double failure on the part of many of the major banks in the UK. Not only was the insurance cover provided through PPI often irrelevant to customer needs, it was massively overpriced.

Animal welfare

Animal welfare is a major issue for those retailers with claims to be ethical. Grocers look down the supply chain to ensure the welfare of animals and can focus their marketing on how well supplying farmers treat their livestock. The demand for 'free range' products is a good example of how retailers have responded to their customers' concerns.

Environmental Influence on Business Activity

The production, distribution and selling of goods and services has negative effects on the natural environment. These environmental costs include:

- Noise pollution
- Air pollution
- Water pollution
- Light pollution
- Litter
- Congestion
- Waste
- Climate change
- Use of finite resources

A business that aims to be sustainable will attempt to minimise its overall impact on the environment. There are many ways that businesses can act in a sustainable manner:

- Reduce the amount of packaging on products
- Increase recyclability of packaging and the introduction of biodegradable packaging
- Promote recycling schemes
- Encourage the re-use of carrier bags
- Introduce energy saving schemes
- Use alternative sources of energy
- Use more energy-efficient equipment
- Reduce water consumption
- Reduce their carbon footprint
- Encourage smarter use of transport
- Eliminate unnecessary business activities
- Switch to more sustainable suppliers.

Implementing environmentally friendly policies can bring a number of advantages:

- Reduced business costs
- Avoiding legal penalties
- Improved business and brand reputation – environmental friendliness can be a highly effective marketing tool
- Recruitment and motivation of employees who commit themselves to ethical company objectives
- Greater customer loyalty from growing number of ethical consumers
- Reduced wastage.

Economic Influence on Business Activity

Business activity can be hugely affected by the state of the economy. That state of the economy will affect how much consumers spend on goods and services. Consumer incomes will rise and fall depending on a number of economic factors. When consumer incomes increase the demand for goods and services will also increase. When incomes fall the demand for the product will decrease.

So, the more a person earns the more they will spend. Businesses are concerned about disposable income which is the amount of money that households have available for spending and saving after income taxes and other mandatory costs have been deducted.

Taxation

Tax is paid by individuals and businesses to the Government. The revenue raised through tax is then spent by the Government on providing public services such as the National Health Service, education, housing, defence etc. The payment of tax is compulsory and the amount paid is calculated by a percentage of earnings. There are several different types of tax payable in the UK; however, you only need to know about the following types:

- Income Tax
- National Insurance
- Value added tax (VAT)
- Corporation tax
- Business rates.

Effects of changes in tax

The Government can change its policy on taxation each year, it can raise taxes to increase the amount of money it receives (to spend on the NHS, schools etc.), or it can decide to reduce taxes to encourage more spending in the economy.

Increasing or decreasing taxes will influence the level of consumer spending and will have an impact on the majority of businesses.

For example, if the government choose to lower the level of Income Tax this will stimulate consumer demand as consumers' disposable income will rise. On the other hand, a rise in VAT will have the opposite effect and reduce demand for goods and services as they become more expensive.

Businesses will try to pass increases in tax onto their customers if they can, but this will depend upon the degree of competition they face in the marketplace.

Increased rates of Corporation Tax or Business Rates will increase the costs of businesses. National Insurance (paid by employer and employee) is sometimes described as a tax on jobs, as increases in this tax increases the costs of employing workers.

Unemployment

People are unemployed when they don't have a job. People are looking for work but for some reason they are unable to get a job. The unemployment rate for a county is the amount of people who are unable to find a job. When the economy is doing well unemployment tends to be low, but in times of recession or when the economy is not doing so well, unemployment tends to rise.

The unemployment rate is calculated as a percentage by dividing the number of unemployed individuals by all individuals currently in the labour force.

Employment levels and economic activity

Employment levels tend to rise and fall as the economy grows and declines; this has both benefits and drawbacks for business:

Economic growth

- Consumer demand for goods and services is high.
- Businesses need employees in order to meet consumer demand.
- Most people who want a job are already employed.
- In order to attract new employees, businesses, have to offer higher wages.
- Businesses will find it increasingly difficult to recruit someone with the right skills and qualities for the job.

Recession/slump

- Consumer demand for goods and services is low, as people have less disposable income to spend.
- A large number of people are unemployed and looking for work.
- If businesses decide to take on new workers, they will be able to choose from a wide pool of applicants.
- Wages will remain low as long as unemployment remains high.

Interest rates

The interest rate is the price of borrowing or saving money from a bank, building society or other lender. Products such as overdrafts, credit cards, loans or mortgages will cost the borrower money in the form of an interest rate. The interest rate is how the lender will make money on the transaction.

Interest rates in the UK are based on the Base Rate of Interest which is set by the Bank of England. The period 2009-2016 has seen the Base Rate of Interest at a historically low level of 0.5%. In September 2016, the Base Rate reached a record low of 0.25%. The impact of such low interest rates on consumers and businesses has been generally beneficial. However, the very high rates of interest in the 1980s – when they reached a peak of 15% – were very damaging to many businesses.

The effects on businesses of changing interest rates

If interest rates increase, the cost of borrowing increases which will limit demand in the economy. If interest rates fall, the cost of borrowing falls, so demand will increase. Businesses are not generally impacted by small changes in interest rates – say an increase from 0.5% to 0.75%. However, if there is an increasing trend over time, the cumulative impact can be significant.

Increasing interest rates

- People spend more on paying mortgages, so less money left over for spending on other goods and services
- People are less likely to borrow as the cost of loans has increased, so less spending
- Businesses borrow less for investment – too costly.

Decreasing interest rates

- People spend less on paying mortgages, so more money left over for spending
- People are more likely to borrow as the cost of loans has fallen, so there is more spending
- Businesses borrow more for investment – greater chance of success.

Inflation

Inflation is the rate at which the general level of prices is rising.

The government measures inflation through the use of regular pricing of a 'basket of goods'. This basket of goods is meant to reflect the spending habits of the average person within the UK economy and includes over 600 goods and services. So, the basket contains such things as petrol, cars, travel, holidays, consumer electrics, food, medicines, housing, and even lottery tickets and online dating.

Inflation is usually shown as a percentage, for example 2%. If inflation is currently 2% it means that prices are 2% higher than they were this time last year - a basket of goods bought last year for £100 would today cost £102 even though the goods bought are identical.

Inflation causes uncertainty and as a result, businesses will often postpone new investments in machinery or employing more workers. This can cause the business in the longer turn become less efficient. In addition, businesses will face demands from workers for higher wages as they need more money to pay for the rising costs of goods and services.

Consumers, business and governments do not want inflation to increase too much; the government has a target of 2%, at this rate inflation will not have a negative impact on the economy.

The Impact of Globalisation on Businesses

International Trade

International trade consists of buying and selling of exports and imports between countries. International trade takes place because:

- We cannot produce some goods ourselves as we do not have the necessary raw materials in this county
- Other countries can produce some goods and services more efficiently and cheaper than we can
- International trade allows consumers a much wider choice in the products they buy
- The use of the internet and e-commerce means that businesses of all sizes and scale can trade internationally.

The main problems with international trade include:

- Language barriers – different packaging and advertising maybe needed, this can add to costs and problems when communicating with suppliers or distributors in a country with their own language. The need for translation of instruction books leads to high costs for the producer and misunderstandings by the customer.
- Supply chain issues – when dealing with suppliers and distributors that are hundreds or thousands of miles away, the supply chain gets complicated and can take a long time. Importing or exporting products to a range of other countries will increase costs and there is a possibility of the supply chain breaking down and raw materials or products being damaged, lost or not getting to the right place at the right time.

Currency Changes

Remember SPICED:

- **S**tronger
- **P**ound
- **I**mports
- **C**heaper
- **E**xports
- **D**earer

Exchange rates

Each country has its own currency, for example Japan has the yen, Mexico has the peso, the UK has the pound and the USA has the dollar.

If goods or services are being bought from foreign businesses they will expect to be paid in their own currency, and so we would need to change our British pounds for the currency needed.

Exchange rates are simply the cost of switching from one currency to another.

Multinationals

Multinationals are businesses that have their headquarters in one country but operate in many countries, this means that they may have offices and factories around the world.

Many businesses will buy and sell goods around the world but this does not make them multinationals, they are just trading in other countries.

The growth of globalisation has resulted in a significant increase in the number of multinational companies.

Successful British multinationals include BP, HSBC, Tesco, and Vodafone. There is a large number of foreign-owned multinationals manufacturing in the UK, including Toyota, Ford, LG, Sony and Panasonic. Many more are operating in finance and retailing. Multinationals have, in many ways, started to dominate the global economy. Many of the biggest have a level of turnover larger than the GDP (a countries wealth) of some medium sized countries. This means that they have a huge amount of power and influence.

The European Union

The European Union (EU) is a political and economic grouping that currently has 28-member countries. These countries have given up part of their sovereignty in exchange for political, business, economic and monetary membership of the world's largest free trade area. It operates as an internal (or single) market which allows free movement of goods, capital, services and people between member states.

The European Union is a common market or single market, this means that:

- There are no customs duties to be paid when goods move from one member to another.
- There are no border posts, so goods pass easily between member countries.
- There is easy movement of people (workers) from one European country to another.
- Investments also move easily across European borders.

The advantages of the single market for businesses

- Increased levels of demand results from access to a larger marketplace as it is easier to export to the other countries in the EU
- Lower costs through increased economies of scale as larger markets results in larger scale production, lowering average costs of output
- Lower costs in sourcing raw materials and supplies from EU countries
- Freeing of capital markets as businesses will be able to access the best finance and capital-raising deals throughout Europe
- Greater employer access to labour markets – workers from all member states are potential employees
- Growing wealth in poorer parts of the single market could drive future demand for products.

The advantages of the single market for consumers and workers

- Increased wealth as trade and competition increases. This results in lower prices and more job opportunities as employment anywhere in Europe is available to anyone living in one of the 28-member states.
- Increased consumer choice as there is access to all manufacturers and service providers

It is argued that the UK has been one of the greatest beneficiaries of the European single market. Many Asian and American companies that have established production facilities in the UK have done so to gain free access to the rest of the EU.

However, there have been differing impacts in differing sectors of the economy. One great UK success within the single market has been in finance, with London currently the leading financial centre of Europe, producing net exports of £70 billion a year. When the UK leaves the EU, it is uncertain if London will still be the main financial centre in Europe.

Agriculture has been one of the industries that have been impacted the most by the EU and the single market. Large subsidies for certain crops have helped UK farmers.

UK exports to the EU have increased, both in proportion and in total, since the single market was established and many of our largest businesses have benefited from significant economies of scale.

The EU has imposed many regulations on UK businesses, including employment law and consumer law. It is argued that these laws have resulted in increased costs for businesses making them less competitive and having to act within laws that were created by politicians from other countries.

The Impact of Legislation on Businesses

A business has to operate within the laws of the country it operates in. There are a number of different laws that affect the way businesses can operate. These laws are designed to protect individuals, customers, employees and the environment from the potential negative acts of business.

However, only three types of legislation listed above need to be covered for GCSE Business:

- Employment law
- Consumer law
- Intellectual property

Employment Rights:

- To prevent exploitation, the government has passed a number of laws that safeguard staff:
    - Workers are guaranteed a minimum hourly wage rate of £6.31 per hour in 2013.
    - Race, sex, age or disability discrimination is illegal. Businesses must be careful to treat all workers fairly. They must offer equal pay and promotion opportunities for women and ethnic minorities.
    - The EU Working Time Directive sets a limit on the number of hours staff can work in a week.
    - Parents are entitled to paid leave from work soon after their children are born. The firms must keep their post open for when they return from maternity or paternity leave.
- Protecting workers rights increases the costs of firms.

Redundancy

- Businesses operate in a dynamic and competitive market.
- Workers can lose their job through redundancy if the business suffers a fall in sales.
- Falling sales means that a business needs fewer staff and some posts are no longer required.
- Also, low revenues may lead a company to try to cut staffing costs.
- Redundancy procedures must be fair, for example firms can use a last-in-first-out method to shed staff.
- Redundant workers receive compensation according to the number of years with the firm.

Health and safety

- Health and safety procedures are put in place to prevent staff from being harmed or becoming ill due to work.
- The Health and Safety at Work Act 1974 is the primary piece of legislation covering occupational health and safety in the United Kingdom.
- Health and safety procedures are enforced by the government.
- All businesses are required by law to:
    - Display a health and safety poster.
    - Carry out a risk assessment to identify workplace risks, and then put sensible measures in place to control them. Potential risks include trip hazards and asbestos. The extra paperwork increases the total costs of the business.

Intellectual property

Intellectual property refers to creative work such as inventions, literary and artistic works and designs, symbols, names and images used in business.

Intellectual property is protected in law by copyright, patents and trademarks, which allows the creator to earn recognition or financial benefit from what they have invented or created.

Copyright laws protect people who have created original pieces of work and give them rights to control how their work is used by others.

Examples of such work include:

- Music (including lyrics and the music itself)
- Written word (including books, poems and plays)
- Artistic works (such as sculptures, drawings, paintings and photographs)
- Films, videos and broadcasts
- Software and games.

A patent is a right granted to the owner of an invention that prevents others from making, using, importing or selling the invention without their permission. A patentable invention can include a new product, a new process or a technical improvement on how certain objects work. To get a patent the invention must have a new and original design.

Topic 3- Business Operations

- ☐ 3.1 Production
- ☐ 3.2 Quality
- ☐ 3.3 Supply chain
- ☐ 3.4 Sales process

Production

Production is the process of turning raw materials, components and other resources into a product or service that can be sold. A business must decide how to organise production.

The decision will be influenced by:

- Cost – which is the cheapest method of production?
- Quality – which will ensure the right quality of product or service for the customer?
- Quantity – how much needs to be made or provided?

There are three key methods of production a business can use to produce its products:

- Job production
- Batch production
- Flow (mass) production

Job production

Job production involves making one product or providing one service at a time in order to meet the specific requirements of the customer. Each product or service will be unique (also known as bespoke) and usually provided to a high quality and at a higher price.

Products manufactured by job production are often produced on a very small scale and by highly skilled workers and can take a long time to complete. For these reasons, plus the fact that the quality of the product and the costs of production is usually very high, products produced this way can be expensive.

Batch production

Batch production is when several of the same products are made in one batch, these products will move together through the different stages of production. Each batch is finished before the next batch is started. All the items in the batch are the same, so production is speeded up and the cost of labour is reduced which leads to cost savings, which can be passed onto the customer with cheaper prices.

Flow (mass) production

Flow production is also known as mass production or assembly line production. This is where production takes place as a continuous process. The product flows from one process into the next. This will usually happen where the products made are identical and can be made using a production line method. This method is used in factories and by most modern manufacturers who produce on a large scale. Products are made continuously and in large numbers. Products are identical and allow large quantities to be produced as cheaply as possible.

Specialisation involves division of labour, as workers concentrate on specific tasks within a production process.

Quality

The quality of the product or service is important for businesses. A business must provide these products and services to meet customer expectations. Customers require certain levels of specifications and they will only buy a product or service that meets these expectations.

Quality does not just mean high quality; it means producing a product or providing a service that meets the needs and expectations of the customer, for some products this means the quality will be lower than alternative, higher priced, products or services.

Quality is also defined simply as ‘fitness for purpose’. After all, if the product does the job it was designed to do, it must therefore have some level of quality. Quality does not mean the product or services have to be expensive, it means that it is value for money.

Achieving quality

Achieving quality is a complex task which combines the work of several separate functional departments within a business. These departments include:

- Purchasing – ensuring that the right quantity and quality of raw materials or components are available for the production process.
- Operations – structuring and managing the manufacturing process to reduce errors.
- Finance – ensuring that capital is available for appropriate investment to have the right equipment.
- Human resources – ensuring that the labour is available in the right quantities with the right skills and providing suitable training.
- Marketing – providing market research information in order that customer wants can be satisfied.

There are two main ways a business can achieve quality:

- Quality control
- Quality assurance

Quality control is the more traditional method that businesses have used to manage quality. It involves checking and reviewing work that has been done. Inspection of products and services takes place during and at the end of the operation process. Quality inspection is carried out to prevent faulty products reaching the customer. This method requires specially trained inspectors, rather than every worker being responsible for his or her own work.

Supply chain

The supply chain is the various stages of the movement of supplies from their source to the end user. Every business needs supplies in order to carry out their business activity, these supplies can include:

- Raw materials
- Component parts
- Producer goods
- Equipment for production
- Incidental supplies used in the running and administration of the business
- Utilities such as energy and communication

The supply chain could be described as the network of all the individuals, businesses, resources and technology involved in creating and selling of a product, starting with the delivery of the source materials from the supplier to the manufacturer, through to its delivery to the end user.

The complexity of the supply chain will depend on the type of product being made or service being priced, the scale of the business and the size and reach of the market.

For example, a small plumbing business will need a van, materials and equipment for specific jobs and is unlikely to need any large scale storing of these. The plumber will simply buy the materials and equipment from a wholesaler when needed for a job.

The supply chain can be divided into 3 clear stages:

- Procurement
- Logistics
- Stock control

Procurement

This is the purchasing of raw materials, goods and services for a business. A business needs to identify suitable suppliers who will provide the goods and services needed for the business to carry out its activities

Logistics

Logistics is the management of the flow of products, services, equipment, people, money and information from the source to the end user. Logistics management is concerned about getting everything in the right place for when it is needed.

Stock control

Effective stock management, whether it is of raw materials, work in progress or of finished goods, is an important part of the supply chain and operations management.

Key aspects of effective stock management:

- Businesses must ensure that stock is available for use within the manufacturing process as and when it is needed.
- Part-finished goods (work in progress) do not sit around the factory floor unused and losing value: instead they are brought to the next stage as soon as possible.
- Finished goods are available for timely delivery to customers and are not made before customers are found for them.

Traditionally, the main method of ensuring a ready supply of raw materials has been the maintenance of large buffer stocks. These are relatively large stock holdings held just-in-case (JIC) they might be needed.

This method of stock management made sure that sufficient stock was always available.

However, a just-in-case approach has disadvantages:

- Money spent on stock is used up and not being put to better use elsewhere
- Large quantities of stock have to be stored (securely) and this costs money in warehouse costs
- Stock can be damaged or stolen
- Certain types of stock, such as food and other perishable products, has a short life span and will need careful monitoring and possibly be disposed of if there is a drop-in demand for the finished product.

For these reasons many businesses today have reduced their stock holdings. The old idea of buffer stocks has been largely abandoned in favour of the effective use of just-in-time (JIT) systems.

JIT is designed to minimise the costs of holding stocks of raw materials, components, work in progress and finished goods. This is achieved by carefully planned scheduling in order that resources can flow through the production process smoothly.

There are a number of key requirements for JIT to operate effectively:

- a very efficient ordering system
- suppliers that reliably deliver raw materials and components just when they are required
- a well-trained workforce which can be trusted and who are willing to work in teams

Sales process

How a business organises it sales function is very important. Without sales a business will not succeed. The sales process is how the business interacts with its customers and receives revenue.

Businesses of all sizes and operating in different markets will want to make as many sales as possible. The sales process is a series of steps that helps businesses make sure they maximise sales to potential customers and encourage customers to return to the business to make repeat purchases.

Preparing through good product knowledge

a salesperson should know the details of the product or service they are selling. For some products technical details are very important and the salesperson will need this knowledge in order to answer customer queries and to explain the features of the product. Customers will expect salespeople to have good knowledge of a product, especially when there is a range of products on sale.

Identifying sales opportunities

a salesperson will need to identify possible customers and then identify what the customers want. Not all businesses will have customers walking into their outlet looking for sales; some businesses will have to actively look for customers, and this can be done by telephone, email or face-to-face.

Understanding needs and wants of customers

when approaching a customer or being asked for help, a salesperson should ask questions to identify what the customer needs or what they want. The salesperson should then be able to match the product or service on sale to these needs and wants. A good salesperson will listen carefully and be honest in what they recommend to the customer.

Informing customers of the features and benefits of the product or service

this stage should focus on the benefits for the customer by explaining the product/service features and the advantages and benefits of buying a particular product or service. For most products there are a range of alternatives that they could buy, for example, buying a computer presents the customer with many options, and this can be confusing, especially when there is technical information to consider.

Closing the sale

this is the main purpose (from the businesses point of view) of selling. It involves the customer agreeing to pay for the product and having the money to do so. For most businesses this will be a cash or debit card purchase but can also include a credit card purchase or a credit agreement with the business (for example, paying in monthly instalments).

Customer service

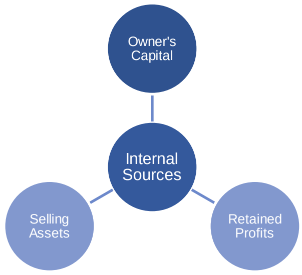
Customer service is the support that a business gives to its customers. This takes place before, during and after a customer has bought the product or service. In a competitive market customer service is important to all businesses. Good customer service can result in customer loyalty and ensuring customers return to the business time and time again to make repeat purchases. Poor customer service can result in losing customers and gaining a poor reputation in the marketplace.

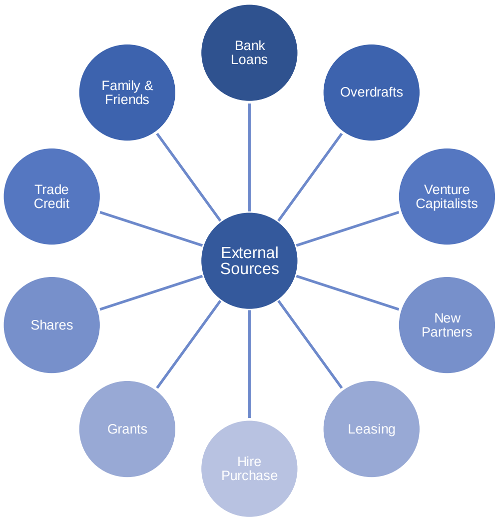
Topic 4- Finance

Sources of finance

All businesses need money or finance to be able to operate. Finance allows:

- The setting up of the business – this is often known as start-up capital
- The expansion of the business – this usually involves extending buildings, buying new sites, purchasing machinery, vehicles and equipment – this is referred to as capital
- Businesses to pay their day-to-day bills.





Owner's capital

This is money that is put into the business from the private savings of the owners. Many businesses are started using the owner's own savings, an inheritance, or redundancy pay from a previous employer.

Retained profits

This is regarded as the single most important source of finance and is also the cheapest source of finance. As a business becomes more profitable, it makes sense to build up and retain some profit.

Selling assets

A business can sell some of the assets it owns to raise finance. Businesses may have assets they no longer need, such as an old factory site, which can be sold. Often, the selling of assets only happens when other ways of raising money have failed.

Family and friends

Borrowing from friends and family is a popular source of external finance for many new entrepreneurs. It is useful when only a small amount of capital is needed to start a new business or when a small established business wishes to grow

Bank loans

This is lending by a bank to a business. For most businesses, the main source of finance is commercial banks. A fixed amount is lent for a fixed period of time and normally for a specific purpose. The bank will charge interest on the loan and the interest, plus part of the capital (the amount borrowed) will have to be paid back each month

Overdrafts

An overdraft is a form of bank borrowing. A business becomes overdrawn when it withdraws more money out of its account than there is in it, so the business will end up with a negative bank balance. Once an overdraft limit (perhaps £5 000) is agreed with the bank, the business can use as much of the overdraft as it needs at any time, up to the agreed overdraft limit.

The bank will of course charge interest on the amount that is overdrawn and will only allow an overdraft if they believe the business is creditworthy (capable of paying the money back). Interest rates on overdrafts tend to be high.

Venture capitalists and business angels

Venture capital is money invested in a business by professional investors (venture capitalists). When venture capitalists invest, they expect a say in how the business will be run and they also expect to make a good profit on their investment within two to three years. The normal method of investment is for the venture capitalists to take an 'equity stake' – this means that in exchange for their investment, they will be given a shareholding in the business

New partners

For a sole trader, taking on a partner is a good way of helping fund investment. New partners not only bring in more capital (money) for investment but can offer new skills which may help a business grow. For existing partnerships, new partners are also an effective way of funding growth.

Share issue

Limited companies are able to raise extra finance by selling new shares. A long-term method of providing funds for growth is to sell shares. This means that the business may move from being a partnership or sole trader, to becoming a limited company.

Trade credit

Trade credit is a short-term method of financing a business, as it gives the business interest free credit. In other words, it means buy now and pay later.

Leasing

This involves renting machinery, equipment and vehicles. The business never owns these items, but it makes a regular payment to the owners of the asset. This avoids the need to raise large amounts of capital to buy the asset outright.

Hire purchase

Hire purchase is used to fund a specific purchase, such as equipment or a vehicle. The business will pay a deposit, then monthly payments over a period of time. On completion of the final payment, the business will then own the asset. If at any stage the payments are not paid before the final payment, the supplier can reclaim the asset.

Government grants

There are a whole range of grants made available by a wide number of organisations, including local and national governments, the European Union (this will stop when the UK leave the EU) and organisations such as the Prince's Trust. These grants are there to

encourage the set-up of new businesses or to persuade existing businesses to create jobs in areas of high unemployment, or to locate a business in a particular region.

Revenue and costs

Revenue

Revenue is the money or income a business receives from selling its products or services. It is calculated by multiplying the quantity of products or services sold, by the price of the product or service. It is also called sales revenue or sales turnover.

Costs

This is the money that businesses spend to operate the business. A business will have many costs to pay in order to run the business. These include rent, loan repayments, wages, buying equipment, buying stock and materials, power (electricity), advertising, paper and so on.

There are two types of cost a business will have to pay:

- fixed costs
- variable costs

Fixed costs

Fixed costs remain the same, no matter how many goods a business produces or sells. If a business produces one good or if it produces 1 000 goods, it will still have to pay for the rent on the building or for the machinery it uses. Other fixed costs include business rates, insurance and loan repayments.

Fixed costs are costs that do not change with an increase or a decrease in the amount of goods or services produced or sold

Variable costs

Variable costs change according to how many goods a business produces or sells. If a manufacturer is producing more products, then it will have to buy more raw materials or components. If a shop is attracting more customers and is selling a higher volume of products, then it will have to buy more stock. Its variable costs will increase.

This also applies if the manufacturer or shop is making or selling fewer products – then its variable costs will decrease. Variable costs are costs that vary with the level of output

Total costs

Adding the fixed costs and variable costs will give a business's total costs.

Total cost = fixed cost + variable cost

Profit or loss

To make a profit, a business has to have revenue that is greater than its total costs. If the revenue is lower than the total costs, then the business will make a loss. The formula for calculating profit (or loss) is:

Profit = revenue – total costs (fixed cost + variable cost)

Break-even

Break-even is the point at which a business makes neither a profit nor a loss.

Break-even is where total revenue = total cost

If a business produces or sells one less good, the business makes a loss, if it produces or sells one more, it makes a profit. Break-even point is therefore a very important measure for a business, as it shows how much it needs to produce or sell in order to make a profit.

Break-even charts are used to illustrate the break-even point for a business. In order to draw a break-even chart, the following information is required:

- total revenue
- variable costs
- fixed costs
- total costs

Calculating break-even by contribution

Break-even can also be calculated by using a formula. This formula is known as contribution.

Fixed costs Contribution per unit

Contribution is the revenue a business receives from the sales of the product, minus the variable cost of the product. This is because any positive figure between selling price per unit and variable cost per unit ‘contributes’ to paying off the fixed costs. Once all the fixed costs have been covered by the contribution, a business has reached break-even. This is because all costs (fixed and variable) have been covered.

Profit and loss accounts

A profit and loss account or income statement is a financial statement that shows the revenues and costs of a business and calculates the profit or loss made over a specific period of time.

The main components of a profit and loss account are:

- Sales turnover (revenue) – the money or income a business receives from selling its products or services.
- Cost of sales – the costs involved in directly producing or selling products and services. These include the direct materials, components or stock used in producing or selling, direct employee costs in producing or selling, and energy costs used in the direct production or selling of products and services.
- Gross profit – this is sales turnover minus the cost of sales.
- Expenses (overheads) – the costs that are not directly linked to the production or the selling of products and services. These include rent, insurance, management salaries, maintenance, marketing, general energy costs and interest on loans.
- Net profit – this is the gross profit minus the expenses and gives the final profit for the business. The net profit is the most important profit for a business and is the profit that is used to measure the overall profit (or loss) for the business.

Two calculations are carried out:

Sales revenue – cost of sales = Gross profit

Gross profit – expenses = Net profit

The net profit will be shared by a number of stakeholders:

- Some will be taken as tax by the Government
- Some will be distributed to the owners
- Some will be ploughed back into the business
- Some will be kept in reserve for future use.

Gross profit margin (GPM)

This ratio compares a business's gross profit with the sales revenue for a specific period of time. The following formula is used:

$$\text{Gross profit margin} = \frac{\text{Gross Profit}}{\text{Sales Revenue}} \times 100$$

The gross profit margin is always a percentage.

Net profit margin (NPM)

This ratio compares a business's net profit with the sales revenue for a specific period of time. The following formula is used:

$$\text{Net profit margin} = \frac{\text{Net Profit}}{\text{Sales Revenue}} \times 100$$

The net profit margin is always a percentage.

Cash-flow

All businesses need cash. Cash is the money a business has which is readily available to spend. Cash is made up of notes and coins found in the cash boxes and tills of businesses and the money in bank accounts that can be easily accessed.

Cash flows into and out of businesses all the time.

- Inflow – this is also known as income or revenue or turnover. It is the money which enters the business's tills or bank account, as a result of selling goods and services.
- Outflow – this is expenditure, it is money which leaves the business to pay for the day-to-day costs of the business

Businesses will try to ensure that the amount of money flowing into the business will be greater than the amount of money flowing out of the business. In time, this should give them a positive bank balance.

Cash flow forecasts

In order to help businesses, manage their cash flow they should produce a cash flow forecast. A cash flow forecast is a financial document that shows the expected flows of cash into and out of a business over a specific period of time, usually 6 or 12 months. To ensure that the forecast is realistic and reliable, careful and honest considerations of all the inflows and outflows of the business need to be given and the forecast should be for the immediate future – such as the next 6 months.

The process of producing a cash flow forecast will improve a business's monitoring and management of their cash. Experience is gained in managing the inflows and outflows of cash and it helps businesses to improve business performance.

If a business knows that in the coming months they will experience cash flow difficulties, they will have time to act and put strategies in place to avoid cash flow problems.

Typical reasons for cash flow forecast problems include:

- Sales not being at the expected level, which could be caused by:
- increased competition
- bad publicity
- changing buying habits from consumers
- economic changes, e.g. recession or lower disposable incomes
- government influences, e.g. increased taxation on certain products
- Costs increase:
- raw materials costs increase
- component parts increase
- rent increase
- wages increase
- interest rates increase
- service charges increase – electricity, telephone, etc.

Financial performance

Financial data allows business owners, managers and other stakeholders to make judgements on how well the business is being run. This information can then be used in decision making to determine the strategy the business will use to achieve its objectives.

This resource has shown a number of different financial information that is used in a business. These include:

- revenue
- costs – fixed, variable and total
- profit
- break-even
- profit and loss account
- gross and net profit
- cash flow
- cash flow forecasts

It is important to remember that when analysing financial data, it is important to look at trends and not isolated or singular figures. A business is concerned about the long-term future of its success, and often, there will be times along the way that the business may experience some negative financial performance. These ‘blips’ must be put into context. However, if these ‘blips’ start to appear more often, they must be addressed, before they start to become a longer-term trend.

Topic 5- Marketing

- [ ] 5.1 Identifying and understanding customers
- [ ] 5.2 Market research
- [ ] 5.3 The marketing mix
- [ ] 5.4 Product
- [ ] 5.5 Price
- [ ] 5.6 Promotion
- [ ] 5.7 Place

Identifying and understanding customers

Marketing is a very important function for any business. Marketing is the process in a business of identifying customer needs and satisfying those needs at a profit in such a way that the customer will buy the product or service again and again. In other words, it is the art of making it as easy as possible to get potential customers to buy products and services.

In a very competitive and dynamic business environment, marketing is important to the whole business, as without it the business will be unable to sell its products and services at a profit.

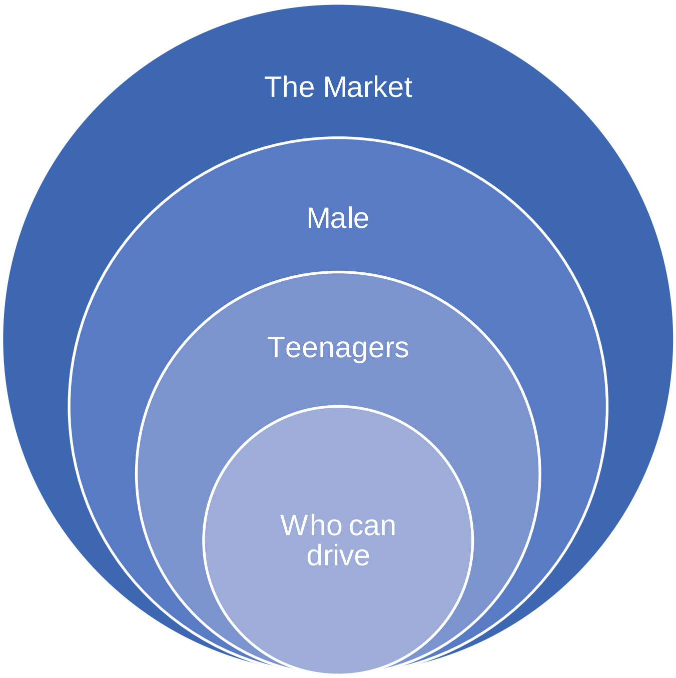
Without customers, a business will fail. Any successful business must be able to identify potential customers and then be able to understand the reasons why customers are willing to pay for the products or services the business is selling. Businesses that are attentive to customer needs will be rewarded with customers that are loyal and continue to spend their money on the business's products and services.

Market segmentation

To identify the right customers and find out what they need, a business will segment the market.

If a business sells its products to a wide range of people – its market – it may divide these into smaller groups called segments. Market segmentation splits up a market into different types (segments) to enable a business to better target the relevant customers with its products.

This allows the business to make different products to meet the different needs of each group. Think of the whole market as an orange which is made up of many segments; when you eat an orange, you will break off a segment. Each segment can represent a different group within the whole market.



The market segment at which a business aims its products is called its target market. The market is divided into groups of people with similar characteristics, each group making up one segment. The different segments will have products or services with common features or made up of customers that make buying decisions which are based on common factors.

How markets are segmented

Businesses can use several recognisable and targetable market segments, these include:

- age
- gender
- income
- geographical location
- lifestyle

Mass versus niche markets

Some businesses will target the mass market with their products. A mass market is where a high volume of sales can be made, as most people will be interested in buying the product. An example of a mass market product is baked beans. Some mass market products are difficult to segment as they are used by many consumers.

Niche markets offer different products that appeal to a smaller number of people. They are often supplied by smaller businesses, as the demand is lower than mass market products and there is no need to mass-produce. An example of niche market products is gluten-free food, magazines aimed at caravanning enthusiasts or those who enjoy collecting stamps and specialist sizes in clothing and shoes that are not available in high street shops. It is generally easier to segment the market for niche markets as the needs of consumers in these markets are clearly identified.

Why do businesses segment the market?

By targeting customers and providing them with products and services that satisfy their needs, a business will benefit by:

- dividing the mass market
- targeting the right products at the right people
- satisfying customer needs
- increasing sales and profits

Market research

Market research is concerned with finding out information about the market in which a business operates. It involves collecting data that can be analysed to find out about customers, competitors and market trends. Market research will attempt to discover what potential customers need and what they want to buy to enable the business to make decisions which are more likely to lead to success.

Market research will allow the business to:

- discover the needs of customers
- understand the structure of the market
- discover whether market demand is increasing
- establish what stage the product is in its life cycle
- test consumer response to new products or services

Field Research

Field research is also referred to as primary research. Field research involves collecting primary data. This is data from a new source collected especially for the business for a specific purpose. Primary research is the collection of first-hand information from a new source that nobody has collected yet and can provide up- to-date exact information for the business.

However, primary research can be expensive and time-consuming. It can also be difficult to collect reliable and accurate primary research if the business has no experience of carrying out primary research.

Desk Research

Desk research is also referred to as secondary research. Desk research uses secondary data. This is information which is already available and has been collected by someone else. It is called desk research because it is information that can be collected whilst sitting at a desk. As it has already been collected by someone else, it is also known as secondary data.

This is the easiest, quickest and cheapest way of collecting data, although it might not be specific to the business and could be out of date.

Quantitative data

Is statistical information that includes numbers and values that are measurable. The findings can be expressed numerically.

Qualitative data

Is information about opinions and views. It cannot be expressed numerically or provide statistical information. This data is subjective and will give more in-depth and insightful information to the business.

Primary research can be carried out in different ways:

- surveys
- focus groups
- consumer panels
- interviews
- observation

Methods of secondary (desk) research

Secondary research can be carried out in different ways:

- internal sources
- external sources

Internal sources

Businesses can collect information from a range of internal documents. These include:

- invoices showing them how much they sell and who they are selling to
- till receipts showing what they are selling, at what times and their top-selling products
- reports
- accounts
- databases of customers and stock which provides a wide range of data

External sources include data from outside the business that already exists. These include:

- the internet
- newspaper articles
- magazine articles
- competitor information
- market research agencies
- government statistics
- Office of National Statistics reports
- census reports

The Marketing Mix

Marketing is the art of making it as easy as possible to get the potential customer to buy your product. So, marketing is important to the whole business as without it the business will be unable to sell its products or services. If a business cannot meet customers' needs, they will go elsewhere.

A successful marketing mix will sell a good product that satisfies customers' needs, at the right price which customers are willing to pay and which makes a profit for the business, with effective promotion which informs and persuades the customer to buy, in the right place to allow a customer to access it.

Product

The product itself is often thought of as the most important of the 4Ps. Getting the product right is the basis of the whole marketing process. It is important that businesses develop and design a product or service which satisfies the customers' needs or wants.

The main features that make up an attractive product include:

- reliability – is it fit for the purpose for which it was designed and does it do the job well?
- quality – is the product top of the range or budget?
- design – how does the product look, its size, colour, weight and shape?
- flavour – how does the product taste?
- image – the product needs to create its own identity
- features – what can the product do?
- packaging – shape, size and design

Products can also have some extra features to make them more appealing, such as:

- pre-sales service – such as credit facilities
- after-sales service – such as free service/repairs of products
- manuals – instruction booklets
- guarantees – such as extended warranties

Product portfolio

Most businesses will not offer just one product for sale. They are likely to have many products that they will sell to a range of customers. More established businesses and businesses operating on a larger scale, such as multinationals, will tend to have a wide product portfolio. For most businesses, the products they have in their portfolio will be similar and sell them in a specific market. However, some businesses will have an extensive portfolio that includes a wide range of different products and different markets.

A business' product range is part of its total product mix. Many businesses produce more than one type of product. The product mix is the complete range of items made by the business. By offering a product mix a business will compete in more than one market and be able to increase overall sales and profits for the business.

Product differentiation

Product differentiation is used by businesses to make their products different from other products they sell and make them different from those offered by competitors. By altering the design, features, or some other aspect of its product, the business can target certain groups, attract more customers and charge higher prices.

Unique selling point (USP)

Successful businesses will aim to have at least one unique selling point. This is something which sets its product or service apart from its competitors' in the eyes and minds of potential customers

A USP may encourage and give potential customers a reason to purchase the products of one business rather than those of another business. Having a USP will help to maintain customers and create customer loyalty.

Branding

A brand is a named product which:

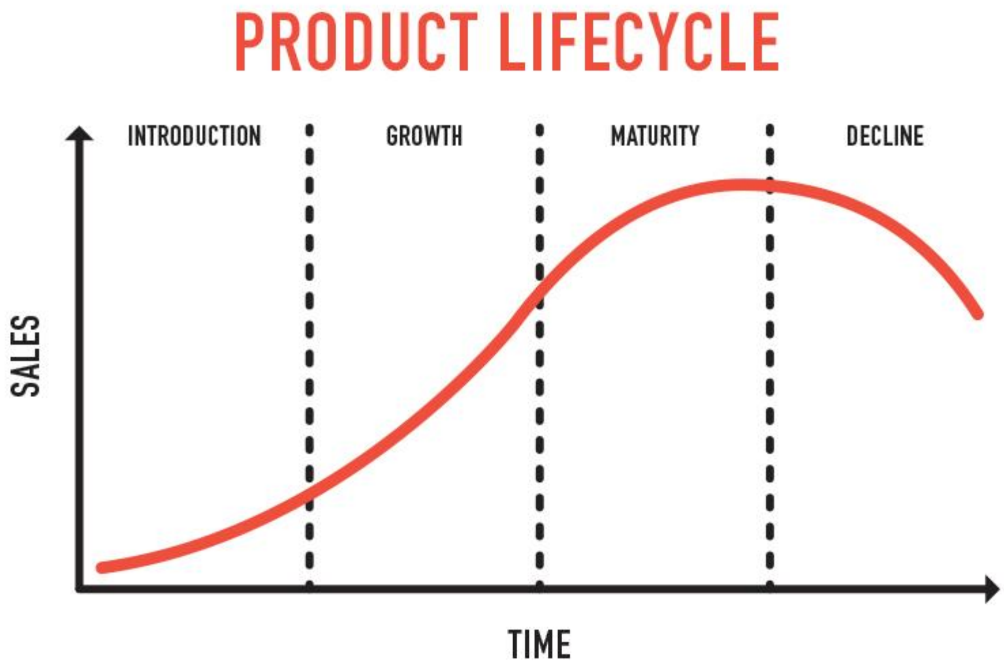
- customers see as being different from other products and services
- is easily recognised and identifiable
- builds its image with a recognisable design, name, logo, promotion and packaging
- allows a business to charge a higher price for the product or service
- is viewed by consumers as superior to other products offered by competitors
- may develop a loyal following of customers who are willing to make repeat purchases
- represents certain values, benefits and personality to consumers

The product life cycle

The product life cycle shows the stages which a product passes through over time. The stages show how the demand for the product will vary throughout its lifespan. The lifespan of different products varies greatly. For some products, the life cycle can be short – for example, one-hit wonder pop stars or this summer's fashion. Others appeal for a longer period and then go out of fashion or are replaced by newer, more up-to-date or technologically advanced products.

The stages of the product life cycle:

- introduction/launch
- growth
- maturity
- saturation
- decline



Price

Marketing also involves getting the price right, so that the product is affordable to customers, but at a price which allows the business to make a profit. The price of the product must reflect the value the customers place on the product. Businesses need to consider:

- the market prices
- how much it costs to make
- prices charged by competitors
- pricing techniques

Most businesses operate in a competitive market so the price they charge customers has to compete with the prices charged by competitors. By using the other 3Ps of the marketing mix a business can create a higher demand for its product and this can affect the price it charges, compared to other competitors. Having a USP or a strong brand can help a business charge higher prices.

The price a business decides for its products will also depend on its overall objectives. For example, if the objective is for growth and increasing market share, the business may decide to set lower prices and accept lower profit margins in the short term to allow it to become the market leader. In the long term it may then raise prices when it has established a strong position in the market.

Pricing Strategies

Price Skimming

- Initially a high price to yield a high profit margin. Used to target early adopters

Penetration Pricing

- Low prices are set to get into the market and to get customers

Predator Pricing / Destroyer Pricing

- Low prices are set to drive a firm out of the market (and reduce competitors)

Price Leadership/ Price Taking

- A large company sets market price that smaller firms tend to follow

Loss leaders

- A firm sets a low price in order to encourage customers to buy other products that provide profit for the firm

Psychological Pricing

- A tactic intended to give the impression of value

Cost Plus Pricing

- Find the -cost- of manufacturing and add on a mark-up percentage.

Promotion

There are a number of methods/techniques a business can use to promote its products and services. These include:

- advertising
- sales promotion
- direct marketing

Advertising

Advertising includes any messages sent to customers about a business or its products that a business has paid for. Advertising can be informative and/or persuasive. Informative adverts just give details of the product. Businesses use informative advertising, especially local businesses in local papers and in leaflets. Informative advertising will just state the information, such as the opening times of a restaurant.

Informative advertising leaves consumers free to make up their own minds about the product. The type of media used will depend on:

- the target audience – it is important to use the media that customers and potential customers use
- the size of the market – local and small businesses will use different media to large and global businesses
- the size of the advertising budget – advertising is expensive and a business must use media that it can afford

Local and national press

Newspaper advertising accounts for a quarter of all expenditure on advertising in the UK. There are several different types of newspapers:

- national newspapers
- local newspapers
- free newspapers

Advertising in a national newspaper can be very expensive, costing up to tens of thousands of pounds for a full-page advert. However, local newspapers are fairly cheap in comparison, costing hundreds of pounds.

The cheapest form of advertising in newspapers is classified advertising. Free newspapers are very good for small businesses with low advertising budgets. Free newspapers make their money from advertising revenue; the bigger their readership, the more they can charge businesses to advertise. Small businesses can also write a press release and give this to a local newspaper in the hope that it will be used.

Cinema advertising

Cinemas have a high visual sound impact and a business can target certain films. Cinema advertising also has a captive audience. Cinema advertisements can be longer versions of television advertisements or may advertise things that are not allowed to be advertised on television.

The cost to advertise in the cinema is high, especially for a small business. Making the advert can be expensive and the business will also have to pay the cinema to show the advert. There are also cinema slots for local businesses, which could be slides projected on to the screens or short videos made semi-professionally. These are much cheaper, but not as dynamic as the more professional adverts.

Sales promotion

Sales promotion is an attempt to give a short-term boost to sales and there are many methods a business can use. Businesses will carry out sales promotion in addition to their advertising and will use their advertising mix to communicate their sales promotion to their customers.

There are a number of different sales promotion techniques a business could use and the technique it uses will depend on:

- the product or service
- the size and scale of the business
- the objective of the business
- the target markets
- the cost of the sales promotion
- the expected result of carrying out the sales promotion
- external factors such as economic climate and technology
- the type of market the business operates in
- the creativity of the marketing function of the business

Discounts

A good way to get people to notice a product is to give a money-off deal. Money-off coupons can be used when a business wants to encourage consumers to buy a particular product. Discount vouchers can also be used to give money off future purchases.

The most common method used for discounts is holding sales at different times of the year. Sales are very popular with consumers; everybody likes the thought of getting a bargain. Sales are used for every type of product and service at different levels of price.

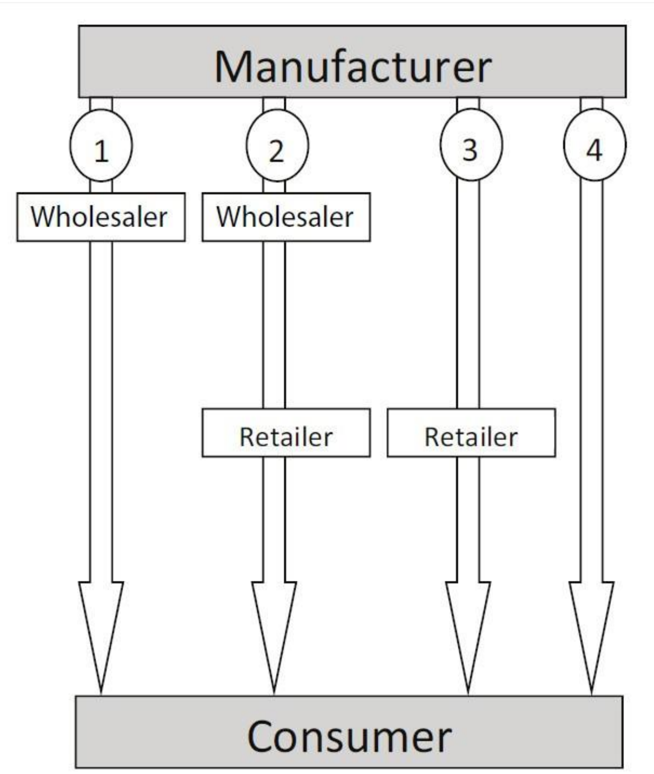
Place

For a product or service to sell it must be in the right place at the right time. Products and services are unlikely to be a success if consumers find it difficult to purchase. So, place is a vital part of the marketing mix.

Businesses have to decide how to get their product or service to the customer. In other words, place is all about distributing the product to the customer. The marketplace is the place where buyers and sellers come together and can exchange payment in return for goods and services.

The ways in which businesses get the product or service from the manufacturer/producer to the consumer are called Channels of distribution

The main channels of distribution are:



The manufacturer or producer makes the product in large amounts and will usually sell them on to a business that will buy them in large amounts.

The wholesaler

Buys from producers and manufacturers in bulk, and usually provides both transport and storage. Because the wholesaler is buying in large amounts, it is able to buy at relatively low prices. When it sells the goods on, it will have to recoup its transport and storage costs. The main customers for wholesalers are small shops and other traders. Cash and carrys are examples of wholesalers.

The retailer

Is any outlet where the consumer can buy the product. Most retailing takes place through shops, ranging from giant superstores to independent small corner shops. Products are displayed in a convenient way for consumers. Retailers will often provide other customer services such as a returns service, delivery, cafes and toilets. Other retail outlets include vending machines, mail order catalogues and direct mail selling. Internet, telephone and television are other examples. The internet is now a major channel of distribution for all types of products.

Wholesalers and retailers are intermediaries in the distribution channel.

Factory shops

Some manufacturers have factory shops such as pottery shops, farm shops and footwear.

Door-to-door selling/telephone

Some businesses employ sales representatives to visit people in their own homes. The sales reps will receive a basic wage but will need to sell the products to get commission; no sales means low wages.

Mail order

Some businesses supply their goods through mail order using catalogues. Goods are delivered through the post or special delivery, although some larger businesses may have their own delivery vans. Prices tend to be low as there are no outlet costs. In recent years very, few businesses use just mail order – they use mail order in conjunction with their website.

Vending machines

Vending machines are increasingly used to sell a wide range of products, including confectionery and drinks in leisure centres, personal hygiene products in public toilets and even reading glasses and electrical products in airports.

Internet

The use of the internet to distribute products and services has grown enormously in recent years and is continuing to grow. Buying products and services online is referred to as e-commerce and m-commerce (on portable mobile devices).

Multi-channel distribution

Very few businesses will use a single channel of distribution as part of their marketing mix. They will use multiple channels – this is called multi-channel distribution. Using a multi-channel strategy will increase the number of potential customers and therefore increase sales and profit. However, it will also increase costs as more resources will be needed and the business must make sure there is enough demand for its products and services to make the investment worthwhile.

Local, national and global businesses can use multi-channel distribution, with the most popular choice being a physical outlet (e.g. a shop) and website that allows purchases to be made online. Many large businesses use further channels such as catalogues, telephone ordering and mail order to attract as many customers as possible.

Topic 6- Human Resources

- [ ] 6.1 Recruitment
- [ ] 6.2 Training
- [ ] 6.3 Motivation
- [ ] 6.4 Organisational structures

Recruitment

Recruiting the right people is essential for business success. It is important that a business recognises which jobs need to be completed and who are the best people to undertake these jobs. A business that has an effective recruitment process will be more likely to attract suitable people to their organisation, who have the right attitudes, skills and experiences to carry out the job.

The recruitment processes

Identify job vacancy

The recruitment process starts with the identification of job vacancies. For small businesses the identification of a job vacancy is likely to be a simple process, the owner will clearly know what job needs filling and the type of person they wish to employ. For larger businesses there is often a more formal recruitment process.

Job analysis

Job analysis is the process which identifies in detail the particular duties and responsibilities of the job. The job analysis will also identify the aptitudes, skills and experience that are needed to carry out the job. The job analysis will allow the completion of the job description and person specification.

Job description

The job description explains the duties and tasks for a specific job. It will include the following information:

- Job title
- The duties and responsibilities of the role
- Days and hours worked, whether the job is part or full-time
- Pay which will be based on the hours worked or work completed

Person specification

A person specification describes the skills, knowledge and experience needed by an individual to complete the job. A person specification will include information on:

- Academic qualifications – GCSEs, A levels and degrees
- Professional or vocational qualifications
- Experience
- Skills and personal attributes.

Job advert

A job advert can be produced when the job description and person specification have been produced. The job advert will contain essential information taken from the job description and person specification. The job advert will communicate with potential applicants the details of the job and the type of person the business is looking to recruit. A business does not want to attract unsuitable applicants, who may be underqualified or not have the right type of attributes; therefore, it is important that the job advert gives the correct information to the people who would be suitable for the job.

Shortlisting

Shortlisting is the process of selecting the most suitable applicants from those who have applied for the job. If many people apply for the job, for example over 100 people, then the business will not interview all of these. Using the job description and the person specification, the business will narrow the applicants to a smaller number. Shortlisting involves matching the requirements of the job to the application of the applicant.

Reference

A reference is a written statement about the personal attributes, skills and work-related experiences of a job applicant. The reference is written by a referee. The referee is likely to be the current or previous employer of the applicant or someone else in a professional or managerial position that can provide the information. Usually a business will seek two references for an applicant.

Interview

The shortlisted applicants will then be called for a face-to-face interview so that the business owner or management can judge who they believe to be the best person for the job. In most cases the interview will be held at the place of work and involve the business asking a number of questions to the applicant.

Selection and appointment

Selection and appointment is the final stage of the recruitment process. The business will make a decision on who to offer the job to after the interviews have been completed.

Letter of application

a business will often ask the applicant to complete a letter of application to accompany an application form (although some forms have a section that will include this information). The letter of application will be a written statement giving the reasons why the applicant believes they are suitable for the job. If the letter of application is the only way of applying then it will need to include all the information that is required in an application form.

Curriculum vitae (CV)

this document is produced by the applicant and will contain the same type of information included in an application form. As the applicant will choose the style and format of the CV (and there are many to choose from) the amount of details and information in a CV will vary between applicants. There is a wealth of

guidance and templates available online to help job applicants complete their CV. Typical examples of CVs include the following sections:

- Personal details
- Personal statement
- Skills
- Employment history
- Education
- Qualifications
- Hobbies and interests
- References

Training

Training plays an important part in the future success of a business. All businesses will need to have workers with appropriate skills to make sure that the production of products or provision of services is the best quality possible and what the customer expects

Induction

After a successful job applicant has been appointed, the first training they should receive is induction training. Induction training involves introducing a new employee to the workforce. New employees will need to become familiar with administrative systems, computer systems, be introduced to colleagues, supervisors or managers and be allowed time to get familiar with the way in which the business works.

Retraining

The workforce will need to be retrained to cope with changing working conditions. Also, in some cases, workers will need to be retrained if their level of performance has fallen below what is expected by the business.

Retraining can also be used when new technology, new working practices or new health and safety requirements are introduced. The equipment used in many businesses, especially in manufacturing, can be complicated and dangerous to use. It is therefore essential (and a requirement of the law) that workers receive training before they use such equipment. Workers need to have a full understanding of new technology to make sure that they are working efficiently and using the equipment in the way the business expects

There are two main types of training a business can carry out to train its employees:

On-the-job training is carried out in the workplace whilst the employee is doing their actual job.

Off-the-job training is carried out away from the workplace.

On-the-job training

The employee will receive training in their normal place of work, usually at their work station (the usual place where they carry out their job) although it can involve some additional training on computers or in a meeting with other employees. Most UK employees will have received the majority of their training via on-the-job training.

Off-the-job training

The employee will receive training away from their normal place of work, this could be in a meeting room or a conference room on the business site or in an external venue such as a hotel, college or a vocational/business training centre. Off-the-job training can be useful for developing transferable skills in employees that can be used in many different parts of the business.

Off-the-job training is usually carried out by a trainer who

does not work with the employees in their normal workplace. The trainer may work for the business or may be external and work for a training company or a local college.

On-the-job training	
Advantages	Disadvantages
• Cost-effective – it can be a relatively cheap form of training. • The training is carried out whilst doing their jobs, therefore the training does not take the trainee and trainer away from their work. • The trainee will get to know their new work colleagues quickly as they are the trainers. • The exact needs of the business are the basis of the training, so all the training is relevant and suitable to the business.	• The workstation may not be a suitable training environment, it might be highly pressured or a place where customers are present. • The training can upset/stop the normal business activity, it could reduce efficiency and productivity. • As the trainee is learning they may make mistakes so the quality of work will decline. • The training depends on the quality of the trainer, they may also pass on bad habits.

Off-the-job training	
Advantages	Disadvantages
• Normal business activity, such as production or customer services, is not affected or held up. • Trainees can learn from highly qualified trainers who may bring new ideas to the business. • It can be used to help motivate employees. • Transferable skills are developed which benefit the business and individual employees.	• Can be expensive, can the business afford it? • Trainees are not at their workstation and not contributing to the business in a productive way, overall output could be reduced. • The training may be too generic and not specific to the business. • The employee may use the training to help them gain a job with another business.

Motivation

Financial methods
There are a number of different financial methods of motivation and the method chosen will depend on the type and level of the job being undertaken.

Wages
Are usually paid each week and usually paid to manual and low-skilled jobs. The wage is usually based on an hourly pay rate (this is known as time rate) and the employer will work an agreed number of hours per week.

Overtime pay is another financial incentive. This is based on time rate. Workers are paid a higher hourly rate for any hours they work beyond their agreed weekly hours.

Salaries
Are a financial amount received by an employee based on an annual figure. For example, an officer worker may receive a salary of £20 000 per year (or per annum). Salaries are not based on a fixed time an employee has to work per week. Employees who earn salaries are expected to work the hours needed to get the job done and do not receive any overtime payments.

Bonuses
Are additional financial payments above the normal wage or salary. The bonus may be paid to a worker who has met their work targets or who has performed well in their job. They are paid as a reward for good performance.

Commission
Is used mainly in jobs involved in selling products and services. The employee will receive payment based on the amount of sales they make. The more they sell the more they will earn. Many commission based wages or salaries will include a basic wage or salary, which tend to be low. The amount paid in commission is usually calculated as a percentage of the profit made from the sales.

Fringe benefits
Are additional financial benefits given to an employee on top of their wage or salary. There are many different examples of fringe benefits and the type of fringe benefit received will depend on the type of job and the position within the business. Typical examples include:

- Company car
- Health insurance
- Discounts when buying from the business
- Pension schemes
- Paid holidays
- Sick pay

Non-financial methods
Many business and human behaviour experts believe that money is not the only motivator in the workplace. People are also motivated by the work environment; the way they are treated in work and the opportunities they are given to show their knowledge and skills. As a result, many businesses will use a range of non-financial methods in order to motivate their workforce.

Organisational structures

All businesses need to be organised internally. The internal organisation of any business will depend on:

- The size of the business
- The scale of the business' operations
- The industry within which the business operates
- The views and philosophy of the owners and managers
- The need for effective communication
- The skills of the workforce.

For small businesses the internal organisation can be simple and straightforward. For example, a local newsagent may have one owner and one assistant. The responsibility for all decisions will rest with the owner and the owner may communicate with the assistant verbally and direct in an informal manner. For larger businesses the organisation is more complicated. Large businesses with large workforces will need a structure and more formal ways of communicating. Large businesses will have to decide:

- How workers will be put into groups to work together
- Who is going to be in a position of authority, giving orders
- How many workers will be supervising the work of others
- How messages will be passed through the business.

Responsibility

Owners/leaders/directors will have the greatest responsibility in the business as they will set the overall aims and objectives, strategy and culture of the business. Ultimately it is the responsibility of the owners/leaders/directors to make the business successful and ensure it makes a profit

Authority

Authority means having control or power over others. Owners/leaders/directors will have the greatest authority in the business. All other job roles within the business will be subordinate to the owners/leaders/directors

Delegation

This is when a person in a superior job role gives a subordinate the authority to carry out a specific duty. The subordinate is given limited authority in the completion of that duty. Large businesses can organise themselves in different ways. The most common forms of organisation are by:

- Function – organisation based on roles such as finance, marketing, production, sales.
- Product – organisation based on what product is being produced such as Ford cars, Ford vans Ford HGV, Ford parts.
- Geographical – organisation based on where in the country or world a business is operating such as PepsiCo N America, PepsiCo Europe, PepsiCo Asia, PepsiCo S America.

Organisation by function

This is when the business is divided up by the jobs that people do. In other words, it is divided into departments which specialise in areas of the business.

Organisation by product

Very large businesses which make a wide range of products usually have separate groups or divisions for each product. So, within one large organisation there may be a number of smaller organisations based on the product or service they supply.

Organisation by geographical area

This is where the business divides its operations by geographical area. Global multinational companies divide their operations into several regions per continent or subcontinent.

Flat or horizontal organisational charts

Small businesses with few employees will have a flat (horizontal) organisational chart. However, some larger business may also decide to organise the business with a flat structure.

The length of the chain of command in this example is very short as the organisational chart is flat and only has two levels.

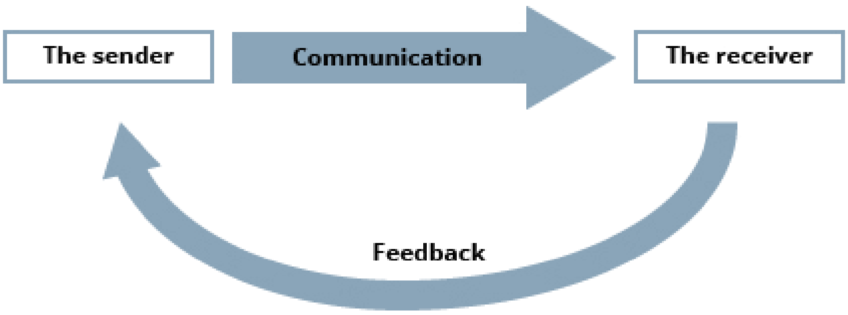
The span of control is the number of subordinates that a role has direct control over. The role that is directly connected by a vertical line to the subordinates will be the line manager.

Tall (hierarchical) organisation charts

Most medium sized and large businesses tend to have tall (hierarchical) organisation charts. This is an organisation with many levels and job roles.

Communication

Communication is the passing or exchange of information, ideas or feelings and there are two parties involved in any communication:



Communication should be a two-way process – the giving of the information from the sender to the receiver and the feedback from the receiver to the sender. Communication is important for all businesses. Generally, the larger the business the more difficult it is to communicate. However, all businesses must make sure they communicate effectively to all their employees. Effective communication will result in:

- Increased employee involvement
- Improved motivation
- Working towards the same aims and objectives
- Helps decision-making
- Employee feedback

Quantitative Skills & Formulae

For the WJEC specification, a variety of mathematical skills are needed to be able to complete the qualification. This page outlines the necessities for the exams.

Unit 1

- ☐ Calculating Costs, Revenues and Profits (P&L Account)
- ☐ Calculating Averages
- ☐ Calculating Average Rate of Return (ARR)
- ☐ Calculating Contribution and Breakeven
- ☐ Calculating Gross Profit Margin and Net Profit Margin
- ☐ Calculating Percentages and Percentage Changes
- ☐ Constructing a Cash Flow Forecast

Unit 2

- ☐ Calculating Averages
- ☐ Calculating Average Rate of Return (ARR)
- ☐ Calculating Contribution and Breakeven
- ☐ Calculating Profitability Ratios (Gross Profit Margin and Net Profit Margin)
- ☐ Calculating Percentage Changes
- ☐ Constructing a Cash Flow Forecast
- ☐ The Income Statement (Calculating Profit)

On the following pages, a list of formulae you will need to learn are provided. This is not an exhaustive list, so make sure the revise thoroughly.

Calculating Costs, Revenues and Profits (P&L Account)

- ☐ Gross Profit = Revenue – Cost of Sales
- ☐ Net Profit = Gross Profit – Expenses

Calculating Averages

- ☐ To calculate the average of a set of numbers, add up the figures provided and divide the total by the number of items you have added up.

- ☐ $\dfrac{\text{Sum of all figures}}{\text{Number of figures}}$

Calculating Average Rate of Return (ARR)

1. Divide the net profit generated by an investment by the number of years the project is expected to last (this is the average annual return)
2. Divide the average annual return (your answer to 1.) by the initial outlay / cost of investment
3. Multiply your answer by 100 to give the ARR as a percentage

Calculating Contribution and Breakeven

- ☐ $\dfrac{\text{Fixed Costs}}{\text{Selling Price per Unit-Variable Cost Per Unit}}$

Calculating Gross Profit Margin and Net Profit Margin

- ☐ Gross Profit Margin = $\dfrac{\text{Gross Profit}}{\text{Sales Revenue}}$ x 100

- ☐ Net Profit Margin = $\dfrac{\text{Net Profit}}{\text{Sales Revenue}}$ x 100

Calculating Percentages and Percentage Changes

- ☐ To calculate a percentage, divide one number (the part) by another (the whole) and multiply the result by 100.
- ☐ For example, a business sells phones. In a month, they sell 48 phones, but 6 are returned. To calculate the percentage return rate, you would do:
  $\frac{6}{48} \text{x } 100 = 12.5\ \%$

Constructing a Cash Flow Forecast

- ☐ Individual revenue items are added up in order to give total revenue
- ☐ Individual expense items are added up in order to give total expenses
- ☐ Net cash flow is calculated by deducting total expenses from total revenue
- ☐ Opening bank balance is the closing bank balance from the previous month
- ☐ Closing bank balance is calculated by adding net cash flow to opening balance

The Income Statement (Calculating Profit)

- ☐ Gross Profit = Sales Revenue – Cost of Sales
- ☐ Net Profit = Gross Profit – Expenses

Glossary

The specification requires you to know and understand a range of business terminology. In addition to enhancing their business knowledge, being able to define key business terms will also help you in the assessment of GCSE Business. The following list is not exhaustive; it is difficult to include all business terminology as the list would be extensive. It is recommended that you use this glossary as a starting point.

Advertising media	are the various places where advertisements may be found such as television, newspapers or the internet.
(Business) Aim	is the long term objective of the business. Its aim might be to become the biggest business in its sector.
Backward vertical integration	occurs when the suppliers of a business are taken over by that business.
Bank loans	are long to medium term loans that can be used to buy producer goods. The goods become the property of the business immediately but failure to repay the loan to the bank could lead to the business being closed down.
Batch production	is found when a small number of identical products are made at once. Batches can be made as often as required.
Blogs	provide information and allow discussion on the internet with other users producing their own entries or posts.
Break-even	occurs where the total amount of money taken in by a business is the same as the amount of money paid out. Neither a profit nor a loss is made where total revenue equals total cost.
Business angels	are wealthy individuals who invest their private capital into start-up businesses in return for a share in the business.
Business plan	helps in decision making by showing the aims and objectives of a business and the strategies and requirements needed to achieve these. It also provides information to banks and other possible providers of finance to persuade these to grant loans and other monies to the business.

Cash	is money held by the business or in its bank accounts.
Chain of command	is the path along which orders pass within a business from the management to the shop floor.
Commercial services	are services that provide mainly to businesses such as transport and warehousing but they may also be available to individuals such as insurance and banking.
Cash-flow forecast	cash-flow involves the difference between the inflow and outflow of cash in a business. In a cash-flow forecast businesses predict what they expect to happen to their cash-flow in the future.
Competitive environment	is where there are a number of businesses attempting to persuade consumers to buy their products. Such competition will be based on such factors as price, design and quality.
Competitive pricing	is a pricing strategy which involves the producer offering goods for sale at a price at or below that set by competitors.
Consumer goods	are those which are produced for the final consumer.
Consumer panels	are recruited by research companies to represent the views of consumers in a particular sector. They will be asked to comment on such things as product design and taste or on the branding and advertising of products.
Consumers	are the final users of goods and services. They are at the end of the distribution channel.
Contribution	is the amount taken from the cost of selling every good used towards paying the fixed costs of producing that good. Contribution per good is selling price minus the cost of the good.
Co-operatives	are generally seen as social enterprise businesses owned by the employees or, most commonly, their customers.
Cost	is the amount of money used to buy a good or service.
Cost plus pricing	is a pricing strategy which involves the producer adding a sum of money (the profit per good) to the cost of producing goods to determine the selling price of the good or service.

Curriculum vitae (CV)	is written by a person looking for employment. It outlines that individuals' personal details, qualifications, experience and interests in the hope that these impress a possible employer.
Customer service	involves the interaction between the business and the customer in which the business understands consumer needs before, during and after the sale of a good or service. Positive reactions to service can provide benefits for the businesses in relation to reputation and future sales.
Digital adverts	use internet technologies to provide a range of advertising including using e-mail, social media messages and banner advertisements on mobile phones and websites.
Distribution	involves materials being transported or moved to the producer or the final product being moved to the consumer.
Distribution channels	involve the routes which goods follow between the manufacturer and the consumer. The route may be direct between the two but the interaction of middlemen is more likely.
Diversification	allows a business to enter a different market in addition to the one they are already involved. This enables the business to spread its risks should the original business fail.
Durable goods	are consumer goods which are not used at once and do not have to be bought frequently because they last for a long time.
E-commerce	involves the buying and selling of goods and service via the internet.
Entrepreneur	is a person who sets up a business by taking on the financial risks in the hope of making a profit.
(Business) Ethics	involve a business doing what is morally right for its stakeholders.
Extension strategies	involve a number of methods businesses might use to prolong the life cycle of their products. These will be related to marketing mix strategies.
External growth	involves increasing the size of a business by buying other businesses.

Feedback	is the response by a customer following the purchase of a good or service. This will be used by the producer to improve what has been produced.
Fixed cost	always stays the same no matter how many goods are produced.
Flat (horizontal) structures	involve organisational charts where there are few or no levels of middle management between staff and executives.
Flexible hours	are a working practice in which workers are no longer in their offices between two set times. Many can now work a full day within a range of hours set by the employer.
Flow (mass) production	is a method of production where goods are produced continuously usually on a production line.
Focus groups	are consumers brought together by businesses to discuss their reactions to products before they are launched.
Footfall	is the number of people passing close to the business. These are potential customers of that business.
Forward vertical integration	occurs when a business takes over another business to control the direct distribution of a businesses' products.
Franchise	is the right given by one business to another to sell goods or services using its name. They should be seen as a method of growth for the franchisor and a business opportunity for the franchisee rather than a type of business organisation.
Franchisee	is a business which pays royalties for the right to sell goods or services using established processes and under the name of another business.
Franchisor	is a business which allows a franchisee to sell using their processes, experience and name in return for royalties.
Fringe benefits	are rewards to workers not shown in their traditional pay. Such benefits may include company cars or discount on company products.
Globalisation	involves the increased interdependency of people around the world as a result of increased trade and cultural exchange. It has led to an increased worldwide production of goods and services.

Gross profit	is the profit made before expenses have been paid. It is calculated by subtracting the cost of goods sold from the total revenue from selling those goods.
Gross profit margin	is the gross profit expressed as a percentage of sales. It is calculated using the formula Gross profit margin = $\frac{\text{gross profit}}{\text{sales}} \times 100$
Hierarchical (tall) structures	involve organisational charts where there are many levels of hierarchy. In these organisations, there are usually many managers, and each manager has a small span of control.
Hire purchase	is a system of credit whereby the borrower pays a deposit to be able to use a good for a set period of time. During this time instalments are paid to cover the cost of the good plus interest. The good becomes the property of the buyer when the final payment is made. Non-payment means that the good can be taken back by the lender.
Home working	means that workers do not have to attend a workplace every day. Modern communication technology means that work can be carried out at home and can even be monitored from the workplace.
Horizontal integration	means the buying or merger of other businesses producing the same or similar products.
Induction training	is used when new workers are employed so that they become familiar with their new surroundings and the specific methods and policies of the particular business.
Intellectual property	is property which cannot be seen or touched but is the result of the creativity of an individual or group. Just as goods need to be protected from theft and damage so intellectual property is protected by patents and copyrights.
Internal economies of scale	are the benefits a business gains as a result of being large. All costs can be spread between the large number of goods produced so the cost per good is lower than for smaller businesses.
Internal (organic) growth	involves increasing the size of a business by increasing its sales, revenue, profits and work force.

Job description	is used in the recruitment process when employers outline what is involved in the work to be done by newly appointed workers. It may include job title, pay, hours to be worked, holidays etc.
Job production	involves the manufacture of an individual good from start to finish. Each product is different and offers a unique good for the consumer or meets specific consumer requirements.
Job sharing	means that instead of one worker doing one job on a full time basis, the work will be carried out by more than one person on part time basis. This is particularly important for workers with family responsibilities.
Just-in-time	requires businesses who adopt the idea to keep their stocks of finished goods and / or of materials to a minimum. Goods will only be produced when orders are received and / or materials are only received when they are needed. This process saves storage costs and avoids having assets tied up in stocks.
Leasing	is a system of renting an asset to a business. The asset remains the property of the company renting out the good.
Limited liability	means that the owners of a business are not responsible for the debts of a business. Personal belongings will not need to be given up to pay the debts of the business. The owners however will lose the money they invested in the business if it fails.
Location	is a geographical area where businesses may be found.
Logistics	involves the management of the movement of goods from where they are to where they are needed: often between the manufacturer and the consumer.
Loss leaders	are products put on sale, usually in supermarkets, at prices which make no profits and may even make losses in order to attract customers into the shop to buy other goods.
Manufacturer	is the maker of products.
Marketing mix	is the combination of factors which help a business to sell its products. It is usually considered to involve the 4Ps of product, price, promotion and place.
Market research	is the way in which information and data is gathered about consumers, competitors and market trends.

Market segment	is a part of the market which contains a group of buyers who are similar. Markets can be segmented on the basis of characteristics such as age, gender, income, where they live, their cultural and ethnic backgrounds and so on.
Mass (flow) production	is a method of production where goods are produced continuously usually on a production line.
M-commerce	or mobile commerce involves buying goods and services through hand held mobile devices such as smartphones.
Multi-channel distribution	involves a business using more than one channel to distribute its goods perhaps through traditional shops and catalogues and online.
Multinational companies	are businesses with their headquarters in one country but which operate in other countries through their offices, factories and shops. A company which just sells goods abroad is not a multinational company.
Net profit	is the final profit made by a business after all costs have been paid. It is calculated by Net profit = gross profit minus expenses
Net profit margin	is the net profit expressed as a percentage of sales. It is calculated using the formula $\text{Net Profit Margin} = \frac{\text{Net Profit}}{\text{Sales}} \times 100$
Niche markets	are those involving a small segment of the population. All marketing efforts for a particular product are aimed at that market.
Non-durable goods	are goods which are immediately consumed or which have a lifespan of less than three years.
(Business) Objective	is a short or medium term target of a business needed to reach its aim. An objective might be to increase sales by 20% in the next 5 years.
Off-the-job training	happens outside the workplace of the employee often in colleges.
On-the-job training	happens within the workplace of the employee.

Organic (internal) growth	involves increasing the size of a business by increasing its sales, revenue, profits and work force.
Overdrafts	are a form of short term loan provided by banks to cover cash-flow difficulties of businesses. The business is allowed to take more from its account than is in the account. When cash is paid into the account, the overdraft will be cleared.
Overtime pay	is paid to workers according to the number of hours worked above their contracted hours.
Partnerships	are businesses owned by between 2 and 20 who generally have unlimited liability.
Penetration pricing	is a pricing strategy which involves setting a low price for a new product to encourage sales. The price may be reduced later with increased customer loyalty and market share.
Performance related pay	is an additional payment to workers who reach or exceed targets set in advance by the management.
Personal services	are those services provided for individuals. They include services for personal grooming, house maintenance, car repair etc.
Person specification	is used in the recruitment process for the employers to outline the type of person they would like to employ. It will outline skills, qualifications and experience required.
Piece rates	are paid to workers based on the number goods which are produced.
Place	in the context of the marketing mix, is where the product is available for the consumer to purchase. Place could include shops, markets, telephone sales, the internet and so on.
Pop-up adverts	these are a form of online marketing which place new browser windows on computer screens.
Price	is the amount of money a business wants to receive in order to sell a good or service or the amount of money the consumer is willing to pay to buy that product.
Price discrimination	is a pricing strategy which involves setting different prices to different market segments.

Primary research	involves collecting original information for a specific purpose: this is often called field research.
Private limited companies	are businesses which are owned by shareholders who have limited liability. Their shares are not available to others except with the agreement of other shareholders. They are generally recognised with Ltd after the business name.
Procurement	involves obtaining or buying of goods and services from an external source. These are to be used in the production process or are to be sold on.
Producer goods	are those which are produced for other businesses to be able to produce other goods and services.
Product	is the good or service provided by a business.
Product decline	is the point in the product life cycle where sales fall and may eventually cease.
Product differentiation	involves distinguishing a product or service from others. By making a product different or appearing to be different from similar products sold by rivals, a business will hope to attract more customers.
Product growth	is part of the early stage of the product life cycle when sales and profits are rising.
Product launch	is the point at which a product is put onto the market.
Product life cycle	is the stages a product passes from its earliest development until it is no longer available on the market.
Product maturity	is the point in the product life cycle where sales reach their peak.
Product portfolio	is the collection/range of all the goods and services offered by a business.
Product saturation	is the point in the product life cycle where the market is full as competitors introduce similar products.

Profit	is the difference between the total revenue of a business and the total costs of a business, when revenue is greater than cost. It is important in being precise in using this term: stating “money made” can be confusing.
Profit sharing	is an additional reward paid to workers to reflect the profits earned by the business.
Promotion	involves information and techniques used by businesses to make consumers aware of products and to persuade them to buy those products now and in the future.
Psychological pricing	is a pricing strategy which involves offering goods at prices below whole number such as £5.99 or £499, or using words such as "only". It is hoped that the consumer will believe that the product is much cheaper than if the price had been £6 or £500.
Public limited companies	are businesses which are owned by shareholders who have limited liability. Their shares are available to others by selling to the general public often at the Stock Exchange. They are generally recognised with plc after the business name.
Qualitative data	is descriptive information found by experiences or in textbooks or newspapers or reports. It can include opinions and cannot be quantified by numbers.
Quality	involves meeting a standard for a good or service to meet consumer needs and expectations.
Quality assurance	is a guarantee given by producers to consumers that certain standards have been met throughout the production process. Legal standards have been met and / or codes of practice have been followed.
Quality control	involves inspecting a sample of goods produced at the end of the production process to ensure that specifications have been met. Goods which do not meet the standards are scrapped or are sold as seconds.
Quantitative data	deals with measurements and figures perhaps shown in tables and graphs. It includes numerical data that can be given values and is easier to interpret and evaluate compared to qualitative data.
Retailer	sells goods to consumers. Small retailers buy their stock from wholesalers but large-scale retailers buy directly from manufacturers.

Revenue	is the amount of money taken in by a business when selling a good or service.
Salaries	are generally paid to administrative and management workers. The salary is based on their work for the year.
Sales process	involves a series of steps taken from when the potential buyer meets the prospective seller until after the final sale is made.
Search engine advertising	is a form of online marketing which places advertisements on web pages showing the results from search engine queries.
Secondary research	involves using information which already exists: this is often called desk research.
Single market	involves countries joining together in trade as if they were one country, so there are no trade barriers such as customs duties when goods cross borders within the market. An example of a single market is the European Union.
Site	is a specific place within a geographical area.
SMART objectives	is an acronym used as a guide to setting business objectives. It stands for Specific Measurable Agreed Realistic Timed.
Social enterprises	are businesses which operate for the benefit of the community or its workers or as a charity.
Social media	involves websites and applications which allow users to create and share information, ideas and interests with other individuals, communities and networks.
Sole traders	are businesses owned by one person who has unlimited liability. Other people can be employed but there is only one owner.
(Price) Skimming	is a pricing strategy which involves selling a product at a high price in order to earn high initial profits. Profits may be reduced later to increase sales at the lower prices.
Span of control	is the number of people an individual is personally responsible for in a business organisation.
Stakeholders	are individuals and organisations who are affected by the decisions and actions of a particular business.

Supply chain	is a complex system of businesses, people, activities, information and resources involved in moving a good or service from source to customer.
Sustainability	businesses acting in a responsible manner and to ensure that our environment and resources are available for future generations to enjoy.
Time rates	are paid to workers based on the number of hours worked.
Total cost	is the full amount of money spent by a business when producing the goods sold in a particular period. It is calculated by adding its fixed costs to its variable costs.
Total revenue	is the full amount of money taken in by a business when selling all its goods in a particular period. It is calculated by multiplying the selling price by the number of goods sold.
Trade credit	is a system of interest free short-term credit for the purchase of non-durable goods. These will need to be paid for usually within one month.
Turnover	is an alternative term for revenue.
Unique selling point (USP)	is what makes a product different from ones sold by competitors. It may involve the lowest price, the best quality or the first of its kind.
Unlimited liability	means that the owners of a business are responsible for all of the debts of a business. Personal belongings may need to be given up to pay the debts of the business.
Variable cost	is the cost which varies with the number of goods produced.
Venture capital	involves private investors providing capital to new or small businesses which have the potential for growth.
Vertical integration	involves the buying or merger of businesses at different stages of production so that the supply chain may be controlled by the business.
Wages	are generally paid to shop and factory floor workers based on time rates and / or piece rates.

Warehouse	is a place where resources or finished products are stored before they are sold.
Wholesaler	buys goods from the manufacturer and sells these goods in smaller quantities to retailers.
Workforce	are the people who are working or looking for employment.
Zero hours contracts	involve a situation where employers do not offer a minimum number of hours to be worked and employees do not have to accept work being offered. This is of particular value to businesses where the demand may vary from day to day, such as those involved in retailing or catering.