Y11 OCR GCSE Business Studies information

They will be sitting 2 1.5 hour exams for their GCSE business studies in the summer. Each exam is worth 50% of the GCSE grade

Paper 1 Busines activity, Marketing and People will cover the content covered in year 10

In Year 10 students were introduced to business concepts and issues concerning the activities of a business. They explored the purpose and role of a business from spotting an opportunity through to the growth of an established business. They also looked at the role of marketing and human resources.

Paper 2 Operations , Finance and Influences on Business will cover the content covered in year 11.

Students will take a closer look at the role of operations and finance in business activity. Operations include production processes, quality of goods and services, customer service, and working with suppliers. Finance covers its role, its sources, costs, profit and loss, cash and cash flow.

They also explore how business responds to external influences, such as ethical and environmental considerations, the economic climate and globalisation, and the interdependent nature of business

Recommended internet resources

https://www.bbc.co.uk/bitesize/examspecs/zhrphbk- the business area of BBC bitesize.
www.tutor2u.net – website which includes a Business area. Full of blog posts, resources and definitions

https://businesscasestudies.co.uk/ - a website with detailed information about some businesses related to specific areas of business theory

A copy of the personalized learning checklist which cover the topics being covered in year 11 is listed below Students have been issued with a copy of this. There are also some revision notes below. Please encourage your children to use them in their revision

Business 2: operations, finance and influences on business (J204/02)
4.1 Production processes
Different production processes and their impact on businesses
The influence of technology on production and the impact on businesses
Job, batch, flow
Automation, computers and robotics
4.2 Quality of goods and services
The concept of quality
Methods of ensuring quality
The important of quality in both the production of products and the provision of services
Quality control, quality assurance
Reputation of the business, to gain and retain customers, reduce product returns and recalls
4.3 The sales process and customer service
Methods of selling
The influence of e-commerce on business activity
The importance to a business of good customer service including after-sales service
The contribution of product knowledge and customer engagement to good customer service
E-commerce, face to face, telesales

To gain and retain customers
4.4 Consumer law
The impact of consumer law on businesses
Reputation of the business, safety and satisfactory quality of goods
4.5 Business location
Factors influencing business location
Costs, the proximity to market, labour and materials
4.6 Working with suppliers
The role of procurement
The impact of logistical and supply decisions on businesses
identifying goods and services to buy, choosing suppliers, ordering goods and services, receiving deliveries from suppliers
Time, length of supply chain, reliability of supply, costs, customer service

5.1 The role of the finance function
The purpose of the finance function
The influence of the finance function on business activity
Provide financial information, support business planning and decision making
5.2 Sources of finance
The reasons businesses need finance
Ways of raising finance
How and why different sources of finance are suitable for new and established businesses
Establishing a new business, funding expansion, to run the business, recruitment, marketing
Loan, overdraft, trade credit, retained profit, sale of assets, owners’ capital, new partner, share issue, crowdfunding
5.3 Revenue, costs, profit and loss
The concept of revenue, costs and profit and loss in business and their importance in business decision-making
The different costs in operating a business
Calculation of costs and revenue
Calculation of profit/loss
Calculation and interpretation of profitability ratios
Calculation and interpretation of average rate of return
Fixed, variable, total
Gross profit, net profit
Gross profit margin, net profit margin
5.4 Break-even
The concept of break-even
Simple calculation of break-even quantity
The usefulness of break-even in business decision making
total costs = total revenue
Informs marketing and planning decisions
5.5 Cash and cash flow
The importance of cash to a business
The difference between cash and profit
The usefulness of cash flow forecasting to a business
Completion of cash flow forecasts
Providing liquidity, enables business to meet short-term debts/expenses
Planning tool, anticipates periods of cash shortage, enables remedies to be put in place for shortages, provides targets

BUSINESS GCSE

Course companion Version 2 (September 2018)

Business 1: Business activity, marketing and people

80 Marks- 1 Hour 30 Minutes paper

Business 2: Operations, finance and influences on business

80 Marks - 1 Hour 30 Minutes paper

OCR BUSINESS GCSE 9-1

UNIT 1 – BUSINESS ACTIVITY UNIT 3 – PEOPLE UNIT 5 – FINANCE

UNIT 2 – MARKETING UNIT 4 – OPERATIONS UNIT 6 – INFLUENCES

UNIT 7 - INTERDEPENDENCE

	STUDENT TRACK	TEST SCORE 1	TEST SCORE 2
1.3 Business ownership (paper 1) • The features of different types of business ownership (sole trader, partnership, Ltd, Plc) • Advantages and disadvantages of different forms of ownership • The concept of limited liability • The suitability of differing types of ownership in different business contexts • Incorporation			
1.4 Business aims and objectives • The aims and objectives of business (eg profit, survival, growth) • How and why objectives might change as businesses evolve • Why different businesses may have different objectives • Conflicts between objectives			
1.5 Stakeholders in business • The roles and objectives of internal and external stakeholder groups • The effect business activity has on stakeholders • The effect stakeholders have on business			
1.6 Business growth • Organic growth and causes • External growth eg horizontal, vertical, conglomerate, lateral			
1.1 The role of business enterprise and entrepreneurship • The purpose of business activity and enterprise • Characteristics of an entrepreneur • The concept of risk and reward			

3.1 The role of human resources • The purpose of human resources within business (recruitment, training, motivating, legal aspects)			
3.4 Recruitment and selection • Why businesses recruit (vacancies, expansion, skills gap etc) • Job description and person specification • Internal and external recruitment • Methods selection (letter of application, application form, CV, interviews, tests and presentations, group activities, references • Mediums for advertising jobs (websites, social media, local newspapers, national newspapers, specialist magazines, job centres, word of mouth) • Employment and recruitment agencies			
3.5 Motivation and retention • Financial methods of motivation (salary, wage, profit share, bonus, fringe benefit) • Non-financial methods of motivation (praise, award schemes, working environment) • The importance of employee motivation • The importance of employee retention			
3.6 Training and development • Different training methods (on-the-job and off-the-job) • Why businesses train their workers • Staff development • The benefits to employees and businesses of staff development			
2 Organisational structures and different ways of working • Different organisational structures (flat and tall) • The terminology of organisation charts • Why businesses have different organisational structures • Ways of working (flexible, home, zer0hours contracts)			
3.3 Communication in business • Ways of communicating in a business context • The importance of business communications • The influence of digital communication on business activity			

3.7 Employment law • The impact of current legislation on recruitment and employment (Equality Act, Minimum wage, hours worked, statements of particulars)			
2.1 The role of marketing • **T**he purpose of marketing within business (sales, satisficing needs)			
2.2 Market research • The purpose of market research • Primary research methods (questionnaires, interviews, trials, focus groups) • Secondary research sources (census, websites, internal data, newspapers and magazines) • How appropriate different methods and sources of market research are for different business purposes • The use and interpretation of qualitative and quantitative data in market research			
2.3 Market segmentation • The use of segmentation to target customers • Methods of segmenting the market (age, gender, lifestyle, income, location, socio-economic group)			
2.4 The marketing mix • The four Ps of the marketing mix and their importance • The product - stages of the product life cycle, innovation and invention • Pricing methods (eg skimming, promotional, penetration, competitor, cost-plus) • Promotion - point of sale • Promotion – advertising • Place - distribution of products and services and digital verses physical distribution) • How the four Ps of the marketing mix work together • The use of the marketing mix to inform and implement business decisions • Interpretation of market data			
5.1 The role of the finance function • The purpose of the finance function • The influence of the finance function on business activity			
5.2 Sources of finance • The reasons businesses need finance • Ways of raising finance			

• How and why different sources of finance are suitable for new and established businesses (sale of assets, overdraft, trade credit, loan, crowdfunding, share issue)			
5.3 Revenue, costs, profit and loss • The concept of revenue, costs and profit and loss in business and their importance in business decision-making • The different costs in operating a business • Calculation of costs and revenue • Calculation of profit/loss • Calculation of gross and net profit • Calculation and interpretation of profitability ratios • Calculation and interpretation of average rate of return			
5.4 Break-even • The concept of break-even • The break-even formula • Interpreting and plotting a break-even graph • Uses and limitations of break-even •			
5.5 Cash and cash flow • The importance of cash to a business • The difference between cash and profit • The usefulness of cash flow forecasting to a business • Understand and interpret a cash flow forecast			
1.2 Business planning • The purpose of planning business activity • The role, importance and usefulness of a business plan			
4.1 Production processes • Different production processes and their impact on businesses • The influence of technology on production and the impact on businesses			
4.2 Quality of goods and services • The concept of quality • Methods of ensuring quality (quality control and assurance) • The important of quality in both the production of products and the provision of services			
4.3 The sales process and customer service • Methods of selling			

• The influence of e-commerce on business activity • The importance to a business of good customer service including after-sales service • The contribution of product knowledge and customer engagement to good customer service			
4.4 Consumer law • The impact of consumer law on businesses			
4.5 Business location • Factors influencing business location			
4.6 Working with suppliers • The role of procurement • The impact of logistical and supply decisions on businesses			
6.1 Ethical and environmental considerations • Ethical considerations and their impact on businesses • Environmental considerations and their impact on businesses			
6.2 The economic climate • The economic climate and its impact on businesses			
6.3 Globalisation • The concept of globalisation • The impact of globalisation on businesses			
7. The interdependent nature of business • The interdependent nature of business operations, finance, marketing and human resources within a business context • How these interdependencies underpin business decision-making • The impact of risk and reward on business activity • The use of financial information in measuring and understanding business performance and decision-making			

AREAS OF WEAKNESS:

UNIT 1: BUSINESS ACTIVITY

TYPES OF BUSINESS OWNERSHIP (1.3)

Unincorporated business = sole traders and partnerships

Incorporated business = companies (private limited companies and public limited companies)

Sole traders (sole proprietors)

A **sole trader** describes any business that is owned and controlled by **one person** - although they may employ workers. Individuals who provide a **specialist service** like plumbers, hairdressers or photographers are often sole traders.

Sole traders do not have a separate legal existence from the business. In the eyes of the law, the business and the owner are the **same**. As a result, the owner is **personally liable** for the firm's debts and may have to pay for losses made by the business out of their own pocket.
This is called **unlimited liability**.

Advantages

- It is **easy to set up** as no formal legal paperwork is required.
- Generally, only a small amount of **capital** needs to be invested, which reduces the initial start-up cost.
- As the only owner, the entrepreneur can make decisions without consulting anyone else.

Disadvantages

- The sole trader has no one to share the **responsibility** of running the business with. A good hairdresser, for example, may not be very good at handling the accounts.
- Sole traders often work **long hours**. They may find it difficult to take holidays or time off if they are ill.
- They face ***unlimited liability*** if the business fails.

Partnerships – Between 2 and 20 partners

In case disagreements between partners occur is a good idea for a **DEED OF PARTNERSHIP** to be drawn up.

This is a legal document stating the responsibilities of partners, for example, how profits and losses are to be shared; how the business is to operate.

Dental surgeries are often partnerships

Doctors, dentists and solicitors are typical examples of professionals who may go into **partnership** together and can benefit from **shared expertise**. One advantage of partnership is that there is someone to consult on business decisions.

The main disadvantage of a partnership comes from **shared** responsibility. **Disputes** can arise over decisions that have to be made, or about the effort one partner is putting into the firm compared with another. Like a sole trader, partners have ***unlimited liability***.

Companies

A **company** has special status in the eyes of the law. They are **incorporated**, which means they have their own legal identity and can sue or own assets in their own right. The ownership of a company is divided up into equal parts called **shares**. Whoever owns one or more of these is called a **shareholder**.

Shareholders receive dividends which are part of the profit

Because companies have their own legal identity, their owners are not personally liable for the firm's debts. The shareholders have **limited liability**, which is the major advantage of this type of business. **If the business went bankrupt then the shareholder would only lose the money they paid for the shares and not any of their personal possessions.**

A major disadvantage however, is that financial information can be obtained by anyone. Also to form a limited company can be time consuming. Companies pay corporation tax on their profits.

There are two main types of company:

- **A private limited company (ltd)** is often a small business such as an independent retailer in a market town. Shares do not trade on the stock exchange. Shareholders are usually family and friends. Therefore there is no risk of a takeover as all shareholders have to agree if they want to sell their shares. However, because small number of shares are sold less finance can be raised.

- **A public limited company (plc)** is usually a large, well-known business. This could be a manufacturer or a chain of retailers with branches in most city centres. Shares trade on the stock exchange so lots of **CAPITAL** can be raised to invest into the business and help it to grow. However, anyone can buy shares and if another company buys over 50% of the shares they can take over the control of the company. This is because 1 share = 1 vote. For an Ltd company to change to a plc at least **£50,000** worth of shares must be sold.

Unlike a sole trader or a partnership, the owners (shareholders) of a plc are not necessarily involved in running the business, unless they have been elected to the **Board of Directors**. This is often known as the 'divorce between ownership and control'

Business Aims and Objectives (1.4)

When a sole trader sets up they may have some unstated aims - for example to survive for the first year. Other businesses may wish to state exactly what they are aiming to do, such as Amazon, the Internet CD and bookseller, who wants to "make history and have fun".

Objectives give the business a **clearly defined target**. Plans can then be made to achieve these targets. This can motivate the employees. It also enables the business to measure the progress towards to its stated aims.

The main objectives that a business might have are:

Survival – a short term objective, probably for small business just starting out, or when a new firm enters the market or at a time of crisis.

Profit maximisation – try to make the most profit possible – most like to be the aim of the owners and shareholders.

Profit satisficing – try to make enough profit to keep the owners comfortable – probably the aim of smaller businesses whose owners do not want to work longer hours.

Increased market share – where the business tries to make as many sales as possible. This may be because the managers believe that the survival of the business depends on being large. Large businesses can also benefit from economies of scale (next unit). Market share is the sales made by the business as a proportion of all sales made by all businesses operating in the same industry or market.

Growth – this is when a business plans on increasing its size in the long-term. This could be increasing its market share or it could grow in other ways, eg more factories, shops, employees etc.

PIGS (**P**rofit, **I**ncreased market share, **G**rowth, **S**urvival)

A business may find that some of their objectives conflict with one and other:

- **Growth versus profit**: for example, achieving higher sales in the short term (e.g. by cutting prices) will reduce short-term profit.
- **Short-term versus long-term**: for example, a business may decide to accept lower cash flows in the short-term whilst it invests heavily in new products or plant and equipment.
- Large investors in the Stock Exchange are often accused of looking too much at short-term objectives and company performance rather than investing in a business for the long-term.

Alternative Aims and Objectives

Not all businesses seek profit or growth. Some organisations have alternative objectives.

Examples of other objectives:

Ethical and socially responsible objectives – organisations like the Co-op or the Body Shop have objectives which are based on their beliefs on how one should treat the environment and people who are less fortunate.

Charities and voluntary organisations – their aims and objectives are led by the beliefs they stand for.

Changing Objectives

A business may change its objectives over time due to the following reasons:

A business may achieve an objective and will need to move onto another one - e.g. survival in the first year may lead to a more ambitious objective of increasing profit in the second year. In the third year the business may put some profit back into the business in order grow in the long-term.

Stakeholders (1.5)

What are stakeholders?

A **stakeholder** is anyone with an interest in a business. Stakeholders are **individuals**, **groups** or **organisations** that are affected by the activity of the business. They include:

- **Owners** who are interested in how much **profit** the business makes.
- **Managers** who are concerned about their **salary**.
- **Workers** who want to earn **high wages** and **keep their jobs**.
- **Customers** who want the business to produce quality products at reasonable prices.
- **Suppliers** who want the business to continue to buy their products.

- **Lenders** who want to be repaid on time and in full.
- The **community** which has a stake in the business as employers of **local people**. Business activity also affects the **local environment**. For example, noisy night-time deliveries or a smelly factory would be unpopular with local residents.

Internal stakeholders are groups within a business - eg owners and workers.

External stakeholders are groups outside a business - e.g. the community.

Conflict of Stakeholders

Stakeholders often want and need different things from the business and it is difficult to please all groups. Examples of conflicts;

- Managers may want higher salaries but shareholders want costs to be kept low so that profits are maximised.
- Customers may want lower prices but managers may prefer higher prices to increase sales revenue.

Long-run growth/expansion (1.6)

Businesses can grow in the short-term by building up a customer base.

Businesses can grow in the long-term by purchasing more assets (eg buildings, machinery) or by hiring new employees.
Businesses growth can lead to a higher market share and profits in the long-term

- **Organic (internal growth) =** the business grows internally eg by hiring more staff and equipment to increase its' *output. This type of growth can take a long time.*

- **Inorganic growth (external growth) =** where a business **merges** with or **takes over** another organisation. Combining two firms increases the scale of operation. This is called INTEGRATION. This may be cheaper than internal growth if the business to be purchased has a low share price.

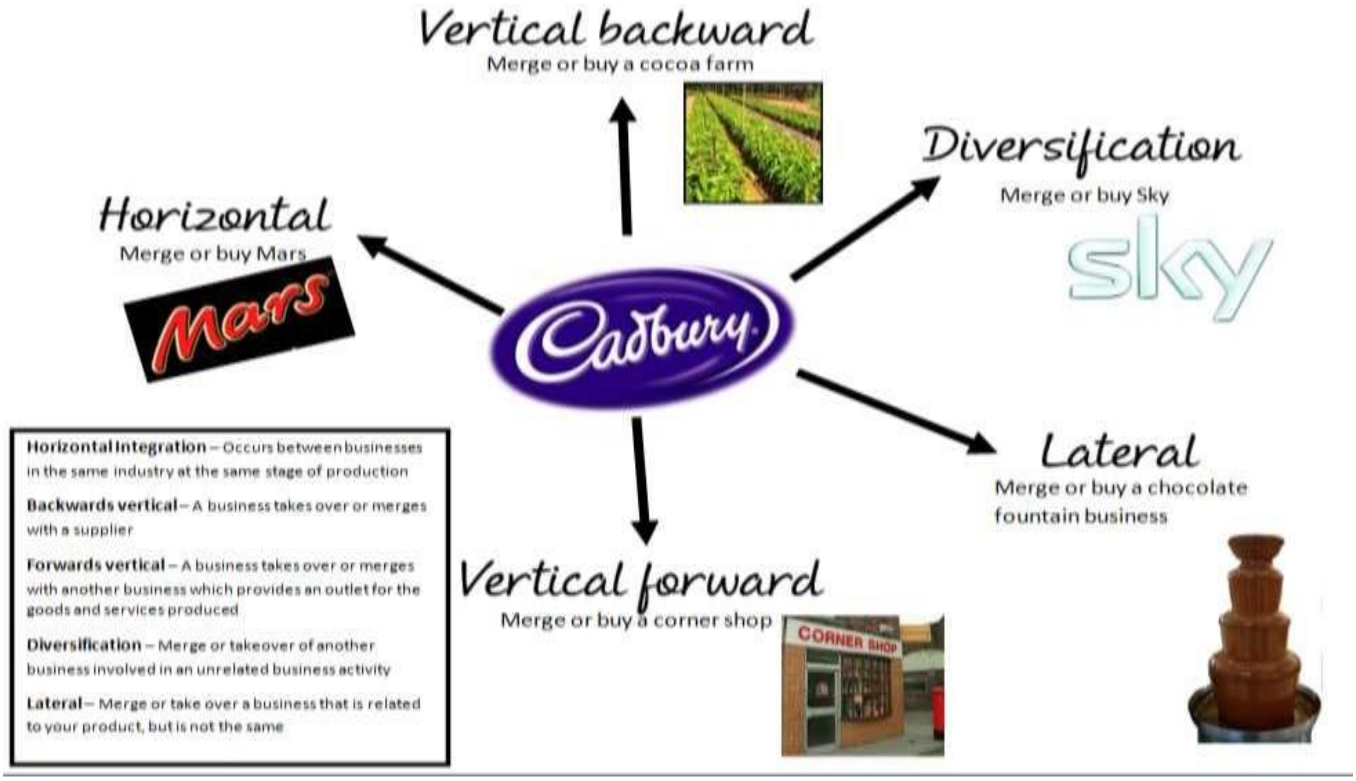
There are different way of measuring growth including;

- Market share
- Number of assets (buildings, machinery etc.)
- Number of employees
- Sales (turnover, revenue)

Market share is the number of sales that a business has as out of total sales in the entire market. If a business has more than 25% market share then they are considered to be a monopoly.

Formula for market share = the businesses sales divided by all sales in the market multiplied by 100

Diversification is also known as forming a **conglomerate**



There are many general benefits of growth such as;

- More profit in the long run
- Greater reputation
- Lower unit costs – economies of scale

Reasons for economies of scale;

- Large firms can borrow at a lower interest rate as they are considered to be less of a risk
- Bulk buying – Larger firms can buy in larger quantities from their supplier. The supplier will offer a discount as they do not have to break-up the bulk. This means that the unit cost for the business is lower. The benefit of this is then that they can sell at a lower price to customers (increasing market share). Alternately they can sell at the same price and simply enjoy a higher profit margin.
- Large firms can afford to use more efficient machinery

Problems of growth;

- Extra costs involved with organising and managing larger businesses, eg poor communications – diseconomy of scale
- Business may prefer to stay small and retain personal customer service
- Owners will lose control and will have to rely on managers

There are specific benefits of different types of growth eg,

Horizontal growth	Increased market share from acquiring or merging with another business – this leads to a larger business and economies of scale
Backward vertical growth	The firm will have access to a supplier and they can purchase the material/stock at cost
Forward vertical growth	The firm will have an outlet through which to sell the products
Conglomerate	This spreads the risk, eg if there is a decline in one industry then there will be another industry to fall back on.

Enterprise (1.1)

Enterprise is a skill. Put simply, enterprise is the willingness of an individual or organisation to:

Take risks. Setting up a new business is risky. Even if the entrepreneur has carefully researched the market, there's always a chance that customers may reject the product and that a loss will be made. But in return the **satisfaction** and **profit** will be the reward.

Show initiative and **'make things happen'**. Successful entrepreneurs have the **drive**, **determination**, **self- confidence** and **energy** to overcome hurdles and launch new businesses.

Undertake new ventures. An entrepreneur has to have the **imagination** to spot business opportunities that will fill gaps in the market. They may also be **creative**.

Summary of skills & characteristics of entrepreneurs

Successful entrepreneurs often have a number of common skills and characteristics. These could include;

Strong Leadership, Creativity, Risk Taking, Determination, Confidence, Ambitious, Optimistic, good communicative skill

Purpose of business activity and entrepreneurship/why business exist

Business exist to satisfy the needs and wants of customers (demand). Services and goods are provided by the business at a price that customers are willing to pay. In return for this the business takes a reward which is the profit. Without the profit there would be no business and without the demand there would also be no business.

Potential risks for business could include:

- *Financial* – The business may fail and if the owner has unlimited liability they could lose their own assets to pay off the debt.
- *Changing customer habits* – This could mean that the business cannot continue without significantly changing
- *Struggling to compete and gain market share*
- *Lack of continuity*

Possible rewards for business could include:

- *Owner makes their own money* – if this business is successful and has the potential to grow the owner can benefit from increased profit which could be greater than a wage/salary earned from employment. Owner makes money
- *Owner has full control of the business* – owner is able to make all decisions the about the running of the business
- *Self-fulfilment* – owner gains a sense of self-satisfaction to see a business being successful they have grown from scratch
- *Repeat Customer service* – customers returning for repeat service or products helps to build the business a good reputation .

UNIT 3: PEOPLE

Role of the HR department (3.1)

The department that looks after the **employees** (pay, recruits, trains, welfare) is called the 'human resources' department or personnel department

The HR department will need to put together a human resource plan. The plan lays out what workers (employees) the business needs. Eg, how many, whether they will be full or part time, the skills they should have. Also known as 'analysing a businesses HR needs' or a 'needs analysis'.

Without the right staff with the right skills, a business cannot make enough products to satisfy customer requirements. This is why organisations draw up **workforce plans** to identify their **future staffing requirements**. For example, they may develop plans to recruit a new IT Manager when the current one plans to retire in eight months time.

Why is it important to have a HR plan?

- So that the business is fully staffed – this will enable the business to fulfil customer needs and deliver an efficient customer service. Customers may go to a different business if there is poor customer service.
- To keep costs down as it is important to not be overstaffed as this will be expensive.

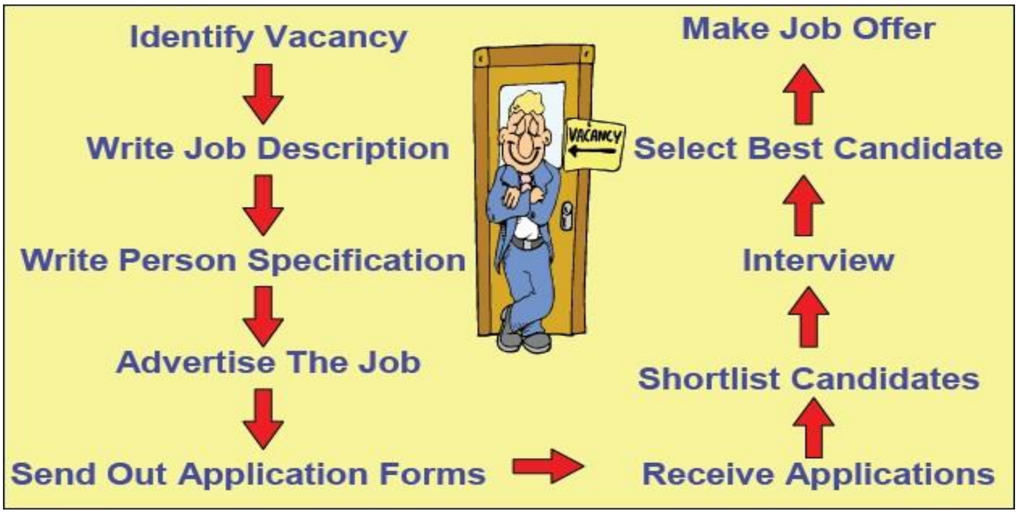
What are the problems from HR planning?

It can take a long time and businesses may not have a separate HR department to be able to do this fully. Staffing needs can also change on a regular basis, eg staff may be off sick and so a back-up plan will be necessary.

RECRUITMENT AND SELECTION (3.4)

Firms recruit, select and train staff in different ways with varying degrees of success. It can be expensive to recruit staff and then train staff and so it is important that every effort is made to try and find the most suitable candidate for the job. It may take a long time legally for the business to get rid of a member of staff who is not as effective and so extra care must be given to recruitment of staff

Recruiting staff



- **Recruitment** is the process by which a business seeks to hire the right person for a vacancy. The firm writes a **job description** and **person specification** for the post and then advertises the vacancy in an appropriate place.
- **Job descriptions** explain the work to be done and typically set out the job title, location of work and main tasks of the employee.
- **Person specifications** list individual qualities of the person required, eg qualifications, experience and skills.

These documents are very important as when a business is interviewing or looking at application forms they can see which candidates match the person specification. Furthermore, they can look to see if the experiences that the candidate has will allow then to carry out the tasks on the job description. This helps to ensure that the best candidates are selected.

Firms can recruit from **inside** or **outside** the organisation.

- **Internal recruitment** involves appointing existing staff. A known person is recruited.
- **External recruitment** involves hiring staff from outside the organisation.

The table below shows the advantages of internal and external recruitment

Internal	External
Cheaper and quicker to recruit	Outside people bring in new ideas and a wider range of experience
Limits the number of potential applicants	Longer process
People already familiar with the business and how it operates	Larger pool of workers from which to find the best candidate
Provides opportunities for promotion with in the business – can be motivating	More expensive process due to advertisements and interviews required
Business already knows the strengths and weaknesses of candidates	It does not create and internal vacancy which also has to be filled

METHODS OF SELECTION

Application forms, **CVs**, **references**, **interviews**, **presentations**, **role-play** and **tests** can be used to show if an individual is suitable for the specific job on offer

You need to be aware of the advantages and disadvantages of each;

Method of selection	**Advantage**	**Disadvantage**
Application forms – a standard form is sent to applicants to complete	• Easy to compare as all applicants will answer the same questions. • The business can choose the questions	• The candidate may have specific skills that they cannot show off on the form. • Has the candidate completed the form themselves?
CV	• Will show the candidates ICT skills • The candidate has more freedom to show off certain qualities.	• Difficult to compare. • Questions cannot be directed by the business.
Interviews	The business can meet the candidate and see their appearance, communication skills, etc...	Some very suitable candidates may be overcome by nerves and may underperform. The best candidate may therefore not be chosen

Media used to advertise jobs:

LOCAL NEWSPAPERS – Relatively cheap, useful for attracting local people who could easily commute to the business.

NATIONAL NEWSPAPERS – More expensive, usually to attract specialist workers from a wider area. This is allows for a better selection of candidates.

JOB CENTRES – Run by the government. Are in the public sector. Free for businesses to advertise. Often used for semi-skilled and unskilled jobs.

JOB SEARCH SITES – Can be a good way to advertise as may potential candidates use these sites and so there is access to a wide pool of candidates. The business will need to pay to advertise their jobs on these sites and this eats into profit.

BUSINESS'S WEBSITE – Cheap so reduces the firm's costs. Useful for attracting people with ICT skills. Candidates may not think to look on the businesses website, especially if the business is less well-known.

RECRUITMENT AGENCIES – Businesses can use an agency to find them a suitable employee. The agency will produce the documents (eg job description) and will advertise the job on behalf of the business. This saves the business time and effort and can be useful if the business does not have a HR department.

EMPLOYMENT AGENCIES – Workers are employed by the agency. If the business is short staff, eg lots of teachers ill on a particular day then the school may need to ring an agency who can deploy staff at short notice. This can be expensive if used often and so many employment agencies are known as temping agencies.

Training and development (3.6)

Training

Training is a very important part of the Human Resource Department's work. In some large firms there is very often a separate training department. Ideally, training should involve the worker before they actually start the job, during the first few weeks of employment and throughout their careers.

The purpose of training

- Prepare new workers for particular jobs
- Help to improve the efficiency of existing workers
- Avoid accidents at work
- Retrain workers so they can cope with new technology
- Help workers gain promotion to better jobs within the firm

Difference between training and development:

Training is more job specific and short term. It is about teaching the knowledge and skills needed to do a particular job.

Development is all about the growth of the worker, and is longer term. It is about teaching the knowledge and skills that will be useful for the business and employee at some time in the future.

Why businesses train their employees;

Technical skills

Personal skills (eg communication)

Health & safety

Retraining

Management skills

New workers

Group working

Knowledge of new products

Flexibility

Customer service

Personal Development

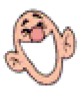
Increase productivity

INDUCTION: This should be available to all new employees. Basic induction will involve health & safety procedures, location of work-space, staff canteen (if available), procedures for breaks and lunch, meeting with co-workers etc. The purpose of induction is to 'settle' a new employee in and make them feel welcome, as well as giving them information. The worker will become more productive more quickly and so the business will function better. Health and safety issues may also be reduced.

ON-THE-JOB: This takes place in the work-place, while actually carrying out the job itself. It may involve being coached by an existing member of staff - particularly for promoted positions; or it may involve 'buddying-up' will a similar worker so that they can teach you how to do certain tasks.

The great thing about on-the-job is that it is not only CHEAPER for a business, but it also means that any difficulties can be identified and sorted out quickly.

OFF-THE-JOB: This takes place either away from the work-place altogether, or within the work-place but away from the job itself. It is quite often provided by 'outside' experts, for example training on a new piece of computer software for the accounts department. It may last only a few days or it may involve a longer commitment from both the employer and the employee - for example, college day release to attend a college course.



The great thing about off-the-job is that there are no distractions from work while it is taking place. Because it may be provided by specialists, it is often of high quality. A business may send only ONE of its employees on the course and then they can come back into the business and CASCADE the training to other members of the organisation - i.e teach or show others, making it very cost effective for the business!

Unfortunately off-the-job can also be quite expensive if it is necessary to take lots of employees away from their work. Also if a business sends out only one employee and then expects them to come back to train the rest, they could end up with the whole workforce copying the mistakes of the original employee!

Staff Development is about developing the employee over a period of time.

Staff development can lead to both vocational and academic qualifications. Vocational qualifications are specific to a job. They are usually gained through a mix of practical, hands on learning, alongside some classroom study. Academic qualifications are learning is more general. The learning is more theoretical and predominantly class-based.

Apprenticeships offer the employee the chance to gain a qualification and skill while in work. Usually the apprentice works and also attends college.

It can be cheaper to train an apprentice than to hire workers or are already skilled. There may also be a subsidy (grant) available from the government to help the business with the training costs.

However, if the apprentice is not motivated the business may have wasted money. Some may also take a long time to become fully competent.

Advantages of apprenticeships	**Disadvantage of apprenticeships**
A good way of recruiting workers and can be cheaper	If the apprentice leaves it can be a waste of money
Government may offer subsidies towards the cost	The apprentice may make costly mistakes
Learning can take place in the workplace so that it meets the specific needs of the business	
Apprentice can still do work while they are training	

Professional development programmes develop the knowledge and skills of the worker, often a long-term employee. This can help retain workers and increase productivity. However, it can be expensive to fully train a worker and they may leave the business.

Motivation and Retention (3.5)

Retention is concerned with keeping staff within the business. If lots of staff leave then the business has a high staff turnover and will need to spend money retraining new staff. Customers also like continuity when communicating with staff. For example, as a customer of a bank you may feel more comfortable speaking with a cashier whom you recognise. A relationship could be established.

Companies can motivate employees to do a better job than they otherwise would. Incentives that can be offered to staff include increased pay or improved working conditions.

Motivational theories suggest ways to encourage employees to work harder.

What is motivation? The will to work

Benefits of motivation;

- **Increased output** caused by extra effort from workers – workers will be more productive.
- **Improved quality** as staff take a greater pride in their work. The business could then charge more for the products or there could be less wastage. This will increase profit.
- **A higher level of staff retention**. Workers are keen to stay with the firm and also reluctant to take unnecessary days off work (known as absenteeism). Staff retention helps build relationships with customers and so the business could gain a better reputation.

Managers can influence employee motivation in a variety of ways:

Financial methods: some staff work harder if offered **higher pay**.
Non-financial factors: other staff respond to incentives that have nothing to do with pay, e.g. **improved working conditions** or the chance of **promotion**.

Financial methods of motivation

- **Pay** is a cost to the business and will lower profit. However, competitive rates of pay can increase the motivation to work as workers feel that they are respected by the business. Salaries and time rates however, may not increase productivity as the pay will be the same no matter how hard the worker works. However, an increase in salary can still raise morale.
  - **Salary –** A worker receives a set amount for a years work, paid in 12 equal instalments
  - **Wage –** Normally paid weekly. The wage will depend on the wage rate per hour and the number of hours worked
- **Bonus:** staff get an additional payment for meeting a target set by their manager. However, sometimes to whole group get it including less productive workers!
- **Profit sharing**: staff receive a part of any profits made by the business. This encourages workers to work harder. However, shareholders will receive less in dividends.

- **Fringe benefits**: are payments in kind, eg a company car, pension scheme or staff discounts. They can be costly to the firm but can help retain workers as they value them. They may not cost the business as much as they equivalent amount in money, eg the business could bulk-buy laptops and so they can be cost effective.

Non-financial methods of motivation

Managers can motivate staff using factors other than pay through:

- **Working environment –** eg putting groups of workers in a team who are responsible together for completing a certain task. Workers work harder as they don't want to let their team members down. The environment could also be improved – eg decoration of office.
- **Award schemes** -A certificate could be awarded for good work – can help raise morale and performance as the worker feels appreciated.
- **Praise –** a cost effective way for the business to raise a workers self-esteem. Downside is that it may not be enough to motivate some people.

Communication in business (3.3)

Eff s important both within an organisation and externally. Effective co business efficiency.

Wh

Co passing messages between people or organisations. Messages be eiver take place using a **medium** such as email or phone.

- **One-way communication** is when the receiver cannot respond to a message.
- **Two-way communication** is when the receiver can respond to a message. This allows confirmation the message has been both received and understood.

Types of communication

There are a number of technical terms you need to learn:

- **Internal communications** take place between people **within** the business
- **External communications** take place **between** the business and outside individuals or organisations.
- **Vertical communications** are messages sent between staff belonging to **different** levels of the organisation hierarchy.
- **Horizontal communications** are messages sent between staff on the **same** level of the organisation hierarchy.
- **Formal communications** are **official** messages sent by an organisation, eg a company memo, fax or report.
- **Informal communications** are **unofficial** messages not formally approved by the business, eg everyday conversation or gossip between staff.
- A **channel of communication** is the **path** taken by a message.

VERBAL COMMUNICATIONS

This could include; face-to-face, voice-mail, video conferencing, telephone, meetings, presentations,

Pros

- The person can check that the message has been understood.
- The person can emphasise points by their voice or body language

Cons

- No permanent record to refer back to.
- No evidence trail

WRITTEN COMMUNICATIONS

This could include; letters, memos, reports, faxes, emails, texts

Pros

- A written record exists
- Can be reread to check understanding
- Can avoid confrontation

Cons

- It is not possible to gain an instant response.

SOCAIL MEDIA

This is an online applications that allows people to create and share content to participate in social networking

Pros

- Huge number of users
- Information can be updated regularly
- Cheaper than using traditional media

Cons

- Cost to manage the information of social media
- Can be difficult to measure the effectiveness of the businesses' use of social media

WEBSITES

This is an online location with several pages that can be contacted by internet users through its address

Pros

- Sales can be made online
- Websites operate 24/7
- Sales can be promoted to millions of potential customers around the world
- Customers can post feedback to encourage other customers

Cons

- Risk of the website crashing, halting business activity
- Websites need to be maintained and updated regularly
- Spam emails can be received, wasting time

Communication makes a big impact on business efficiency. Effective communication means:

- **Customers** enjoy a good relationship with the business, eg complaints are dealt with quickly and effectively.
- **Staff** understand their roles and responsibilities, eg tasks and deadlines are understood and met.
- **Staff motivation** improves when, for instance, managers listen and respond to suggestions.

Barriers to communication

1. Timing – the message may be sent at the wrong time
2. Clarity – the message may be unclear or the language may be too complex.
3. The wrong method may b used, eg an email when an urgent response is necessary.

HOW CAN ICT BE USED IN BUSINESS?

- **For word-**processing reports and letters, creating a professional look
- **Spreadsheets –** for keeping accounts
- **Databases –** for records of customers
- **Internet –** or advertising

ADVANTAGES OF ICT IN BUSINESS

Quality of work improves, information can be shared more easily, more effective communications, productivity improves (eg quicker to type documents than to write them)

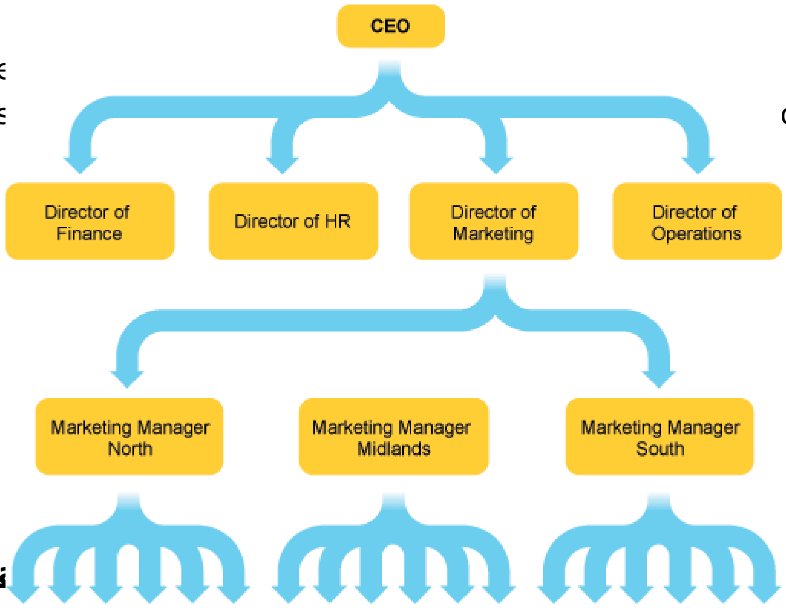
DISADVANTAGES OF ICT IN BUSINESS

Lack of WIFI access or a power cut can stop communication, private information & data can be hacked, security measures are needed to access data, regular software upgrades needed, staff need to be trained how to use the software (all can be costly).

Organisational structures and different ways of working (3.2)

Organisation charts are diagrams that show the **internal structure** of the business. They make it easy to identify the specific **roles and responsibilities** of staff. They also show how different roles relate to one another and the structure of departments within the whole company.

An organisational chart showing the structure of a company



For e … see at a glance that she is in charge of ten s … or of Marketing.

Orga

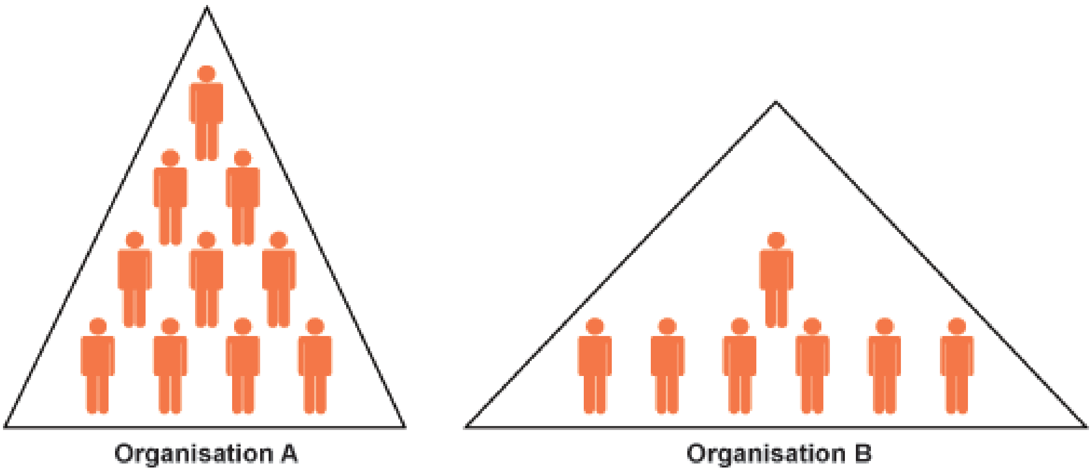
There are a number of technical terms you need to learn:

- **Hierarchy** refers to the management levels within an organisation.
- **Line managers** are responsible for overseeing the work of other staff.
- **Subordinates** report to other staff higher up the hierarchy. Subordinates are accountable to their line manager for their actions.
- **Authority** refers to the power managers have to direct subordinates and make decisions.
- **Delegation** is when managers entrust tasks or decisions to subordinates.

- **Empowerment** sees managers passing authority to make decisions down to subordinates. Empowerment can be motivational.
- The **span of control** measures the number of subordinates reporting directly to a manager.
- The **chain of command** is the path of authority along which instructions are passed, from the CEO downwards.
- **Lines of communication** are the routes messages travel along.

Types of organisational structure

TALL **FLAT**



- The staff structures of a tall organisation and a flat organisation
- **Tall organisations** have many levels of **hierarchy**. The **span of control** is **narrow** and there are opportunities for **promotion**. Lines of communication are **long**, making the firm **unresponsive to change**.
- **Flat organisations** have few levels of **hierarchy**. Lines of communication are **short**, making the firm **responsive to change**. A wide **span of control** means that tasks must be **delegated** and managers can feel **overstretched**.
- In **centralised organisations**, the majority of decisions are taken by senior managers and then passed down the organisational hierarchy.

- **Decentralised organisations** delegate authority down the chain of command, thus reducing the speed of decision making.
- One method of reducing costs is to remove a layer of management in a hierarchy while expecting staff to produce the same level of output. This is called **delayering**.

Ways of working

- Not everyone works 9am until 5pm. People can work;
- Flexible hours
- Work from home (they could then be more productive due to fewer distractions – however, communication may not be as good or they may not have the access to the technology)
- Full-time or part-time (less than 35 hours per week)
- Shift work (eg 8am-4pm, 12pm-8pm)

Temporary workers may also be used by a business (casual workers). These can be employed during periods of higher demand, eg Christmas. However, the workers may not be as committed.

Some people may also be on a **zero-hours contract** – the employee needs to be available to work but there are no set hours.

Pros of zero-hours contracts and/or having part-time staff:

- The business may have more choice when recruiting as some people, eg students and pensioners may like the flexibility of this type of contract.
- Costs can be kept low as only paying people when they are required.

Cons of zero-hours contracts and/or having part-time staff:

- Training costs may be higher as the business will need a larger pool of workers.
- Many people are also self-employed and contract out their services to other businesses.

Employment law (3.7)

When a person gets a job they enter into a Contract of Employment which lists their conditions of work. They have to be given a written **statement of particulars** no later than **8 weeks** after starting work.

This details aspects of the job such as;

- **Pay**

- **Hours**
- **Holidays**
- **Pension**
- **Notice (how long you have to wait before leaving)**

This will help to resolve any future disputes, eg if the employer expects the workers to work longer hours.

In the UK workers are entitled to at least 5.6 weeks holiday if they work 5 days per week, ie 5 x 5.6 = 28 days. A worker who works just 2 days would be entitles to; 5 x 5.6 = 11.2 days

Working time directive is a law originating from the EU. Workers can work a maximum of 48 hours per week. This is averaged out in a 17 week period, eg 799 hours worked over 17 weeks averages –

799/17 = 47 hours on average

There are exceptions, eg Army, emergency services and workers can choose to 'opt out'.

Other rules include; Under 18's can only work a maximum of 40 hours per week. A rest break must be given every 6 hours.

Once you start working you are protected by the **<u>EQUALITY ACT of 2010</u>**:

Equality Act covers discrimination;

- **Equal pay;** men and women doing the same job or of equal value must get the same pay
- **Race relations**; prevents discrimination against people of different races or nationality
- **Sex discrimination**; to prevent men / women from being treated differently at work
- **Disability discrimination**; for example, employers cannot discrimination when recruiting staff. They are also expected to make reasonable changes to premises if over 25 people are employed, eg ramps.

Other laws;

- **Health and safety at work regulations;** to protect workers, provide safety equipment like hard hats and warning signs
- **Minimum wage;** to protect employees against exploitation, different rates for different age groups.

<u>The difference between wages and salaries</u>

Wages are weekly, salaries are monthly

<u>The Pay Slip</u>

Gross Pay – Pay before deductions

Deductions include;

- **Income Tax** – paid at 10% 22% and 40% depending on the amount earned.
- **National Insurance** – deducted at 9% for sickness benefits, unemployment benefit and old age pension
- **Pension** – Extra payments towards a private pension.
- **Net Pay** – the amount left for the employee to spend.

A **trade union** is a group of workers who join together in order to protect their own interests and to be more powerful when negotiating with their employers.

Each employee who wishes to join a trade union must pay an annual fee, which contributes towards the costs and expenses that the trade union incurs when it provides services to its members, and supports industrial action by the workers (eg strikes, overtime ban, work-to-rule).s to a decision either in favour of the employer or employee.

Employment tribunal: A panel that hears cases where employment laws may have been broken and which come to a decision either in favour of the employer and employee.

Advantages of complying with employment laws:

- The business will have a good reputation for dealing with staff fairly and so will find it easier to recruit future staff.
- Workers may also like working for the business and so retention will be high.

Disadvantages of not complying with employment laws:

- Fines and consequences by the law, for the business
- Threat of legal action and damaged reputation

UNIT 2: MARKETING

The role of marketing (2.1)

Marketing is about responding to consumers' needs. It is important to find out what these needs are by market research before launching a new product.

Marketing will help the business to;

- **Increase sales and market share**
- **Be competitive**
- **Increase awareness of the product**
- **Promote the brand image**

Market Research (2.2)

A business conducts market research to help identify gaps in the market and business opportunities. It will also enable the business to understand the **needs** of its **target market**. Accurate market research helps to reduce the risk of launching new or improved products.

Collecting market research

Th f collecting information:

Pr rch) involves gathering new data that has not been collected be sing questionnaires or interviews, focus groups, trials.

An rch is that is can be designed so that it meets the business's ne ge is that is can take time to organise and can be costly.

Secondary research (desk research) involves gathering existing data that has already been produced. For example, researching the internet, newspapers, census data and company reports (internal data).

An advantage of secondary research is that is often freely available. A disadvantage is that it can be fairly general and it might be old and therefore irrelevant.

Factual information is called **quantitative data**. Information collected about opinions and views is called **qualitative data**.

Market Segments (2.3)

Most markets contain different groups of customers who share similar characteristics and buying habits. These collections of similar buyers make up distinct **market segments**.

Ways of segmenting the market;

Age, gender, socio-economic group, lifestyle, location.

Targeted marketing

Breaking down a market into **submarkets** can lead to a business opportunity.

For example, a magazine publisher can target a specialist journal at one group of customers of similar age, gender, class or income.

The marketing mix (2.4)

The **marketing mix** is the combination of **product**, **price**, **place** and **promotion** for any business venture.

No one element of the marketing mix is more important than another – each element ideally supports the others. Firms modify each element in the marketing mix to establish an overall **brand image** and ***unique selling point*** **(USP)** that makes their products stand out from the competition.

The success of a business marketing mix can be judged by changes in **MARKET SHARE**. This is the percentage of total sales that the business has. Eg if the business sales 20,000 and the total sales of the product are 50,000 then the business has a 40% share of the market.

Market data is information that can help to judge the success of marketing, eg market share, changes in customer demand and sales after a promotional campaign has been launched.

PRODUCT

A business needs to choose the function, appearance and cost most likely to make a product appeal to the target market and stand out from the competition. This is called **product differentiation**.

How product differentiation is created:

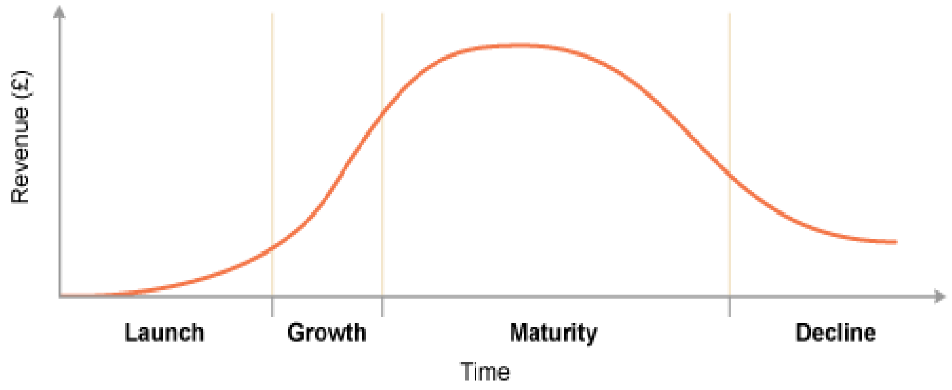
- Establishing a strong **brand image** (personality) for a good or service.
- Making clear the **unique selling point (USP)**
- Creating a product range
- Good innovations (ie improvements in original ideas)
- Good inventions (ie a totally new product design – can be protected by a patent)

Firms face a dilemma if they choose to launch a **premium brand**. Improving the quality or appearance of a product adds to the cost of making it. In turn, this means that the business must charge higher prices if they are to make a profit.

An alternative marketing strategy is to produce a **budget brand**. If a mobile phone has limited functions and a standard design then it can be manufactured cheaply. The low production costs allow for discount pricing.

Product life cycle

The product life cycle diagram shows that four stages exist in the 'working life' of most products.



These are:

1. **Launch**
2. **Growth**
3. **Maturity**
4. **Decline**

In the **launch** and **growth** stages sales rise. In the maturity stage, revenues flatten out. Getting a product known beyond the launch stage usually requires costly promotion activity. At some point sales begin to decline and the business has to decide whether to withdraw the item or use an **extension strategy** to bolster sales. Extension strategies include updating packaging, adding extra features or lowering price.

PRICE

A business can choose pricing tactics when launching a new product:

- **Penetration** pricing means setting a relatively low price to boost sales. It is often used when a new product is launched, or if the firm's main objective is growth.
- **Price skimming** means setting a relatively high price to boost profits. It is often used by well-known businesses launching new, high quality, premium.
- **Competitive pricing** Occurs when a firm decides its own price based on that charged by rivals.
- **Promotional pricing** A reduction in price to encourage sales, could be to clear old stock, eg BOGOF's, extra percentage free etc.
- **Cost-plus pricing** For example, adding a 50% mark up to a sandwich that costs £2 to make means setting the price at £3. The drawback of cost plus pricing is that it may not be competitive.

There are times when businesses are willing to set price below unit cost. They use this **loss leader** strategy to gain sales and market share.

PROMOTION

Promotion refers to the methods used by a business to make customers aware of its product. Advertising is just one of the means a business can use to create publicity.

Promotions can help the business to be more competitive and increase sales.

Businesses create an overall promotional mix by putting together a combination of the following strategies:

- **Advertising**, where a business pays for messages about itself in mass media such as television, radio or newspapers. Advertising can also be through websites and social media.
- **Point of sales promotions**, which encourage customers to buy now rather than later. For example, displays, 2-for-1 offers, free gifts, samples, coupons or competitions, loss leaders.
- **Personal selling** using face-to-face communication, eg employing a sales person or agent to make direct contact with customers.

THE IMPACT OF SOCAIL MEDIA AND THE INTERNET ON MARKETING

Social media and the internet have changed the way businesses deal with marketing. One reason is because they know customers are interacting on social media and the internet daily. Social media reaches a large target market. Social media like Facebook is cheap and lots of people see it.

Examples of social media: Facebook, Twitter, You-Tube

Social media allows business to connect and share information with customers. Special offers can be added. Also people can ask questions and give feedback.

WEBSITES – use of Internet

Customers all over the country and globe can access the WWW and so there is the potential to create more sales, especially if the customers can buy online. Having a website is expected nowadays and if the business doesn't have one the customers may go elsewhere.

Evaluation of advertising methods;

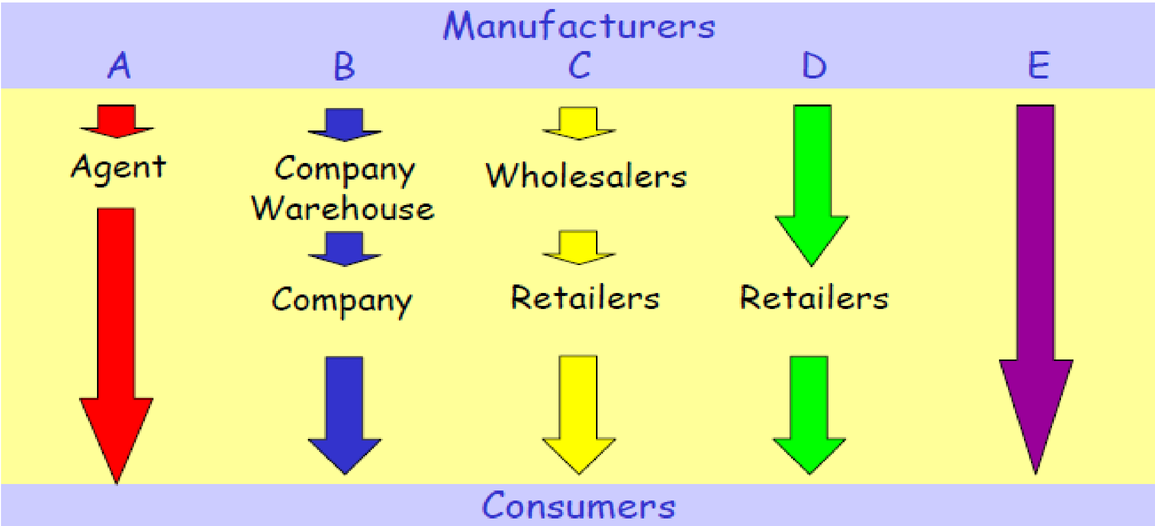
Marketing method	Advantage	Disadvantage
Radio advert	Cheaper than TV. The business can select a radio channel that bests suits their audience	People often 'channel hop'
Poster	Can have a high impact, especially if it is put in a good location	Can only contain a limited amount of information
Sponsorship	May be a good way of getting people to remember a brand name and can be cheaper than say TV advertising	If the sponsor acts inappropriately this can damage the brand

Direct mail (leaflets/junk mail)	Relatively cheap to print and can be distributed to the target market	People may just throw them away

PLACE

This is the point where products are made available to customers. A business has to decide on the most cost-effective way to make their products easily available to customers.

This also involves selecting the best **channel of distribution**. The use of a company warehouse is known as a RDC (Regional Distribution Centre)



Potential methods include using:

Route B: the manufacturer owns the RDC and so does not have to 'pay' for the items. This reduces the final cost to the customer as each separate business will not then need to add on a profit margin mark-up)

Route C: the wholesaler will break the bulk and this is an important function as many small retailers would not be able to buy directly from the manufacturer. The wholesaler will add a profit margin onto the sale and so the final price to the customer would be higher. The wholesaler is likely to hold many goods from a range of manufacturers and so this creates choice for the retailer. The wholesaler can also help with delivery costs.

Route D: the middleman (wholesaler) is cut out and so goods can be cheaper as the wholesaler would add on a profit margin.

Route E: Straight to the customer, eg from the manufacturers website. This can be cheaper for the customers, usually used for larger products or from smaller niche suppliers.

Physical and digital distribution channels
With physical distribution methods there is no actual movement of goods and services
With digital distribution the goods/services are downloaded from the internet. This method can be used for e-books, music, banking services, newspapers etc.

NB **E-Commerce** is the buying and selling over the internet (see customer service section)

UNIT 4: OPERATIONS PRODUCTION PROCESSES

(4.1)

Production is about creating goods and services. Managers have to decide on the most efficient way of organising production for their particular product OR service.

Choosing a production method

The best method of production depends on the type of product being made or service produced and the size of the market.

Small firms operating in the service sector, such as plumbers or beauticians, opt for **job production** because each customer has individual needs. Niche manufacturers of items such as made-to-measure suits would also use job production because each item they make is different.

Batch production is used to meet group orders. For example, a set of machines could be set up to make 500 size 12 dresses and then adjusted to make 600 size 12 dresses. Two batches have been made.
Batch production is where a large or small quantity (batch) of the same item is produced at the same time. It does not involve continuous production of these items – as with flow

Flow production is used to mass produce everyday standardised (all the same) items such as soap powder and canned drinks.

Cost implications like these are common with job or small batch production systems in comparison to mass and flow production systems which are cheaper

The benefits and drawbacks of batch production include:

Advantages	Disadvantages
Making in batches reduces unit costs	Time lost switching between batches – machinery may need to be reset
Can still address specific customer needs (e.g. size, weight, style)	Need to keep stocks of raw materials. Cash also investment in work-in-progress
Use of specialist machinery & skills can increase output and productivity	Potentially de-motivating for staff

The benefits and drawbacks of flow production include:

Advantages	Disadvantages
Ideal for large-scale production of mass-market products	Expensive set up
Cost per unit is low	Large stocks may be needed unless lean production (e.g. JIT) is used
Can still use computer-programmed machinery to create personalised products	Jobs can be repetitive and boring

The impact of technology on production

Automation

- This is when machinery is used and a computer or robot (robotics) controls it;
  - For example, car production lines
- Workers are still employed to supervise and program the computers

Productivity – Companies always want to try to make more using the same or less resources. For example, if a motorbike factory employed 50 workers per 1,000 bikes it made, it would look to reduce that number of employees (possibly using automation or mechanisation). If they managed to do this, they would have been said to have **improved productivity**.

How technology helps

- It enables companies to make higher quality goods. It is possible to engineer to a hundred of a millimetre using machinery. Humans are at least 100 times less precise.
- It is possible for computers to detect minor defects in goods being made. This leads to less poor quality products.
- Computers, machines, robots etc. don’t get paid, don’t need to take holidays, and can work 24/7 all year round – they are much cheaper than humans. This means, by using technology, companies can reduce their costs and produce more.
- Machines are faster – one machine can often do the work of 50 workers.
- The Internet has also enabled companies to sell all over the world. For some companies, it has reduced their production, transportation and retail space costs significantly (for example, iTunes, sell downloads).
- Some workers can use technology to work from home, or they may be able to check the quality of work being done from remote locations.

The downside of technology

- Often technology is very expensive to buy, and it can date quickly. This means the up-front costs are often high, and companies may have to buy replacement equipment every few years.

- Some workers could lose their jobs if they are replaced by machines. A simple example, years ago people were employed to put lids on jars… all of these people have now been replaced by machines.

- There are now far less unskilled jobs as a result of technology – this means that companies may have to retrain staff if their job has been replaced by a machine (which could include training on how to operate and repair the new machine). This costs the company money.

Quality of goods and services (4.2)

Quality is very important to businesses. If the quality of the product is poor the reputation of the business can be poor. So if the quality of the products/ services is good so should the business' reputation!

Why making high quality products is important

Consumers will not buy from the same company twice if they are supplied with poor quality products.

- For example, if your car keeps breaking down you are unlikely to buy the same car again

Also, if goods are not of a good quality:

- They may not be able to be sold, and may have to be thrown away
- Or, if they are sold:
  - they may have to be sold at a reduced price
  - they may be returned

Finally, relations with customers are affected, which will lead to:

- Less repeat purchases
- Poor word-of-mouth publicity
- Time costs in dealing with complaints etc.

Quality control

In the past, quality control was undertaken by **quality-control inspectors**. These people would inspect a small amount of the products being made, and would check for mistakes. They may have sampled/inspected as few as 1 in 2,000 products made.

Quality Control was the traditional method of checking quality
A product was checked at the end of the process and if it was okay – they would sell it, if not they would throw it away or sell it as a 'second'

Why is quality important?

- Lower wastage
- Better quality products can lead to a higher selling price
- Helps develop a quality USP
- Can be marketed and communicated with customers.

BUT, things have changed… the job of quality control is now in the hands of the workers doing the job. They check their own work, and that of their colleagues. So, throughout the production process, quality is being continually checked. This is known as **QUALITY ASSURANCE.** It is about the prevention of problems rather than cure.

Advantages of QA: Less wastage, workers feel valued as they are given more responsibility, improved reputation as products/services are of a better quality

Disadvantages of QA: It may disrupt production while checks are in place, costs involved in training the workers, workers may worry about the extra responsibility

The sales process and customer service (4.3)

There are 3 methods of selling;

- **E-commerce**
- **Face-to-Face**
- **Telesales**

E-commerce

This is the process of bringing the buyer and seller together electronically. Nb different from digital distribution which is when the product/service is downloaded.

E-commerce have affected changes in business activity in the following way;

- **Location:** business do not have to locate near the market as this can reduce costs. A warehouse will be needed and possibly a call-center ('front end') but this could be located in cheaper areas.
- **New skills development:** Workers will require different kind of skills such as website design.

- **Levels of employment:** Some staff however, would be made redundant, eg shop floor workers
- **Click and collect:** This is becoming popular as customers may not be in when the delivery is made and this allows then to collect at a more convenient **location and time.** This can take up space in the store. Some businesses have ties with other businesses – ie outsource this.

- **Delivery:** Business will need efficient delivery schedules, eg amazon are considering the use of drones.

Advantages to a consumer of using e-commerce

- Can shop in comfort of own home – avoiding stress of busy shops
- No need to shop with children in tow
- Cost effective – eg no petrol to pay, not as much time lost (opportunity cost)
- Can shop 24-7
- Recognises regular 'shopping lists' – saves time writing a list out
- Suggestions are given for complimentary products
- Some deals only available online
- Can pay using Pay-Pal

Disadvantages to a consumer of using online delivery for supermarket shopping

- Items are not 'tangible' so it is more difficult to judge the quality of some items
- More expensive to book peak delivery slots
- Swaps may not be appropriate
- Relying on packers to choose products
- Need fast internet connection
- Can't pay cash and some people worry about paying online – encryption is normally available to improve security

Face to face

When buying certain products, (eg clothes, holidays, cars) customers like to see the products and speak with a sales adviser. Shops are often needed although sales representatives can be used to visit customers.
Shops can be very expensive to run.

Telesales

This can often act as a happy medium between face-to-face selling and e-commerce as it allows the customer to have some contact with a sales person.

Customer service is the experience a customer gets when using products made by the business. Satisfied customers make repeat purchases and recommend the product to friends, leading to additional word-of-mouth sales.

Customers want to buy goods and services that meet their needs at a price they can afford. For example a café thrives when friendly staff serve tasty, well-made meals, in generous portions, at competitive prices.

How to improve customer service

Successful businesses define the **quality** or **standard** of service needed to meet customer needs. For instance, a café can aim to take no more than 5 minutes to serve any customer once they have ordered their meal.

Ensuring that quality standards are met requires:

- **Training** so that staff understand their role and responsibilities. For instance, asking every customer if they are happy with their meal.
- **Innovation** or introducing new ideas and methods. For example, altering the menu every three months keeps customers interested and helps a café to stay one step ahead of the competition.
- **Listening** to customers helps a business adjust its products to better match consumer needs and respond to any problems.

Customer service can be improved by offering the following;

- **After-sales service**: This means offering good after care so that the customer feels valued after they have made a purchase. This can include; offering hassle free exchanges, installation, advice, repairs, delivery.
- **Offering good product knowledge**
- **Customer engagement** – ie good communications

CONSUMER LAW (4.4)

The consumer has basic legal rights (outlined in the **Consumer Rights Act 2015**) to return a product if it is:

- given a misleading description
- of an unsatisfactory quality
- not fit for its intended purpose

Also;

A 30-day time period in which to return faulty products – does not apply to downloads – customers are entitle to an exchange or full refund
Within the first 6 months – business has the opportunity to repair
After 6 months – more complicated as the customers has to prove the fault was there are the time of delivery

The above law is a little different for services – the customer could ask for the work to be re-done or for a pride reduction.

How consumer law impacts on business;
Has to put effort into ensuring that the goods are of quality – returned items add to wastage and are costly. They cost the business money but do not yield revenue. If the goods are unsafe then this can also be costly as the customer could claim compensation. The business may also suffer from damage to their reputation.

Location (4.5)

A business's location can make an important difference to its success. Choosing the right location means taking into account a number of factors.

The importance of location

Location is the place where a firm decides to site its operations. Location decisions can have a big impact on costs and revenues. Being close to main roads can be an advantage for a business.

A business needs to decide on the best location taking into account factors such as:

- **Customers** - is the location convenient for customers?
- **Staff** - are there sufficient numbers of local staff with the right skills willing to work at the right wage?
- **Support services** - are there services offering specialist advice, training and support?
- **Cost** - how much will the premises cost? Those situated in prime locations (such as city centres) are far more expensive to rent than edge-of-town premises.

The importance of infrastructure

- **Infrastructure** refers to the facilities that support everyday economic activity, eg roads, phone lines and gas pipes.
- An efficient **transport network** enables staff to get to work easily. It also allows supplies to be brought in from far afield and permits finished products to be moved to market cheaply and quickly. This is needed because businesses are **interdependent** – ie linked together such as suppliers, wholesalers, retailers.

- The impact of location depends on the type of business. For example, it is important for shops and restaurants to be **conveniently located** for customers. A delivery-only takeaway may prefer to locate in inexpensive premises on the edge of town close to good transport links.

Government and location

The government offers grants and assistance to businesses that locate in areas with high unemployment. Incentives include:

- **Grants** to help with the cost of setting up a business. Grant money does not need to be repaid.
- **Loans**, which are repayable over many years at low rates of interest.
- **Tax breaks**, for example firms may be made exempt from paying business rates.

Overseas location decisions

Moving a business can have both advantages and disadvantages

Setting up a business overseas involves a number of challenges including:

- **Cultural and language barriers** where managers are unfamiliar with local customs.
- **Legal issues** where local laws are different.
- **Exchange rate** issues. Unexpected changes in the value of sterling can have an impact on prices, costs and profits.

WORKING WITH SUPPLIERS (4.6)

What is procurement?

This is the management of stock. Procurement has a number of roles within a business. These are;

- Identifying goods to buy – purchasing
- Choosing suppliers
- Ordering goods and services
- Receiving orders from suppliers

Logistics refers to the transportation and storage of goods.

Factors that affect which goods and services to buy include;

- The time of year
- Changes in technology – will affect the demand for certain products
- Changes in fashions and lifestyles

The choice of suppliers could depend on;

- The quality of the goods supplied
- The reputation of suppliers – eg are they reliable? Do they treat staff well?
- Do they offer trade credit?
- Can they offer flexible delivery times? This will depend on the **supply-chain** (the sequence of processes involved in the production and distribution of a commodity)
- Do they offer good customer service?
- Cost of stock?
- Do they offer discounts for larger purchases?

SECTION 5: FINANCE

The role of finance (5.1)

Finance refers to sources of money for a business. Firms need finance to:

- Start up a business, e.g. pay for premises, new equipment and advertising.
- Run the business, e.g. having enough cash to pay staff wages and suppliers on time.
- Expand the business, e.g. having funds to pay for a new branch in a different city or country, needing funds to move from batch to flow production methods.

New businesses find it difficult to raise finance because they usually have just a few customers and many competitors. Lenders are put off by the risk that the start-up may fail. If that happens, the owners may be unable to repay borrowed money.

Only large businesses will have a separate finance department. Sole traders and partnerships would normally employ an accountant to check the finances. Financial information can take many forms such as;

- The costs and revenues of the business
- The profit or loss of the business
- The cash flow of the business
- The rate of return
- Break-analysis
- The profitability

Each will be dealt with in the next few chapters

Sources of finance (5.2)

Some sources of finance are short-term and must be paid back within a year. Other sources of finance are long term and can be paid back over many years.

An overdraft facility, where a bank allows a firm to take out more money than it has in its bank account. Interest payments can be high as this affects profit. However, help to deal with cash flow problems. A short-term source of finance as the bank would expect this to be quickly paid back.

Trade credit, where suppliers deliver goods now and are willing to wait for a number of days before payment. This can be interest free and can help with cash-flow. Interest may need to be paid if the business cannot pay for suppliers within 30 days.

Owners capital. For sole traders and partners this can be their savings. For companies, the funding invested by shareholders is called **share capital**. This does not have to be paid back but there is still an opportunity cost as the money would not be available for other things.

Retained profit. The business can reinvest profits. Would not have to be paid back. Shareholders (if the business is a company) may prefer to receive the money as a dividend.

Loans from a bank or from family and friends. Interest will need to be added. Usually medium or long term as the money will be paid back in manageable instalments. The bank may need to have an asset as security in case the loan cannot be repaid.

A mortgage, which is a special type of loan for buying property where monthly payments are spread over a number of years (eg 25). Therefore, a long-term bank loan.

Crowdfunding is when money is raised from 'sponsors' usually by promoting a business idea on a crowdfund website such as kickstart.com. No security is needed but profit may need to be shared or a fixed interest paid.

REVENUE/COSTS/PROFIT AND LOSS (5.3)

REVENUE

SALES REVENUE- The amount of money that a business receives from selling what it provides or produces. The amount a business earns in sales revenue depends on how much it sells and at what price.

Increasing sales revenue

A business may be able to increase its revenue by:

- Changing the price it charges – either raising the price or reducing the price
- Increasing the amount it sells

Factors affecting sales

The number of competitors	Raising the price will not reduce the amount sold by very much, especially if there are no other businesses selling similar products or services.
What competitors do	If competitors also prices, the amount sold is unlikely to fall very much.

Whether the product is a necessity or even	If a product is a necessity, people will not have to buy it anyway though it may be expensive.
How much people spend on the product	If the product was already very cheap, people may not be put off buying the product by the higher price.

Business costs are organised into the following two categories:

- Fixed Costs
- Variable Costs

Fixed costs - costs that stay the same **regardless of output**. (at least in the short term) Examples: rent, telephone bill, insurance, interest repayments. **TAX is NOT a cost. Do not say "fixed costs are costs that stay the same"**

Variable costs – costs that **change according to the level of output**. Costs include, for example, the cost of materials used to make businesses products.

Total costs - the total cost of producing all output over a period of time, e.g. daily, weekly, monthly, quarterly or yearly. Total cost is calculated by adding together the total fixed costs and total variable costs.

Average costs (or unit costs) - the average cost per unit of output is calculated by dividing the total costs that are involved in producing a certain level of output with the level of output (number of items produced).

PROFIT

PROFIT –Money left over from sales after all costs have been paid.

The formula for Profit is:

Profit in basic terms is: **Sales Revenue MINUS Costs**

What's the difference between Gross Profit and Net Profit?

Gross profit is the profit made on the materials which are known as cost of sales. It

is worked out by the following:

REVENUE – COST OF SALES = GROSS PROFIT

For example, if a box of chocolate bars were purchased from supplier for £30 and were sold for £50, the gross profit for each sale would be £20

Net profit is the profit after all expenses involved in running the business have been taken off.

Net profit = gross profit minus the running costs

Profit is the reward for taking a risk and is the most important Business Objective for most businesses.

Profitability ratios

These ratios put the profit into context and allow investors to analyse whether or not the business has been successful compared with other businesses or whether it has been successful over time.

Gross profit margin: Gross profit / Revenue x 100

Eg; £5000/£10000 x 100 = 50% this means that for every £1 the business makes in sales 50p is gross profit.

Net profit margin Net profit / Revenue x 100

The net profit margin will always be lower than the gross profit margin as the running costs (expenses) are taken away

If the gross profit margin is falling this could mean that the business is paying more for its stock or has reduced the price.

If the net profit margin is falling this could mean that the business is paying more to run the business, ie is becoming more inefficient.

Average Rate of Return (ARR)

Rate of return = This is the amount you receive from making an investment. So if you invested £100 in a bank and received £3 interest at the end of the year then the return would be 3%

Calculating the ARR

This is the return, on average, over the life span of an investment.

A business plans on buying a lawn mower, which could last 3 years – calculate the ARR;

Cost of equipment (mower)	£1000
Revenue (year 1)	£2000
Revenue (year 2)	£2500
Revenue (year 3)	£3000

Step 1: Calculate the return/profit

Revenue minus cost = £7500 - £1000 = £6500

Step 2: Calculate the average return/profit

£6500 / number of years (3) = £2166.66

Step 3: Calculate the percentage return (profit as a proportion of the original cost/investment) – times by 100 to give the answer as a %

£2166.66/£1000 x 100 = 216.66%

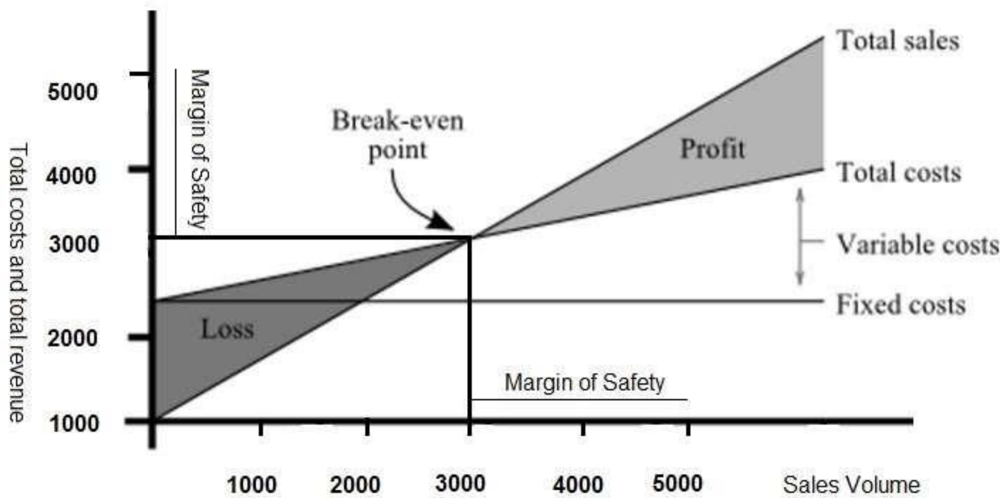
The ARR can be compared with that on other projects and or compared with the interest rate

BREAK-EVEN ANALYSIS (5.4)

Breakeven analysis is a useful tool for working out the minimum sales needed to avoid losses. However, it has its limitations. It makes assumptions about various factors - for example that all units are sold, that forecasts are reliable and the external environment is stable. If new rivals enter the market or an economic recession starts then it could take longer to reach the breakeven point than anticipated.

Many organisations add on a **margin of safety** to the breakeven level of output when deciding on their minimum sales target.

Break-even formula: **FIXED COSTS / PRICE – VARIABLE COST per unit**



Limitations of Break-Even Analysis

- Costs can change, eg a supplier may put material prices up and this would increase total costs. The number of products needed to sell to break-even would then increase.
- The break-even chart will not reflect demand – ie the products may not sell.

CASH-FLOW (5.5)

Cash flow is the movement of money in and out of the business.

Cash flows into the business as receipts, e.g. from cash received from selling products (sales revenue) or from loans.

Cash flows out of the business as payments, e.g. to pay wages, supplies and interest on loans.

Net cash flow is the difference between money in and money out.

Profit and cash flow are two very different things. Cash flow is simply about money coming and going from the business, usually every month whereas profit is recorded at the end of the financial year. Some inflow such as bank loans would not count when calculating profit.

The challenge for managers is to make sure there is always enough cash to pay expenses when they are due, as running out of cash threatens the survival of the business. Producing a cash flow forecast can help the business to plan for months when low cash is predicted.

Example of a cash flow forecast

	Jan	Feb	Mar	Apr	May	Jun	Total
CASH INFLOWS							
Investment	10,000						10,000
Credit sales	2,500	10,000	10,000	10,000	10,000	10,000	52,500
Total inflows	**12,500**	**10,000**	**10,000**	**10,000**	**10,000**	**10,000**	**62,500**
CASH OUTFLOWS							
Project materials		3,000	3,000	3,000	3,000	3,000	15,000
Sub-contract labour	4,000	4,000	4,000	4,000	4,000	4,000	24,000
Marketing	500	500	500	500	500	500	3,000
Legal and accounting	1,250	0	0	0	0	0	1,250
Equipment	2,500	0	0	2,500	0	0	5,000
Sophie & Jack salaries	1,000	1,000	1,000	1,000	1,000	1,000	6,000
Other costs	500	500	500	500	500	500	3,000
Total outflows	**9,750**	**9,000**	**9,000**	**11,500**	**9,000**	**9,000**	**57,250**
NET CASH FLOW	**2,750**	**1,000**	**1,000**	**-1,500**	**1,000**	**1,000**	**5,250**
Opening balance	0	2,750	3,750	4,750	3,250	4,250	
Closing balance	2,750	3,750	4,750	3,250	4,250	5,250	

Insolvency/bankruptcy

- If a business runs out of cash and cannot pay its suppliers or workers it is insolvent.

- The owners must raise extra finance or cease trading. This is why planning ahead and drawing up a cash flow forecast is so important, as it identifies when the firm might need an overdraft.

A business can improve its cash flow by:

- Reducing cash outflows, e.g. by delaying the payment of bills, securing better trade credit terms or factoring.
- Increasing cash inflows, e.g. by chasing debtors, selling assets or securing an **overdraft.**

BUSINESS PLANS (1.2)

A business plan shows the businesses aims and objectives and is normally written before the business starts.

The business helps the business to stay focused and succeed – it can reduce the risk of business failure. It will also show whether any changes need to be made. It can be taken to the bank to help get finance as well. However, it can be inflexible and take too much time to construct. This creates an opportunity cost – ie time could be spent on other things.

Content of BP's;

The business idea, names and experience of people involved, market research, finance needed, aims and objectives, target market, competitors.

SECTION 6: INFLUENCES

BUSINESS ETHICS AND THE ENVIRONMENT (6.1)

Ethics is about doing the right thing. Ethical behaviour requires firms to act in ways that stakeholders consider to be both fair and honest.

Many owners believe that acting ethically increases costs and so reduces profits. For example, a business can cut costs by hiring child labour at very low wages in developing countries. Paying below average wages lowers the firm's total costs.

Other businesses such as the Fairtrade Foundation have built an ethical brand image, believing that customers are prepared to pay more for products that consider the environment and pay a reasonable wage. Higher sales compensate for higher costs.
Profits from acting ethically are higher than firms that only consider their own narrow self-interest.

Business activities that meet the requirements of the law, but which are considered unfair by stakeholders can result in bad publicity. For example, a restaurant that pays minimum wage but keeps staff tips to boost profits is not breaking the law. It does, however, run the risk of losing the goodwill of customers.

Ethical business behaviour

Includes working towards the ending of child labour, forced labour, and sweatshops, and looking at health and safety, labour conditions and labour rights.

The branch of ethics that examines questions of moral right and wrong arising in the context of business practice or theory

ETHICAL TRADE

Ethical trade means that retailers, brands and their suppliers take responsibility for improving the working conditions of the people who make the products they sell.

Most of these workers are employed by supplier companies around the world, many of them based in poor countries where laws designed to protect workers' rights are inadequate or not enforced.

Businesses affect the local environment - both natural and social. Ethical businesses try to keep the impact of their operations on the environment to a minimum.

Social costs and the environment

Business activity has an impact on the natural environment:

- **Resources** such as timber, oil and metals are used to manufacture goods.
- **Manufacturing** can have unintended spill over effects on others in the form of noise and pollution.
- **Land** is lost to future generations when new houses or roads are built on Greenfield sites.

Short- and long-term environmental effects

Some business activity can cause short-term environmental costs which can be put right in the longer term. For example, the impact of cutting down forests for timber is much reduced if young trees are planted in their place and left to grow into maturity.

Some trees, such as pine, grow quickly and can be considered a renewable resource.

Other resources, such as mahogany, take hundreds of years to grow and so are non-renewable in our lifetime. Resources like oil that can only be used once are non-renewable.

Is ethical behaviour good or bad for business?

You might think the above question is an easy one for businesses to answer? Surely acting ethically makes good business sense? As with all issues in business studies, there are two sides to every argument:

The advantages of ethical behaviour include:

- Higher revenues – demand from positive consumer support
- Improved brand and business awareness and recognition
- Better employee motivation and recruitment
- New sources of finance – e.g. from ethical investors

The disadvantages claimed for ethical business include:

- Higher costs – e.g. sourcing from Fairtrade suppliers rather than lowest price
- Higher overheads – e.g. training & communication of ethical policy
- A danger of building up false expectations

THE ECONOMIC CLIMATE (6.2)

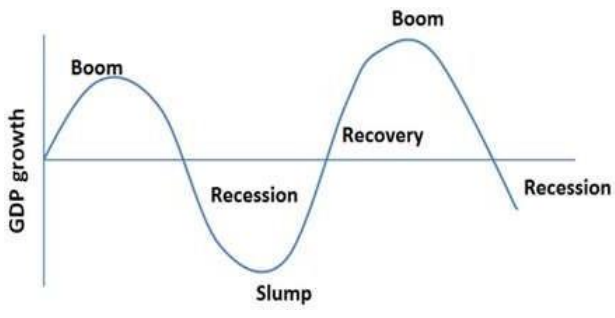
The economic climate refers to the state of the economy that the business operate in. There are two specific aspects of the economy that you need to study;

1. **INCOME**

Income is the amount of money people receive from work. This influences the amount they have to spend in businesses.

What is Economic Growth?

This is a term given to a period when there is rising employment levels and higher levels of consumer income. Businesses tend to sell more as consumers have higher levels of disposable income.



GDP measure how well the economy is doing (Gross Domestic Product) – it is the value of all goods and services produced in a year in the country

Economies go through a regular pattern of ups and downs in the value of economic activity (as measured by gross domestic product or GDP. This is known as the **"business cycle"** (sometimes you also see it referred to as the "**economic cycle**").

The business cycle is characterised by four **main phases:**

Boom: high levels of **consumer spending**, business confidence, profits and investment. Prices and costs also tend to rise faster. Unemployment tends to be low as growth in the economy creates new jobs

Recession: falling levels of **consumer spending and confidence** mean lower profits for businesses – which start to cut back on investment. Spare capacity increases + rising unemployment as businesses cut back and reduce stocks. Businesses may have to sell cheaper products (eg Waitrose essential range or cut prices)

Slump / depression: a prolonged period of declining GDP - very weak consumer spending and business investment; many business failures; rapidly rising unemployment; prices may start falling (deflation)

Recovery: things start to get better; consumers begin to increase spending; businesses feel a little more confident and start to invest again and build stocks; but it takes time for unemployment to stop growing

Some businesses such as Aldi and Lidl did well during the last recession as people wanted cheaper products.

The **distribution of income** refers to the gap between rich and poor

The **international economic climate** can also change and this can have an effect on business. This is because the UK export (sale goods and services) to other countries. Incomes in China are growing and this may create opportunities to sell to China. Brexit may affect our sales within the EU.

2. **Employment**

The level of employment refers to the number of people in work. There is a link between employment and income. When there is high employment and low unemployment, people have more income and can buy more in businesses. However, businesses may find it harder to recruit staff and may need to pay higher wages to attract staff and this adds to costs.

Responding to changes in economic climate

During a recession businesses need to try and reduce costs so that they can reduce prices to customers. This is because customers have less disposable income. Businesses could undertake the following strategies to reduce costs;

- Reduce wastage
- Use cheaper materials
- Move production abroad
- Increase worker productivity so that less workers are needed and efficiency improves
- Change loans to a lower interest rate
- Move to a smaller premises

Businesses could also look into selling different products, sell abroad or market their products.

Globalisation (6.3)

Globalisation is the process by which business activities in different countries are becoming more and more connected with each other.

Globalisation is having a dramatic effect on world economies and on peoples' lives.

The main developments in globalisation:-

1. **Growth of international trade**. The UK trades with more countries and in greater volume than ever before.
2. **Movement of production to low-wage countries** E.g. Closing factories in the UK and opening factories in China. They can make products at the same quality for a lower price.
3. **More outsourcing.** Improvements in technology have made it possible to outsource some functions to a cheaper country. For example call centres in India.
4. **Growth of Multinational Corporations (MNC's)**. Big businesses are getting bigger and more powerful.
5. **More global branding.** Brands have gone global - everyone recognises the Coca-Cola brand. These desirable brands are wanted across the globe.
6. **Movement of people around the world increasing**. People are moving between countries more than ever before. People move to countries where the pay is high.
7. **Inward Investment**. This is money that is invested from one country to another. An example of this would be a British company building a factory in Poland. This creates jobs and helps grow the Polish economy.

Globalisation is both good and bad for countries. You need to have a balanced view and be able to explain the advantages and disadvantages of globalisation in the given context of the exam question.

Advantages to businesses from operating as a MNC's include;

- Increasing sales – as selling to more people. Can extend product life cycle. Can gain economies of scale.
- Can spread the risk – eg if a recession in the Eu could sell to China
- Lower production costs in LEDC's

Disadvantages to businesses from operating as a MNC's include;

- May be difficult to control the quality of production

- Communications between branches may be difficult – eg time zones, language barriers
- Cost of transporting products and tariffs
- Learning different laws can be costly

Disadvantages to host countries from allowing MNC's into their country include;

- Profits flow back to home country
- Exploitation of workers as the business may bring their own workers in and pay local workers low wages

Advantages to host countries from allowing MNC's into their country include;

- Provides jobs and helps the local areas to grow
- May invest in local infrastructure

How UK business competes internationally

International trade is the exchange of goods and services between different countries. UK business can compete against foreign rivals by offering better designed, higher quality products at lower prices.

UK **exports** are products made in the UK and sold overseas, while UK **imports** are products made overseas and sold in the UK.

What are Imports?

Imports are the purchase of goods and services by UK firms or individuals from businesses abroad.

What are Exports?

Exports are the sale of UK goods and services to individuals and services abroad.

What are Quotas?

Quotas are restrictions on the amount of goods that can be brought into a particular country (imported) – e.g. the UK government impose a **quota** on the number of Japanese cars that can be sold here, this is about 250,000 cars or 10% of the total market and then no more. Quotas also restrict competition from foreign firms.

What are Tariffs?

Tariffs are taxes on imports which add to the price making home goods seem more competitive. Taxes on imports that raise the price of imports so that it will be harder for foreign firms to sell their goods.

For example, limit the number of Mercedes cars coming into the UK the govt. might put a tax of 20% on top of the normal price. A Mercedes costing £50,000 would then cost £60,000, which would limit sales.

Problems with International Trade

- Exploits poor countries i.e. forcing people to work for tiny amounts of money.
- Some countries use child labour
- Buying from overseas weakens businesses in this country who make the same goods.
- Businesses often move out of the UK to cheaper countries, meaning loss of jobs here.
- The quality of overseas goods might not be as high

SECTION 7: THE INTERDEPENDENT NATURE OF BUSINESS

Interdependent means linked. The section requires you to understand that each functional area of the business is connected and their success depends on each other. For example, if the business want to start producing new products the following functional areas will need to be involved;

Finance – money will be needed to research the new products and advertise

Human resources – staff will need training on how to sell the new products and possibly make them

Marketing – the marketing department will need to design new campaigns

Operations – the production department will need to produce or order the new products

Section	Key Term	Description			
1.3	**Sole Proprietor**	One person owns the business and does not have to share profit, however the owner has unlimited liability.			
1.3	**Partnership**	Between 2 and 20 people own the business. They all have unlimited liability.			
1.3	**Unlimited liability**	The owners are responsible for all the debts if the business went into bankruptcy.			
1.3	**Limited Liability**	The owners do not risk losing personal possessions in order to pay off the debt. Only business assets can be used to pay debts.			

1.3	**Bankruptcy**	Affects unincorporated businesses (ie sole traders/partnerships) when their liabilities are greater than assets.			
1.3	**Insolvency**	Affects limited companies when their liabilities are greater than their assets.			
1.3	**Private limited company (Ltd)**	A business owned by shareholders who are usually family and friends. The shareholders have limited liability.			
1.3	**Board of directors**	Elected by shareholders to run the company.			
1.3	**AGM**	Annual general meeting in which directors are elected.			
1.3	**Managing director**	Person responsible for putting into action decisions made by directors.			
1.3	**Capital**	Money invested into the business for expansion or to enable the business to start-up.			
1.3	**Incorporation**	The process of forming a company. The owners and the business will have a separate legal identity.			
1.3	**Sleeping partner**	A person who invests capital in a business but takes no an active part in running it.			
1.3	**Deed of partnership**	Legal agreement between partners stating responsibilities of each partner.			
1.3	**Income Tax**	Taxation paid by sole traders and partnerships from revenue made.			
1.3	**Corporation tax**	Taxation paid by companies to the government. The amount paid will depend on profit.			
1.3	**Shareholder**	Owner/s of a company. Shareholders have one vote per share and can exert influence by voting at the AGM (Annual General Meeting). Shareholders receive profit in the form of dividend payments.			
1.3	**Dividend**	Payment made to shareholders from the profit made by a business.			
1.3	**Public limited company (PLC)**	A business owned by shareholders. Shares are traded to the public on the Stock Exchange. These are usually larger organisations.			
1.4	**Profit**	Money left over from sales after all costs have been paid.			
1.4	**Business Objectives**	Targets the business is trying to achieve eg growth, survival, profit, increased market share. (PIGs)			
1.4	**Market share**	Amount of a market a business controls. Given as a percentage.			
1.4	**Economies of scale**	Increase in scale of production produces reduction in average cost of production, eg bulk buying materials. In other words, cost advantages from large scale production.			
1.5	**Stakeholders**	An individual or group of people who have an interest in a business, eg customers, owners, employees, local community.			
1.6	**Take-over**	One business buys control of another. Can be hosile.			
1.6	**Conglomerate**	Merger or take-over of another business in a totally different business activity, eg Virgin Group.			
1.6	**Merger**	Two or more businesses join together to make one larger business.			
1.6	**Diversification**	A process of spreading the risk by reducing dependence on one product or service. A diversified business is a conglomerate.			
1.6	**Vertical integration**	Merger or takeover of another business in the same industry but at a different stage of production. The integration can be backwards or forwards.			
1.6	**Horizontal integration**	Merger or takeover of another business in the same market – eg two banks.			
1.1	**Entrepreneur**	A person who takes the risk of starting and running a business enterprise.			
1.2	**Business plan**	Document that sets out details of the product/service, where the finance will come from, how the product/service will be marketed, predicted profits and evidence of market research.			
3.1	**Human Resource Plan**	Document that details the workers that a business needs – number, skills needed, type of contract etc			

3.4	**Selection**	The process of choosing suitable applicants for a job.			
3.4	**Needs analysis**	The way in which an organisation decides how many and what type of workers to employ.			
3.4	**Job description**	A document that lists the main duties and responsibilities of a worker.			
3.4	**Person specification**	A documents that lists the qualities, qualifications and knowledge that a worker should have to undertake a job.			
3.4	**Internal recruitment**	Filling a job vacancy by appointing a worker who already works in the organisation.			
3.4	**External recruitment**	Filling a job vacancy by appointing someone from outside of the business.			
3.4	**Employment agency**	An organisation that has employees already available for a business to hire.			
3.4	**Recruitment agency**	An organisation that carries out all of the selection tasks on behalf of a business – they will charge for this service but it saves the business time.			
3.4	**Job centre**	Owned by the government. Businesses can advertise jobs through the job centre for free.			
3.5	**Motivation**	Encouragement given to workers to work hard.			
3.5	**Retention**	Workers want to save with their present employer.			
3.5	**Staff turnover**	The number of staff that leave a business every year.			
3.5	**Absenteeism**	When workers are absent from work – ie call in sick			
3.5	**Fringe benefit**	A financial method of motivation. Employees are given perks, eg a company car, luncheon voucher. This is in addition to their payment, eg salary.			
3.5	**Profit share**	Workers receive a cut of the profit			
3.5	**Salary**	A set amount of money is received for the year – this is then divided into12 equal payments.			
3.5	**Bonus**	An extra lump sum that may be paid to a worker or group of workers if they reach a target.			
3.5	**Productivity**	Output per worker.			
3.6	**Induction training**	Special training to introduce a new worker to the business eg health and safety talk, introduction to other employees. The purpose is to increase morale and make the worker feel comfortable.			
3.6	**On-the-job training**	Occurs at the workers usual place of work and while the worker is doing their job, eg coaching and shadowing. Not suitable for large groups.			
3.6	**Off-the-job training**	This occurs when the worker is trained away from their usual place of work. This may still be at the business they work for or it may take place at a specialist training centre/college.			
3.6	**Apprenticeship**	Workers learn and progress towards a vocational qualification while in employment. May go to college on day release.			
3.7	**Employment Tribunal**	A small court that deals with disputes between workers and employers.			
3.7	**Redundancy**	When employment is ended because the firm no longer needs the employee.			
3.7	**Trade union**	Organisations that represent the interests of their members/workers.			
3.7	**Equality Act**	This is an act of law that prevents employers from discriminating against employees regarding issues such as race, gender and disability.			
3.7	**Statement of particulars**	Part of the contract of employment – outlines procedures such as holiday entitlement and pay.			
3.7	**Zero-hours contracts**	Contracts that do not guarantee any work			
3.7	**Full-time working**	When a person works 35 hours or more			
3.2	**Accountability**	The responsibility that a person has for a job meaning that he or she will take the blame for what goes wrong.			

3.2	**Subordinate**	A worker below a line manager.			
3.2	**Delegation**	The process of allowing a subordinate to make decisions or to complete a piece of work.			
3.2	**Span of control**	Number of workers who a line manager is directly responsible for.			
3.2	**Vertical communication**	Communication up and down the hierarchy of the business			
3.2	**Horizontal communication**	Communication between people on the same level of the hierarchy			
2.1	**Marketing**	Finding out the needs of the customers and activities to promote the business in a way that increases sales.			
2.2	**Market research**	Collection of data on consumer habits to help with decision making.			
2.2	**Primary research**	Data collected first hand by the business – field research, eg survey			
2.2	**Secondary research**	Using research already collected by others, desk research, eg Mintel's report, census data.			
2.2	**Focus groups**	Selected groups of consumers who give their opinion on products/services			
2.2	**Qualitative data**	Based on opinions			
2.2	**Quantitative data**	Based on facts and numbers – easier to analyse			
2.3	**Market segmentation**	Splitting the market for a product into different parts			
2.3	**Target market**	Group of customers to whom a business plans to sell its products to.			
2.4	**Competitor pricing**	Price is based on prices charged by competitor businesses for similar products or services			
2.4	**Cost-plus pricing**	A percentage is added to the selling price to ensure that a profit is made. (mark-up)			
2.4	**Penetration pricing**	A low price to break into a market – short term			
2.4	**Skimming pricing**	A high price is set to take advantage of the fact that the product is unique			
2.4	**Promotional pricing**	Prices are reduced to give products a boost or to sell off old stock			
2.4	**Innovation**	New products or modifications are introduced to the market			
2.4	**Product life cycle**	Stages a product moves through – introduction, growth, maturity, decline			
2.4	**Physical distribution**	Supply of goods from supplier to customers using a physical presence eg shop			
2.4	**Digital distribution**	The supply of goods and services digitally – using website and e-ecommerce			
2.4	**Regional Distribution Centre (RDC)**	Large warehouse owned by a retailer – used to store products that will be sold in shops owned by the retailer			
2.4	**Point-of-sale promotions**	Promotions at the place where the product/service is sold, eg price reductions, free samples.			
4.1	**Job production**	The method of production were products are made individually			
4.1	**Batch production**	Method of production where one type of product is made and made and then production is switched to make a different product.			
4.1	**Flow production**	Production of one product takes place continuously using a production or assembly line. Sometimes called mass production.			
4.1	**Automation**	Machines, controlled by computer, are introduced into the production process.			
4.1	**Robotics**	The use of robots in production.			
4.2	**Quality assurance**	The entire workforce concentrates on quality control. Prevents problems occurring along the production line.			
4.2	**Quality control**	A system of checking the quality of final goods/services.			
4.2	**Quality**	A product/service is fit for purpose – standard			
4.3	**E-commerce**	Buying and selling electronically			

4.3	**Customer service**	Treating the customer well before, during and after the transaction.			
4.4	**The Consumer Rights Act**	Goods must be as described, fit for purpose and of a satisfactory standard			
4.5	**Infrastructure**	Such things as roads, power supplies, telephones and water supplies.			
4.5	**Proximity**	Nearness to labour, raw materials or market			
4.6	**Logistics**	Management and transportation of goods			
4.6	**Procurement**	Purchasing within a business			
4.6	**Supply chain**	The sequence of processes involved in the production and distribution of a commodity.			
5.3	**Fixed costs**	The costs that do not change as a business changes the amount it produces.			
5.3	**Variable costs**	Those costs that rise as business increases production and fall when it reduces production			
5.3	**Total costs**	The fixed and variable costs of a particular level of production added together.			
5.3	**Average costs**	The cost of each unit produced – also known as unit cost			
5.4	**Break-even**	When total revenue is equal to total cost. Profits are zero. Break-even output is the number of items needed to be sold in order to break-even.			
5.4	**Margin of safety**	The amount by which a businesses			
5.4	**Break-even formula**	Fixed costs divided by price – variable costs			
5.2	**Crowdfunding**	Money raised by appealing to the public			
5.2	**Overdraft**	A short term source of finance. The bank allows the business to withdraw more than is in their current account. Interest charged is high.			
5.2	**Trade credit**	Goods and materials are obtained from a supplier and payment is made at a later date. A short-term source of finance.			
5.2	**Retained profit**	Profit which is kept by the business for its own use.			
5.2	**Hire purchase**	A business uses equipment but does not own it until the final payment has been made.			
5.2	**Share issue**	Finance is raised from selling shares. This finance does not have to be paid back. However, dividends will need to be paid and shareholders can vote. Only Plc's like AS plc can sell shares on the stock exchange.			
5.2	**Mortgage**	Allows a business to borrow a large sum of money to purchase or improve a building			
5.2	**Opportunity cost**	The cost of having to miss out on something else.			
5.3	**Interest rate**	The charge made to businesses and people by a bank for lending money. Also a reward given by the bank for saving money.			
5.3	**Sales revenue**	The amount of money that a business receives from selling what it provides or produces			
5.3	**Gross profit**	Sales revenue minus cost of sales (variable costs).			
5.3	**Net profit**	Gross profit minus all expenses.			
5.3	**Gross profit margin**	Gross profit divided by sales multiplied by 100.			
5.3	**Net profit margin**	Net profit divided by sales multiplied by 100.			
5.3	**Average rate of return (ARR)**	A method of measuring and comparing the profitability of an investment over the life of the investment.			
5.5	**Cash flow forecast**	A statement showing the expected flow of money into and out of the business over a period of time.			
5.5	**Net cash flow**	Total inflow minus total outflow			
5.5	**Negative cash flow**	During one month, more cash is flowing out of the business than flowing in – a deficit.			
5.5	**Liquidity**	Ability of a business to pay its short-term debts.			

6.2	**Recession**	A period of falling consumer incomes, demand and output.			
6.2	**Economic growth**	Period when GDP is rising, causing income and employment to rise.			
6.2	**Economic climate**	How well the country is doing in terms of the levels of income and employment.			
6.3	**Exchange rates**	The amount of one currency that another can buy.			
6.3	**European union**	A collection of 27 countries in Europe which trade together without restrictions such as tariffs and quotas.			
6.3	**Globalisation**	The process by which business activities in different countries are becoming more and more connected with each other.			
6.3	**Quota**	Limits on the amounts of a good or service that can be imported. This restricts competition from foreign firms.			
6.3	**Tariff**	Taxes on imports that raise the price of imports so that it will be harder for foreign firms to sell their goods.			
6.3	**Inward investment**	When foreign firms set up in the UK. This brings wealth and jobs to an area.			
6.3	**Multinational company**	A company which operates in several countries.			
6.1	**Renewable resources**	Resources that can be used more than once, eg wind power.			
6.1	**Business Ethics**	When businesses acts in a morally correct way.			
6.1	**Fairtrade**	Businesses are encouraged to pay a fair price to the suppliers in developing countries			
7.1	**Interdependent**	How businesses and functional areas (departments) within business are linked together			