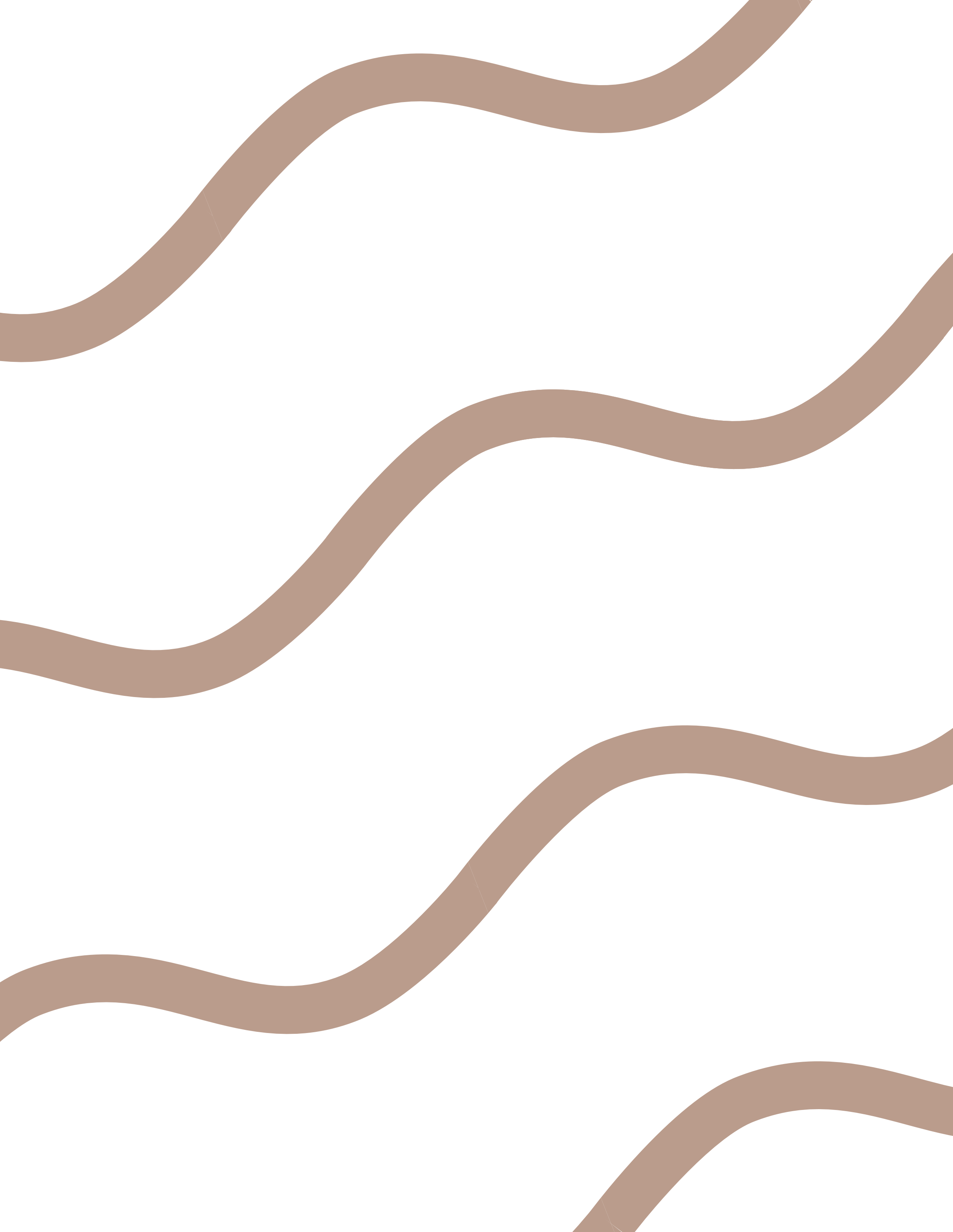

Business studies:

- business activity
- influences on a business
- business operations
- finance
- marketing
- Human Resources

Paper one: **Friday 16th May** 13:**0**0pm
Paper two: **Friday 23rd May** 13:**0**pm

AO1
AO2
AO3

Paper one: business world
-2 hours
-100 marks

Paper two: business perceptions
-1 hour 30 minutes
-60 marks

The Private and the public sectors

Private sector: organisation owned by individuals, which sell to make a profit eg. Sole traders, partnerships

Public sector: organisation owned by the government eg: education, health, environmental services

Resources needed to provide goods and services:

- raw materials
eg: coal, wood
- machinery
- equipment
- workers
- site

Business activity

Personal services:

-Car repair
-Personal grooming
-house maintenance

Commercial services:

-Transport
-Warehousing
-insurance
-banking

The nature of business activity

Competitive environment: other business producing similar goods trying to gain customers

Dynamic environment: business world constantly changing

Interdependent nature: one part of the business affects the outcomes in another part eg: materials

Providing goods and services:

Consumer goods: used by the final user

Non-durable goods:
Immediately consumed or have a lifespan of less than 3 years

Durable goods:
Not used at once, last a long time

Producer goods: products brought by a company and used to produce goods and services

Risks and rewards of Business Enterprise

Risks:
- Lower than expected sales
- Unexpected increases in costs
- Unexpected events eg: traffic jams causing a delay in production

Could lead to a worsening of standards of living for entrepreneur

Rewards:
- Profits
- satisfaction
- positive customer feedback
- building something new

Business activity

Business enterprise: Role of the entrepreneur:
- Initiative - spotting opportunity and quickly reacting to change
- Innovation - staying ahead of competition by developing new products
- identifying opportunities
- organising resources - to get the best out of suppliers and workers

Advice and help available to start ups:
-Welsh government schemes
-Commercial banks
-The Princes trust

Motives of entrepreneurs:
- Financial reasons
  - -Income
  - -Earn a profit
- Non- financial reasons
  - -Be own boss
  - -Personal satisfaction
  - -continue family business
  - -earn a living from a hobby
- Social or community reasons
  - -Benefit of local community

Social enterprises

Characteristics of an entrepreneur:
- Risk Taker
- Using initiative
- Decision maker
- Hardworking
- Determined

Business activity

Business Aims and Objectives

Business aims: general long term goals
Objectives: specific target set to help achieve its aim
Business aims: Survival, profit maximisation, growth, marketshare, customer satisfaction, social and community, ethical and environmental

SMART objectives:

Specific
Measurable
Agreed
Realistic
Timed

Aim to maximise profits to:

- grow business
- increase market share
- Pay dividends
- earn bonuses for managers

Causes of changing business aims:

Internal

-Faster or slower expected growth
-greater or less profit

External

-change in consumer incomes
-change in government policy
-change in interest rates

Business planning:

Business plan: sets out what a business does and what it intends to achieve and how
Importance:
- decision making tool- helps decide if they want to set up or not
- When seeking finance
- Shows future vision
- Management tool

Main sections of a business plan:

Business description
-name
-type of ownership
-type of goods/services

Marketing
-market research
-location, price, promotion

Financial
-cash flow forecast
-profit and loss accounts

Production operations
-resources

Human Resources
-Skilled workers/wages

Examples of Stakeholders and their area of impact

Example of an expanded factory

Owners- financial, greater long term output of profit, short term fall in dividends

Employees- improvement in working conditions, improvements may include technology causing risk to jobs

Customers- increased number of goods available, may have higher prices

Suppliers- may need to provide more materials, may face late payments

Governments- increase in employment, may be asked to provide grants

Local communities- more job opportunities, increase in pollution

Business activity

Stakeholders involved:

- Owners and shareholders
- Employees
- Customers
- Suppliers
- government
- local communities

Stakeholders influence: decision making, aims, objectives, operational issues, sales, costs and profits

Business decisions may have contradictory effects on stakeholders

- With so many different stakeholders there will be disagreements and conflict between them
- Disagreements and conflict include:

- Maximising profit
- Low wages
- Environmental damage
- Poor quality products
- Late payments

Business activity

Unlimited liability organisations:

Unlimited liability: business and the owner are seen as the same so possesions of the owners are at risk

Sole traders:

An individual who sets up a business on their own

Pros:
- Easy and cheap to set up
- All profits can be kept
- No need to publish accounts
- Independence (can work when they want)

Cons:
- Unlimited liability
- No continuity
- Limited Capital
- Large workload
- decisions can be rushed and poorly thought through

Deed of partnership: agreement between partners that sets out rules of partnership eg: profit division

Partnership:

A business owned by two or more people

Pros:
- Easy to set up but will need to sign a deed of partnership
- All profits belong to partners
- Raise more capital than sole traders
- Different partners contribute different skills and expertise
- More people to make decisions so usually more considered approach

Cons:
- Unlimited liability
- If one partner leaves business may come to an end
- Decisions take longer as partners may disagree
- Some partners may not work as hard as others
- Limited Capital

Business activity

Limited liability organisations

Limited liability: business and owner seen as two separate things so they can only lose their personal possessions

Private limited companies

-Cannot publicly advertise shares, only sell shares to friends and family

Pros: -Limited liability
-Shareholders not responsible for the actions of the company
-Business has continuity
-more capital as can sell shares

Cons: -Expensive and difficult to organise as a range of documents is needed
-Profits are shared- divided
-Documents are not private, must share an annual report outlining progress
-capital is limited as cannot be on the stock exchange

Public limited companies

-Can advertise shares on the stock exchange

Pros: -Have more access to Capital as on the stock exchange
-banks more likely to lend more money at lower interest rates
-Consumers have more interest in buying from them

Cons: - As shares are available to everyone on stock exchange, possibility of losing control of business
-Business accounts must be made available, not likely to remain private
-Expensive to set up
-Owners do not have to spend their time with day-day management

Business activity

Charities:

Non-profit making organisation

Aim: Minimise costs and organise fundraising events

Workers may be employed but wage costs are kept to a minimum by relying on volunteers

Co-operatives

Aim of co-operatives is to earn a profit

Worker co-operative: business owned and controlled by its workers

-Workers invest money but can be as little at £1

Consumer co-operative: owned by customers, pay a subscription to become members, share profits based on value of goods brought

Why businesses grow:

- increase profit
- improve market share
- reduce competition
- to benefit from economies of scale

Purchasing economies

-Bulk buy

Marketing economies

-larger firms can afford higher advertising budget

Technical economies

-able to afford more modern technology

Financial economies

-can negotiate lower interest rates

Administrative economies

-Can afford to pay the highest salaries for managers

Internal growth

- Selling more of current products in existing markets
- Looking for new markets
- Launching new products
- increasing advertising, promotion, investment

Economies of scale:

Cost per unit falls as the business expands

Business activity

Franchising:

Franchising: method of growth for established businesses
Franchisor- sells the franchise
Franchisee- buys the franchise

Franchisor benefits:

- receives royalty payment (right to use business name and methods)
- New franchisee may have more enthusiasm
- Lowers costs for franchisor as franchisee finds location, pays rent, pays wages
- Franchisee recruits workforce

Franchisor problems

- Still pay training costs, advertising costs
- Less control over outlets
- Could get a bad reputation

Franchisee benefits

- Receives advice and training/ national advertising
- furniture/fittings provided
- franchisor provides goods/loans and finance

Franchisee problems

- Set-up costs and royalties
- Goods may be more expensive from franchisor
- Has little influence
- Suffer from bad reputation of other franchisees

External growth (integration)

A business grows by joining with another business

- Merger (combining with other businesses)
- Takeover (buying other businesses)

-Horizontal integration: same stage of production process
-Vertical integration: different stage for the same production process

Evaluation of integration:

The business: pro- less worry about competitor pricing
Con- may need to change management and organisation

Owners: pro- economies of scale= greater profits, Con- more shares so price of original shares may fall

Employees/Managers: pro- higher incomes? Promotion?
Con-Job loses or ask to relocate or reapply

Government: Pro- higher wages= more taxes
Con: job losses=more benefits needing to be paid

Business activity

Factors influencing location:

Location: geographical area where businesses can be found

- How close they are to the market
- How close to raw materials (transport costs)
- Availability to infrastructure
- Close to labour supply

Factors influencing site

Site: specific place within geographical area

- accessibly of site eg: good roads
- footfall
- Cost of buying/renting
- size of site
- proximity to competitors

Why some businesses remain small:

Niche markets: small and well-defined segment, all marketing aimed at specific market

- Limited market size
  - -Geographical
  - -limited demand
  - -niche markets
- Small amount of Capital
- Desire of owner

How small businesses are able to survive

-Personal services
-Knowing customers
-Individual customer needs
-convenient times/local

Independent nature of business

-Business operations: owners and managers converting assets into finished goods/services
-Marketing: advertising and promotion of products
-Human Resources: deal with people needed to manage, produce and sell goods
-Production: combining assets to make products
-Finance: pays for assets and resources

Need to work together to make decisions

Influences on a business

Technology in production

Computer aided design- CAD, generate 3D images of finished product- can be stored on computers and transferred to others

Computer aided manufacture- CAM, machines used in production controlled by computers

Benefits:

-CAD, speeds up design process-. Alternative designs can be considered
-No need for models so money is saved
-fewer errors as transfers measurements
-CAM ideal in flow production on a large scale
-Standardised, more reliable products- less waste
-Fewer workers, less wages to be paid

Problems:

-Expensive to set up
-Require highly trained well-paid engineers
-High training costs
-May not provide a true image of finished products
-Worker redundancies

Use of technology:

- Administration- keep records of transactions/ accounts
- Communications- inform stakeholders of needs/progress
- Recruitment
- Stock control- know which stocks are available

IT packages:

-Word processing
-Databases, storing info about stock
-Spreadsheets
-Video conferencing
-Website design
-Computer graphic

Influences on a business

Evaluation of technology in selling:

E-commerce
Act of buying or selling a product using an electronic system

M-commerce
Act of buying or selling a product using a handheld device

Benefits on a business:
- Goods can be stored in warehouses
- Small businesses can enter market more easily
- Customer service training is not needed, less skilled and less expensive workers needed

Problems on a business:
- Expensive set-up costs
- Goods need to be delivered to individual customers
- Return of unwanted goods needs to be organised
- Security measures to protect against cyber attacks

Benefits on customer
- No need to travel to shops, saving time and money
- Goods delivered to customers home
- Goods can be returned

Problems on customer
- Goods can look better online than in person
- organising return can be inconvenient
- Unsuccessful deliveries need to be rescheduled
- Customers wary of fraud
- Contacting a business online can be difficult

Influences on a business

Advantages of ethical policies

- Attract more customers, sales can increase
- Customers willing to pay higher prices
- Employees who are fairly treated may the more motivated
- Suppliers will be more stable

Disadvantages of ethical policies:

- Materials and Labour more expensive- increase costs, may reduce profits
- Ethical policies may be hard to get approved
- Lapses in ethical image may harm business

Ethical influence on business activity

Business ethics: whether a business decision is thought to be morally right or wrong

Stakeholders being treated ethically:
-Fair share of profits

Employees being treated ethically:
-Good standard of living in interest of their families

Suppliers being treated ethically:
-Payments made on time
-not forced to provide goods at lower prices

Fair trade products:

producers are not exploited by a business and paid a fair price so can have a better quality of life

Benefits of environmentally friendly policies

- attracts customers
- willing to pay higher prices
- Employees motivated
- Reduce wastage

Problems:

- Business costs will rise
- May have bad publicity if are found not to be
- Have to pay higher prices to cover costs

Environmental costs of business activity

-Pollution
-Climate change
-Congestion
-Use of finite resources

Sustainability: production that can be continued in long term

-renewable energy
-Bio-degradable packaging
-Recycling
-Water efficiency
-Fair trade
-Minimising waste

Influences on business

Interest rates:

Rise in interest rates: more expensive for business to borrow- savings= good
Fall in interest rates: encourage business to borrow

Impact of a rise in interest rates on stakeholders

Shareholders: likely to sell shares as savings in bank give greater reward
Customers: less willing more to buy goods as is attractive to save

Consumer income and unemployment:

Unemployment low: businesses must offer higher wages to attract workers
= higher incomes, more goods brought, more profit

Unemployment high: pay lower wages as people are desperate for work
= less disposable income= lower profits

Impact of low levels of unemployment on stakeholders

Shareholders: higher dividends
Workers: jobs will be more secure as want to retain workers
Suppliers: increased demand so higher prices
Government: more tax, benefits costs will fall
Local communities: factory expansion- environmental problems

Tax rates

Direct taxes- income tax (percentage of what people earn)- Corporation tax (on profits of companies)
Indirect taxes- VAT (added to costs of goods and services)

Impact of a rise in tax rates on stakeholders

Shareholders: dividends may fall
Customers: pay more income tax, less disposable income, prices of good higher
Employees: less take home income
Government: earn greater tax revenue

Influences on business

Globalisation

Globalisation: trend for markets to become worldwide

Globalisation leads too:
- Increase in international trade
- Development of multinational companies
- Free movement of labour
- Free movement of capital

Multinational Company: produces goods and services in more than one country

Impact of globalisation on stakeholders:

Shareholders: greater dividends
Customers: Lower prices
Foreign investments:
Employees: more jobs
Consumer: greater variety of products
Government: higher taxes

Negatives in less developed countries:

- Force lower wages on employees
- ignore local laws
- Threaten jobs of local employees
- threaten sales of local suppliers

International trade:

Exports: goods and services made in a country and then sold out to another
Imports: goods and services brought from producers overseas

Trade takes place because:
- Raw materials not available in every country
- Certain goods/services produced cheaply in other countries

Advantages of international trade:

- Businesses can enter new markets and gain:
  - increased sales -increased profits
- Spreading of technological knowledge

Disadvantages of international trade

- Language barriers
  - higher costs, communication problems marketing and selling, labelling issues
- Supply chain issues
  - higher transport costs, longer transport
- Foreign currency issues
- Local taxes/tarriffs
- Local Laws- higher costs

Influences on business

Impact of multinationals setting up in the UK

Advantages:

- More jobs created
=more wealth into country= more taxes= less benefits
- Faster economic growth
-improved standard of living
- Introduce new technology
- To access factories they will contribute to infrastructure improvements

Disadvantages

- Exploitation of workers
- de-skilling of workers
- Not as many financial rewards
-Profits don't stay in UK
- Damage to environment
-little interest in impacts of their factories

Should businesses become multinationals:

Advantages:

- Establish a global brand
-brand name becomes a mark of quality
-more consumers= greater profit
-encourage shareholders to invest
- Take advantage of economies of scale
- Increased market share
- Cheaper production costs
-being close to raw materials reducing transport costs
- Government grants- keen to attract businesses reducing unemployment

Disadvantages

- Difficult to manage
-communication problems -expensive to run
- Must conform with laws in different countries eg: Consumer rights, planning, employment
- Political unrest
- Exchange rates may act against multinationals= lower revenue, higher costs
- Lower labour costs lead to dissatisfaction and lower morale among workers in home country who feel their jobs have been exported abroad

Influences on business

EU memberships for stakeholders

Customer:
Benefits- easy access to range of products, lower prices due to no tariffs, rules protecting safety and quality of goods
Negatives- fewer products from outside EU, business have to meet EU standards= higher prices

Employees:
Benefits- easily find work in EU, non-eu companies set up in UK to gain tariff free benefits= more available jobs
Negatives-Workers not from Uk take jobs

Government:
Benefits- Spend less on infrastructure as EU provide support to deprived areas
Negatives- must pay for membership, reduced control over economic policies

European Union

European Union is a single market meaning:
- Free movement of goods/services between member countries
- Free movement of money around EU
- Free movement of people
- Same rate of tariffs between members to non-members
- Regulations are standardised eg: goods produced, consumer protection, employment laws, environmental policies

Eu memberships for businesses:

Advantages:
- Goods can be sent freely without paying duties/ being delayed
- British companies in competition with EU companies have to conform to similar laws
- Workers can be employed from across EU
- Money can be borrowed across EU- helping business invest

Disadvantages:
- Free trade adds to competition
- Businesses faced with regulations
- Difficult to trade outside EU

Influences on business

Intellectual Property law

Intellectual property: inventions, works of arts, books etc

Patents: register designs up to 20 years
Copyright: prevents others using artistic works without permission eg: books
Trademarks: protects brands and symbols from being used without permission

Impact of legislation:

Advantages:
• prices can increase
-increased shareholder/employee rewards
•Less chance that customers will receive bad quality
•More motivated workers

Disadvantages:
• costs may increase
• customers have to pay higher prices to cover costs
• government has to monitor, control, enforce legislation- may be expensive

Employment laws:

Contracts of employment: must be given within two months of starting work
Discrimination: workers cannot be treated differently due to age, disability etc
Equal pay: right to minimum wage
Unfair dismissal: workers cannot lose jobs without good reason eg: redundancy, lack of skill
Safe working conditions

Consumer law:

Product quality: customers must he certain that goods are not damaged at point of sale and fit for purpose
Advertising: advertisements must be legal, truthful, honest
Trade descriptions: must be accurately described with labels including ingredients and weight
Safety of product: protect customers from being harmed by goods they buy

Business operations

Flow production

Party finished goods, moving along an assembly line with parts added throughout process, goods are the same, produced in large quantities

Advantages for producer: workers can be trained quickly, produce enormous quantities, economies of scale, low costs

Disadvantages for producer: factories are expensive to set up and run, production can be inflexible, high levels of worker turnover, large quantities need to be stored, breakdowns in one part of flow can cause delays

Advantages for consumer: cheaper prices, choose from a wide range of products

Disadvantages for consumer: less consumer choice, workers can be demotivated

Job production:

Goods are produced to meet the exact needs of the customers they are made to order and are individually produced

Advantages for business: Charge higher prices, workers highly motivated as work varies-lower worker turnover, greater personal links with customers

Disadvantages for business: production process is more expensive, skilled workers required, intensive labour

Batch production

Making a fixed quantity of goods before switching to another type of good- produces identical goods, not demanded in large quantities

Advantages for producer: Economies of scale, sell more goods, machinery can be used

Disadvantages for producer: resetting machinery is difficult- takes time and money, materials and finished products need to be stored

Advantages for consumer: lower prices, range of products

Disadvantages for consumer: goods lack individuality, workers can be demotivated

Business operations

Quality:

Quality: meeting a standard for a good or service to consumers needs and expectations

Why quality is important for a business

Benefits:

-Satisfying customer expectations
-Increases customer satisfaction
-Increases sales
-Reduces costs as well designed goods do not need costly modifications, faulty goods do not need to be recalled
-Reduces waste
-Allows businesses to charge higher prices as customers more willing to pay more for products recognised for quality

Disadvantages:

-Quality assurance can be expensive as: -suppliers will expect to be paid higher prices for quality checks,labour will need to be trained
-Quality control can be expensive as supervisors need to be employed to monitor and sample production
-Growth of businesses with more supplies and larger scales can make it difficult to manage quality

How businesses achieve quality

Quality assurance: guarantee that certain standards have been throughout production process

Quality control: inspecting a sample of goods produced at the end of the production process

Interacting with customers:

- asking for feedback after goods and services have been provided
- dealing with complaints quickly

Business operations

Relationship with business departments

Operations department: responsible for logistics and procurement
Finance department: goods must be brought at best possible price ,bills passed onto finance
Marketing department: encourage purchase of goods
Sales department: organise distribution of goods to wholesalers and retailers
HR: control stock and distribution

The supply chain

Supply chain: various processes involved in producing a product and distributing it to buyers

Procurement: identification of suitable suppliers and purchasing supplies
Logistics: transportation of supplies, storage and distribution to the end customer
Stock control: Just in time, Just in case, Computerised stock control

Just in time

Production hold as little stock as possible items are ordered just in time to be used

Advantages: warehouses are not needed, materials likely to be in good condition, little waste, less chance of damage
Disadvantages: if suppliers run out of materials production may stop, delays in deliveries deliveries will be at smaller quantities so lower discounts

Just in case:

Holding stock in warehouses, just in case there is a delay from suppliers or sudden unexpected increase in demand

Advantages: production will not be held up by delivery delays, bulk purchases means lower costs, stock can be kept in correct environment
Disadvantages: expensive to store in warehouses, stock cabinet, damaged in movement from warehouse to factory, stock and materials may lose value: become out of date, they deteriorate

Business operations

Sales process:

• Employees have thorough knowledge of the product being sold
• understand the wants and needs of customers
• responding to questions to identify sale opportunities
• informing customers of product
• closing the sale
• following up on sale by asking if customers pleased
• offering after sale service, eg: delivery or maintenance

Customer engagement

Features of good customer service

• greeting the customer
• interacting with the customer
• Identifying customers needs and wants
• encouraging feedback
• Responding to feedback

Importance of good customer service

• increased customer loyalty
• increased customer spending
• improved reputation
• Customers being attracted away from competitors to increase market share

Business and customer interactions

-Sales
-Queries
-Complaints
-After sales

How sales process is adapted

Retail sales: use of shops where customers can view the goods
Online sales: e-commerce and m-commerce
High value sales: eg: wealthy customers, making a purchase

Online customer Service:

-welcoming homepage, easy to navigate
-Images, videos, and descriptions of products
-Frequently asked question section
-Contact details or social media page

Finance

External Sources Of Finance
-Money from outside the business

Family and friends

Advantages: low interest rates,unlimited time to repay, unlikely to want to take over the business

Disadvantages: limited amount available, may need to be repaid urgently with a little notice, success of the business is not carefully considered as family do not want to see a business plan

Share issue
Shareholders buying shares

Advantages: large sums of money can be raised, shareholders have a limited liability, money does not need to be repaid, interest is not paid

Disadvantages: expensive to set up, shareholders are paid a share of profits, control of business may be lost, new shares may reduce value of overall shares

Internal sources of finance
-Money available from within the business

Owners capital and retained profits
Advantages: no complicated application process, no interest, money doesn't have to be repaid, owner keeps control, no issues around unlimited liability

Disadvantages: a interest will be lost when money is withdrawn from savings account, owner may not have sufficient funds

Selling assets
-Business sells possesions that they no longer need

Advantages: no interest is charged, boona keeps control of business, no issues around unlimited liability, business or no longer have to pay for storage, security or maintenance for assets

Disadvantages: take time to find buyers, assets may have cost more than will be sold for, may not raise enough funds, may increase competition

Finance

Overdrafts:
-short-term loans provided by Banks
Advantages: small amounts for short-term, interest only paid on overdrawn amount
Disadvantages: high interest rates, can be ended anytime, not suitable for a purchase of capital goods

Hire purchase
Loan from company to buy a specific items e.g. machinery
Advantages: item can be used immediately, instalments paid regularly
Disadvantages: high interest rates, asset not owned immediately, assets can be taken back by lender if instalments missed

Government grants:
To persuade businesses to settle in areas with high levels of unemployment
Advantages: cut costs of setting up, money does not have to be repaid, no interest
Disadvantages: complicated application process, will have to set up an area specified by government, much publicity

Venture capitalists and business angels
-Provides capital to new businesses
Advantages: experienced in owning and running a business, can share advice, experiences, and business contacts
Disadvantages: may want control over the business for which they are providing finance

New partners:
Advantages: more money put into the business, no interest, new skills and qualities gained also
Disadvantages: limited finance, input on decision making, reduces control of established partners

Bank loans:
-borrowing a fixed sum of money for a fixed period
Advantages: a long time to repay loans, borrow large sums of money, goods purchased become the property of the businesses immediately, will not affect ownership of the business
Disadvantages: takes time to receive a loan, may want collateral, failure to repay could lead to business becoming closed

Finance

Breakeven:
Level of production where a business total costs and total revenue from sales are equal

Break-even chart consists of:
- Fixed costs
- Variable costs
- Total costs
- Total revenue

Calculating break-even:
Fixed costs/ selling price- variable costs

Changes in breakeven:
- Rise in price= business need to sell fewer goods to breakeven
- Rise in fixed costs and variable costs= need to sell more goods to breakers

Advantages of breakeven: helps business to decide if providing good or service is worthwhile, guides businesses when making decisions

Disadvantages: difficult to estimate contribution, assumes price is constant

Finance equations
Fixed costs= always the same eg: rent insurance

Variable costs= change as more goods are being produced= variable cost of one good x number of goods produced

Total costs= fixed + variable

Profit= revenue- costs

Total revenue= selling price x no of goods sold

Measuring success of an investment
-Calculate average rate of return

Total profit expected to be earned from an investment and number of years that investment will be earning profits

ARR= (average profit/initial investment) x 100

Average profit= net profit/ No of years of investment

Finance

Importance of profit and loss accounts to businesses

- Will show whether targets of being met
- helps to compare with competitors

↳ Worse then expected results will lead to a business taking action

-increasing advertising to boost sales
-Increasing prices
-Purchasing cheaper materials
-Reducing expenses

Importance of profit and loss accounts to stakeholders

Suppliers-will want to know about survival of their customers
Government-will want to know how much tax will be collected from the business
Banks- will want to decide whether to lend money and whether the business is able to repay their loans

Profit and loss accounts (income statements)

-financial statement showing business's sales revenue, costs, profit over a period

Main components:
Sales revenue (turnover)
Cost of sales
Gross profit- profit before other costs
Expenses
Net profit - how profitable a business is

Gross profit= sales revenue- cost of sales
Net profit = gross profit - expenses

Gross profit margin = (gross profit/ sales revenue) x 100

Net profit margin = (Net profit/sales revenue) x 100

↳ To make it easier to compare

Impact of cash flow on Businesses

- Will know when they need an overdraft
- If it is worthwhile going ahead with a project

Improving cash flow forecasts

Increase revenue: changing prices, increasing promotions
Reducing costs: reducing staff, buying cheaper materials, delaying payment to suppliers

Quantitative data: measured and written in numbers eg: fixed and variable costs

Qualitative data: information that cannot easily be measured eg:ethical reputation of a business

Finance

Cash flow forecast

-Sets out a businesses expected inflows and outflows of cash over a period
→ Prediction

Why cash flows are important:

-owners will want to know whether they are likely to have enough cash to pay for their day to day needs
-if a business wants to borrow money the bank will want to know that the business can pay short-term debts

Net cash flow= cash inflow - cash outflow

Closing balance= opening balance + or - net cash flow

Marketing

Market Research

Primary research: uses data gathered for the first time

Interviews: pro- interviewer can help people understand questions, they will clearly fill out responses- con- expensive, timely

Surveys: pro- cheap, con-no response rate, cannot ask difficult questions

Focus groups: pro-opportunity to discuss, can bring to light to issues that had not previously been considered- con- may not represent market, expensive

Observation: pro- results based on consumers actual actions, con-systems are expensive results show what consumers are doing rather than motives

Evaluation of primary research:

Pro: information is specific to business, info up to date, data is more reliable

Con: can be expensive, time consuming, results from a sample may not represent the full market

Market segmentation:

A group of similar needs within the overall market

How markets are segmented:

- -age
- -Gender
- -geographic
- -Income
- -Lifestyle
- -Ethnic background and religion

Importance:

Identifying needs and wants

Identifying the right customers

Why businesses segment the market

Segmenting market impacts:

- -types of goods and services produced
- -design, colours and packaging
- -Prices
- -scale of production
- -Where products are marketed and advertised

Market research in different market contexts

Large businesses:
Primary: can afford to employ specialist research companies, can research large markets
Secondary: can afford to employ workers to monitor information

Small businesses
Primary: cannot afford extensive market research, may use in shop, surveys and questionnaires, only consider local areas
Secondary : will use desk research gained from media

How market research is carried out:

-collecting information
-Presenting information
-Analysing information

Marketing

Secondary market research
Secondary: uses data that has already been gathered
- Internal sources, e.g. financial and sales information
- external sources, e.g. government sources

Pro- provides information about the market, con-may not meet specific needs

The Internet: pro-research, maybe informative, con-may be biased

Competitor information: pro-data will be accurate, con-data may not be easily applied to other businesses

Evaluation of secondary research

Pro: data can be gathered quickly, many sources, cheap
Con: may be to general, I'm not related to the business, may be out of date, may not meet current market demands and trends

Marketing

The Marketing Mix

Marketing mix:

Relates to activities influencing whether a customer buys a product

- product
- price
- promotion
- place

Changing the marketing mix:

Product design will be updated in response to changes in consumer needs and wants

Price will be affected by changes in cost, consumer, incomes and competitor pricing

Promotion will be affected by consumer use of advertising media

Place will alter due to changes in consumer habits and distribution

How marketing mix will differ due to size of business

Small business

Product: small shops, usually have no impact on type brand or packaging of goods being produced
Price: prices determined by the supplier, small businesses cannot buy in bulk
Promotion: will not require expensive advertising
Place : supply to local market in affordable premises

Large businesses

Product: can order goods from manufacturers to specific designs, often sold as own brand goods
Price: buys goods in bulk to help reduce prices

Promotion: can afford to pay for expensive advertising, most important element
Place: can market good anywhere, flexible and easily move out of areas where costs have risen, introduce more online selling and reduce presence in shops

Marketing

The marketing mix: product

Extension strategies

- developing new versions of a product with additional features
- reducing the price permanently
- persuading customers to consume products in different seasons
- changing packaging
- entering new markets e.g. trading internationally or selling online

The product lifecycle

Development: sales= zero, revenue= zero, costs= high

Introduction: sales=zero/low, revenue=low
Costs= high to cover promotion

Growth: sales= rising rapidly, revenue= increase with sales, costs= not as high due to word-of-mouth advertising

Maturity: sales = continue to rise but not rapid, revenue= Increase with sales, Costs= continue to be paid

Saturation: sales= will not rise or fall, revenue= maintained, but may start to fall, costs= rise, due to needs for promotion

Decline: sales= fall, Revenue= fall, costs= uncertain

Product life-cycles influence on business decisions

-whether to spend money to develop a product
-Whether investment in buildings, and machinery should be made so good can be produced
-which workers to employ
-How much to spend on marketing of the launch
-Whether to extend life of product
-when to stop producing the product

Marketing

The marketing mix: price

Psychological Pricing

Offering goods at prices below a whole number

Pro: sales increase

Con: potential customers can see tactics, same strategy as competitors

Loss Leaders:

Selling a product at a loss in the hope customer will buy other items

Pro: attract customers, placing at a really helps attract customers, persuaded into buying other products

Con: Sam will be aware of tactic, can only be used for essential goods bought regularly

Price discrimination

Businesses charge different prices to different customers for same product, e.g. depending on ages

Pro: can maximise their sales in different sectors

Con: customers may be resentful, need to set up ways to ensure customers do not pay lower prices than ones for their segment

Cost plus pricing:

Covering the cost of the product and adding a percentage on top

Pro: ideal, where there is limited price competition, ensures that a profit is made

Con: competitive prices may be lower, difficult for large businesses, producing a variety of goods

Competitive pricing:

Pro: takes into consideration, actions of competitors

Con: costs may be higher, lead to low prices, more advertising to publicise the price

Penetration pricing

Launching product at a low price

Pro: attract customers, brand loyalty, will develop

Con: can be expensive, may have impression that there is low quality, when prices increased customers may refuse to buy

Price skimming

Pro: high profits, apply to specific market segment, higher sales, generated with each price drop

Con: may not be popular with high income earners, consumers may wait until fallen price

Marketing

The marketing mix: promotion

Sales Promotion:

- promotional pricing
- special offers
- coupons
- point of sale near tills
- free gifts
- free samples

Pro: attract new customers, used to any time during product life-cycle, can be used alongside advertising

Con: must be used with other aspects of marketing, short lived, brand image may be effected, expensive

Advertising:

Newspapers: pro-cheap, kept for sometime, much information, advertisements may be in colour, can include promotions, e.g. coupons

Con- small readerships, quality of colour may not be good, do not stand out, may be lost

Radio: pro- cheap, wide coverage, appeal to specific markets, can use music and humour

Con- advertise, it may be missed, customers do not have a written record details may be misheard

Direct marketing

Telephone calls, emails, Web browsers

Pro: customers for particular goods can be targeted

Con: no response rate, difficult to ensure accuracy of databases , may be considered junk or spam

Online advertising:

Pro: available across the world, can be viewed at any time, can be targeted at appropriate segments, relatively cheap, result in immediate purchase

Con: technical problems, restricted coverage, highly competitive, expensive

Marketing

The marketing mix: place

Increasing importance of e-commerce and m-commerce

-do not need to travel to buy goods and services
-Can shop at any time
-Can buy goods directly from business around the world
-Employees in local shops have lost their jobs

Product distribution channels:

Manufacturers: produce good or service
Wholesaler: buy large quantities of products, break into smaller amounts to sell
Retailers: end of the channel of distribution- go directly to customers

Multi-channel distribution:

- in store
- Websites
- telephone sales
- Printed catalogues

Businesses can:

-compete with rivals
-Maximise sales
-Maximise profits
-Provide customers with choice
-Gain customer loyalty.

Pro of distribution channels:

- producers can reach more consumers by selling to wholesalers and retailers closer to customers
- Consumers have goods available locally
- may have environmental benefits due to goods being close to consumers

Cons:

- Wholesalers and retailers want their own profits
- it's good, it's sold by manufacturers they have less control over marketing

Human Resources

The Recruitment Process

- identify job vacancy
- prepare a job description
  - ↳ Job title, type of work, responsibilities,
- prepare a person specification
  - ↳ Qualifications, Skills, experience, interests
- advertise
- Shortlist
- references
- interview
- Selection and appointment

Recruitment:

Internal recruitment: job vacancy is filled from within the existing workforce
Pro: no advertising and training costs, increased worker motivation, **con-** no new ideas into business

External recruitment: job vacancy is filled by a suitable person, not already employed
Pro: new skills, talents, and ideas brought into business, **con-** expensive advertising

Large businesses:

-face to face interviews
-Resources to use tests
-Consultations between managers

Types of job advertisement:

-newspapers and magazines (wide range)
- online
-Recruitment agencies (high skilled jobs)
-Job centres (help unemployed)

Small businesses:

-interviews can be less formal
-May not be able to afford tests
-Successful and non-successful applicants told immediately

Selection processes:

-Skills test
-amplitude tests
-Group tests
-Role-play
-psychometric tests

Human Resources

On the job training:
Workers learn from more experienced colleagues via demonstrations, coaching, mentoring, job shadowing and job rotation

Pro: cheap as trainee works alongside experienced workers, quick to organise, effective and relevant
Con: may not provide the right training as: depends on the skills of other workers, trainer may have poor communication skills, may pass bad work practices to trainee, reduces productivity of trainer

Benefit of training:
- Improves productivity
- improves worker morale
- improves products
- improve services
- improve customer satisfaction
- Reduced wastage
- Reduced costs

When training is needed:
-Induction training, when workers are first employed, cheaper, become familiar to new surroundings, and specific methods, and policies

Retraining: when the worker has not been working to required standards, roles and responsibilities of worker have been changed

New technology

Health and safety

Opportunities for employees

Off the job training
Provided by people and organisations not employed by the business via computer or outside trainers

Pro: gains a wide range of up-to-date skills, skills taught by experience trainers with a high quality approach, workers gain qualifications, workers feel motivated
Con: expensive, trained away from business not producing goods, skills may not be specific

Human Resources

Financial methods of Motivation:

-increased wage
-time rates (an hourly rate agreed)
-piece rates (wage based on number of goods produced)
-Commission (based on number of good sold)
-bonuses (when staff exceed what is required of them)
-Profit sharing
-fringe benefits, e.g. staff discount company car, health insurance

Benefits of motivated workers

- Low levels of absenteeism - time off without good cause
- retention of workers
- more innovation and creativity
- improved relations
- improved worker performance
- improved quality and customer service
- better reputation and higher profits

Non-financial methods of motivation:

-Job enlargement (workers given additional tasks)
-Job rotation (workers take on different jobs within the business for a set time)
-Job enrichment (workers given more complicated tasks)
-empowerment (workers get more control over how they do their work)
- training

Human Resources

Organisational structures:

Chain of command: line of authority within a business where communication passes

Span of control: number of employees managed directly by another employee

Tall organisational structures

-many managers and supervisors
-Small span of control
-Long chain of command

Pro: managers have limited workload, motion between levels which motivate workers

Con: slow communication, misunderstanding, slow decision, making

Flat organisational structures

-fewer managers and supervisors
-Large span of control
-Short chain of command

Pro: fewer managers so lower costs, Junior managers motivated by responsibilities, improved communications

Con: workloads increased at each level, managers, have lots of responsibility, increased training costs for Junior managers

Roles and responsibilities within a business:

- owners and leaders

-Most Authority and power, make medium to long-term decisions, some of their responsibilities are passed down, highest salaries

- managers

-Authority over those below them, decisions on how targets can be met, receive salaries, based on skills, responsibility, and performance

- Supervisors

-Control over the work of operatives, make decisions about production issues as they arise

- Operatives

-No authority, carry out tasks set for them, lowest paid wages that these can increase with skills and experience

Human Resources

Working practices:

Flexible Hours:
Employees work hours to suit their needs
Pro: workers more motivated, will have workers available for longer hours
Con: customers may find it difficult to contact workers

Home working
Pro: saving costs by smaller workplaces, employees work their own hours, more time for family commitments
Con: easily distracted, lose contact with fellow workers, may not be available for customers attempting to contact them

Job sharing:
Pro: more time at home for family commitments, benefit from having workers with different skills doing the same job
Con: workers will need to communicate to discuss the work, may confuse customers

Communication in the workplace

Benefits: increased employee involvement, improved motivation, working towards same, aims and objectives, enables employee feedback
Poor communication cons: low employee morale, increased absenteeism, reduced employee corporation, incomplete activities

Zero hour contracts

Workers do not have a fixed number of hours
Pro: do not have to pay employees when no work is done, they appreciate the ability to work occasionally
Con: workers may be reluctant to turn down work in case they're not asked again, employees will not receive a regular income so will be difficult to pay bills

Human Resources

Types of industrial action

- Overtime bans
  - Workers just work for their set hours, making it difficult for businesses to complete orders
- Go slows
  - Workers to the bare minimum meaning, fewer goods are produced
- Strike action
  - Workers refused to go to work legally

Trade union:

Group of people who work together to improve their pay and working conditions

- Working hours
- new working practices
- Amount of paid holiday
- facilities available
- health and safety concerns